

FOREIGN TRADE - 1991

Jan. — Feb.

Tough year ahead for consumers, says expert

Sowetan 3/11/91



DEVELOPMENTS on the domestic and international fronts point towards a tough year ahead for consumers, says Old Mutual chief economist Mr Dave Mohr.

"The country will have to live well within its means to repay, at least partially, its foreign debt. That implies that spending will have to be curtailed to generate a savings surplus, from which the debt is repaid.

Mohr added that such a process was not conducive to economic growth in the short run, as it implied strict economic policies.

"Our economy has also suffered from the sharp fall in the foreign prices of gold, silver, copper, steel and platinum - some of our main export commodities.

"Coupled with recent increases in the oil price these price movements complicate the servicing of our foreign debt and reinforces the need for a strict economic policy, such as high interest rates," he said.

"The consumer has borne the brunt of these developments. For example, the prime overdraft rate rose from 12,5 percent at the beginning of 1988 to its present 21 percent. To worsen matters, consumers went on a borrowing spree during the second half of the eighties, with bank credit (mainly overdrafts) rising by 86 percent during this period.

"With interest rates at their current high levels, the pain to consumers is obvious."

Mohr said consumers were further suffering from the Government's attempt to reduce inflation.

"After such a long period of high inflation an attempt to reduce it includes no soft options and a degree of lower economic growth can be expected."

On the positive side, he said political developments over the last year benefitted the economy as foreign creditors were more willing to roll over some of our debt. However, at least a billion dollars will have to be repaid in 1991.

"Although the Reserve Bank can be expected to be very cautious in reducing interest rate, the over borrowed consumer and deeply indebted companies can expect light relief from a reduction in the prime rate during 1991. It is Reserve Bank policy to keep a 5 to 7 percent margin between the inflation rate and the prime rate, thereby maintaining positive real rates.

"That means at most a reduction of 3 to 4 percent in the prime rate can be expected.

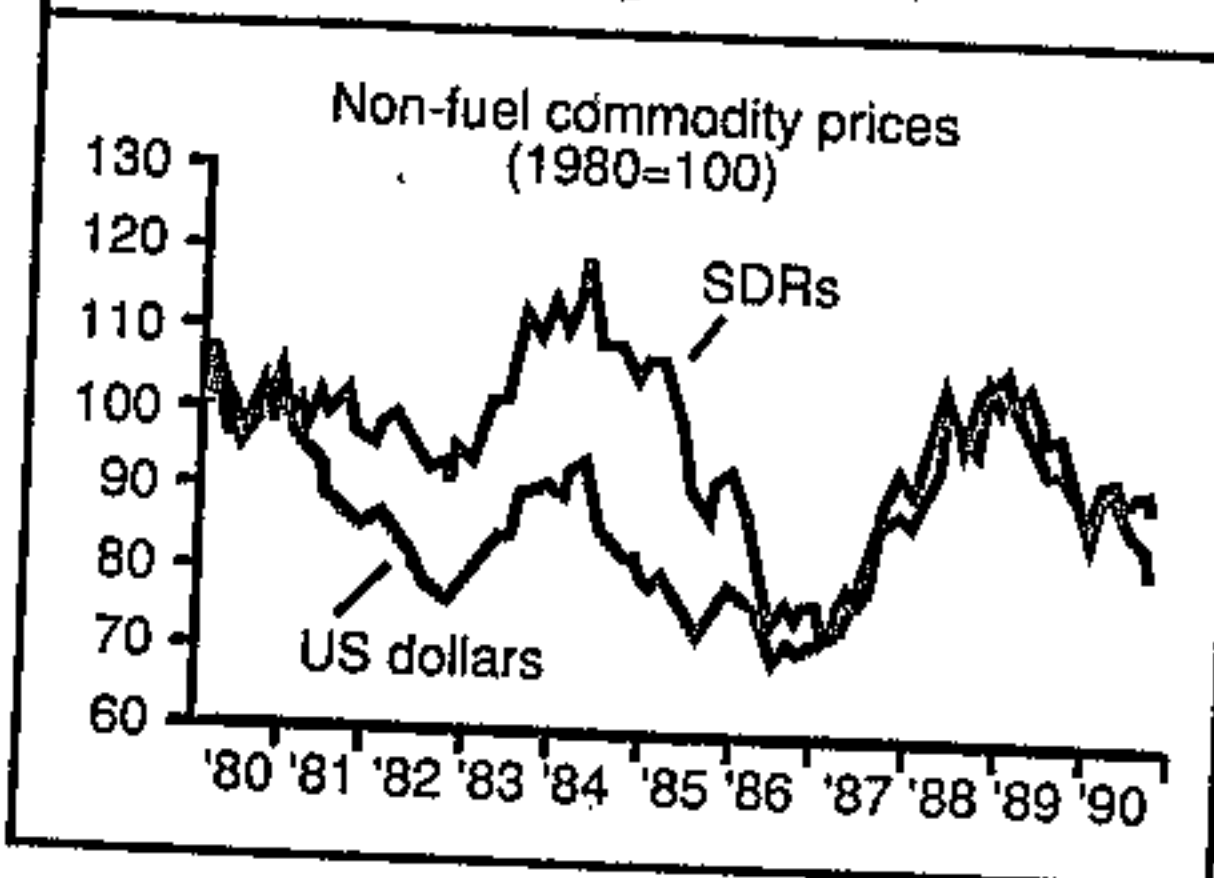
"The other area where the economy could potentially receive a boost next year is in the form of lower personal tax rates, as the state President promised in a recent speech. However, there is very little scope for any significant tax reductions as the pressures on Government spending will not ease," he said.



FIM 4/1/91

74

Three-year low



these prices fell 2,6% that month in US dollar terms and 5,1% in SDR terms — the sharpest drop in SDR since July 1986.

Significant falls were recorded by nickel (16%), zinc (12%), free market sugar (15%), copper (10%), lead (9%), aluminium (6%) and cocoa (5%). Commodities which rose were tea (19%), soya bean meal (7%), tin (6%), and groundnut meal (6%). Compared with year-earlier levels, non-fuel commodity prices in October were 5,2% lower in dollar terms and 15,6% lower in SDR terms.

Dollar petroleum prices rose 3,1%. The spot price for crude petroleum averaged US\$33,25 a barrel, more than double June's \$14,30. Prices continued to fluctuate in response to developments in the Middle East,

ranging from more than \$40 a barrel on October 11 to less than \$27 on October 22.

Opec production was 22,6m barrels daily compared with 22,2m in September and 23,6m in July.

COMMODITY PRICES

OCTOBER FALL

An October decline in non-fuel commodity prices confirms a trend in place since early 1989 (see graph). International financial statistics from the IMF show the index of

Curbs on imports eased 74

WIDE-ranging amendments to import control regulations, which include a significant relaxation of restrictions on imports from Zimbabwe, Malawi and Sweden, have been announced.

One of the major changes announced by Trade and Industry Minister Kent Durr in the December 21 Government Gazette is that goods that are grown, produced or manufactured in Zimbabwe — with the exception of tea — may now be imported without permits.

Another big change is the lifting of the blanket restriction on the importation of goods from Sweden without a permit.

Goods may also be imported from Malawi without a permit, with the exception of coffee, tea and sugar.

An additional change is that goods warehoused in a customs and excise warehouse

MARCIA KLEIN

for delivery as ship's stores, and goods warehoused in duty-free shops, will also be exempt from import control.

The amendments to the regulations — in terms of Section 2 of the Import and Export Control Act of 1963 — cover the importation of a broad range of products and came into effect on January 1.

Some items which have been exempt from import control include several mineral products (including calcium phosphates, gypsum and limestone), certain plastics, certain leather and furskins, wood and insulated electric cable and wire.

Several products that were previously permit-free have been made subject to import control, including phosphoric acid, certain fluorocarbons, caseinates and certain plastics.

4/11/91
B/day

BRUCE Donald and Gad Ariovich — via a sequence of splendid non-sequiturs — proceeded from a statistical analysis of imports to a homily against protectionism (Business Day, August 22). Here I reverse the process.

In essence, they saw protectionism as inimical to exporting, in that the necessary imported equipment for capital-intensive exports is obtained with "exorbitant costs associated with excessive protectionism". Note the hyperbole.

It was necessary, in their view, to abandon import substitution for export promotion, as if these two policies are mutually exclusive.

Today's received wisdom, or prejudice, favours free trade. I think this common wisdom is not in the economic interests of SA.

Indeed, Ministers Wilm de Villiers and Kent Durr are in danger of galloping down the path of removing import protectionism, exposing SA industry to unwarranted foreign competition. Meryn King and 2 000 discharged Frame Group workers must have something to say on this score.

Import substitution and export promotion are not polarised concepts. In his inaugural address at Rhodes University in October, Prof R T Bell argued convincingly that they are complementary. For firms to be successful in the export field — the virtue of which is beyond dispute — they need a secure domestic base, and accordingly the makings of a base for operations of scale.

An import duty "also encourages domestic firms to produce more of this protected item, thereby expanding the size of firms, and reducing production costs", Bell said.

In support of Bell one need only refer to the successes of Japan, South Korea and the newly industrialised countries (NICs), which have been extreme examples of aggressive protectionism.

Bell's arguments should be agreeable to the ANC. The matter is fundamentally one of income redistribution — "is better that people should be in employment and receivers of income than privileged others should have the lowest prices available".

The danger of the doctrinaire removal of protection is the extinction

Import barriers are not impeding growth potential

EDWARD OSBORN

of enterprises that cannot withstand competition, and the consequent loss of employment, income, contribution to the GDP, and destruction of capital. There is no possibility that there will be alternative opportunities, because resources are already grossly underemployed. As Bell says, the theory of free trade applies only to a full employment situation.

Certainly there is a problem of import pricing parity, but that is a problem of degree requiring appropriate adjustment to tariffs where they are too high, without going to the extreme of outright rejection of protectionism.

To turn to the analysis of imports, an end-use classification of imports for the entire period of the 1980s has now been made possible by the recent release of the detailed trade report for 1989 of the Commissioner of Customs and Excise. This reveals interesting structural and trend features of SA's trade.

The unclassified imports category, which includes arms and oil, requires special attention. Its ratio to GDP drops from about 7% in the early years to about 3%. This was probably due to a high level of stockpiling of oil imports following the oil sanctions of 1979. Accordingly, the import relationship to GDP should be made excluding the unclassified category.

Indeed if Donald and Ariovich had done this they would not have concluded that there has been a downward trend in the ratio of imports to GDP. On the contrary, the ratio shows no discernible trend and has remained in a band between 15.2% and 21.8% of GDP, with low ratios occurring in the depressed years of 1985 and 1986 and high ratios in 1981, 1988 and 1989.

The high ratios of 1988 and 1989 are interesting in that they suggest no, or very limited, response to the imposition of the import surcharges.

The surcharges accordingly failed in their purpose of curbing imports and simply resulted in boosts to government revenue and inflation. The sooner they go, the better.

Furthermore, the rapid rise in the ratio from 1987 to 1988 and 1989 may well have reflected, in part, the build-up in inventories triggered by the DeLlums/Wolpe Bill in the US.

Probing a little deeper, it is seen that imports for private consumption, as a ratio to GDP, have risen significantly over the period, from 3.6% to more than 6%.

This rise in the contribution from abroad is also seen in the increase, from 7.1% to about 11%, of private consumption imports in relation to private consumption expenditure (PCE).

This is indicative of inroads made by foreign suppliers, particularly from the Far East, into the domestic market and probably also the growing

consumption of durable electronic, optical and photographic goods.

Imports for intermediate consumption (that is, entering into manufacturing or for assembly) as a ratio of GDP have varied between a low of 6.8% in 1985 and a high of 9% percent in 1984. In 1989 it was 8.3%.

It is often claimed that 70% of imports are capital goods. This claim emanates from the overwhelming size of the two major categories of imports — electrical and non-electrical machinery. However, these include many items for private consumption, such as TVs, recorders and radios, and items for assembly and industrial consumption.

The end-use classification of imports shows that in 1989, for example, intermediate consumption imports accounted for some 38% of non-oil imports and only 34% for fixed capital formation. Private consumption imports accounted for the remaining 28%.

The ratio of capital goods imports to gross fixed capital formation has varied considerably, but has risen from 21.5% in 1980 to 38.3% in 1989, which signifies the extent of the decline in the building and construction content of gross domestic investment (GDI).

Of great interest and importance, however, is the significant jump in the ratio of capital goods imports to GDP in the last two years, which shows that there has indeed been a rise in productive capital investment in the country.

This is borne out in the latest issue of the Reserve Bank's Quarterly Bulletin. It shows that, in real terms, machinery and equipment expenditure has risen from R9,3bn in 1986 to R10,4bn in 1989 and was running at a rate of R10,7bn in the second and third quarters of 1990. Transport equipment, too, has shown equally significant increases.

This, then, is in sharp conflict with the conclusion of Donald and Ariovich that capital goods imports are falling, "a development that is likely to have a severe impact on economic growth this decade" — although a relevant consideration would be the extent to which these capital goods are for replacement or for new industries. It is probably the former, given the recent observations of the Reserve Bank regarding the average age of fixed capital stock.

Osborn is Nedbank's chief economist.

END-USE CLASSIFICATION OF IMPORTS

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Ratios to GDP										
Private consumption goods	3.6	4.8	4.1	4.8	5.6	3.7	3.6	4.3	6.3	6.0
Intermediate consumption goods	7.3	8.8	7.8	7.7	9.0	6.8	7.2	8.4	8.2	8.3
Capital goods	5.7	7.5	6.7	6.0	6.4	4.7	4.5	4.8	7.3	7.4
Unclassified consumption goods	7.2	7.2	6.0	4.7	3.7	3.2	3.9	3.3	3.0	3.1
Total imports	23.8	28.2	24.6	23.1	24.7	18.4	19.1	20.9	24.8	24.8
Classified imports	16.6	21.0	18.7	18.4	21.0	15.2	15.3	17.6	21.8	21.7
Other ratios										
Private consumption/PCE	7.1	9.3	7.9	8.6	10.2	7.0	6.6	7.9	11.4	10.7
Capital goods/GDFI	21.5	27.2	25.0	22.5	25.9	20.1	23.7	26.5	38.4	38.3

Estimates in 1985 prices

Import control changes 'part of phasing-out plan'

RECENT broad amendments to import control regulations formed part of government's phasing out of quantitative import control, Trade and Industry director-general Stef Naude said at the weekend.

However, business sources in Zimbabwe saw the relaxation of import measures on Zimbabwean products in a political light.

Explaining the relaxation of restrictions on imports from Malawi and Sweden as well as Zimbabwe, Naude said since 1986 the policy had been to move away from quantitative import control "as a form of protecting local industry in favour of tariff protection, where appropriate".

MICHAEL HARTNACK reports from Harare that Zimbabwean businessmen were caught by surprise at the removal of the permit system for all Zimbabwean products except tea. They saw it as a sign of relaxing tensions.

The requirement for permits was introduced in addition to routine import licences at the height of the scare in the mid-1980s that Zimbabwe was about to introduce a comprehensive trade embargo against SA goods. Harare business sources said there was never any difficulty obtaining the permits.

They said it was "merely an extra bureaucratic headache".

Tea is believed to have been exempt because of SA attempts to penetrate the markets of Far Eastern tea growing countries, which

7/11/91
were promised favoured status.

Harare sources expressed surprise that Pretoria relaxed the permit requirement unilaterally, without seeking any reciprocal concessions through diplomatic negotiations.

President Robert Mugabe last month reaffirmed his long-standing ban on ministerial contacts.

In June last year a list of certain items still subject to import control was published in a SA Government Gazette for comment with a view to phasing out the controls.

Listed

Where no valid objections were received, these goods could be imported without permits.

These items were listed in the Government Gazette of December 21, and included several mineral products, certain plastics, certain leathers and furs, wood and insulated electric cable and wire.

Naude said the abolition of import control had been put on hold on items to which objections were received. However, the manufacturers of these goods had been advised to apply to the Board of Trade and Industry for tariff protection.

He said the process of minimising the number of items still subject to control was being continued on the advice of the Interdepartmental Import Control Committee.

Economic fundamentals lose war with Gulf

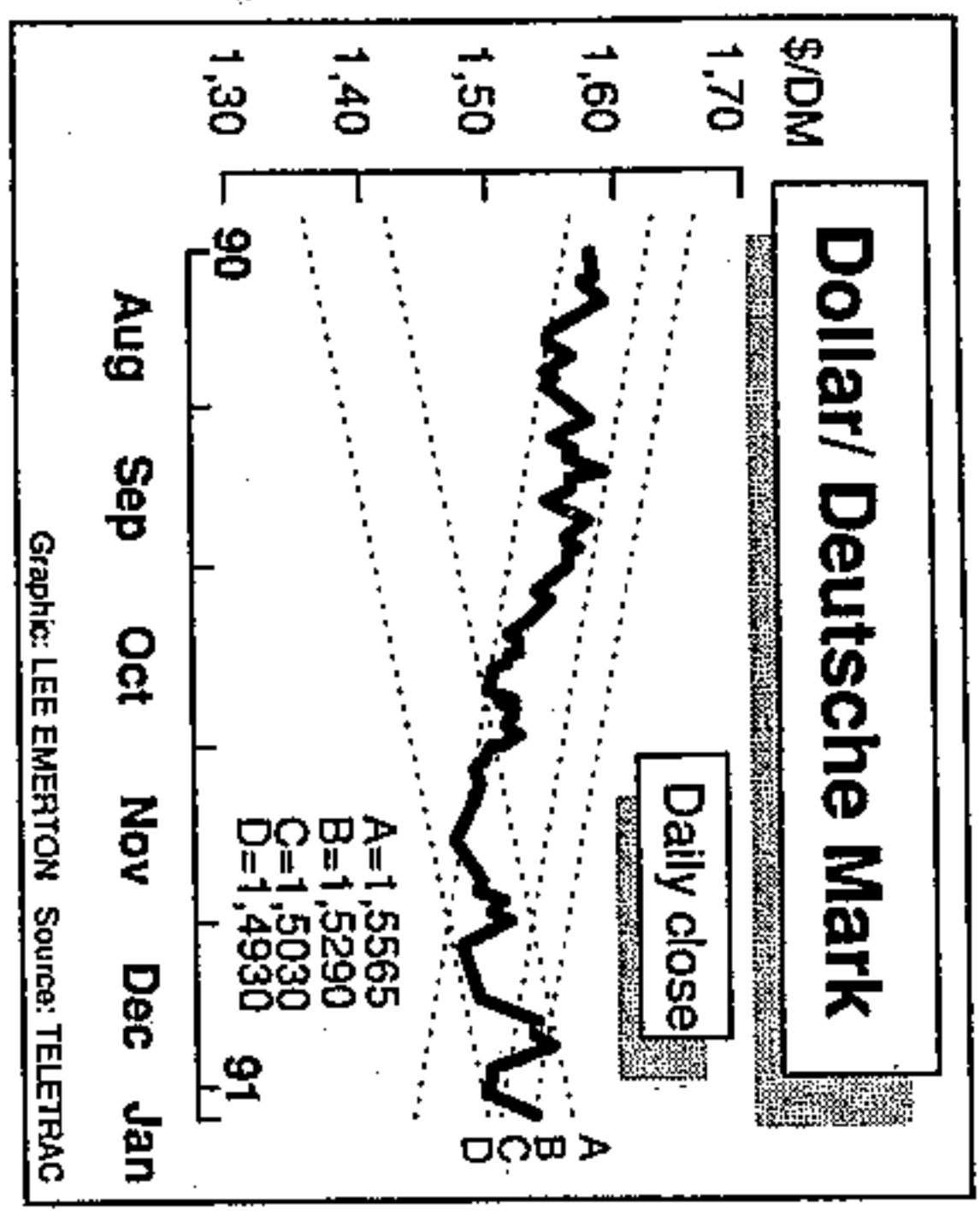
ECONOMIC fundamentals have flown out of the windows in world foreign exchange markets to be replaced by political uncertainties, not the least of which is the real fear of a devastating war in the Gulf.

The Union Bank of Switzerland (UBS) succinctly summarised the state of the markets during the past two weeks: "The dollar ran true to its old form over the holidays, losing ground on the basis of poor performance and gaining strength from political tensions."

This is clearly discernible in the dollar/Deutsche Mark graph. The dollar dropped from a peak of 1.5565 (line "A") during December to 1.4920 as the Old Year was on its way out, with the unfavourable US economic fundamentals greasing the slippery slope. But since then the US unit has switched to the

fast upward track, breaking through the six-month-long top resistance line "B" and appears to be heading for the bullish channel (lines "A" and "D").

In chartists' idiom, a "double head and shoulders formation" could be shaping up, says First National Bank's (FNB) technical analyst, but completion of this reversal would



Harold Fridjhon

only become effective if the dollar retreated to 1.4930 (line "D"). But will the dollar start to droop?

With the possibility (probability?) of war a week away, the dollar's traditional "safe haven" status appears to be overriding the fundamental weakness of the US economy, which has been officially labelled as being in a recession, and the reduced interest rates.

In thin forex markets in which dealers worldwide are hanging back, unwilling to make even short-term commitments, the dollar strength is exerting a distorting influence on other currencies.

The German mark has been under pressure for political reasons, other than the Gulf crisis. Dominating central Europe, Germany is sensitive to events in Russia, which have caused the selling of marks to buy dollars.

The reasoning behind this — if it can be termed a resort to reason — is that the virus of communist reaction to democratisation could spread into eastern Germany and some of the close neighbours.

But, fundamentally, the German economy is healthy with the Bundesbank's anti-inflationary policy effectively in place.

Standard Bank (SBSA) says that Germany's restrictive monetary policy is likely to continue even at the risk of being out of line with other major economies.

The British pound is holding its own against what the UBS terms the groggy DM. The possibility of sterling resisting devaluation within the European monetary system (EMS) has been kiboshed by Prime Minister John Major.

The pound could gain strength against the mark, but it is looking a little vulnerable against the US dollar.

But that, however, is not due to a fundamental weakness in sterling

but to the present overwhelming surge in the dollar.

The rand has not fared well on the world currency stage. Against the US dollar, FNB's technical analysis indicates, the rand is looking distinctly bearish and this prognosis appears to be confirmed by the downward movement in the trade weighted index, which had peaked at 30.50, falling to the current 30.22. It is moving closer to the Reserve Bank's apparent support level of 30.15 on the index.

The rand is also looking vulnerable against the mark, but it remains bullish against the pound and the Japanese yen. And it could strengthen further against the yen if the Japanese economy were hard hit by its oil supplies becoming more costly.

Forecasts of the gold price are bullish. UBS says gold should trade between \$380-\$405 this week. SBSA puts the price at \$380-\$400 and FNB's estimate is \$383-\$395.

LETTERS

European money flowing in

INFLOWS of trade-related finance from European banks were now running at levels unheard of a year ago, bankers said yesterday. *blpam 9/1/91*

They said the inflows would increase following the EC's recent lifting of its ban on new investments in SA.

In certain cases, the availability of these credit facilities exceeded the requirements of certain local banks. *(74)*

Bankorp senior GM: international treasury Martin Croucamp spoke of the "tremendous strides" made over the past six months in obtaining trade finance.

He said: "Overseas banks are bending over backwards to help put together deals. The communication flow is much better."

The real momentum started around April last year and built up steadily towards December when the EC decision was announced, Croucamp said. However,

ROBERT GENTLE

there was no sign of similar progress in the funding of long-term capital projects.

A Standard Merchant Bank treasury spokesman said: "The ability to access new dollars is very good right now." He spoke of both specific and general facilities, some of which had not been taken up.

Asked to put a figure on the new business, the spokesman said that about \$50m to \$100m could be raised with one telephone call. "Last year this time, that just could not be done."

The funds had become available over the past six months, starting from within the UK and then moving to the rest of Europe.

However, on the long-term side, there were only token amounts involved.

Nedbank international division head

To Page 2

Money

blpam 9/1/91
Derek Muller said that it had become much easier to finance exports and imports since the middle of last year. He attributed this mainly to "post-February 2 sentiment" and said the recent EC decision on new loans was mainly symbolic.

"It will help in the long term. Every such

(74) From Page 1

step makes it that much easier for European banks to stand up at their AGMs and say they are doing business with SA."

Muller said that on the long-term debt front, the best SA could hope for were rollovers of maturing government and semi-government debt outside the net.

Reserves still look healthy

By Duma Gqubule (74)

Despite end-of-year foreign debt repayments, gold and forex reserves remained comfortably above the R6 billion mark in December.

The repayments knocked R468 million off November's high of R6,674 billion and the reserves now stand at R6,205 billion.

Nedbank economist Edward Osborne says the decline was totally in line with expectations. "There were considerable foreign debt repayments due on December 15. These repayments totalled \$362 million, of which \$208 million was outside the net and \$154 million was inside the net," he says.

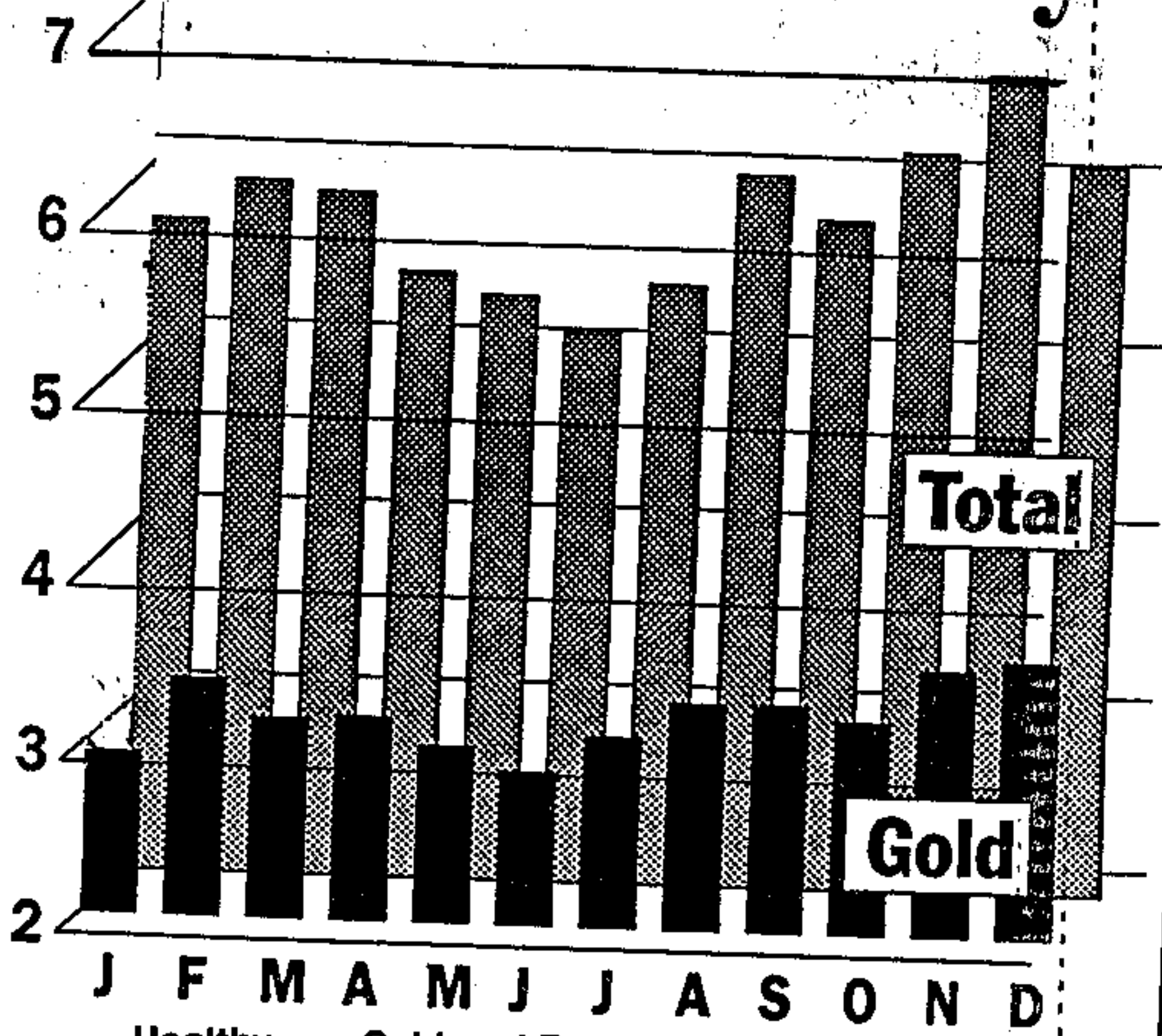
Mr Osborne says the debt outside the net would have been paid entirely out of reserves. "The remaining debts would have been negotiated with commercial banks. I would guess most of these debts would have been paid, with little if any, having been rolled over," he says.

Mr Osborne says the reserves could come under pressure this year as the balance of payments position is expected to deteriorate. "At best the reserves are likely to be static, he says."

Some of the factors which he says are likely to result in the balance of payments surplus declining from an expected R5 billion last year to perhaps R3 billion this year are:

- Declining commodity prices which will result in reduced exports.

- Weak bullion prices which are likely to remain in a fairly narrow band for most of the year unless war breaks out in the Gulf.



Healthy . . . Gold and Forex reserves (R-billions).

- A turnaround, which could be as much as R2 billion, in agricultural exports. In the third quarter of 1990 there was a 33 percent decline in output by the drought-stricken agricultural sector.

South Africa could change from being a net exporter of agricultural products to being a net importer of agricultural products.

- While exports will come under pressure, imports are likely to be fairly static in terms of volumes, with the value of imports depending on average prices.

Senekal, Mouton & Kitshoff economist, Leon Steenkamp says the surplus on the balance of payments is likely to fall this year. "But the extent of the decline will depend on the out-

come of the situation in the Gulf. This will determine the performance of the world economy, which will in turn determine the performance of South Africa's exports, he says.

Figures released by the Reserve Bank yesterday show that gold assets rose slightly to R3,625 billion, an increase of R45 million on November's figure of R3,58 billion.

Although gold holdings decreased marginally to 4 090 061 in December (from 4 097 875 ounces in November), gold was valued at an average price of R886 an ounce in December, compared with R874 an ounce in November.

But foreign exchange holdings plunged R513 million to R2,580 billion from November's R3,093 billion.

SA exporters 'should target aid agencies' ⁽⁷⁴⁾

ZILLA EFRAT

SOUTH Africans have neglected a potential export market — international aid organisations — worth billions of dollars a year, says SA Foreign Trade Organisation (Safto) executive Paresh Pandya.

Traditionally SA exporters have looked only at countries or groups of countries as potential markets.

Pandya says in many cases aid organisations are a major alternative funding source for programme and project financing in developing areas.

He says African countries have emerged as major benefactors from almost all major aid organisations for goods and services for which they lack foreign exchange.

These organisations buy a wide range of goods, works and services for the various programmes they

finance. The level of assistance ranges from providing basic necessities like food and medicines to infrastructural developments.

Pandya says SA companies are best suited to supply these organisations with their needs in Africa because of the low value of the rand, geographic positioning and the development of specific knowhow and technology to suit African conditions.

He adds most agencies are favourably disposed towards trading with SA.

To assist SA suppliers in identifying aid organisations as potential markets, Safto has released a guide to 40 aid agencies operating in Africa, including the World Bank, which in 1990 allocated \$3,9bn for Africa.

11/11/91
11/11/91
11/11/91

SA sails through debt repayments

81/20/91 9/1/91

74

ANDREW GILL

THE Reserve Bank's holding of gold and foreign exchange reserves dropped R468m in December from the previous month, indicating that SA sailed through December's heavy debt repayments.

Reserves effectively increased by R1bn in the year to end-December 1990.

The Bank's latest statement of assets and liabilities shows the reserves fell R468,4m to R6,21bn compared with R6,67bn in November, when they increased by R455m.

The evaluation of gold holdings increased by R44m to R3,63bn after a 7 814 ounce drop in physical holdings was more than balanced by a R12,63 an ounce higher gold price at R886,42.

The overall decrease was the result of a R513,2m fall in foreign assets to R2,58bn.

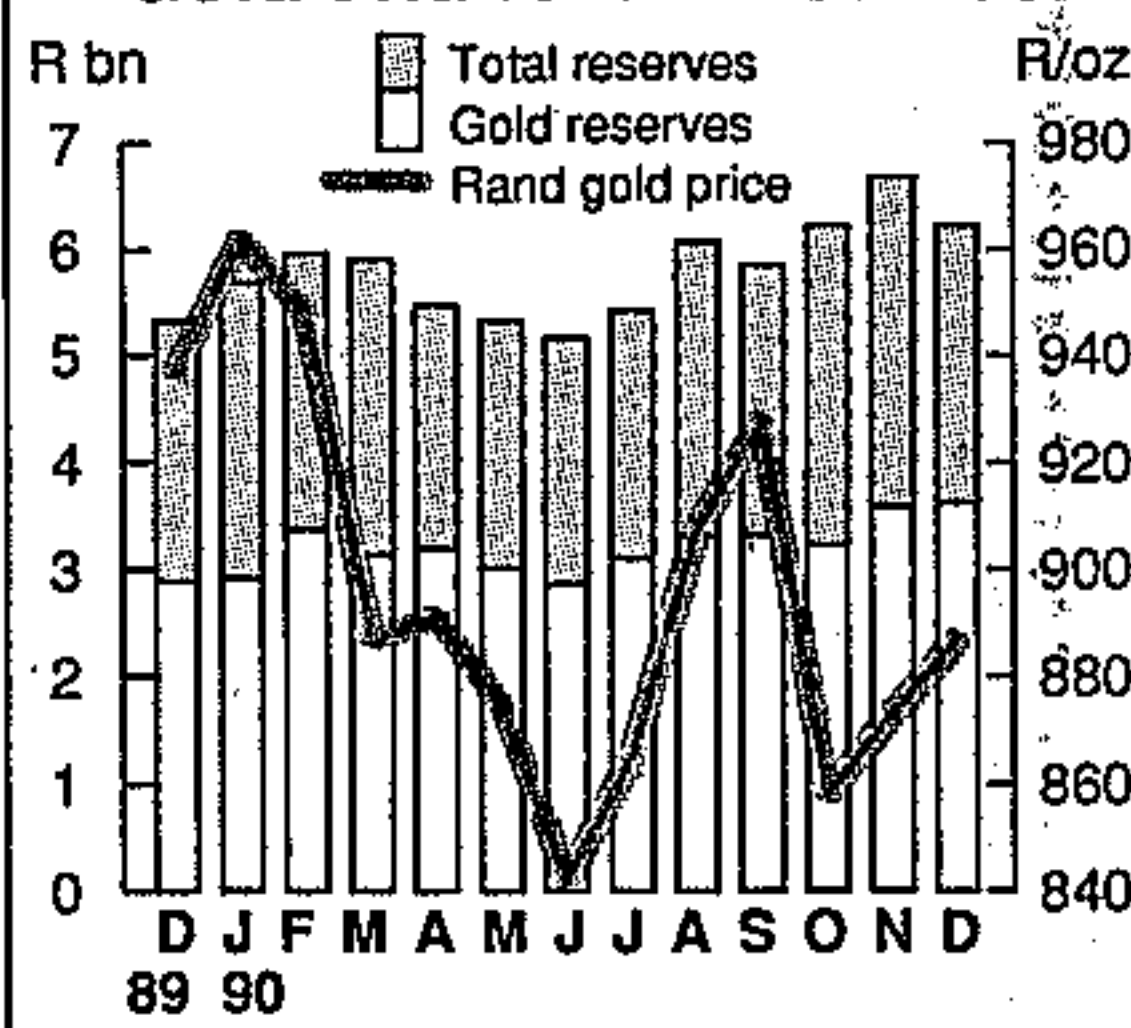
Nedbank chief economist Edward Osborn said capital repayments inside and outside the net amounted to \$362m in the fourth quarter, with most falling due in December.

Added to this would be heavy dividend and interest payments, which more than accounted for the fall in foreign exchange reserves.

The statement also showed that government had repaid R3bn of its forward cover losses and effectively removed the possibility of that money being injected back into the system.

Forward cover losses are incurred on

Gold and forex reserves



Graphic: FIONA KRISCH Source: SA RESERVE BANK

the government's account and have escalated over the years as the rand has undergone severe depreciation. The R3bn brings government's losses on the forward cover book to R1bn.

Reserve Bank gold and forex GM James Cross confirmed government had honoured its commitment made in last year's March Budget. The money was to be drawn from the 1989/90 loan surplus.

Osborn said government deposits fell a massive R4,3bn, largely because of the forward cover payment, while the balance was seasonal and in line with previous years when expenditure exceeded revenue

□ To Page 2

Debt payments

and the account was depleted.

He said the effective increase in reserves in 1990 was R1bn, if calculated at an average gold price for each month in the year. The Reserve Bank calculates the price at 90% of the previous 10 London fixes.

However, Reserve Bank figures show an effective increase in reserves of almost R900m.

74

□ From Page 1

Osborn said a current account surplus of R5bn or more was likely in 1990. This compared with earlier estimates of R4bn, when the Gulf crisis heightened fears of higher imports.

Rand Merchant Bank economist Rudolf Gouws attributed the fall in reserves to debt repayments and said although the balance of payments situation was still of concern, it had improved very nicely and gave SA breathing space.

GATT TALKS FM 11/1/91

74

SA'S LONG LIST OF EXCUSES

While the spotlight at the General Agreement on Tariffs & Trade (Gatt) talks has focused on the war over farm subsidies, SA has been skirmishing in the background with Gatt officials over tariff policy.

Under the current Uruguay round, Gatt demanded that all member countries reduce industrial tariffs across the board by one third and promise never to raise them again (called "binding" the tariffs, in Gatt talk). SA, pleading "special circumstances," said it couldn't do this and instead made a counter proposal. Gatt is studying this offer.

"In view of our special circumstances, we offered to bind 56% of our existing 11 000-odd tariff lines at levels not exceeding 30%," says Gerrie Breyl, deputy DG, trade, Department of Trade & Industry.

SA's alleged special circumstances involve three major factors, Breyl says:

□ SA claims it does not want to jeopardise the infant industries in its customs-union partners by slashing tariffs. As senior partner in the SA Customs Union, made up of SA, Botswana, Lesotho, Swaziland and Namibia, SA implements a common set of tariffs for the entire union.

SA will shortly discuss its Gatt negotiations with Botswana, Lesotho and Swaziland, Breyl says. Chief director, trade, Hardy Vos adds that it would help SA's case at the Gatt talks tremendously if the three countries were to join SA as a bloc.

But with only Lesotho an official Gatt member, the other states seem to be less interested in the Gatt negotiations than in increasing their already extensive benefits under the customs union.

Last year, Botswana, Lesotho and Swaziland received R1,35bn from the pool of customs union receipts — Lesotho alone gets about half its annual budget from the pool.

"SA guarantees annual payment of a minimum of 17% of the value of the total imports of each of the three countries, out of the customs union pool," Breyl says. "This is to compensate them for the loss of fiscal discretion, the price-hiking effect of SA's own import tariffs on the goods they buy from SA, the concentration of industries drawn to SA's developed areas, as well as stabilisation factors put into effect after the oil price shocks of the Seventies."

So, the four customs union members have a vested interest in keeping the customs receipts high and SA has a vested interest in maintaining an almost captive tariff-free

market for its goods in the four countries. But if SA was serious about freeing up trade, making its industry efficient by exposing it to more foreign competition and lowering prices for its consumers, it surely could convince its neighbours of the benefits of dropping tariffs;

□ SA officials claim that the remaining trade sanctions it faces dictate continued high import tariffs. SA cannot export farm products, textiles, clothing and steel products into the US, formerly one of SA's most lucrative markets, and the EC, Japan, the Nordic countries and many others still impose sanctions. So Pretoria maintains that it is unfair to expect SA to unilaterally reduce tariffs by a third, while having no reciprocal entry into some major markets.



Containing trade ... is that really SA's goal?

In effect, SA is saying that because other countries still impose sanctions on SA in a bid to weaken the SA economy, SA must continue to impose sanctions on its own consumers in a bid to make the country poorer. SA officials forget that a country practising free trade is always better off, even if other countries don't go along; and

□ In view of pending constitutional negotiations in SA, officials claim it is unfair to bind a future SA government under international agreements, such as Gatt.

This factor appears to be little more than an excuse. SA is bound by many international agreements that extend into the years ahead and SA's counter proposal will also "bind" a future government. Every decision Pretoria makes today binds a future government in some way.

Meanwhile, as the world awaits the outcome of the Gulf crisis (which might relegate the Uruguay round to the dustbin), the hiatus in the agricultural battle continues.

"Everyone is waiting for the EC and the US/Cairns group to resolve their differences on agricultural protection," Vos says.

The EC's agricultural protection devoured 61% (US\$39bn) of the total EC budget last year; this is the crux of the controversy between the two trading blocs. EC commissioner for agriculture, Ray MacSharry, will present new proposals to cut farm support at the next Uruguay round meeting on January 19.

"The tariff talks have to be finalised by the end of this month, while the rest of the round is subject to a guillotine decision of the US Congress, sanctioning chief US Gatt negotiator to finalise negotiations by the end of March," Vos says. If the Uruguay round collapses, then Gatt's tariff demands on SA and SA's counter proposal are dead. ■

HOTELS FM 11/1/91

SAVED BY THE BELL

After sweating out the first three weeks of December, with occupancies down to as low as 40%, many resort hoteliers found themselves flooded with guests over the festive season and had to put up full-house signs.

Most latecomers hadn't booked; they just showed up. The result: some hotels saw their December occupancies soar to 80%.

The upsurge came too late to help most hotels equal their 1989 business. Even with the last-minute tide, revenue was down 10% in real terms over the 1989 season, says Federated Hotel, Liquor & Catering Association executive director Fred Thermann. Without the upsurge, the best resort hotels could have expected was a 50% occupancy for the month and their worst Christmas since the 1985 recession.

Gooderson Hotels financial director Robert Gooderson says the last-minute spurt came a little too late. "We could not recoup the revenue we lost in the first three weeks."

Holiday Inn group MD Chris de Kock believes the sector will have to accept that walk-ins are here to stay even though they complicate forecasting.

The tourism business will also have to accept that the preferences of holidaymakers are changing. A snap survey by the SA Tourism Board (Satour) last week showed that eastern Transvaal resorts didn't get anywhere near the patronage they normally attract. Protea Hotels MD Arthur Gillis says:

HITTING THE JACKPOT

Despite the sharp rise in the price of oil after Iraq's invasion of Kuwait, SA imported large volumes in the third quarter of 1990, possibly at lower prices than in the second quarter.

The latest *Reserve Bank Quarterly Bulletin* reports that in the third quarter, import volumes rose 9,5% on the previous quarter, while import prices fell 3,5%. The bulletin attributes this to an improvement in the terms of trade, which turned a real decline in the trade balance into a nominal increase and was an important factor in the rising surplus on current account (a seasonally adjusted annualised R4,2bn in quarter three, after falling to R3,6bn in quarter two).

A 3% improvement in the terms of trade follows a 1,6% improvement in the second quarter, no change in the first quarter and a decline of 7,6% in 1989. It is the biggest boost to net export revenues since the 5,3% rise in 1983. This unexpected turn in SA's fortunes was generated in part by a lower price for mineral products, which the bulletin identifies as the sole reason for the increase in import volumes.

In this context, the Bank is clearly using *mineral products* as a generic term. As defined by Customs & Excise, such imports (largely potash, magnesium carbonate, paraffin wax and bitumen, and sulphur) are a modest item. Though preliminary Customs & Excise figures show their value (price x volume) increased 37% in the third quarter (over the second) to R164m, this is nowhere near enough to account for the 12% quarterly increase in total imports to R12,3bn.

A far larger contribution came from oil, included in Customs & Excise figures under "unclassified." This rose R678m — 52% — to R2bn. Given that this was the largest component of the import increase, the relative performance of import price and volume reveals that the oil imports were negotiated before the steep rise in the oil price.

It could be speculated further that at least some of this oil was received in countertrade transactions (which require a notional price to be set on the shipments).

This analysis also reveals the underlying weakness in inventories.

Says Nedbank chief economist Edward Osborn: "The sharp rise in value of imports is reflected in expenditure analysis of the GDP, which shows imports of goods and non-factor services up from R13,3bn to R15bn. This, in turn, is reflected in the R1,45bn swing in inventory change from minus R372m in quarter two to R1,08bn in the third — which by implication suggests a sharp build-up in oil stocks after the Iraqi invasion of Kuwait.

"Excluding inventory movements, GDE in

current nominal prices rose from R60,5bn to R63,9bn, or a rise of 5,8%. But, at constant 1985 prices, the rise was 2,8%. This was reinforced by a real 2,2% increase in exports of goods and services. As a result, real GDP actually rose by 2,4% in the third quarter.

"However, this was totally negated on a seasonally adjusted basis which showed that GDP declined in the third quarter by 0,5%. This apparent anomaly arises from the reversal of the inventory change. This suggests that the actual rise in inventories fell below the normal seasonally expected rise."

□ The only other significant increase in imports in the quarter was electrical and non-electrical equipment, up by R330m. ■

HOME LOANS

SPECIAL OFFERS

FIM 11/1/91

Prices and products offered in the home loan market used to differ little, with rates staying close to the standard — now 20,75%. But soon, people will be able to negotiate discounts on interest rate paid of more than 1%. Like supermarkets competing for custom, institutions looking to increase their home loan books will present a range of special offers.

"The era of negotiated interest rates is just around the corner," says Allied GM Geoff Bowker. He believes rates for triple-A clients will be negotiated to 1% or more below the standard. Allied has experimented with differentiated rating deals, offering fixed-rate bonds for three years at 19,5% and one year at 20%, which Bowker says have been "extremely successful." He predicts the introduction of various types of differentiated rating arrangements.

So does Volkskas. "We see special offers being stepped up this year," says GM Dolf Wright. Volkskas offers a 0,25 percentage point discount to prime clients on its standard 20,75% and Wright says further "attractive products" will be developed.

Other institutions which already make special offers, mostly to prime clients, are gearing up to offer discounts to a wider spread of clients.

United, the largest building society and, despite inroads by banks, still the biggest provider of home loans with a R12bn portfolio, is prepared to defend its home loan book, says senior GM Tienie van der Berg. United offers higher income clients who qualify for its Unique package a rate 0,5 percentage points lower than the standard 20,75%.

Van der Berg says lack of new housing stock is causing tremendous competition for business related to existing stock.

United has decided to acquire minority

Stals looks at effects of war on economy

WAR in the Gulf would probably delay any relaxation of monetary policy, Reserve Bank Governor Chris Stals said yesterday.

Assuming oil supplies were disrupted by war, he said the effect on SA would possibly be less serious than other countries but would still be adverse.

Prior to the Gulf crisis, markets were discounting a cut in Bank rate (currently at 18%) before end-1990. Stals said late last year that "a change of gears" could be expected early in the New Year.

Stals and economists were canvassed on what effect a Middle East war would have on SA. Most believed higher oil prices

ANDREW GILL

would result in a postponement of a cut in interest rates, pressure on the balance of payments and a sluggish world economy.

Two major variables involved were gold and oil, Stals said. *Day 11/1/91*

A worsening world economy would have an adverse effect on exports as demand fell. The general view, he said, was that worldwide consumption, demand and new investment would fall.

Imports were likely to remain the same except for higher oil imports, he said.

SA would be better off than most other

economies because economic policy had already consolidated its position.

Also, he said, SA's strategic oil stockpile could be used, but that would be entirely a government decision.

Although SA was in a fairly comfortable position with its current account, it was still not very good and war would adversely affect the balance of payments, he said.

This was another reason why monetary policy could not be relaxed.

Stals ruled out a devaluation in the rand because other economies would be in a similar position and therefore there was no

□ To Page 2

Stals *Day 11/1/91*

reason for the rand to go down.

UBS chief economist Hans Falkena said the world faced more stringent monetary policies if supplies of oil were disrupted significantly.

If it had not been for the oil price increases last year, SA would probably have had a Bank rate cut already, he said. The question was how long the war would continue and the extent of damage involved in the conflict.

Frankel Max Pollak Vinderine economist Mike Brown said the economy could probably last a month to six weeks at the higher oil price before an adjustment to the balance of payments strategy became

necessary.

The balance of payments would come under pressure if oil prices reached higher levels, he said, despite an expected jump in the gold price if war broke out.

SA could already be facing a current account surplus R2bn lower than 1990's fairly comfortable expected surplus of R5bn, as a result of a swing in agricultural exports which could mean a net import position this year, said Brown.

He said gold was likely to spike but not remain at high levels, as investment demand from the Middle East and jewellery demand would subside. Relatively heavy selling was also apparent at higher levels.

□ From Page 1

THE EUROPEAN COMMUNITY is about to consign sanctions against South Africa to history.

Last month's Rome summit of EC heads of government lifted prohibitions (such as they were) on new investment. It made it clear that repeal of the Group Areas Act and the Land Acts will bring the end of the embargo against iron and steel products and Kruggerands.

By the time the 12 become the world's biggest barrier-free market of 350-million people in 1992, it is likely that the EC will have set up shop in SA. A small office to monitor spending of the R20-million of EC money available for the Kagiso Trust this year is a near certainty.

But the commission's vice-president and head of external relations, Frans Andriessen, wants a full-scale legation.

Bhadra Ranchod, SA Ambassador to the Berlaymont, the EC's towering three-armed headquarters in Brussels, was in London this week to brief businessmen about developments and thinking in Europe on the post-apartheid era.

From the European side it was all very encouraging. The EC has signalled its recognition of SA's important role in the development of the region from Zaire to Zimbabwe and Mozambique to Angola.

Mr Ranchod said the EC had told black African states that they must accept that with the end of apartheid SA ought to be a member of SADCC — the nine-nation Southern African Development Co-ordination Conference.

Opportunity knocks for SA

ST Times 13/1/91

He spoke of a co-operative arrangement with the EC under which SA expertise would be employed to ensure that development aid money was used well. According to him, only 20% of funds flowing to Africa under the Lome Convention had been usefully employed.

Mr Ranchod went on to spell out opportunities and challenges to SA business in Europe after 1992, plus those opening up in the former communist economies.

But if the EC is ready for post-apartheid business, is SA ready for life after sanctions?

Mr Ranchod suggested it had a long way to go. SA must aim "to step up exports of manufactured goods. We are still too dependent on raw materials," he said. The share of raw materials and food in total EC imports had dropped from 76% in 1958 to 30%. But 80% of SA exports to the community were still in those categories — worth R22-billion.

"There is no room for complacency," he said.

"There has been a lull, an inertia in SA. Sanctions have made us look inwards."

SA would have to become increasingly competitive. A trade agreement with the EC might be good for exporters, but the quid pro quo would require a phasing out of protection for SA manufacturers.



Mr Ranchod's questions about business readiness, however, also raise the issue of whether the Government is that much better.

Nick Mitchell, director of the British Industry Committee on SA (BICSA), asked Mr Ranchod what he thought of criticism of the "lack of business representation in Europe".

He saw few signs of SA exporters' presence in Europe and believed the case for investment in SA was not being put as strongly as it could be.

That strikes raw nerves at some SA embassies — and among those who have dealt with them.

The appointment of economist and businessman, former Trade and Industry Minister Kent Durr, to the ambassadorship in London shows there is an awareness in Pretoria of the importance of foreign trade and investment.

Personal experience as a financial correspondent in London for the past 10 years suggests to me that while the political diplomats have been fighting SA's corner with some vigour there was a lack of resources in the trade department.

Rarely a week goes by without at least two telephone calls from businessmen, fund managers and other seeking information about the SA economy or companies.

The conversation invariably

goes along these lines: "I telephoned your embassy and they said I should ring you."

The questions which follow range from what is the rate of inflation in SA, whether it is possible to obtain a list of companies involved in certain activities to the size of the foreign-currency reserves or, in one instance, what the letters Sacob stand for.

It all suggests that basic information simply is not available — from the Reserve Bank Quarterly Bulletin to the JSE Handbook or publications such as the Financial Mail, Business Day or the Sunday Times — or that those seeking the information are not getting through to the right person at the embassy.

"Inept" was the word used by one UK businessman when I spoke to him about the effort being made by officials closeted in Trafalgar Square to sell SA as a trading partner or as an investment opportunity.

Mr Durr will undoubtedly bring a new strength to business diplomacy at the top at a time when the political pressures are receding. But it is not a job one man can hope to do alone. He needs to be reinforced by professionals — why not on secondment from the private sector? — who can talk to investors and businessmen with fluency.

Europe is already SA's most important trading partner and political settlement will revive its role as an investor. It is changing, however, and Europe 2000 will be a very different place.

Mr Ranchod's exhortations to business to shake off sanctions psychosis should be matched by a new, outgoing approach to SA's trade diplomacy.

Wary investors scatter as fear and indecision stalk the markets 74

THE markets are as jittery as impalascening lions on the prowl. Uncertainly creates tension which in turn freezes movement, leading to indecision.

Not only are the players influenced by events in the Gulf, but they have also been stunned by Reserve Bank Governor Chris Stals's warning that war in the desert would delay the lowering of Bank rate. For weeks past expectations that the end of January would bring a cut in the interest rate pattern had crystallised into a firmly held belief, now supplanted by doubt. On Friday, it was a market without faith, without direction, and virtually without trade. Investors ran for cover.

HAROLD FRIDJHON

Cash assets were preferred to paper and whatever cash was in the market was placed on call, but not in sufficient volume to affect the rates which remained on the high level they have been since the turn of the year.

The banks were paying 18-18.75% last week on wholesale call deposits but one market authority forecast on Friday that the call rate could start to harden this week — which is paradoxical because the banks have been relatively liquid this year in contrast with conditions in January 1990. Yet, the Treasury bill (TB) rate went

liquid Bas are a good investment at 17.6% (discount), yielding a return of 18.4%, compared with 18.3% on a three-month CD.

Without a dramatic breakthrough, the money and bond markets will probably be quieter and more cautious during the next two days than they were last week. And both were very quiet and extremely cautious, the bond market particularly. Bidding was restrained and the easing of prices — and therefore the increase in yields — in key bonds, reflects responsible dealing. Over the week the Eskom 168 moved up almost smoothly from 15.91% to 16.08%. Dealers are hesitant to take

up in Friday's ill-supported tender for R100m bills to 17.29% from 17.23%. Only R185m was bid and one question whether investors are, at present, a little cagey about being locked into three-months' assets.

Ever since the Gulf crisis began moving faster into the critical time zone investors have been shortening their sights. Before Christmas their focus was on nine-month and one-year CDs (negotiable certificates of deposit), but last week the investment emphasis was on three-month paper, both CDs and non-liquid bankers' acceptances (Bas) — there was a dearth of liquid Bas in the market. The non-

positions and some of the selling was real trading, although buyers were reluctant. The market reported parcels of stock from overseas had been traded, but confirmation was not available. The Reserve Bank was said to have been looking for bidders for small parcels of the RSA 12% 2005, but buyers had withdrawn into the bush.

And the futures markets were lifeless. Little wonder, in the prevailing climate of uncertainty, punters are unwilling to take a chance and real hedging deals are not apparent. Trying to forecast into the future is difficult as the crystal ball is very, very cloudy.

IDC to get \$60m loan from Taiwan

ZILLA EFRAT

74

THE Export-Import Bank of China in Taiwan is to extend a \$60m loan to the Industrial Development Corporation (IDC). *B/pam 14/11/91*

The agreement will be signed by Foreign Minister Pik Botha, and Republic of China Foreign Minister Frederick Chien when he makes an official five-day visit to SA later this month, says a statement from the Taiwan embassy.

The loan will be at 7,75% a year for five-and-a-half years.

IDC MD Karel van der Merwe says the loan is in the form of a trade credit for the purchase of capital goods from Taiwan.

During his visit to SA, from January 19 to 24, Chien will meet President F W de Klerk, Finance Minister Barend du Plessis, SA Foundation director-general Kurt von Schirnding and the mayors of Johannesburg and Cape Town.

Officials at the Taiwan embassy in Pretoria believe Chien's visit will help promote closer ties between SA and Taiwan and that greater co-operation in financial, investment and technical fields will follow.

Taiwan and SA have held a ministerial conference on economic and technical co-operation each year since 1979.

They have 23 agreements in areas including trade, industry, fishing, science technology, mining and energy.

IDC to get \$60m loan from Taiwan

ZILLA EFRAT

74

THE Export-Import Bank of China in Taiwan is to extend a \$60m loan to the Industrial Development Corporation (IDC). *Business Day 14/11/91*

The agreement will be signed by Foreign Minister Pik Botha, and Republic of China Foreign Minister Frederick Chien when he makes an official five-day visit to SA later this month, says a statement from the Taiwan embassy.

The loan will be at 7,75% a year for five-and-a-half years.

IDC MD Karel van der Merwe says the loan is in the form of a trade credit for the purchase of capital goods from Taiwan.

During his visit to SA, from January 19 to 24, Chien will meet President F W de Klerk, Finance Minister Barend du Plessis, SA Foundation director-general Kurt von Schirnding and the mayors of Johannesburg and Cape Town.

Officials at the Taiwan embassy in Pretoria believe Chien's visit will help promote closer ties between SA and Taiwan and that greater co-operation in financial, investment and technical fields will follow.

Taiwan and SA have held a ministerial conference on economic and technical co-operation each year since 1979.

They have 23 agreements in areas including trade, industry, fishing, science technology, mining and energy.

SAAF set to smash embargo

LINDEN BIRNS

THE SAAF is to purchase trainer aircraft worth about \$100m in what is thought to be the first official acquisition of foreign military equipment since the imposition of a UN arms embargo in the late 1960s.

At least 10 countries are believed to be lining up with bids to supply new generation turboprop military aircraft.

The January edition of UK-based Flight International says the SAAF contract is for 40 off-the-shelf turboprop tandem trainers and several simulators.

A source close to Swiss manufacturer Pilatus said it and French, British, Polish, Romanian, Chilean, Finnish, Indian, Italian and Brazilian manufacturers were competing against two home-grown SA aircraft, both top-secret projects.

One of the local planes is being developed by the Council for Scientific and Industrial Research (CSIR) and the other by Ermelo aircraft manufacturing company Celair. *Business Day 14/11/91*

Sources said Pilatus could be the most likely contender, with real competition from France's Aerospatiale, Brazil's Embraer company and Poland's Orlic. Pilatus, which tested a prototype PC9 in SA last year, supplies the Botswana and Bophuthatswana air forces with PC7 trainers.

French foreign affairs spokesman Caroline Desselas said it would be "most sur-

To Page 2

Naspers acquires 25% stake in Persbel

LIZ ROUSE and MARCIA KLEIN

PERSBEL's competitor, Nasionale Pers (Naspers), now holds 25% of its equity — and at the weekend the two companies hinted at rationalisation and co-operation which could result in a major shake-up in the Afrikaans Press.

On Friday Naspers bought 2,7-million Persbel shares from Mannie Simchowitz, leaving it with 25% of Persbel's equity. At Friday's price of 660c the deal was worth R17,82m. *Business Day 14/11/91*

Naspers and Rembrandt now own about 49% of Persbel shares between them, with

Rembrandt holding about 23,5% of Persbel's enlarged share capital. *(873)*

Persbel and Naspers have various common interests, including Rapport Uitgewers, M-Net and Maister Directories, which publishes the Yellow Pages.

Persbel chairman Koos Buitendag would not speak to Business Day yesterday.

To Page 2

THEY GIVE ME BACK...

Epól included on Rainbow's shopping list

MARCIA KLEIN

RAINBOW Chicken has not only acquired Premier Group's interests in its Bonny Bird broiler operations, it has also purchased a 50% stake in Premier's Epól Animal Feeds.

Rainbow and Premier will participate in Rainbow's R237m feed mill expansion, an announcement today says.

Rainbow is to acquire Premier's 50% interest in Bonny Bird Farms, Bokomo and Sacca. Premier was left with a 50% holding in Bonny Bird in 1989 when it merged its broiler activities with those of Bokomo and Sacca. *Biday 14/1/91*

The acquisition, for an undisclosed amount, would mean Rainbow would have "a significant influence on the price of chicken", analysts said at the weekend.

The combined market share of Rainbow (about 35%) and Bonny Bird (about 18,6%) would leave Rainbow with more than 50% of the chicken industry.

Analysts estimated Bonny Bird would be worth about R375m, including debt. However the acquisition price was expected to exceed this amount.

It has also been agreed in principle that Rainbow will acquire 50% of the shareholders' interest and management control in Premier's Epól Animal Feeds.

Premier will continue to hold the remaining 50% in Epól "and will participate in Rainbow's feed mill expansion to the same extent", the announcement says.

The acquisitions are subject to the conclusion of formal agreements, certain other conditions and the approvals of the boards of Rainbow and Premier.

Today's announcement follows cautionary announcements issued by Rainbow on December 17 and January 3 that negotiations were in progress.

Sources said the acquisition would have to be funded through a rights issue, and Rainbow might use the opportunity to take up more of the Methven family's share if they did not follow their rights — Methven Holdings has a big holding in Rainbow.

Rainbow, SA's biggest chicken producer,

□ To Page 2

Foreign interest boosts the finrand

ANDREW GILL

FURTHER signs of resurgent foreign investor interest in SA emerged last week as the financial rand climbed to its highest level since just after President FW de Klerk's February 2 speech last year.

It closed on Friday at R3,33 to the dollar, a discount of 22,3% to the commercial rand, which finished at R2,5877.

This compares with a financial rand at R3,88 and commercial rand at R2,56 on October 1, when the discount was 34%.

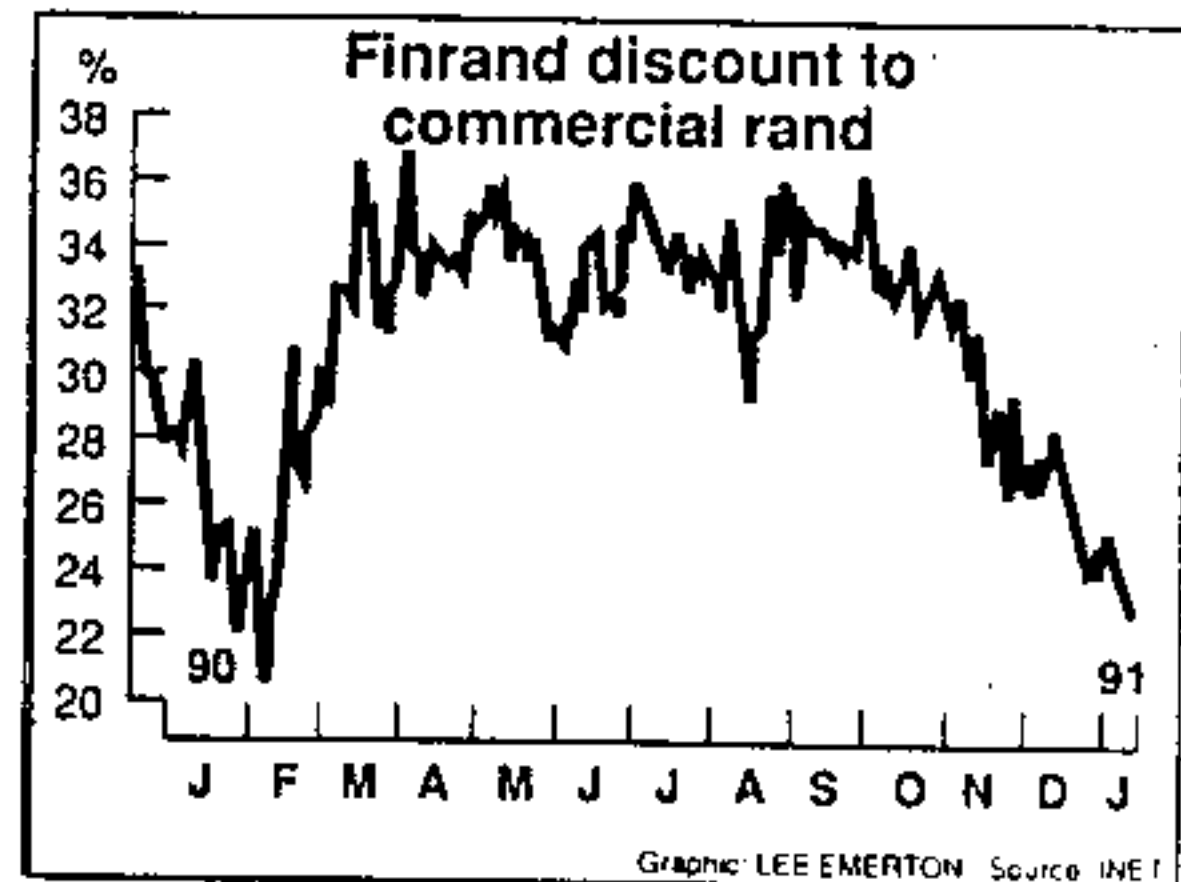
As a barometer of foreign sentiment towards SA, the finrand has fared well, despite continued investor apprehension over unrest in the country.

A Finance Department spokesman said last week from Zurich that there was no lack of interest from foreign banks, financiers and industrialists. Violence, and not apartheid, had become the major hindrance to investment.

The Lesotho Highlands Water Project had been a major attraction with companies "falling over themselves" to take part in the venture.

Italy, one of SA's major trading partners, was particularly interested after taking heart from the successful Fiat Uno campaign, he said. A group of 12 to 15 bankers from the Italian Bankers Association would be visiting SA towards the end of January.

Standard Bank treasury assistant GM:



forex Willie Potgieter said overseas demand had surfaced late last week and the discount would probably narrow further.

Investments were probably going into gold shares, as investors took a view on the gold price while the Gulf crisis threatened to develop into all-out war, he said.

Another factor could be that money had been coming in on the short side of the money market, but he believed gilts were unlikely to have attracted major interest.

The narrowing of the discount was in line with Finance Minister Barend du Plessis' wish to see the gap close.

Also encouraging was that when the discount fell below 25% at the beginning of the week, it did not rebound, as was its normal reaction. Instead it continued appreciating. The rand weakening in the face of a stronger safe-haven dollar had also contributed to the shrinking discount.

R6,2m Allied deal bewilders analysts

GILLIAN HAYNE

pared to bid 225c or so for 30% of Allied.

Allied closed on Friday at 210c, 13,5% up on a week's volume of 4,5-million shares, UBS closed at 790c on a week's volume of 292 465, Sage closed at 735c and Volkskas, "a surprise mover", moved up 9,7% to R17 on a small volume of 13 794.

Southern Life's entry into negotiations followed rumours that the negotiations were faltering. Those involved in talks are keeping mum, but analysts believe it is too early to write off the negotiations.

A BOOKOVER deal worth R6,2m in Allied shares on Friday provided a dramatic end to a week of intense speculation on the future of merger negotiations between UBS, Allied, Volkskas and Sage Financial Services (SFS). *Biday 14/1/91*

The deal involved 2,9-million shares at 215c a share and left analysts — divided in their reaction to the rumours — bewildered over who did the deal and why.

Earlier in the week the merger talks took a new turn with Southern Life named as the company behind a counter-bid for Allied. It was reported Southern was pre-

Czechs are eager to trade

GERALD REILLY

CZECHOSLOVAKIAN businessmen are eager to develop two-way trade with SA, Northern Transvaal Chamber of Industries (NTCI), executive director John Toerien said yesterday after returning from a visit to Prague.

of the Czech cabinet and the Czech chamber of commerce and industry, Toerien said. He said the visit would improve trade relations and contribute to a better understanding of conditions in the two countries.

An NTCI delegation held discussions with members

13/06/77 15:11/91

(74)

Stals cools hopes of interest rate drop

Bloom 16/1/91

ALTHOUGH the rate of economic growth will remain relatively low, SA should make it through 1991 with relative ease despite possible inflationary and balance of payments pressures, Reserve Bank Governor Chris Stals said yesterday.

SA should, however, not expect any major relief in the form of interest rate cuts, he said in an interview.

The Bank would continue with its relatively restrictive monetary policy this year and "would not create more money to add support for more loanable funds".

While the "intermediate" variables had generally fallen into place, lower inflation was still the ultimate objective and until that happened monetary policy had not really achieved its objectives, Stals said.

The intermediate variables were lower money supply growth, higher reserves and a slowing in demand for bank credit. These would remain in place until the objective of declining inflation had been attained.

(41) (74)
ANDREW GILL

Inflation, which is expected to decline in December and January as a result of petrol price decreases, is now under upward pressure because of Gulf war fears and higher oil prices.

The uncertainty over the Gulf crisis made it difficult to make forecasts with any certainty, he said.

What was needed in the long term was a stable financial system that could realise sustainable economic growth and a drop in interest rates now could contribute to inflation but not to growth, he said.

"If necessary we will pro-actively intervene (in the money markets) to avoid monetary expansion," he said.

On the balance of payments (BoP) he said 1990 was likely to reflect a comfortable R5bn surplus on the current account. However, in 1991 the surplus was likely to

□ To Page 2

Stals Bloom 16/1/91

dwindle significantly and could decline to about half this amount.

The Gulf crisis may not have as major an effect on SA as other countries, he said. Neutralising factors on the BoP like higher gold and base metal prices may come into play, he said.

SA should have modest expectations for exports in 1991, but the outlook for the BoP should not be too pessimistic because the situation would be manageable, he said.

The Bank has unutilised overseas credit facilities of about R3bn which could be used if necessary, he said.

Debt repayments this year were unlikely to pose major problems with an official \$1,6bn to be repaid this year compared with 1990's \$2,5bn. Of this a large proportion could be rolled over, he said.

(41) (74) □ From Page 1

Analysts had predicted a cut in Bank rate early in the year because underlying trends seemed to be pointing towards it, Stals said, but this was deferred largely because of a kink in the statistics over the past six weeks which had all shown signs contrary to their trends.

Money supply growth kicked up from just above 10% to above 12%, reserves dropped by over R480m, consumer inflation increased to 15,3% from 14%, producer inflation was higher and so was bank credit.

He said there was more reluctance to change policy in this situation. The Bank would wait for a return to the underlying trends before making any decision.

● Picture: Page 3

THE world's fluctuating hopes and fears about the outcome of events in the Gulf have been duplicated in the intense volatility in the dollar/Deutsche Mark rate.

A week ago, when the Baker-Aziz meeting in Baghdad lasted longer than expected, forex dealers — according to the Union Bank of Switzerland (UBS) — saw that as a hopeful sign for peace and sent the dollar plunging 150 basis points. But when US Secretary of State James Baker used the word "regretfully" at a subsequent news conference, kindling fears of war, the dollar turned around, recouping all its previous losses.

In a couple of weeks, the dollar has swung through ups and downs accounting for a total of 22 pfennigs, compared with combined movements of 20 pfennigs during the previous nine months.

The latest First National Bank (FNB) Weekly Technical Forex Comment predicts a 5,5 pfennig trading range during this week, that is DM1,500 to DM1,550, a prediction which appears to fear the worst.

And if missiles and bombs fly today what will happen in the forex markets?
The dollar is being supported

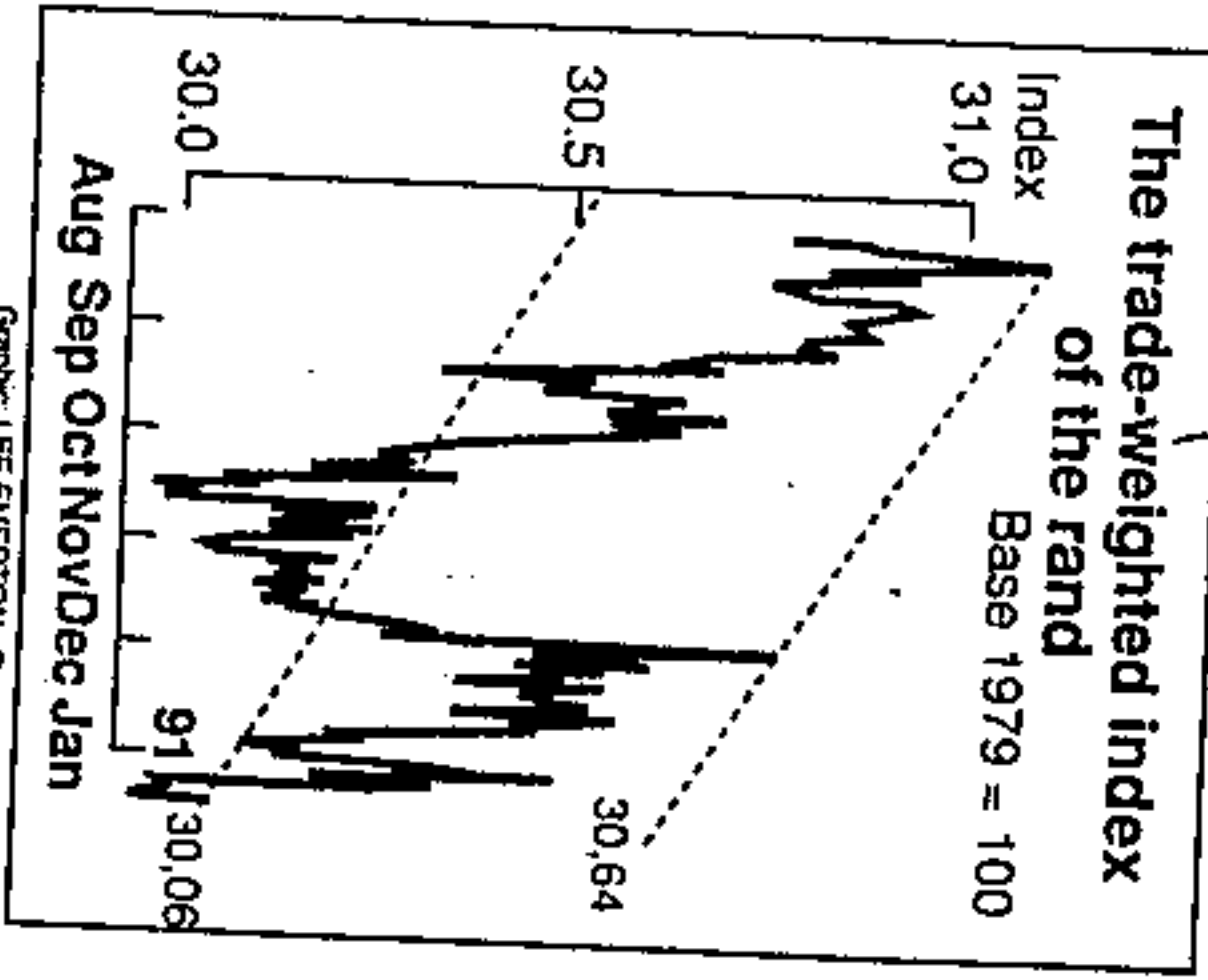
No let-up yet in forex volatility

HAROLD FRIDJHON

strongly by its safe-haven status at present in spite of adverse economic indicators and the 25 basis point easing in the Fed Funds rate, a discouragement to investors. On the other hand the Deutsche Mark, too, is not responding to its favourable economic climate. The German unit is being downgraded by events in the Baltic which might send thousands of refugees streaming into Germany.

Although the UBS does not expect war and the Standard Bank appears to fear the worst, both expect the Swiss franc, the Japanese yen and the mark to emerge as the strongest international currencies, with "flight funds" leaving the US in the pursuit of value. The UBS predicts the dollar/DM trading range to be 1.52 to 1.58 this week which would mean a breakthrough into new high ground for the US currency.

Sterling is presently looking strong against the mark, as well as



against the dollar, the attraction being higher yielding assets than in the Germany or the US, or for that matter in Switzerland and remote but volatile Japan.
The rising dollar has been having an adverse impact of the rand which

LETTERS

is looking a little uncomfortable on some of the cross rates, particularly the mark. But a better perspective of the rand comes from the trade-weighted index (TWI) of the rand which appears to be particularly vulnerable at present, as the graph shows.

On the index, with a base of January 1 1979 = 100, the TWI of the rand peaked above 31 points during August 1990 and then proceeded to record a steadily declining trend reaching an historic low of 29.85 during October.

The recovery was slow and somewhat volatile until the beginning of December when the TWI shot up to meet a resistance level of 30.64. This coincided with the period during which the rand gained in value against the dollar. At the end of December after some fluctuations the index slumped again, recovered, and then plunged to its previous low from which it appears to be picking up.

Because of the rand's lacklustre performance against the dollar in recent weeks one is left with the

view that the Reserve Bank has been intervening to give support to the currency.

Some people in the forex market hold the view that the Reserve Bank is prepared to let the rand drift marginally, but that theory doesn't hold much water, unless the Bank is intent on raising the rand price of gold to sustain marginal mines and minimise the retrenchment of labour. That theory suggests that the Bank does not have faith in the world gold price holding at its present levels.

On the other hand a weak rand, while assisting exports, makes for more expensive imports and that surely is contrary to the anti-inflation policy.

The state of the gold and foreign exchange reserves indicates that at long last the Reserve Bank has the strength to support the rand should it be deemed to be advantageous in SA's business with our major trading partners.

About gold, the UBS says that short-term optimism in the price is warranted but the scope for increase is restricted by the belief that any war will be brief, that the rise in the oil price is limited given international plans for the release of oil reserves, and the fear of Soviet sales.

Short conflict positive for SA, global economy

BIDcom 18/11/91 (74)

A SHORT-lived Gulf war would be positive for a resumption of growth both in the SA and the global economy, economists said yesterday.

Most agreed that the effect of the war would be limited if it were to end soon, and if so one could anticipate a "pick-up" in the world economy later this year.

However economists warned that the markets reacted quickly and often extremely, and there was still a great deal of uncertainty at this early stage.

The market reacted yesterday "as if the war would be finished within days", when industrials firmed and gold and oil plummeted "on the expectation of a surgically clean war with a quick end", they said.

An encouraging aspect was that the threat to the Saudi Arabian oilfields seemed to have diminished, so there was unlikely to be a major oil crisis.

If this was so, "an upward push in petrol costs and the resulting additional inflationary pressures seems unlikely", an economist said.

However, another economist said the supply of oil to the rest of the world was a decisive factor, and Iraq's ability to hit the

MARCIA KLEIN

oil fields was not known.

Rand Merchant Bank economist Rudolf Gouws said if there was a quick end to the war, tension in world markets which had built up over the last few months would be removed.

This would tend to counterbalance other recessionary forces in the world economy — which would otherwise have remained in a recession for the rest of this year.

With SA being so dependent on what happened internationally, SA exports could perform that much better if the severity of the international trend could be lifted, Gouws said.

However, economists said the outlook for gold was not too encouraging, and gold was unlikely to shoot up to the \$500 to \$600 which some people had expected.

While a protracted war could see the gold price rise, economists said it would still be in the interests of SA for the war to be resolved quickly, and the benefits of lower oil costs would outweigh problems of high production costs and low returns in the gold industry.

SOWETAN BUSINESS

SOUTH Africa could regain some of its long-lost strategic importance to the West if a Gulf war closes the Suez Canal, analysts say.

But the United States and its allies are unlikely to resume military ties with the country that for decades has been a world pariah because of its apartheid race laws.

If the Suez Canal were closed, the Cape route would be the way to reach the Gulf from the United States and Europe by sea.

Request

Official sources said South Africa's position astride the Cape sea route was discussed in Pretoria last week by US assistant secretary of State for African Affairs Herman Cohen and Foreign Minister Pik Botha.

No US request for South African assistance was made, the sources said, and it was not clear who raised the matter at the meeting, arranged to

If Gulf war shuts Suez SA may gain - analysts

Sowetan 18/1/91

74

discuss southern African issues.

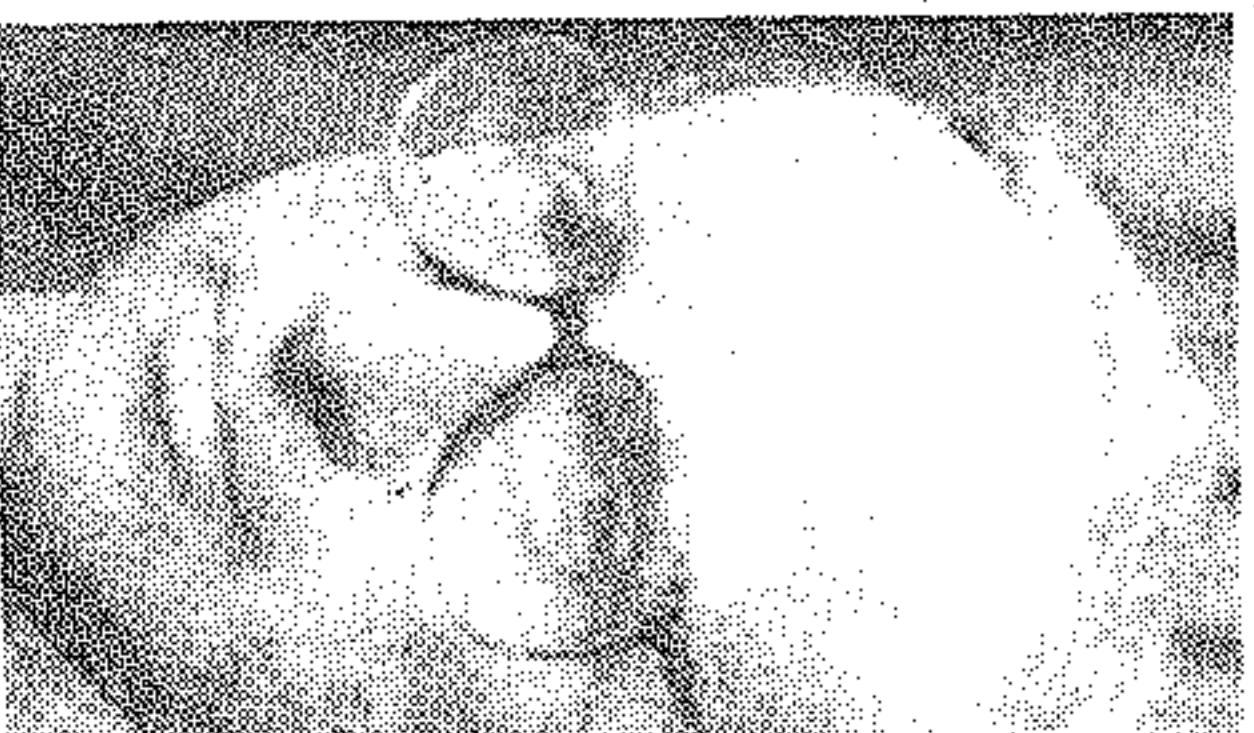
Officials said South Africa would make its ports and bases available to the US-led anti-Iraq alliance if asked.

Officials said South Africa's modern ports of Cape Town, Durban, Port Elizabeth, East London and Richard's Bay - offering their best facilities on the 10 000 mile route between the Gulf and the United States - would be valuable to western commercial and military shipping if the Suez Canal were blocked.

They could supply fuel, provisions, navigational facilities, repairs - even hospital and medical facilities - to ships forced to go the long way between the Atlantic and Indian Oceans.

Cape Town port director Rudi Basson said he had been alerted by shipping agents to expect 10 or 12 additional commercial vessels for bunkering in the next two or

Sowetan Correspondent



HERMAN COHEN

three weeks, up significantly on an average of 30 a month now.

He said rocketing insurance rates for the Suez passage were forcing shippers to reconsider the Cape route. More than 100 vessels had been commonly queued up outside the harbour after the 1967 Arab-Israeli war closed the Canal.

American and Euro-

pean anti-apartheid lobbyists would be incensed by military links with South Africa, giving western Governments an additional headache in time of war.

And the Pretoria Government itself could invite more domestic troubles as it juggles with reform if it took sides against Iraq.

President De Klerk this week telephoned President Bush to offer moral support "in the difficult decision-making period that lies ahead".

Analysts say only if a Gulf war exploded into World War Three could South Africa become directly involved.

But even then its contribution to the safety of allied sea lines would be limited. Economic constraints and isolation have reduced the South African navy to little more than a coastal patrol force.



PIK BOTHA

By MAGGIE ROWLEY
Business Staff

THE Cape Chamber of Industries and Weekend Argus have launched a joint Western Cape Exporter of the Year Award to encourage exporters and to honour those whose efforts have been outstanding.

The competition, to be known as Weekend Argus/Cape Chamber of Industries - Western Cape Exporter of the Year, is open to all manufacturers in the Western Cape who are exporting products of South African origin.

Recognising the need for the development of an export culture as vital to the future economic wellbeing of manufacturers in the Western Cape, the CCI has established a permanent forum of experts drawn from its membership of 1200 companies and comprising seasoned and successful exporters prepared to share their know-how with others and in particular with those would-be exporters seeking new markets overseas.

Mr Colin Boyes, CCI deputy director, said industry in the Western Cape had many ad-

WEEKEND Argus

CAPE CHAMBER OF INDUSTRIES

EXPORTER

of the YEAR



vantages which provided it with a sound basis for export development.

These included a sophisticated and stable labour force, a sound infrastructure with a port giving it access to the world market, a growing regional market resulting from an expanding population and a fast-growing tourist industry.

The Weekend Argus/CCI competition is open to all manufacturers in the Western Cape from among whom will be chosen the Exporter of the Year 1990.

The winners' trophy and awards for finalists will be presented at a gala banquet in Cape Town on May 21.

Judging will be based on the best export effort in relation to the size of the company so as not to prejudice any one entrant. This means that a small manufacturer will stand as much chance as one of the giants.

Vital criteria

Criteria on which judging will be based will include:

- Background to export effort. This will cover the degree of in-company commitment to export, motivation of individuals concerned with export, areas of operation outside South Africa, evidence of marketing style, allocation of management and other resources as well as training of export representatives.

- Results achieved. (History of export achievements, value of export sales, degree of improvement in export sales and orders gained against competition.)

- Sustainability. (Basis for future business, long term contracts or one-offs, continuation of marketing effort.)

- Innovativeness. (Breakthrough in particularly difficult market, development of new marketing techniques and product research and development.)

- Downstream Impact. (Employment creation; overall effect of the company and impact on industry).

Entries will be subject to initial vetting and shortlisting by a special sub-committee of the CCI. The final evaluation will be by a panel of five judges appointed by the chamber. The closing date for entries is March 15.

For an entry form send the coupon on page 3 to: Exporter of the Year Competition, PO Box 15399, Vlaeberg, 8018.

EXPORTER

Hunt for top W Cape

W/C Argus 19/1/91

74

B/P am 21/1/91
**Non-resident
 sales of gilts,
 equities up *74***

NON-RESIDENT sales of equities and gilts rose sharply in the week ended January 11, contributing to a marked rise in the net outflow from SA over the shorter previous week, JSE statistics released on Friday showed.

The value of equities purchased during that period rose to R52,9m from R16,8m in the week ended January 4, while the value of sales surged to R130,8m from R43m.

The total number of shares purchased on the JSE during the week was 35,5-million at a value of R307m. The average price per share was 864c.

The value of gilt purchases rose to R185,2m from R31,1m, while the value of sales climbed to R207,7m from R17,9m.

The net result of those transactions was a hike in the net outflow for that week to R100,5m from R13m, the exchange said.

The total nominal value of gilts purchased in 3 162 transactions in the week to January 11 was R5,8m but the price paid was R4,7m.

IDC plan for major changes in industry

B/Dam 21/1/91

74
KEVIN DAVIE

SWEEPING changes to make South African industry more competitive have been recommended by the Industrial Development Corporation (IDC) in a report being considered by government.

The report on revamping protectionist policy has already been handed to the President's Economic Advisory Council and is expected to be reviewed by the Cabinet soon.

Key recommendations are that there should be a co-ordinated scaling down of import tariff protection and that a tariff policy should be developed which can be applied on a sector and industry basis, a business source has said.

The present system is based largely on ad hoc rulings, meaning that individual rules tend to apply to almost all SA's 11 300 imported items.

"We've reached a watershed and can't go on like this if we are to achieve economic growth through boosting exports," the source said.

The report recommends setting tariff targets for industries and sectors, and the phasing in of such tariff changes.

Another important recommendation is that import tariff protection should accord with the General Export Incentive Scheme (GEIS). The higher the value added in the manufacturing process, the higher the tar-

iff protection the exporter can expect.

The IDC report also singles out the surcharge on capital goods as an evil which must be eradicated. The surcharge was introduced in 1988 to dampen demand and ease pressure on the balance of payments.

But it has become an enormous revenue earner for government, budgeted to rake in R1,8bn this year. While senior officials are known to want to get rid of the surcharge, they are reluctant to lose the revenue. The IDC report apparently warns that the surcharge on capital goods is harmful as it raises input costs, so making SA industry less competitive.

Another recommendation is that high protection which is granted during the start-up phase of an industry should be phased out within a reasonable period of time. The present system has allowed the high rates to continue indefinitely.

Should the new streamlined system be adopted, it will mean that government will be able to publish a list of imported goods which are not manufactured in SA, with advice on what protection it is prepared to offer. The new system would also be much simpler and cheaper to administer.

The re-evaluation of protectionism is

☐ To Page 2

IDC B/Dam 21/1/91

part of a major drive to restructure SA trade by encouraging exports, keeping administered price increases below the rate of inflation, and reducing tariff barriers and surcharges which raise the basic cost of producing manufactured goods.

The drive also includes a new developing relationship with the General Agreement on Trade and Tariffs (GATT), whereby SA has committed itself to abide by fair-trade principles and reduce tariff barriers.

The IDC report also recommends the scrapping of formula duties which SA to date has used as a protectionist measure. These duties, which are being phased out to comply with GATT, apply high tariffs for

high-volume, low-priced imported goods.

The scrapping of formula duties will mean that SA industry will be exposed to import dumping. An urgent investigation by government has been launched to put an effective alternative system in place to ward off this threat. It is understood that this is stressed by the IDC: no tariff restructuring should take place before the anti-dumping system is in place.

The IDC's protectionist recommendations argue for a flexible approach. The report suggests there may be a good argument for retaining some existing industries which cannot compete internationally, rather than lose jobs to the economy.

74 ☐ From Page 1

Drought hits forex income 74

PRETORIA — The 1990/91 drought will cost SA at least R1,5bn in lost foreign exchange, informed calculations show.

It is understood government originally estimated that agriculture would earn R5,1bn in foreign exchange last year.

However this has had to be revised down to an optimistic R4,5bn.

The figure of R1,5bn is calculated on the basis of lost export opportunities and the cost of importing crops.

Because of drought and the threat to the 1990/91 maize crop, exports of surplus maize had to be suspended by the Maize Board in the second half of last year.

The total available for export last year amounted to just over 1-million tons — the surplus from a crop of 8,7-million tons. At the time of the export suspension more than 300 000 tons still had to be exported.

This would have earned about R120m in forex. Added to this and other losses will be the expected costs of importing nearly 2-million tons of maize this year at around R700m to supplement the local crop which

GERALD REILLY

is not expected to be much more than 5-million tons.

The wheat crop, at 1,6-million tons has fallen far short of the local need and 700 000 tons will have to be imported at a cost of about R200m, estimates show.

According to Maize Board GM Hennie Davel, almost 3-million hectares less had been planted up to January 15 than in the 1989/90 season.

Meanwhile Agriculture Development Minister Kraai van Niekerk said at the weekend the drought had imposed crippling financial burdens on farmers.

Van Niekerk said in a statement after visiting drought-stricken areas of the Free State that the deterioration of grazing had reached alarming proportions. It might be necessary, he said, to make special marketing arrangements to cope with greater selling pressure.

He assured farmers government had "great understanding" for their deteriorating financial position.

21/1/91
81 P 2/1

Visit from Gabon may lead to air, oil links

By Peter Fabricius
Political Correspondent

Closer ties with oil-rich Gabon are expected to flow from President de Klerk's meeting yesterday with a senior delegation from the West African state.

And South Africa has already negotiated over-flight rights with Gabon and the neighbouring Congo to enable SAA to start a flight to Abidjan, Ivory Coast.

In another step forward in its breakthrough into Africa, an official delegation from Angola began a four-day visit to South Africa yesterday.

Co-operation

It is expected that possible purchases from Angola will be discussed. The visit is a follow-up to the visit to Angola in December by Mineral and Energy Affairs and Public Enterprises Dawie de Villiers.

Dr de Villiers said the purpose of the visit yesterday was to continue discussions on commercial relations and to explore further possible areas of economic and technical co-operation.

He forecast that as the peace process in Angola proceeds, and a ceasefire is concluded, prospects for commercial exchanges with would be

greatly improved.

Yesterday's meeting between the Gabonese and Mr de Klerk at his official Tuynhuys office in Cape Town was the first public acknowledgement by Gabon of contact between the two countries.

The head of the Gabon delegation, Maitre Louis Gaston Mayila, personal adviser to Gabon President Omar Bongo, delivered a "very warm message" from his president to Mr de Klerk.

Mr de Klerk responded with an equally warm message, according to South African deputy director of foreign affairs Rusty Evans.

The message from Mr Bongo could be expected to give rise to a series of closer exchanges in the near future.

These could lead to closer relations. South Africa has enjoyed clandestine relations with Mr Bongo for many years, and has been running a farm project there in Franceville.

Sources said the over-flight rights which South Africa signed with Gabon and the Congo a month ago would enable SAA to operate a Johannesburg-Kinshasha-Abidjan route, or merely be used if flights were diverted.

The delegation from Gabon included Madame Pascaline Bongo, daughter of President Bongo.

17% trade surplus rise 'encouraging'

By AUDREY D'ANGELO
Business Editor

THE recession may already be bottoming out and 1991 may be much better than most people expect, First National Bank economist Cees Bruggemans said yesterday.

He was commenting on a 17% rise in SA's trade surplus for 1990, compared with 1989, which other economists described as "encouraging".

But Mike Daly of Southern Life said that although he expected a very substantial improvement in SA's net reserves of foreign exchange "we are not out of the wood yet."

And Glenn Moore of Personal Trust said that although the higher trade surplus was one of several factors creating a situation in which a cut in interest rates would be appropriate, he did not think there would be one until the situation in the Gulf was resolved.

Figures released by the Customs and Excise yesterday showed the total trade surplus for the year was R16,31bn compared with R13,99bn in 1989.

Exports were worth R60,567bn — R1,839bn more than in 1989. Imports dropped by 1,2% to R44,206bn in 1990 compared with R44,741bn in 1989.

The surplus for December was R1,88bn after falling to R1,50bn in November from R2,3bn in October.

Bruggemans said he was surprised by the size of the annual surplus in view of the fact that gold and other commodity prices were low and the agricultural sector was suffering from the worst drought in 100 years.

He did not think manufacturing exports could account for it, in view of company results released recently. It was difficult to reconcile with "all the doom and gloom being spread around".

The size of the surplus meant that the balance of

payments was no longer a constraint and — if the Gulf war did not go on too long — it was now up to the policy makers to decide "where we will go next in terms of monetary and fiscal policy".

He was not forecasting that 1991 would be a boom year "but I suspect that the recession is bottoming out now and in the second half of the year we may already be experiencing an upturn".

Pointing out that "the consumer sector has held up wonderfully", Bruggemans said the fact that levels of savings were low indicated that "no one is panicking".

Daly said the trade figures were "very encouraging". Imports were at last coming down and he thought this trend would continue.

"We are looking at a current account surplus of about R5bn, which is higher than the revised forecasts after the Iraqi invasion of Kuwait."

Outflows of foreign currency were likely to be lower due to improved relations with other countries, leading to a very substantial improvement in SA's net reserves in 1991.

Moore said the trade figures were following a trend to be expected "in an environment in which gross domestic product (GDP) is running into negative growth in real terms".

It was to be expected that imports would fall, and SA had been lucky that Western European economies which were its main export market were fairly buoyant during the year.

Figures for SA's net foreign reserves, due out soon, should indicate a further rise but this would depend on whether a large debt repayment had been made in December.

Moore said he was surprised the rand had not been doing very well against the dollar. This could be due to the lower gold price, or to repayment of foreign debt.

CAP Times 23/1/91 (74)

Forex markets lament: We have lost our way

74

VOLATILE international forex markets are telling the world they don't know which way to go, while events in the Gulf war swing sentiment from euphoria to a gloomy foreboding that this is not going to be a blitzkrieg with a quick thrust at Iraq's jugular.

Some commentators are already talking of an 80-day war with mounting costs of life and material. Analysts are trying to assess the effects on a US in recession and question whether the dollar is, after all, a "safe-haven" currency. Some observers believe the oil price, post-war, is not the issue it was first thought to be — the West will have resources to carry it through.

Saddam Hussein has not yet committed his forces and CNN TV has indicated that his air force is far from a battered weapon. The war on the ground has yet to test the mettle of the allied strength.

It would seem that in the weeks ahead, the forex markets will concentrate more on fundamentals

again rather than on the tally of planes shot down, buildings destroyed and Scuds obliterated by Patriots.

In the past week the dollar swung wildly through a range of five pfenigs — yo-yo style — against the German mark which, according to the Union Bank of Switzerland (UBS), is showing some weakness against the Japanese yen.

The yen is gaining strength largely because Japanese oil supplies are said to be secure and, more important, Japan is enjoying the comfort of being physically far removed from both the Gulf war and the insurrection in the Baltic, which is undermining some of the fundamental strength of the DM.

Generally, the Swiss franc has held reasonably firm against most currencies. It gained last week from the inflow of funds from the US and the UK seeking traditional safe haven in Switzerland. The dollar/Swiss franc graph has

HAROLD FRIDJHON

been presented this week not only because it illustrates the recent volatility of the dollar against the more stable franc, but also, as First National Bank's technical analysis reveals, because the dollar appears

to be poised to penetrate the 1,2572 resistance base, heading for the 1,2387 resistance level last reached during October.

With the prospects of a longer-than-expected conflict in the Gulf, forex markets will probably focus their minds on spot realities and not on post-war possibilities.

The weekly Standard Bank forex report highlights economic fundamentals affecting the position of major currencies. The US consumer price index for December rose 0.3% to post a year-on-year rate of increase of 6.1%, compared with 6.3% in November.

US industrial production continues to fall. In December, industrial production fell by a seasonally adjusted 0.6% and, on a year-on-year basis, by 1.4% compared with the previous month's 0.6% year-on-year fall.

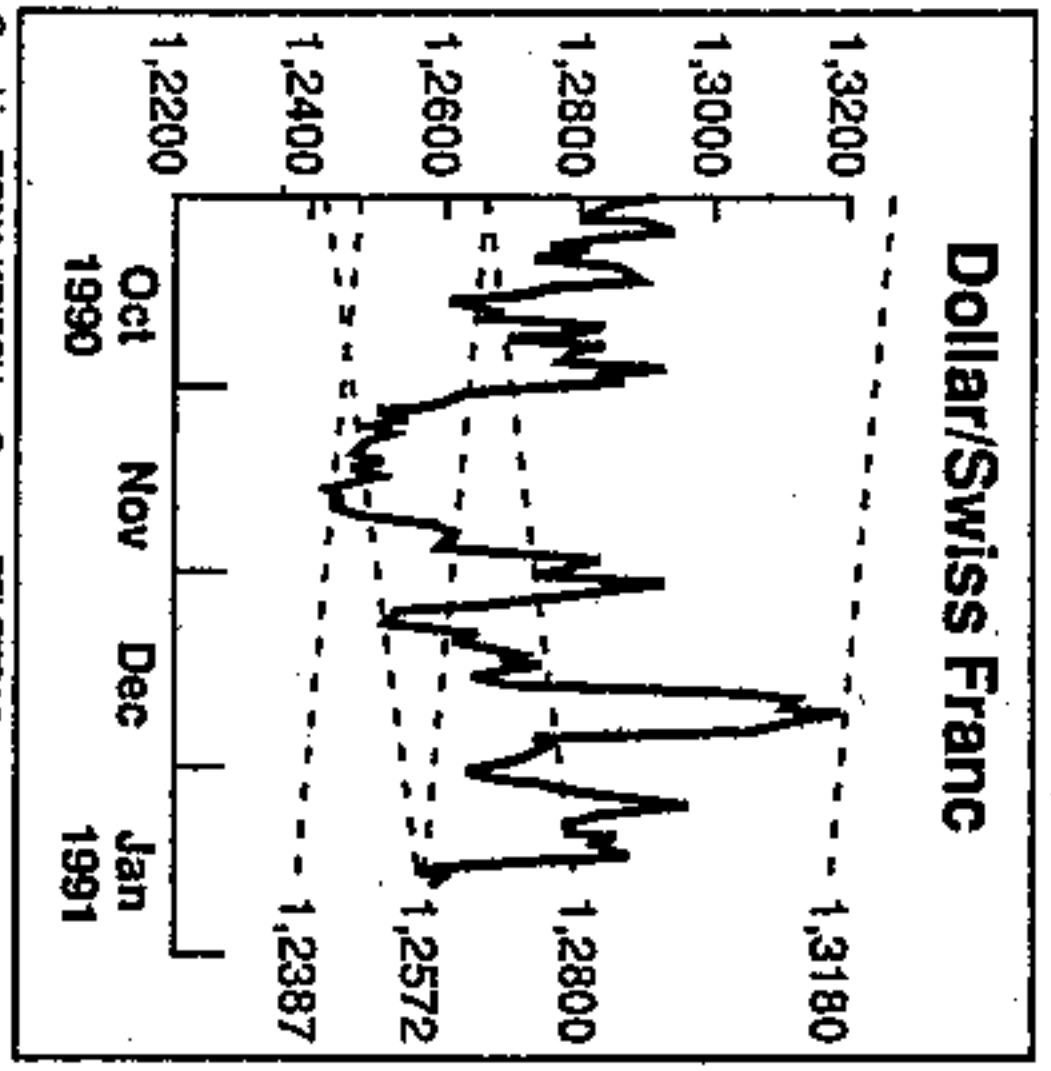
These releases confirm and complement previous data suggesting that the US economy is in recession

and that a further cut in US interest rates is possible.

If the dollar's war premium is further diminished, economic fundamentals are then expected to erode the currency's global value.

Sterling is enjoying some support from the Gulf war. Its high yield, and the UK being a net exporter of oil, have increased the relative attractiveness of the currency despite its weak fundamental position. The December retail price index (RPI) data combined with those of retail sales, unemployment and the current account position confirm that the UK is in recession. While the data support the case for lower UK interest rates, pressures within the European monetary system (EMS) make a rate cut unlikely at present.

The Reserve Bank appears to be holding up the rand against the dollar, but the rand is not too healthy on the cross rates. And it doesn't look as if the currency can expect any shots in the arm from gold.



Graphic: FOMA KRISCH Source: TELETRAC

LETTERS

BTI to act over local content

THE Board of Trade and Industry (BTI) yesterday confirmed that the local content programme for the motor industry would be revised in March at the earliest.

BTI chairman Lawrence McCrystal said appeals made by the National Association of Automotive Component and Allied Manufacturers (Naacam) last year for urgent changes to Phase VI of the programme would be taken into consideration.

The BTI would not disclose how the programme would be restructured as certain aspects still required finalisation.

Naacam claimed Phase VI of the programme favoured vehicle manufacturers and demanded that the BTI put component manufacturers on an equal footing by instituting a 30% minimum local "material" content for vehicle manufacturers.

Naacam executive director Denzyl Ver-

MARC HASENFUSS

mooten said yesterday Phase V's exit point should be the entry point for Phase VI.

Phase V required vehicles to have 66% local content by weight, which translated into 30% local content by value.

Phase VI provides vehicle manufacturers with an excise rebate on the value of exports and a penalty on the use of imported components. Revenue obtained by car makers from exports had so far outweighed the costs incurred from import penalties, allowing companies to manufacture minimum local content models.

McCrystal said motor manufacturers would not be disadvantaged by changes to the programme. He said Phase VI's flexi-

To Page 2

BTI *23/11/91*

bility would be retained along with export incentives.

He pointed out that Phase VI encouraged export of components to the level of 65% by value of vehicle sales turnover and in reality local models could be made with minimal local content.

In December the BTI imposed a tempo-

74 From Page 1

rary 2,5% ad valorem duty on vehicles to compensate for a R64m shortfall for the fiscal year to March after revenue due to car makers for exports exceeded expectations.

Motor industry analysts blamed the BTI's intervention via the programme for pushing up new car prices.

Taiwan makes its first-ever trade credit loan to SA

By Peter Fabricius
Political Correspondent

The Republic of China (Taiwan) has granted South Africa a first-ever trade credit loan of R150 million to stimulate local manufacture.

Taiwanese Foreign Minister Dr Fredrick Chien and SA Finance Minister Barend du Plessis

signed the loan — from the Export-Import Bank of China to the SA Industrial Development Corporation — in Cape Town yesterday.

IDC chairman PJ van Rooy said the R150 million would be used for importing mostly capital goods from China.

Mr du Plessis said the trade credit agreement was very sig-

nificant for relations between the two countries.

And if Taiwan could provide machinery and other intermediate goods, this would enhance local manufacture and stimulate exports — one of SA's chief economic goals.

South Africa could also learn from Taiwan's success in manufacturing and exporting.

Dr Chien said the loan would

increase trade between the two countries which in 1989 stood at \$1.4 billion.

SA's ambassador to Taiwan, Alan Harvey, said this was Taiwan's first large loan to SA.

A second loan to finance agricultural projects was possible soon. He said Taiwan had the highest foreign reserves in the world and had a tremendous need to invest.

There was some concern in Taiwan that SA might switch allegiance to mainland China as relations with the world thawed.

Part of the motive for the loan might have been to persuade SA not to do so.

Mr Harvey said Taiwan need have no such fears as SA would stick by its traditional friends.

74

Spec 23/11/91

December trade surplus R1,88bn

B10ay 23/1/91

74

ANDREW GILL

SA RECORDED its second highest trade surplus for 1990, R1,88bn, in December, latest Customs and Excise figures show.

This resulted in an estimated current account surplus of about R5,5bn for the year.

The cumulative surplus for 1990 was R16,4bn, compared with 1989's R14bn.

December's R1,88bn was well up on November's R1,5bn and second only to October's massive R2,33bn.

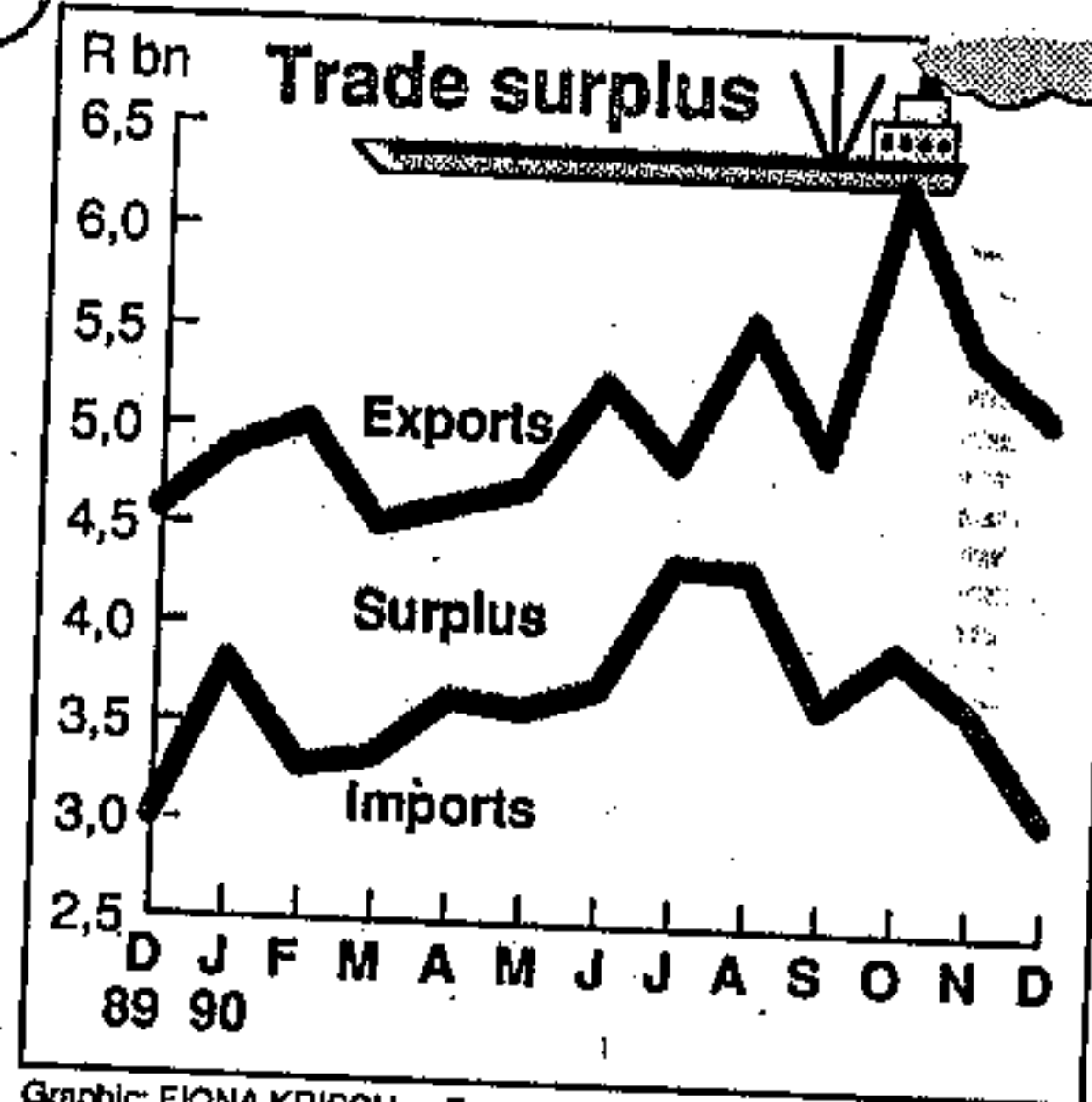
It came about largely through a R560m decline in overall imports, despite continued high oil prices.

Imports fell to R3,08bn, while exports slipped by only R177m to R4,96bn, shaking off a R461m fall in unclassified exports (mainly gold, platinum, uranium and arms).

Imports for the year fell R535,2m to R44,2bn, a 1,2% fall from 1989, while exports were up R1,8bn (3,1%) to R60,6bn.

Export sectors showing a strong improvement over the year were machinery (including electronic equipment), which was up 28,6% to R1,36bn, and mineral products, up almost 10% to R7,3bn.

The transport category, which includes vehicles, aircraft and vessels climbed 66% to R1,1bn. This sector slumped in terms of



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

imports with a 16,9% fall to R5,7bn. The net import position fell markedly to R4,6bn from 1989's R6,2bn.

Vegetable exports slumped 17% to R2,06bn while imports jumped 30% to R926m, resulting in net exports of just R1,1bn compared with R1,7bn. Economists believe this sector is likely to come under further pressure in the coming months as the effects of the drought continue filtering through.

Nedbank chief economist Edward Os-

□ To Page 2

Trade surplus

B10ay 23/1/91

74

□ From Page 1

born said December's surplus was extremely good and could result in a current account surplus of about R5,5bn for 1990.

The performance was much better than expected, he said, and suggested considerable savings were made on the unclassified imports side. The sector (mostly oil) saw an October bill of R483m and a November bill of only R288,8m, in spite of higher oil prices.

When the Gulf crisis started economists

revised their forecasts of the current account surplus to about R4bn.

An indicator of the recession, he said, was the unusually low imports, excluding unclassified goods. These slumped to R2,55bn in December from R3,35bn in November.

Safto economist Bruce Donald noted the "exceptional" performance of capital intensive sectors like vehicles and transport and the relatively poor performance of labour intensive sectors like textiles.

Lower import bill boosts trade surplus

By Duma Gqubule



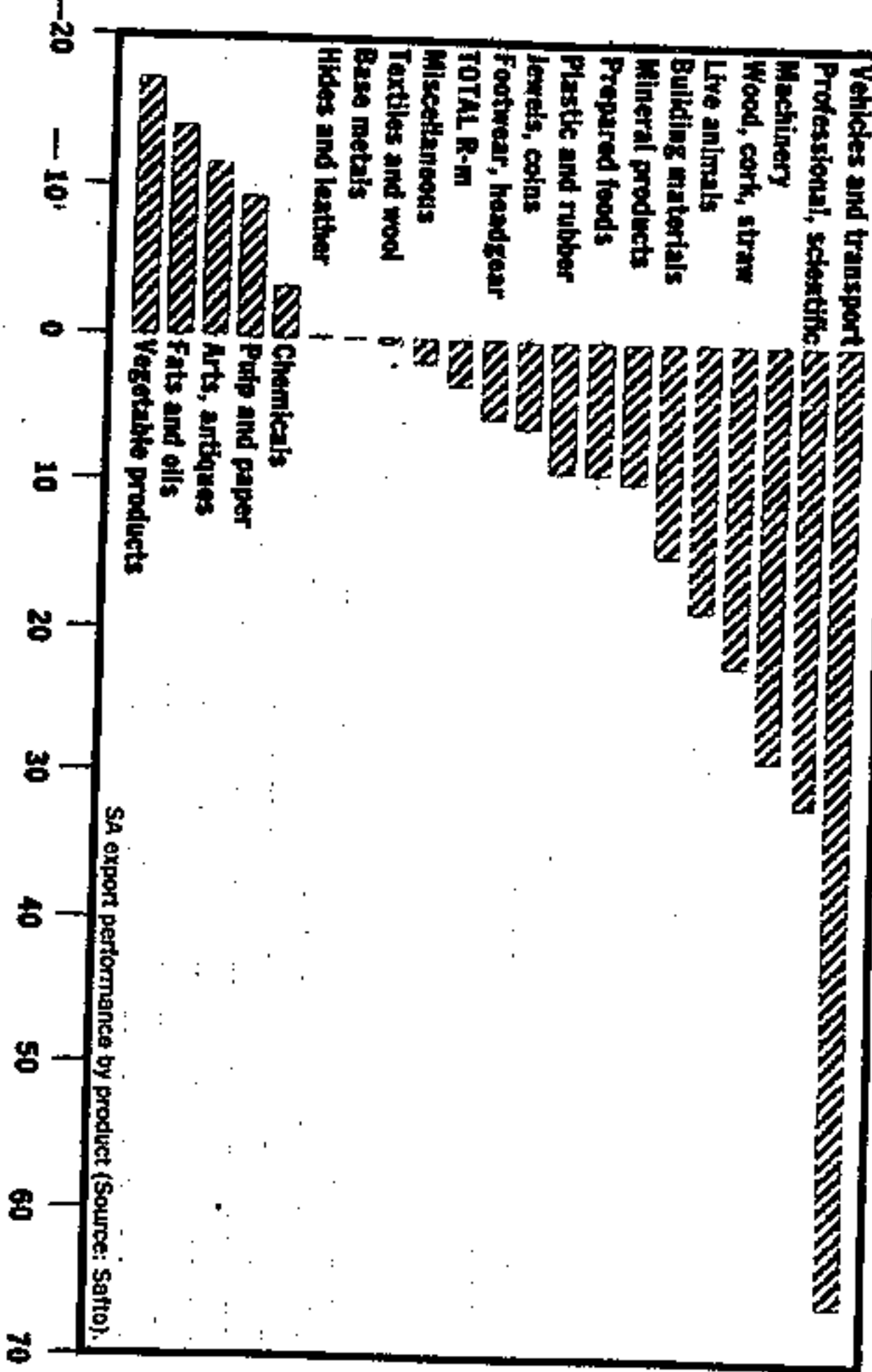
Star 23/1/91

74

Falling imports as a result of the strict monetary policies adopted by the Reserve Bank since late 1989 have contributed to an impressive 17 percent increase in SA's trade surplus for 1990.

Customs and Excise figures released yesterday show that the total surplus for the year soared to R16,31 billion last year from R13,99 billion in 1989. This is a clear indication that the uncompromisingly tough monetary policies adopted by the Reserve Bank designed to reduce consumer spending and therefore imports are working.

Over the past year most of the intermediate monetary indicators like the money supply and the increases in bank credit have fallen into place. Oil prices have come down and the inflation rate is set to decline for most of this year. Economists are now saying the Reserve Bank will soon run out



of excuses not to reduce interest rates.

Nedbank economist Edward Osborn says it now appears that the surplus on the balance of payments (BoP) for 1990 will be stronger than had been expected.

Mr Osborn says he now expects the healthy trade surplus to yield a surplus on the balance

of payments of at least R5,5 billion for 1990 after deductions have been made for service and dividend payments and other items.

Exports for the month of December were R4,96 billion, marginally lower than the year's average monthly exports of R5,04 billion. But imports fell to an exceedingly low R3,078 billion

in December compared with average monthly imports of R3,683 billion during 1990. This produced a surplus of R1,88 billion in December compared with an average monthly surplus of R1,36 billion during 1990.

As a result exports for last year came to R60,567 billion, an increase of 3,13 percent on the 1989 figure of R58,728 billion. Imports declined by 1,2 percent to R44,206 billion (R44,741 billion).

Mr Osborn says exports were static to slightly lower in real terms because the exchange rate depreciated by over five percent during 1990. "But given the collapse in the gold prices and the poorer commodity prices last year the performance of exports was less discouraging," he says.

SARTO economist Bruce Donald produced a ranking of the performances of various export products during 1990 (See chart). He concludes that "our real export heroes last year were our capital intensive manufacturing

products. Products that utilise our natural labour intensive resources did not perform well. This is more in line with what would be expected in a developed country than what would be expected in a developing country."

Mr Osborn says if oil prices remain below \$20 a barrel this year this will augur well for the BoP. But excluding oil, he says: "On balance there will be a deterioration in the terms of trade this year. World bullion prices are unlikely to improve. Other commodity prices are likely to be poor although they should bottom out during the year.

"Also, most exports are in dollars and the dollar is likely to weaken this year. Imports are mostly in non-dollar currencies which are likely to gain against the rand. The weaker dollar and stronger cross currencies are likely to have an adverse effect on the currency account and this will add to deteriorating price terms of trade," he says.

By AUDREY D'ANGELO
Business Editor

Protection threatens clothing exports

CLOTHING exports — which have reached R200m a year and still growing — will be endangered if the Deputy Minister of Trade & Industry, Theo Alant, gives way to pressure to give more protection to the textile industry, the National Clothing Federation (NCF) claims.

A simmering row between the clothing and textile industries came to a head this week when delegates from both the NCF and the Textile Federation saw the minister, and senior officials from his department and the Board of Trade & Industry.

The clothing industry has, for years, accused the textile industry of unreliability and of pushing prices up to unacceptable levels. The textile industry, in turn, has accused clothing manufacturers of being willing to sacrifice jobs in

order to be able to import cheap fabrics.

Textile Federation executive director Brian Brink issued a statement that senior representatives of his industry had met Alant.

"The purpose of the meeting was to discuss the critical situation presently being faced by the industry," he said.

"This has been brought about by the current recession, greatly increased output costs, the level of imports of cotton and man-made staple spun yarn and fabric, and under-utilized capacity within the industry."

The NCF statement said clothing exports represented 5% of total

production in this country and were continuing to grow at a rate of 30% a year. This could increase "as export efforts mount in scale, reflecting broader industry involvement".

It said these exports were one of the reasons employment in the clothing industry — the largest single employer in the Western Cape — was still higher than in other sectors. Clothing exports were "critical in the present recessionary climate, where real domestic sales have declined".

Pinpointing the dominant role played by the Frame group in supplying cotton yarn to SA fabric manufacturers, the statement con-

cluded: "The clothing industry has been advised that imports of cotton yarn are not motivated exclusively by price."

"The consistently higher quality and reliability achieved when imported yarn is used improves output and productivity by a considerable 30%."

The statement said its delegation had advised Alant "that further protection to yarn suppliers would merely perpetuate and exacerbate prevailing problems of supply in SA, undermining international competitiveness throughout the pipeline."

"The textile industry should be advised to focus on improving its

competitive position through effective management rather than protective."

The NCF said the textile industry had "created the impression of a flood of cheap textile imports. But Customs statistics showed there had been a 6% decline in the volume of fabric imports."

It would be "extremely unwise" to amend the structural adjustment programme for the clothing and textile industries just when dramatic results were starting to appear.

"To change a system which has been in operation for only 18 months, and which the industries were told would remain in operation for the foreseeable future, will play havoc with forward planning in the business sector and will also result in a negative perception and loss of confidence in economic policy."

Deadline for export claims extended

GOVERNMENT has extended the date within which exporters can claim for marketing expenses to March 31 1993, Finance Minister Bar- end du Plessis and Trade and Indus- try Minister Kent Durr said in a statement yesterday.

This benefit allows exporters to claim tax deductions of up to 20% of their export turnover.

It was set to terminate in March next year. *6/10 am 25/11/91*

The latest moves were implement- ed because of confusion caused by a recent announcement that from March 31 1992 no marketing allow-

GILLIAN HAYNE

ances under section 11bis of the in- come Tax Act would be granted.

The statement clarifies that "any marketing allowance which has been determined in relation to marketing expenditure incurred on or before March 31 1992, for which a deduction has by reason of the provisions of section 11bis(3B) not been granted, will still qualify for deduction, but subject to a limit of 20% of the export turnover which accrues to the export- er during the period ending March 31 1993."

Boost for SA exports seen

By BLAISE HOPKINSON
Business Staff

WITH everything from toilet rolls to top management to be sourced in South Africa, the horn again tourist spot of the Comores is set to be a major export target worth millions a year for this country.

Scrapped as a tourist playground after the 1989 coup, the Comores is once more open for business and South Africa's globe-trotting sun king Mr Sol Kerzner is spearheading the development.

Through the UK-based World Leisure group of companies he and protégés Mr Bruce Hutchison and Mr Gavin Simpson have launched the first of a series of holiday spots.

After the coup, Sun International mothballed its hotels on the island, SAA stopped its weekly flight and the Comorean economy took a backslide.

Mr Hutchison said: "The tourism industry in the Comores was worth over R40 million a year. The new government has a policy of involving all members of the population in tourism. It will be-

w/le Airbus 26/1/91
come a significant source of employment."

The island's best hotel, Le Galawa Beach Hotel, a 183-room resort, will open for business on March 2 following a R10 million recommissioning by World Leisure.

Mr Hutchison estimates imports from South Africa will be worth R1 million to R2 million a month.

"We will be importing everything from South Africa. The Comorean government has waived all import duties and replaced them with a simple wharfage. We'll be able to sell a bottle of South African white wine for about R22. A policy of price positioning has been adopted by the island," he added.

World Leisure has secured the option to build a second luxury hotel on the island — a contract which could be worth R60 million to South Africa.

But the intention is not to turn the unsporty Indian Ocean paradise into a tourist mess.

"The island's future is in good, upper-class tourism. Hotel developments won't be more than two

stores or much bigger than 200 rooms," he said.

World Leisure does not have a monopoly on tourism to the Comores and Mr Hutchison indicates the company seeks to develop the entire industry for the benefit of islanders and tourists alike.

A number of other South African leisure entrepreneurs are involved on the island including Ocean Sailing Academy's Chris Bonnet who is offering yacht charters and sailing courses.

The island hopes to host more than 10 000 SA tourists a year.

World Leisure has put together a seven-night package costing R3 000 including airfare to lure South Africans back to the island.

And SAA is to fly an Airbus to and fro once a week.

Mr Hutchison believes the friendly relations between the Comorean government and South Africa are just a start to the return of this country to being a regional economic power.

"We looked at Kenya as a possible regional headquarters for World Leisure but believe South Africa has much more to offer."

By **DON ROBERTSON**

EXPORTERS seeking a stake in trade with Africa have been advised to concentrate on international aid agencies.

Even United Nations aid agencies, which have in the past refused to deal with SA suppliers for their African assistance programmes, are starting to buy here.

Paresh Pandya, an executive of the SA Foreign Trade Organisation (Safto), has written a booklet to advise potential exporters about African markets.

Skills

African countries have been the major recipients of goods and services from bilateral and multilateral aid agencies. Their lack of foreign currency has always been a barrier to normal trade.

Mr Pandya says SA is geographically well placed to trade with Africa. The rand's exchange rate is low, making the price of goods from this

Aid leads to trade ⁽⁷⁴⁾

country attractive to poorer African states. SA also has technological skills suited to conditions in Africa.

Mr Pandya believes SA companies are suitably placed to supply aid agencies.

The publication contains information about 40 international aid agencies and organisations.

Mr Pandya has identified opportunities from these organisations, particularly in

regions with chronic shortages of foreign currency.

"SA suppliers of almost any item, ranging from medical and pharmaceutical products to heavy engineering equipment and services, can benefit from opportunities offered by these organisations," says Mr Pandya.

The publication is divided into five main sections contain information about bilateral and multilateral trade. Among the financial

institutions mentioned in the publication are the World Bank, the Commonwealth Fund for Technical Co-operation, US Aid and transnational organisations, such as the International Committee of the Red Cross.

Mr Pandya says food companies, machinery and equipment suppliers and timber and paper producers could also benefit from trade through aid.

By DIRK TIEMANN and
JULIE WALKER

Standard, the largest bank in terms of assets, would leave the pack way behind if it got its hands on Allied.

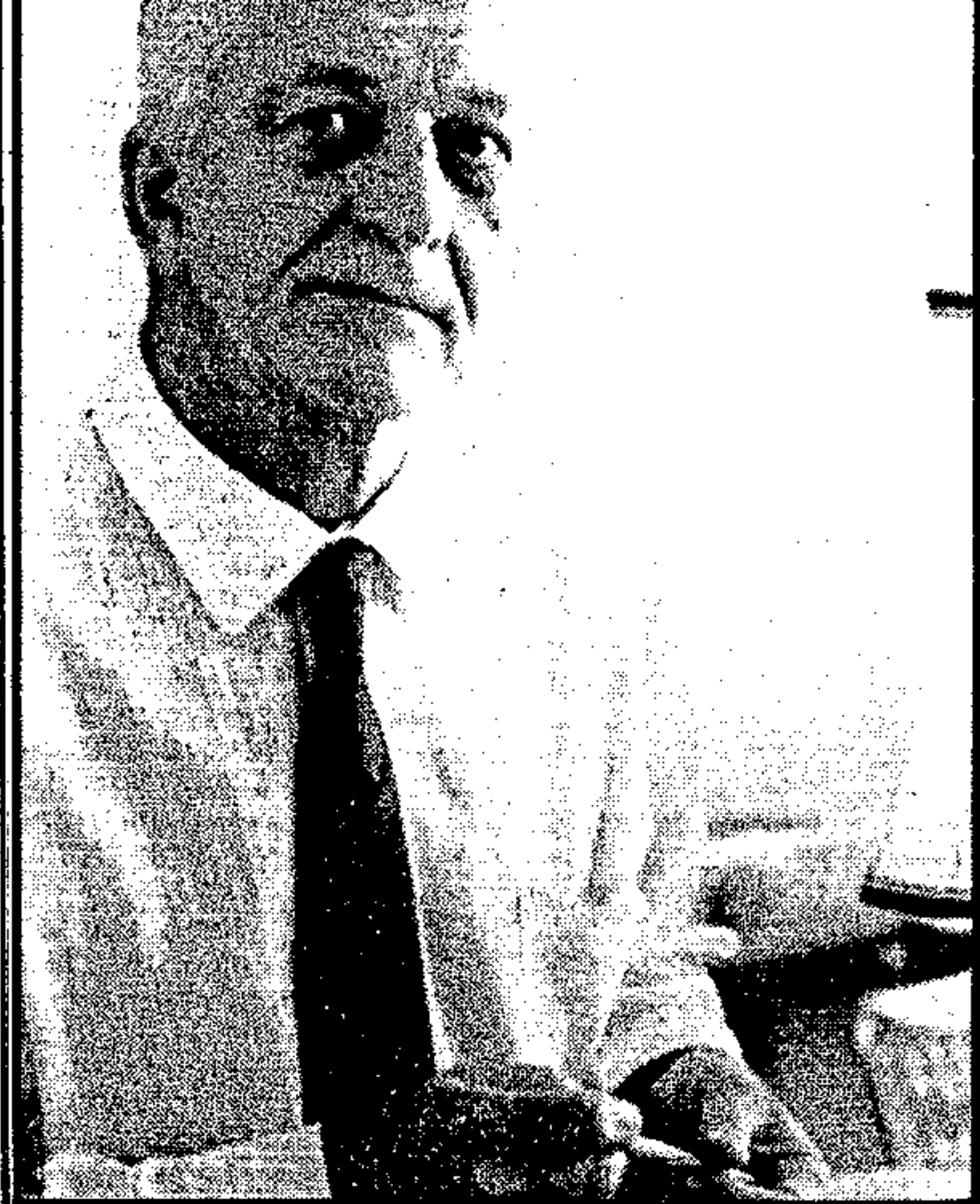
Its R30 share price — R10 above the net asset value — would allow it to issue paper and bid up the Allied price.

An analyst believes it would be worth bidding the price up to R2,70, if it meant gaining control of Allied.

At least one well-placed analyst believes FNB would have little to gain from an association with Allied — a company with a wide spread of shareholders, the largest of which is Sage with 10%.

He says FNB could end up paying a lot of money for relatively few assets. He has no doubt that the Rembrandt parties will link up through an issue of UBS paper to shareholders of the other three.

Sage gained 35c to 785c, and UBS Holdings 5c to 770c this week. Volkskas was unchanged at R17.



TED OSBORN: Forget about gold windfall Picture: GARTH LUMLEY

Over a hump, but still in the woods

Business Times Reporter

THE LAST-MINUTE rally in SA's balance of trade which took the cumulative surplus for 1990 to R16,4-billion does not dispel clouds on the economic horizon.

The estimated current account surplus of R5,5-billion is much better than earlier forecasts and ensures a good start to the year.

"We may be over the hump, but we are not out of the woods," says Rand Merchant Bank economist Rudolf Gouws.

Even before the recessionary effects of the Persian Gulf war — it will be much more severe if it turns into a longer confrontation than initially expected — SA's exports were

flattening out. Their prospects for the rest of the year are not bright.

At the same time SA's gold and foreign-currency reserves cover less than two months' imports.

Last year's trade surplus was aided by a R535,2-million fall in imports. Exports improved 3,13% to R60,5-billion.

Mr Gouws says this was particularly praiseworthy because of lower prices in the first two quarters.

The fact that exports improved across the board — there was a 28,6% increase in machinery and electronic products — has particularly

encouraged economists.

But this year the drought means SA will turn from a net exporter of farm products to an importer, with a worst-scenario R2-billion effect on the trade balance.

If the war intensifies, the recession already hurting the US, Europe, Canada and Australia will dampen SA exports.

It's early days, but Mr Gouws says it is reasonable to look at a current account surplus this year of about R3-billion.

Much lower debt repayment demands this year mean, however, that the probable big decline from last year's surplus is not as serious as it might have been.

Total debt repayment this year, in and outside the net, is about R1,7-billion, compared with last year's R2,4-billion.

Locked

The big change in SA's image among foreign bankers and the impeccable way in which the Reserve Bank has managed the standstill have led to the debt load being lightened considerably by roll-overs. This process will continue this year — and probably accelerate.

Nedcor chief economist Ted Osborn says the SA economy is highly susceptible to world developments because of its openness — "one of the most open economies in the world".

An overall fall in demand for commodities from devel-

From Page 1 (74)

oped economies would hit SA hard, although new openings might occur as sanctions fall away. *Business Times 27/1/91*

The Gulf war has heightened the prospect of wider recession, but the general view is still that there will be a fairly quick recovery from its effects.

In the woods

Mr Osborn sees little hope of a windfall from the gold price. He says it seems to be locked in a trading range of between \$370 and \$420 an ounce.

"It will spike up in response to events, but then I believe it will quickly slump to about \$380 an ounce."

R90m deal

"We estimate the value of the apartments will increase by between 40% and 60% in the next three years."

A park setting will be developed and about 600 trees will be planted. There are already tennis courts and swimming pools, a squash court and creche on the estate. Jogging tracks and walking trails may be built and the installation of satellite dishes for television is being considered.

There will be strict security at each building, and the grounds will be patrolled by guards.

Mr Wainer expects most tenants to buy flats.

"It will be more expensive than current rentals, but it will be an opportunity to buy at well below replacement cost. We help tenants to buy their units."

The shortage of flats is shown by the fact that in I Kuper's 15 000 unit portfolio fewer than 150 a month changed occupancy last year.

Stewart says: "We have sold It made sense to sell buildings as a single

Director Marc Wainer was fortunate to find buildings close to one owner. "I don't complex in SA." completed in the late occupied. Meetings will ants about the plans. offered apartments at well below replace- Mr Wainer.

Political perceptions will plot the finrand's course

DOMESTIC political events this week have potentially far-reaching implications for the financial rand. The first head-to-head meeting of the ANC and Inkatha leadership and the opening of Parliament occur within 48 hours of each other and will be closely watched by foreign investors.

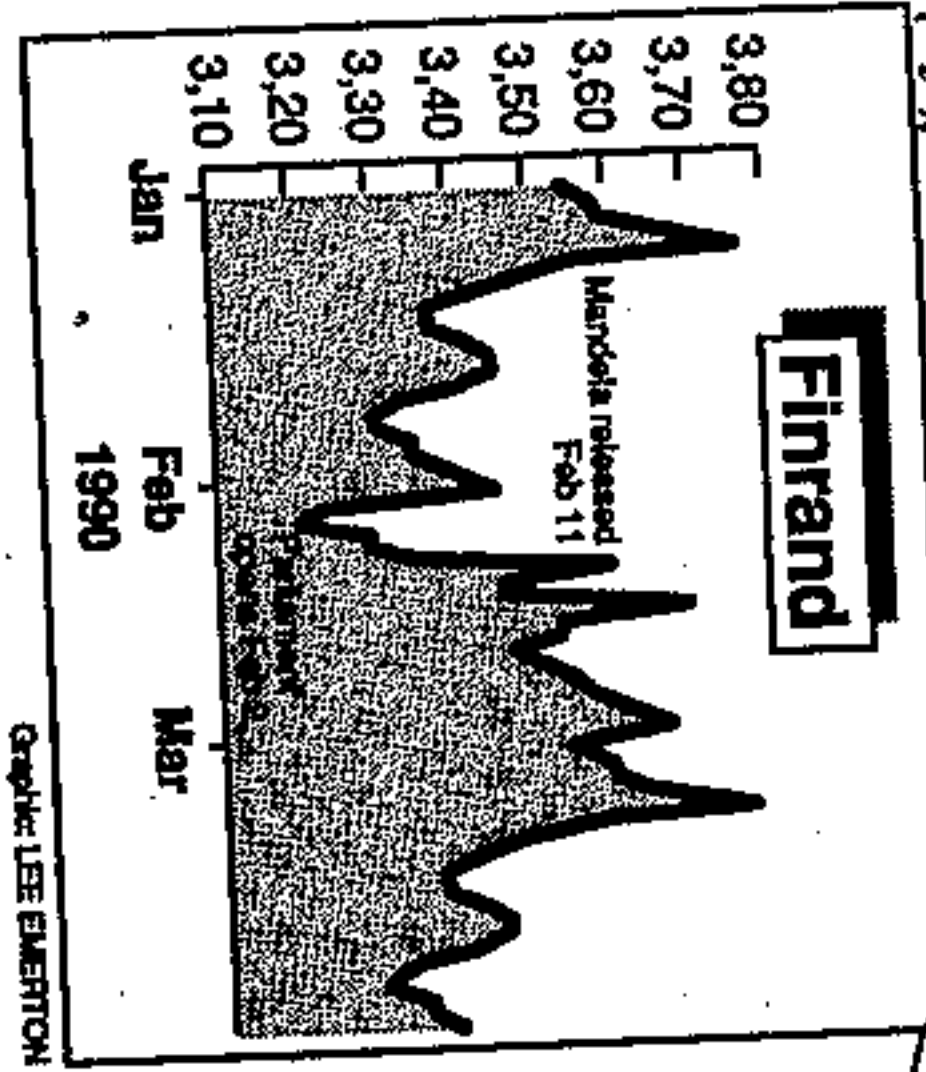
Their verdict on whether SA's political and economic prospects have brightened as a result of the two events will be quickly telegraphed through the reaction of the finrand.

In similar circumstances 12 months ago, the opening of Parliament and the release of ANC deputy president Nelson Mandela triggered appreciable volatility in the finrand. Last year, however, world attention was closely focused on Cape Town. This year, the Gulf campaign will retain most of the limelight. Even so, considerable interest in this

week's political events in SA is likely in Continental Europe. Countries like Switzerland, Germany and Austria have barely any direct combat involvement with the Gulf campaign, and will therefore be less diverted by it.

If tomorrow's Mandela-Buthelezi summit takes place as scheduled, the mere fact that the two leaders are negotiating directly at last could boost foreign confidence that the township unrest may decline.

High expectations have built up around Friday's opening-of-Parliament speech by President F W de Klerk. Some scenarios envisage the immediate dismantling of the remaining key discriminatory laws such as the Group Areas Act and the Land Acts. This will not have been lost on the canny central Europeans, who will be poised to act on such developments. The finrand, though, will be vulner-



able to events falling short of these expectations and to simple profit-taking by non-residents after a long rally. Profit-taking slashed the finrand to R3,70 from R3,20 to the dollar within two weeks of last year's opening of Parliament.

Similarly, Mandela's uncompromising first public speech after his release — in which he continued to embrace armed resistance and nationalisation — cut the finrand to R4,13 from R3,84 in three days.

Any continued public antipathy between Mandela and Buthelezi tomorrow, and any perceived backtracking on reform by De Klerk on Friday could have the same effect on the finrand this time around — especially as it is ripe for profit-taking after rising from an average of R3,91 last September to a probable average of around R3,38 this month.

Internationally, the focus will be on the German central bank, the Bundesbank, which meets on Thursday to ponder whether to raise German interest rates. Recently, the German call money rate has persistently exceeded the Lombard rate — the supposedly penal

rate at which the central bank puts extra liquidity into a tight market. This means the Bundesbank must move to re-establish control of the economy.

It has a choice between raising the Lombard rate, currently at 8,5%, or floating it so it always retains a given penalty margin above market rates. The problem with the first option is that it will upset currency relationships inside the European monetary system; the problem with the second is that it is a radical departure for the conservative Bundesbank.

The fall in the dollar last week may yet stay the Bundesbank's hand on rates, as the Deutsche Mark is strong and would be boosted further by higher German rates. Tomorrow President George Bush gives his State of the Union address to Congress, and may outline the administration's plans to counter the US recession.

SA, USSR 'positive' about further contact

CN-
T14P
29/1/89

By ANTHONY JOHNSON
Political Correspondent

SOUTH AFRICA and the Soviet Union favour continued bilateral contacts once the multi-lateral Joint Commission talks on Angola-Namibia are finally wrapped up in June.

Minister of Foreign Affairs Mr Pik Botha and the Soviet Ambassador at Large Mr Vyacheslav Ustinov were both positive about further meetings between the two governments.

Mr Botha described the idea of the possible longer-term quorum of nations currently involved in the Joint Commission talks — SA, Angola, Namibia, Cuba, the Soviet Union and the US — as "attractive to us".

Mr Ustinov, who led a high-powered Soviet delegation in talks with the government ahead of today's Joint Commission meeting in Somerset West, said that further bilateral contacts were inevitable.

He added that he felt it would be "a good thing" to continue contact with SA.

Today's Joint Commission meeting will be its last in South Africa. The Joint Commission will hold its final two meetings in Luanda and Havana later this year.



TALKING . . . Soviet Ambassador at Large Mr Vyacheslav Ustinov (right) with Foreign Affairs Minister Mr Pik Botha in the city yesterday.

Earlier the US Assistant Secretary for African Affairs, Mr Hank Cohen, said the US delegation which met an SA delegation led by Mr Botha had come to the conclusion that there could be a ceasefire this year in both Angola and Mozambique.

Both Mr Cohen and Mr Botha said that the withdrawal of Cuban forces from Angola was on track and the process was expected to be completed on schedule in June this year.

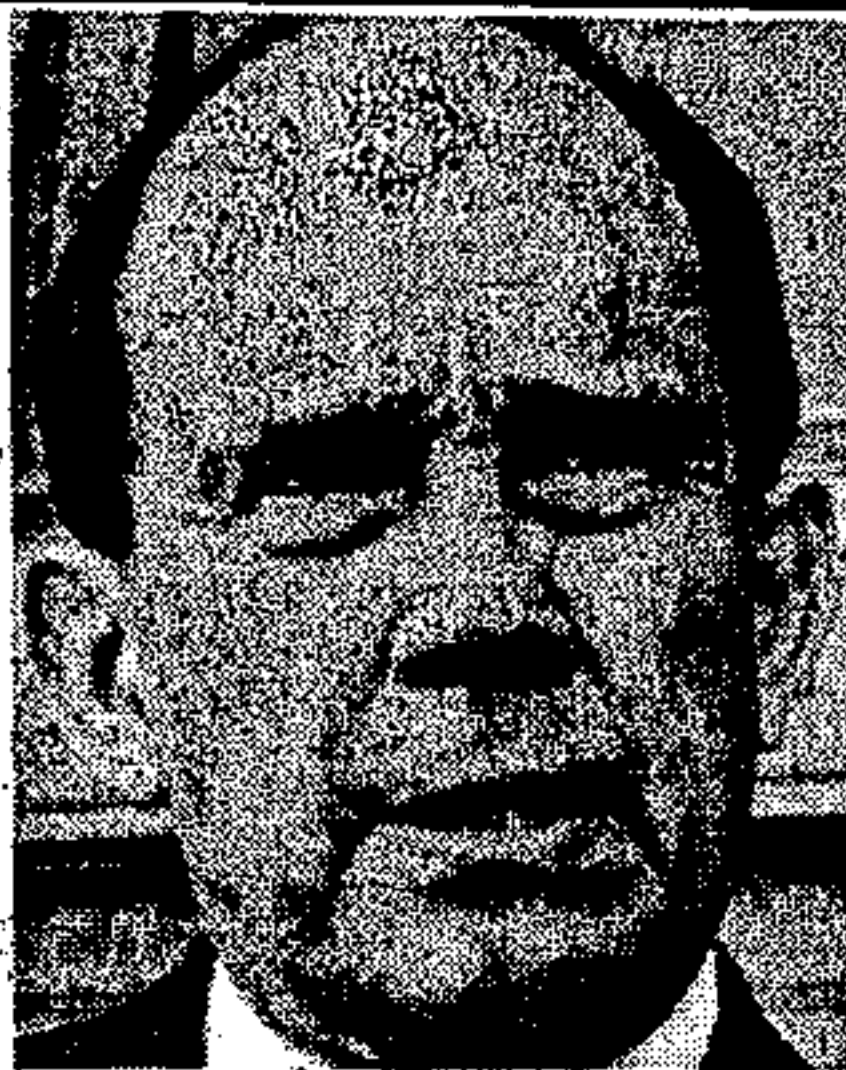
And Mr Cohen predicted yesterday that an "explosion" of trade and investment activity in the Southern African region would follow a

political settlement in South Africa.

Mr Cohen told a briefing that because of SA's excellent record in financial management the country should be able to capture significant foreign investment.

The main import of a settlement in SA was that it would open up the faucet of international investment, he said.

Mr Cohen also said he was now cautiously optimistic about negotiations in SA.



General Magnus Malan

SA ammo sales ^{MMS} to Iraq ^{29/1/91} denied ^(circled)

By MICHAEL MORRIS
Political Correspondent

DEFENCE Minister General Magnus Malan has rejected claims published in Britain that Armscor delivered 155mm ammunition to Iraq in December.

He also questioned the motives of The Independent of London in "printing such obvious and blatant lies without any attempt to verify its facts".

In a statement issued by his spokesman, Dr Das Herbst, General Malan said: "South Africa, and therefore Armscor, made no deliveries to Iraq in defiance of UN sanctions against Iraq of August 8 1990."

"The statement that ammunition was delivered till December 1990 is therefore totally inaccurate."

POISON GAS

Armscor had "never manufactured for or sold to any client artillery shells adapted to carry poison gas".

He also rejected claims that the United States had bought up Armscor's "1991 supply" of 155mm ammunition.

"Accusations regarding the South African Customs Service intercepting shipments to Iraq, Armscor receiving payments in gold with President Kaunda's implied complicity from Iraq and the Saudi government buying up Armscor's 'entire stock' of 155mm shells ... are ridiculous and devoid of all truth."

Trade surplus may be due to arms exports

SKW 30/1/91 (74)

By Mark Suzman

The allegations by London's Independent newspaper that Armscor has been shipping ammunition to Iraq despite the UN arms embargo has renewed speculation that South Africa's 1990 record trade surplus was fuelled by increased arms exports.

The last three months of last year had the biggest trade surpluses on record, and in October exports surged to R6,25 billion, R2,5 billion more than September.

According to Wim Holtes, chief executive of the SA Foreign Trade Organisation, the overall increase in the trade surplus was due to broad-based strength over a number of sectors, especially manufacturing and diamond exports.

Admitted

Nevertheless, he admitted that a substantial portion of these increases, especially October's, came in the form of nearly R10 billion worth of "unclassified exports," which comprise gold, platinum, uranium and arms exports.

In fact, following the August 2 invasion of Kuwait, monthly sales of unclassified exports rose to over R2 billion and stayed above that level for four consecutive months — a record that in the light of relatively static precious metal prices was very probably due to increased arms exports.

The authoritative weapons magazine, Jane's Defence Weekly, revealed that just one week after the invasion, the United Arab Emirates (UAE)

ordered between 50 to 70 South African G-6 cannons.

According to Helmut Heitman, South African correspondent for the magazine, the G-6 costs in the region of R10 million so the deal would probably be worth between R500 to 700 million to Armscor.

There has been speculation that similar deals with other Middle Eastern countries, particularly Saudi Arabia, have also been made.

Moreover, suspicion of continued South African arms involvement with Iraq has been around since the invasion.

In late August, American TV network NBC alleged that South Africa was continuing to trade with Saddam Hussein.

In addition, several sources suggested that South Africa had maintained ties to Iraq after the embargo to get payment from earlier shipments.

The Independent article repeated these allegations while also charging that Iraq had purchased Armscor's entire 1990 stock of G-5 ammunition and that SA customs had managed to seize only the last shipment of 48 000 regular G-5 shells and 5 500 special chemical shells.

But Mr Heitman reckons it is unlikely that the shells were sold to Iraq in view of the difficulty of getting any shipments through the US blockade before the war started.

He also thought it improbable that South Africa would risk jeopardising its relations with the US or the possibility of future arms sales to Gulf countries by flouting the embargo.

Instead, Mr Heitman suggests that large amounts of G-5 ammunition probably have been sold to countries in the Gulf, but it is far more likely that Armscor sold it to the Saudis or the UAE.

SA poised to raise R1bn on German market

GRETA STEYN (74)

SA IS confident of raising almost R1bn on the German capital market this year to refinance government-backed bond repayments falling due, government sources confirmed yesterday.

Although spokesmen declined to comment on the record, it is understood that a Reuter report from Bonn claiming SA would reschedule about DM500m this year was close to the mark.

This amounts to about 20% of SA's total foreign debt due this year — indicating less pressure on SA's foreign exchange reserves in spite of an expected drop in the current account surplus.

SA's efforts come at a time of rising demand for capital from former East Germany and Eastern Europe. Nonetheless, SA's relative success on the German capital market started last year when more than R430m in bonds was refinanced: Government, the IDC, Transnet and the Post Office were successful in private issues of bonds. But this year could be different in that the financing might not take place through private placings but publicly via a listed issue. 6/09/30/1/71

The Reuter report, quoting German bankers, said SA had improved its image sufficiently to allow public issues of debt abroad. They said a government-backed bond issue was planned, but detailed talks had yet to open.

"We have been informed by the government and private borrowers that SA intends to come back to test the water this fall," a German bank official said.

An SA diplomat said the move would probably take place after sanctions were lifted by the EC, which was expected at the June EC summit.

SA had outstanding debt of DM1,76bn with German banks in September 1990, compared with about DM1,37bn in 1985, German central bank statistics showed.

Deprived of incentive, the markets play it safe

B10 a1 30/1/91

74

THE incentive to trade is currently lacking in international foreign exchange markets.

Dealers are clinging to the sidelines, unwilling to take positions which might edge even slightly away from present trading ranges. Consequently the mood is flat, lacking volatility, that essential element which brings markets to life.

This climate of no-risk dealing is referred to in this week's Standard Bank report on world markets.

It says the growing awareness that the Gulf war would not be of short duration had encouraged the belief that forex markets would concentrate on economic fundamentals.

This has not happened. The markets failed to respond last week to a number of economic developments of significance, not the least of them the G7 meeting.

It had been hoped that this top-level gathering might produce some new policy initiatives to stimulate international currency movements,

or at least establish new trading ranges for the major currencies.

But this was not so. The essential significance of the meeting appears to have been the need to address the financing requirements of the war.

Deprived of any real incentive to trade beyond established ranges, reduced liquidity, reduced participation, low volatility and the complete absence of obvious trends remain the major characteristics of the current highly uncertain international forex environment.

The key factors at present are divergent interest rate policies in the US, Germany and the UK.

The US is in recession. Money supply figures are below target, indicating that the credit crunch is biting. A further cut in interest rates might provide some stimulus, but lower interest rates would accelerate the outflow of "safe haven" money deposited in the US ahead of the outbreak of Gulf hostilities. This the US can't afford.

HAROLD FRIDJHON

Such a situation has to be avoided, particularly with political pressure being put on the Bundesbank — Germany's central bank — to raise interest rates, and with the Bank of England maintaining high interest rates to attract footloose funds.

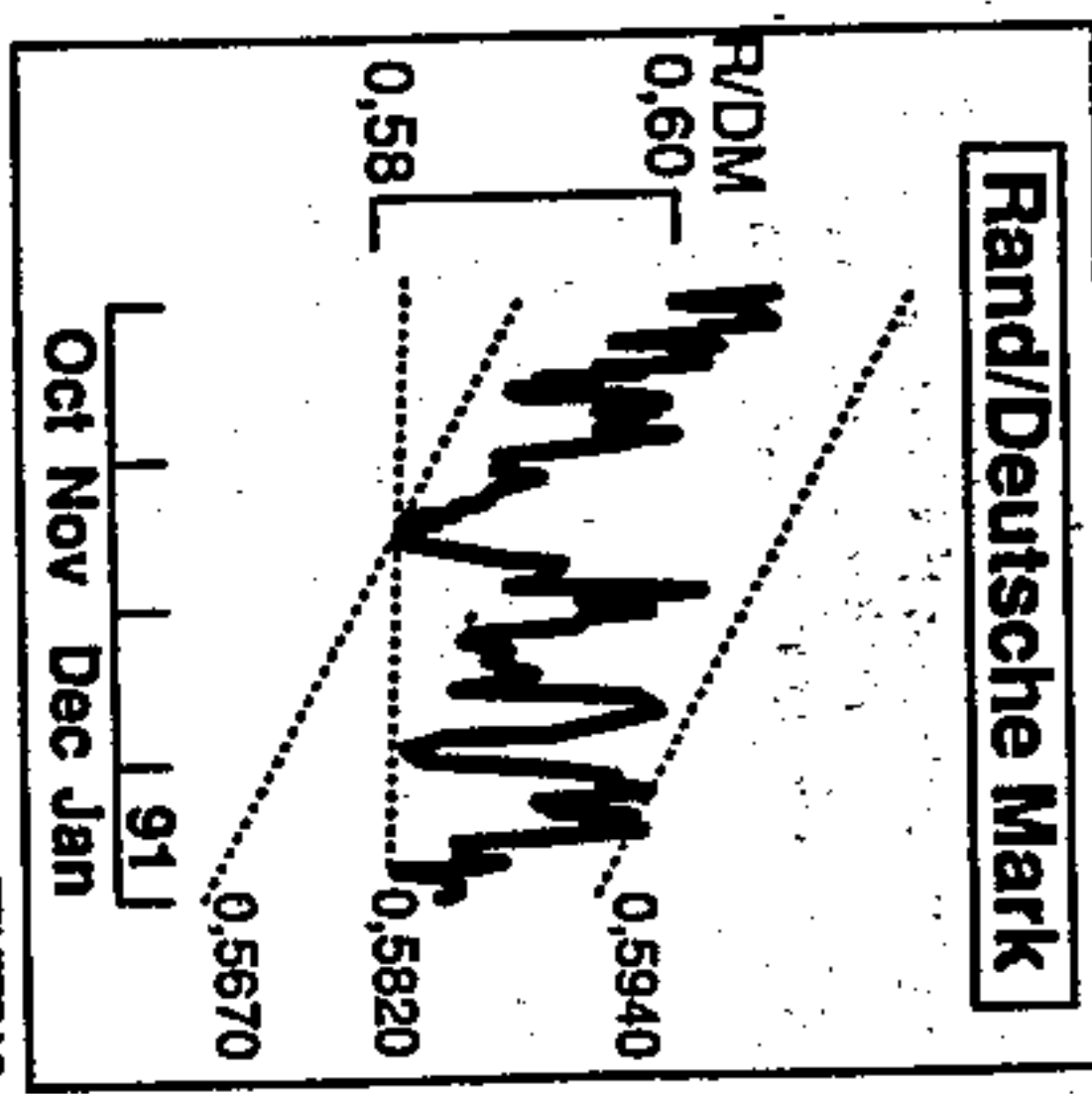
The Union Bank of Switzerland (UBS) says in its Foreign Exchange News that favourable German economic data indicate that a special Lombard (penal) rate is not to be introduced and that interest rates are more likely to go down than up, with the Deutsche Mark maintaining its present position in the EMS (European monetary system). UBS forecasts the dollar/DM trading range this week at DM1.47/51.

UBS is not quite so sanguine about the British pound, which, it forecasts, will come under pressure. The ex-

pected dollar/sterling trading range is \$1.94/98.

First National Bank (FNB) and Standard Bank are not bullish about the rand's future trend.

FNB says that the dollar's bearish performance against major currencies has yet to influence the rand's relationship with the dollar.



Graphic: LEE EMERTON Source: TELETRAC

As a result, not only is the rand/DM cross rate starting to suffer but the rand is sagging dangerously on the trade weighted index (TWI). It is nearing its historic low on the TWI, suggesting that the Reserve Bank might have to use reserves to support the currency. If no action is taken by Pretoria, it could appear to be a tactically acceptable of a weaker trade-weighted rand and a break in the key support level of DM0.5820 on the rand/DM cross.

Standard reported that domestic forex market jitters, prompted by Gulf war uncertainty, took their toll on the rand last week. The unit managed only a 0.25% appreciation against a weak dollar, and registered relatively sharp losses against other major currencies.

Strong importer interest, at the R2,5370/5400 level, prevented larger rand gains against the dollar, while the dollar's sustained weakness against third currencies also caused the rand to weaken against the crosses.

LETTERS

IMPORTS (74) FIM 1/2/91
CURRENCY BAIT

The share of imports in domestic spending is surprisingly high for an economy in recession, says the Old Mutual's latest *Economic Monitor*. Traditionally, in a recession, spending on imports falls faster than spending on domestic goods. Imports are capital intensive and capital projects can more readily be postponed than consumption spending.

However, in contrast to the previous two recessions, when the ratio of imports to GDE was between 24%-26%, the ratio has fluctuated around 28% since the beginning of 1989. Twice it has risen to 30% — "the highest since the early Eighties."

This development is partly explained, says the *Monitor*, by exchange rate developments and the consequent relative price structure of imported and local goods.

"In 1971 and 1975, the local currency was formally devalued while the marked depre-

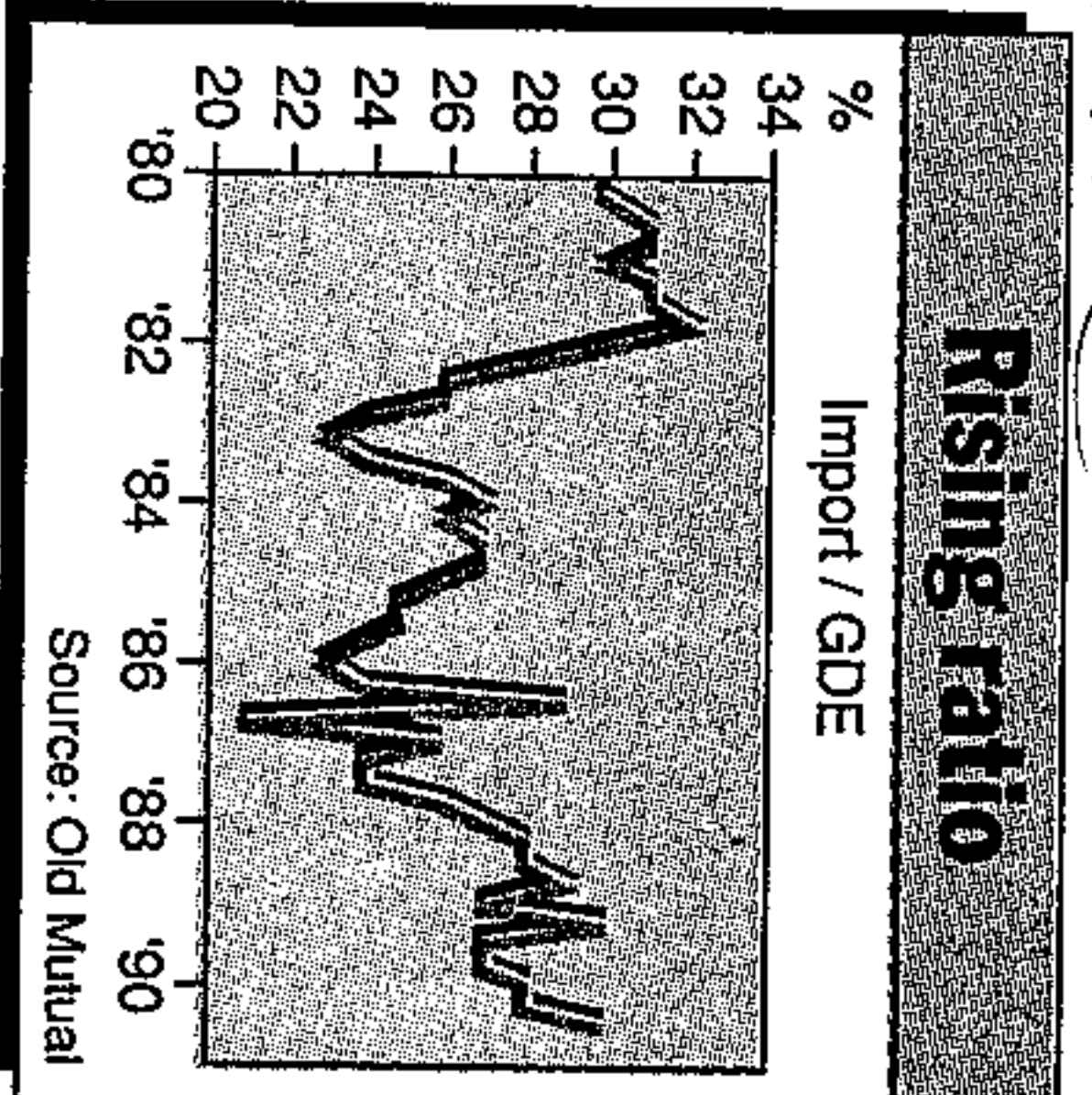
74 FIM 1/2/91
cation of the rand in 1981-1982 and 1984-1985 was the result of normal market forces on the floating exchange rate. After weakening moderately in 1988, however, the rand exchange rate has been fairly constant.

"(This) stable behaviour is even more remarkable if the inflation differential between SA and her major trading partners is taken into account.

"The influence of the stable rand is reflected in the behaviour of import prices relative to locally produced goods. During the first three quarters of last year, import prices were, on average, 8,4% higher than a year before, while the prices of locally produced goods rose by 12,4%.

"The trend is also partly explained by the lowering of the surcharge on imported goods in the 1990 Budget."

The *Monitor* argues that, excluding the influence of other policy measures, a firm currency will favour consumption relative to production, as imported goods continue to become relatively more attractive. Government's proposed policy to downscale import



protection will support this trend.

It could be argued that cheaper imports would equally stimulate capital expenditure. However, Old Mutual's Rian le Roux says: "Investment decisions are based on expectations about future demand."

At present, this is not likely to be an adequate incentive. ■

Outlook for a quick fix dim

ST Times 3/2/91

BUSINESS should not look for another confidence boost from a current account surplus on the balance of payments this year.

Last year's R5-billion appears increasingly to have been a one-off performance. Economists are lowering their sights as the implications of the Persian Gulf war become clearer.

Southern Life's Economic Comment for the first quarter says the current account surplus this year could fall to about R3.5-billion unless the gold price improves.

It says gold has not been able to hold above \$400 an ounce since the start of the Iraqi invasion of Kuwait in spite of the initial — and short-lived — doubling of the oil price, a higher world inflation outlook, the sharp drop in US real interest rates and the weak dollar.

The fall in the surplus will be largely due to the sharp swing from net agricultural exports to net imports as the maize and wheat crop estimates continue to be below consumption levels.

Pressure

Southern Life economist Mike Daly says higher oil import costs because of the Gulf conflict should not last beyond the current quarter.

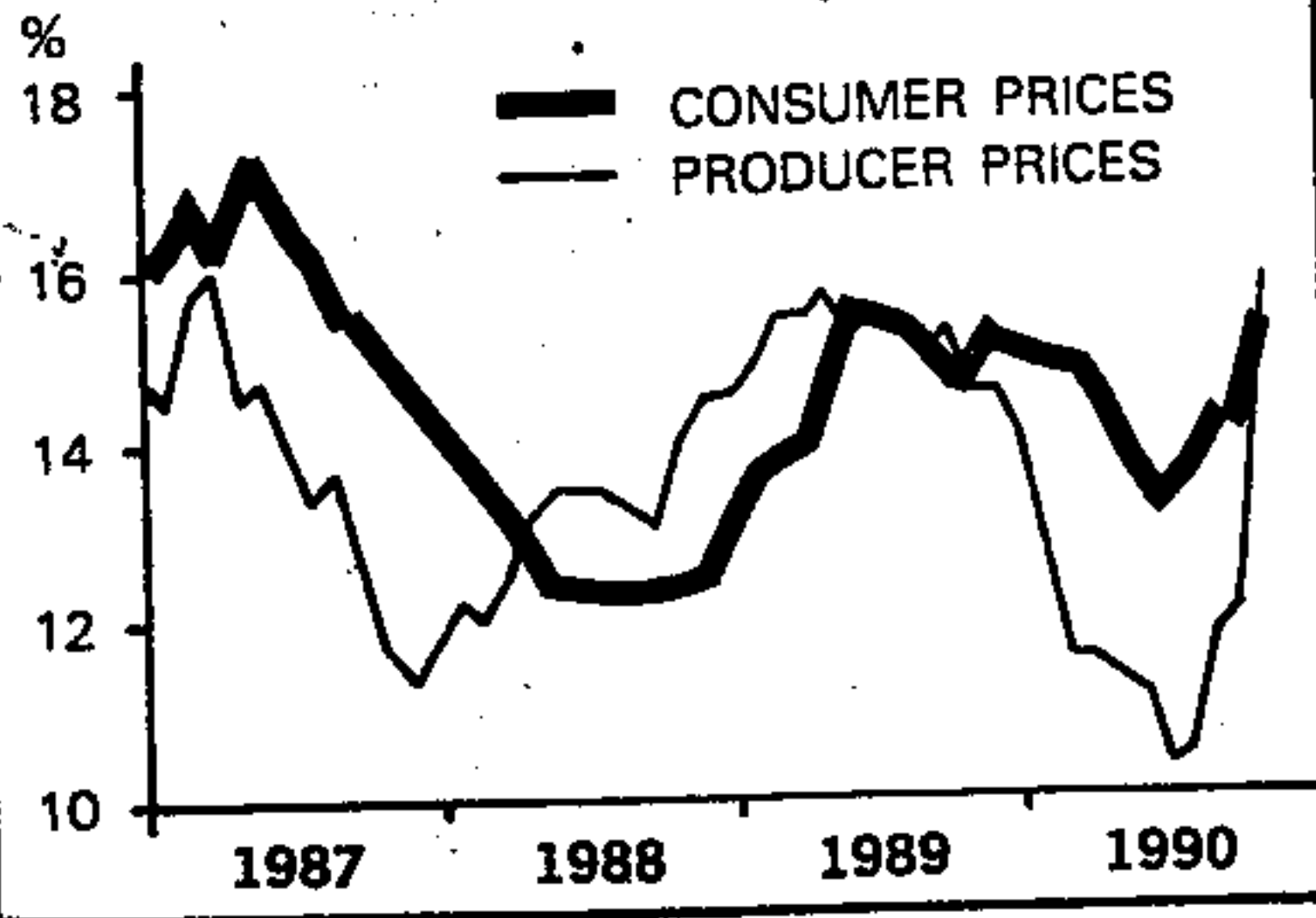
"While the current account surplus will be under pressure this year, the rapidly improving foreign perception of the Government's commitment to political change is making the replacement of long-term foreign loans and the raising of new trade and project finance easier to achieve.

"This marks a structural change on the rate of outflow that has been a permanent feature since foreign capital sanctions against SA began in 1985."

Mr Daly says the big rise in oil prices and the subsequent increases in SA's petrol prices have postponed the first easing of monetary policy which might have been expected in the first quarter of this year.

"The first signs of a

INFLATION TAKES ITS TOLL



Business Times Reporter

renewed downward trend in inflation will have to be seen."

But the Reserve Bank is concerned about the cost-push effect of continuing high rates of salary and wage increases despite the business downturn.

"The increases could have an inhibiting effect on the otherwise rapid dissipation of pressures on general price levels.

"Without voluntary restraint in wage negotiations between trade unions and employers the issue may have to be forced by the continued application of tight monetary and fiscal policies until rising unemployment dampens wage demands.

"A rise in business failures and lost output must accompany such policies to the detriment of everyone, but so far the bank appears willing to countenance this."

More positively, the fall in the growth rate of the broad money supply has broken

through the lower limit of 11%-to-15% guideline range for 1990, and growth in credit extended by banks to the private sector has been declining since the second quarter of 1989.

Another indicator of an easing in monetary policy was the sharp increase in net gold and foreign exchange reserves of nearly R2-billion in the third quarter of last year.

The first signs of easier access to foreign trade credit lines and easier rollovers of long-term debt was the third-quarter capital inflow of R1.5-billion — the first in three years.

This "reform dividend" of a more internationally accepted SA came at a vital time, says Mr Daly.

"Aggravated by the shock rise of international oil prices, the international economic situation is deteriorating with adverse implications for SA's export performance this year."

Shades of the old LM as South Africans hunt profit in Maputo

C/Nov 3/291

74

An increasing number of wealthy South African tourists and business people are flocking to Maputo and Mozambicans say their capital is taking on the characteristics of its colonial days when it was Lourenco Marques (LM).

It was commonly known as "South Africa's playground" in the past and the new South African presence in Maputo has become particularly obvious at expensive hotels.

Typical is the renowned Polana Hotel, regally situated amid palm trees and rolling lawns overlooking the Indian Ocean. Last year South African managers took over the hotel.

Since then, huge braais and regular concerts by popular South African bands like Mango Groove are enjoyed at the side of its luxury swimming pool.

South African business people are also showing interest in a range of activities, including mining, farming and forestry. According to David Laubscher, commercial representative for the South

African trade mission there, more than 100 South Africans interested in business ventures in Mozambique visit his office each month.

Mozambicans, too, have always had close ties with South Africa. Many Mozambicans have relatives across the border, and thousands of people from southern Mozambique have worked as migrant labourers in South Africa.

A recent R50-million investment for a revamp of the giant Cahora Bassa hydro-electric complex in the north-western Tete Province has recently been approved and the next consignment of 100 000 ration packs for troops guarding the complex has just been delivered by South Africa.

Cahora Bassa, barely functioning because of sabotage by Renamo rebels, could provide all of Mozambique's electricity requirements and earn foreign currency by supplying neighbours.

Maputo's port, a major outlet for South Africa's citrus fruit and coal, has

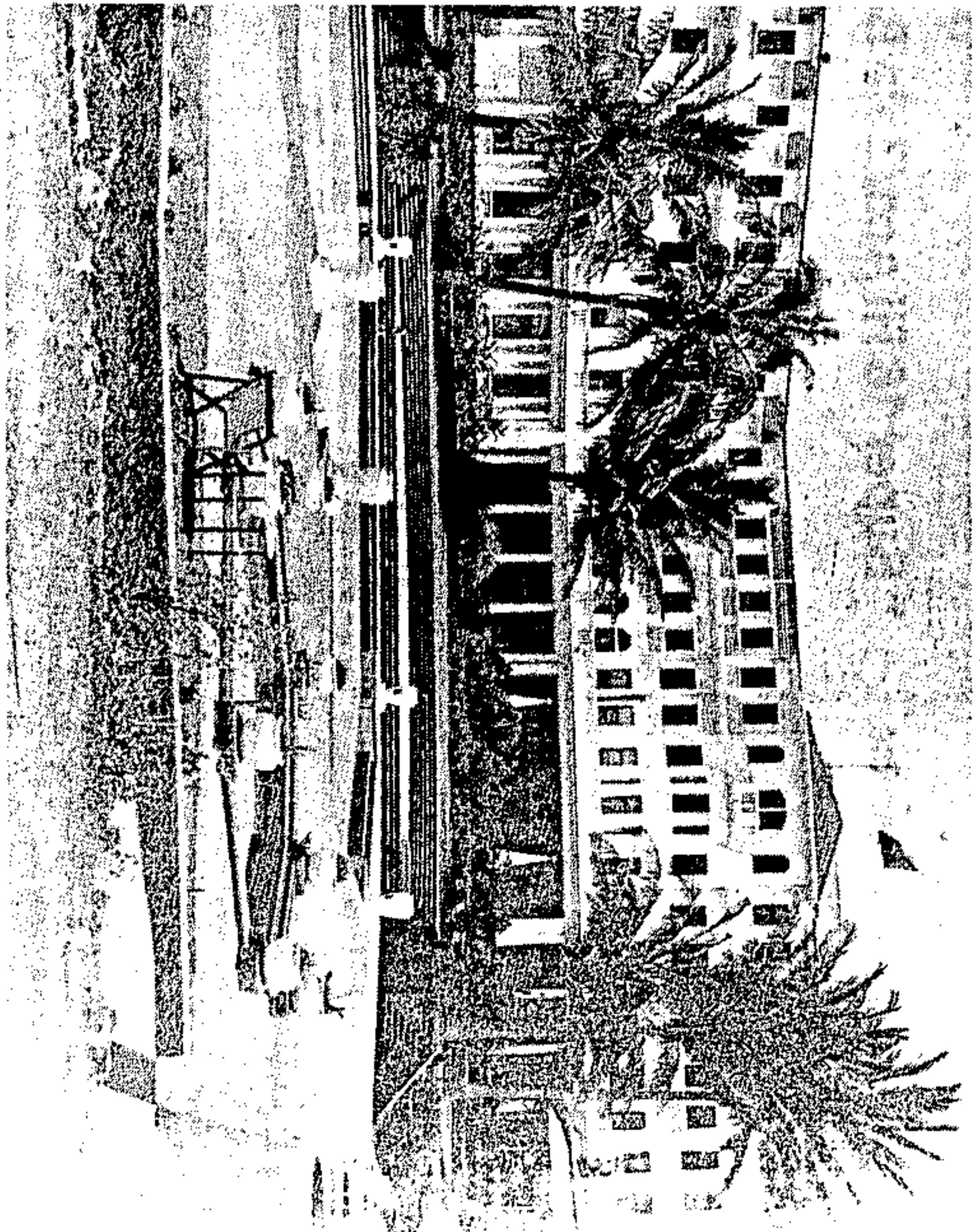
been another major area of co-operation. At the end of last year, a R1,2-million South African loan was given for upgrading.

South Africans have also recently made their largest-ever grant of R3-million for the training of artisans and technicians.

SAA has scheduled more flights between Johannesburg and Maputo to handle the increase of travellers. Just over two years ago, there were only a couple of flights a week, but since December, there has been a flight every day.

After years of enmity, the breakthrough came when Minister FW de Klerk, then leader of the National Party, visited Mozambique in July 1989. He endorsed President Joaquim Chissano's peace initiative with Renamo and said Pretoria no longer officially backed the rebels.

Clearly, South Africa realises it has a lot to gain from having a more harmonious relationship with Mozambique.



Colonial splendour . . . the regal Polana Hotel in Maputo is again attracting the rich and famous.

SA reserves should show an increase

SA GOLD and foreign exchange reserves should show an improvement when the reserves level for January is released on Thursday or Friday this week.

The December reserves total dipped by R468m to R6,2bn, but this was mainly due to a large capital repayment of foreign debt together with interest and dividend payments.

Because the scale of December's debt, interest and dividend payments will not have been repeated last month, the total January reserves level should rise. The value of gold holdings may slip, although a lower valuation may be offset by higher physical holdings.

Overall, the capital account position remains substantially more encouraging than it was a year ago, showing inflows of both short- and long-term movements in the third quarter of last year. Positive political spin-off from last week's ANC-Inkatha reconciliation and President F W de Klerk's opening of Parliament speech is set to boost capital inflows further this year.

The level of reserves is particularly important at this stage in SA's interest-rate cycle, as the Reserve Bank has specified a level of reserves which covers three months' imports as a financial target. The level of reserves may, therefore, have to be firmly on an upward path again before the authorities are comfortable

in cutting interest rates.

Given the more positive foreign perceptions of domestic political developments recently, further growth in reserves is likely during the first half of the year ahead of the next big foreign debt repayments in June.

Internationally, the policy-making arm of the US central bank, the Federal Reserve, meets tomorrow and on Wednesday to assess the current US monetary stance. The Federal Open Market Committee (FOMC) is under pressure to cut US interest rates further to help the US economy recover from recession.

Last week's decision by Germany's Bundesbank to raise German official rates restricts the FOMC's capability to ease US monetary conditions again without having a severe impact on

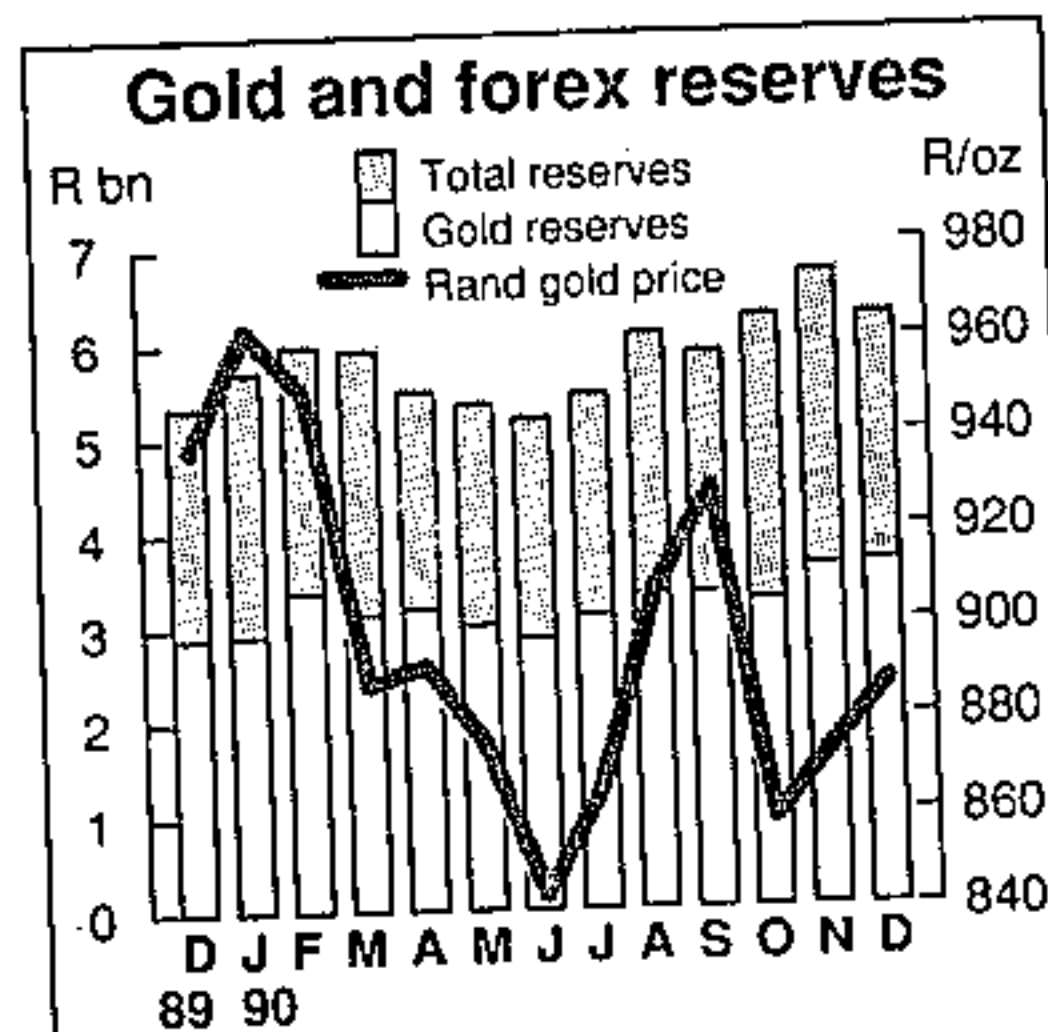
the value of the dollar. Now that the Germans have raised the interest rates underpinning the Deutsche Mark, a nearly simultaneous cut in dollar rates would hack radically at the beleaguered US currency's yield and leave it exposed to further aggressive selling. But the US economy needs lower interest rates, and the US authorities may just have to accept a lower dollar.

The US Treasury invites the rest of the world to finance its budget deficit in the regular, quarterly US Treasury refunding starting tomorrow. In the past foreign investors have happily bought US government bonds, but these days the US financial sector is seen as a bigger risk.

Interest will be centred on Thursday's auction of 30-year bonds, and whether the Japanese will support it.

This time, there are serious doubts about the level of Japanese participation at the long end of the refunding. The frail US financial system is partly to blame, but the state of Japan's own financial institutions is none too reassuring either.

The year-long slump in the Japanese stock market has left the country's big life and non-life insurers with sizeable equity losses on the one hand and with loan requests from the major Japanese banks on the other. The amount of funds left for investment in foreign securities is likely to be a lot lower than it was last year.



Graphic: FIONA KRISCH Source: SA RESERVE BANK

Lower inflation is key to end of firrand

By Sven Linsche
and Neil Behrmann



Star 4/2/79

Although the discount between the financial rand and the commercial rand has narrowed dramatically over the last four months, it is unlikely that the firrand will be abolished as long as inflation stays at its current high levels.

The financial rand has soared by 15 percent and the discount between the two currencies has narrowed from 30 to under 20 percent since last November when Reserve Bank Governor Dr Chris Stals said in London the investment currency would eventually be supported by the central bank.

The mere hint succeeded in driving up the investment currency.

In the past three months, the Reserve Bank, however, has not supported the financial rand. It has surged because international investors have bought SA bonds on the expectation that the firrand would soon disappear.

The firrand has strengthened further over the last two weeks

on the positive political developments inside South Africa.

This week Finance Minister Barend du Plessis confirmed that he would like to see the financial rand's demise, but emphasised there were no immediate plans to scrap the two-tier currency.

This must be seen against the background of the conservative slant of monetary policy at present of protecting the value of the rand and bringing down inflation.

Depreciation

"In the event of a unitary rand having been established this would carry the risk of renewed sharp depreciation of the rand and a substantial escalation of inflation," says Econometrix in a recent publication.

Econometrix estimates that at the present discount of roughly 20 percent, a unitary rand would probably settle at a level about 10 percent below the current level of the commercial rand, enough to push the inflation rate up by at least 2,5 percent almost immediately.

Certainly the volatility of the commercial rand has declined significantly since the firrand was reintroduced in 1985, despite the substantial political turmoil.

"So long as the country is beset by substantial political uncertainties it would be foolish to make life more difficult for international traders by subjecting their investment decisions to the vagaries of events in the townships," Econometrix adds.

"From an inflationary angle," the economists say, "the discount would need to decline to single figures and stay there for a period of time to prove its stability, before abolition of the firrand can be contemplated."

This would be in line with Reserve Bank strategy on the abolition of the firrand.

When it decides to end the dual exchange rate system, the Reserve Bank is likely to buy financial rands. The eventual aim would be to eliminate the firrand's discount to the commercial rand.

Dr Stals has indicated that if foreign countries agreed to

abandon sanctions and the IMF lends funds to South Africa again, the Reserve Bank would be in a more favourable position to buy the currency.

But in a speech at an investment conference this week he added another variable — the present status of the debt standstill.

Up to \$7 billion of foreign debt remains trapped in the standstill net and this amount is, at least in theory, eligible for either investment in local equities through the firrand or for liquidation through the firrand system.

Standstill

"In case the currencies were unified the debt standstill would become defunct ... and only those creditors who wish to maintain an exposure in SA on a voluntary basis will remain within the debt arrangements," Dr Stals said.

"Thus an automatic ratchet effect has been built into a continuous appreciation of the firrand rate ... which must be taken into account when specu-

lating on an early abolition of the firrand," he said.

In the meantime, foreign investors continue to gain on their investments in SA bonds as yields have dropped in line with the appreciation of the firrand.

Since November, for example, their total return on Eskom long-term bonds, considering that income was accrued at nearly two percent a month, was almost 20 percent.

While the financial rand has appreciated substantially, the underlying bond has risen only slightly.

This is hardly surprising, considering South Africa's high inflation rate.

As a result foreigners can still buy Eskom stock on yields of 20,6 percent and the returns are the best in the international capital market.

The yields compare with bonds in Spain of 14,3 percent, Italy 12,1 percent, Australia 11,6 percent, United Kingdom 10,2 percent, Canada 10 percent, France 9,6 percent, Germany 8,6 percent, United States 8,2 percent and Japan 6,8 percent.

Finrand continues to gain ground

Star 5/21/91

74

By Duma Gqubule

Spurred by increasing foreign investor confidence following President FW de Klerk's speech to parliament last week, the financial rand continued to gain ground yesterday.

The foreign investment currency, which rallied to R3,28 against the dollar immediately after President de Klerk's speech last Friday, rose further to R3,23 yesterday.

However, the commercial rand's recent strength against the weak dollar has prevented a significant reduction in the financial rand's discount to the commercial rand. The discount stood at about 28 percent yesterday.

Money market analysts

were yesterday divided about the direction of the currency's next move.

Some analysts felt that a minor correction was probably due as the currency had moved too far and too fast but others said the currency could make further gains because everything was looking exceptionally positive for the financial rand.

Dealers said they had seen both creation and destruction of financial rands.

"We have seen some people who purchased gilts earlier this year when the finrand was at R4 against the dollar unwinding their positions, and therefore locking themselves into attractive foreign exchange profits."

Good management holds key to growth

By Steve G. 8/24/91

FURNITURE retailers should rely on good management and not on sales for growth in 1991, analysts say.

Growth in 1991 will "be dependent on managing credit and running a tight ship", says one analyst.

While there will be a slowdown in sales, furniture retailers will grow, although not to the same extent as last year, say analysts.

During 1990, furniture retailers experienced buoyant growth, with major groups Ellertine, Morkels, Rusfurn and J D Group posting increases in earnings of 50%, 46%, 54.5% and 32.8% respectively.

However, says one analyst, "disposable income is not increasing, the pent-up demand is satisfied by now, and unemployment is getting worse".

Analysts say the recession has been around for some time, and people "just don't have the money any more, and banks are not going to extend credit as before".

MARCIA KLEIN

Analysts feel Rusfurn will probably make its growth target of 20%, while Ellertine and J D Group will also show good growth, but probably not at the same high level as last year.

Major furniture retailers agree, saying they will show growth, but will have more problems in 1991 than in the previous year.

Ellertine chairman and MD Eric Ellertine says 1990 was "an outstanding year for the furniture retail trade", and that it will be difficult to maintain the same rate of increase in growth.

He says the industry probably needs some consolidation.

Rusfurn CEO Geoff Austin says his group is confident it will show growth, although he cannot make any promises.

J D Group financial director Colin Stein says much depends on SA's political conditions, but expects growth through to December 1991.

However, trading will be difficult, and economic and employment factors will be important influences.

Dispute deepens over duty on fabric imports

By Beverly Hucklesby 8/24/91

THE long-standing feud between the textile and clothing industries has intensified after a recent meeting with Deputy Trade and Industry Minister Theo Alant.

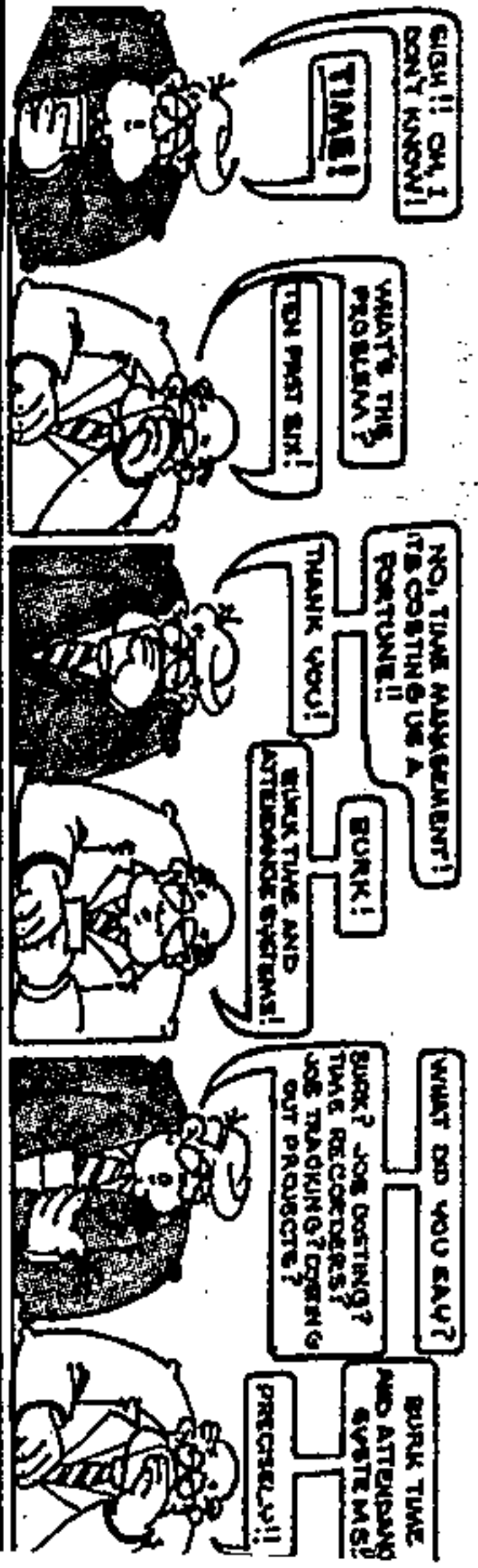
Central to the issue is the lifting of import controls by government in August 1989. The Textile Federation (TF) said last week local textile sale volumes had dropped by 39% and attributed this to the removal of the 20% duty charge on fabric imports.

However, according to the National Clothing Federation (NCF), latest figures indicated a 6% drop in the volume of fabric imports. It said further protection to yarn suppliers would perpetuate supply problems in SA and undermine international competitiveness.

The scheme had resulted in clothing exports reaching an annual figure of R200m — 5% of the total industry output.

The NCF said the annual growth rate was continuing at 30%.

ONE DAY IN THE PIG & WHISKY



SA poised to become economic powerhouse

Star 5/2/91

By Frank Jeans

Overseas interest rekindled

On the back of President FW de Klerk's latest reform initiatives to dismantle the last bastions of apartheid, South Africa is poised to become the powerhouse of the continent.

This is the view of Britain's new Consul-General in South Africa, John Doble, who has already noted the country's huge potential.

Confident that South Africa will achieve a political settlement along with a free market economy, Mr Doble sees the country becoming the centre of an African economic zone.

"Many black South Africans have lived in other African countries and seen how easily an economy can be ruined by inappropriate, socialist economic policies," he says.

"They understand that in a deteriorating economy, black economic empowerment would remain an empty phrase.

"The disasters brought about by socialism elsewhere in the world must deter those inclined to embark on a socialist experiment in South Africa."

Looking at bilateral trade prospects, Mr Doble reports that for the first time in many years South Africa-Britain trade is about to balance.

"South Africa's exports to

LONDON — President FW de Klerk's commitment to a new, non-discriminatory South Africa is likely to rekindle British investor interest in the Republic.

According to The Times' financial columnist, Tempus, the dismantling of "the pillars of apartheid" might persuade investors to "look afresh at the Johannesburg stock market in general, and South African industrial shares in particular".

The reforms, said Tempus, had left the way "all but clear for European sanctions against South Africa to be lifted, and for American interest in investment, currently banned, to be rekindled".

"If the political barriers that prevented several trust funds and those with moral objections to investing in South Africa are removed, and if violence and ANC nationalisation fears are replaced by civil peace and assurances of free enterprise, net equity investment should grow," said the columnist.

He pointed out that, while it lasts, the financial rand should continue to make investing in South Africa appealing. The removal of sanctions would — if the economic train chugs forward with reasonable speed — provide investors with great potential in the building/construction and consumer-related fields.

the UK increased 25 percent last year, while ours went up nine percent — a good performance in a period of tight monetary policy here.

"We are now South Africa's largest trading partner. Our exports to this country at over £1.1 billion are about the same as what we sell to the whole of Latin America and approach our export value to the entire erstwhile Soviet bloc."

After a decline in the number of trade missions from

Britain to South Africa in recent years, the Consul-General says that last year there were only three, although there are already inquiries for eight this year.

"This activity is bound to increase further once we are al-

lowed to resume government funding for trade missions and for British stands at trade shows in South Africa, as I hope will occur this year," he says.

Steel exports are set for a R400m boost

B1000 6/2/91

74

THE EC's proposed lifting of economic sanctions could see the value of SA steel exports boosted by an estimated R400m if previous export levels are regained.

However, the prospects are not as promising for coal and Krugerrands, the two other products affected by the EC move.

Highveld Steel chairman Leslie Boyd said yesterday the steel industry had been exporting 500 000 tons of finished steel to EC countries prior to the ban and he was confident the new political developments could see SA producers regain this market.

SA's 1990 steel exports were an estimated 2-million tons. The country produced about 7-million tons of finished steel last year.

If SA were to export as much steel to the EC this year as it did in 1986, the total current value of the deals would be about R400m.

However analysts have warned against euphoria over the proposed EC decision, saying regaining prior markets would be an uphill battle, especially in the face of a world recession.

Boyd said the steel markets in EC countries were more profitable as their steel prices were higher than elsewhere.

He said Highveld Steel was ready to take immediate advantage of export opportunities to EC countries, to replace tonnage not being sold on the domestic market.

Seifsa said yesterday that although the reopening of the EC market was good news for SA steel exporters, it would not necessarily affect export trade immediately.

Regaining lost export markets would be

MARC HASENFUSS

a formidable challenge for SA exporters, but SA steel producers were well geared to supply markets in Europe.

New jobs might be created to replace the estimated thousands lost in the industry.

The UK and other EC countries represent SA's largest single export market and the loss of iron and steel sales there had seriously affected the profitability of SA steel producers.

Iscor spokesman Piet du Plessis said the proposed lifting of EC sanctions was good news for Iscor, increasing its marketing scope extensively.

Although Iscor was currently at full production it could gear up at short notice.

ROBERT LAING reports that coal producers expect no volume bonanza when sanctions are lifted, but prices could gradually shed the political discount they have had over the years.

"Even if sanctions were lifted tomorrow, we couldn't export more coal because our ports are running at full capacity," an analyst said.

When sanctions were imposed it cost SA a quarter of its traditional coal market.

SA coal is sold at between \$3 and \$5 a ton less than world levels for various reasons. Some producers say it is mainly a "political discount", others say the coal's low-heat/high-ash quality pulls its value down.

The price has also been reduced by competition between local collieries.

Krugerrand exports, running at an annu-

□ To Page 2

Steel ^{B1000} 6/2/91

74

□ From Page 1

al 2,5-million coins prior to sanctions, were unlikely to come anywhere near that figure when sanctions were lifted. In 1986 sales stopped completely.

ANDREW GILL reports overall SA exports to the US have slumped by almost R1,9bn since the imposition of the Comprehensive Anti-Apartheid Act in 1986 and the outlook for regaining market share is bleak.

In dollar terms, overall exports to the US were down \$745m to \$1,3bn from \$2,02bn in 1986.

Sacob deputy director Ron Haywood

said such an immediate positive response from EC countries to political reform was very reassuring.

However he warned that there was no quick fix for the economy.

BILLY PADDOCK reports from Cape Town that Foreign Minister Pik Botha said at a briefing yesterday sanctions and boycotts had delayed negotiations and a constitutional settlement immeasurably.

He said it was because of concern about the moral and economic situation, not sanctions, that reforms came about.

● Comment: Page 8

(5)

G-R 10

SA's foreign debt 74 gets a higher rating

Star 6/2/91.

By Neil Behrmann

LONDON — South Africa's rapidly improving image abroad is reflected in the surge of the financial rand and the increase in the traded price of its foreign debt on international markets.

Yesterday the financial rand surged more than two percent to R3,16 against the dollar, reducing the discount to the commercial rand to less than 20 percent.

In all, the financial rand has surged nearly 25 percent over the last six months.

Financial rand dealers in Johannesburg say large buying orders from the UK boosted the currency.

The relative strength of industrial shares on the JSE indicates that firrands were probably used to buy equities.

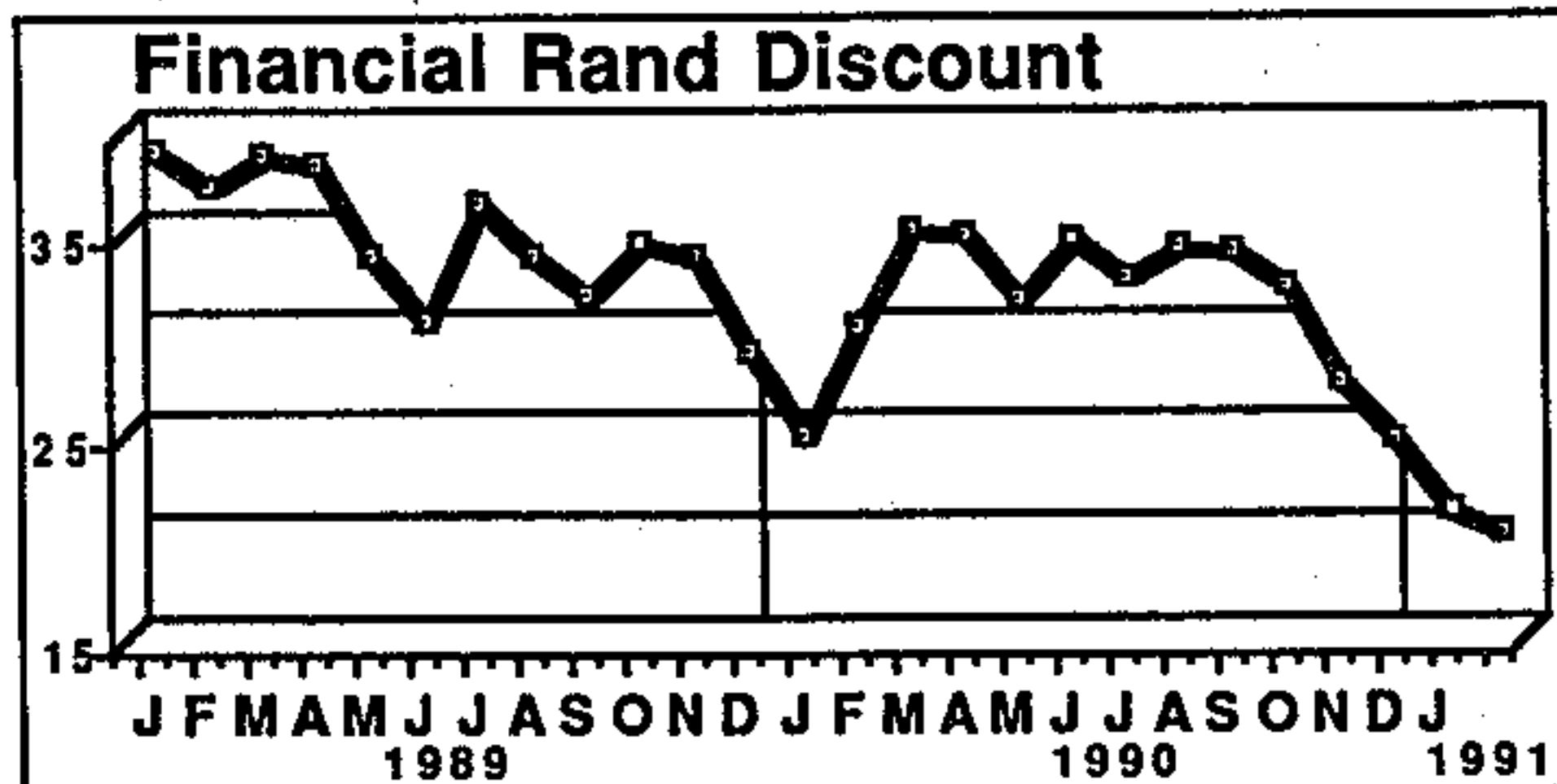
Prices of South Africa's \$7 billion in loans caught in the 1985 moratorium have also soared.

This debt, still technically under repayment suspension and, therefore regarded as a risk asset, is traded on international markets where prices have risen to 81,5 US cents to one dollar of loans from 70c last August.

After President FW de Klerk's statement last Friday, a trader negotiated a deal at 83,5c.

The foreign currency debt is thus fetching four times the sums of Latin American and Third World debt now trading at 10c to 30c to the dollar.

By undertaking the repeal of



major apartheid legislation President de Klerk is paving a path to a renewal of foreign investment and the end to sanctions.

But the process will take time, international businessmen and bankers say.

Money will be forthcoming only when the international business community is sure that any new government will provide economic guarantees, notably repatriation of dividends and capital.

Foreign businessmen are concerned that profitability will be hindered by strikes, low productivity, inflation and recession.

So a new government must not only be democratic, but must believe in a free enterprise system.

If it fails in this, foreign businessmen will regard South Africa as yet another African country with a dismal economic future.

But signals point to a marked improvement in foreign confidence.

John Montgomery, London director of the South Africa Foundation, is particularly pleased with the announcement of the scrapping of the Population Registration Act, a decision which

would impress statesmen and businessmen abroad.

The momentum of sanctions has slowed down markedly. Only last month the European Community, South Africa's largest foreign investor, lifted its ban on voluntary investment.

The scrapping of all major apartheid laws meets the requirements of the US Comprehensive Anti-Apartheid Act of 1986, says Mr Montgomery, who was formerly based in Washington.

Once the Government implements the required legislation, the US can abandon sanctions.

If Congress lifts sanctions, and there is little reason why it should not, the door is open to more banking finance.

The International Monetary Fund will be able to lend to South Africa again and international bankers will then be in a position to provide medium- and long-term finance.

Mr Montgomery and bankers have noticed considerable interest in South Africa in the past few months.

Unfortunately, Mr de Klerk's courageous policies are unlikely to bring about a flood of foreign

investment in the current year.

The problem is international, rather than political.

As a major commodity producer, South Africa is still under the shadow of a depressing international economic climate.

Gold, diamonds, platinum and base metals are performing poorly, while the drought will affect farm exports.

Meanwhile, the average cost of oil imports, albeit lower than their recent peaks, will still be higher than last year.

The international banking sector is in deep depression following the Third World banking crisis, the junk bond collapse and bad debts in the US and Europe.

There will also be huge demands for finance and direct investment from East Europe, while the Gulf war will reduce amounts available from international capital markets.

In short, bankers are unlikely to stand in a queue to lend to South Africa.

Nevertheless, recessions are never permanent and bankers are impressed that South Africa's international borrowings have fallen to \$20 billion from \$24 billion since the foreign debt moratorium in 1985.

As a result they have been prepared to roll over 40 percent of the \$13 billion of loans outside the net of the international debt rescheduling agreement.

Despite short-term problems, medium and long-term prospects are good, provided a new government brings about peace in the townships, isolates the conservatives and encourages local and foreign enterprise.

Encouragement

● Financial Times columnist Lex says the timing of President de Klerk's promise "to roll back the last frontiers of apartheid" will encourage investors with an interest in South Africa.

"The rapidly emerging New World Order in the Baltics and the Middle East undoubtedly means that there are fewer havens for long-term funds than a year ago.

"The latest signal from Pretoria appears to presage the end of sanctions before too long, a development which will have very little immediate impact on the economy, but which may prove the trigger for pension funds and other institutions to review their policies towards the Republic.

"One day the attractions of a resource-rich market economy with Third World labour costs and First World infrastructure may seem irresistible," he says.

Steel industry welcomes EC move on trade

By SHARON SOROUR
Labour Reporter

THE European Community's announcement that trade sanctions against South Africa may soon be lifted has been welcomed by the Steel and Engineering Industries' Federation of SA (Seifsa).

Of all the country's exporters, the iron and steel industry has been hardest hit by the EC ban on importing certain commodities from South Africa. Seifsa executive director Mr Brian Angus said.

"The United Kingdom and the rest of the EC represent South Africa's largest single export market and the loss of sales of iron and steel there and in the United States seriously affected the profitability of South African steel producers," Mr Angus said.

As a result, South African producers were forced to find

alternative, less lucrative export markets in South America and the Far East.

Mr Angus said the reopening of the EC markets was good news for exporters, but would not necessarily have an immediate impact on export trade.

CHALLENGE

Regaining lost export markets would be a formidable challenge for South African exporters but steel producers who were faced with a domestic recession and lower local sales volumes, were well geared to supply markets in Europe.

"In this way new jobs may be created to replace the estimated thousands lost in the industry due to sanctions by many countries in the world," Mr Angus said.

South African steel producers also would like to have normal trade relations with the US, he said.

Finrand edges higher amid signs that rally is faltering

Star 7/2/91
 By Duma Gqubule (74)

The financial rand edged higher yesterday amid signs that the currency's recent rally may be faltering.

The investment currency rallied to a high of R3,06 against the dollar before easing back to a close of R3,10 — the currency's highest level since June 1988.

One dealer said it appeared as if the rally, which has seen the finrand gaining almost seven percent against the dollar since last Friday, was coming to an end.

"Volumes were definitely much lower than on Tuesday. But everyone is nervous and the market is very volatile," he said.

A money market analyst said

the rally had been prompted by speculation that the financial rand system could be abolished within six months.

"Foreign investors rushed to invest their money in South African fixed-interest securities, which earn relatively high interest rates of 15 to 17 percent, which is paid in commercial rands.

"At the same time, many of them were hoping to receive attractive capital gains on the rising financial rand," she said.

But economists say no new net investment will have taken place through the financial rand market over the past few days.

The market operates completely free of Reserve Bank intervention and any investments in South Africa by foreigners using the market must counter-bal-

ance disinvestments of one kind or another by other investors.

In a recent report, a consultant for the Bank of Lisbon argued the case for a return to a unitary exchange rate system for the rand.

"The re-introduction of the two-tier exchange rate system was supported on the grounds that any outflows of capital, which emanate from transactions on the stock exchange or from disinvestment pressures, do not exert downward pressure on the commercial rand exchange rate.

"But such sales have been modest, compared with other outflows on the capital account — mostly foreign debt repayments — which are channeled through the commercial rand market."

Export boom predicted

By Michael Chester

South African exporters have been alerted to gear their production lines towards grabbing the chance of a multi-billion-rand trade bonanza from the expected gradual withdrawal of the sanctions blockade in the next few months.

The SA Foreign Trade Organisation (Safto) estimates that non-gold export income should jump by no less than R4 billion in the next 12 months as overseas boycotts start to disappear.

Annual export earn-

ings are expected to climb still faster once key trading partners formally remove sanctions laws.

Increase

Safto chief executive Wim Holtes believes non-gold exporters should already be able to set short-term aims at boosting overseas earnings by 10 percent above the 1990 total of about R40 billion.

"Export income will increase yet faster when our exporters can make direct shipments to foreign markets," said Mr Holtes.

Sanctions penalties — such as market closures and the expense of sending shipments through third parties — had been costing as much as R3 billion a year.

However, Mr Holtes cautioned exporters not to expect new export programmes to be plain sailing.

Safto has already arranged trade missions to several key potential new markets — Angola, Mozambique, Madagascar and Zaire.

Export teams are also seeking new markets in Europe and will be attending trade fairs there.

Now SADCC wants to include SA - Durr

Political Staff

MBABANE — Informal moves towards establishing a regional trade bloc including South Africa may be taken at a privately organised conference in Swaziland next month.

The conference — expected to be attended by representatives of at least 14 African countries, with South African business and academic leaders having observer status — will look into the possibility of bringing South Africa into a regional trade grouping in the light of the growing respectability conferred on South Africa by President de Klerk's reforms.

"The meeting is vitally important to the development of southern Africa", Trade and Industry Minister Kent Durr said yesterday.

The conference is to be held in Swaziland from March 13 to 15 at the Royal Swazi Sun convention centre, with the Southern African Development Co-ordination Conference (SADCC)

and the Preferential Trade Agreement areas.

"The significance is that SADCC was formed to exclude us, to reduce African dependence on us," Mr Durr said in an interview. "Now they are seeking ways to include us."

Up to now, South Africa has been excluded from both bodies because of the Government's apartheid policies.

Addressing a news briefing, Mr Durr was optimistic about South Africa's foreign trade. The picture he painted was one of doors opening and markets rapidly becoming available as relations with numerous countries normalised.

"We're all bright-eyed and bushy-tailed. We're optimistic that we will be able to expand our manufactured exports as a locomotive for growth in South Africa," he said.

Foreign investors again interested in South Africa were exploring the potential of the southern African region as a whole. In past weeks several major foreign banks had been

investigating investment opportunities.

Renewed European interest had been accompanied by a trickle of US activity. Some larger American companies had sent long-range planners to South Africa to prepare themselves for reinvestment, he said.

"Everyone I'm seeing is seeing southern Africa as one unit," he said.

Although representatives of parastatal organisations in southern African countries will attend the conference, neither the South African nor any other government will be formally represented.

The South African liberation movements have also been excluded in what appears to be an attempt by the organisers to keep the conference out of the political arena.

The sponsors are the South African Foreign Trade Organisation, South African Chamber of Business, National African Federated Chambers of Commerce and Industry and the Herbert Quandt Foundation of Germany.

B/day 8/2/91

74 (B)

Call to scrap Krugerrand for new coin

SA Gold Coin Exchange chairman Elias Levine has called on government to replace the Krugerrand with a new gold coin.

"The Krugerrand has become politically and socially unacceptable. An SA bullion coin could reach the sales levels of the American Eagle or the Canadian Maple Leaf after sanctions have been lifted."

However, Chamber of Mines figures show SA's re-entry into the gold coin market could simply add to the stockpile of nearly 4-million unsold one-ounce bullion coins on the international market, irrespective of name or emblem.

Out of the 2 000 tons of gold coins produced worldwide since 1970, 70% — 42-million — are Krugerrands.

The SA Mint's response to the call for a new coin has been less than enthusiastic.

"The Krugerrand has established a

ROBERT LAING

name for itself. It is more physically durable than the Eagle or the Maple Leaf because we use a stronger alloy. None of those coins have done as well as the Krugerrand," the spokesman said.

SA exported 2,5-million Krugerrands in 1986. Overseas sales then stopped because of sanctions, according to Rand Refineries which makes the gold blanks from which the SA Mint strikes the coins.

For the past five years, local Krugerrand sales have been held at 6 000 a week.

In overseas markets, the Krugerrand trades at a premium of less than 1% (between \$1 and \$3) above its intrinsic value of an ounce of gold, while the Eagle and Maple Leaf trade at a premium of up to 4% (\$15).

Sanctions: No immediate boom

W/Mod §12-142191

THE scrapping of European Community trade sanctions, if done soon, will not boost South Africa's trade with the region immediately — the exception being steel.

This is partly because new markets were found to replace those lost in Europe, and partly because legal trade sanctions were limited anyway to three categories: kruggerands, coal, and iron and steel.

However, the lifting of legal sanctions that may follow President FW de Klerk's scrapping of apartheid legislation should be accompanied by a further change in European attitudes and make it easier to do business.

Standard Bank chief economist Nico Czipionka points out the loss of markets in fresh fruit in Europe came about because EC regulations specified the country of origin had to be clearly identified. The EC in effect aided the cause of anti-apartheid activists.

Clearly, markets weren't lost in terms of volumes but exporters have had to exercise care in their dealings, and there has been a political discount.

Hence competitiveness of South African exporters should improve. "Exporters should be able to channel goods towards optimal markets," says Czipionka.

SA Foreign Trade Organisation (Safeto) joint-GM Ann Moore agrees, but feels the shift began after De Klerk's first watershed speech last February. Trade in Europe — except for those three legal sanctions categories — took off last year. So there isn't much room for further improvement, she believes.

Nedbank chief economist Edward Osborn notes kruggerands, which were a means of making gold bullion affordable for the small investor, have diminished in importance to South Africa. Other foreign gold coins, like the Maple Leaf, have taken its place.

74

The lifting of sanctions won't not have a big effect on the South African economy immediately, but the longer-term prospects are good, reports **REG RUMNEY**

Coal export volumes, Osborn surmises, cannot increase much because of the physical limitations of the main coal export terminal, Richards Bay. Until the next phase of expansion at Richards Bay in 1994, which will lift the terminal's export capacity to 53-million tons a year, only around 46-million tons can be shipped out a year, and last year South Africa hit that limit.

This is confirmed by Trans-Natal MID Mike Salamon. "In the next three or four years we may be able to lift volumes." He believes better prices will be obtained for South African coal because when sanctions cut off the European market South African suppliers were crowded into competing in the same markets.

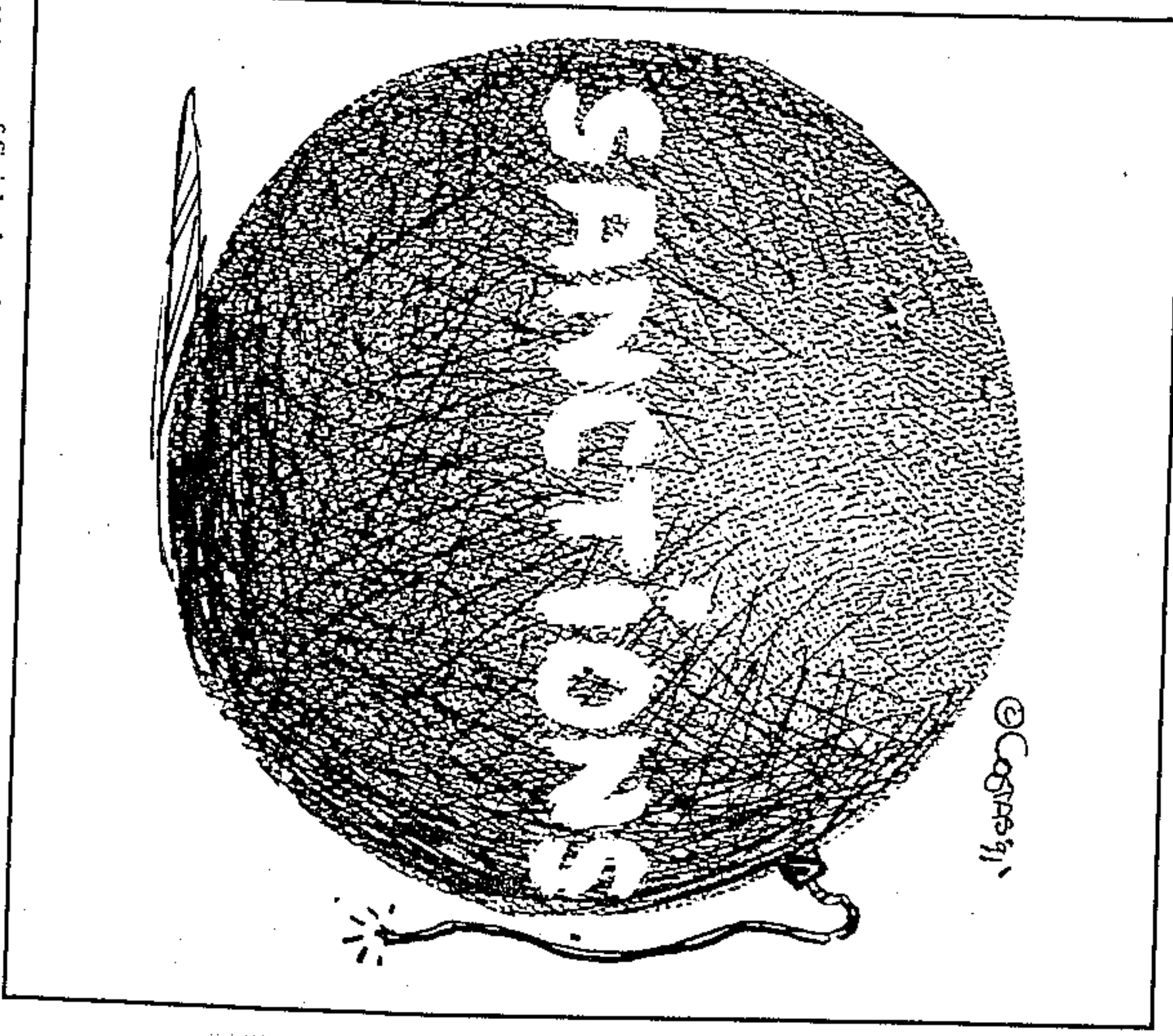
The fierce competition and the political dimension meant South African coal was trading, says Salamon, at "quite a significant discount". Prices could rise by 10 percent over a year.

Osborn says new markets were found for the iron and steel lost when sanctions were imposed. The replacement was achieved by selling into other less lucrative markets, and would be important to get back into the European markets. The question is: Can South Africa do this, in the face of a chronic world oversupply of iron and steel?

Iscor spokesman Piet du Plessis is upbeat. "We were established in those markets. It won't take us long to pick up where we left off."

He claims Iscor never discounted to sell its steel but did find other markets, and so did not decrease its capacity.

Highveld Steel chairman Les Boyd says if European markets are regained steel exporters could sell the 500 000



tons or so of finished steel products lost when sanctions were imposed. This might bring in around R400-million.

South Africa also lost a market for around 500 000 tons in America when sanctions were imposed there.

South Africa found other markets for that steel, but it still has the capacity to supply new markets. This is because domestic demand for steel has been declining. Last year South Africa produced around 500 000 tons of crude steel less than the year before. "The domestic market is in serious decline," says Boyd. If sanctions are not lifted

soon and exports don't take up the slack, jobs will be lost. Financial sanctions in the EC have already been lifted and new investors have shown interest in South Africa. Czipionka notes foreign debt repayment has become easier, with rollovers and better access to short-term credit. However, though the sluice gates of long-term finance won't necessarily open up there is potential for new long-term finance facilities to be found. However, continued unrest and uncertainty about the country's political future will deter foreign investors.

TRADE FIM 8/2/91 (74)
INDUSTRIAL EDGE

SA's export performance in 1990 was much better than the figures suggest, says Safto economist Bruce Donald. Exports increased by only 3,1% and imports declined by 1,2% in nominal rand terms — but this should be seen in the context of global and domestic economic conditions.

"In 1990, world economic activity slowed from 3% to 2,5%, exerting downward pressure on SA exports of metals, minerals and other natural resources. Precious metals and gold in particular did not perform well. Yet it is estimated that in terms of market share,

FIM 8/2/91 (74)
most SA exporters of natural resources have maintained their positions and some, such as coal exporters, even increased it."

Industrial exports performed remarkably well, says Donald. "The three best performers were vehicles and transport equipment, professional and scientific equipment and machinery. These product categories registered respective increases of 66,1%, 31,8% and 28,7% over the previous year."

The most remarkable aspect of the export performance was the success of products which are capital and skilled-labour intensive. "These features of trade patterns are those of a developed country and not a developing country." This is in line with Safto's argument that SA derives its international competitiveness in these products.

Particularly remarkable is that this improvement in revenue from industrial exports took place during a period of slower international economic activity.

Imports, too, reflect some surprising developments. "During economic slumps, imports of the means of production, such as machinery, tend to fall most. During 1990, however, imports of machinery only dropped by 0,7% against the total drop in imports of 1,3%." There are several reasons for this:

- The long-term erosion of the capital base of the country through the Eighties;
- Replacement of unskilled labour with machinery; and
- The relatively strong rand exchange rate and expectations that the currency will be devalued in the future — imported machinery is thus perceived as temporarily less expensive.

The sizeable trade surplus contributed to a current account surplus last year which Donald estimates to have been around R5bn-R6bn and which helped finance substantial foreign debt repayments.

In the year ahead, the outlook for SA industrial products seems better than for other exports, as exporters are obliged to find alternative outlets to the depressed domestic market. He suggests that a prolonged war in the Gulf could result in fresh demand for base metals and minerals and stimulate SA's defence industries. ■

Textile industry reeling over cheap imports from East

By MICHAEL MORRIS
Political Correspondent

THE government has stepped in to settle a row between the clothing and textile industries over cheap yarn and fabric imports from the East, but has declined to introduce new protectionist measures

The textile industry wanted better protection against cheap imports of yarns and fabrics.

It complained that import competition was aggravated by rebate provisions based on exports and local purchases.

The industry also argued that rebates in terms of the "structural adjustment programme" should be stopped because they did not help textile companies.

But the clothing industry said the programme had a positive effect on exports — which had shown a substantial in-

crease — and that to stop the programme would "destroy the export culture".

Deputy Minister of Trade and Industry Dr T Alant said that after discussions and an investigation the government had decided to increase the rates of duty on yarns, but not tamper with the structural adjustment programme which had helped clothing and textile exports.

"It appears that an export culture is being established and that exports are gaining momentum," he said.

"Indications are that the rebate provisions have achieved their goal in providing the necessary kick-start effect with regard to export orientation.

"The export successes of the clothing industry will obviously create a bigger demand for fabrics, which should also affect the textile industry."


Import duties on yarn to be raised

 BILLY PADDOCK 

CAPE TOWN — Government had approved higher duties on imported yarns to “stem any further disruptive imports”, Deputy Trade and Industry Minister Theo Alant said in a statement yesterday.

The increase was approved as an interim measure and would be gazetted today. However, the steps would be reinvestigated immediately to determine whether the levels of protection were justified.

This was because of the cost-raising effect this would have on smaller textile firms and particularly on the clothing industry's ability to compete on the export market.

It was also decided to continue with the rebate provisions as envisaged in the structural adjustment programme. 

As it was clear the relevant rebate provisions had provided the necessary kick-start, the Board of Trade and Industry intended investigating the possibility of increasing the export entry level to qualify for participating in the programme.

Alant said the move to raise the duties had followed representations by the textile industry that excessive imports of low-priced yarns and fabrics were disrupting the industry.

One of the textile industry's arguments was that it was not afforded sufficient tariff protection against imported low-priced yarns and fabrics from Eastern countries.

Lawrence McCrystal, the embattled chairman of the Board of Trade & Industry, is attempting to shed his arch-interventionist image as SA reconsiders its decades-old policy of import replacement and moves to reduce tariffs dramatically.

McCrystal now says the time has come to move away from the protectionism of the past — the question is how to achieve this. He favours a phased reduction in tariffs because an overnight elimination of protection would force companies to go cold turkey. Many would not survive.

He now admits the policy he long supported, import replacement, is to blame for some of SA's economic problems. "Since 1922, SA has pursued import replacement. Industrial plants were, therefore, not world scale; unit costs were higher. Without tariff protection, they could not compete with imports." Moreover, these plants had no incentive to become efficient enough to compete for export markets either, he adds.

Now, with government's new focus on exports, the rules of the game are different and the culture of SA industry must change. "But government owes it to these industries to give them time to change," he says.

McCrystal argues that his long-time pet project, structural adjustment programmes, are the best way to make industries competitive and phase out protection. One reason is that they are accepted by the General Agreement on Tariffs & Trade, provided they have a clearly set goal of reduced protection and are for a limited period. The board's programmes meet these conditions.

But these programmes were phased out last year by the Department of Trade & Industry in favour of another export incentive scheme. It is uncertain whether McCrystal can bring them back. Director-General Stef Naude says he cannot respond to McCrystal now because "government is looking at most of these issues, such as the revision of SA's tariff policies recommended by the Industrial Development Corp." ■

THE BULLISH review of South Africa's economic performance last year by Reserve Bank Governor Chris Stals should go some way to restoring business confidence, now languishing at a four-year low.

The achievement in meeting all foreign liabilities last year — for the first time in 10 years — and building gold and foreign reserves to R7-billion augurs well for the country's potential without sanctions and with free access to foreign capital.

But Dr Stals warns that in spite of improving international economic relations the bank will continue a policy of financial discipline.

However, another fall in the rate of increase in the money supply, a rise in gold and foreign-currency reserves and a decline in inflation should lead to an easing of all interest rates.

Any official action to reduce interest rates will follow market changes instead of leading them.

Outstanding

The bank will also continue to support a relatively stable real rate of exchange for the rand against a basket of currencies.

Dr Stals says a special feature of the economy last year was another "outstanding" performance of the balance of payments.

Preliminary data indicate a surplus of between R5.5-billion and R6-billion on the current account — considerably higher than earlier estimates.

This is the sixth consecutive annual surplus, bringing the cumulative total since 1985 to almost R29-billion.

It was made possible by a 6.5% increase in the volume of exports and a fall of 0.5% in the value of imports.

The value of gold exports declined for the third year in succession, mainly because of a small drop in the average rand price.

Total net capital outflows fell from R4.3-billion in 1989 to about R2.5-billion — the lowest since the debt standstill in 1985.

Dr Stals says gross commitments for the redemption of capital inside and outside the net totalled more than

Stals pointer to cheaper money

S/ Times 10/2/91

74

By MIKE ROBERTSON: Cape Town

R6-billion at the beginning of 1990.

This means that more than half the maturing loans have either been extended, rolled over or replaced by an inflow arising from drawings under new loans extended to SA borrowers.

Dr Stals says the improved balance of payments contributed to a more stable exchange rate for the commercial rand. From September 1989 to January 1991 the rand's effective exchange rate against a basket of currencies appreciated by 9.7%.

The discount of the financial rand to the commercial rand varied between 30% and 35% for most of 1990. It was 17.8% by February 6.

Dr Stals says the domestic financial situation has also shown meaningful improvement. M3 money supply increased by 13.1% in the year to December and stayed well within Reserve Bank guidelines.

The lower rate of increase in M3 was achieved by a marked slow-down in the rate of expansion of bank credit.

In the year to November, total bank credit to the private sector rose by 14.7%, well down on the peak rise established in the year to

October 1988 when the increase was 30.2%.

The production price index increased from a low of 10.3% in July to 15.8% last November. The consumer-price index, after falling to 13.3% in July, increased to 15.3% by November but dropped to 14.6% in December.

The PPI and CPI increases resulted from dearer oil, but were "probably only temporary diversions from the downward trend established in the rate of inflation in the earlier months of 1990".

Contrast

The Reserve Bank's restrictive monetary policy has been well supported by the Government's application of a restrictive fiscal policy.

Statistics for the first nine months of the financial year show that Government expenditure and revenue will slightly exceed Budget estimates. The projected deficit before borrowing of R8-billion, or 2.8% of gross domestic product, will more or less be realised.

In contrast to the satisfactory developments in the balance of payments and domestic financial situation, real economic activities per-

formed poorly last year.

Gross domestic product in real terms fell by about 1%.

Total real gross domestic expenditure stayed on average 3% below the level of 1989. A major real decline occurred in total real fixed investment.

In the first six months of 1990 nominal remuneration of workers in the non-agricultural sectors rose at an annual rate of 15.4%.

In the first half of last year the physical productivity of labour fell to about 1.3% below that of the first half of 1989.

Dr Stals says it is unlikely that SA will repeat the good performances of recent years on the balance of payments in 1991. A surplus on the current of about R3-billion is expected.

Total gross commitments for debt redemption this year is R4-billion. If, as last year, about 50% of loans are rolled over another increase in gold and foreign-currency reserves is possible.

Which market is the Governor watching?

WHAT market was the Reserve Bank Governor referring to when he said on Thursday night that he pledged to let the "market" lead him in a decision to cut Bank rate and therefore the trailing string of other rates?

The bond market? The money market? The share market? The futures markets?

Hardly. Stals is too wily a central banker and too

shrewd an economist to follow the speculative, manipulative markets when adjusting monetary policy.

The bond, or capital, market is notorious for its casino-like dealing in parcels of scrip which are tossed backwards and forwards like shuttlecocks from dealer to dealer, each taking a one or two basic points turn as rate moves up or down.

The money market is

more staid and controlled, not because dealers wouldn't like to take a turn on margins but because only in ballets are cadavers lively in a morgue.

Share markers are geared to anticipate not short-term events, but longer-term perceptions. So Diagonal Street is not a sound barometer.

The futures markets — such as they are — make a living on punters and these

do not exist in sufficient numbers to make a reasonable input to an opinion poll, let alone to economic decision-taking.

When Stals refers to markets he surely must mean markets in the macro, not the micro, sense. And, perhaps, international markets, not just SA's.

Interest rates abroad could be more important to Stals than the latest yield on the Eskom bond 168 — which incidently dropped by 14 basis points on Friday on Stals's comments.

If the cost of financing trade in SA is cheaper than covered offshore credit, the gold and foreign exchange reserves could suffer a massive outflow as borrowing is switched from foreign banks to domestic bankers.


Stals wants facts, not the fantasies of the speculative

markets. These facts include the state of the reserves, with inflows offsetting outflows, and the January CPI numbers, due next week, which might reflect the drop in the petrol price. He wants the money supply figures to tilt downwards, in line with a reduced demand for credit.

He needs to know that liquidity has been restored.

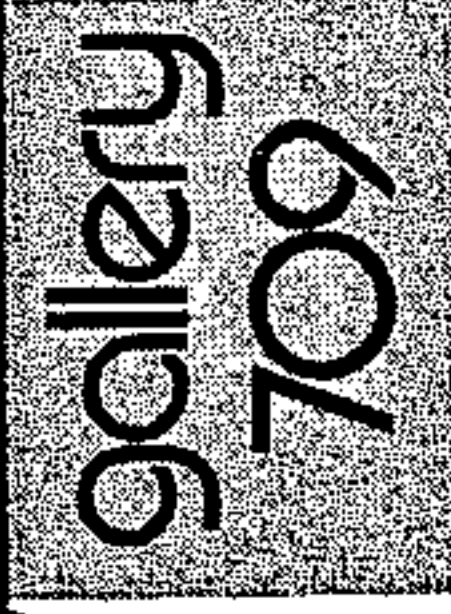
Meanwhile the Treasury bill (TB) rate shed eight points on Friday to 17,21%, a 17-month low. The rate for 90-day liquid bankers acceptances is down to 17,55%, but some are trading down to 17,50%, poised to go lower, and rates on CDs (negotiable certificates of deposit) have been shaved by five basis points in a disinterested market.

Bank rate cut. Some bankers guess March, others April. None February.



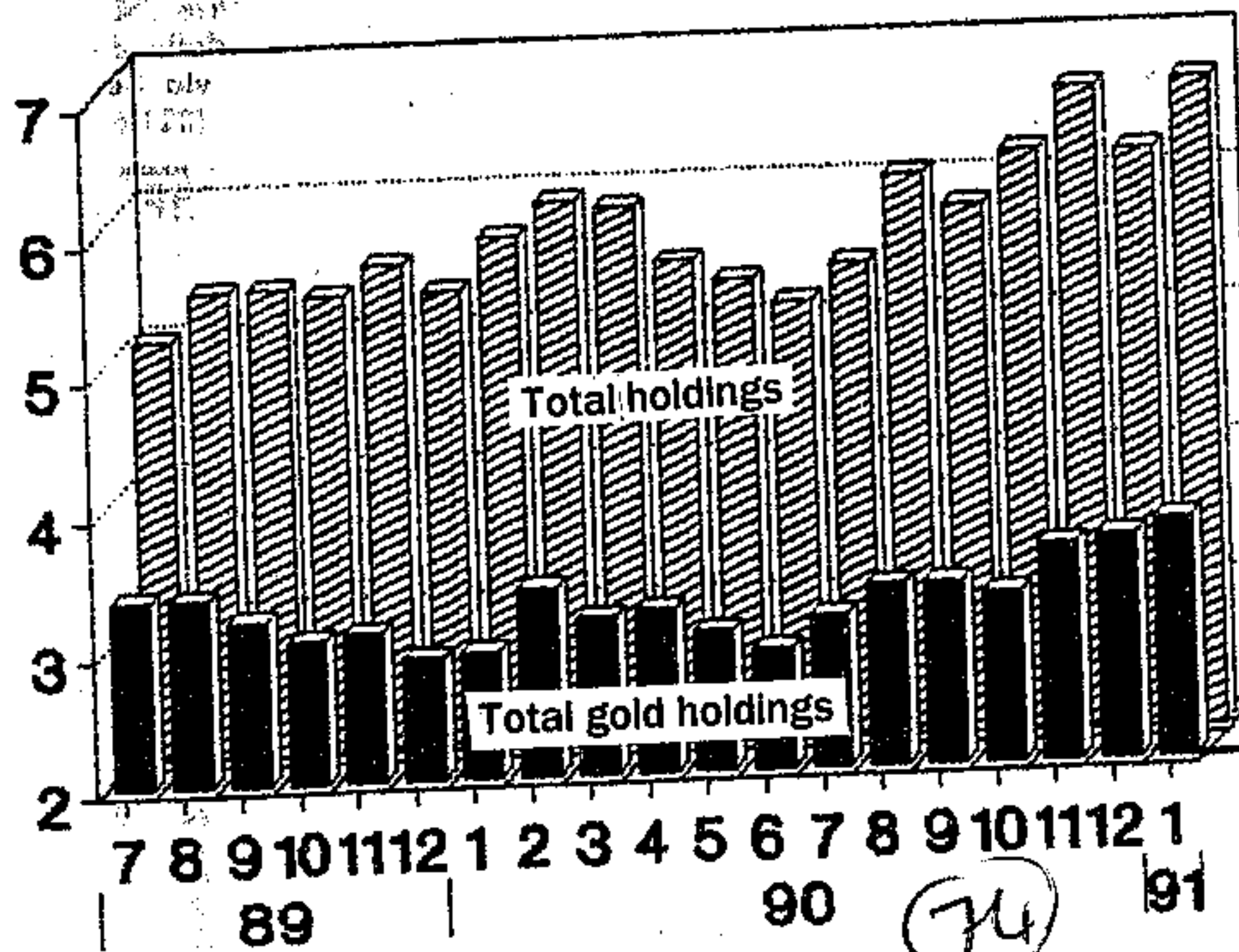
The
Scotch

visiting
CAPE TOWN?
a call at
gallery 709 would



visiting
CAPE TOWN?
a call at
gallery 709 would





South Africa's gold and foreign exchange holdings climbed by 8,2 percent in January, says the Reserve Bank. *Star 11/2/91.*

The latest figures released by the bank show that total assets held rose R509 million to R6,715 billion.

Total gold holdings rose by three pe cent to R3,738 billion (R3,625 billion).

Total foreign exchange hold-ings leapt by 15,35 percent to R2,976 billion from December's R2,579 billion.

The value of gold held fell by R33,46 an ounce from December's R886,42 to R852,96.

Physical gold holdings rose by 292,5 million ounces to 4,382 billion ounces (4,090 billion ounces). — Sapa.

BoP unlikely to match last year's, Stals warns

B/Dec 11/2/91.

Business Day Reporter

SA's "outstanding" balance of payments performance in 1990 was unlikely to be repeated in 1991 with the current account surplus being slashed to about R3bn, Reserve Bank governor Chris Stals said on Friday.

And though he cautioned that the lifting of sanctions would not necessarily lead to an immediate inflow of foreign capital, he was notably upbeat about the Bank's actual and potential foreign reserve position.

Speaking at a media conference in Cape Town, he said the projected decline in the rate of expansion in world trade and lower economic growth rates in some of the major industrialised countries might result in lower commodity prices and the terms of trade might move against primary producers.

"This should, however, present no serious problem, as the net capital outflow for the year should also be relatively small," he said.

Total gross commitments for debt redemption amounts to only R4bn in 1991 and if, as in 1990, 50% of this was rolled over, the smaller current account surplus could again easily exceed the net capital outflow.

He said 1990's projected R5,5bn to R6bn surplus on the current account was complemented by a stemming of capital account outflows — foreign debt repayments.

Net outflows on the capital account amounted to only R2,5bn in 1990. This compared with 1989's R4,3bn and was the lowest since the debt standstill was introduced in 1985.

The lifting of sanctions, he said, was unlikely to result in a huge inflow of funds as investors still wanted to know what economic policies a future government was likely to

adopt. As a result, the main objective remained to reduce outflows and to bring the net position to zero.

The gold and foreign exchange reserves position should improve through the year, he said.

With reserves at "about R7bn", SA still fell short of the R16bn needed if it was to match the internationally acceptable standard of reserves sufficient to cover three months of imports. But Stals pointed out that for the first time in ten years the Reserve Bank itself had no foreign debt on its balance sheet.

As a result it could count on R3bn being available in the form of overseas credit lines, lifting the Bank's potential foreign reserves to R10bn.

Loans 74

And, if SA gained access to IMF loans, Stals reckoned the Bank's reserve potential could be increased to between R13bn and R14bn.

He was hopeful SA would be able to tap World Bank development funds. The World Bank had recently been granting loans to countries whose per capita income far exceeded the World Bank's normal \$2 000 qualifying upper limit. Countries with per capita GDPs of as much as \$3 000 had received World Bank loans and, Stals stals SA could qualify as its per capita GDP was only \$2 400.

On prospects for the year he said "despite the improving international economic relations, the monetary authorities are determined to persist with a policy of financial discipline."

There should be some decline in interest rates, he said.

Salesmen take off their disguises

Sanctions

X Mandatory **O** Voluntary **N/A** Not applicable

	United States	W. Germany	Japan	Italy	France	Spain	Netherlands	UK	Belgium	Denmark	Ireland	Portugal	Greece	Luxembourg
New Investment	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Arms	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Sensitive equipment to army & police	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Petroleum products	X	X	X	X	X	X	X	X	X	X	X	X	X	N/A
Nuclear collaboration	X	X	X	X	X	X	X	X	X	X	X	X	X	N/A
Kruger rands	X	X	X	X	X	X	X	X	X	X	X	X	X	N/A
Iron and steel	X	X	X	X	X	X	X	X	X	X	X	X	X	N/A
Coal	X	X	X	X	X	X	X	X	X	X	X	X	X	N/A
Uranium	X	X	X	X	X	X	X	X	X	X	X	X	X	N/A
Agricultural produce	X	X	X	X	X	X	X	X	X	X	X	X	X	N/A
Products of parastatals	X	X	X	X	X	X	X	X	X	X	X	X	X	N/A
Air links	X	X	X	X	X	X	X	X	X	X	X	X	X	N/A

Graphic by Liz Wender

SOUTH African exporters have started to brush away the dust that gathered on global trade maps in the years of isolation. Work has begun on new strategies to battle a way back into overseas markets.

Exports sales teams are packing away the disguises they have often had to use on international errands.

"All of a sudden, we are no longer the pole-cats slinking around overseas markets," says SA Chamber of Business deputy director-general Ron Hayward.

There is also a grin on the faces of financial directors. Dropping the camouflage will help the balance sheets.

The SA Foreign Trade Organisation estimates that the cost of market closures, re-routing export shipment on detours, back-handers to middlemen and often special price cuts as sweeteners to overseas buyers — all known cynically as the sanctions premium — has been running at no less than R3 000 million a year.

Most if not all of that will be saved as South Africa returns to the international trade arena.

Though the sanctions blockade still awaits formal removal, this is now regarded as only a matter of time.

Optimism about its demise has spread as favourable reactions have flowed back following the F W de Klerk reform initiatives — and in particular his commitment to scrapping the Group Areas Act, Land Acts and Population Registration Act.

All three of South Africa's biggest traditional trade partners — the European Community, the United States and Japan — have signalled action to dismantle sanctions once parliament has officially removed apartheid's cornerstones.

874
11/2/91

MICHAEL CHESTER reports on the high hopes in business circles.

President Bush has already expressed his enthusiasm, but the main hurdle will be the removal of the Comprehensive Anti-Apartheid Act imposed by Washington in 1986.

This puts a stop to many things — from new investment and air links to trade in coal and iron and steel.

The scrapping of the Act still depends on voting in the US Congress, at a date yet to be fixed. Even that may not swing open all doors to a resumption of normal trade. Scores of individual states and cities have imposed boycotts of their own and will decide about that themselves. Safilo fears some of them may insist on approval from the ANC before they vote.

But the international mood is likely to be influenced by action taken by the 12-nation European Community, which has already softened its stance by agreeing to lift its embargo on new investment in South Africa.

Far more significant, however, are signals that British Premier John Major wants the EC to drop all sanctions in recognition of SA reform — once Parliament has rubber-stamped the removal of apartheid laws.

More optimism has been generated by the turnaround of Australian Prime Minister Bob Hawke, so far one of the most intransigent of critics. Mr Hawke may now become a prime mover to trying to persuade the Commonwealth to drop its sanctions.

Canadian foreign minister Joe Clark has proposed a February 16 meeting of the nine-

nation Commonwealth ministerial group that acts as a sanctions watchdog.

The outcome of these talks will be crucial to the position of SA exporters. The vote hangs on not only Australia and Canada but also India, Nigeria, Zimbabwe, Zambia, Tanzania, Guyana and Malaysia.

Nearer home, the 10-nation Southern African Development Coordination Conference has voted to hold sanctions in place until all apartheid's pillars were down.

It did not go unnoticed among trade pragmatists when Foreign Minister Pik Botha confirmed a couple of days ago that South African trade with the rest of the continent had doubled in the past two years — meaning there must be a lot of politicians turning a blind eye.

SA exporters also rubbed their hands with glee when Minister of Trade and Industry and Tourism, Kent Durr, revealed that 35 major trade delegations from around the world were expected to arrive in South Africa over the next few weeks.

Among the countries sending groups: Britain, Russia, Thailand, the Philippines, Bulgaria, Belgium, Czechoslovakia, Italy, China, Korea — and a number of African states that still prefer to stay incognito.

"The formal removal of sanctions looks to be no more than a question of timetables," Mr Hayward said. "Our exporters can already feel a change in mood in overseas markets."

"The competition may be tougher because of the current global economic slowdown. But it will make a world of difference when our export salesmen need no longer tap at backdoors and can be invited to talk business in the main boardroom." □

Suspension of sanctions expected to bring agricultural exports boom

PRETORIA — SA agricultural exports will get a multimillion-rand boost after the lifting of sanctions and the opening of markets closed to SA for nearly a decade, informed sources say.

The vast markets in the US, Canada, Northern Ireland and in the Scandinavian countries had been lost since anti-apartheid measures were imposed.

Sectors of the industry which would benefit included the citrus, deciduous fruit and sugar industries, and there would be spin-off advantages for the growing ostrich industry and possibly the grain industries.

Sugar Association of SA international marketing director David Hardy said the industry had been sanctioned out of the US and Canadian markets.

"The long-term benefits for the sugar industry could be considerable because of the wide potential market."

Volkas assistant GM (business) Andre Louw said the potential for bigger agricultural exports would be significantly boosted after sanctions.

He said despite sanctions the industry had succeeded in maintaining export levels which made a significant contribution to foreign exchange earnings.

A Deciduous Fruit Board spokesman

74
GERALD REILLY

said new opportunities would open up after sanctions.

Although EC markets had always been open to deciduous fruit exports, agricultural sanctions were rigidly applied against SA by the US, Canada and the Scandinavian countries.

The value of deciduous fruit exports last year amounted to a record R1,3bn.

Citrus Exchange GM (operations and finance) Arend Venter said the suspension of sanctions could also boost the citrus industry. However, it was impossible to put a figure on any possible increase in foreign exchange earnings.

The board, he said, was operating in a fierce and highly competitive marketing environment in which supply and demand varied from season to season.

Venter said during the past few years all citrus available for export had been exported.

Suspension of sanctions would obviously facilitate the sale abroad of any future production growth.

Last year's citrus foreign exchange earnings amounted to R600m, he said.

Reserves rise to R6,72bn

8104 11/2/91

ANDREW GILL

THE Reserve Bank's holding of gold and foreign exchange reserves soared to its highest level since October 1987 in January, thanks to a buoyant current account and a lack of foreign debt commitments in

the month.

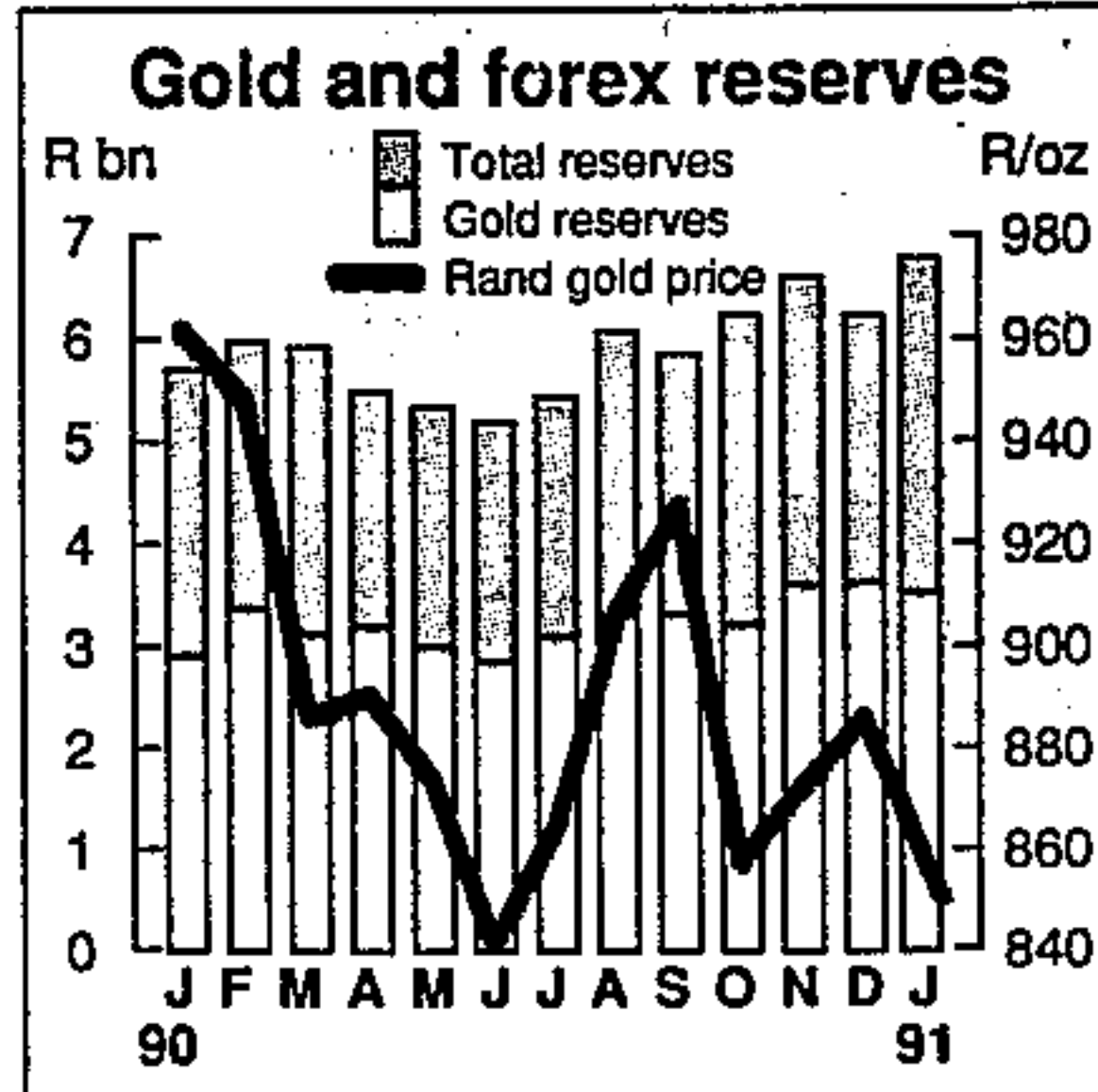
Reserves climbed R510m to R6,72bn from December's R6,2bn despite a significantly lower gold price.

February's figures, however, may not be as encouraging as a \$253m (R640m) debt commitment inside the net has to be met.

The settlement dates have been changed to February and August in 1991 and 1992 from the previous June and December payments.

Nedbank chief economist Edward Osborn calculated another \$296m (R745m) outside the net would fall due in the first quarter of the year but part of this was likely to be rolled over.

He said the rise in the reserves was most likely the result of a continuation of the "fairly substantial" current account surplus and the stemming of capital outflows because of reduced debt commitments.



Graphic: LEE EMERTON Source: SA RESERVE BANK

☐ To Page 2

Reserves

8104 11/2/91

Rand Merchant Bank chief economist Rudolf Gouws said it was now only a matter of time before there was an easing in monetary policy after the big rise in net reserves.

Osborn said the current level of reserves tended to be understated because of the lower gold price.

A calculation that took into account the average gold price for the month — and not the last ten London fixings of the month as the Reserve Bank does it — would see reserves up at R6,89bn.

This rise in gold reserves was due largely to an increase of 292 562oz of gold in physical holdings to 4,38-million oz with

☐ From Page 1

the Bank's rand/gold price being registered at R852,96/oz from December's R886,42.

The gold component of the reserves climbed R112,7m to R5,74bn while foreign exchange holdings soared R397m to R2,98bn.

Reserve Bank governor Chris Stals said on Friday a current account surplus of about R5,5bn to R6bn had been achieved in 1990 but this was likely to be reduced to about R3bn this year.

Osborn said this was likely to be sufficient to cover debt repayments after portions had been rolled over.

Financial markets expecting interest rate cut 'in weeks'

8/11/2/91

74

By David Canning

DURBAN — A cut in official interest rates is expected within weeks, according to economists and financial market operators reacting to comments by Reserve Bank Governor Dr Chris Stals on Thursday night.

Dr Stals told the Afrikaanse Sakekamer in Cape Town that he would let the market lead him into a decision on when to cut interest rates.

This would come about only as a result of a fall in demand for credit, he said.

Ray Lalouette, managing director of Natal Financial Services, said at the weekend that markets were already pointing downwards.

Provided nothing untoward happened in the Gulf war, another drop in domestic money supply and inflation figures later this month was likely to trigger the Reserve Bank into easing Bank Rate, he said.

Although Dr Stals talked about taking a lead from markets, Mr Lalouette believed it was unlikely that the commercial banks would take independent action to cut the prime rate in the absence of a Reserve Bank signal.

Lower interest rate expectations are evident in capital and money markets.



Dr Chris Stals . . . will let the market lead him into a decision

The Eskom 168 has slipped from 16,15 to 15,56 percent in the past month.

In the money market, the Bankers' Acceptance rate has slipped from 18,8 percent on November 21 1989 to around 17,6 percent last October.

There then followed an upward tick, in line with increased tension in the Gulf and other factors.

Since last October the BA rate has dropped from 18,2 per-

cent to around 17,55 percent.

The market consensus is that the prime rate should ease from 21 percent to between 17 and 18 percent over the next 12 months.

However, an upset in oil prices stemming from the Gulf war could delay this process.

On the other hand, Mr Lalouette felt the prime rate could drop as low as 15 percent if the US and world economic recession is more severe than expected.

Dr Azar Jammie, chief economist for Econometrix, said he believed Dr Stals would be obliged to cut the Bank Rate once money market rates had eased by another 40 points of so.

This could be expected to happen before next month's parliamentary reading of the Budget.

However, Dr Jammie said he was a little more pessimistic than most about the prospects for inflation — and therefore for interest rates.

Recent money supply and inflation figures had been higher than most economists had been predicting.

He believed that structural factors such as trade union demands and the power of monopolies would prevent inflation from coming down much below current levels.

He thought prime rate would dip to between 18 and 19 percent over the next year.

Stals pins growth hopes on lower capital outflow

8/04/91 12/2/91

GRETA STEYN

SA's next upswing is set to be longer and more vigorous than the mild activity of the 1987/88/89 growth phase, reflecting a dramatic improvement in the country's foreign capital situation.

Says Reserve Bank Governor Chris Stals: "You may ask what will trigger the new upswing. An improvement in the capital outflow situation would provide an important stimulus to new growth in the country."

Already SA has seen a significant improvement in the capital account of the balance of payments (BoP). Last year's capital outflow shrank to only R2,5bn after an average annual outflow of R5,4bn in the preceding five years. The performance is all the more impressive as SA's debt commitments last year added up to more than R6bn. More than half the maturing loans were either extended, rolled over or replaced by new loans.

In January, the Bank was able to wipe out its short-term foreign liabilities because of a foreign exchange inflow of more than R1bn during that month. While this inflow is not necessarily evidence of any capital inflows, it is proof there are no substantial outflows. The Bank now has zero foreign liabilities — for the first time in 10 years.

Political reforms announced by President F W de Klerk are expected to ease further pressure on the BoP. Stals expects the reforms this year to lead to the lifting of the Bretton Woods amendment that forces the US to vote against IMF facilities for SA, a better relationship with the World Bank and with international bankers.

"Our first objective is that the net capital outflow will at least return to



● STALS . . . upswing will take time

zero. That will already provide an important stimulus to the domestic economy. For six years we have been using our domestic savings to repay foreign debt. If only we could come to a situation where we can use our total savings in the domestic economy it would provide an immediate overnight stimulus to development."

Simpson McKie economist Graham Boyd calculates that a zero capital outflow combined with 4% growth in exports could generate an average annual growth rate of more than 4% over the next five years. This represents an impressive improvement over the average growth rate of about 1,5% over the past five years.

The restoration of IMF facilities will be of great importance for the next upswing.

Stals says: "If we have access to IMF facilities we can live very easily with a zero surplus on the current account, which has implications for domestic economic policy. You can stimulate the economy, knowing this

will lead to an increase in imports that will reduce or eliminate the current account surplus."

His target for reserves is three months' import cover (about R16bn). The Reserve Bank at present has less than half of that, but access to the IMF would immediately add more than R3bn to the country's foreign exchange reserves. International bankers will also be more willing to provide finance once they know SA can fall back on the IMF.

Stals believes it will be "very easy" for SA to generate the need for IMF assistance within the next two years. While he is adamant the stimulus for growth should not come from monetary policy, it is clear the fiscal stimulus will grow. Not only central government, but organisations like the Independent Development Trust will begin having an effect on the economy in the next year.

Stals also notes the possibility of development capital from the World Bank. SA did not qualify for World Bank assistance because of a "too high" per capita income of about \$2 400. The World Bank had not taken into account the skewed nature of SA's income distribution in excluding it from access to finance. But the Bank is apparently ready to take this into account and has also changed its policy to grant loans to countries with per capita incomes of up to \$3 000.

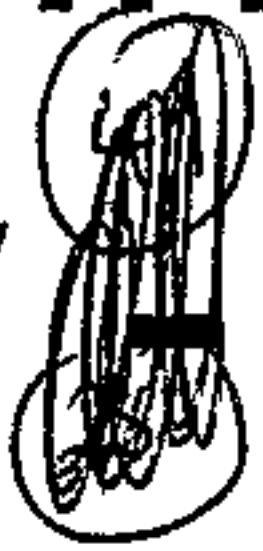
Stals cautions against expecting the next upswing to start soon. A strong economic recovery will most probably only follow after some visible consensus has been reached on a new political dispensation.

"Until then it will befit us to continue with a policy of consolidation, of preparing a sound financial basis for sound and sustainable economic growth in the new SA."

Allow us to compete openly for capital in international markets

SA needs investments not charity

Ackerman



74

Sowetan 12/2/91

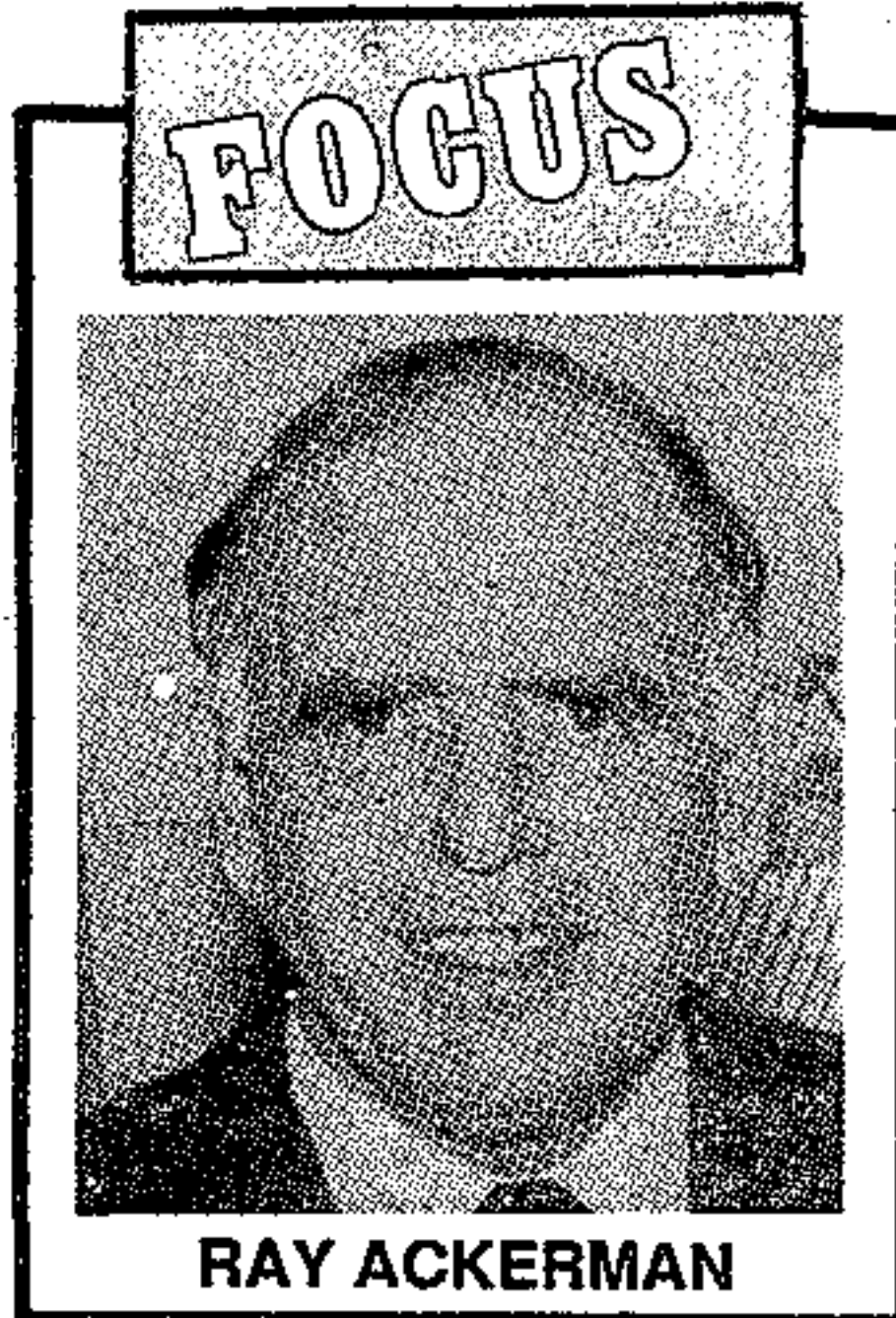
SOUTH AFRICA does not need - or seek - charitable handouts from the international community, according to a leading local businessman.

Speaking yesterday at the World Economic and Agro Forum in Davos, Switzerland, Mr Raymond Ackerman, chairman of Pick 'n Pay Stores Ltd said: "I must stress that I'm not here with a begging bowl.

"The South African economy is eminently capable of developing its own potential if permitted to do so. We simply ask that we be allowed to compete openly for investment capital, trade and development loans in the world's financial markets.

Leaders

He was speaking to an audience including an array of world political and business leaders, like Wilfred Maartens, the Belgian Prime Minister; Hans-Dietrich Genscher, the German Foreign Minister; Jan Vlietski, the Polish Prime Minister; the Deputy Trade Minister of Japan; Sir James Goldsmith, the International financier, and some 700 senior delegates from the IMF, GATT, the World Bank, and major international corporations.



RAY ACKERMAN

Should punitive economic measures by Europe and America persist, a new black government in Pretoria may inherit an economy not even able to satisfy the demands and expectations of its own population, let alone be able to stimulate economic activity elsewhere in Africa, he warned.

That could have dire consequences for the country, he said. "Economic decay will almost certainly make it impossible for an already-fragile democracy to survive in a new South Africa, an unable to prevent the new multi-party democracies elsewhere in Africa from sliding back into

authoritarianism.

"South Africa's future, therefore, is integrally linked with that of Africa as a whole. Given international, economic and political trends, it is realistic to suggest that South Africa must become the economic engine room of a continent which has steadily dropped on the priority agenda of the developed world.

"Your governments and companies are in a position to help all in Africa achieve the "de facto" economic independence it so desperately needs to legitimise its "de jure" political sovereignty", he said.

Investment

South Africa would undoubtedly attract investment capital for it is seen by the international business community as being both reliable and able to guarantee a decent rate of return.

Already, in fact, a number of leading world companies in the food industry alone have expressed direct interest in investing in South Africa.

On the subject of sanctions, Mr Ackerman said in the light of President de Klerk's announcements at the opening of parliament last week, these were no longer an

issue. There can be no doubt South Africa was speedily and irreversibly on course to a new and equitable political dispensation.

"Unfortunately, these bold political steps come at a time when the world economy is pre-occupied with decreasing growth rates and the problems of reconstruction in eastern Europe. Moreover, funds available for Africa are not what they were, and European trade and investment in Africa is on a downward slide.

"We in South Africa are ideally positioned to spearhead an economic recovery on our continent. We are better placed than most to export skills, experience and technology into Africa: in spite of sanctions (so vigorously applied by northern nations) our economic infrastructure is still the most sophisticated on the continent. The need for a strong, vibrant economy in South Africa, therefore, has continental, and even international implications.

"South Africa already trades with almost every country in Africa - exporting products worth some R5,6 billion last year - and despite sanctions, trade with African countries increased by more than 45 percent during the last 24 months."

Switchgear import tariffs to be loaded

SPARKS are set to fly between heavy-current electrical engineering companies after the Board of Trade and Industry's decision to grant local switchgear manufacturers Reyrolle and GEC import protection against their chief competitors, Siemens and Merlin Gerin. (74)

The import duty on medium-voltage switchgear has risen to 15% from 5% and on low-voltage circuit breakers to 25% from 5%, Friday's Government Gazette reported. *Blom 12/2/91*

The application for extra duty was sup-

ROBERT LAING

ported by Hawker Siddeley, a local manufacturer of municipal 11kV switchgear, and Circuit Breaker International, the local manufacturer of low-voltage circuit-breakers.

A Hawker Siddeley spokesman said: "The duties will help companies who have invested in capital equipment to manufacture locally, but are undercut by French and German companies who have an oversupply at home."

SA trade with Angola 'soon'

By ANTHONY JOHNSON
Political Correspondent

ANGOLA could become South Africa's most important trading partner in Southern Africa in the next two years, the Director-General of Foreign Affairs, Mr Neil van Heerden, predicted yesterday.

Mr Van Heerden was speaking at a press briefing after wide-ranging talks with Angola's President Eduardo Dos Santos and senior Angolan government officials in Luanda at the weekend.

He said that Angola's rich Cabindan oil reserves had been raised as a bargaining chip during the talks but noted that buying oil from Angola had obvious advantages over buying oil on the expensive spot market in Europe.

Mr Van Heerden said his delegation had discussed improved economic co-operation in a variety of fields with the Angolan authorities and that prospects for progress were good.

Once reconciliation was achieved between the warring

Unita and MPLA, the gates for trade would be opened.

Mr Van Heerden noted that Angola was a rich country, and added: "I predict that in the next two years Angola is going to be our most important trading partner in Southern Africa."

Misgivings

The two-hour meeting with President Dos Santos and top Angolan government officials follows misgivings voiced by the Angolan delegation to the Joint Commission talks last month that South Africa was once again supplying arms to the Unita movement in violation of the 1988 trilateral agreement between South Africa, Angola and Cuba.

Concern was also expressed that there might be elements of the South African government bent on influencing Unita against reaching a peace accord with the MPLA government.

The parties agreed to deal with the issue on a bilateral basis and Mr Van Heerden and the Deputy Director-General for Foreign Affairs, Mr Rusty Evans, visited Luanda at the weekend to allay

Angolan misgivings.

Mr Van Heerden assured the Angolans that there was no question of arms being supplied to Unita by South Africa but that the South African government continued to stay in contact with Unita.

He added that the MPLA government appeared to accept that it was necessary for South Africa to keep her communication channels open with Unita if Pretoria was to act as a go-between in the peace process.

To allay Angolan fear about the transport of military hardware to Unita from South Africa, the South African authorities invited Angola to place officials at venues around the country to inspect departing flights.

However, the Angolan authorities have yet to take up the offer.

The Angolan authorities also voiced their concerns that members of Koevoet formerly deployed in Namibia had linked up with the Unita movement in south-western Angola.

The South African delegation urged the Angolans to talk directly with the Namibian government about the problem.

Foreign investors begin the long trek back to SA

Blom 13/2/91 *74*

LONDON — The world's investment managers are cautiously turning their attention back to SA as the country begins to slough off its image as a political pariah.

But funds are unlikely to come rushing back into the country that was once a lucrative haven for Western investment.

"In general, most people over a number of years have taken the view that they don't want to invest for political reasons," said Lyndsay Thomlinson, MD of the UK's BZW Investment Management.

Dismantling

Fund managers in many countries believe investment opportunities are set to open up in the country following President F W de Klerk's recent reformist pledges.

But they remain cautious about these and are steering clear of the country until their customers are convinced that it has fully dismantled apartheid.

"These (reform) developments look encouraging, but we want to see the complete dismantling of apartheid before we change our policy," said Claire Sheahan, second vice president at Teachers Insurance and Annuity Association College retirement equities fund, the largest pension fund in the US.

In the Netherlands, which has historically strong links with SA, fund managers are especially cautious.

Dutch fund managers said they will wait and see how quickly dismantling of apartheid proceeds, adding that they

want to wait and assess how their counterparts in other countries fare before they start to invest again.

Most Dutch pension funds, which are among the biggest in Europe, have investment committees that include representatives from workers and management.

Anti-apartheid activists used to demonstrate outside investment committee meetings of pension funds that held stock of Royal Dutch Petroleum Co.

As the biggest stock in terms of market capitalisation on the Amsterdam bourse, it is almost impossible for Dutch investment managers not to hold some Royal Dutch shares although demonstrations have made them careful.

UK fund managers are constrained by similar experiences and, like their counterparts in most countries, few were willing to be quoted on the subject.

A number of clients "absolutely ban South African investment," said one British fund manager. "Obviously I hope that attitude will change."

"There is value we believe if you assume, as we do, a fairly positive outlook for the SA economy," he added.

Government-imposed restrictions prevent fund managers in Japan from investing in SA and in the US legislation restricts pension funds from putting money there. But German and Swiss fund managers have few qualms about investing in SA. Many have already taken the plunge.

A number said they took up SA paper, especially bonds, in their portfolios several years ago in the hope that the

reforms would lead to an increase in value.

Now many are looking to reduce their holdings, they said, because the recent dramatic political changes mean the uptrend had probably peaked.

Holger Schmitz at Fiduka Depotverwaltung gmbh, a German investment fund, said SA government bonds make up about 5-7% of its fund.

Schmitz said Fiduka put the SA paper into its fund over a year ago, noting the differential between the financial rand and the commercial rand, coupled with high yields, had made the bonds very attractive investments.

'Positive'

"We bought this paper when no one wanted it and are more than happy to sell it now that everyone wants it," Schmitz said.

A spokesman for a Swiss mutual fund that invests in gold mining stocks called the recent developments in SA "very positive".

"We are seeing a gradual reintegration of SA into the world economy. At the moment investment is going into short-term instruments, as SA interest rates are high, and there is certainly interest in SA bonds," Trevor Blench, Geneva-based partner at Johannesburg broker Edey Rogers & Co Inc, said.

"As the prospects for the southern Africa region pick up over the next 10 years, there will be tremendous scope for SA industrials because SA is the springboard for development in that region," he added. — Reuter.



Iscor 'will not flood markets after sanctions'

BLP 15/2/91 24

JOHN CAVILL

LONDON — Iscor has promised not to flood the European market with SA steel exports when sanctions are lifted, says an editorial in the Metal Bulletin published here yesterday.

The bulletin says EC and US consumers "are likely to place immediate orders" for SA steel "which enjoys a reputation for quality to easily match European standards".

But, it says, "the ease with which Iscor, Highveld and Middelburg could slot back into the international steel market" raises problems for the balance between the US and EC. Also, EC steel producers — led by Germany — are faced with a 3% drop in European consumption and are opposing the renewal of import quotas for Brazil, Eastern Europe and "excessive liberalisation of their market to third-country imports".

"SA's steel producers are aware of the potential threat and Iscor in particular has sent out an early signal that ... exports will trickle rather than flood into the EC" when sanctions end.

"Iscor, which claims not to have lost a tonne of sales through sanctions (but which has had to turn to some less favourably priced markets such as South America) will also be con-

cerned not to lose hard won custom in the Pacific Basin," it says.

Highveld, however, has a different approach. "Unlike Iscor, Highveld makes no bones about the potential bonanza the lifting of sanctions could turn out to be. The company would like, as soon as possible, to export at least the 150 000 tons a year it sold in the EC and US before sanctions were imposed," says the bulletin.

It points out that the ending of export subsidies — to offset the difficulties of the trade embargoes — puts SA in a strong position to meet international free market standards.

Once SA is fully back in the world steel trade, however, the way will be open for American and European producers to extend the trend of international joint ventures to the republic. "The Columbus joint venture in stainless steel is an obvious candidate for a future US or EC partner after its failure to get off the ground with a Taiwanese partner last year."

This could take years to bear fruit. "Potential investors will want assurances that Iscor, for example, is not renationalised as part of a future SA political settlement," says the bulletin.

FM 15/2/91

74

TRADE FAIRS

GATEWAY TO THE EAST

SA exporters are making increasing use of German trade fairs as a gateway to Europe, particularly eastern Europe, says Herbert Weicke, executive manager of the SA-German Chamber of Commerce & Industry.

Those getting the nod are the ones held in Düsseldorf, Frankfurt and Munich, which have never excluded SA participation — unlike those held in Cologne and the enormous Hanover Fair.

But, Weicke says, the organisers of the Hanover Fair are already reassessing their negative attitude to SA, which was forced on them by two political groups — the Greens and the Reds (socialists). Both groups have a major say in the governments of the city of Hanover and the province of Lower Saxony, which have shares in the fair.

Weicke says 19 SA companies exhibited at a recent fair in Frankfurt and 12 have already booked space for PaPro 91, three more than exhibited the last time that fair was held under the name of PacPro 88. He predicts there's likely to be a flurry of last minute reservations. PaPro, to be held in Düsseldorf in May, caters for the US\$335bn a year worldwide packaging industry.

The SA companies will be competing for business with an estimated 600 exhibitors

from more than 25 countries, but Weicke believes they will do well.

He reasons that because SA technologies and products are not as hi-tech as those developed in Europe and the US, they should be ideal for eastern European countries just emerging from technological hibernation.

On a visit to SA to find more exhibitors and entice visitors, PaPro president Rolf Meyer noted that at big trade fairs the whole world becomes the market. But he warned that they do not solve many of the problems that are associated with dealing with eastern Europe.

"They weren't ready for the change-over from symbolic to real trade, so no one really knows who owns what in their countries and no one knows who is really running the factories, so it is very difficult to do business there."

Oy Ystävyysmatkat Friendship Tours, headquartered in Helsinki, Finland, has seized upon a market opportunity in eastern Europe and has tied up an arrangement with SA Airways and Travelcor of Cape Town. In addition to promoting SA tourism to eastern Europe, particularly Russia, it plans to facilitate trade by holding short seminars to teach SA business people the niceties of trade with the East Bloc and help them in their dealings.

Andrei Ivshenko, deputy MD of Oy Ystävyysmatkat, says many Western business

people who tried to trade with the east failed because they didn't realise there is no common language, they didn't understand the business culture and could not handle the legislation. "So they need someone who knows what is going on to help and guide them." ■

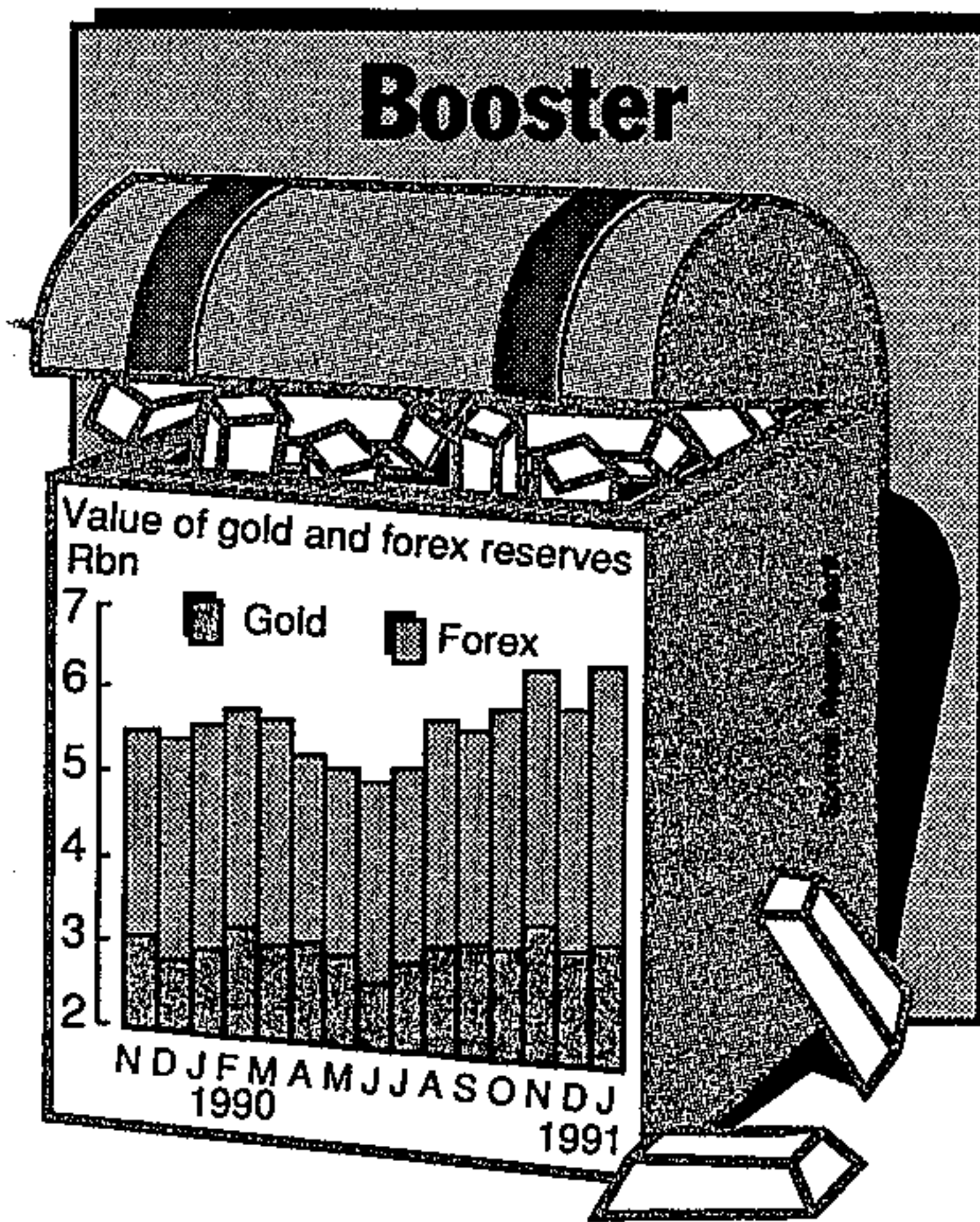
BALANCE OF PAYMENTS ⁷⁴

FAVOURABLE FLOWS

FIM 1572191
1990 saw an increase in official reserves of R3bn. Reserve Bank Governor Chris Stals estimates the surplus on the current account was R5,8bn — the sixth consecutive annual surplus; while the capital account benefited from a decline in total net outflow from R4,3bn in 1989 to R2,5bn — the lowest net capital outflow since the debt standstill was introduced in 1985.

As a result, the rand more than held its own against the basket of currencies in 1990.

In January, the level of official reserves rose to R6,7bn (\$2,6bn) from R6,2bn in December. Gold holdings increased from 4,1m oz to 4,4m oz, while the value per fine oz fell from R886,42 to R852,96. The value of the holdings rose to R3,7bn (\$1,5bn) from



R3,6bn and the value of other foreign assets climbed to nearly R3bn (\$1,2bn) from R2,6bn. ■

EXPORT POLICY

FROM PILLAR TO POST

FIM 15/2/91

74

Exporters of manufactured goods can be forgiven for feeling that they are paid little more than lip service by government. From the way trade and tariff policy issues have been handled, government doesn't seem convinced of their importance to economic growth. Some examples:

- Industrialists now await the appointment of the fourth minister of trade & industry in as many years (before Kent Durr, who departs in April, Dawie de Villiers and Danie Steyn filled the portfolio;)
- After the Board of Trade & Industry had spent four years devising structural adjustment programmes for various industries, they were thrown out in September 1989 by the new Trade & Industry Director-General Stef Naude, who substituted the general export incentive programme; and
- The incentive programme has run out of funds and exporters must accept promissory notes of up to two years in lieu of cash, which they then have to redeem with banks at a discount. "This incentive is now seen as the jam on top — not as a device to change structurally the focus in industry towards exports," says Middelburg Steel market development manager Jonty Kirkman.

The SA Chamber of Business has for the past year worked on producing a data base for industry as the first step towards developing its own industrial strategy. The second phase, an analysis of the competitiveness of different sectors, may finally start next month, says the chamber's deputy director-general Ron Haywood. He denies that the chamber is re-inventing the wheel, after similar in-depth studies by the board. "We are taking a global view to highlight areas of comparative advantage for the manufacturing sector based on a co-ordinated approach involving the private and public sectors, as well as organised labour."

Chamber director-general Raymond Parsons adds: "What we are looking at is devising an integrated industrial strategy, which might include a combination of export incentives and tariff measures."

While the chamber continues its study, the debate between the two major schools of export promotion policy is hotting up as government begins to re-evaluate its tariff policy (*Business* February 8).

Chief proponent of the structural adjustment programmes is board chairman Lawrence McCrystal, who says this approach has proved highly successful in the Pacific Rim.

"They are targeted and can be easily understood by the private sector," he says. "If money is involved, cost and measurable benefit can be determined, while the whole programme is focused on export promotion. Much can be achieved by simply reviewing

tariffs and no subsidies are necessary. The programmes have milestones to be achieved and a sunset clause leads to termination."

McCrystal's arguments that taxpayers' funds need not be used to subsidise exports are important when viewed against the cost of export promotion. Deputy Director-General Gerrie Breyl says taxpayers will fork out R565m in direct subsidies under the old A & B subsidy scheme in the year to end-March, while another R46m will be paid in electricity subsidies and R113m under the motor industry's Phase Six incentive scheme.

McCrystal has maintained that the new General Export Incentive Scheme, which came into operation nearly a year ago, could cost taxpayers much more.

The open-ended incentive scheme — aimed at promoting the export of manufactured goods with maximum local content — now involves the issuing of promissory notes by the Department of Trade & Industry. "But within the next three years we should be on a 100% cash basis," Breyl says.

While Naude is adamantly against the structural adjustment programmes, which he sees as administratively too cumbersome and complex, three existing structural adjustment programmes seem to indicate otherwise.

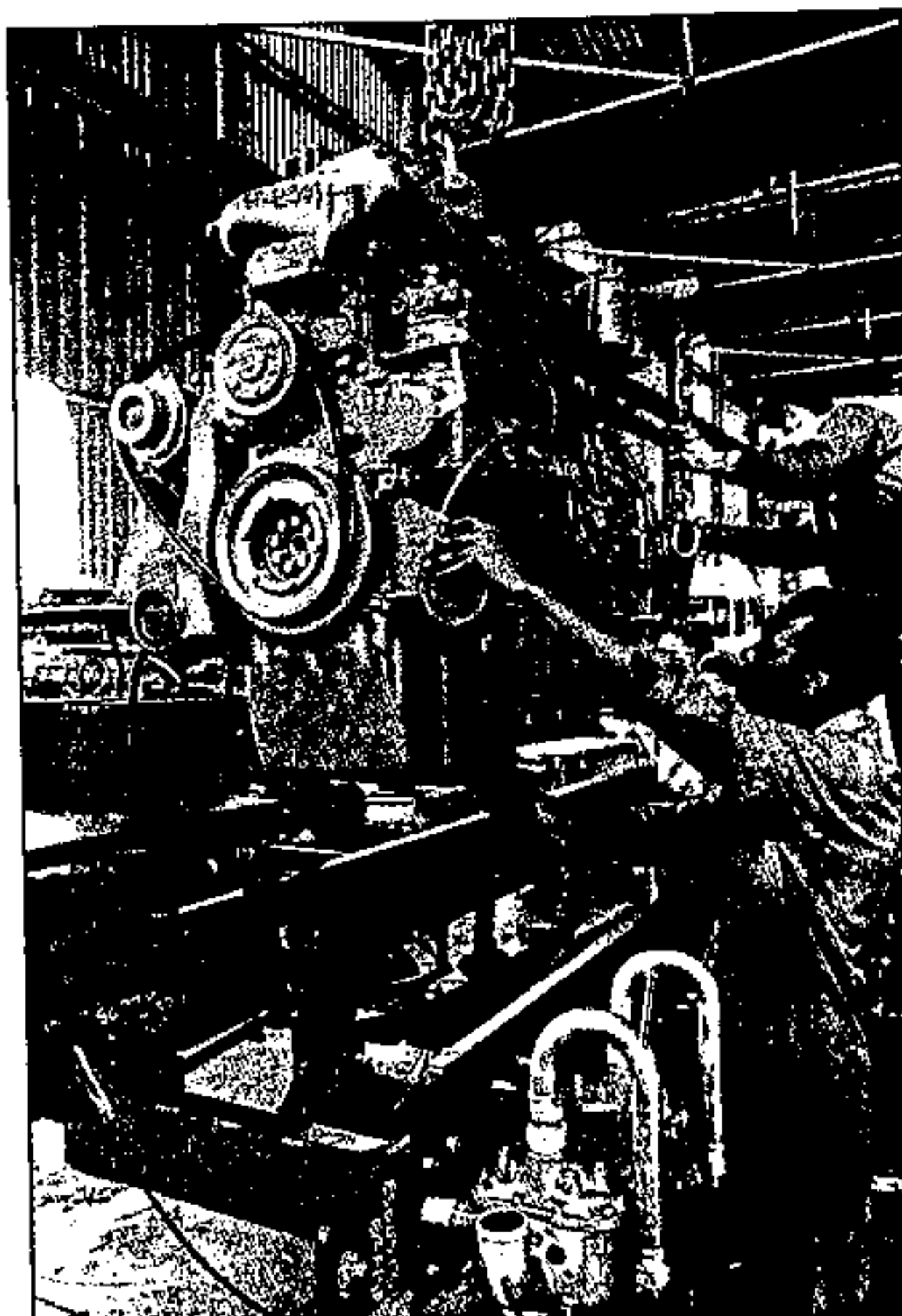
In the case of the car industry's Phase Six scheme, exports have soared from about R40m three years ago to an estimated R600m last year. Not surprisingly, industry leaders such as Samcor CE Spencer Stirling

support the programmes. He is critical of some of the administrative problems with the scheme but cannot fault the concept.

"The Phase Six value-based local content scheme has focused the industry's attention on exports — and the results are there for all to see," he says.

Similar sentiments are expressed in the clothing and cable industries. Clothing Federation executive director Hennie van Zyl expects about 30% export growth this year, while the five leaders in the electric cable industry have formed a joint export company that is obtaining export orders and then asking each of the five companies to tender for the order.

Aberdare Cables MD Peter Wilson says: "Enthusiasm in our industry for exports has never been this high." ■



Motor industry . . . exports of parts are booming

Cape fruit exports soar by record 39%

By AUDREY D'ANGELO
Business Editor

EXPORTS of fruit from Cape Town harbour soared by 39% last month to 1 012 869 tons compared with 728 663 tons in January last year.

And sales of Cape fruit to Holland have increased five-fold as a result of changing attitudes towards SA.

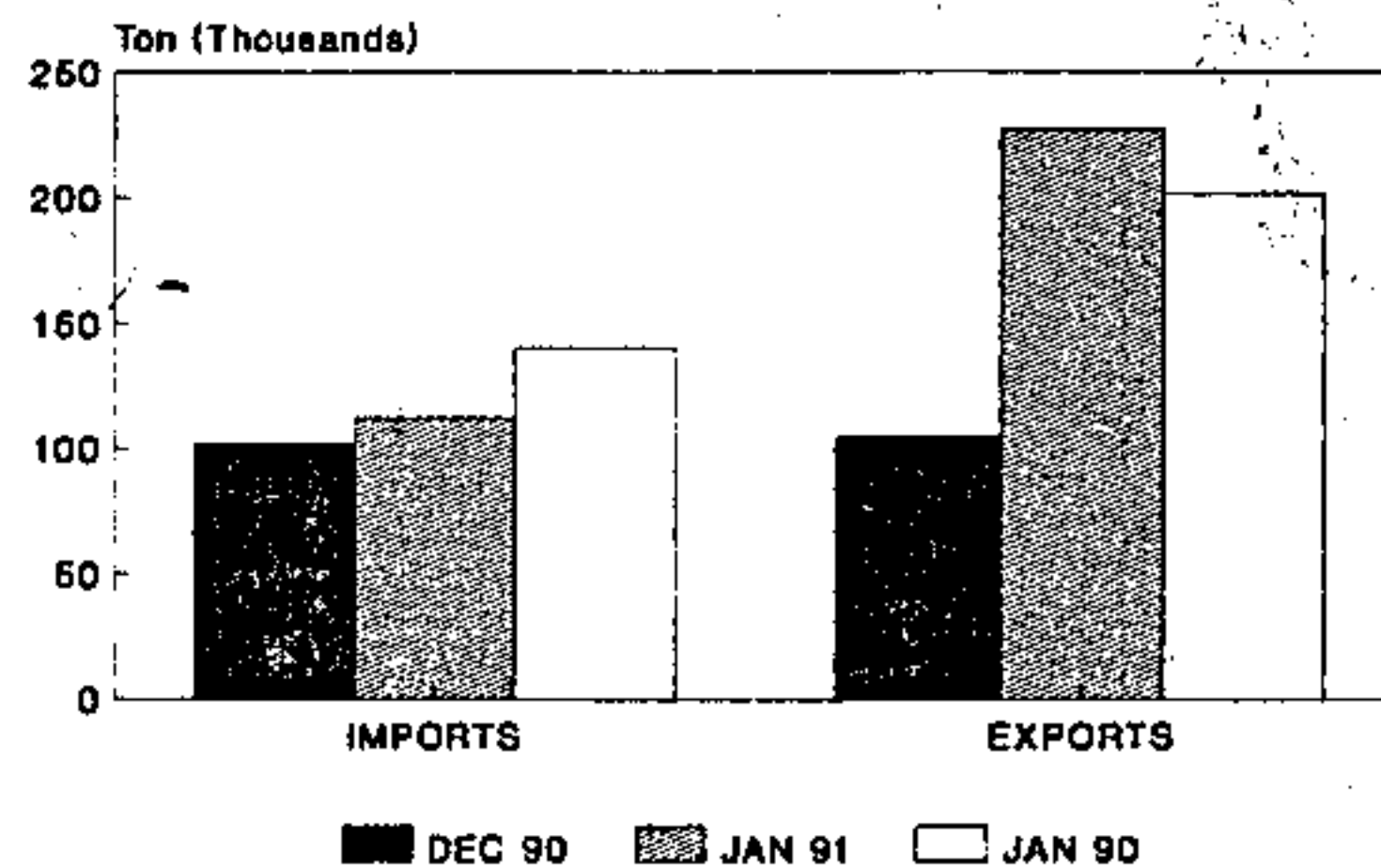
But Louis Kriel, CE of Unifruco — which markets deciduous fruit overseas — warned yesterday that this did not mean Western Cape growers could expect another year of record earnings.

He said the apple and pear crop had been damaged in some areas by hail and rain. And although prejudice against SA was disappearing as a result of political change and new markets were opening up, the Gulf war, economic downturn and unusually severe winter in Europe were all factors militating against higher fruit sales.

"I am telling our growers to expect results somewhere between the excellent ones we enjoyed last year and the average ones in 1989."

Kriel said the higher tonnages of soft fruit now being shipped were due to the early

PORT OF CAPE TOWN
IMPORTS-EXPORTS



Exports from Cape Town Harbour last month rose by 12,6% to 227 125 tons compared with 201 674 tons in January last year. Fruit exports alone rose by 39% to 1 012 869 tons compared with 728 663 tons. Imports fell by 20,2% to 112 009 tons compared with 140 294 tons in January last year.

season. "It started 14 days early."

Even allowing for that, exports of soft fruit are 20% ahead of last year. "But apples and pears are our main crop and it does not look as if it will be as big as we had hoped."

"However good our marketing, we must have the fruit to sell. There has been hail in some parts of apple growing country and rain has spoiled some of the crop."

Kriel has just returned from Britain and Continental Europe where, he said, the airports were deserted, there were clear signs of recessionary tendencies and "the street markets which usually tempt people to buy fresh fruit are deserted because of the weather."

"There is a nervous undercurrent because of the Gulf war. Most major companies have banned their executives from travelling because of the danger from terrorists."

But on the credit side, Kriel said, attitudes towards SA had changed, particularly in Holland where sales of Cape fruit had increased five-fold. "Holland used to be the most politically sensitive market. Now it seems likely that the Benelux countries — Holland, Belgium and Luxembourg — will become our third largest market in Europe."

Although European and US executives have cut down on flying, Kriel said that he and his executives "will not allow Saddam to stop us carrying out our responsibilities."

In addition to travelling themselves, they had invited people in the trade to visit the Cape from Germany, Switzerland, Austria, France and Holland.

"Although some of them cancelled their visits about 200 came. We showed them the fruit industry, including standards of packaging and hygiene and social conditions on the farms."

"They were impressed. Normally people who come on these visits go back as unofficial ambassadors for this country."

Chances galore open up

74
S. Times 17/2/91.

FEW COUNTRIES have similar export opportunities opening up to them as South Africa has, says Safto area manager for Africa and Latin America Martin Smith.

His "group visitor programme" last year included three trips to South America, two to Zaire, one to Ivory Coast and several to Mozambique.

This month alone he is visiting — either on his own or in parties — Morocco, Kenya and Angola (to which two 10-member parties are going). A 36-page survey of Kenyan markets is to be published.

In April, a buying mission of five from South American countries — including Venezuela, where sanctions are still applied — will be in SA. They are particularly interested in plant and machinery, fertiliser, electrical cabling and chemicals.

Export project service manager Mike Veysie says exports of white goods and steel pellets to Eastern Europe have followed an exhibit at Hungexpo in Budapest last May and June and two group visits to Hungary, Czechoslovakia and Poland.

"I believe Eastern Europeans are interested in South Africa because some of them have had experience on aid projects in Africa — and in business we're the jewel of the continent."

Asia department manager Graham Limerick was responsible for taking 11 company representatives to Thailand and China last November — "and all did business".

Perishables on way back as lean times go

SOUTH AFRICA's perishable produce exports labour under the heaviest trade burdens of all.

Director of Perishable Cargo Agents John Diviani lists the factors which have curtailed growth in exports:

- Sanctions, plus consumer boycotts which are still in effect in some EC chainstores;
- Lack of tariff preferences in the EC, whereas little or no duty is paid by other producing countries, particularly those that benefit under both the Lome Convention and the Generalised System of Preference;
- The fuel-induced increase in airfreight charges on which EC import duties must be paid, giving further advantage to Lome Convention producers. For many agricultural products exported to Europe by air, the freight costs exceed the fob value;
- SA's status in Gatt as a developed nation.

Mr Diviani says: "Sheer quality and consistent reliabil-

ity have brought us through. We enter exciting times because of the changes that are coming about. The lifting of sanctions by the US and Scandinavia will increase our export volumes."

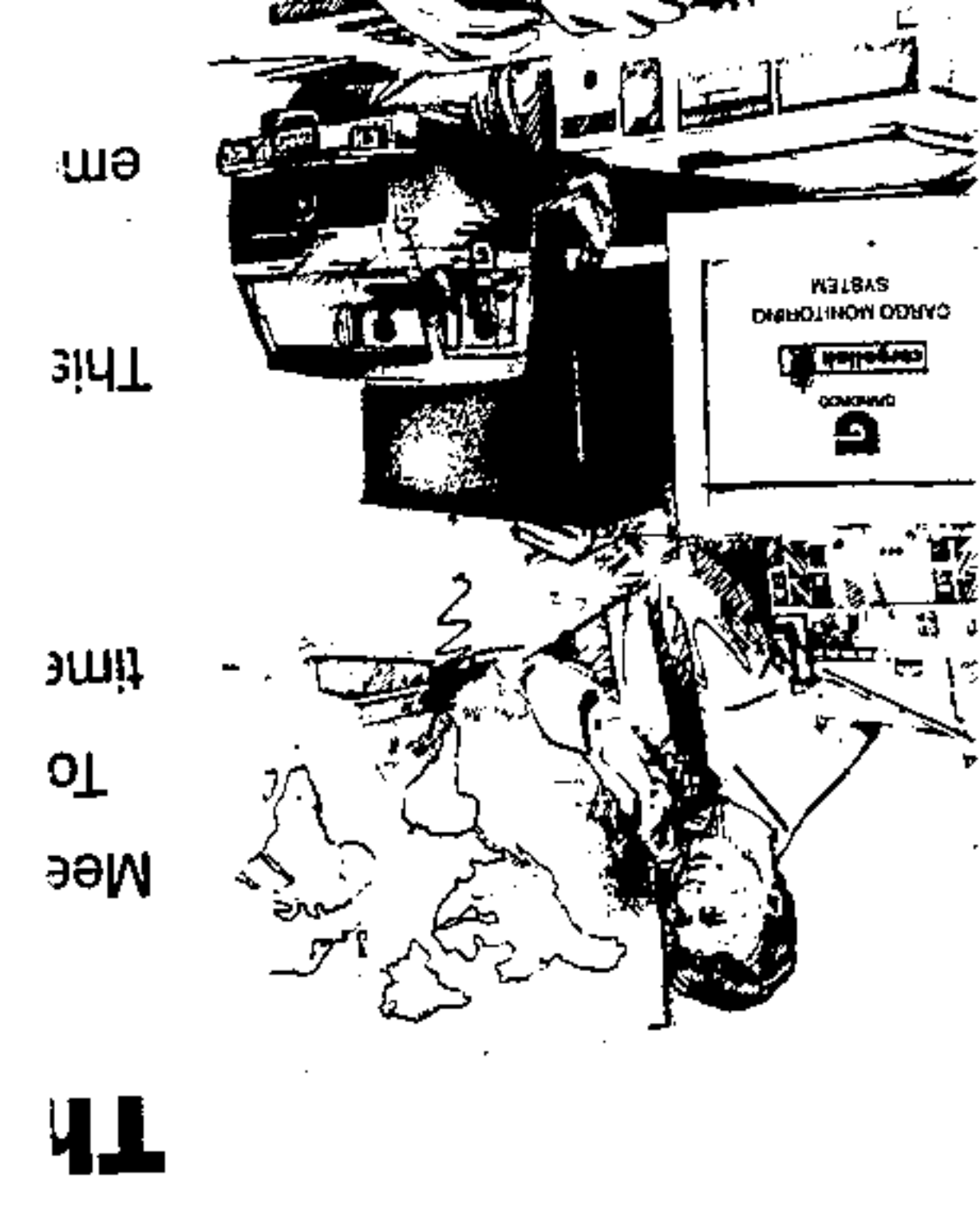
The Far East is opening up as a promising market off an extremely low base. SA fresh flowers and live lobsters have been particularly successful in Japan and Taiwan.

Benefits

One-time African markets, such as Kenya and Angola, for apples, pears and many other foods are likely to reopen. Huge benefits are possible if airfreight capacity over Africa is co-ordinated because "much of it is now underused".

"To remain price competitive and to keep ahead of our southern hemisphere competitors, such as Chile, Brazil, Australia and New Zealand, it will be necessary to have greater flexibility in arranging freight capacity both by sea and air," says Mr Diviani.

Let us give you the competi
 promoting your exports.
 Telephone International Pro
 (011) 632-2582 or (011) 632-2
 information.



TH

339-41

BURLING
 OCEAN EXP



THE ABSENCE of large trad
 ates a niche market in South A
 chalist options.
 That logic underlies the
 year of PW (Price Waterhous
 al Trading Consultancy.
 Director Bob Cole reasons:
 to advise on structuring for e
 action, relating export deals
 export incentive scheme (S)
 payment and the most adv
 toms, freight and forwarding
 "Who else should that be b
 ed service organisation close
 trader's auditors and acc
 major difference between o
 trading house is that we do n
 accountants

Barriers to East Europe business

ST Times 17/2/91

By DON ROBERTSON

THERE are "exciting possibilities" of two-way trade between SA and Eastern Europe, but it is unlikely to develop for several years because serious issues will have to be resolved.

Michael Dieckmann, managing director of West German-based freight forwarder Lassen, who visited SA for discussions with Renfreight Management, says the "revolution, liberalisation and privatisation" in Eastern Europe in recent months has gone apace at different levels in different countries.

Last June, Lassen linked with LEP to form LEP-Lassen GmbH following the acquisition of former State-owned East German forwarding company Deutrans.

This has given LEP-Lassen an increased interest in Eastern Europe.

Rapidly

A second company, LEP-Lassen Grenz Service, has been established to handle operations at border points.

LEP represents Renfreight's interest in Europe, the Americas and most of the Far East.

Mr Dieckmann says industrial development in eastern Germany, Hungary, Czechoslovakia and Poland has improved rapidly, but Bulgaria, Yugoslavia, Romania and Russia have not kept pace.

Mr Dieckmann says that

what is needed in these countries is a convertible free currency, production increases, more private investment, particularly in property, labour training and improved transport.

Mr Dieckmann says trade in Eastern Europe is conducted through a convertible rouble, which the German government guarantees at 2,8 marks for one convertible rouble until the end of the 1990s.

"After that, nobody knows what will happen. It has also resulted in a number of foreign-currency scams."

Private investment is also needed. Although several companies are interested, they insist on higher production.

Mr Dieckmann says land ownership is a major issue.

"The Treuhand, a public service group, has taken on about 8 000 companies and is deciding which to sell, which to close or which to promote.

"There is an additional problem of people asking

for property, which was confiscated after the World War II, to be returned."

Although there are sufficient trained and professional people in Eastern Europe, they are not profit oriented and this will take considerable time to nurture. Transport also needs considerable improvement.

"We have tremendous opportunities in Eastern Europe and as a result so does Renfreight, but there are still many problems to be resolved.

Bonds

"Whereas we had political refugees flowing to the West as a result of the Iron Curtain, we now have economic refugees," says Mr Dieckmann.

"Germany will have a 'household debt' of 80-billion marks this year as it also has commitments to Poland and other countries. It will not be able to meet this and other Western countries will have to assist."

PORT GORDIAN KNOT



Hazardous loads pose a problem

STimes 17/2/91. 74



ALAN COWELL: Proper definition needed

THE SOUTH African exporting community is facing problems on two fronts.

Most seriously affected are container loads which include any quantity of substances which could be hazardous if not packed correctly and certified.

SA chemical and other companies are exporters of such products and they could be turned away by shipping lines or foreign ports.

Actual packaging has to carry codes showing it has been tested and accepted by the SABS, the certifying authority in this country.

Containers must be accompanied by a "dangerous goods packing certificate" given by the person or company responsible for final loading and sealing.

Risk

"Our problem," says Southern African Association of Freight Forwarders director Alan Cowell, "is that the International Maritime Organisation (IMO), which lays down the rules for international transport of hazardous substances, has not defined precisely what that certificate must state.

"The latest amendments to the rules came into effect on January 1 after being promulgated in the middle of last year.

"There is a risk of problems if port and transport authorities — starting with the railways here, but including foreign authorities and ports — operate by the book."

The second problem arises from

what Mr Cowell describes as rogue legislation pushed through by the US Congress against the wishes of the White House.

From February 14, foreign operators who "group" consignments in containers will be subject to three requirements US operators have had to meet for the past five years.

These are: filing with the Federal Maritime Commission the tariffs they charge customers; raising a bond on a rising scale which starts at \$50 000 as security against claims; and appointing a representative in the US on whom legal processes can be served.

"One accepts that perhaps there are some irresponsible non-vessel-owning common carriers, or NVOCCs as they are called. But they have to be rare when claims worldwide in 1989 totalled a minuscule \$3-million," says Mr Cowell.

"All reputable NVOCCs are members of the Through-Transport Mutual Assurance Association, an insurance body known as the TTC (the C standing for club), and cargo owners are therefore fully protected."

Much as they dislike the high-handed US action, the 12 or 15 companies in SA which carry out "groupage" for the international routes, will meet the requirements, says Mr Cowell.

"However, those larger freight forwarders have also been grouping for smaller ones, who nevertheless issue their own house bills of lading — which make them liable to the US requirements. We may see those op-

erators being forced out of the traffic to the US."

Mr Cowell welcomes the international rules for transport of hazardous substances — "one has to remember that container ships don't have their own derricks as the old cargo vessels did, and they are unable to get rid of a container which presents a hazard.

"We know how vulnerable aircraft are."

Most hazardous airfreight is likely to be in total packages certified by the SABS — "which has been doing a sterling job".

Drums

SA Airways cargo operations manager Clive Watts says no serious problems have arisen as far as he is aware.

SABS packaging division manager Roger Titlestad says 177 items have been passed for the international code of both the IMO and the International Air Transport Association, Iata.

"Note codes are for free-standing drums or combination packaging — no cardboard box on its own will need to be certified."

Fortunately for SA, says Mr Titlestad, the UN rules come into effect as attitudes towards trade with this country are easing.

"The codes which approved packaging must carry include identifying letters of the country of origin — in SA's case ZA."

Out in ⁷⁴ the cold, but not ignored

SOUTH AFRICA need not feel ignored because it is not included in a freight-tracking system being developed for Zambia, Malawi and Tanzania.

The message comes from Unctad (United Nations Council for Trade and Development) headquarters in Geneva. However, freight sources in Johannesburg believe that because a considerable portion of the exports and imports of Zambia in particular go through South Africa, no freight-tracking system will make sense while SA is excluded.

Tracking

Unctad shipping division senior adviser Coll Hunter says: "The system is still in its pilot stage, with software being developed. We have talked to freight forwarding companies operating in the SADCC countries and I have no doubt that in due course we shall talk to Transnet."

"We envisage that one day at Beit Bridge there will be interchanging systems in Zimbabwe (which also still has to join the pilot scheme) and South Africa." Spoornet has a sophisticated computerised operating control and information system known as Sprint through which all rail traffic movement is recorded, thus providing accurate freight tracking. This system has been in operation for 15 years. Although freight inquiries are still limited in a facility provided to Sprint for freight forwarders is being tested.

Incredible

The pilot system, says Mr Hunter, is a multi-site, microcomputer-based one suitable for countries traversed by long railway lines. The net effect is that one can walk into the control room at Malawi Railways and determine the whereabouts of any wagon and its consignment. In Johannesburg, Ren-geric planning manager Peter Hollard says: "It may sound incredible, but this group's companies are possibly handling up to 70% by volume of the entire Southern African sub-continent's exports. "Something like 4-million tons of copper, minerals and other bulk exports from our countries to the north transit our warehouses in Port Elizabeth, Durban and East London each year. "It makes sense for even a pilot exercise concerning freight tracking on the sub-continent to have some input from us."

Freight takes back seat

STimes 17/2/91

COSSETING of SA Airways, overemphasis on air routes for passengers and the institution of more and more direct flights to far destinations are costing the country dearly, says Johannesburg Chamber of Commerce and Industry past president Pat Corbin. He hopes the reviews of international aviation initiated by the Directorate of Civil Aviation last year will result in more competition and will divorce cargo from restrictive passenger flight legislation. Since 1949, State policy has been directed at promoting the national airline — frequently at the expense of the total economy, says Mr Corbin.

"Restrictions on our airfreight operation, particularly in the past 15 years, have resulted in loss of foreign-currency earnings on exports of billions, not millions.

Evidence

- "The lost opportunities are particularly in Africa and the lucrative Persian Gulf markets where we have an airfreight cost advantage over our competitors.
- "Airfreight is unidirectional with large directional imbalances on many routes.
- "This indicates the unsuitability of passenger-driven routes for efficient freight movements."

Mr Corbin says conclusive evidence to this effect was presented to the Margo Commission of inquiry into aviation by organised business led by the Johannesburg Chamber of Commerce and Industry in 1979.

But it was ignored by the Government, probably because of SAA's dominant influence at the time.

"The trend to direct flights to Europe for passenger convenience is resulting in many tons of extra fuel being carried in place of freight," he says.

The SA traders' and forwarders' tendency, after years of restrictive transport legislation, is to adapt the export effort to the trans-

port on offer. **74**
 "But the function of transport is to facilitate and not frustrate the trade transaction."

Leap

"An acceptance of this fact will bring many challenging opportunities. Fortunately, the Government has acknowledged that current aviation legislation is not in conflict with its policy — the promotion of private initiative and competition.

"SA businessmen should anticipate trading conditions in Africa, and further afield, as being normal and leap ahead of the politicians," says Mr Corbin.



PAT CORBIN: Billions lost

Mining equipment offers opportunity

8 Times 17/2/91

IT IS clear from several interviews that prospects of exports to Eastern Europe are not ranked high.

However, London-based Soviet Marketing, which now has an office in Auckland Park, Johannesburg, targets an SA mining suppliers' brochure to foreign-exchange earners in Eastern Europe.

Project manager James Darnborough says: "Our experience, dating from the seventies, tells where the hard currency is held and enables us to cut bureaucratic corners."

"We have about 40 participants in the mining equipment guide, which is specifically South African, and about 200 a month in our general guide, which includes companies from all over the world."

"We believe the USSR and Eastern European countries have requirements which are best sourced in South Africa."

Concise

"SA companies need to gain initial footholds in what must turn out to be some of the fastest-growing economies around — even in its troubles, the USSR's gross national product is 10 times this country's."

"Also remember that the five-year plans they continue to be fond of mean long-term business."

Flamboyant advertising is out — the buyers don't like it — and companies are asked instead to provide concise descriptions of their



JAMES DARNBOROUGH: Accounting practices unknown over there

products and operations.

Mr Darnborough says good results have already been achieved for products like trackless vehicles and mining props.

"If we can help generate hard earnings for, say, Czechoslovakia's chemicals, aircraft, machine tool and hunting rifle industries, we can hope to sell minerals and agricultural products," says Price Waterhouse International Trade Consultancy director Bob Cole.

"When it comes to merchandise exports, one must understand that, while there isn't the poverty found in our

black townships, Czech wages and living standards are low. They would like the sort of products white suburbia here absorbs, but they don't have the money."

At a hotel in Prague he observed how the "man from the (central) bank" is a vital cog in a command economy. Such a gentleman handed over from his bag the wages of the hotel staff and loaded into it the hotel's takings — clearly without anyone knowing or caring whether the hotel was paying its way. "The auditing and accounting profession as we know it doesn't exist."

By

THE sibil trade East unlik severe rious reso

Mi agit Gerr wart SA f freig the tion East mor diffe cour

L with sen quit ow for tra

7 sen Ea

La be op

fr th th

di es C h B R m

CUT THE EXPO

Doors open to Far East and Europe

S/Times 17/2/91
74

THE DEPARTMENT of Trade and Industry has established a separate directorate to explore and develop non-traditional markets in Central and Eastern Europe and the Far East.

The Directorate of New Markets and Countertrade was established in April 1990.

Great progress was made in 1990, says Director-General Stef Naude. Trade agreements were signed between SA and Hungary and Romania.

Normal

In the past year the minister and senior officials from the department visited Central and Eastern Europe, at times accompanied by representatives from the private sector.

High-level delegations from several countries, including the Soviet Union, Romania, Poland and

Czechoslovakia, visited SA and were introduced to representatives of a wide range of private and official organisations.

Dr Naude says SA trade relations with Hungary were normalised last August when an agreement was signed. It provides for the import of Hungarian goods free of surcharge.

Showgrounds

Hungary officially abolished its trade embargo against SA. A Hungarian trade representative has been stationed in Johannesburg since last November and an SA trade official will go to Budapest shortly.

A trade agreement between the Polish National Chamber of Commerce and the Northern Transvaal Chamber of Industry was signed in April 1990 and trade officials were exchanged.

Before this agreement Poland announced its abolition of the trade embargo against SA.

A successful Polish trade exhibi-

tion representing 40 companies was held at the Pretoria showgrounds last November. The Department intends to take part in the Poznan Show in July.

An official trade representative was established in Warsaw on February 1 this year.

A trade agreement between Romania and SA was entered into last October. It provides for the development of economic and commercial relations as well as a joint committee of representatives of the two countries.

A Romanian trade representative is stationed in Pretoria. The appointment of an SA trade representative in Bucharest is being considered.

The mission to the USSR and the visit of the Soviet delegation to SA have contributed significantly to the normalisation of trade relations between the two countries.

The USSR offers a huge market for SA products and the Department has appointed a commercial correspondent in the Soviet Union to help SA exporters.

A series of mutual visits took place between SA and other countries in Central and Eastern Europe with a view to opening markets and normalising trade relations.

These visits contributed to the process of normalising trade and trade relations between SA and Bulgaria, Yugoslavia and Czechoslovakia last November. They also contributed to improved trade relations and to making this market, to which high priority is granted, more accessible to SA business.

Progress

A SA trade representative will be placed in Prague soon.

Endeavours to normalise trade between SA and South Korea, China, the Philippines, Thailand and Singapore were continued.

Significant progress was made and the department has the services of commercial correspondents for the Philippines and Thailand who can help exporters.

FOREIGN TRADE — THE FUTURE

Decks cleared for export drive



STEF NAUDE: Foreign investment a key to market success

IT IS essential that exports of manufactured goods particularly be increased if the economy is to be placed on the growth path needed to raise the standard of living of all South Africans.

Trade and Industry Director-General Stef Naude says that although manufacturing capacity is not used to the full in many industries, increased production facilities will have to be made if SA is to become a leading exporter of manufactured goods.

Before one can expect any noticeable increase in investment in plant and machinery, it is imperative that the overall investment climate in SA should improve.

Dr Naude says: "The removal of major obstacles to investment, such as interest group violence, high tax-

ation and expensive capital goods, needs to be dealt with urgently."

The Department of Trade and Industry is actively engaged in attracting foreign investment. Its trade representatives abroad are required to place a strong emphasis on attracting investment to SA.

Priority

At the department's trade office in Bonn, for instance, a retired industrialist has been appointed to secure much-needed investment.

In 1990, several delegations of leading foreign industrialists visited SA to gain knowledge of the investment potential. Similar delegations are expected this year.

Dr Naude says the promotion and expansion of SA's exports remain one of the department's priorities.

The department's foreign trade branch has been restructured and streamlined to provide an improved ser-

vice to exporters. An export centre has been established at the department's head office where officials with years of trade experience abroad help exporters with advice and information.

The department also has a sophisticated databank from which information about foreign markets as well as SA product potential can be obtained swiftly.

more "hands-on" approach than previously. They play an increasingly important role in facilitating negotiations between SA exporters and foreign importers.

Trade representatives no longer act merely as "matchmakers" between the parties to a transaction, but play an active role in identifying the most suitable foreign manufacturers, industrialists and importers.

Dr Naude says they often remain involved right up to the point where final agreement is reached and a contract is signed.

"The increasingly important role which the overseas representatives play in negotiations, involving large capital projects cannot be overemphasised," says Dr Naude.

The trade representatives

follow a performance-oriented approach whereby all their projects and actions are aimed at achieving tangible results. This approach has resulted in a marked increase in export breakthroughs to new outlets as well as an increase in the flow of foreign investments to SA.

On the home front Minister Kent Durr, Deputy Minister Theo Alant, Dr Naude and other senior officials are promoting an "export culture" among the business community.

In terms of this action plan an extensive programme of visits is undertaken to establish contact with the top management of the larger companies in SA.

Dr Naude says that according to feedback from many of these firms favourable political developments in SA have contributed in no small measure to the restoration and expansion of trade ties with business contacts abroad.

The new general export incentive scheme — GEIS — has been designed to stimulate increased exports of especially manufactured goods.

GEIS is not intended merely as a handout, says Dr Naude. On the contrary, it encourages manufacturers to enter the export market with products of high added value and local content and to increase their shipments abroad.

He says SA's traditional markets — mostly high volume and low risk — remain important. Many of these countries still officially maintain economic sanctions against SA.

A more positive attitude to SA however has become common and is no longer the exception.

The private sector has begun preparatory talks with business partners abroad in order to renew export contracts in anticipation of normal trade links once sanctions have been formally lifted.

SOUTH AFRICANS will not be a nation of merchandise exporters until they do more than try to sell abroad, says the deputy chairman of Burlington Air Express and Uniserv, Barry Saxton.

"They have to go abroad looking for products to make here, so exploiting larger markets. It is particularly important to move into high-volume exports using partially skilled workers, as Taiwan and South Korea have done."

"The more we build exports, the more we reduce costs because the supporting community subsidises exports."

Support in depth is available from the freight forwarding industry, says Mr Saxton. Burlington is sounding out customers about "bringing them on line to our computer, as is being done internationally."

The group uses a computerised voice-mail centre in Los Angeles.

"Instead of wasting time trying to reach people, you leave a message at the centre which they routinely phone a couple of times a day."

He says freight forwarders have a wealth of management information for corporate teams.

South Africa will have established itself as a merchandise export nation when it has a leading role in facilitating negotiations between SA exporters and foreign importers.

Trade representatives no longer act merely as "matchmakers" between the parties to a transaction, but play an active role in identifying the most suitable foreign manufacturers, industrialists and importers.

Dr Naude says they often remain involved right up to the point where final agreement is reached and a contract is signed.

"The increasingly important role which the overseas representatives play in negotiations, involving large capital projects cannot be overemphasised," says Dr Naude.

The trade representatives

follow a performance-oriented approach whereby all their projects and actions are aimed at achieving tangible results. This approach has resulted in a marked increase in export breakthroughs to new outlets as well as an increase in the flow of foreign investments to SA.

On the home front Minister Kent Durr, Deputy Minister Theo Alant, Dr Naude and other senior officials are promoting an "export culture" among the business community.

In terms of this action plan an extensive programme of visits is undertaken to establish contact with the top management of the larger companies in SA.

Dr Naude says that according to feedback from many of these firms favourable political developments in SA have contributed in no small measure to the restoration and expansion of trade ties with business contacts abroad.

The new general export incentive scheme — GEIS — has been designed to stimulate increased exports of especially manufactured goods.

GEIS is not intended merely as a handout, says Dr Naude. On the contrary, it encourages manufacturers to enter the export market with products of high added value and local content and to increase their shipments abroad.

He says SA's traditional markets — mostly high volume and low risk — remain important. Many of these countries still officially maintain economic sanctions against SA.

A more positive attitude to SA however has become common and is no longer the exception.

The private sector has begun preparatory talks with business partners abroad in order to renew export contracts in anticipation of normal trade links once sanctions have been formally lifted.

SOUTH AFRICANS will not be a nation of merchandise exporters until they do more than try to sell abroad, says the deputy chairman of Burlington Air Express and Uniserv, Barry Saxton.

"They have to go abroad looking for products to make here, so exploiting larger markets. It is particularly important to move into high-volume exports using partially skilled workers, as Taiwan and South Korea have done."

"The more we build exports, the more we reduce costs because the supporting community subsidises exports."

Support in depth is available from the freight forwarding industry, says Mr Saxton. Burlington is sounding out customers about "bringing them on line to our computer, as is being done internationally."

The group uses a computerised voice-mail centre in Los Angeles.

"Instead of wasting time trying to reach people, you leave a message at the centre which they routinely phone a couple of times a day."

He says freight forwarders have a wealth of management information for corporate teams.

South Africa will have established itself as a merchandise export nation when it has a leading role in facilitating negotiations between SA exporters and foreign importers.

Trade representatives no longer act merely as "matchmakers" between the parties to a transaction, but play an active role in identifying the most suitable foreign manufacturers, industrialists and importers.

Dr Naude says they often remain involved right up to the point where final agreement is reached and a contract is signed.

"The increasingly important role which the overseas representatives play in negotiations, involving large capital projects cannot be overemphasised," says Dr Naude.

The trade representatives

follow a performance-oriented approach whereby all their projects and actions are aimed at achieving tangible results. This approach has resulted in a marked increase in export breakthroughs to new outlets as well as an increase in the flow of foreign investments to SA.

On the home front Minister Kent Durr, Deputy Minister Theo Alant, Dr Naude and other senior officials are promoting an "export culture" among the business community.

In terms of this action plan an extensive programme of visits is undertaken to establish contact with the top management of the larger companies in SA.

Dr Naude says that according to feedback from many of these firms favourable political developments in SA have contributed in no small measure to the restoration and expansion of trade ties with business contacts abroad.

The new general export incentive scheme — GEIS — has been designed to stimulate increased exports of especially manufactured goods.

GEIS is not intended merely as a handout, says Dr Naude. On the contrary, it encourages manufacturers to enter the export market with products of high added value and local content and to increase their shipments abroad.

He says SA's traditional markets — mostly high volume and low risk — remain important. Many of these countries still officially maintain economic sanctions against SA.

A more positive attitude to SA however has become common and is no longer the exception.

The private sector has begun preparatory talks with business partners abroad in order to renew export contracts in anticipation of normal trade links once sanctions have been formally lifted.

SOUTH AFRICANS will not be a nation of merchandise exporters until they do more than try to sell abroad, says the deputy chairman of Burlington Air Express and Uniserv, Barry Saxton.

"They have to go abroad looking for products to make here, so exploiting larger markets. It is particularly important to move into high-volume exports using partially skilled workers, as Taiwan and South Korea have done."

"The more we build exports, the more we reduce costs because the supporting community subsidises exports."

Support in depth is available from the freight forwarding industry, says Mr Saxton. Burlington is sounding out customers about "bringing them on line to our computer, as is being done internationally."

The group uses a computerised voice-mail centre in Los Angeles.

"Instead of wasting time trying to reach people, you leave a message at the centre which they routinely phone a couple of times a day."

He says freight forwarders have a wealth of management information for corporate teams.

South Africa will have established itself as a merchandise export nation when it has a leading role in facilitating negotiations between SA exporters and foreign importers.

Trade representatives no longer act merely as "matchmakers" between the parties to a transaction, but play an active role in identifying the most suitable foreign manufacturers, industrialists and importers.

Dr Naude says they often remain involved right up to the point where final agreement is reached and a contract is signed.

Trade finance to grease the wheels and ease strain

8 Times 17291.

74

MANY of South Africa's medium-sized traders are becoming export-conscious, says trade finance company GDM Finance.

Most of GDM's trade finance clients have an annual turnover of between R2-million and R60-million, so managing director John Cowper is well placed to observe trends.

"Our clients are not traditionally exporters, but many of them are now trying to put together products suitable for the European and other markets.

"With sanctions easing off this exercise is proving to be far more rewarding."

Barriers

Mr Cowper believes SA's real "arrival" on the world merchandise scene will be signalled when major consuming countries in Europe start allocating a "quota" to this country's imports. But that prospect is still a long way off.

Mr Cowper predicts an increase rather than a reduction in the use of trade finance with the lifting of barriers. He suggests that the trade finance companies will be the chief beneficiaries.

"The banks' specialisation does not

lie in the area of trade finance, whereas it is our core business, our strength".

According to Mr Cowper, commercial banks offer an enormous range of services under the umbrella term "general banking facilities".

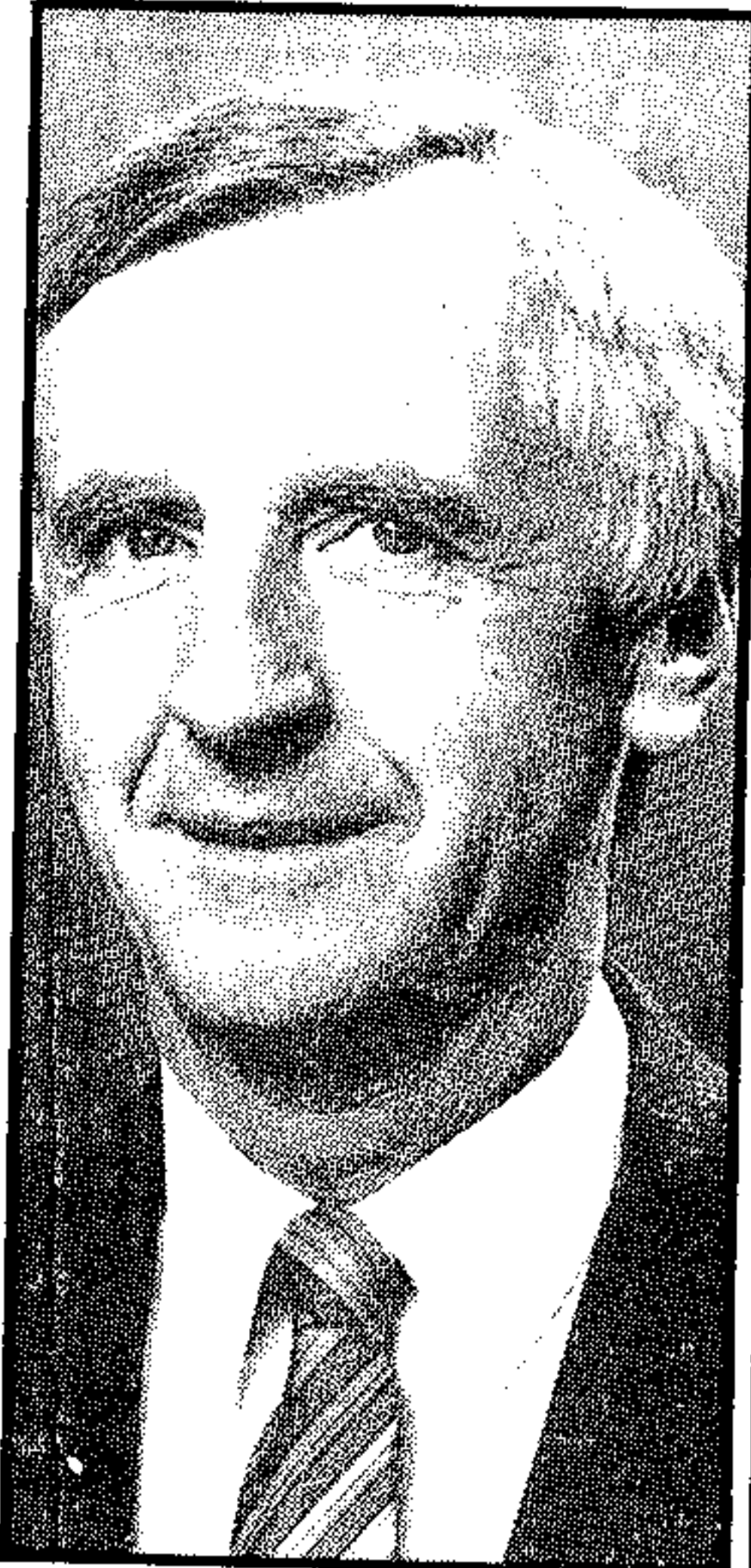
Among these facilities can be a letter of credit and foreign-exchange commitment.

He explains that if an expanding manufacturer has a R500 000 overdraft with a bank and no facility with a trade finance company, then R200 000 of that overdraft could be absorbed for a letter of credit and foreign-exchange contract facilities if the manufacturer wanted to buy additional raw material.

"This could seriously hamper the company's progress because it may only receive its raw material or goods several months after the letter of credit has been established.

"In the meanwhile that R200 000 will have been tied up for the full period and the company will have to operate on a R300 000 overdraft facility," says Mr Cowper.

"If this company applies for a trade finance facility, which is an additional one, the company has far greater financial flexibility. It can choose to buy either raw materials or



JOHN COWPER: Company capital freed goods for manufacture or export."

Mr Cowper is confident that as SA begins to play a bigger role in world trade, so the demand for specialist trade finance companies will increase.

"Not only are our lines of credit in place, we are expert at issuing letters of credit and generally facilitating trade by financing working capital — stock and debtors.

"Our services are cost effective and greatly enhance the potential of the expanding company."

Banks get back on track

AFTER the debt moratorium was declared on September 1, 1985, South African banks found that hitherto simple foreign-currency transactions became both complex and time consuming.

Rocco Rossouw, manager of Standard Bank's international division, says: "In those difficult times, the value of our friends was emphasised.

"It was only the intermediation of our excellent correspondent banking network which allowed us to continue doing business abroad on behalf of the trading community.

"The passage of time has seen restoration of foreign-ex-

change dealing lines, confirmation lines and now, increasingly, trade finance ones."

Mr Rossouw says improved international opinion of SA has moved the banking focus from the transactional areas to the ability to do business in evolving markets, particularly Central Europe and Africa.

Leader

Corporate South Africa is keen to exploit the new opportunities and looks to its bankers not only to reduce the risks involved in functioning in new markets, but to the provision of assistance in finding mar-

kets and suitable counterparts.

"As the acknowledged leader in foreign trade facilitation, Standard Bank declares that it will meet market requirements in a pro-active manner," says Mr Rossouw.

In the Standard's case, assistance will be through a network involving more than 2 500 banks and SBIC's representation in London, Zurich, Hong Kong and Taipei.

"Foreign trade promotion is seen as a core value of our international division. By means of the monthly Foreign Business Development Bulletin, markets are found for exporters and pro-

ducts brought to the attention of importers.

"We provide a door-to-door concept involving the sourcing of markets, the movement of goods and a secure payments system," says Mr Rossouw.

Secure

Nedbank executive general manager Derek Muller says the apartheid years left SA without a network of banking contacts in Africa particularly. However, this has been compensated for by African participation in the stream of international bankers who have visited this country in the past few months.

Unclassified flows are the key to trade balance

SHADOWY "unclassified" trade flows hold the key to what happened to SA's trade balance in January. The figure is due for publication tomorrow and follows the healthy R1,9bn surplus posted in December — the second-highest in 1990.

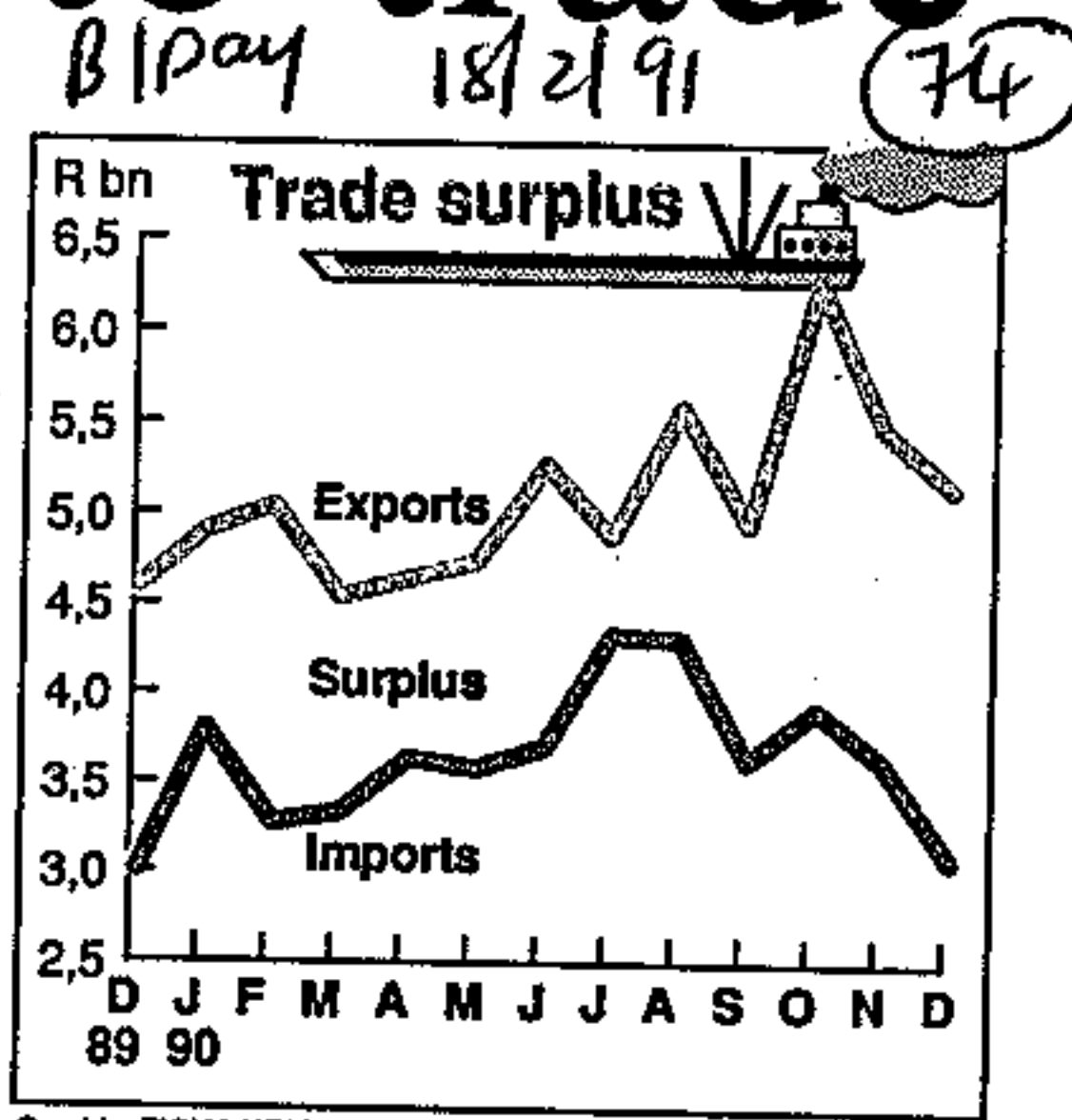
Underlying trends in SA's ordinary foreign trade are fairly clear and are beginning to follow a recognisable trend: lower imports due to the domestic recession, buoyant mineral exports and agricultural export levels under pressure because of climatic problems.

But, as recent trade outturns have shown, the pattern of regular trade flows is now overshadowed by the performance of the "unclassified" category. It is the swing in unclassifieds — on both the import and export side — that is likely to determine whether the January surplus is better or worse than December's.

By their very nature, these unclassified flows are difficult to measure and forecast. Higher oil prices in the last quarter of 1990 did not feed directly through to overall imports, suggesting that the subsequent fall in the oil price should help curb imports further. Regular imports have been falling because of lower spending levels.

Although some regular export sectors have been performing well, particularly mineral products and machinery, others are under pressure. Drought conditions have hit perishable food exports, for instance. The value of precious metal exports is being restricted by weak prices, partly due to lower growth rates in some of the major foreign economies.

Speculation has it, though, that armaments exports are buoyant because some reputed customers have



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

been either directly involved in, or were on the fringes of, the Gulf war. Foreign newspapers have alleged that last October's record R2,3bn trade surplus was a tell-tale sign of higher arms exports.

Since unclassified exports actually fell in December, there may be a lull in those sectors and their markets. Given the temporary difficulties in other export sectors, it could be that the surplus is set to dip in January before rebounding towards the R2bn mark later in the year.

SA's inflation rate is due for publication later this week, and should continue to ease from the 14,6% rate posted in the year to December. The January figure should include the effect of December's 10c/l cut in the petrol price.

In addition, there should be further downward impetus in the food price component of the index following the slowing of food price rises towards the end of last year and the easing of the drought.

The January money supply figures for SA are also scheduled for release this week and may be a disappointment to those expecting an imminent

cut in Bank rate. The fall in the annual rate of growth of the broad monetary aggregate, M3, stalled in November (13,2%) and December (13,1%) and may still be around these levels for January.

Credit extension to the private sector is proving resilient to the authorities' efforts to curb it, and there is also some re-intermediation bolstering the monetary aggregates as institutions bring facilities back on-balance-sheet to comply with the Deposit-Taking Institutions Act.

Internationally, the financial markets may get off to a quiet start this week as today is a holiday (Washington's birthday) in the US. UK retail sales for January, out today, are likely to show a large fall. This would indicate that last week's 0,5% cut in British interest rates was too little to arrest the slide into recession.

On Wednesday the German government presents its draft 1991 budget, amid signs that the German budget deficit could be even bigger, as a proportion of national income, than the US budget deficit. The high costs of unification together with the multi-billion-dollar contribution to allies costs in the Gulf war mean the government may have to raise taxes to hold back the deficit.

The German authorities want to avoid higher borrowing, for fear of renewing upward pressure on interest rates. Their goal is to keep the 1991 deficit under DM70bn against this year's estimated DM50bn.

The US inflation rate for January is to be released on Wednesday, and should show a dip from the 6,1% rate posted in the year to December. The US authorities are confident that inflation is easing, and are therefore comfortable in lowering interest rates to kick-start the depressed economy.

Own Correspondent

JOHANNESBURG. — SA Breweries (SAB) is gearing up to increase export earnings by 400% this year in a drive to corner a bigger share of beer markets in South America, Eastern Europe and Africa.

International markets manager Mr Martin Neal said yesterday SAB would increase beer exports to these markets from 876 000 cases to four million cases, representing a 400% increase in export earnings.

**Castle
leaves
laager**
CATH TWH 18/2/91
74

SAB exported to 30 countries in the past financial year and this year will export to 47 countries.

Mr Neal leaves today

for South America where he will be reinforcing SAB's relationship with distributors, as well as discussing marketing plans for Uruguay, Brazil and Argentina. He said the recent softening of the sanctions issue was an important factor in opening up the Eastern European market.

SAB traditionally had been a player in the other markets, but the company was now stepping up its efforts in these areas. SAB exports its Castle, Lion and Ohlsons brands.

Iscor promises a trickle not a flood

Cavill Times 18/2/91

74

By JOHN CAVILL

LONDON. — Iscor has promised not to flood the European market with South African steel exports when sanctions are lifted, according to an editorial in the most recent Metal Bulletin (MB).

The MB says European Community and US consumers "are likely to place immediate orders" for SA steel which "enjoys a reputation for quality to easily match European standards".

But, it says, "the ease with which Iscor, Highveld and Middelburg could slot back into the international steel market" raises problems for the current balance between the US and the EC. In addition EC steel producers, led by Germany, are faced with a 3% drop in European consumption and are opposing the renewal of last year's import quotas for Brazil, eastern Europe and "excessive liberalisation of their market to third country imports".

"South Africa's steel producers are aware of the potential threat and Iscor in particular has sent out an early signal that ... exports will trickle rather than flood into the EC" when sanctions end.

THE US dollar is the joker in the forex pack, upsetting predictions about its movements, gaining strength against the major currencies and giving a lift on the cross-rates to its satellite, the rand.

A week ago forex market discussion centered around how far the dollar could fall without a parachute from Group of Seven (G7) central bankers. Yesterday the talk switched to how high it could go.

First National Bank (FNB) technical analysts suggest still higher, the dollar having broken the DM1,4820 resistance level. This provides a good base "from which to launch an assault on DM1,500". But FNB warns: "Beware of sudden reversals", because the longer-term trend line — as shown on the graph — is still bearish.

This warning is very apposite because the sudden switch in the dollar's direction was triggered by sentiment, not fully supported by fundamentals.

The little dollar buying last week, says Standard Bank, was independent of central bank action. The global central banks were vigilant although at one point the G7 resolve to

Dollar the joker in forex pack

5/10/91 20/1/91

714

HAROLD FRIDJHON

ensure orderly market conditions appeared threatened by a lack of unity of purpose among the participating central banks.

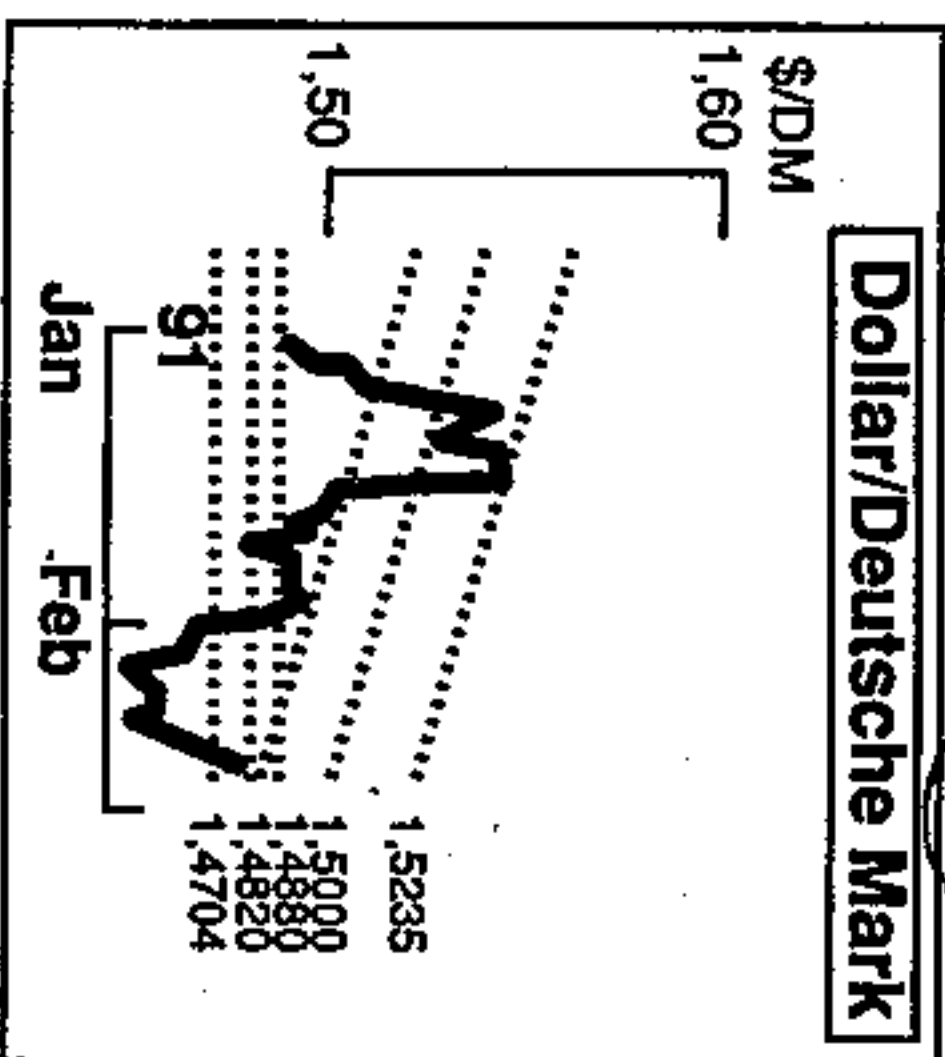
Then came the brief the-war-is-over euphoria with Saddam offering to withdraw from Kuwait — and the dollar gained a few points. But while Saddam's unacceptable conditions for withdrawal dispelled peace hopes they did not retard the dollar's gains. Popular reasoning assumed that the Iraqi leader was seeking an end to hostilities because he was wriggling on a hook and that the Gulf war might now be shorter than feared.

An early allied victory, it was believed, would boost US morale and confidence and set consumers off on a spending binge which would catapult the US out of the recession. Also,

the possibility that US firms would prove major beneficiaries of the reconstruction of the Gulf region encouraged more positive sentiment towards the dollar.

Sterling is looking distinctly bearish on the FNB charts. It has breached the support line at \$1,9870, moved through \$1,9586 and appears to be on the way to test \$1,9478. FNB says that penetration of this base must eventually lead to testing \$1,8828.

The economic background to the pound is not happy. In response to UK inflation falling to 9% in January from 9.3% in December, the base rates were cut by half a percentage point immediately ahead of a key House of Commons debate on the economy. The Chancellor of the Exchequer said Britain's membership of the European Monetary System (EMS) imposed restrictions on domestic interest rates strategy. Sterl-



Graphic: LEE EMERTON Source: TELETRAC

ing's weakness within the EMS was limited to 0.5% against the 1% generally discounted by forex markets.

Sterling strengthened on the smaller than expected cut, but its move failed to win political kudos for the government, says Standard. The major building societies were swift to announce that the reduction was insufficient to warrant any cut

in mortgage rates. It is unlikely the base rates cut will help alleviate an increasingly grim economic environment in the UK.

The rand was affected by the soaring dollar, but relatively it depreciated less than other currencies. As a result, says FNB, the rand has strengthened against the major currencies. This is apparent in the rand's trade-weighted index which bounced up from below 29.94 to 30.18. The key to whether the index will advance further is the differential in the dollar/rand and whether the dollar appreciates further against the other majors. If it does the rand could go better on the crosses.

The outlook for gold remains gloomy. The Union Bank of Switzerland says that speculation on an early end to Gulf hostilities flowing from Russian efforts to bring about a truce could spark off action in the gold market. But expectations of a prolonged ground war would not excite investor interest in the metal. FNB's prognosis is that the breaching of \$364 could test \$361.96. This is not too far from a previous long-term projection of \$355 an ounce.

LETTERS

Oil imports erode SA trade surplus

B10am 20/2/91

SOARING oil imports pushed SA's January trade surplus to its lowest level since the 1985 debt standstill, economists said yesterday.

They were puzzled over the sudden surge in imports to a record high in January from December's low levels and said the only apparent explanation was major oil purchases.

Oil stocks were probably rebuilt in January to take advantage of low oil prices and to build stocks in view of the looming Gulf war, they said.

Customs and Excise figures released yesterday show the trade surplus plunged by 92,3% to R144,5m in January from R1,8bn in December. Imports shot up almost 60% in January to R4,83bn.

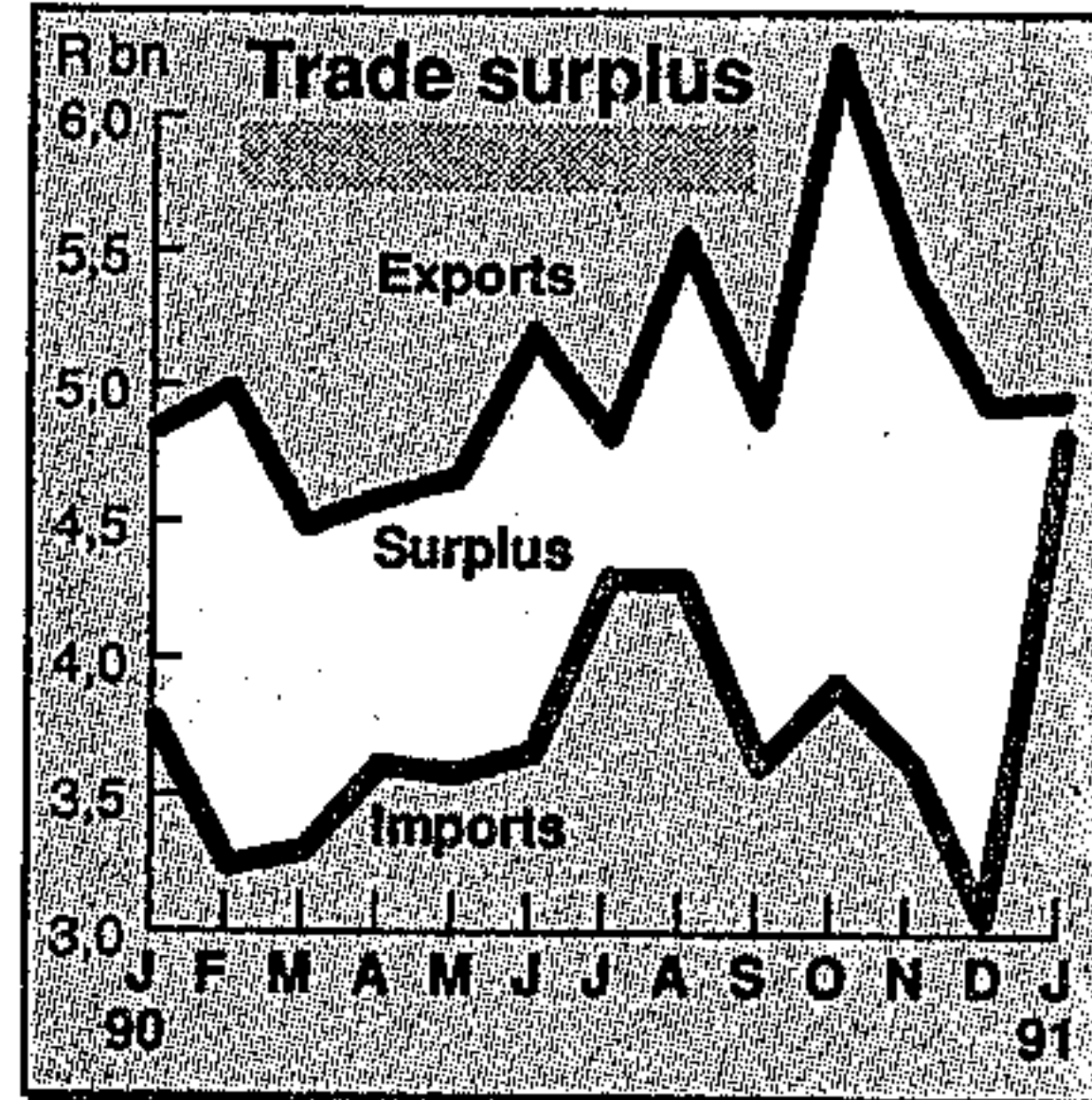
The "unclassified" imports category surged almost 140% from December. Oil is commonly believed to dominate the "unclassified" imports category but government does not disclose the size of oil imports for strategic reasons.

The increase followed surprisingly low

SHARON WOOD

"unclassified" imports when oil prices peaked after the outbreak of the Gulf crisis in August last year.

□ To Page 2



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

Surplus

But imports, excluding the unclassified category, also rebounded in January. Machinery, SA's largest import category, increased by 23,2% to R1,16bn.

The impact of SAA's fleet upgrading was felt, with the first of two planned aeroplane imports during 1991 buoying transport equipment imports by 119,2% to R710,8m.

"The rise in imports in January is not a reversal of a downward trend firmly established in 1990," Rand Merchant Bank economist Rudolf Gouws said. The domestic economic recession will continue to pull down imports during 1991, he said.

Exports were marginally higher at R4,97bn in January.

"Unclassified" exports (mainly gold, platinum, uranium and arms) rose by

44,2%, while base metal and mineral products fell by 7,1% and 18,7%, respectively.

Stable exports in January were encouraging because most of SA's major export markets had peaked or already slowed, First National Bank international economist Simon Willson said.

Exports will probably enter a downward trend during 1991 as a result of a slow international economy and weaker commodity prices, Gouws said.

The 1991 current account surplus probably be substantially smaller this year, with both imports and exports falling, he says. Reserve Bank governor Chris Stals has indicated that the capital account is looking much better and thus there should be "no need for tighter monetary and fiscal policy during 1991".

Poland to open SA embassy soon

POLAND would open an embassy in SA within the next month, while SA's embassy in Warsaw would officially open on April 1, a Foreign Affairs spokesman said yesterday.

SA set out some years ago to "cultivate" Lech Walesa's opposition movement in anticipation of the successful conclusion of the political revolution in Poland.

It was reliably learned that SA's government supported Walesa financially for several years, with Polish-born Pope John Paul II playing a big role as intermediary.

Trade between SA and Poland is expected to reach a value of about R500m a year since trade agreements were concluded last year.

The contracts include an agreed sale of 200 000 tons of South African iron ore, a joint food production venture and a deal between Iscor and Polish coal exporter Weglokoks.

Iscor is to buy 120 000 tons annually of high-grade metallurgical Polish coal, following the visit by Iscor general manager

B C Alberts to Poland.

A Genmin delegation accompanied Alberts, and it is believed SA mining corporations are looking into the possibility of investing in Poland's privatising mining industry.

Poland has had to halve its trade with Comecon this year, losing R4bn in coal and copper contracts and receiving less oil deliveries from the Soviet Union.

SA business and political leaders moved in to fill the gap.

An estimated 15 000 Poles have settled in SA and many took part in December's presidential elections, after Solidarity forced the resignation of former Communist Party leader Gen Wojciech Jaruzelski.

Millions of Poles around the world voted in the presidential elections after extraordinary arrangements were made.

Polish ambassador-designate to Pretoria Jan Rudkowski visited SA during the elections to arrange voting for SA's Polish emigres. Walesa won 74% of the vote. — ANO.

74

16/12/82

Weglokoks

Rich pickings in the Soviet Union

THE Soviet Union promises to be an exciting market for foreign investors and exporters, but there are many problems to be overcome, says Safto international division manager David Graham.

Graham, who has just returned from Safto's first exploratory trip of the Soviet Union, says SA exporters should start making contacts and learning about that country's market.

But he warns the USSR still maintains trade sanctions against SA.

He says that in the future it will offer great potential for all kinds of international business ventures.

It is a market of about 280-million people who are short of many products, and its vast industrial base needs revitalising.

Graham believes there are some strategic areas where SA and the Soviet Union can complement each other, particularly in the mining industry.

The USSR is suffering huge shortages of medical and pharmaceutical products, previously supplied from Eastern Europe.

There is also an opportunity for exporting products to the tourist industry, which requires much upgrading.

However, Graham says at the moment the situation in the Soviet Union is exceptionally fluid because of internal political problems and the restructuring of economic and financial systems.

B/pay 20/2/91
ZILLA EFRAT

And while the opportunities are large, many pitfalls exist. Major problems experienced by foreign investors and importers include finding the right distribution channel and ensuring payment. In addition, much creativity will be required to ensure a viable venture.

Exporters can secure payment from the state import channels which receive import budgets, as well as those enterprises which have their own foreign exchange accounts and are permitted to import as long as they can pay for it from their export earnings.

In addition, there is an auction system where importers can bid for foreign exchange, but at a high price.

Graham says because the value of the rouble is debased, imports are expensive. This, together with the Soviet Union's foreign exchange situation, may make joint ventures in the country more viable investments.

While the average Soviet businessman tends to favour joint ventures, the union's legal structure for investments is undergoing change.

Many countries are already active there. The South Koreans particularly are moving into the market with electronic products and are advertising aggressively, Graham adds.



Top level . . . F W de Klerk met Federation of Belgian Industries delegation leader Urbain Devoldere (centre) and Belgian Ambassador Eric Kobia yesterday.

Belgians talk to De Klerk, Botha

CAPE TOWN — A high-powered delegation from the Belgian private sector, accompanied by senior government officials, yesterday met President de Klerk and Foreign Affairs Minister Pik Botha. (74)

Mr de Klerk said afterwards their discussions had concentrated mainly on economic matters and that he and Mr Botha had used the opportunity to give the Belgians a considerable amount of information.

The Belgian visit was a follow-up to a visit by himself and Mr Botha to Europe in May 1991.

The 31-strong delegation includes Belgian ambassador to South Africa Eric Kobia; senior officials from the National Credit Service and the Ministry of Foreign Trade; the chairman of the Federation of Belgian Industries and chairman of Philips Belgium, U Devoldere; and senior representatives of a range of manufacturers, bankers, research companies and insurers.

The Belgians also met Trade and Industry Minister Kent Durr yesterday. Other meetings will be with Inkatha leader Chief Mangosuthu Buthelezi and leaders of the ANC. — Sapa.

Foreign cash vital Bankorp

By Sven Lünsche *SA 25/2/91*

A substantial inflow of foreign capital will be essential to sustain the next economic upswing and guarantee that enough new jobs are created to put a lid on rising unemployment.

Bankorp's Economics Unit paints a sombre picture of medium-term economic growth, indicating that political factors could easily make or break the economy.

The economists argue that imports could rise rather sharply in the next upswing forecast for the 1993-94 period and that this could convert the current surplus on the current account of the balance of payments into a deficit by 1993.

The strong showing of the current account limited the decline in Gross Domestic Product in 1990 and will be one of the few

strong factors in the economy this year, but could decline by as much as R6 billion by 1995, Bankorp estimates.

"This could seriously destabilise the domestic financial environment, resulting in a renewed economic downturn in 1994-95," Bankorp says.

"In these circumstances, only one factor can facilitate continued growth with financial stability: a substantial and steady inflow of foreign loan and investment funds from 1993 through to the year 2000 and beyond."

To receive this inflow, Bankorp argues, five political factors will play a key role:

- The level of domestic conflict and violence.
- Progress with constitutional negotiations.
- The level of politically inspired labour unrest.

● The economic policies and actions of a new government.

● Peace, stability and co-operation in the Southern African region.

"In most of these cases there are a few key political figures who will play a decisive role in the years to come.

"They will be largely responsible for the attitude that foreign bankers and investors adopt towards SA in the 1990s.

"Consequently, they hold the performance of the economy, the stability of the socio-political setup and the material living standard of all South Africans in their hands," Bankorp says.

"However, if politicians, through their actions, continue to avoid promoting capital inflows we can forget the 1990s," the bank says.

January oil import bill impacts on trade surplus

By Sven Lünsche

The Government boosted the strategic oil stockpile by almost R1,3 billion in January, thereby drastically reducing the trade surplus for that month.

Figures released by the Department of Customs and Excise yesterday show that imports of unclassified goods soared from R395 million in January 1990 to R1,275 billion last month.

Imported unclassified goods denote mainly oil products and, to a lesser extent, arms.

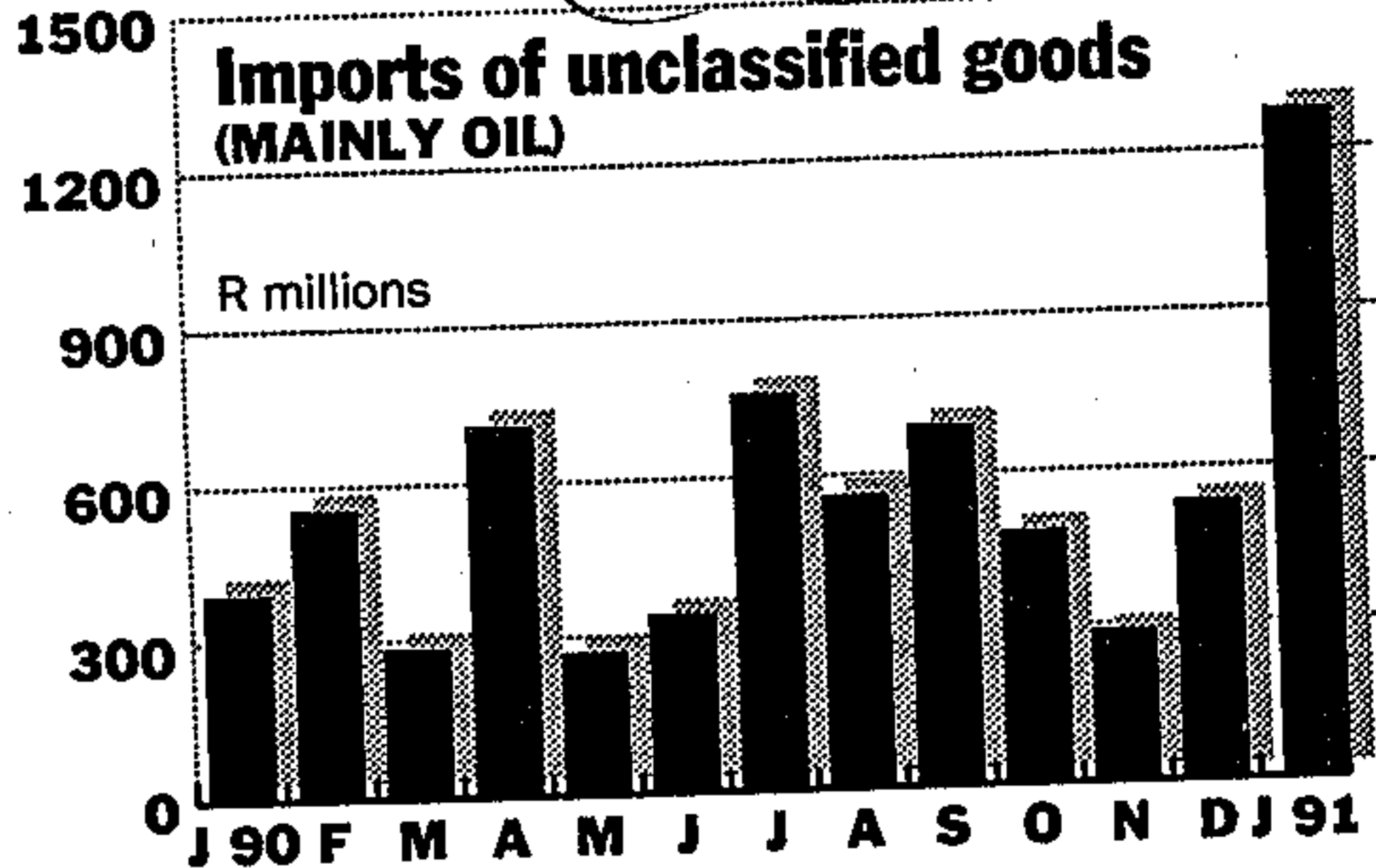
The boost in oil imports, however, is only a temporary setback to the trade surplus, with economists expecting the surplus to return to its normal levels next month.

The trade surplus in January plunged to R145 million — 92 percent down on December's R1,8 billion and 87 percent below the January 1990 surplus of R1,12 billion.

Imports in January jumped by a year-on-year 27 percent to R4,827 billion (January 1990: R3,775 billion), while exports over the period improved by a marginal 1,6 percent from R4,894 billion to R4,972 billion.

Edward Osborn, chief economist at Nedbank, believes that the authorities held back from importing oil in the initial stages of the Gulf conflict, when world prices rose above \$30 a barrel, reducing local reserves to supply the SA market.

However, when oil prices fell back to just over \$20 in November, SA bought crude on the forward market to raise its depleted reserves. These imports



were cleared by Customs and Excise last month.

Other economists suggest that the Government has been selling off stockpiles of strategic resources over the last few months to raise funds for socio-economic development programmes.

However, Trade and Industry Minister Kent Durr said in Parliament this week that this only referred to non-oil strategic items.

The import bill was also raised by a 31 percent surge in the value of transport equipment from R544 million to R711 million, which Safto economist Bruce Donald suggests is due to the purchase of aircrafts in January.

The heavy import bill in January was only partially offset by an eight percent rise in unclassified exports to R2,517 billion (R2,323 billion), suggesting a substantial rise in gold sales.

Mr Osborn says that arms sales, which provided a boost to exports in the fourth quarter last year, have fallen back to their pre-Gulf crisis levels.

A significant decline in most commodity exports, reflecting the recent depressed prices on international markets, was largely responsible for the marginal rise in export earnings.

Diamond exports fell by almost 55 percent to R217 million (R480 million), vegetable products to R85 million (R156 million) and mineral products to R521 million (R575 million).

However, merchandise exports continued to do well, despite the steady rand and the economic slowdown of South Africa's major trading partners.

Exports of chemicals rose by 71 percent in January to R212 million (R111 million), textiles by 32 percent to R124 million (R94 million) and pulp and paper products by 56 percent to R126 million (R80 million).

IMF visit first in decades

Sowetan 21/2/91



INTERNATIONAL Monetary Fund managing director Mr Michel Camdessus visited South Africa this week, marking the first visit by an IMF chief to the country since the 1970s.

Camdessus met ANC, PAC, Government and Reserve Bank officials privately before jetting out to Mozambique, where he was scheduled to meet President Joaquim Chissano and Foreign Minister Mr Pascoal Mocumbi.

Mr Tito Mboweni and Mr Max Sisulu of the ANC's economic planning department held talks with him on Sunday, as well as the PAC deputy leader Mr Dikgang

By ALI MPHAKI

Moseneke.

Mboweni said the IMF chief was aware that South Africa faces serious problems in areas such as unemployment.

But he said the IMF would not depart from previous policies.

South African access to IMF funding is blocked by the United States 1983 Gramm Amendment Act, which requires Washington's IMF to deny loans to Pretoria while apartheid remains.

Camdessus was accompanied by IMF executive director for English-speaking African countries Mr LB Monyake.

Their unofficial visit was at the insistence of the South African Government following a

meeting between Camdessus and Finance Minister Barend du Plessis at the annual IMF dinner in Washington last September.

Government officials say that while South Africa is unlikely to require IMF loans because it has no balance of payments problem, renewed access would unlock other sources of finance.

Reserve Bank Governor Mr Chris Stals has said: "Lenders will feel much more comfortable with their exposure in South Africa if they know we have such a backstop facility, that we can go back to the IMF like any other country and apply for assistance if we do run into a balance of payments problem," he said.



PAC deputy leader Mr Dikgang Moseneke met with a top IMF official this week.

Big short-term capital inflows in January

JANUARY saw huge short-term capital inflows of up to R1bn that offset the weak trade account, economists and bankers estimated yesterday.

Asked to explain why SA's forex reserves rose substantially in January, in spite of the country recording the weakest trade surplus since August 1984, they said the positive turnaround in short-term capital flows and an improved "leads and lags" situation had more than offset the current account weakness.

74
GRETA STEYN

8/10/91 21/2/91
Nedbank economist Edward Osborn noted an improved "leads and lags" situation as an important factor protecting the reserves from pressure in the face of a weakening current account. The current account is widely predicted to fall to about R3bn this year from about R6bn last year. "Leads and lags are working in SA's favour as SA is able to delay paying for

To Page 2

Inflows

8/10/91 21/2/91
imports while enjoying immediate receipt of export proceeds. The rand's stability encourages importers to postpone payments," he said.

Reserve Bank Governor Chris Stals disclosed the Bank's forex reserves rose by a net R1bn in January — enabling the Bank to reduce its foreign liabilities to zero and build up the stock of foreign currency.

But Standard Bank international division GM Rocco Rossouw said the entire R1bn was not new money. Foreign banks

From Page 1 74
were still wary of reflecting SA debt on their books and substantial amounts were repaid in December, only to be lent again in January.

"Most banks are not experiencing any difficulty in raising foreign trade credit. Our book has grown substantially in the last two years," he said.

Although Rossouw did not want to confirm figures, bankers estimate that SA's foreign trade financing totals about R5bn.

SA under-borrowed,⁽⁷⁴⁾ says Barend du Plessis

B/Dam 22/2/91.

CAPE TOWN — SA's foreign debt, as a proportion of one year's exports, was considerably less than 80%, Finance Minister Barend du Plessis said yesterday.

Replying to debate on the mini-Budget, he said this was considerably lower than many Western countries.

In international terms SA was hopelessly under-borrowed.

However, this was a positive factor in restructuring the economy so that SA would become a favourable investment prospect.

The negative side was that as much as half of SA's savings — money necessary to create infrastructure and jobs — had been used in the last five years to pay off foreign debt.

He promised to say more about savings and their relationship to tax and economic growth in the main Budget, so that a more meaningful debate could take place on the subject.

Money allocated to education was not

being spent as effectively as it could be. Education expenditure was an indictment in itself and it had to be spent on more classrooms with more teachers.

The need to spend money more effectively also had to be examined in the health and welfare sectors.

Referring to Labour Party charges during the debate that the House of Representatives' Administration was not receiving sufficient funds, he said he had attended an LP caucus meeting last Thursday at members' invitation and had told them the matter would be looked at again.

Dealing with allegations of a huge shortfall in the State Pension Fund, Du Plessis said no pension fund in the world was fully funded according to the definitions of a private fund.

The State Pension Fund would turn itself around in about four-and-a-half years — about half the time it would take a private fund to do so.

The fund's return was about 20%. — Sapa.

SA enhancing its investment rating

Star 22/2/91

74

CAPE TOWN — South Africa could repay all of its foreign debt with less than 80 percent of its annual export earnings, the Minister of Finance, Mr Barend du Plessis, said in Parliament yesterday.

Replying to debate on the Mini-Budget, he said this was considerably lower than many other Western countries.

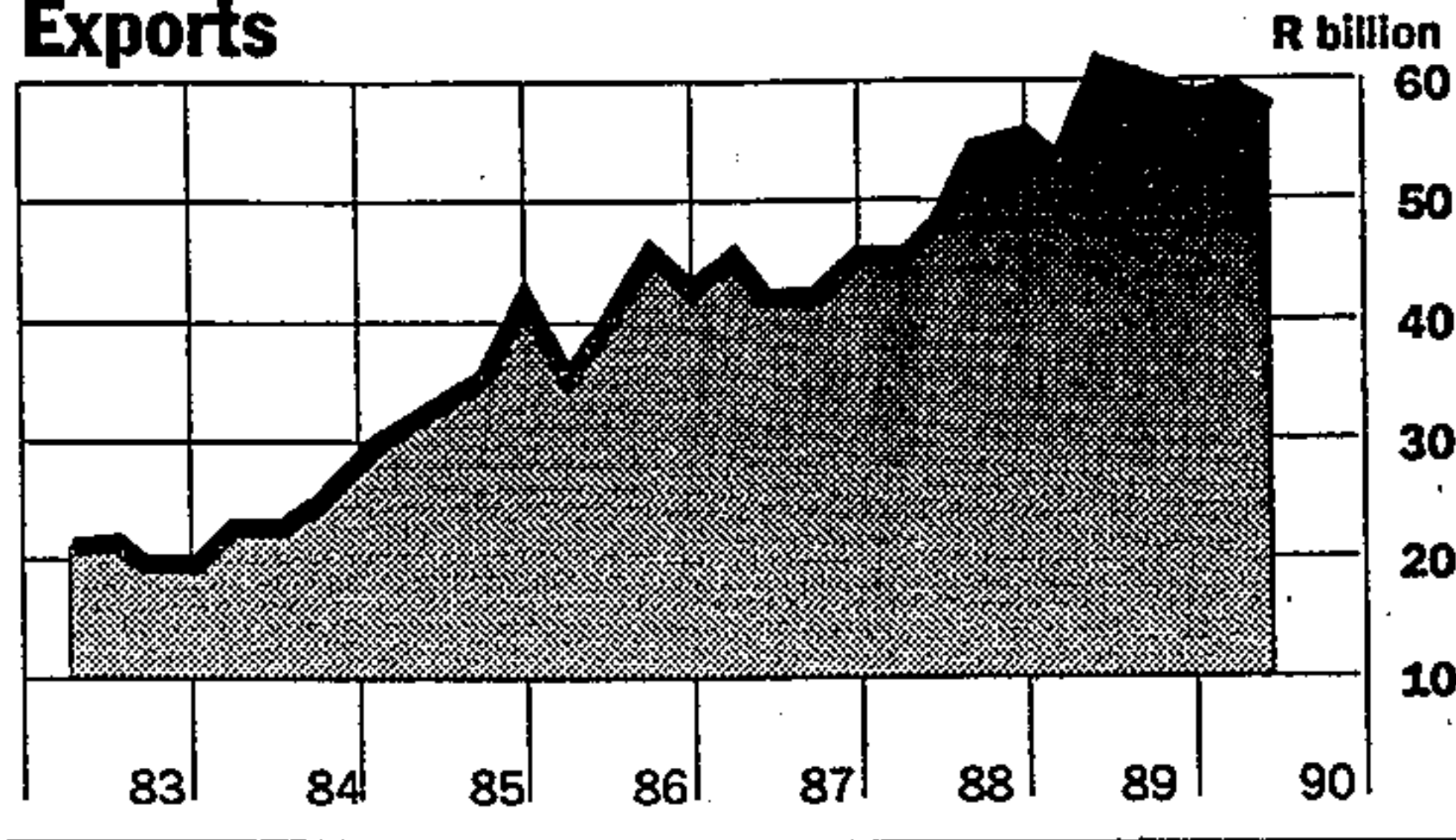
In international terms South Africa was hopelessly under-borrowed.

Negative

However, this was a positive factor in restructuring the economy so that South Africa would become a favourable investment prospect.

The negative side was that as much as half of South Africa's savings — money necessary to create infrastructure and jobs — had been used in the last five

Exports



years to pay off foreign debt.

He promised to say more about savings and their relationship to tax and economic growth in the main Budget, so that a more meaningful debate could take place on the subject there.

Mr Du Plessis also said one could not create enough jobs if

the country's population growth rate was too high.

This very sensitive issue needed to be addressed at the highest level.

Money allocated to education was not being spent as effectively as it could be.

"Money can be better spent getting it through to the teach-

ers. More teachers, better teachers."

Education expenditure was an indictment in itself and it had to be spent on more classrooms with more teachers.

The need to spend money more effectively also had to be examined in the health and welfare sectors.

Duplications

"I believe if we can cut structurally the duplications (in the various ministries) we can reach the children."

It cost the same to maintain elderly people of whatever colour, and disparities in pensions had to be eliminated, but the money to do this could not be taken from a growing economy.

There was no money available from development, and it was not known how much could come from a change in budgetary priorities. — Sapa.

Case is presented for SA trading bloc with Africa

By Day 22/2/91

MARIETTE DU PLESSIS

SA WILL have to form a trade bloc with other African states to protect its agricultural interests if no agreement on a new world trade deal is reached between the US and the EC before March 1.

In a statement on SA's position in the GATT talks, at a recent conference in Pretoria, Department of Agriculture deputy director-general Chris Blignaut said a negative outcome to the talks would have far-reaching implications for SA, which exports 30% of its agriculture products.

He said SA had been unable to form close trading relations in the past decade, and although trade bloc forming was an alternative if talks collapsed, difficulties would arise in attempting to enforce its rules in world trade.

The Uruguay Round of the GATT talks came to a standstill over agriculture subsidies in December last year, and the US and the EC were given until March to resolve their differences.

Blignaut accused the US and EC countries of creating increasing tension in world markets through their agricultural policies, resulting in the current crisis.

He said the aim of the GATT talks was to reform world agricultural trade by reinstating discipline through the removal of restrictions and distortions.

While consensus was reached on a

free market system with reductions in internal support and export subsidies, the US demanded a reduction of between 75% and 90% in both cases. The EC refused to reduce support to farmers by more than 30%.

Blignaut said a negative outcome to the GATT talks would result in a massive trade war between the US, EC countries, Japan and other countries.

"The EC has already prohibited imports of US pork, which in turn resulted in the US imposing a 100% import tariff on certain EC food products," he said.

If the talks did collapse, more unfair trade policies would be implemented and countries would return to protectionist measures, adversely affecting economic growth, Blignaut said.

If the big players were to limit imports, massive shortages and surpluses would arise, with widespread consequences for countries like SA, he said.

On the positive side, an agreement might be reached with consensus on the level of reductions in agricultural support.

Blignaut concluded that, within the GATT context, SA had stated that its agricultural policy was "not negotiable". Its farming interests had to be protected.

Department to phase out trade incentive measure

LESLEY LAMBERT (74)

CAPE TOWN — The Trade and Industry Department is phasing out a trade incentive measure introduced in 1989 to encourage countertrade and new exports, because it has become redundant and costly.

No more applications for financial aid in terms of provision 7 (g) of the Customs and Excise Act would be considered as from today, and applications approved by the department would expire in June 1993, a statement issued yesterday said.

The provision was implemented in 1989, prior to the new export incentive scheme introduced last year. Its aim was to encourage new trade links through countertrade, but in September 1989 its emphasis was shifted away from countertrade to new exports.

To qualify for aid, exporters had to show their ventures were new and that they needed extra financial assistance to conclude them. It is understood that less than 100 applicants qualified for the incentive.

When the new export incentive scheme was introduced in April 1990, it replaced the financial aid provided by 7 (g) — with the result that many applications for 7 (g) no longer complied with a requirement of the provision.

FOREIGN TRADE

BIG DIP FM 22/2/91
74

January saw a sharp drop in the monthly trade surplus. At R144,5m, it is well below the monthly surpluses of more than R1bn recorded each month since August last year and it is the smallest monthly trade surplus in more than six years. In August 1984, a deficit of R43,6m was recorded and in February that year the surplus amounted to only R100,9m.

ECONOMY & FINANCE

FM 22/2/91
74

The shift occurred in imports under the heading, "other unclassified goods and balance of payments adjustments," which comprises largely oil.

At R1,3bn, imports were way above exports in this category in preceding months, when levels ranged between R272m in May and R735m in September.

This rise in oil imports could be the result of spot purchases made in expectation of rising oil prices following the outbreak of war in the Middle East. Alternatively, says SA Chamber of Business economist Keith Lockwood, "it could be the result of a forward contract negotiated in November, when the prices were higher. We could see a continuation of this trend in February but, after that, we should see the cost of oil imports falling off."

Whatever the explanation, January's sharp rise in unclassified imports is not expected to continue.

The outlook for the total monthly trade surplus is uncertain. It peaked in October at R2,3bn, sliding to R1,5bn and R1,9bn in the following months. It is generally expected that the trade outlook for 1991 is less favourable than it was last year. However, says Lockwood, "new export opportunities and a stagnant domestic economy could hold the surplus at higher levels than is currently expected." ■

UNDER CURRENCY TERMS

F M 22/2/91 (74)



Edward Osborn is Nedbank chief economist.

Effective exchange rates, for example that of the Reserve Bank, are normally trade weighted indices of the exchange rate against principal currencies. Furthermore, the trade weights either reflect the pattern of import trade or are averaged across both imports and exports. For SA, however, it is characteristic of its foreign trade that exports are dominated by commodities receivable in dollars, whereas imports are paid for in a number of currencies, all of importance.

The quite different patterns of foreign currency export receivables and import payables would result in sharply different effective exchange rates, especially in circumstances of large fluctuations of the value of the dollar against other currencies. This indeed turns out to be the case on calculating effective exchange rates for exports (EER-exp) and effective exchange rates for imports (EER-imp).

There is unfortunately a practical problem in deciding on the correct weighting structures. Technically these should be adjusted annually to reflect any changing composition of trade, with the indices being linked. However, we in the Nedbank Economic Unit have taken the import country analysis for 1986 as a guide for the weights for the EER-imp, and a more recent analysis of the commodity composition of exports for the EER-exp.

As far as exported manufactures are concerned we had to make some subjective

guesses as to the country of export and the currency of payment; for this reason the following set of weightings show 5% received in rand to reflect exports to neighbouring countries. (The exchange rate of the rand against itself is, of course, unity.)

The respective weighting structures decided on are:

	EER-Imports %	EER-Exports %
GBP	12	10
Dm	33	10
JpY	12	5
US\$	43	70
Rand		5

The respective effective exchange rates in recent years are shown in the graph. Also shown is what one might call the terms of currency trading, which is the ratio of EER-imp to EER-exp. This reflects the effective buying strength or weakness of South African exports in any period — for example, the strengthening from about November 1988 to September 1989, after which a steady decline to the present.

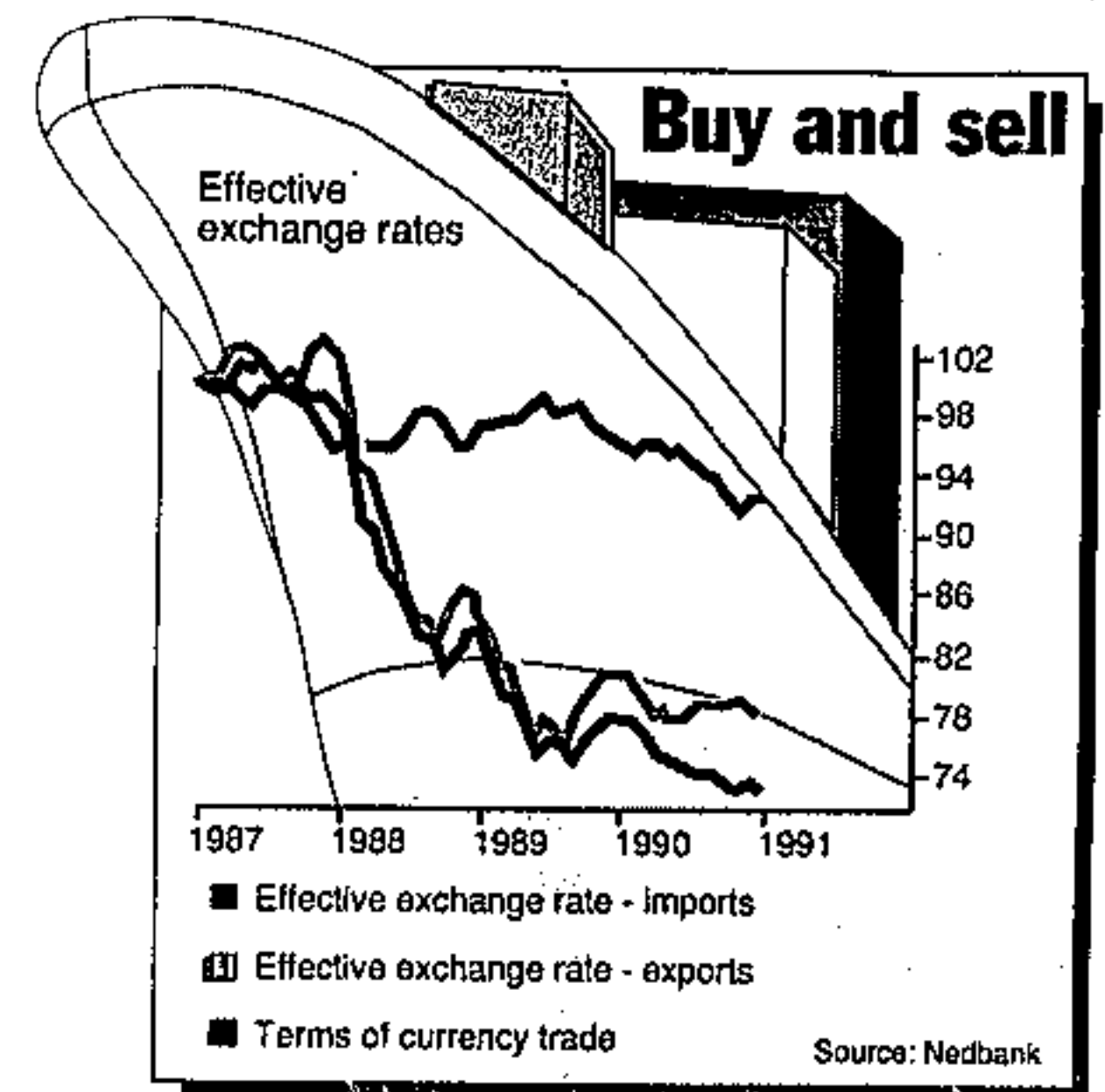
Of course the major determining factor is the relative weakness or strength of the dollar against the other major currencies because of the greater weight of the dollar in EER-exp.

As far as 1990 is concerned, the overall EER-imp for the year weakened by 3,9%, whereas the EER-exp weakened by only 0,8%. Total imports decreased by 1,2% in rand value, and hence the effective decline in imports was 5,1%. (This does not refer to the volume of imports as such, but rather the effective value of imports overall; that in turn is made up of lots of volume and price changes.)

Total exports rose by 3,1% in rand value, and hence the effective rise in the value of exports was 2,3% — and this despite the steep decline in commodity prices and the price of gold. The export of arms made a notable contribution.

The combination of a decline in imports and a rise in exports resulted in an apparently strong balance of payments position, which was the objective of the authorities in order to facilitate dealing with the foreign debt problem. Domestically, however, things were not so good because the major export industries were hit by the double-whammy of low dollar prices and the stability of the rand against the dollar.

This year things could improve about the second half if the Gulf crisis is over and the US economy begins to show an upswing, and with that a strengthened dollar and recovering commodity prices. Hopefully, gold will be about US\$380. SA exports would then be enhanced and have more effective buying value.



Belgians Keen to reopen trade links

By David Canning

DURBAN — A Federation of Belgian Industry mission has arrived in the country, convinced the time has come for European enterprises in general — and Belgian ones in particular — to concentrate again on South Africa.

The high-powered delegation, whose members' enterprises account for about a quarter of Belgium's gross domestic product, said it believed positive developments in South Africa justified an improvement in relations between the countries.

The federation also was convinced that South Africa could

become the springboard into Africa and play a major role in the economic recovery of sub-Saharan Africa.

A number of industrial companies and banks represented on the mission — which will be in Johannesburg over the next two days — are interested in becoming active in the area, possibly in partnership with local concerns.

They held talks with Durban's industrial and business leaders yesterday — after visiting Isithebe and meeting Dr Mangosuthu Buthelezi, Chief Minister of KwaZulu, at Ulundi.

Members of the Chamber said they were impressed with

the openness of South Africans about both opportunities and problems in the country.

The federation said its visit flowed from the deep impression made on its members by State President FW de Klerk when he visited its offices in Brussels last year.

"At the European summit of Rome on December 15, 1990, it was decided to lift the ban on foreign investments in South Africa. This decision was a token of support for the policy of Mr de Klerk.

"The dismantling of remaining apartheid legislation announced by the President on February 1 makes a further

easing of sanctions possible."

Individual members said they had been keen to "get in first" on what they see as a renewed effort to reopen links. They said they had been beaten in this only by Portugal which recently had a mission.

Members particularly had been interested in transport costs and in its infrastructure.

The KwaZulu Finance Corporation's chief executive, Dr Marius Spies, said his organisation had been seeking more European investment for some time. The Belgian visit was the first positive move for the KFC in this respect since the sanctions era.

FINANCE

FOREIGN buying of JSE-listed industrial shares, although at this stage limited, promises to open up a new dimension — with major ramifications — for Diagonal Street.

Foreign buyers knock at SA industrial door

In general, the marketability of South African industrial shares is poor, with only a handful of blue chips offering adequate liquidity to British investors.

Indeed, the State President's political initiatives, together with the crumbling of sanctions and boycotts, may prove to be the trigger for foreign institutional and private investors to review their stance towards South Africa.

During the past year or so foreigners have become less worried about the long-term political risks of investing in South Africa.

Little of substance on economic philosophy has yet emerged from the ANC, but many foreign investors now suspect the organisation's talk of wholesale nationalisation is no more than a political bargaining chip.

Taking a line through the numerous overseas reports that regularly come across my desk, more than just a smattering of foreign investors are projecting potential.

economic growth. Rising black economic activity will be focused on the industrial sector rather than mining, providing industrial shares with outstanding long-term growth potential.

Overseas portfolio investors are distinctly underweight in South African industrial shares and the instability in the Soviet Union and, more particularly the Middle East, means that there are now fewer havens for long-term equity funds than a year ago.

A change in policy by foreign institutions could exert a dramatic effect upon the JSE.

since the South African share market is insignificant in global terms, amounting to less than one percent of world stockmarket capitalisation.

The negatives should not, however, be ignored. Thus: Japanese financial institutions are barred — at least formally — from investing here, while American investors may not buy any securities issued after October 1986.

Higher ratings It should also be remembered that when some 75 local industrial shares were quoted on the London Stock Exchange 30 years ago, today the number is only around 20.

The younger generation of international investment managers has largely ignored the JSE for years, owing to political inhibitions. Disinterest may remain the order of the day.

Historically only British investors have taken any active interest in South African industrial shares.

About 20 years ago, British investors played a dominant role in the JSE, but in the past decade they have drastically reduced their holdings of industrial shares.

If British purchases of industrials are to increase significantly, this will involve new participation by institutional investors. Unfortunately, there are obstacles in the way of such investment.

Even so, any new foreign buying of industrials could easily intensify the two-tier nature of the local share market in the sense of precipitating even higher ratings for blue-chip counters.

Although these obstacles are beginning to recede, any new buying will almost certainly be restricted to a limited number of counters.

The same general situation prevailed among British insurance companies.

Although these obstacles are beginning to recede, any new buying will almost certainly be restricted to a limited number of counters.

from the plants for more than a month, poor used-car sales, weak results from Bournat, and some dilution in earnings a share owing to the conversion of debentures.

Management warned that difficult trading conditions were expected to persist in the final six months and it accordingly forecast a decline in earnings and dividends of 53 percent for the year to March 1991.

The remaining debentures will be converted on July 1, resulting in an 8-percent earnings a share dilution for the year to March 1992.

However, some improvement in the vehicle supply situation and a revival in used-car sales could see earnings of this quality-managed group recovering strongly, helped by a fall in interest rates.

The shares are on a prospective dividend yield of 3.8 percent — a touch on the low side but a return which by no means discounts a major earnings advance during the next economic upswing.

Profits in the second half of the current financial year should therefore stabilise at the levels achieved in the six months to June 1990, so that profits for the full year could fall by as little as 10 to 15 percent.

The dividend for 1990-91 looks like remaining unchanged at 20c, plus a special one-off centennial payment of 2.5c, for a generous 6.9-percent yield.

Saficon is involved in vehicle trading, materials handling equipment and the manufacture of motor components. The group also has a substantial investment in building materials group Bournat.

In the year to March 1990, Saficon earned 149c a share against 147c in the previous year, while the distribution was 43c (42c).

In the six months to September 1990, earnings a share fell by 65 percent, while the interim dividend was cut by 46 percent to 11c.

The disappointing figures stemmed from the cessation of the supply of Mercedes-Benz and Honda vehicles

from the plants for more than a month, poor used-car sales, weak results from Bournat, and some dilution in earnings a share owing to the conversion of debentures.

Management warned that difficult trading conditions were expected to persist in the final six months and it accordingly forecast a decline in earnings and dividends of 53 percent for the year to March 1991.

The remaining debentures will be converted on July 1, resulting in an 8-percent earnings a share dilution for the year to March 1992.

However, some improvement in the vehicle supply situation and a revival in used-car sales could see earnings of this quality-managed group recovering strongly, helped by a fall in interest rates.

The shares are on a prospective dividend yield of 3.8 percent — a touch on the low side but a return which by no means discounts a major earnings advance during the next economic upswing.

● A discernible increase in buying programmes for South African equities — buying that will be fuelled by expectations of an economy boosted by withering trade and capital sanctions and more emphasis being placed on expansion of the private sector.

● The immense potential of a country of 30 million-plus people, where many are economically inactive but perfectly able, given time and opportunity, to acquire financial and industrial skills.

● Black infrastructure, such as housing and education, will attract substantial government spending over the next 10 years, stimulating

CONDITIONS in the motor industry are expected to deteriorate further this year in the face of the continuing downswing, high interest rates and anticipated increases in fringe-benefits tax.

Above all, however, the industry is highly sensitive to interest-rate movements, so conditions could improve later when the long-awaited decline materialises. Accordingly, depressed motor shares warrant close consideration.

Total vehicle sales in 1990 amounted to 352 629, a decline of 5 percent on 1989 and the lowest in four years.

The severity and duration of the downturn will be a major determinant of the industry's 1991 performance, with short-term prospects influenced by socio-political factors and events in the Middle East.

Sales are now well below the historical trend, which means replacement needs of the existing vehicle population will tend to limit the scope for significant further declines

in new-vehicle sales.

The latest industry projections are for no growth in 1991. Yet investors should now start to anticipate the next upswing.

Unfortunately, soaring prices have largely eliminated individual buyers from the new-car market — a factor which, together with an unsettled labour situation, detracts from the shares of manufacturers.

This points to the advisability of focusing on motor-retailing shares, where McCarthy and Saficon offer attractive yields and above-average medium-term growth potential.

In the year to June 1990 McCarthy's earnings shed 5 percent to 58.6c a share and lost a further 19 percent in the six months to December. While the vehicle and industrial sides of the business did reasonably well, associated motor-parts company Midas suffered a sharp setback.

Even so, the company is expanding its market and there are signs that its used-car sales are turning upward.

Profits in the second half of the current financial year should therefore stabilise at the levels achieved in the six months to June 1990, so that profits for the full year could fall by as little as 10 to 15 percent.

The dividend for 1990-91 looks like remaining unchanged at 20c, plus a special one-off centennial payment of 2.5c, for a generous 6.9-percent yield.

Saficon is involved in vehicle trading, materials handling equipment and the manufacture of motor components. The group also has a substantial investment in building materials group Bournat.

In the year to March 1990, Saficon earned 149c a share against 147c in the previous year, while the distribution was 43c (42c).

In the six months to September 1990, earnings a share fell by 65 percent, while the interim dividend was cut by 46 percent to 11c.

The disappointing figures stemmed from the cessation of the supply of Mercedes-Benz and Honda vehicles

from the plants for more than a month, poor used-car sales, weak results from Bournat, and some dilution in earnings a share owing to the conversion of debentures.

Management warned that difficult trading conditions were expected to persist in the final six months and it accordingly forecast a decline in earnings and dividends of 53 percent for the year to March 1991.

The remaining debentures will be converted on July 1, resulting in an 8-percent earnings a share dilution for the year to March 1992.

However, some improvement in the vehicle supply situation and a revival in used-car sales could see earnings of this quality-managed group recovering strongly, helped by a fall in interest rates.

The shares are on a prospective dividend yield of 3.8 percent — a touch on the low side but a return which by no means discounts a major earnings advance during the next economic upswing.

The brakes are still on but you can start revving up

UP and DOWN
DIAGONAL STREET



John Spira

Move on liquidity increases debt

GRETA STEYN

GOVERNMENT borrowed about R720m this fiscal year to take liquidity out of the money market — a move that adds to the exchequer's already excessive interest bill.

An analysis of the exchequer accounts by Nedbank economist Edward Osborn shows that a R723m transfer was made to the Stabilisation Account in January — the first for this fiscal year.

"These transfers are effectively a sterilisation or expunging of money.

"There has been no withdrawal from the Stabilisation Fund since its inception in 1980, apart from an initial questionable part-utilisation for oil stockpiling."

Last week Finance Minister Barend du Plessis told Parliament an extra R418m in spending had been used to service public debt.

He ascribed the higher interest payments to "continuing restrictive monetary policy measures of the SA Reserve Bank, with support from the Treasury, whereby more state paper is issued than is needed to finance the deficit."

Government's interest bill is already larger than the Defence Budget and out-paced inflation this year.

Osborn notes the US use of the term "primary deficit or surplus", the balance before interest payments are charged.

"In our case, there would be a primary surplus of R3,7bn with interest payments amounting to R11,4bn."

Osborn expected a deficit of about R7,7bn to be announced for the current fiscal year in next month's Budget speech. This would be fairly close to the originally budgeted R8bn.

He expected revenue to exceed the Budget by about R1,7bn. Although Du Plessis expected "savings" by government departments of about R250m, Osborn believes this is a conservative estimate and on present performance about R500m could be "saved," bringing the spending total for the year to R74,3bn.

World bars must be lifted to aid SA blacks, says Chalker

8 (pay 26/2/91)
LONDON — Lynda Chalker, Britain's Minister for Overseas Development and Foreign Office Minister responsible for sub-Saharan Africa, said yesterday it was "critically important" that international measures restricting the economic advancement of blacks in SA be lifted.

This, she said, would help blacks to take their "rightful place" in the country.

But she also stressed that the extension of the vote to the disenfranchised remained a "very important" principle.

Answering questions in the Commons following her trip to SA early this month, Chalker said she had been impressed by the speed at which moves towards political reform were taking place.

President F W de Klerk and his government were clearly determined to move ahead with the repeal of the Group Areas Act, the Land Acts and the Population Registration Act, she said.

She noted that while she was in SA, the

government announced provisions, in advance of the repeal of the Population Registration Act, making it no longer necessary for babies to be registered by race.

Chalker rebuked one of her own backbenchers who argued that the opening of the SA market to world trade was more important than the principle of voting.

She told him: "The principles of voting are very important and I hope the all-party congress (in South Africa) will proceed apace."

"But of course, it is critically important that we do lift a series of bans which are holding back the progress of black South Africans."

"South Africa needs involvement in world trade if it is to give training and opportunities to black South Africans so that they can take their rightful place in the new South Africa," she said.

74
KIN BENTLEY

West seeks stronger bilateral ties with SA

Spec 27/2/91

74

By Sven Lünsche

Germany remained South Africa's top trading partner last year and prospects for the widening of trade relations between the two were good, a senior official at the German Embassy said this week.

The UK replaced Japan in the Number 2 spot as trade between SA and the UK jumped to R11 billion in 1990.

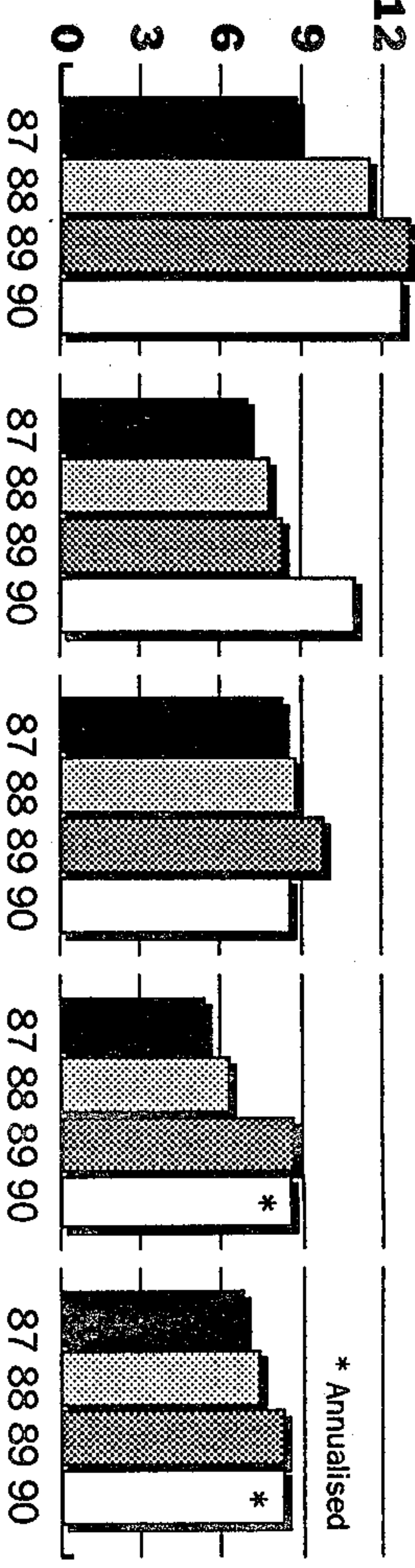
However, with the exception of the UK, total bilateral trade between the major Western countries and South Africa declined in 1990, compared with 1989 as the economic slowdown hit imports of machinery and technical equipment.

Figures released by the SA-German Chamber of Commerce show that although bilateral trade between SA and Germany fell slightly from R13 billion in 1989 to about R12,7 billion last year, Germany retained its position as SA's most important trading partner.

The decline was largely attributable to a 19 percent fall in German exports to SA from R8,6 billion in 1989 to R7,9 billion in 1990, reflecting the depressed state of the South African economy.

In particular, the decline reflects the weak car sales market, with German parent companies cutting back on their supplies to their local manufacturers, Dr Claas Knopp, economic consultant at the German Embassy, said.

R billions



Two-way trade between SA and its major trading partners

South African exports to Germany totalled R4,7 billion last year, compared with R4,4 billion in 1989.

A similar trend was evident in trade with Japan.

Japanese exports to South Africa dropped by almost R700 million from R4,5 billion to R3,8 billion last year, according to figures made available by the Japan External Trade Organisation (Jeto).

A Jeto spokesman said the slowdown in exports last year was in line with a directive by the Japanese government to cut back on trade links with SA.

Total trade with Japan fell by almost R1,2 billion last year to around R8,6 billion (1989: R9,8 billion) as SA exports to Japan declined from R5,3 billion to about R4,8 billion. Sanctions legislation continued

to impact adversely on trade with the US.

Figures for the whole year are not yet available, but US Commerce department statistics for the first three quarters of the year show that South African exports to the US and US imports to SA remained virtually static at \$1,15 billion and \$1,24 billion respectively.

Trade between SA and Italy, which because of large gold imports for its jewellery industry is the largest recipient of SA exports, slowed significantly over the first ten months of last year.

The lower gold price and reduced demand for jewellery worldwide saw SA exports to Italy from January to October fall by 16,1 percent to 2 521 billion lire (about R5,6 billion). Italian exports to SA dropped by 4,3 percent to 700 billion lire

(R1,56 billion) over the same period.

The only country that showed an improvement in overall trade with South Africa was the UK.

Trade between them is currently valued at around R11 billion.

The growth in trade with the UK is not surprising, given that British investments, valued at about R50 billion, account for nearly half of all foreign investments in SA.

South Africa has recently stepped up efforts to diversify bilateral trade in other areas, Africa in particular.

However, in 1990 the five major trading partners still accounted for about 50 percent of South Africa's total trade and interest in strengthening trade links is growing among Western bankers and businessmen.

"The prospects of extending trade between Germany and South Africa are very good and more and more businessmen are visiting the country or wanting information on how to set up shop here," Dr Knopp said.

He added, however, that it was essential that foreign investors be guaranteed a stable political environment to ensure good returns on their investments.

"If a post-apartheid SA sends the wrong signals, it cannot expect any kind of capital inflows," Dr Knopp said, referring in particular to ANC statements on nationalisation.

He said this point was stressed by the governor of the German central bank, Dr Karl-Otto Poehl, when he met ANC leader Nelson Mandela recently as part of his visit to South Africa.

International trade talks formally back on track

BIP ay 27/291

74

GENEVA — International talks aimed at liberalising world trade were restarted formally yesterday, nearly three months after they broke down because of a rift over farm subsidies.

GATT director-general Arthur Dunkel said the so-called Uruguay Round was "back on track".

He said the crucial negotiations should be concluded "as soon as possible," but did not set a deadline.

"Experience has shown us that fixing target dates is not always helpful," he told a short meeting of GATT's top-level trade negotiations committee.

In a 10-page document submitted to the meeting, Dunkel outlined suggestions for resuming work in individual sectors.

These include agriculture, trade in

textiles, services like banking and insurance, investment measures, intellectual property such as copyright, and market access.

Fifteen sectors are being considered in the Uruguay Round, the most ambitious attempt to reform world trade and reduce barriers to exports. The talks are named after the country in which they were launched in 1986 and involve 108 nations.

Dunkel said all participants had now agreed to talks on "specific binding commitments," in the individual areas of domestic support, market access and export competition.

On export competition, Dunkel said negotiators should seek to agree on a definition of export subsidies. He said they should develop a method to prevent countries from evading obligations to reduce the subsidies.

He also said negotiators should discuss a method of measuring cuts in domestic supports.

Technical issues needing to be tackled in the area of market access included the nature and scope of tariffification — the process by which import barriers are converted into tariffs.

A GATT spokesman said a meeting of agricultural negotiators would take place on Friday.

The US and farm exporting nations such as Australia and Argentina say agreement on substantial cuts in agricultural supports is essential if the Uruguay round is to succeed.

The US has estimated that trade liberalisation measures resulting from the Uruguay Round would boost world economic output by \$4 000bn over the next 10 years. — AP-DJ.

Germany still SA's top trading partner

ARBUS 27/2/91
74

From SVEN LUNSCHÉ

JOHANNESBURG. — Germany remained South Africa's top trading partner last year and prospects for the widening of trade relations between the two were good, a senior official at the German Embassy said.

Meanwhile the UK replaced Japan in the number two spot as trade between South Africa and the UK jumped to R11 billion in 1990.

However, with the exception of the UK, total bilateral trade between the major Western countries and South Africa declined in 1990, compared with 1989, as the economic slowdown hit imports of machinery and technical equipment.

Figures given by the South Africa-German Chamber of Commerce show that although bilateral trade between South Africa and Germany fell slightly from R13 billion in 1989 to about R12,7 billion last year, Germany retained its position as South Africa's most important trading partner.

Depressed economy

The decline was largely attributable to a 19 percent fall in German exports to South Africa from R8,6 billion in 1989 to R7,9 billion in 1990, reflecting the depressed state of the South African economy.

In particular, the decline reflected the weak car sales market, with German parent companies cutting back on their supplies to their local manufacturers, Dr Claas Knopp, economic consultant at the German Embassy, said.

South African exports to Germany totalled R4,7 billion last year, compared with R4,4 billion in 1989.

A similar trend was evident in trade with Japan.

Japanese exports to South Africa dropped by almost R700 million from R4,5 billion to R3,8 billion last year, according to figures made available by Japan's External Trade Organisation (Jeto).

A Jeto spokesman said the slowdown in exports last year was in line with a directive by the Japanese government to cut back on trade links with South Africa.

Total trade with Japan fell by

almost R1,2 billion last year to around R8,6 billion (1989: R9,8 billion) as South African exports to Japan declined from R5,3 billion to about R4,8 billion.

Sanctions legislation continued to impact adversely on trade with the US.

Figures for the whole year are not yet available, but US Commerce department statistics for the first three quarters of the year show that South African exports to the US and US imports to South Africa remained virtually static at 1,15 billion and 1,24 billion respectively.

Trade between South Africa and Italy, which because of large gold imports for its jewellery industry is the largest recipient of South African exports, slowed significantly over the first ten months of last year.

The lower gold price and reduced demand for jewellery worldwide saw South African exports to Italy from January to October fall by 16,1 percent to 2521 billion lire (about R5,6 billion).

Trade with UK needs spark of stability

From FRANK JEANS

JOHANNESBURG. — South Africa's business relations with Britain are poised for renewed prosperity and need only a spark of stability and certainty.

This was the message British business leaders have brought to this country under the banner of the United Kingdom South Africa Trade Association (UKSATA).

Sir Keith Stuart, the mission leader, told a Press conference in Johannesburg yesterday: "British businessmen are cautiously optimistic about trade and investment opportunities in South Africa."

State President De Klerk's initiatives in the dismantling of apartheid had kindled bright prospects for increasing trade and investment opportunities for Britain. The Gulf War and political events in eastern Europe had strengthened South Africa's position as a primary market for the future.

"All we need in South Africa is stability and certainty and the absence of bad news," said Sir Keith.

Italian exports to South Africa dropped by 4,3 percent to 700 billion lire (R1,56 billion) over the same period.

The only country that showed an improvement in overall trade with South Africa was the UK.

The growth in trade with the UK is not surprising, given that British investments, valued at about R50 billion, account for nearly half all foreign investments in South Africa.

"The prospects of extending trade between Germany and South Africa are very good and more and more businessmen are visiting the country or wanting information on how to set up shop here," Dr Knopp said.

He added however that it was essential foreign investors be guaranteed a stable political environment to ensure good returns on their investments.

"If a post-apartheid South Africa sends the wrong signals, it cannot expect any kind of capital inflows," Dr Knopp said, referring in particular to ANC statements on nationalisation.

"The problems in the Middle East, with the general recession in the UK, are helping to bring home to British industrialists the attractions of South Africa as a market for goods and services."

The basics for sustained growth were already in place.

His advice to local exporters was: "Go out and hard sell in Britain. You will find a favourable reception."

Sir Keith and his team will be meeting representatives of South Africa's main political parties and while he emphasised he was making a personal comment, he left no doubt about British attitudes towards a possible policy of nationalisation under a future ANC Government.

"Nationalisation has proved to be totally inefficient as a means of redistribution of wealth and even the Labour Party of today no longer advocates nationalisation," he said.

"I believe any move toward nationalisation in South Africa would be a major disincentive to British investment."

Financial Editor

RAPIDLY opening markets abroad offer an attractive risk hedge for the manufacturing sector, said CE of Safto Wim Holtes yesterday.

Manufactured goods are the fastest growing sector in world trade, whilst minerals, fuels, primary commodities and foodstuffs are static or declining.

A typical example was the European Community (EC) where manufactured products had increased their share of imports from 52% twenty years ago to a current near 70%. During the same period primary commodities, excluding food, dropped from 17% to 7% of total EC imports.

"This causes the alarm bells to ring for SA as a traditional major supplier of primary products to Europe," said Holtes.

In the highly competitive markets of the world price alone is seldom the deciding factor.

Adding value in the form of better performance qualities, product modification to customers' requirements and after-sales back-up service are essential for any company's export-committed programme.

World markets *Carte Truys 27/2/91* **'risk hedge' for 74 ~~AD~~ manufacturers**

Africa is SA's major market for manufactured products with as much as 35% of all manufactured exports finding their way into sub-Saharan Africa. Delivery and price advantages as well as technical back-up have so far been important marketing tools.

However, SA companies are now also becoming involved directly, or in association with foreign suppliers, in projects or purchasing programmes financed from aid programmes or foreign development agencies — they can expect in these cases far greater insistence on quality products with high performance standards.

These developments signify a move from the traditional trading patterns to international marketing of value-added manufactured products.

— boost



Stability would boost trade with UK

74
Sowetan 28/2/91

STABILITY and certainty are the two key elements that would determine growth in trade between South Africa and the United Kingdom.

This was said by Sir Keith Stuart, leader of the visiting United Kingdom South Africa Trade Association delegation, at a Press conference this week.

He said UK businessmen were waiting to see whether these two elements, which could only be brought about by a government enjoying the consensus of the majority of the population, would come into being.

"Current political developments here made South Africa more attractive for trade and investment, and SA-UK business relations are poised for expansion."

Turning to investment, Sir Keith said that there was some new investment at present, but that most potential British investors

were waiting for a clearer picture of the likely economic structure in a new South Africa.

"With the lifting of the ban on new investment, and provided the security situation could be stabilised and improved, I think you will see a quickening in the pace of effort by UK business to increase exports to SA."

He warned, however, that it would be regrettable should the ANC persist with its policy of nationalisation if it came into power.

"It is not so much a matter of what politicians do, but what they say that affects business confidence. Nationalisation would be a major disincentive to invest in SA."

Sir Keith said years of nationalisation in the UK had proved inefficient and not conducive to economic growth.

The British government could decide to go against the Com-

"We won't go on forever without recognising the progress being made in this country. We see the progress as irreversible."

While he could understand the need for it, a reduction in trade barriers in South Africa would be necessary to encourage a two-way trade, Sir Keith said.

He said that recent proposals by SA to reduce tariffs on about 50 percent of items on the Gatt list, had been suspended.

"We are against protected markets and would like to see this country's tariffs more in keeping with those of Britain which imposes a five percent import duty."

With the country's improved international status, Sir Keith urged SA businessmen to aggressively market their products in the UK market.

Exclusion of any ad valorem excise duties 'very difficult'

CAPE TOWN — Any attempt to exclude ad valorem excise duties from the value on which VAT was charged would present great difficulties, Vatcom said yesterday.

It said these duties would have to be separately identified throughout the production and distribution chain until the item reached the consumer, and it was doubtful whether this was possible.

Vatcom recommended that, to the extent that government considered excise duties necessary, the system proposed in the draft VAT Bill of including them in the value for VAT purposes be retained. Calls for a multi-rate system should be resisted.

The committee said it had received a number of representations that when VAT was introduced, ad valorem excise duties on a number of products be abolished.

In support of this request, the committee had been referred to the Margo Commission recommendations that the list of ad valorem duties be re-evaluated and such duties on essential items be abolished as far as possible.

The abolition of these duties was a bud-

getary matter which fell outside Vatcom's terms of reference, but it was brought to the attention of government for whatever action was deemed necessary.

Other recommendations by the committee on imports were:

- The valuation formula for imported goods should include an upliftment of 10% instead of the cost of commissions, packing, transport and insurance as proposed in the draft VAT Bill;
- The present practice of allowing importers to defer tax by storing imports in Customs and Excise warehouses should not be extended to any further goods, and that in the long-term consideration be given to phasing out the VAT deferral opportunity;
- Warranty replacements for imported goods should be exempt from VAT, and
- Because of the relief that would be provided through the normal credit system and the difficulty of identifying replacement units, no change be made to proposals in the draft Bill that, in repair exchange programmes, tax be paid on the full value of the imported exchange unit. — Sapa.

Africa could provide export avenue

THE lifting of economic sanctions could prompt the SA motor component industry to look for new export markets mainly in Africa and Eastern Europe, industry sources said yesterday.

Depressed economic conditions in the countries traditionally served by the local motor component industry are expected to hamper further export growth, even if formal trade links are established when sanctions are lifted.

"The recent economic slowdown in the US, Western Europe and Japan, and not the remnants of economic sanctions against SA, will curtail efforts by local vehicle manufacturers to increase exports of components," a motor industry source said yesterday.

National Association of Automotive Component and Allied Manufacturers (Naacam) executive director Denzyl Vermooten said traditional markets in Western

~~210~~ ~~74~~
MARC HASENFUSS

Europe and the Far East would not see further growth this year, but lucrative markets could open up in Eastern Europe and Africa.

He felt the local motor industry was well placed to serve the vehicle needs of African countries.

"Although new vehicle markets in most African countries will start from a low base, if we are patient the enormous growth potential in these countries will be realised."

The value of exports by SA component makers rocketed by 65% last year to almost R1bn, but Vermooten expects growth this year to taper off substantially.

Econometrix's Tony Twine said the African and East European markets had a serious drawback in that both areas did not have the hard currency to pay for exports.

Twine said Africa and Eastern Europe represented largely unex-

ploited ground by the motor industry worldwide.

They were, however, structurally more open to opportunity than SA's established markets.

Opportunities in Eastern Europe could be taken advantage of in the short term as the Eastern bloc countries were restructuring their economies, he said.

These countries would benefit from the SA motor industry's technological expertise, he added.

However, exports to the rest of Africa would not be immediately viable because of certain African leaders recalcitrance in renouncing socialist principles that had kept most of the continent "wallowing in an economic morass", Twine said.

Zimbabwe, with a meagre 230 000 vehicles, has one of the highest vehicle populations in Africa. Most other African countries have significantly less in comparison.

13/2/71
B 102

Africa sets down to business

FOR the first time in decades, since apartheid shunted South Africa into political isolation, business leaders from neighbour countries from South Africa to the Equator and beyond are planning to sit down about real economic co-operation.

The whole agenda will revolve around ideas on how to dust the cobwebs off trade routes and push the starter buttons on economic motors that promise to give a new tempo to the sub-continent.

March 13 is the date when they meet on neutral ground in Swaziland to begin a three-day indaba that the sponsors hope will bring South Africa in from the cold and trigger a new wave of trade flows.

Encouraged

"We're going to have the chance to set the whole sub-continent on a path towards real economic dynamism," says Ron Haywood, deputy director-general of the SA Chamber of Business.

"If we all seize the chance to pool our combined potential resources, the whole sub-Saharan region will benefit, with higher living standards for everyone."

"More and more businessmen, inside and outside South Africa, have come to realise that we dare not miss the opportunity."

Optimism about the outcome has been encouraged by the mix of sponsors behind the indaba. Alongside Saab will be the

One of the first key 1991 dates to be heavily underlined in many South African business diaries will be March 13. It all goes well, it may mark the start of a brand new era in trade and economic relations with the rest of the sub-continent. MICHAEL CHESTER reports.

National African Chamber of Commerce as well as the SA Foreign Trade Organisation in a team operation with the Quand Foundation of Germany and the multinational BMW motor company.

More encouragement stems from the fact that the keynote speaker will be King Mswati III of Swaziland, the current chairman of the vast Preferential Trade Area that covers much of the heartland of Black Africa and who is known to favour a closer look at bringing South Africa into the fold.

Mr Haywood can already sniff the chances of success. He bases his optimism on the warm welcomes handed out to low-profile but significant South African business delegations that have broken the ice with appearances as observers at a number of trade conferences in hitherto hostile territories across the northern borders as the political cold war thaws out.

"Now that South Africa has launched into democratic reform in earnest, a growing list of neighbour states have started to acknowledge the pure common-sense of economic co-operation," he says.

"As the political dust settles and political emotions calm down, there is now a growing

willingness among everyone to agree that the full economic potential of the sub-continent has been handicapped by fragmentation as well as political divisions."

Mr Haywood pulls out a batch of maps that show Africa south of the Sahara in a jumble of jigsaw pieces based on trade agreements. They rarely interlock very smoothly.

The pieces begin with a cluster of 15 countries that form a union called ECOWAS — the Economic Community of West African States, reaching across from Sierra Leone to Niger and down from Mauritania to Nigeria.

Next comes a huddle of nine countries that group themselves under the banner of CEEAC — the Economic Community of Central African States, running from Chad down to Zaïre.

The jigsaw pieces start colliding when they begin to overlap, as seen in the composition of the next trade bloc, the PTA, or, more formally, the Preferential Trade Agreement for East and Southern Africa, stretching down from the Sudan and Ethiopia all the way to Zimbabwe and even as far as Swaziland and Lesotho.

The overlapping is compounded by the union known as

Economic Community of West African States

1. Benin
2. Cape Verde
3. Gambia
4. Ghana
5. Guinea
6. Guinea Bissau
7. Ivory Coast
8. Liberia
9. Mali
10. Mauritania
11. Niger
12. Nigeria
13. Senegal
14. Sierra Leone
15. Togo

Economic Community of Central African States

16. Cabinda (Angole)
17. Cameroon
18. Cen African Rep
19. Chad
20. Congo
21. Equ. Guinea
22. Gabon
23. Sao Tome & Principe
24. Zaïre

Preferential Trade Agreement Area for East and Southern Africa (includes SADC states)

24. Zaïre
25. Angola
26. Comoros
27. Djibouti
28. Ethiopia
29. Kenya
30. Lesotho
31. Malawi
32. Mauritius
33. Namibia
34. Rwanda
35. Somalia
36. Sudan
37. Swaziland
38. Tanzania
39. Uganda
40. Zambia
41. Zimbabwe

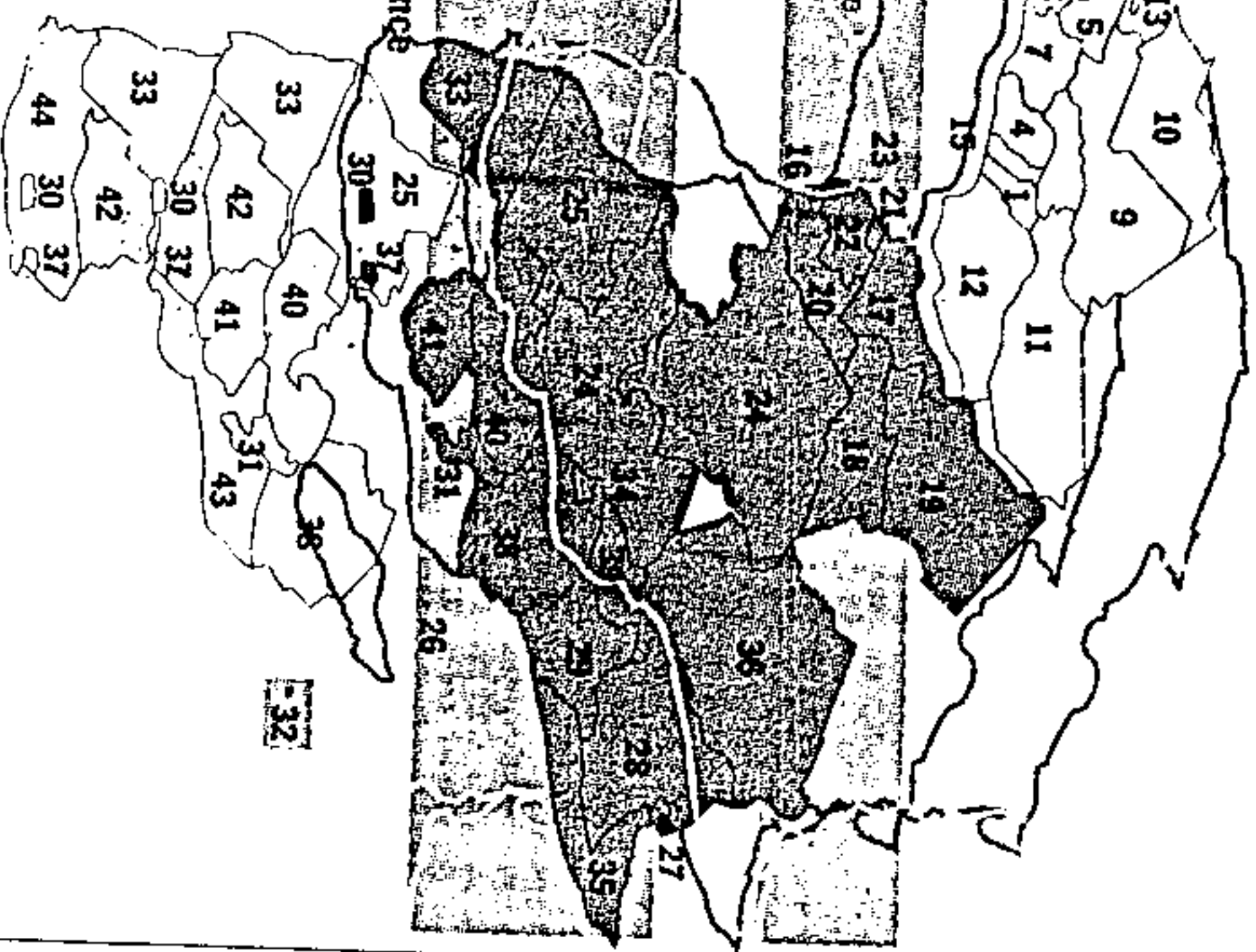
Southern African Development Coordination Conference

25. Angola
30. Lesotho
31. Malawi
33. Namibia
33. Namibia
37. Swaziland
38. Tanzania
40. Zambia
41. Zimbabwe
42. Botswana
43. Mozambique
44. South Africa

Southern African Customs Union

30. Lesotho
33. Namibia
37. Swaziland
42. Botswana
44. South Africa

Graphic: GAIL IRWIN



SADCC, the Southern African Development Co-ordination Conference, a formation of what until now have been known as the Frontline States.

These states forged links among themselves in the early 1980s with the ambition of cutting reliance on the South African apartheid regime.

And the overlapping is repeated when one comes to count the members of SADC, the Southern African Customs

Union, which ties SA with Botswana, Namibia, Lesotho and Swaziland. More confusion is added to the jigsaw by the separate existence of ECOWA, the Economic Community of Southern Africa,

"In isolation, each piece of the jigsaw displays its own economic limitations," says Mr Haywood.

"Make all the pieces fit, however, and the sub-continent begins to show a whole new set of economic muscles."

"True, the amount of trade between South Africa and the rest of the sub-continent has been fairly substantial in recent years, even through the worst of political hostility."

"But it has largely had to be buried under the surface — under camouflage to escape political attention and often a nightmare to exporters and importers."

"Think what could be achieved if trade and economic links could come from under the wrappings of secrecy and be given free rein."

"The potential mutual benefits are immense, not only in trade volumes but also from pooling hi-tech know-how and all sorts of services, from power grids and water systems to medical and agricultural services."

"We are giving a high rating to the chances of success at the March 13-16 indaba."

"Representatives are expected from both the PTA and the SADCC and we plan to push far beyond mere lip service to the idea of co-operation."

"Everyone is aware of evidence that the sub-continent is slipping further and further behind the outside world, with living standards in actual decline — and we believe solutions may be close at hand," Mr Haywood said.

FOREIGN TRADE

1991 — MARCH — APRIL

Deregulation proposal set to ignite coal exports

CAPE TOWN — Coal exports, SA's second biggest foreign exchange earner after gold, are likely to be boosted by deregulatory measures proposed by the Coal Advisory Committee.

Cabinet has accepted the committee's finding that it is no longer necessary for government to control coal exports, and has implemented recommendations to scrap regulations which enforce control with immediate effect.

The repeal of various laws and conditions affecting coal exports — including parts of the Import and Export Control Act and Coal Resources Act — will remove the export allocation system and should boost exports by making it easier for new exporters to enter world markets.

Mineral and Energy Affairs Deputy Minister Piet Welgemoed

LESLEY LAMBERT

said last week the deregulatory measures would "remove all remaining impediments to the operation of free market forces in the conduct of coal exports, including possible participation by new coal exporters".

Coal and coke were declared export control commodities in 1973 as a result of the international oil crisis. Since then, the coal export industry has grown into the largest in the world.

The Coal Advisory Committee found that government had played a significant part in building up the industry but its role in ensuring the optimum use of coal resources, protection of the domestic market requirements, regional development, orderly marketing and environmental protection had been overtaken by market forces.

It recommended government monitor and influence the industry through other statutory measures in the event of coal shortages in the domestic market.

But it found the long-term requirements of the industry's main domestic customers, such as Eskom and Sasol, were unlikely to be affected by an increase in exports. Coal was exported from the higher quality reserves and Eskom and Sasol used low grade coal.

In another development, a Bill proposing the repeal of coal levies paid by the industry and government to the Central Energy Fund was tabled in Parliament.

Coal mines pay levies of up to 3c a metric ton on coal sold or used for industrial purposes and government contributes an equal amount to the fund for research purposes.

● See Page 7

Controls on coal exports are finally swept away

Star 1/4/91.
By Sven Lünsche

The Government has abolished formal control of coal exports.

Dr Pan Welgemoed, the deputy Minister of Mineral and Energy Affairs, says the Government has accepted the recommendations of the Coal Advisory Committee.

"The coal export industry has reached a stage where formal Government control of coal exports is no longer necessary," Dr Welgemoed said in a weekend statement.

Any remaining impediment to the operation of free market forces in the conduct of coal exports, including possible participation by bona fide new coal exporters, would be removed.

The recommendations come into effect immediately and mean in essence that the coal export allocation system no longer applied, Dr Welgemoed said.

Export permits from the Department of Trade and Industry would still be required, however.

The restrictions on coal exports imposed a burden on the industry in the mid-1970s when the Government imposed coke and coal export control commodities.

Over the years, however, the restrictions have been eased and the last move was to impose a coal export ceiling of 80 million tons per year for 30 years.

This represents only 4,4 percent of SA's coal reserves, but annual exports have never come close to that level. The highest level of exports achieved so far was 47,4 million tons last year.

The Coal Export Committee recommended that Government, through the National Energy Commission, continue to monitor and influence the coal industry through other statutory measures and mechanisms that are, or could be, applied.

This includes the enforcement of measures in the unforeseen event that coal shortages might arise in the domestic market.

Formal export control could also, if need be, be re-introduced in terms of existing legislation, Dr Welgemoed said.

Sacob slams Consol's protection application

CAH-7005 1/3/91 (74) 103

Financial Editor

CONSOL GLASS has made a new application for an increase in the tariff on imported glassware intended for kitchen and table use, according to a notice in the Government Gazette.

This comes within weeks of an announcement by the firm that it was withdrawing an earlier application for tariff protection.

The original application was strongly opposed by the Cape Town Chamber of Commerce, Sacob and the Houseware Merchants Association.

A report in the latest issue of the Chamber of Commerce's weekly Bulletin said the original application would have increased retail glassware prices by between 180% and 400% resulting in lower sales and endangering thousands of jobs in the distribution chain for imported glassware.

The new application asks for smaller but still significant increases in the protective tariff.

The November application asked for all existing tariffs of between 5% and 20% to be increased to a flat rate

of 30% or 200c each less 70% ad valorem"

The new application asks only for an additional 10% tariff.

In four categories the tariff requested will amount to a three-fold increase — from 5% to 15% and in five other categories the tariff requested will rise by 50% from 20% to 30%.

The items concerned are non-luxury glassware such as dinner plates and tea cups and the poorer section of the community would be most affected.

The chamber said although the scale of the increases had been reduced, the principle remained that it was inappropriate to increase protection for local industry at a time when SA should be preparing to become a competitor on the international scene.

"Retailers and wholesalers had looked abroad for suitable products because of Consol's limited ability to meet the demands of the market in terms of quality, variety and availability," said the chamber.

Band steady

C

Angry importers slam new duty on video cassettes

SA VIDEOTAPE suppliers have lashed out at government's imposition of an amended duty on all imported unrecorded video cassettes.

The new duty, gazetted on Friday, was "supposedly" designed to protect SA's local videotape manufacturing industry, industry spokesmen said yesterday.

However, the country's only manufacturer — FX Marketing — was recently liquidated, which meant there was no need for protection. The end-user would have to bear the additional cost, they said.

Deputy Trade and Industry Minister Theo Alant said yesterday the fact that the local manufacturer had been declared insolvent did not mean production of the product was terminated.

"Should local production be terminated altogether, any party is entitled to apply for a reduction in the duty," he added.

In terms of the amended duty, a charge of 10% or R3,50 — whichever is the greater — will be levied on tapes less than an hour long, and the greater of 10% or R5 will apply for tapes over an hour long. A 90% deduction of their free on board (FOB) value is made on these amounts. The move is effective from March 8.

Alant said current duties on cassettes under an hour long were the greater of 10% (ad valorem) or 350c and 10% (ad valorem) or 500c for those over an hour. A 90% ad valorem deduction is then made.

"The formula duty comes into effect when the products are imported at disrup-

PETER GALLI

tively low FOB prices below the reference prices of 350c and 500c each. This has the effect of increasing the landed cost to the importer to just above 350c or 500c per unit," he said.

One industry source, who declined to be identified, said total duties on a two-hour tape of \$1 amounted to 65% before the amended duty was introduced. Under the new duty, this had surged to 204%.

In addition to the amended duty, a 15% surcharge is also imposed.

Magnetic audio tape and film products supplier Worldwide Zonal MD Ron Singer said the amended structure would have the largest effect on tapes in the price range of \$0,90 to \$1,50. These tapes are mainly used in the professional industry.

The industry source questioned whether government's motive was to protect the "non-existent" local industry. It was more likely government wanted to increase its revenue ahead of expectations of reduced surcharges in the Budget.

Alant emphatically denied this.

Video communications distributor TL Electronics MD Howard Sidelsky said videos played a major role in SA's communications development, especially education.

Alant said prices of cassettes used for educational purposes would probably only be subject to 10% ad valorem duty.

B10 any 14/3/91

74

19/51

Call for removal of tyre import controls

Bloom 5/4/91
THE Board of Trade and Industry (BTI) has called for the removal of the stringent import controls on tyres, a Department of Trade and Industry spokesman said yesterday.

The move is likely to encounter stiff resistance from the tyre industry. An industry spokesman said yesterday if import controls were lifted, severe pressure would be placed on local tyre manufacturers and there would be large-scale unemployment.

The quantitative import control prevents the large-scale importation of tyres into SA. Imported tyres would cost substantially less than tyres manufactured locally, motor industry sources said.

The tyre industry spokesman said the

MARC HASENFUSS

industry would come under pressure, not because local tyre manufacturers were uncompetitive but because they were forced to buy their raw materials locally at comparatively high prices. (74) (199)

The spokesman said although local manufacturers were reporting strong profit growth, much of the profit was put back into the business to ensure SA's tyres met international requirements.

BTI chairman Lawrence McCrystal said no representations had been received from local tyre manufacturers.

The department spokesman said no official decision had been taken.

Safeguards against dumping required

By Sven Lünsche
and David Canning

74
Star 12/4/91

The plan by the Industrial Development Corporation (IDC) to fundamentally restructure South Africa's trade policy has received a mixed reaction from the business sector.

The proposals by the IDC are designed to replace past protectionist policies with others aimed at achieving an export orientated environment and making local industry more competitive.

The SA Chamber of Business said it was not yet in a position to comment fully on the far-reaching proposals, which include calls for an immediate lifting of import surcharges and

a modification of tariff protection policies.

In a statement Sacob stressed that any changes in tariff structures should form part of an overall industrial strategy and should be only one of the elements of a policy to strengthen the international competitiveness of industry.

"An adequate phasing in period of progressively lowering tariffs is also an essential procedure in this process," Sacob says.

However, Natal Chamber of Business president Errol Rutherford warns that the unplanned removal of tariffs could knock out some companies already battling to survive in a recessionary environment with high

interest rates and high corporate taxes.

The report shows import tariffs have inhibited the country's export performance and have cost the country the equivalent of 12 percent of its gross domestic product. If the impact of the surcharge is added, the burden rises to 14 percent of GDP.

However, Mr Rutherford's plea is likely to be repeated by many companies whose cosy domestic environments may be disturbed.

The textile industry, for example, already claims great hardship has been caused by policies which allow foreign competitors to dump products in local markets.

The clothing industry, in con-

trast, has a long-standing complaint about local textiles.

Brian Brink, the executive director of the Textile Federation, welcomed the overall plan to create a more competitive trading environment but stressed that safeguards against disruptive international trade and dumping were required.

"It is difficult to implement effective anti-dumping measures and efforts to apply the Anti-Dumping Code of GATT have largely failed and been replaced with quota systems in many countries," Mr Brink says, referring to the IDC's recommendation that SA should sign the GATT's Anti-Dumping and Subsidies Code.

Trade body calls for ties with SA

By Day 23/4/91
TIM COHEN

HARARE — The secretary-general of the 18-member Preferential Trade Area (PTA) yesterday called on the UN to initiate talks on developing a mutually beneficial relationship between his organisation and SA.

Addressing the Institute of Directors' conference, Bingu Wa Mutharika said the PTA's member countries, from southern and eastern Africa, agreed that post-apartheid SA had a "critical role" to play in the region. (74)

He called for a "new dialogue", to be followed by an attempt to design a mutually beneficial political, economic, social and cultural relationship between the PTA states and the new SA.

He said the process should be initiated by the UN because of its experience in dealing with regional issues. Donor agencies should also be involved.

He said there were fears that SA's huge industrial and technological lead would overshadow the PTA's prospects for industrialisation and called on the international community to help strengthen African economies.

"There is a genuine concern among peace-loving countries that unless proper safeguards are agreed internationally, the sheer economic and industrial strength of SA will pose new challenges to the political, economic and social systems in the region."

SA invited to crucial trade conference

REPRESENTATIVES from 14 African states will meet SA business representatives in Swaziland next week to discuss the possibility of forming a giant new sub-Saharan trade bloc.

It is the first time representatives from two formerly hostile organisations, the Southern African Development (Co-ordination Conference (SADCC)) and the Preferential Trade Area (PTA) will take part in a conference arranged by SA organisations.

The conference is being sponsored jointly by the Herbert Quandt Foundation, the SA Chamber of Business (Sacob), the SA Foreign Trade Organisation (Safto) and the National African Federated Chamber of Commerce and Industry (Nafcoc).

Important participants in the con-

8 | par 8/3/91
74
TIM COHEN

ference include African Development Bank vice-president M Sangowawa, PTA vice-president Bingu Wa-Mutharika, and Lesotho National Development Corporation MD A Monyake, who is also a senior IMF representative.

Nafcoc president Sam Molsenyanane has described the conference as "the beginning of an end to trade isolation" for SA.

Safto CE Wim Holtes said yesterday "some sort of more permanent communication structure" might emerge from the conference, which is intended to be the first in a series.

Holtes said numerous forms of eco-

economic co-operation were possible, including the EC model of no internal tariffs.

While this form of economic co-operation might not be suitable for Africa, trade relations should be harmonised and inter-regional trade stimulated.

The participation of the African Development Bank, which spends \$2,85bn in Africa annually, was particularly significant, he said.

Africa Institute head Erich Leistner said that in a world economy increasingly dominated by a few giant trading blocs, leaders in the relatively small economies of southern Africa should ask themselves whether they could afford to not strive for closer regional union.

THE ROAD TO EUROPE IS VIA AFRICA

FM

8/3/91

~~C2798558A~~

74

SA should forget about joining the Lomé Convention, the agreement under which the European Community grants trade and aid concessions to 69 developing African, Caribbean and Pacific countries.

Instead, says the SA ambassador to the EC, Bhadra Ranchod, SA should work towards signing its own trade and co-operation agreement — after it makes the necessary political reforms — with the EC. Such an agreement could call for the reciprocal opening of markets for specific products.

After the announcement last month that the EC will open an office in SA and more than double its aid for the country, speculation was this would pave the way for SA's eventual admission to the Lomé Convention.

But Ranchod says SA has little chance of being accepted. The sophistication of SA's infrastructure places the country firmly in the developed realm — at least in European eyes. Namibia was admitted late last year only after the rules were bent a bit.

The benefits Lomé countries receive from the EC are substantial: almost all exports can enter the EC free of duties or quotas. As a result, the EC market comprises about 25% of all Lomé country exports.

Guy Guerneur, president of the board of administrators of the recently formed Brussels-based International Association for Co-operation and Development in Southern Africa, agrees that SA is not likely to be admitted to the Lomé Convention. Guerneur is a former top Lomé Convention official.

"Apart from SA being viewed in Europe as a developed country, Lomé privileges apply only to developing countries that were colonies in 1960," says Guerneur, speaking from Brussels.

"The way to cement future trade and investment relations is the tripartite route between SA, the EC and the Southern African Development Co-ordination Conference (SADCC) countries. And, as the way for SA to Europe goes through Africa, the way for Europe to Africa will go through SA."

The reason is SA's close cultural, economic and historical links with Africa, as well as with Europe. "SA can become the vital link for three-way co-operation in the post-apartheid era," he says.

But before this can happen, SA's relations with the SADCC countries, which have already firmly established ties with the EC through Lomé, must first be normalised. And though EC investment sanctions have been revoked, trade sanctions against SA also must go. Once these conditions are met, Ranchod says, SA could follow the example of Chile, which entered into a trade agreement with the EC that opened new markets and garnered fresh investment.

There is another carrot: as soon as the groundwork for an agreement is laid, SA could benefit by taking part in EC development projects in the SADCC countries. In fact, Ranchod says, the EC has stipulated that a post-apartheid SA should help to uplift the SADCC countries.

Signing bilateral trade agreements with the EC and SADCC may not only benefit SA in the years ahead, it may also be necessary as the world increasingly divides itself into trade blocs.

"Membership of an economic bloc may become essential for any country wishing to expand its trade links in the Nineties and beyond," Ranchod says. "Apart from the EC and SADCC, we should look at the possibility of an Indian Ocean economic bloc. SA's 1m-odd people of Indian descent have cultural links with the Indian subcontinent, which has a massive domestic market, including 190m middle-class people."

Guerneur says an Indian Ocean bloc could lead to a similar tripartite relationship. "In view of the EC's close links with India,

panies have been pulling out of Francophone Africa. "The bank would prefer to finance African projects through SA."

SA is already co-operating with its neighbours on several projects. Last month SA, Mozambique and Swaziland agreed to develop jointly the water resources of the Inkomati river basin, which straddles the three countries. This will involve the building of two large dams on the river and launching of irrigation projects to provide jobs for the expanding population.

The SA Foreign Trade Organisation's Angela Self says a 10-person delegation from Safto's African Business Development Group has just returned from a fact-finding mission to Zambia. The purpose: to study a possible US\$10m upgrading of Zambia's inland harbour at Mpulungu on Lake Tanganyika.

"The best examples of regional development projects are the R5bn Lesotho Highlands Water Project and, to a lesser degree, the huge Cahora Bassa hydroelectric project in Mozambique (European companies are involved in both)," she notes.

Self also points out that as soon as the wars in Angola and Mozambique are resolved, massive infrastructure and development projects funded by the World Bank and other international agencies will be launched. SA could become deeply involved.

The increasing co-operation in the region will be underlined at a conference next week in Swaziland. Sponsored by BMW (SA) and the Quandt Foundation of Germany, supporters include Safto, the SA Chamber of Business and the National African Chambers of Commerce. Government officials and business leaders from SA, 14 African

states (as far afield as Tanzania, Ivory Coast, Senegal and Kenya), the UK, the US, France, Italy, Germany and the Far East will attend the three-day meeting in Mbabane. Top executives of various African agencies will also be on hand.

The purpose is to discuss the formation of a sub-Saharan preferential trade bloc. The topics will include mining, energy, manufacturing, education and training, transport, communications, inter-regional trade, funding, financing, tourism, conservation and inter-regional trade.

So the Nineties could be a decade of expanding trade for SA. "This development is part of the global changes taking place since the collapse of communism," says Barlow's Groeneweg.

"The same value system (democracy, free markets) are now being accepted globally. This is affecting our own reforms and also our growing links with Africa, Europe and the world."

Arnold van Huyssteen



South Africa ... Europe's trade bridgehead in Africa?

Madagascar and the Indian Ocean islands, SA could also fulfil a linking role with an Indian Ocean bloc because of its Indian Ocean location and its Indian population."

Barlow Rand director Ewert Groeneweg says the private sector in Europe is disillusioned with its investment in Africa. In view of the political change in SA, it is now taking a new look at SA's bridgehead role.

"The route for SA to Europe lies through Africa, and European businesses know that SA know-how would be invaluable for their investments in African states," he says. "Africa is also anxious for SA to fulfil this role because it is suffering economically."

An indication of the new European thinking on SA's role in southern Africa is the appointment of a counsellor to SA by the influential Paris-based Rothschild Banque.

The counsellor, Intratech MD Johan Erasmus, says the bank sees SA fulfilling a crucial connecting role in African economic development, especially since French com-

Bank looking at neighbours

Business Day Reporter

THE Development Bank was seriously considering a closer involvement with SA's neighbouring states "as the political situation normalises and sanctions are eased, and with the possibility of international finance becoming more readily available", a senior bank official said yesterday. *8/04/11/191 (62)*

Field manager Peter Freeman said the bank was already giving limited technical assistance in Lesotho and Mozambique.

Exploratory talks were also being held with Malawian and Swazi authorities on the possibility of helping to "strengthen municipalities and building societies in those countries". *(74)*

He denied a report by the Zimbabwe news agency Ziana that the bank had already set aside R4bn for such development. *(900)*

Trade increase of \$5bn 'only lacking promotion'

B/pan 15/3/91

TIM COHEN

74

MBABANE — Trade between African countries could grow by \$5bn if appropriate measures were taken to promote it, Preferential Trade Area Federated Chamber of Commerce and Industry president Sir Kailash Ramdaneetold a conference on regional co-operation here yesterday.

Speakers from the Preferential Trade Area, Chamber of Commerce and Industry and the Southern African Development and Co-ordination Conference Business Council emphasised the need for regional co-operation at the conference yesterday.

Ramdaneet's speech was read by SA Chamber of Commerce (Sacob) deputy director Ron Haywood after Ramdaneet was unable to attend.

Ramdaneet said the world was on the threshold of a new technological revolution which would increase world-wide competition, against which developing countries could not compete, he said.

But by pooling their resources, a group of countries could at least "internalise" the new developments, in production techniques and information technology.

Inefficiency and misconceptions were mostly to blame for the fruits of co-operation in Africa not matching expectations, he said.

Regional organisations should limit themselves to the role of facilitators and leave initiatives to private enterprises, he said.

LIBRARY

ACCOUNTING

DEPARTMENT OF

UNIVERSITY OF CAPE TOWN

Hope for SA involvement in Zambian harbour project

REPRESENTATIVES of eight SA companies who visited Zambia recently to investigate facilities at the inland harbour at Mpulungu — on the southernmost tip of Lake Tanganyika — have returned with favourable impressions of the feasibility of SA's involvement in the rehabilitation of the harbour.

The visit took place under the auspices of the SA Foreign Trade Organisation (Safto).

The development of the harbour will facilitate the transport of goods up the lake to the inland port of Bujumbura in Burundi and then on to east Africa.

The first phase of the project, aimed at restructuring the harbour into a storage wharf, is to be financed by the EC at a cost of \$9m. The second phase, which SA businesses could possibly finance, involves containerisation, renovation of warehouses

and construction of an additional two buildings.

Safto's Regional Trade Centre manager Angela Self said yesterday the reason for the visit was to gain first-hand knowledge of the available facilities.

"We really want to see how SA could investigate what facilities were lacking," she said.

"Much needed expertise in structural, civil and marine engineering for the second phase of the project as well as the materials handling would possibly be provided by SA companies.

"Soil conditions, tidal flow and how to improve the geology of the area are major restricting factors and SA experts would be involved in solving these problems.

"However, once completed, the speed

and handling capacity of goods at the harbour would be vastly upgraded," Self said.

Last year the handling capacity was only 70 000 tons. Most of the goods handled were steel, cement, sugar and perishable goods travelling north into central Africa. With the rehabilitation, over 120 000 tons could be handled with relative ease, Self said.

"The EC has pledged about \$9m to the project and SA would be looking at less than half that amount.

"At the moment reorganisation of the entire port area is a necessity. The streets of Mpulungu are constantly clogged with trucks waiting to get into the harbour area. There is no hard ground and during the rainy season conditions are just about impossible."

SA would also provide quayside equipment such as cranes and forklifts to facili-

tate the efficient operation of the port. They would also service and maintain the handling equipment, she said.

Safto's Africa Business Development group manager Paul Runge said recently that he was optimistic about the changes that could be effected in the harbour at relatively little cost.

"We have received excellent co-operation from the Zambian authorities and the only impediment to the project now is lack of funds.

"From SA's point of view a tremendous amount of trade could be facilitated through the harbour once it has been enlarged and upgraded. However, before that can happen, there is a lot of work to be done," Runge said.

Management would have to be stationed at the harbour site to oversee construction and any problems that might occur.





Doors are to open as sanctions on clothing end

AK6
18/3/91
74
1000

By TOM HOOD
Business Editor

DROPPING of sanctions on South African clothing is expected to lead to major export opportunities, says the National Clothing Federation today.

Latest estimates for clothing exports are R200-million in 1990, R300-million in 1991 and R500-million in 1992.

"If these targets are achieved, the clothing industry could be a catalyst in reducing the high unemployment levels in the Western Cape, Natal, the national states and ultimately South Africa as a whole," says Mr Arnold Eerbeloff, NCF economist, in a report today.

A rise in clothing output has been accompanied by a drop in clothing employment indicating a growth in productivity per worker, he reports.

Industrial Council data shows that the largest decreases have occurred in Natal, which is down from 45 100 in January 1990 to 42 600 in January 1991, and the Western Cape down from 55 300 to 53 600 over the same period.

Decline in employers

Altogether 5 600 jobs have been eliminated over the 12 months, representing 5 percent of the national clothing workforce.

This downturn in employment is reflected in a less than proportionate decline in employers.

The clothing industry had 37 fewer employers at the end of 1990, with smaller workforces per employer (93 vs 96 people)

producing considerably more per worker in November 1990 than in November 1989.

As a leading job-creating mechanism, the clothing industry must be encouraged to meet export opportunities at all times, and not only in recession when excess capacity is available, he said.

"The NCF is encouraged by the increased number of inquiries which it is receiving from abroad since the State President's opening speech in parliament. "It is apparent that the local clothing pipeline could become a significant player in African, North American and other markets if it readies itself now for the challenge of international trade.

"The benefits of increased job creation, better living standards, lower clothing prices and greater bargaining power on world markets are there for the taking.

The South African economy is in a state of flux, as a result of the rapid rate of change in the socio-political environment. The dismantling of apartheid, the negotiations which have yet to begin in earnest and the pressure from abroad to move toward an internationally acceptable constitution, have all led to uncertainty in the minds of consumers and investors. This is seen in conservative forecasts for domestic spending and production over the year.

However there are grounds for optimism, as sanctions are likely to be lifted on trade and investment, foreign debts rolled over and interest rates lowered during 1991.

s
e
i
c
h
h

Flood of trade delegations

SA firms in major drive into Africa

Blday 6/3/91

74

SUB-SAHARAN Africa is ignoring ANC pleas to keep sanctions in place and is showing unprecedented interest in developing trade and business contacts with SA.

SA companies are responding to the opening markets by increasing trade, tendering for development work and establishing joint ventures in many African countries.

Safto Africa specialist Paul Runge says that with a few exceptions, all sub-saharan countries are now open.

A host of business delegations have visited SA in recent months, including some from previously hostile countries, such as Nigeria.

Other delegations came from Guinea-Bissau, Burundi, Zaire, Angola, Nigeria, Mozambique and Madagascar.

Two weeks ago, Cameroon, one of the last nations observing the boycott, signalled its intention to allow trade with SA. Gabon was until recently allowing trade on an under-the-counter basis, but will now deal more openly.

Evidence of the new relationship with Africa is shown by the 40% jump in SA exports to Africa in 1989, which further increased by 22% last year.

Zaire has grown quickly to be SA's second largest market in Africa after Zimbabwe. Angola and Kenya also offer very good prospects.

SA trade delegations are now well received north of SA's borders. Companies which are gearing up to exploit opening markets in Africa include:

- Nissan, which has set up a special new trading company, Motoware, to handle ex-

KEVIN DAVIE

ports to Africa, and is considering requests to establish joint ventures. The exports include parts made by other manufacturers;

□ Tiger Oats, which is developing trade in nine countries, and has expanded its international arm to include an African desk;

□ Safair, which is running its fleet at capacity because of demand from Africa. It is considering a flood of requests for assistance with infrastructural projects;

□ The CSIR, which is active in eight African countries, including involvement in the rehabilitation of Malawi's road network;

□ Grinaker, which has tendered in recent months for several World Bank projects; and

□ Credit Guarantee Insurance Corporation (CGIC), which is active in underwriting the risks of new exports to markets in Africa.

Stanbic's Manfred Schutte says Botswana has recently granted a banking licence to an SA bank, and that Stanbic has been approached from one or two countries interested in re-establishing banking relations with SA.

"The Africans see that Europeans are less interested in Africa because of Europe 1992 and eastern Europe."

The French, says Safto's Runge, have reduced private investment in Africa by 30%.

Many African countries are therefore looking to SA. "They have excessive expectations," he says.

Safair's Braam Loots says Safair may

□ To Page 2

Africa

expand its fleet because of demand from Africa. He says Safair is active in the whole of southern Africa, and has dealings in, or inquiries from Zimbabwe, Zambia, Mozambique, Kenya, Gabon and the Ivory Coast.

Nissan's Robin Phillips says: "Africa appears to be grubby and bankrupt, but penetrate the surface and there is gold, including billions of rands of aid money."

□ From Page 1

"We're optimistic. Africa is a very exciting and profitable market," he says.

Tiger Oats's Patrick McLaughlin says the company is travelling in nine or 10 African countries right now. "We find ourselves working in close co-operation with European companies who are already active and are looking more and more to SA as a reliable trading partner."

Indaba the acid test for north-south trade thaw

THE readiness of black Africa to bury sanctions hatchets and resume normal trade ties will be put to the acid test in Swaziland next week.

The occasion will be an economic Indaba on March 13 to 15 that promises to mark the most significant initiative to boost north-south trade in decades.

At stake will be whether the southern Africa subcontinent decides the time is ripe to talk in earnest about economic co-operation in a common market reaching as far as the Sahara, or whether lingering political suspicions force the issue back to the bottom of the agenda.

Sacob deputy director-general Ron Haywood, a tireless advocate of a sub-Saharan economic union, is optimistic about the outcome.

Insiders know that in many ways the sanctions barricades erected by northern neighbours against South Africa have been more political rhetoric than reality. Neighbours have been as grateful as South African exporters and importers about the refusal of the SA Department of Customs and Excise to disclose actual statistics of cross-border trade in recent years.

Devious

The screen on information has protected one and all from the political embarrassment of revelations about the growing scale of two-way trade. However, running the politi-

cal gauntlet has been an expensive handicap to both sides when one considers the cost of camouflage over trade operations — the "sanctions premiums" paid to middlemen and the extra expense of finding devious routes to escape attention.

Protagonists of economic union have begun to look at wider benefits than merely cuts in transport costs as a result of lifting trade from under the wraps of secrecy.

They turn their binoculars on to the huge potential rewards promised the entire region if the neighbours mobilise and pool all their resources: electricity services; road, rail and air links; medical facilities; tourism attractions; and agri-

The SA Chamber of Business (Sacob) senses good vibes on both sides of the Limpopo about the chances of an imminent thawing-out of the freeze in trade relations between SA and the Frontline states as the collapse of apartheid improves the entire political climate. MICHAEL CHESTER reports.

cultural and industrial know-how.

"Even at the peak of sanctions there was quite a lot going on behind the scenes," says Mr Haywood. "The mind boggles at the size of the economic potential that can be tapped if full-scale economic planning came out into the open."

The Swazi Indaba is expected to provide a barometer to the

trade outlook. Not only will the conference be held on relatively neutral ground, but the mood has also been helped by the neutrality of the main sponsors — the Herbert Quandt Foundation, created by the BMW motor company of Germany.

The neutrality and ambitiousness of the Indaba is underscored by the wide spectrum of speakers and organisations ex-

pected to take part. Some 14 African countries will be represented, several of which have been at the forefront of the sanctions blockade until now.

The powerful South Africa delegation preparing for the trade safari will stress its new business image by the inclusion of such leading black leaders as National African Federated Chambers of Commerce president Dr Sam Molsuenyane.

Among a number of international speakers expected to be prodding the subcontinent towards greater co-operation will be David McArdams, head of the southern Africa division of the UN Development Programme. Reinhardt Kunster, managing director of BMW SA, is

bursting with enthusiasm about the chances of a new north-south co-operation pact.

"The obvious vital need is a total industrial reconstruction plan that can generate more power out of the economic motors of the whole subcontinent," he says.

Breakthrough

In view of all the positive vibes in response to invitations to the Indaba, he believes a breakthrough may be at hand.

So does Dr Molsuenyane. "It signals the beginning of an end to the trade isolation of South Africa that has had an adverse impact on economic development of the whole region," he says. "The importance of the

encounter is underpinned by the fact black business in particular will be given a practical opportunity to increase trade with our neighbours to the north."

SA Foreign Trade Organisation chief executive Winn Holmes adds: "The time has come to negotiate the economic future of the region with a clean slate. Let's forget past confrontations and the harm done by the lack of communication between governments. Let's sit down and discuss the immense mutual benefits of co-operation."

Mr Haywood agrees: "Businessmen can no longer wait for the politicians to shake hands. The first priority is to get the whole region in better economic running order." □

SA firms learn to do business the African way

By Day

7/31/91

AFRICA has for decades been a dark continent for SA business. These markets are now rapidly opening up. But, say experts, there is a special way to do business in Africa.

The biggest problem in Africa is the ability to pay, says Saffo Africa specialist Paul Runge, who has 11 years of experience on the continent.

He says Africa has enormous demand for everything. There are few markets still closed to SA, but firms wishing to increase business in Africa need to know how to get paid.

SA firms which set up in Africa can benefit from very liberal investment codes, long tax holidays, repatriation of profits and free export processing zones.

Runge is manager of Saffo's African Business Development Group (ABDG), which was formed in 1980, but has kept a low profile until now. Its chairman is Ian McRae of Eskom, with Saffo's Wim Holtes as deputy. The ABDG has about 40 corporate members including Anglo, AECL, Afrox, CG Smith Foods, CSIR, Dorbyl, Eskom, FNB, Murray & Roberts, LTA, Nampak, Nissan, Premier International, PPC, Safair, Sasol, SAA, SBIC, Tiger Oats and Transnet. The ABDG facilitates contact with

government and parastatals in SA and the rest of Africa to promote two-way trade and strategic investment in Africa.

Some conventional deals can and will be done, but Runge suggests other possibilities include joint ventures and working with development agencies to ensure payment.

He says the SA firm which tries to establish in Africa by itself stands very little chance of success as the markets are often complex, sometimes corrupt and need local contacts to succeed. Joint ventures are a way round the problem. An SA company will team up with a parastatal or local company to beneficiate and export processed products.

In this way SA firms benefit from access to new markets, foreign exchange earned from the exports, and are ensured payment because the partner has already proved his business acumen in the local market.

Runge stresses that person-to-person contact is important in Africa. "Some African visitors say South Africans have a bad reputation for supplying excess production to Africa, and then disappearing for a few years. This doesn't go down well."



KEVIN DAVIE

Another way of getting paid is doing work for aid agencies such as the World Bank, the UN Development Programme, and the African Development Bank (ADB).

The Abidjan-based ADB spends \$2,85bn in Africa annually, and is a major player in co-financing deals with the World Bank and governments. It was, until two years ago, hostile towards SA, but this is changing. SA delegations have been received at the ADB's Abidjan headquarters. An ADB representative will participate later this month at a Sacob/Saffo/Nafcoc-sponsored conference in Swaziland.

Runge says people have mistakenly been under the impression that South Africans are excluded from World Bank projects. Another misconception is that the World Bank builds only dams and bridges. An SA company recently won a tender to supply mattresses to a hospital which was built with bank funds.

74

Registration as a consultant to the bank is important because, although non-registered companies may also tender, the bank does not necessarily award on the basis of the lowest price. More important is that the tendering firm has a track record and is well acquainted with the feasibility of the project. He adds the belief that the company which gets the tender documents first is most likely to succeed is not correct. Pre-feasibility studies often need to be done to win projects.

Runge sees potential in the longer term for closer ties with the Southern African Development Coordinating Council (SADCC) and the Preferential Trade Agreement (PTA). Saffo is encouraging SA businesses to register with these organisations.

Both are now allowing SA organisations such as Sacob and Saffo observer status at some meetings.

Runge says the multilateral agencies such as the ADB, SADCC and the PTA will be the last openly to support SA. The governments which provide the backing for these agencies will first have to agree on a new policy on SA. He indicates that this re-evaluation is under way.

He stresses that contacts with these organisations are still at the preliminary stage, meeting people, getting documentation and information on how they work. SA will be acceptable to African multilateral agencies only once membership of the OAU is allowed.

SA companies may need to coordinate their efforts to do well in Africa. "It's very important to come in with a combined bid, especially in big projects such as construction. We cannot afford to divide our efforts."

It might also be necessary to provide backup for tendering companies: "The French are very good at this. They have so much backing from the state. All kinds of mechanisms come behind to push the bid."

Consulting engineers are moving very fast to win tenders, especially those which specialise in feasibility studies. Banks too are more interested in financing in Africa.

Runge says there is a saying in Africa that under every table you will find a South African. The evidence now suggests that the under-the-counter days are over. South Africans are coming out from under the table to participate in hundreds of above-board deals.

LETTERS



SA exports to Africa soar

By Sven Lünsche

Stew 13/3/91

The political reforms introduced by President FW de Klerk last year boosted South African exports to Africa by almost 85 per cent to R5,5 billion.

In its March Quarterly Review the SA Chamber of Business (Sacob) says that in 1989 African countries already imported goods valued at about

R3 billion from SA, despite the political differences.

"As apartheid has been dismantled northbound exports soared and hit R5,5 billion last year," Sacob says.

However, the Chamber warns that South Africa's likely admission to the Preferential Trade Agreement Area for Southern Africa (PTA) will not yield further luscious dividends

overnight.

"Africa is poor and over-borrowed and our future trading partners have become heavily dependent on foreign aid and loans."

"A major problem is the almost five-to-one imbalance of trade in SA's favour. Would-be buyers are eager to do business but hard currency is scarce north of the Limpopo," Sacob comments.

74

Regional unity 'impossible'

B (Day 11/3/91)

THE uneven development of African national economies means a regional customs union, common market or economic community is out of the question, says Institute of International Affairs researcher Gary van Staden.

Van Staden argues in an honours thesis on regional integration and economic development that the divergent national economies of the nation states of southern Africa militate strongly against any one arrangement covering the entire region.

"It is simply not possible for the economies of, for example, SA and Zimbabwe to form a common market with, for example, Mozambique, Malawi, Lesotho and Swaziland." The effect on these economies would be severe, he says.

Even a free trade area, the lowest form of economic integration, might not be possible on a regional basis because of SA's and Zimbabwe's domination of the region's manufacturing base.

SA would benefit from membership of the Preferential Trade Area (PTA) as it had benefited Zimbabwe and Kenya, "but neither of those two countries would welcome the SA challenge".

SA membership of the PTA would spell the end of the SA Customs Union (Sacu) and possibly the Southern African Develop-

TIM COHEN

ment Co-ordination Conference (SADCC). Successful regional integration requires strong institutions which are able to coexist with nation-states. (74)

Of all the regional arrangements operating in southern Africa, the PTA has come closest to that goal, Van Staden says.

"The SADCC has no institutions worth speaking about while Sacu is dominated by SA with little or no regard for the wishes of its partners."

The PTA institutions are strong enough to perform an integrative function but weak enough not to threaten the individual nation states.

But evidence from the past seems to suggest that nation-states will react negatively when asked to make the complex compromises demanded of currency and trade policy alignments.

Van Staden says the gravest danger remains South African "hegemony".

"If SA continues on its current path of setting itself up as the region's 'big brother' through whom all or most of the development strategies for the region must be channeled, a political backlash from the rest of the region, particularly Zimbabwe, seems certain."

Trade with Africa now worth R10bn 'and growing fast'

SA's total trade with Africa amounts to almost R10bn a year and is growing in leaps and bounds, says Department of Foreign Affairs deputy director-general (Africa) Rusty Evans.

In a paper on the growing importance of cross-border liaison, Evans says that markets are being developed far and wide. Trade with Zaire has trebled in two years and Madagascar has opened up.

Non-bank investments in Africa are about R4bn.

There is no reason, he says, why trade with Madagascar could not quickly match trade with Mauritius, which is more than R300m a year.

However, if the sub-continent is to hold its own in an increasingly competitive world, cooperation has to continue and accelerate.

"It is essential for the region's survival that we share resources and present a large, dynamic and stable market to the world.

"This would undoubtedly attract investment from abroad, without which

MARCIA KLEIN

southern Africa cannot survive", Evans says.

The surge in SA exports to Africa was attributed to government's reform initiatives.

In a report last month, Foreign Minister Pik Botha said that SA's trade with Africa had almost doubled in the past two years, and SA would open up at least three new missions this year in countries where growth in trade was increasing most rapidly.

74 Delegations

Safto Africa specialist Paul Runge said last week that with a few exceptions, all sub-Saharan countries were now open.

In recent months SA has hosted business delegations from Nigeria, Guinea-Bissau, Burundi, Zaire, Angola, Mozambique and Madagascar.

Representatives from 14 African states are meeting SA business representatives in Swaziland.

Ken Vernon reports on a meeting that may herald an African common market

Getting down to business

Star 19/3/91.

If the businessmen of southern Africa are really to get down to the business of doing business freely and openly, they are going to have to remove business from the clutches of politicians and bureaucrats.

That must have been the overriding message emerging from last week's first open meeting between South African and African businessmen, in Mbabane, after it was very nearly sabotaged by the sensitive egos of both governmental and non-governmental bureaucrats.

The Africa Sub-Saharan Economy and Trade (Asset) conference, "sponsored" by the SA Chamber of Business (Sacob), the SA Foreign Trade Organisation (Safto), the National African Federated Chambers of Commerce and Industry (Nafcoc) and BMW's Herbert Quandt Foundation (which picked up the tab), proved to be controversial even before it commenced when Swaziland's King Mswati failed to open the gathering as scheduled.

It seemed certain influential Swazi government figures and businessmen had been overlooked by the organisers.

Egos askew, they apparently whispered into the King's ear that — seeing he was current chairman of the Preferential Trade Area (PTA) grouping that bans business with South Africa — he should not be connected with the Asset conference.

The next hiccup came when the Nafcoc delegation, led by the organisation's president, Sam Motsuenyane, reportedly left in a huff because a rival organisation — the Foundation for African Business and Consumer Services — was given too much prominence.

The conference sub-title, "Scenario for a sub-continent", seemed about to take on an ominous and all too familiar meaning. But as the bureaucrats tossed their curls and left, the businessmen got down to business.

At tea breaks, at the bar, over dinner, on the golf course, businessmen were making contacts

and making deals. Brochures appeared as if by magic out of dark business suits (is that why they are called business suits?)

South African and African businessmen doing business is, of course, nothing new.

Such business is reportedly already worth an estimated R10 billion a year, having almost doubled in the past two years.

However, this business has previously had to be conducted under the table. The aim of the Asset conference was to promote such trade as it emerges increasingly into the light by bringing together key personalities in the region to evaluate opportunities and deficiencies in areas such as transport and communications, human resources, technology, etc.

In fact the discussions mainly revolved around the generally accepted need to form a southern African common market.

That many of the so-called key personalities who were needed to discuss this theme decided they

could not attend for various — mainly political — reasons, gives an inkling of the problems the region faces if it decides on an economic merger.

Yet, not unexpectedly, all of the participants seemed to agree that closer co-operation of a formal nature seemed both necessary and desirable if the region was to develop, prosper and, more importantly, become viable enough to financially combat other regional economic giants such as the EC, the US and emerging common markets in Asia and South America.

There was universal agreement that South and southern Africa needed each other, that the region needed to "harmonise" its efforts in every endeavour.

"Serious attention needs to be focused more on regional co-operation and development that will ensure the optimal utilisation of the potentially enormous natural and human resources in the southern African region" said Mr Motsuenyane — before he left.

His words were echoed enough times to make one suspect that a common speech writer had been hired by many of the speakers.

But while many of the problems of the southern African region were enumerated, and while what needed to be done was identified over and over, no concrete plans for action were proposed.

One of the few positive suggestions for immediate action was made at the beginning of the conference by BMW chief Reinhard Kunster, who suggested that the existing regional trade organisations, the Southern African Development Co-ordination Conference, the PTA, the Common Customs Union and others, should merge to avoid duplicating efforts in building a united economic front.

What he did not mention was that each of these competing organisations in fact represents a strong and entrenched self-interest group whose interests ironi-

It is thought that this conference will be just the first of many future conferences addressing different aspects of regional co-operation, and a coming together of regional "trade" organisations might be a valid next choice if bureaucratic hurdles are to be successfully jumped by businessmen. The question of whether or not the first Asset conference was a success will only be answered in future years, but everyone one I spoke to agreed that the Swaziland get-together had been a necessary event — the first step in what appears to be a very long and rocky road towards a southern African common economic trading bloc. Meanwhile, back in the bar, the businessmen are busy getting down to business. — Star Africa Service. □

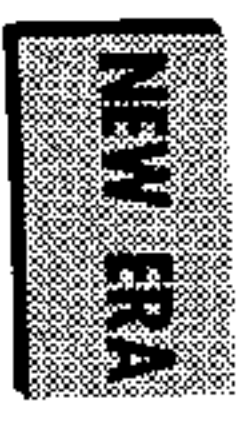
Africa is impatient to trade openly with SA

News
28/3/91
[Signature]

GERALD L'ANGE, Editor
of
The Argus Africa
News Service reports

THE Nigerian attracted little attention as he sat in the visitors' gallery at the formal opening of parliament in Cape Town last month.

Not many members knew who he was.



But those who did were keenly aware of the significance of the presence of a representative of Africa's other giant.

As much as any other recent development, the informal visit by the Nigerian representative — and the group of Nigerian journalists who accompanied him — demonstrated Africa's growing fascination with the emerging New South Africa.

So far this year representatives of at least 15 African governments have visited South Africa. They include two different delegations from Nigeria and representatives of Gabon, Zaire, Rwan-

da, Cape Verde, Ivory Coast, Madagascar, Guinea Bissau, Togo, Senegal, Ghana and the Congo as well as a delegation from the African Development Bank.

All of their countries are members of the Organisation of African Unity and most of them officially maintain the economic, sporting and cultural sanctions it has imposed on South Africa in tandem with the United Nations. Unofficially they probably all do business with South Africa, contributing to the explosion of African trade with the Republic that has almost reached R10-billion a year and is still growing.

Like many other African countries, they are looking forward to the abolition of apartheid so that they can deal freely and openly with South Africa.

The De Klerk reforms have given a certain measure of unofficial respectability to the once furtive exchanges, so much so that the sanctions have become increasingly irrelevant.

But not entirely so. The sporting and cultural boycotts

still hurt. And the trade would flow much more smoothly and would grow faster if it could be directed through open and official channels. With communications in Africa as bad as they are, informal channels tend to be inefficient.

Pretoria thus has a strong incentive to seek formal relations with African states, even if it is only at the level of a trade commission or an interests office. It hopes African countries will disregard the OAU and establish open links with the Republic, as Madagascar did last year.

There is a good chance that several states will take the plunge this year, according to South African diplomats, especially if the De Klerk reform programme continues. Pretoria's ideal is for one of the major African states to deal openly with the Republic, which would almost certainly precipitate similar action by a number of smaller states.

Kenya has taken an important step in that direction by allowing South African Airways to land at Nairobi and South African citizens to visit

the country on tourist or business trips. But it is still reluctant to go all the way.

Other countries being eyed by Pretoria are thought to include Morocco, Egypt, Gabon, Senegal, Congo and Cameroon.

The big catch would be Nigeria, which is the giant of black Africa both in population (110 million) and economy (gross domestic product of R72-billion in 1988). Politicians in Nigeria are said to envisage a post-apartheid situation in which South Africa will dominate a southern and eastern economic bloc and Nigeria a western equivalent, with close co-operation between the two groups.

"I do not see any obstacles to Nigeria and South Africa working together in international organisations and even becoming close to each other after the abolition of apartheid," former Nigerian president Olusegun Obasanjo said recently.

"After apartheid" remains the catchword of official policy. But there are signs that the Nigerians may be prepared to start moving towards rapprochement even

before apartheid is universally pronounced dead, the way having been partially cleared by the De Klerk reforms.

General Obasanjo's visit to South Africa in July last year is understood to have been made at the behest of President Ibrahim Babangida. The general's scouting expedition has been followed by the visit this year by the other Nigerian politicians and the journalists.

A Nigerian newspaper, the Guardian, recently quoted unidentified African diplomats (who would logically be Nigerian) as saying that at the OAU summit in June in the Nigerian capital of Abuja, Nigeria may call for developing contacts with South Africa.

The report does not spell out what kind of contacts are envisaged. But a proposal for even the most tentative contacts, coming from Nigeria, would have an enormous political impact and, if firmly proposed, would be hard for the OAU member states to resist.

It would be one of the most dramatic salutes to the De Klerk reforms that has yet

been given. Assuming the intention is there, whether it is actually made will probably depend on whether Mr De Klerk is seen to be maintaining the momentum of the reforms between now and June.

As long as the African National Congress and Pan Africanist Congress keep calling for sanctions to be maintained the OAU is likely to maintain formal support for this stand. But recent developments suggest that the formal policy might then be bypassed by informal dealings with South Africa to an extent that would make the formal stance largely irrelevant.

The opening of informal "interests" offices that would in reality function as trade and consular offices would suit Pretoria's purposes very well, even if not as well as full diplomatic recognition.

The Department of Foreign Affairs would then be hard pressed to find the funds and staff for offices in addition to those it now operates in Malawi, Zimbabwe, Mozambique, Zaire, Swaziland, Lesotho, Ivory Coast, Mauritius, Comoros and, soon, Madagascar.

The barbed wire comes

Star 16/4/91

74

down

SOUTH AFRICAN export salesmen are swapping their pin-striped suits for safari gear. Business phrases are being studied in languages such as Swahili. The new explorers, as well as keeping an eye on the US dollar and German mark, now also track rand exchange rates in terms of currencies such as Malagasy francs, Mozambican limpads and Angolan kwanzas.

ed by 85 percent since the political reform programme was launched in earnest at the start of last year.

The Department of Customs and Excise shuffled the finer details of export markets out of public view in the mid-1980s to camouflage trade routes from hostile sanctions-lobbies. But the SA Foreign Trade Organisation confirms that South Africans are now doing business with virtually every country on the continent — above or below the table.

Their briefings are to trek as far north as the Equator and beyond and explore the trade outlook in markets long regarded as forbidden territory while South Africa remained fenced away in isolation because of its apartheid regime.

From still more recent counts, Rusty Evans, deputy director-general at the Department of Foreign Affairs in Pretoria, estimates that two-way trade has now climbed to no less than R10 billion a year.

Especially on an official basis, barriers still keep South Africa at arm's length in political terms. According to one seasoned observer, "Lots of political leaders can be expected to be cautious about laying out Welcome mats to South Africa until the dust settles on internal political negotiations about a new democratic future.

If more intrepid South African exporters managed to find a gap in the boycott barricades in recent years, it was almost certain to prove a costly venture — back-handers for contacts needed to send out shipments under the cover of false documentation, the extra expense of circular routes to market-targets, the high premiums demanded by fixers and middlemen along the trade routes.

They will have a head start as trade relations begin the slog back to normal — and the rewards may be high.

"They may reckon it could

South African exports to the rest of Africa soared to R5,5 billion last year. Total two-way trade is now running at no less than R10 billion a year — and climbing.

precisely how high can be judged by recent trade counts. The SA Chamber of Business (Sacob) reported a few weeks ago that South African exports to the rest of Africa had spurt-

increasing business contact.

However, many of the exporters believe the expense of creating footholds is beginning to prove to have been a sound investment as neighbours start to remove the barbed wire now that South Africa has embarked into a new post-apartheid era.

They still have a head start as trade relations begin the slog back to normal — and the rewards may be high.

"It is understandable that there are still political leaders and organisations showing caution about radical changes in their public stances about South Africa," says Sacob deputy director-general Ron Haywood. "More important, though, are the positive vibes coming across."

mean political embarrassment if they were perceived to be premature in taking an open U-turn in relations with SA.

Even so, there's a lot of commuting going on between black Africa and Cape Town and Pretoria and one can sense a thawing-out of old hostilities.

Mr Haywood has experienced the vibes on travels around Africa that have led to at least six formal contacts in recent months with leaders of the two main trade blocs that until now have frozen South Africa out — the Southern African Development Co-ordination Conference (SADCC) and the even bigger Eastern and Southern Africa Preference Trade Area.

Businessmen appear to be less hesitant about pulling down the fences in trade. And if the politicians remain cautious about public pronouncements on official political relations, more and more of them are clearly turning a blind eye on

public hugs and handshakes may have to wait until there are clear signals of approval from Nelson Mandela to begin the wholesale removal of all the political fences."

They see equal significance in a main recommendation that stemmed from the conference: "The SADCC member-states should seriously consider the establishment of a treaty along the lines of the Treaty of Rome (which established the European Community) which addresses the long-term interests of the region." □

mean political embarrassment if they were perceived to be premature in taking an open U-turn in relations with SA.

Even so, there's a lot of commuting going on between black Africa and Cape Town and Pretoria and one can sense a thawing-out of old hostilities.

Mr Haywood has experienced the vibes on travels around Africa that have led to at least six formal contacts in recent months with leaders of the two main trade blocs that until now have frozen South Africa out — the Southern African Development Co-ordination Conference (SADCC) and the even bigger Eastern and Southern Africa Preference Trade Area.

They see equal significance in a main recommendation that stemmed from the conference: "The SADCC member-states should seriously consider the establishment of a treaty along the lines of the Treaty of Rome (which established the European Community) which addresses the long-term interests of the region." □

ECONOMIC UNION: NO EUPHORIA

74
FM 22/3/91

SA's role in a mooted southern Africa economic union needs definition. The biggest hurdle is no longer political so much as the imbalances in the region's economies.

Seventeen countries, SA included, attended a conference, *Scenario for a Subcontinent*, in Swaziland last week. In informal pre-conference talks, delegates from up north speculated about a common market, the benefits SA could bring to it and the way such an economic bloc would open opportunities for international investment.

By the time they went home, initial euphoria had dissipated. There was still general conviction that a common market will eventually happen. But some realities now prevailed, not least the realisation that SA membership will be a mixed blessing.

Paul Hatty, from Barlow Rand, summed it up: for trade to exist, there must be a product and capital to produce it with economies of scale. And there has to be a market which both needs the product and has the money to buy it. In southern Africa, that happy balance simply does not exist. Were there economic union, as matters stand, all the advantages would be SA's.

The message also registered that a common market will be a DIY operation, not established with infusions of international money and goodwill.

Some delegates (mainly from SA and Zimbabwe) also agreed that the highly publicised non-events of the conference typified the immaturity of southern Africa in any business league. Those included the non-functioning of many communications systems; the non-appearance of the Swazi king and PM and the non-apology by the PM issued by the conference organisers; and the absence, after day two, of the National African Chamber of Commerce (Nafcoc) delegation, which had headed for home.

All served to highlight the difficulties of doing effective business in the region, where

sensitivities sometimes override pragmatism.

For all the nonsense, the conference proved a milestone. A year ago, it would have been inconceivable for SA business leaders to sit in open conference with delegates from 16 sub-Saharan nations.

SA Foreign Trade Organisation chairman and JSE president Tony Norton set the early tone. "We are here to talk about assets, the positive side of the balance sheet and about promise; about planning; and about ultimate achievements which will touch and improve the lives of ordinary people in a real and lasting way by making us all greater economic achievers, no longer trapped in a vicious circle of poverty and ignorance. We are here to talk about and plan for the promotion, on a realistically phased basis, of an ultimate common trade zone."

Soon afterwards, some realities were pointed out by Christopher Coker, an Africa specialist from the London School of Economics. Coker argued that a century of European interest in Africa came to an end the day the Berlin Wall came down. European interest will be firmly focused on the mess on its eastern doorstep. East Europeans had cut aid to Africa to emphasise their own poverty. International investors would put their funds in those economies of Europe where they perceived probable success, not into Africa where the perception is of failure.

Also, he emphasised, the rest of the world is now in trading blocs, or forming them. "Does the regionalisation of southern Africa mean its marginalisation — and are these two words cruelly synonymous?"

With trade between Africa and the UK in steady decline, Coker noted, there are UK companies interested in signing licensing agreements for production in the region. The only countries with the capacity to handle such production are SA and Zimbabwe.

Though most delegates were dismayed by Coker's assessment, the theme re-emerged

later. By that time, workshop sessions had exposed the fact that, in every field, SA would dominate the market. Nascent industries in other countries would probably not compete with industries geared for large-scale production.

Some delegates welcomed the challenge. Zambian mining specialist Thomson Sinkala admitted: "We may have enjoyed spoonfeeding too long. The reduction of aid may, therefore, be a blessing in disguise."

Harry Thomson, chairman of the Southern African Development Co-ordinating Council, gave a ruthless analysis of trade and investment inhibitions in the region, including unsuitable ideological postures. He concluded: "These constraints have to be surmounted to give way to a larger regional market to attract profitable investment in productive ventures."

"The size of the market, depressed by constraints to trade, is usually quoted as a drawback which faces foreign investors. Unless this is addressed, the objective of increasing investment in production to improve the quality of life of the people of the region will remain mere rhetoric."

With all the problems facing the economic union, there was common agreement on one aspect. Governments must facilitate the trading bloc, then step aside. Speakers who put this proposition circumspectly in the plenary sessions were outspoken in the corridors and ante-rooms. Failed promises by governments must be repeated — publicly — for political purposes. The reality is, delegates confided, that southern Africa is rushing towards capitalism.

So, much of the conference took place in informal one-on-one discussions. The media, having exhausted the Nafcoc walkout, spent time spotting which unlikely partners were at dinner or drawing for each other at blackjack. These encounters epitomised the speed with which barriers are falling.



BUSINESS

SOUTH AFRICAN industry heavers away behind a fortress wall of protection. The recently released Industrial Development Corporation report on tariff protection policy recommends they be gradually torn down to leave local industry exposed to the winds of competition. It does so in the belief that we will emerge fighting fit to take on world-class exporters.

There is room for debate about whether this is the right way to go about becoming export-oriented. But aside from this, is present protection high?

Yes, according to the report. It reveals the extent of protection is far higher than might be supposed. The calculation of the level of protection may seem technical but since it hits all of us in the pocket in the end, let's go through it.

As a percentage of the value of total imports all the import duties collected are a low five percent. This is the international standard for determining

Breaking down the wall of protectionism — report

the appropriate level of tariff protection, notes the IDC.

However, the actual tariff wall is closer to 20 percent — four times as high. The difference comes about because the first calculation doesn't take into account that products produced locally and so only imported in a small way have a higher duty. Those with a low duty or none at all comprise the bulk of imports.

Looked at another way, the IDC report says the cost-increasing burden of tariff protection is around 12 percent of the gross domestic product.

Surcharges, introduced ad hoc to protect the balance of payments, are an extra burden. Adding in surcharges brings that to 14 percent. The crunch is that the value of the

rand in foreign currency forms another sort of protection. When it is low the price of imports shoots up. The graph below depicts the extent of protection when all the protective factors are put into one picture.

Two conclusions follow from this, says the report.

● The economy should be more stable to avoid balance of payments crises, and with them surcharges, and to have a stable exchange rate.

● There needs to be some tradeoff between the exchange rate and the level of tariff protection when the rand plummets.

How effective is South Africa's protection policy?

● There has been no improvement in the import replacement between 1980

and 1988.

● In the same period investment in industry was poor.

● Sectors with moderate tariff protection — ie 30 percent or less — did better than others in growth in production, productivity, employment creation, imports and exports.

● At around 40 percent, a big part of South Africa's industrial production has more than moderate protection.

● The group of manufacturing sectors with a high export content in their production — 30 percent or more — performed much better than manufacturing in general.

‘The performance of the sectors with a high export content corresponds with the World Bank's finding that export-oriented countries perform better than those with inward orientation. The growth of the share of export-oriented industries in manufacturing as a whole will therefore lead to a gradual improvement in the economic performance of this sector.’

74

SA's tariffs are far too high - IDC

THE IDC report notes a number of deficiencies in the present set-up of tariff protection.

Tariffs — the taxes and customs duties put on imported goods to discourage people from importing them — are supposed to be temporary. They are by no means temporary enough.

“According to the 1985 White Paper on industrial development, tariff levels have never before been lowered,” notes the report.

The Board of Trade & Industry found that tariffs could only be reduced marginally, if at all: they couldn't be approached by industry because of the interdependence of industries. The inability to cut tariffs on a broad front runs counter to the principle that tariff protection must be temporary, says the report, and should be granted only until industries have become established.

This is linked with the key principle of selective protection, in operation since 1921. Along with this, the approach is also that the cost-increasing effect of establishing a new industry be weighed.

Also, an industry qualifies for protection only if it will be able to supply at least 60 percent of the local market.

“This sometimes leads to the establishment of uncompetitive product lines.”

Common wisdom has it that import replacement now has limited benefits for South Africa. Yet the application of the selectivity principle means protection is sometimes granted taking into account cost handicaps, and because of need, not necessarily because an industry has or may have comparative advantages.

Applying the principle of selectivity needs highly skilled personnel to do the probing, but cutbacks in the public sector rule this out.

Hence, selectivity should be ditched in favour of a more automatic system. A more automatic system will also mean the scrapping of the system requiring an industrialist to meet 60 percent of local demand before getting protection.

So entrepreneurs will not have to establish uncompetitive production lines just to meet this requirement.

BUSINESS

G

OVERNMENT'S export-incentive scheme is barely a year old but is already attracting criticism.

Anglo American Industrial Corporation chairman Graham Bousfield has voiced dissatisfaction with the change in government export incentives.

He said in his annual statement last week: "It is ironic that the substantial reduction of export incentives for primary and semi-fabricated products in March 1990 came about in advance of a period of economic stringency when these incentives are most needed in order to maintain world markets."

Amic-subsidary Highveld Steel and Vanadium chairman Les Boyd suggested the government has moved export incentives from proven to unproven export industries.

The government, however, is sticking to its guns on its industrial policy, which aims to funnel exports from commodities to manufactured exports.

At the same time the emphasis has changed from protective tariffs designed to aid replacement of imported goods with domestically made equivalents and foster local industry to making local industry internationally competitive.

At the heart of the government's new policy is the General Export Incentive Scheme (GEIS). Like the incentive schemes it replaced, Categories A and B, the idea of the GEIS is to reward exports. But the mechanism is cash payments and the target is to encourage "beneficiation" or the progressive processing of raw materials. The most famous example is chrome ore, which is processed into ferrochrome, and then into stainless steel from which are made stainless steel pots, with the amount earned leaping at each stage of beneficiation.

Trade and Industry director general Stef Naude dismisses criticism of the GEIS, in operation now for 11 months, as premature. "There is hardly any basis as yet to judge the effectiveness or otherwise of a scheme that replaced two schemes (Categories A and B) which were in operation for more than five years before conclusive evidence could be produced that they were not cost-effective."

Government sticks to its guns over export incentives

15/3-21/3/91

The new export-incentive policy has already run into flak but government is determined to keep it in place for at least a few more years, reports **REG RUNNEY**

He adds that the criticism that incentives have been removed from primary producers should not be viewed simplistically.

"First of all, there exist a variety of primary products or raw materials in respect of which the granting of export incentives can probably never be justified on the basis of need or affordability."

"Secondly, there is a group of primary products which have for some time benefited from more than one export incentive." This was untenable and could only be redressed when the GEIS was introduced. In the process a number of producers of primary products had to choose between the different incentives.

Such producers accepted a negotiated settlement of their own choice, he says.

"A third, very sizeable group of primary producers who benefit from the GEIS are in fact no worse off under GEIS than they were under categories A and B."

Another criticism is that the scheme has proved too expensive and the government has had to resort to paying promissory notes, which have to be discounted with banks. Naude admits the government has had to resort to using promissory notes to meet the enormous financial demands which are being made on the fiscus. He says his department had never been enamoured of them, and it is a declared government objective to move to cash payments



Les Boyd ... Incentives for unproven industries

as soon as possible.

Also, it is sometimes argued, giving money to exporters who might anyway have exported is a waste. This is argued by Nedcor economist Kevin Lings, who continues: "Thus, available government spending is spread over a wide base, resulting in very little finance being available to entice firms or sectors currently producing exclusively for the local market to enter the export market." He contends an export incentive scheme should concentrate on specific sectors, or even firms, taking into account the

ability and willingness of that industry to compete, the availability of raw materials within that industry, its past economic performance, and development potential.

Naude accepts that some companies would export in any event, but the aim is to inspire such exporters to achieve even better results.

That the incentive also increases in proportion to the level of beneficiation of a product, should encourage higher sophistication in the manufacturing sector as a whole, he argues.

Naude refuses to be drawn on the viability of an export incentive scheme such as suggested by Lings. This may have something to do with the storm which has raged over the only "structural adjustment programme" to have seen the light of day — that applying to the motor industry. The full-blown industry-specific programme combines import replacement and export incentives with the overall aim of saving foreign exchange, and has proved problematic to administer and unpopular with at least some of the manufacturers involved.

Lings notes that industrial policy has swung between import substitution and export orientation, and he doesn't believe any purely export-based policy has been put forward. There has always been some other motivation, like saving foreign exchange or catering for strategic needs.

Lings' point is that the overall policy objectives of the country need to be reviewed. The government has said it is committed to scaling down tariff protection to make South African industry more competitive. But if lower tariffs put South African industries out of business, how can they export? he asks.

The government is moving away from import replacement as a policy. But import replacement and export promotion are not mutually exclusive but complementary. So for individual enterprises to compete internationally they require a sound domestic base from which economies of scale can be developed. This implies, says Lings, some protection may be needed to ensure firms continue to survive.

However, firms protected from international competition to survive are unlikely to be able to export without further government assistance.

TARIFF POLICY

TOWARDS A FUTURE BLUEPRINT

FM 15/3/91
74

The manoeuvring has begun to determine an effective new trade and tariff policy, which should have far-reaching implications for the direction industry takes.

The Industrial Development Corp's *Modification of Protection Policy* document, released to the FM this week, contains an eloquent appeal for government to redirect the focus of the manufacturing sector from protectionism — aimed at import substitution — towards exports.

The report, commissioned by Trade & Industry Minister Kent Durr, strongly advocates the phasing out of the blanket tariff protection that has for so long cushioned industry. It also recommends the abolition of the DTI's general export incentive scheme in favour of the BTI's structural adjustment programmes for selected industries.

The IDC argues that the export incentive scheme is too costly and runs counter to Gatt's standpoint that trading nations should move from directly subsidising exports. Rather, it recommends that the structural adjustment programmes should be pursued as they have been internationally proven to be effective in promoting industrial and export growth.

But the report warns that the process of structural adjustment towards export orientation by modifying the tariff protection policy must be carefully managed. "And, once initiated, (it) must be pursued with perseverance in order to achieve eventual success. A turnaround in policy will do irreparable damage to the credibility of economic policymaking."

A "fundamentally correct macroeconomic policy" would be needed to support the changeover, it says, advocating that industrial and economic policy should be more closely interlinked.

The IDC's recommendations include a broad-based, two-pronged approach that would involve an immediate, phased reduction of tariff protection and various measures to encourage exports. It calls for:

- An immediate, general 10-percentage-point cut in all tariffs of 40% and more, while tariffs of 20%-39% should be reduced by 5 percentage points. "This will serve to lower the import parity price level, contain inflation and benefit the consumer;"
- High tariffs to be reduced to reach the following target rates in five years: manufactured consumer goods at 30% *ad valorem* and all other goods at 15% *ad valorem*;
- Placing a ceiling on all formula duties, which will then be scaled down in accordance with predetermined steps over a five-year period to the maximum levels set out above, after which formula duties will be scrapped. A new anti-dumping policy will have to be devised as the formula duties are phased out;
- Company tax be reduced to 30% as an

optimum target, and to below 40% as initial target, to offset a possible lack in investor confidence as tariffs are being phased out;

□ Abolition of the surcharge on imports because this unnecessarily adds to the costs of capital goods and makes SA exports uncompetitive. Surcharges, amounting to about 7% of total imports, are "high, compared to the 5% earned from tariffs;"

□ Phasing out all export subsidies, including the General Export Incentive Scheme;

□ Linking tariff changes to the realistic real effective exchange rate of the rand. This would allow for the protection of the import parity price level against fluctuations in the exchange rate over the long term; and

□ Allowing special industry adjustment schemes (such as Phase 6 of the motor industry) to continue and considering expanding them to other areas.

These proposed changes "thus amount to switching from a trade orientation where high export subsidies attempt to compensate for the cost-increasing effect of high levels of protection, to one where neutrality between import replacement and exports is achieved by means of a policy of low export subsidies and low import tariffs," the report says.

It adds that as governments usually do not have the financial means to subsidise exports, "the lowering of tariffs is the appropriate policy option."

The IDC report, submitted to government in June and still with the Cabinet, follows an in-depth, three-month investigation of past, current and future tariff policies.

The IDC says the cost-increasing burden to the economy brought about by tariff protection is equal to about 12% of GDP. When

the increase in the cost of imported goods due to the addition of the surcharge is added, "the total cost burden is equal to 14% of GDP."

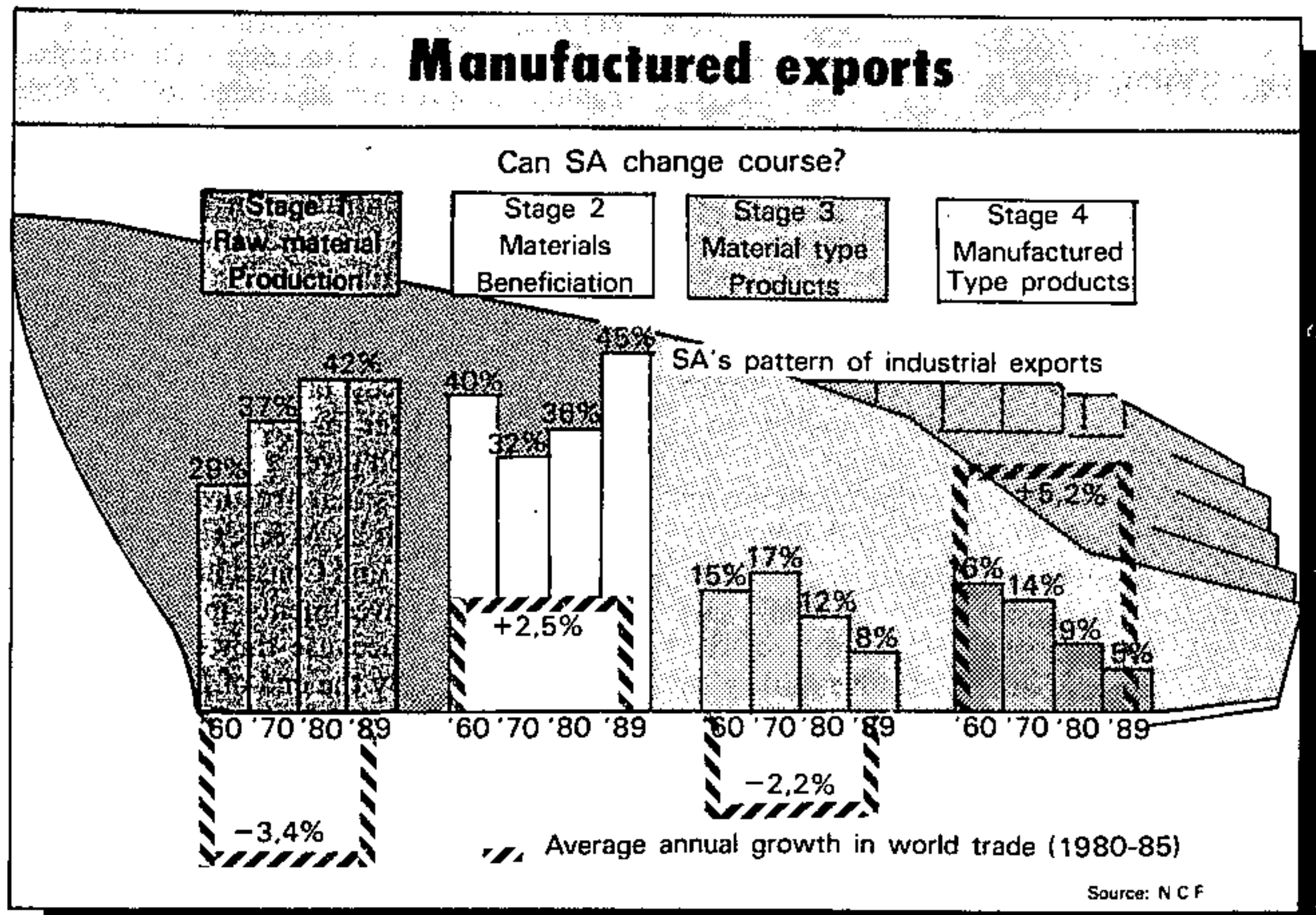
Tariff protection deliberately increases the import parity price level of local products, giving the new industry an opportunity to find its feet. But the imposition of surcharges and the severe fluctuations in the value of the rand have led to large fluctuations in import parity price levels.

The combined protective effect of the above three factors over the period 1970-1989 created a situation where the cumulative import parity price level (Customs tariffs contributing 20%, plus surcharges, plus the undervaluation of the rand) has led to an effective protection level for industry of about 45%.

"Reduction of tariffs will require industries to adjust in order to produce closer to ruling world prices, which in turn will reduce the cost-increasing effect on exports, so characteristic of protection."

The IDC warns that a scaling down of tariffs would lead to "significant changes on micro level" as industries discontinue less profitable ventures and increase production of competitively priced goods. "This will lead to a loss of employment opportunities over the short term. Therefore tariff reductions must be phased in a manner that will give firms a fair chance to adjust."

This, clearly, is a cost the country will have to bear. As the report points out: "It must be accepted that trade liberalisation will involve certain costs and any attempt to counteract them will only frustrate the essential changes required."



Shake-up in money market 'not onerous'

B1 Day 30/4/91.

ANDREW GILL and ROBERT GENTLE

THE activities being outlawed in the money market should not be seen as a move to kill this market but rather in the light of the impending formalisation of the commercial paper market.

A spokesman for the Registrar of Deposit-Taking Institutions' Office said yesterday the activities under scrutiny could involve as much as R10bn and would end banks' involvement as agents in funding activities between non-banks. This could now be done only when a bank acted as a principal.

Because the new 20% liquid asset requirement became applicable only once the paper was in the last 31 days to maturity, the requirement would not be as onerous as some market participants claimed. It was at that stage that repurchase agreements came into play and banks could buy back and avoid the requirements, the spokesman said.

"They complain about us doing this and call it a lot of nonsense, but all we are doing is implementing the conditions of the Act."

The action now being taken no longer allowed for the outright sale of acknowledgment of debt, in contrast to the earlier practice of selling such instruments under repurchase agreements during 1989 and 1990.

The question was why the institutions concerned did not continue doing buybacks through repurchases or sell negotiable certificates of deposits (NCDs), he said. "They don't because of the prudential requirements now applicable to repurchase agreements."

One treasurer said the move was merely one to implement the stated intention of the Act, that of levelling the playing fields.

Others have, however, taken a different view and the resultant confusion has seen trade on the spot market tumble and that on the futures market soar.

Dramatically increased trade in short-term interest rate futures on the SA Futures Exchange (Safex) last week saw daily exchange turnover breach the R200m mark. This surge was reflected in trade in the three-month liquid Bankers' Acceptance (BA) contract and was the result of uncertainty over successive circulars released by the Registrar on money market policy.

Safex statistics show these contracts now account for about 60% by value of all Safex business, snatching first place from the traditionally strong share index futures.

A market source said: "Some of the fringe banks have survived on off-balance sheet funding while some have reflected their activities on balance sheet. Now it all has to be on

balance sheet"

The government spokesman said banks could sell paper to non-deposit-takers as long as the transactions were reflected on balance sheet.

This was something that would come under scrutiny in the commercial paper market where corporations would be able to fund themselves through non-deposit-takers if they complied with certain guidelines, which still had to be finalised in the near future.

The move's main thrust was not one of ensuring liquidity but rather stopping banks taking part in the market outside the ambit of the Act.

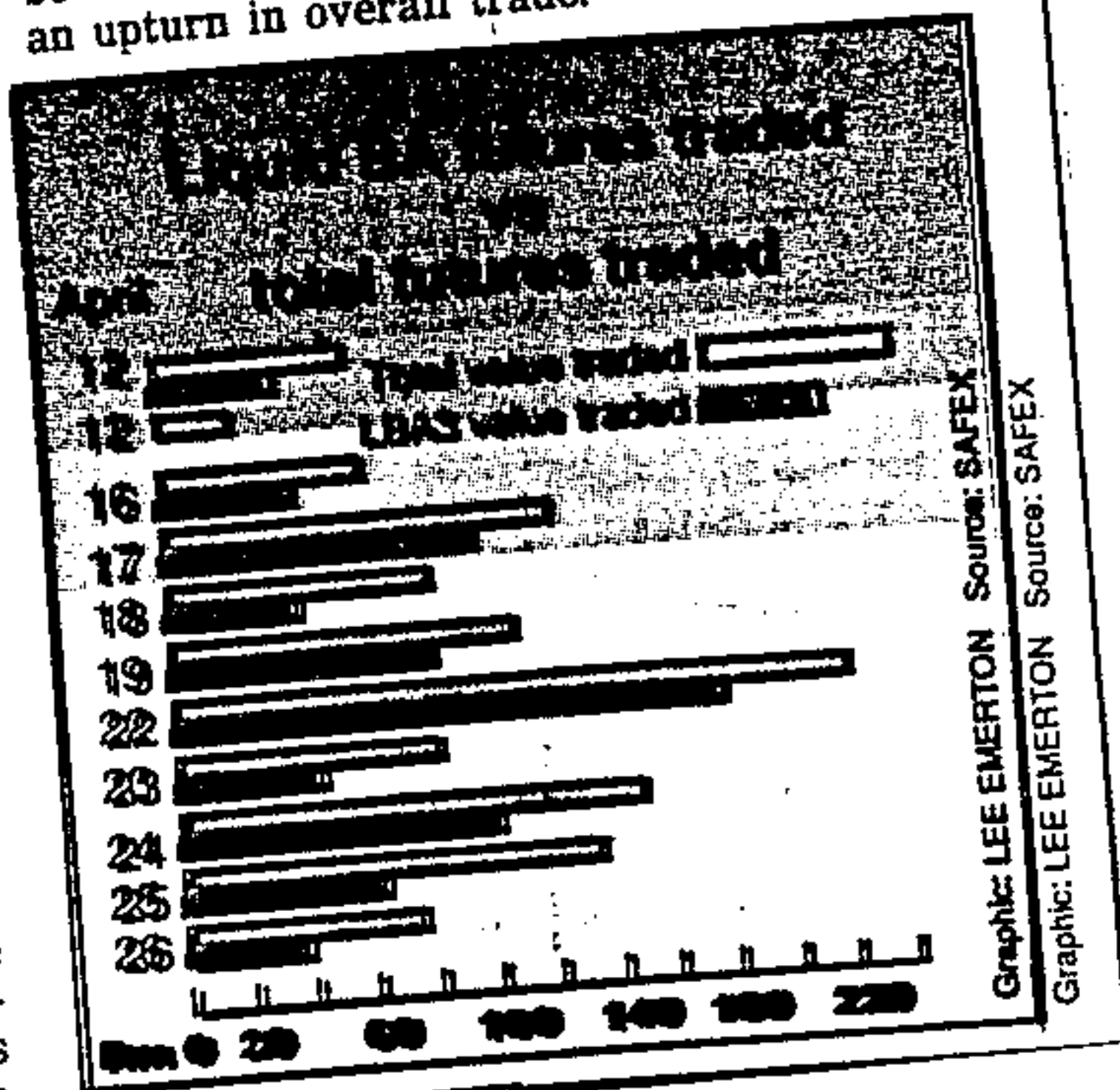
A senior treasurer said the market had not been killed; it would just be a bit more expensive for the corporate borrower. Others were less optimistic.

It would appear that the futures market expects a fall in rates because all the liquid BA futures contracts are trading from 9 to 150 basis points below the spot BA rate.

Safex CE Stuart Rees said that last Thursday's more-than-3 000 contracts traded were more than double the breakeven level of about 1 400 contracts a day.

This new breakeven level was the result of severe rationalisation measures and re-adjusted projections.

Rees was cautiously optimistic the increased volumes would prove permanent, which would mean welcome revenue gains for the newly streamlined exchange. He hinted that soon-to-be-released statistics for April would indicate an upturn in overall trade.



IMF could prevent BoP crisis

Stals unveils his plan to scrap finrand

74
NSA

B/D am
29/4/91

GRETA STEYN

THE IMF could lend SA a maximum of R15bn in extra foreign exchange if it ran into balance of payments (BoP) problems after lifting foreign exchange controls and scrapping the financial rand, Reserve Bank Governor Chris Stals said yesterday.

SA could consider a gradual programme to get rid of the finrand and other foreign exchange controls if normal relations with the IMF were restored soon after the current session of Parliament, he said.

He was commenting on President F W de Klerk's message to British industrialists that a revision of exchange control was likely as soon as the US lifted sanctions and IMF relations were normalised.

"It is unlikely the IMF will lend the Bank foreign exchange to intervene in the markets to wipe out the differential between the finrand and the commercial rand. But the Bank will be able to intervene once it knows that it can draw on the IMF if it runs into difficulties during the transition period," he said.

Getting rid of the finrand would be a slow process of which the first phase would be a narrowing of the discount between the two currencies as a result of foreign investor interest in SA. The Bank would not contemplate intervening in the market before that had become apparent.

The differential has already narrowed to 16%, the lowest level since the dual currency system was re-introduced in 1985. While this is partly the result of foreign demand, it is also a reflection of the commercial rand's recent dramatic weakening against the US dollar.

A second phase would be active intervention by the Bank to narrow the differential to a point where the finrand could be abolished.

As the Bank intervened and the gap narrowed, foreign creditors with debt inside the standstill net would increasingly choose to exit from the net by converting debt to financial rands. This would have the effect of increasing the supply of financial rands while reducing the amount of debt caught in the net (currently \$6bn-\$7bn). The increased supply of finrands would work against the narrowing of the differential — hence the process would be lengthy.

Stals said one major advantage of the abolition of the dual exchange rate system would be to render obsolete the list of rules and regulations governing investment in SA and take away the opportunities for illegal "roundtripping" between the two currencies.

Recent foreign investment in SA via the finrand included a European company's millions of rands in equity investment in supplying catalysts to Mossgas and R200m in five-year export credits raised by the IDC in the last nine months, Industrial Development Corporation (IDC) senior GM Malcolm MacDonald said.

He was explaining De Klerk's statement last week that foreign risk capital was flowing into SA. MacDonald said Mossgas was the most recent example of a "steady" flow of foreign equity finance via the financial rand.

Dollar casts a shadow on the rand

UNSPOKEN threats of central bank intervention to restrain the dollar are likely to overshadow international financial markets this week.

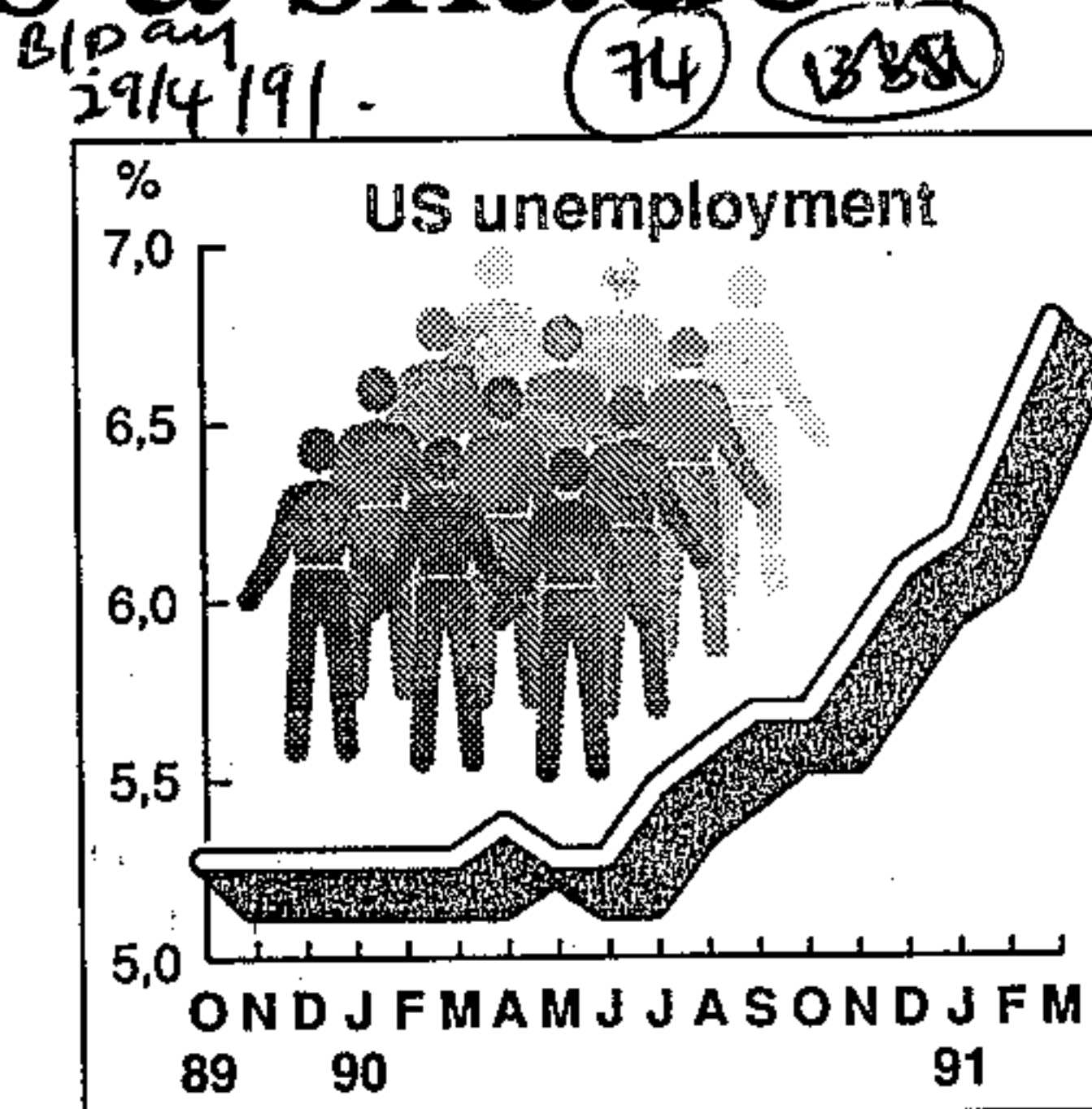
In a week barren of significant SA data releases, international developments will hold sway over the rand's short-term prospects.

All weekend, finance ministers and senior officials of the Group of Seven major industrial countries have been closeted in Washington DC — ostensibly for the first of the year's IMF and World Bank meetings. But exchange rates are likely to have loomed large on the agenda.

Exchange rate levels have assumed greater importance following the dollar's sharp rise since the end of the Gulf war, and after last week's bouts of aggressive dollar sales by major European central banks. Official dollar sales last week succeeded in knocking the dollar off its peak at DM1,7690 and down to a low of DM1,7300. This allowed the rand to rally from lows weaker than R2,8000 to the dollar to highs just shy of R2,7700.

The question this week is: will the markets see fresh factors that could induce a similar retracement in the dollar — however brief — and, thus, another rand rally?

The first fresh factor that could emerge after the weekend's deliberations in Washington is that the central bank intervention to sell the dollar becomes truly international and less half-hearted. Notable last week was that only the European central banks were in the market; the Bank of Japan and the US Federal Reserve were both conspicuous by their ab-



Graphic: FIONA KRISCH Source: FNB

sence. This suggested that a less than unanimous response to the dollar's advance prevailed in the G7. If all the central banks enter the market selling dollars, recent precedent suggests they must succeed in driving it lower.

The second fresh factor waiting to make its impact is any change in German monetary policy. The Bundesbank makes its key decisions on interest rates at meetings of its policy-making council. The next council meeting is on Thursday. Many reasons now exist in the German economy for an increase in interest rates.

The Americans, in particular, have been signalling that they feel interest rates should be

coming down in the major economies to encourage growth and pull the West's slowing economies out of recession. The Germans, however, have always pursued a fiercely independent line on their domestic credit stance.

A rise in German interest rates this week remains a strong possibility, and would also help to exert downward pressure on the dollar.

The third fresh factor in the market that could yet weaken the dollar is the release of the April US unemployment report on Friday. The overall rate of American unemployment has risen sharply this year, and jumps in the unemployment rates for December and January were followed quickly by cuts in US interest rates, to pull the economy out of its dive.

The March US unemployment report was as bad as the preceding two, but the Federal Reserve defied almost unanimous market expectations and stayed its hand on monetary policy: no cut in interest rates followed. April's jobs numbers, due late on Friday, are likely to be little better than the others released this year. Depending to a certain extent on what the Bundesbank decides to do on Thursday, a rate cut in the US on Friday following more bad jobs figures could also hit the dollar.

Looming over all this is, however, the situation in the Soviet Union. The prospect of the disintegration of the Soviet Union remains the biggest single factor that could make the dollar soar in the short term.

□ Harold Fridjhon's column In the Money Markets appears on Page 7.

Industry brushes off ferrochrome duty

BIDAN 29/4/91

BRENT VON MELVILLE

THE addition of a 3,3% ad valorem duty on all 1989 imports of ferrochrome into the US from SA would have a "negligible" effect on costs to SA producers, according to the industry.

An industry spokesman said on Friday that the duty, prompted by complaints by US producer Macalloy and Elkem that SA producers received unfair export incentives and rebates, would add about \$3,7m to total SA costs. This is based on the latest US Bureau of Mining (USBM) figures which show that the US imported 140 000 tons of ferrochrome in 1989 worth \$113m.

If the duty were extended to 1990, the added cost would be just over \$2,3m, based on USBM figures from January 1990 to November 1990 of imports of 147 000 tons of SA ferrochrome worth \$70m.

Appeal

"It is a relatively insignificant amount, but it does add an extra layer of costs which, at current depressed levels, the industry can ill afford to absorb," said one market analyst.

It is understood that representatives of the SA ferrochrome industry, led by Middleburg Steel and Alloys (MS & A), are to appeal the decision by the US Commerce Department on the duty at a hearing on May 6.

However, MS & A regional marketing director Arnold Vermaak said the US market for ferrochrome, which is used mainly for stainless

steel production, was relatively unimportant when compared with Japan or Europe.

Industry sources estimate that the Japanese and European markets accounted for over 80% of ferrochrome exports compared to the US markets' 15% last year. In comparison to Japan, which produced about 3-million tons of stainless steel, and Europe (with about 3,5-million tons), the US produced 2-million tons last year.

US imports of SA ferrochrome currently account for about 40% of total US imports of the alloy. Zimbabwe, with about 15%, Yugoslavia (about 13%), Turkey (about 12%), and Finland/Norway (about 10%), make up the rest.

Total exports of ferrochrome by SA, the world's biggest producer, amounted to about 1-million tons last year, of total production of 1,1-million tons. However, this represents only about 65% of total capacity of about 1,69 million tons annually.

Samancor is SA's biggest producer, at 420 000 tons, followed by MS & A (280 000 tons), CMI (230 000 tons), Chromecorp (100 000 tons) and Ferroalloys (60 000 tons).

Vermaak said the depressed market had resulted in a lot of casualties and producers had been closing down to the extent that spot prices had been higher than contract prices, at about US51c/lb compared with US49c/lb.

F M 26/4/91
SLIDING SURPLUS

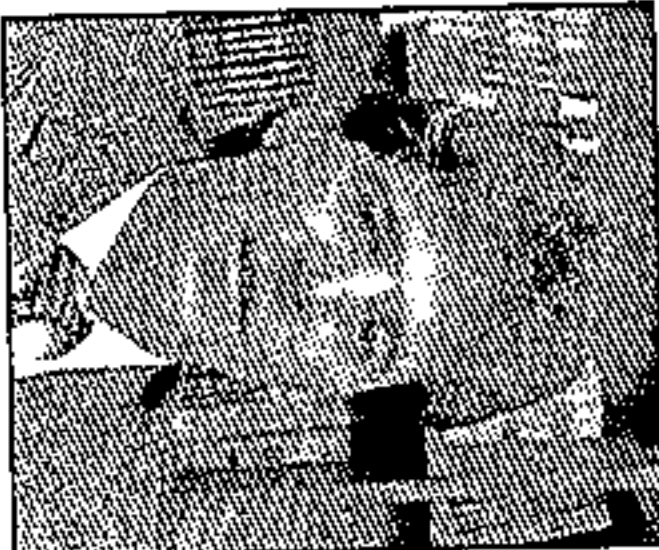
An increase of just on R670m to R3,7bn in the value of imports and a R111m rise in exports to just under R4,8bn trimmed the monthly trade surplus to R1bn in March, from R1,7bn in February. In the year to March, imports were worth R11,5bn and exports R14,5bn, making an accumulated surplus for the three months of nearly R3bn. (74)

The increase in monthly imports was spread across a wide range of goods. In the largest single category — which includes machinery and mechanical appliances, and electrical equipment — imports were over R1bn (up from R958m in February). *Other unclassified*, largely oil, was R319,7m (R174,6m) and the category which includes imports of vehicles, aircraft and vessels was R481,4m (R360,2m).

GOING, GOING, GONE?

FM 26/4/91

(74)



Raoul Kaplan is partner, tax and corporate advisory services, Ernst & Young

Exporters have already been told that the export marketing allowance in Section 11bis of the Income Tax Act is to be withdrawn in respect of marketing expenditure incurred after March 31 1992. Will the general export incentive scheme (GEIS) follow?

On April 10 government released a set of proposals by the Industrial Development Corp (IDC) aimed at shifting the emphasis of trade policy from import replacement to a more outward-looking and internationally competitive approach.

It recommended measures to help local industry to produce goods at prices more in line with world prices, proposing a policy package containing, in broad terms:

- A general reduction of import tariffs;
- Abolition of import surcharges;
- Improved anti-dumping legislation;
- A cut in the corporate tax rate to 40%;
- Measures to encourage savings;
- Maintaining a realistic exchange rate; and

Special development schemes to assist in areas such as the supply of suitable labour and establishment of new industries.

It suggested a five-year phasing-in period. The present industrial structure evolved under the policy of import replacement. Large capital investment has been made in plant capable of satisfying local demand but not of meeting worldwide demand at competitive prices. These industries must be given time to improve competitiveness.

Certain reports have created uncertainty on effect of the proposals, particularly in regard to GEIS, with some suggesting it may soon be removed entirely. Exporters who have contracted to supply goods at prices based on existing incentives, and exporters negotiating or tendering on new contracts, need to function within a framework of certainty. This clearly cannot exist when rumours abound that cost-cutting incentives are about to disappear while tariffs are to be phased out only over a five-year period.

The IDC emphasised that the package of recommendations should be implemented in its entirety and issued a serious warning against selective implementation. The report goes on to state that with implementation of the overall package, the need for GEIS will fall away; it thus recommends that subsidy levels should be constantly reviewed with the aim of phasing it out eventually.

The DG of Trade & Industry says the

proposals have still to be considered by government. Furthermore he points out that, in July 1990, the Minister of Trade & Industry told the Private-Sector Export Advisory Committee that GEIS would be continually monitored to gauge its cost effectiveness. The intention was to review the scheme five years after its inception.

Though the IDC has linked a downward adjustment of the GEIS incentives with the phasing-in of a package of proposals, the DG stresses that nothing has changed. "It should therefore be abundantly clear that a sudden demise of GEIS cannot be envisaged."

This should go a long way towards placating exporters' fears that GEIS will soon follow the export marketing allowance to the scrap heap. The DG has clearly expressed his department's view on the matter. One hopes that this view is shared at ministerial level.

The Department of Trade & Industry should be commended for its swift response in addressing concerns on this matter.

Raoul Kaplan will speak at the FM-Ernst & Young conference on *Tax Planning in Today's World — Perspectives for the New SA*. The conference is aimed at SA companies involved in international operations. It will be held at the Sandton Sun on Tuesday May 14, and in Cape Town at the Arthur's Seat Hotel on May 16. For more information contact Monique Bergh (011) 498-1578 or Debbé Meyer (021) 21-1100.

Swiss weekly to print survey on SA trade

BIDAY 26/4/91

ZILLA EFRAT

TRADE between SA and Switzerland has been increasing steadily for a number of years and is set to grow faster as sanctions fall away, says Swiss-based Schweizer Handelzeitung corporate group MD Kurt Speck.

His publication, the Schweizer Handelzeitung, a business weekly with more than 130 000 readers, will publish an SA-Swiss Foreign Trade supplement on June 27.

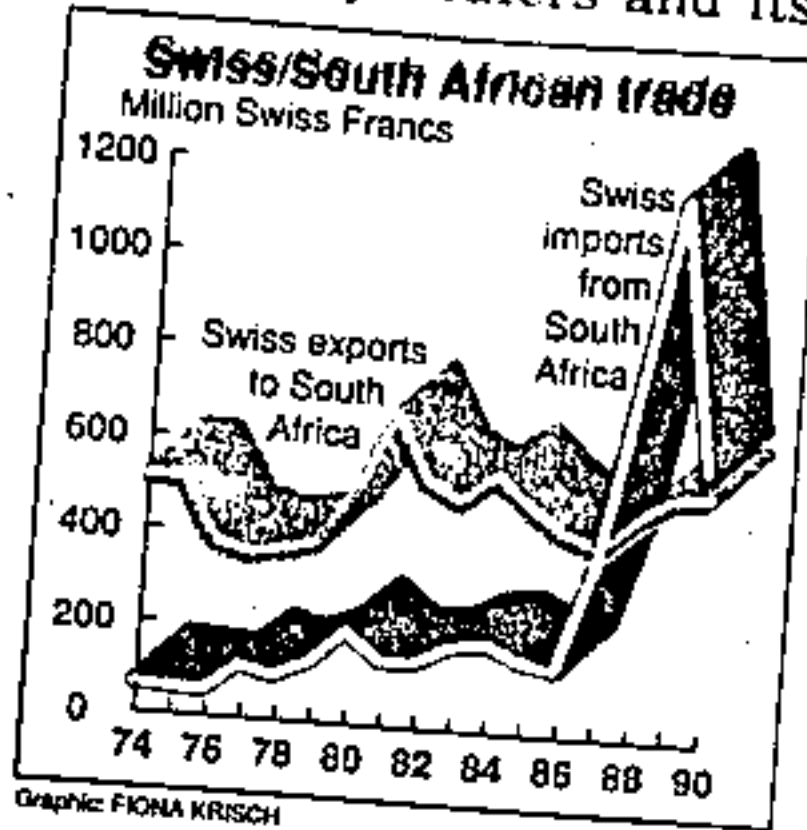
He says over the past four years, Swiss imports from SA, excluding diamonds, gold and other precious metals, have tripled.

Major incentives in dealing with SA have been the low price of local products because of the rand's low exchange rate. The quality of SA products has also improved.

Speck says: "No longer are business people embarrassed to be seen to be associated with SA and the nuisance factor of anti-apartheid boycott campaigns has virtually disappeared. Once again SA

products are openly displayed."

Although Switzerland is placed badly because it lacks a sea port, it has and will continue to play a major role internationally in SA's trade through Swiss commodity dealers and its



international financial networks.

Speck says this role will expand because SA trade is already showing signs of rapid expansion with traditional trading partners and new markets like Eastern Europe.

Apart from important invisible trade like Swiss re-

insurance, financial services and tourism, SA will also look increasingly to Switzerland for heavy and sophisticated machinery and technology, he says.

SA, with its developed infrastructure, will also increasingly be the route used by other countries to reach the markets of the entire southern African sub-continent.

In addition to trade relations, Switzerland is also traditionally an important country for direct foreign investments.

According to its National Bank, this investment amounted to SF70,909bn in 1988 with Swiss-controlled companies employing 891 390 people in foreign countries.

Speck says there has been no let up in the attempts of Swiss companies to build up their presence in other countries.

Important considerations are Switzerland's high wages, shortage of manpower and official regulations and restrictions.

Staff Reporter

AN ocean tanker is to fill up with five million litres of KWV dry white wine next week.

The tanker Jo Hegg is due to leave Cape Town on Wednesday for an undisclosed European port.

The delicate South African co-operative wine will be pumped directly from rail trucks into the ship's stainless steel holds on Monday.

KWV's export marketing manager Mr Gawie Minnaar said it was a "very good quality wine" which would not be out of place in a cellar cask.

He said the carrier should not be confused with an oil tanker and to ensure the wine "trav-

Tanker
Cape-Tops 26/4/91
that can

hold its
booze

els" well, previous cargo lists are checked.

Caustic soda is a good former cargo because the holds are easily cleaned, he said.

Mr Minnaar said the export table wine is available because of a drop in domestic consumption and one of these tankers will leave Cape Town every two months.

Curtis Mlenzie 1986, 747
Mzakwa 1987, 25; Sipho
Sindi Ntshontsho 1987
Mkumalo 1988, 20; Moro
Mthunzi Sithole 1988, 8
1988, 7.

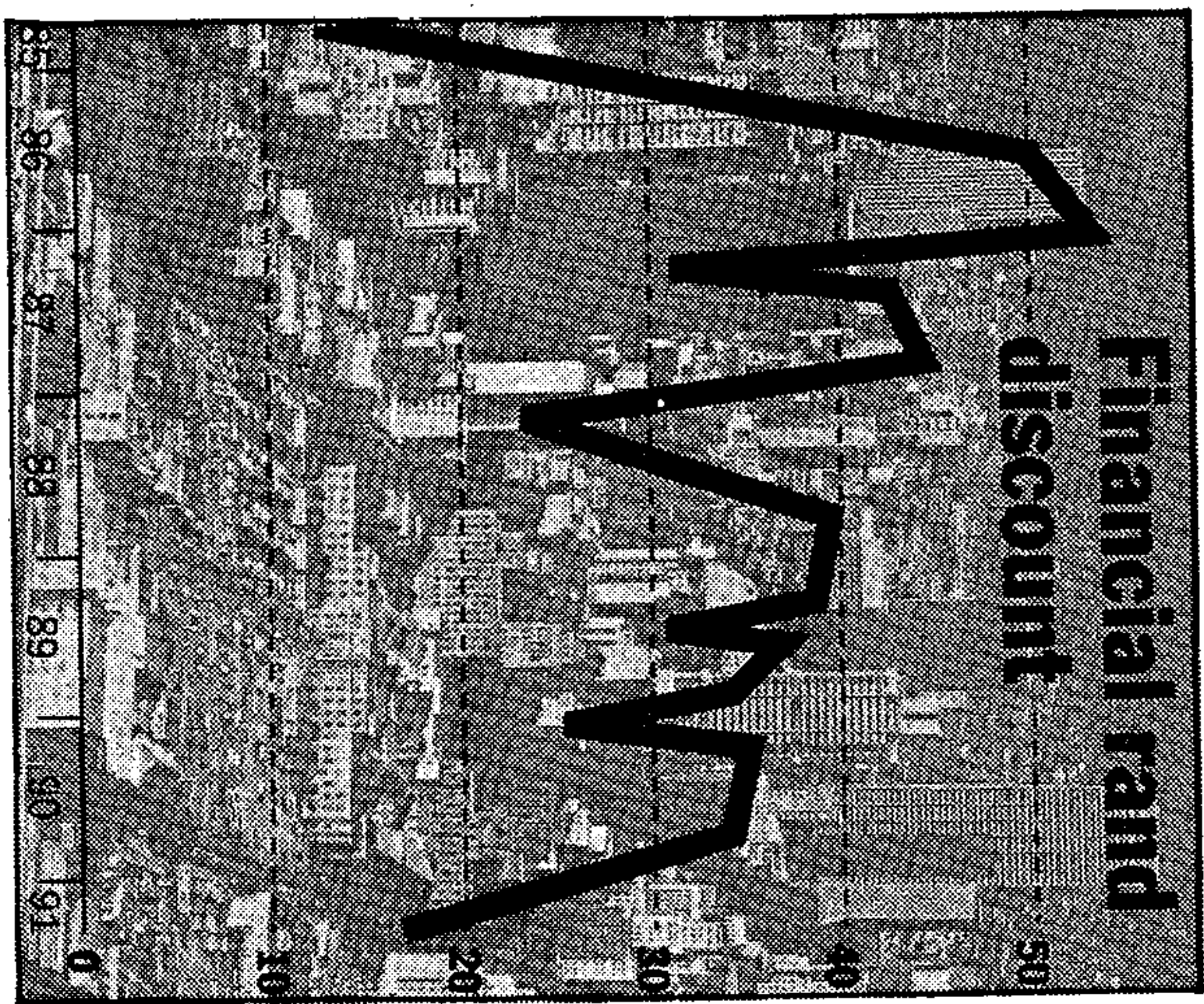
crack



FW pledges early rethink on financial rand

8 Nov 27 14 191

24



A FUNDAMENTAL revision of the financial rand and exchange controls is likely as soon as the US lifts sanctions and relations with the International Monetary Fund and the World Bank are normalised.

This was the message President FW de Klerk gave leading British industrialists in London yesterday.

Making the last official speech of a week-long European mission seeking new investment to support his reforms, Mr de Klerk indicated this strong incentive for foreign business involvement could come about within a few months.

Answering questions from over 300 members of the Confederation of British Industry and the UK-SA Trade Association, he said United States embargoes would be lifted after June as the US had made a firm commitment on this once he met conditions listed in the 1986 sanctions legislation.

On normalisation of relations with the IMF and the World Bank, Mr de Klerk said there were positive and constructive develop-

ments, but that he preferred not give details at this stage as the issue was a sensitive one.

Derek Tommey reports that heavy foreign investment this week narrowed the financial rand's discount to the commercial rand to its lowest level since 1985 when it was re-introduced.

The discount has shrunk to just over 16 percent, half the rate ruling as recently as eight months ago, and compares with a discount of 52 percent during part of 1986.

Confidence

Behind the reduction in the financial rand discount is greatly increased confidence overseas in this country.

One result has been an upsurge in business-seeking visitors — ranging from German bankers to Japanese businessmen. But a more important result has been the first significant inflow of risk capital for almost a decade.

Unfortunately the amount of

new investment can only be guessed at, as it is coming in through the financial rand and there are no official records of its flow.

But bankers say the amount involved must be huge to have caused the financial rand discount to narrow to 16 percent.

Because of a change in the regulations much of this new capital inflow is going into productive resources. Financial rands these days can be invested only in listed securities or in plant, equipment and factories.

Foreigners appear not to be using financial rands to buy equities (though they are still buyers of Eskom stock).

This new investment will be welcome as it should lead to greater economic activity and increased employment in the months ahead.

Some fears have been expressed that foreign investment might dwindle if the financial rand discount disappears and foreigners are forced to invest through the commercial rand.

But bankers point out that overseas investors would still be getting a bargain even if they had to use the commercial rand to buy into the country.

New SA-Seychelles air links

Star 27/4/91

IMPORTANT links, in both travel and trade, between the Seychelles and SA will be cemented with new air links between the Indian Ocean Islands and Johannesburg beginning in August.

Already more than 10 000 South Africans spend their vacations there every year and it is planned to double this figure after Air Seychelles and later SA Airways establish air links.

Conrad Benoiton, executive chairman of Air Seychelles, announced in Johannesburg yesterday that his airline would begin weekly flights every Saturday between Jan Smuts and Mahe on August 3.

The Boeing 767 aircraft would leave Seychelles at 9.15 am, arriving at Jan Smuts at noon, and depart from Jan Smuts at 1.45 pm, arriving at 8.30 pm local time (less than 4hr 30mins flying



NEVILLE ADLAM

74
2/8/91

time). The route will continue to be served by LuxAir until July 29.

John Kirby, general manager, said tour operators and retail agents had been anxiously waiting for the completion of the negotiations. He estimated that finally it would cost South Africans about R3 500 for a week's holiday, depending on the packages and the season.

Mr Benoiton said the Seychelles had a small population — only about 69 000 — and the islands could not afford to have a mass holiday influx. There was a 4 000-bed occupancy on the islands and it was not intended to go very much above this, although two more hotels were planned for in the next two years.

BOLD PLEDGE

SA won't
on't go the

way of Africa'



Picture: HANNES THIART, Weekend Argus.

el to the snowy slopes of the Swiss Alps
n modern dance teacher, Cathy Lemkus,
llerskiing — the latest craze in sunny
a wheel at each corner like a roller
ve four wheels one behind the other.

By BRENDAN SEERY
Weekend Argus Correspondent

FOLLOWING his statement that the South African economy would not go the way of those in the rest of Africa, President De Klerk confirmed that negotiations were "absolutely on schedule".

Speaking on his arrival back in South Africa, Mr De Klerk said claims by the ANC that the government was dragging its feet were a "propaganda effort" which was "devoid of all truth".

Speaking on arrival back in South Africa after what he described as a "highly successful" visit to Britain, Denmark and Ireland, President De Klerk deflected questions about the ANC's May 9 ultimatum, but said that as far as he was concerned, the release of political prisoners and return of exiles were proceeding "in terms of agreements" reached between the ANC and the government.

ANC ultimatum

He remarked that he did not wish to debate with Mr Nelson Mandela through the media, but added that he would "deal with the major issues in depth" when he addressed Parliament next week during the debate on the State President's Budget vote.

Mr De Klerk said that at no stage during his visit to the three European countries — during formal and informal talks and Press conferences — did the question of the ANC ultimatum arise.

"The subject just never came up."
Business people and government leaders were very concerned, however, about the ongoing violence, but they were not "emotional" about the situation and "there is confidence that we will be able to bring it to an end" said President De Klerk.

He said those he had spoken to on the tour showed "appreciation" that the South African government had done "something over and above normal security action" in trying to deal with the violence.

He cited the appointment of the standing commission on violence and the coming peace conference, which is scheduled for May 25 and 26.

A tired but clearly happy Mr De Klerk said his overseas trip had strengthened the impression that the international community was appreciative and understanding of the "tremendous complexities" of the situation in South Africa.

People overseas wanted to see South Africa succeed "in a peaceful manner" in "bringing about a constitutional dispensation for everyone", and they also wanted to see the country's economy restored to its "full potential", he said.

He had assured those to whom he spoke, said Mr De Klerk, that there would be one man one vote in South Africa, but that a future constitution would have to have "checks and balances" built into it to ensure that "Big Brother — the majority — cannot use their powers to suppress minorities".

Mr De Klerk told a questioner that there was nothing unusual in minority protection, and said that Belgium, Switzerland and the US were good examples of countries where there were such constitutional safeguards.

Asked if he had returned home with promises of any new investment, President De Klerk replied "I did not go there to canvass for investment" and therefore no concrete pledges were made directly to him.

But, he remarked that South African businessmen he had met on the plane coming home had told him they were doing increased business overseas.

"We are already experiencing an inflow of investment, although it is not large," he said.

■ Violence could hamper investment, page 6.

W/LEAKERS 27/4/91 (74)

Japan plans big trade boost for SA

The Argus Correspondent
JOHANNESBURG. — South Africa is set for a huge boost in trade and investment from Japan after a highly successful visit by a powerful Japanese trade delegation.

After holding discussions across the political and business spectrum, delegation leader Mr Tamotsu Yamaguchi, deputy president of the Bank of Tokyo, said he was very encouraged about the prospect of future links.

"We were impressed by the great economic and political reform and with the abundance of national and human resources as well as the splendid economic infrastructure."

Suggesting South Africa would be the "ideal gateway" to the rest of southern Africa, Mr Yamaguchi said that through schemes such as joint ventures, current bilateral trade between the two countries could double from its present R4 billion.

The delegation, which included some of Japan's biggest multinationals, were invited by the South Africa Foundation.

Although the agenda was confidential, it is known the group had talks with Minister of Finance Mr Barend du Plessis, all major political organisations and several major companies in the banking and industrial sector. They will meet ANC deputy president Mr Nelson Mandela and President de Klerk.

Foundation director-general Mr Kurt von Schirnding said the programme enabled the Japanese to have as wide-ranging a view of South Africa as possible for them to reassess the political and economic climate.

"We sincerely hope that we can build on this in the future and that it will be the first of many such trips," he said.

Local economists feel the visit signals a significant revival of interest in South Africa on the part of Japan, which for the past few years has been wary of increasing trade with the country, fearing negative repercussions in the United States and Europe.

Japan has long been one of South Africa's major trading partners.

NOW HERE

THE LIGHT C...
THAT REALLY

Rothman

Conflict looms over finrand

By Sven Lünsche

By committing itself to a revision of the financial rand, the Government is heading for a possible conflict with the Reserve Bank.

President FW de Klerk told British industrialists in London at the weekend that a fundamental revision of the finrand and exchange controls were likely as soon as the US lifted sanctions and relations with the International Monetary Fund and the World Bank were normalised.

The Reserve Bank is on record as saying that the discount between the commercial and the financial rands would need to decline to single figures and stay there for some time to

prove its stability, before the abolition of the finrand could be considered.

This would avoid a sudden drop in the commercial rand when the finrand is abolished and prevent a sharp rise in imported inflation.

When the discount was running at 20 percent two months ago, Econometrix estimated that a unitary rand would probably settle at about 10 percent below the current level of the commercial rand, enough to push the inflation rate up by at least 2,5 percent immediately.

The Reserve Bank has been keeping the trade-weighted rand at virtually unchanged levels over the past year to reduce the impact of imported inflation.

The crucial signal for the Reserve Bank to abolish the dual exchange rate system is therefore a fundamental downward trend in inflation, which is unlikely to happen before the end of the year at the earliest. US sanctions are expected to be lifted over the next few months.

When it does decide to end the system the Bank is likely to buy finrands and gradually reduce the discount.

Heavy foreign investment through the finrand and a fall of the commercial rand against the dollar narrowed the discount to just over 16 percent on Friday.

This is the narrowest it has been since the re-introduction of the finrand in 1985.

Irish eyes smile on FW in Dublin

74
CAPL T19/15
26/4/91

DUBLIN. — In a major diplomatic coup for President F W de Klerk, Irish premier Mr Charles Haughey yesterday ordered a complete review of all relations and contacts his country has with South Africa.

Speaking after their first meeting here, Mr Haughey said that despite the complexities involved, the reform process Mr De Klerk had embarked on was indeed "irreversible and fundamental".

"He needs support and full understanding.

"It is clear that South

Africa has now embarked on a definite process, the ultimate end of which is the complete and final abolition of apartheid."

At a press conference later, Mr De Klerk's comments clearly indicated he was pleased with the results of his first visit to Ireland, which has been in the forefront of international sanctions against South Africa.

On his overall impression of talks with Mr Haughey and Foreign Minister Mr Gerry Collins, he said: "For a long time, relations between Ire-

land and South Africa have been what could be described as 'strained' — that has changed fundamentally because of a new reality in South Africa.

"I would conclude relations now are warm, positive and constructive.

"I found my whole discussion with the Irish government to be particularly encouraging."

Mr De Klerk said bilateral relations and prospects of future trade had been dis-

To page 2

From page 1

FW ^{26/4/91} cussed, in addition to wide-ranging discussions in which he had explained in detail the present situation in South Africa and difficulties in the way of getting discussions on a new constitution moving.

Mr Haughey had earlier said he looked forward to Ireland establishing diplomatic ties with a future democracy in South Africa.

He explained there was already a full and open channel of communication with Ireland through South Africa's embassy in London.

Mr Haughey said sanctions had not been discussed.

Mr De Klerk, on the third leg of his three-nation European tour, is due to return to London this morning before returning to South Africa this evening.

Meanwhile, a short powercut caused by Irish Electricity Supply Board workers striking for more pay disrupted Mr De Klerk's press conference.

About 150 members of the Irish Anti-Apartheid Movement and other groups yesterday staged a protest outside the Dublin offices of Mr Haughey, while he held talks over a working lunch with the president.

— Sapa

West's businessmen look to SA to help them out of recession

By Derek Tommey

Star 24/4/91

South Africa could play an important role in helping the West out of its present recession, an analysis of the country's trade figures shows. However, it would require a speedy end to sanctions and a fair amount of Western economic aid.

South Africa appears to have been slow in recognising its potential economic importance to the Western world. But the large number of foreign businessmen who have visited this country in recent months suggests that they are fully aware of this overseas.

This foreign interest in South Africa must be seen against the background of the mild recession which the Western world is experiencing. Unfortunately, none of the economically important nations appear to have the potential to generate the growth needed to pull the West out of this malaise.

Many businessmen and economists had placed their hopes on the re-unification of Germany to give the Western economy a kickstart. But it has become apparent that the economic unification of Germany will take some time and for the next year or so the re-unification process could even be a drag on the European economy rather than a stimulant.

Where then are the West's businessmen to turn for the growth in business they seek? One good answer is South Africa.

Stimulus

If the necessary stimulus (and particularly foreign credits) is provided, this country could show rapid economic growth. And in the process it would again become a good customer for Western goods and help them out of their current recession.

For the past 11 years the

74
South African economy has been languishing, first under the impact of unrest and then from international sanctions. One effect was a drastic decline in imports in real terms.

This also hurt this country's major suppliers. But until now the pain was not particularly apparent as for most of the 1980's the world enjoyed a relative boom.

In this country the drop in imports has not been apparent in the trade figures. Those issued by Customs and Excise, in fact, show a trebling in imports from R14,1 billion in 1980 to R44, billion last year.

But looked at from the standpoint of a German businessman, this country's import performance has been parlous. It has dropped in value by some 16 percent since 1980 from Dm32,9 billion to Dm27,5 billion.

A Japanese businessman sees an even worse situation. In 1980

South Africa's imports were worth 41,2 billion yen. Last year they were worth 24,6 billion yen — a drop of 40 percent. The dollar picture is not quite so bad. In this currency the decline has been only 6,2 percent, from \$18,1 billion to \$17,4 billion. And in sterling there has actually been a 23 percent increase — from £7,8 billion to £9,6 billion.

Deprived

But even this increase becomes insignificant when one considers that South Africa's imports should have grown between 40 percent and 60 percent in real terms since 1980 if they had followed the growth in world trade.

This shows the extent to which this country has been deprived of imports. It also shows the huge scope there is for increasing imports — and helping the West — if foreign capital flows in.

... stepped-up offensive by government troops but and refuse to take orders from the military. such journeys when they are escorted by the out of

Consumer imports trim March trade surplus

By Sven Linsche ^{8/25} 24/4/91

The trade surplus in March declined by almost R600 million, as imports of consumer goods continue to rise.

It fell from R1,71 billion in February to R1,15 billion in March, with imports rising from R3 billion to R3,65 billion.

The trend is also reflected in the quarterly figures. The surplus in the first quarter slipped 29 percent to R2,99 billion from last year's R4,21 billion, according to figures released by the Commissioner for Customs and Excise yesterday.

The cumulative imports over the period rose by 11 percent to R11,48 billion, while exports

dropped slightly from R14,58 billion in the first quarter of 1990 to R14,47 billion this year.

The dismal performance of the trade surplus can be partly explained by oil imports, valued at over R1 billion, in January.

However, even if the unclassified category (mainly oil) is excluded, imports rose six percent in the first quarter, indicating that consumers are not holding back on their acquisitions of imported goods.

Satto economist Bruce Donald says the latest trade figures mirror the prevailing dichotomy in South Africa's economic trends. "On the one hand, imports of

producer goods, such as mineral products and base metals, fell by nine and ten percent respectively in the first quarter of this year, compared with the same period last year.

"On the other hand, demand for consumer goods remained buoyant, led by goods such as plastics (10 percent), prepared foods (30 percent), textiles (9 percent) and footwear (47 percent)," Mr Donald says.

Declines

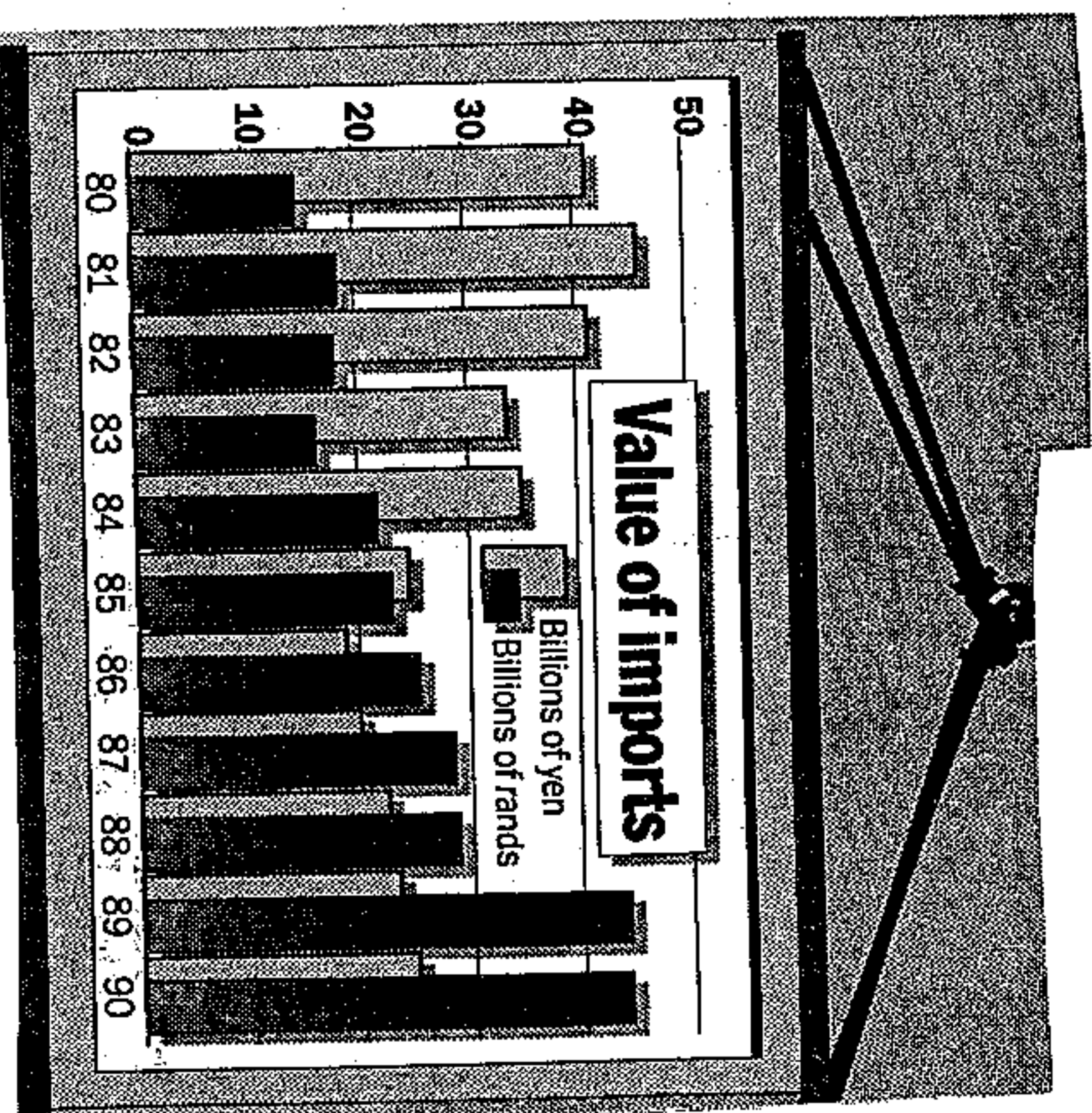
"Imports of machinery have also been surprisingly resilient (three percent), as have imports of transport equipment (8 percent), which indicates that that investment levels are holding

up fairly well, unlike in past recessions when investments took a big knock."

The export performance was still relatively weak in March and cumulative exports in the first quarter of 1991 were one percent down on last year.

The declines were led by lower exports of mineral products (-11 percent), vegetable products (-33 percent), pulp and paper (-12 percent) and textiles (-4 percent).

Exports of precious stones were 17 percent down on last year, but Mr Donald says there were already signs of strengthening, following an improvement in market conditions for diamonds.



Invest now FW tells the world

Sowetan 24/4/91.



LONDON - President FW de Klerk was confident yesterday that new private sector investment would flow into South Africa once all impediments had been removed.

Addressing an international Press conference in London, De Klerk said it was vital that new investment should precede the finalisation of the reform process.

He also said the release of prisoners and indemnification of exiles was on track and fully complied with the Pretoria Minute. He hoped South Africa's international sports relations would soon be normalised because it would boost efforts to achieve reconciliation at home.

Emphasising the importance of economic growth and development, De Klerk said: "From our point of view, economic development goes hand in hand with constitutional development."

"The high percentage of unemployment is counter-productive to the maintenance of law and order and plays into the hands of radicals who would like to see disruption and disorder."

"Any new government will be faced with high expectations. Economic development is the only answer for the development of our human potential and can and will make a fundamental contribution to efforts in all other spheres."

"Constitutional reform must be underpinned by a vibrant economy."

Tackling huge socio-economic backlogs and meeting the challenge of a "breathtaking rate" of urbanisation would require a sound and strong economy with a growth rate of about six percent.

"All these are potent reasons to get the economy growing as soon as possible."

He said what South Africa sought from the world was "confidence".

"We are not asking for hand-outs or donations. We ask that the impediments be removed and we have no doubt that we will get a flow of private sector investment because of the opportunities our economy and Southern Africa offer to them."

"There is no doubt

many private sector companies are ready, willing and able to invest in South Africa. The sooner impediments are removed, the sooner this process can start."

Although it was not yet "immense", South Africa was already experiencing an inflow of new investment capital.

The removal of sanctions - which was being led by the EEC - had led to an increase in foreign trade.

Old markets were being reopened and South Africa was also trading in new markets. Among these were many African countries.

He said he had discussed US sanctions with British Prime Minister John Major and was in direct and regular communication with the US Government.

On constitutional issues, he said his government stood for a united South Africa with full political rights for all - "call it one man one vote if you like" - but providing for the principle that the majority should not be in a position to abuse power to the detriment of minorities. - *Sowetan Foreign News Service.*



Britain's Prime Minister John Major shakes hands with President FW de Klerk at London's 10 Downing Street on Monday.

East Rand princ meet DET officia

By MOKGADI PELA

THE 41 Katlehong principals "sent" by teachers to negotiate "burning issues" with the authorities yesterday reported at the Department of Education and Training offices in Alberton for the second day.

The DET said they could not guarantee that effective teaching was taking place in the absence of principals.

It said Monde Primary

School, where 16 teachers had been suspended, was running smoothly with the principal present.

In nearby Tokoza schooling had returned to normal with all the principals at their schools.

On Monday a DET spokesman said that principals had been expelled by teachers belonging to

the South African Democratic Teachers Union. The Sadtu denied this.

A Sadtu spokesman said principals had themselves "decided they would not return to school as they were negotiating burning issues with DET".

Meanwhile, an urgent meeting on the education crisis in Katlehong is to be convened by the Azanian Students Con-

Capital outflows have been reversed

B/D ay 25/4/91

1988

24

74

GRETA STEYN

SUBSTANTIAL capital outflows in the last quarter of 1990 had been reversed in the first quarter of this year, Reserve Bank Governor Chris Stals said yesterday.

Stals said the increases in foreign exchange reserves this year reflected a healthy capital account on the balance of payments (BoP), rather than a substantial current account surplus.

There was a R1,8bn outflow in the last quarter of 1990 which neutralised the R1,5bn net inflow in the third quarter. Total outflows for the year were R2,9bn.

"A rough calculation shows the increase in the reserves this year exceeds the surplus on the current account," he said.

While he could not provide figures, economists calculate a small current account surplus of R200m-R300m for the first quarter. This compares with an increase in foreign exchange reserves of about R1bn.

Economists say the effective increase is slightly lower because of the higher valuation of gold reserves, but the figures suggest a net capital inflow of a few hundred million rand.

Bankers cautioned against over-optimism after President F W de Klerk's statement in London that "hundreds of millions of rands in risk

capital" had flown into SA. The experience of the last quarter of 1990 showed that a net inflow could easily be reversed.

But while there was little evidence of substantial amounts of longer term foreign finance flowing into SA, the third quarter of last year had seen an inflow of more than R800m in longer term finance.

Kick-start

Economists said capital inflows were essential for sustainable growth when the economy entered its next upswing.

Sacob's Ben van Rensburg said any programme to "kick-start" the economy would put pressure on the current account of the BoP, and capital inflows were needed to offset the foreign outflows due to imports and services.

SA's foreign exchange reserves are at their highest levels since 1987. A healthy reserves position is a key element in Stals' strategy to enhance the country's status as a debtor. Evidence that SA's ability to pay was improving under conservative economic management is expected to help win investor confidence.

Positive capital inflow is a possibility this year

Star 24/4/91 (74) (19)

By Sven Lünsche

Over the next 12 months South Africa could record positive capital inflows for the first time in years, says Southern Life's economist Mike Daley.

"Capital outflows are no longer the drain they used to be on the economy and a renewed inflow of capital could prove a big boost to growth over the next few months," Mr Daley said at the presentation of Southern's latest Economic Comment.

Capital outflows last year were down by nearly R1,5 billion from 1989 and coupled with a high R5,4 billion surplus on the current account of the balance of payments boosted net reserves dramatically by R2,9 billion. The expected stronger capital inflows may partially offset other negative developments on the country's trade accounts.



Mike Daley . . . Recovery only in 1992.

Against a background of deepening world recession for the greater part of this year, export volume growth may fall slightly, and no sustained improvement in international commodity prices was in sight, Mr Daley says.

This was particularly true for the dollar-dominated gold price which may come under further downward pressure if the dollar continues its recent

strong performance against other major currencies.

The current account surplus will thus be around R4 billion this year, Mr Daley says, allowing for small improvements in the net reserves position.

Given the forecast of a lower gold price and the absence of a major flow of liquidity through the balance of payments, Mr Daley says the economic growth phase was likely to be gradual in its initial stage.

"Recovery, gradual as that, must wait until 1992," he says.

"Interest rates and inflation will be somewhat lower by the end of the year, but the economy will only then have reached its lower turning point.

He sees real GDP growth for 1991 turning out a positive 0,5 percent, provided that real imports fall again after last

year's 3,1 percent fall.

Mr Daley expects two further interest cuts by the end of the year, but until his happens, the rising unemployment, limited salary and wage growth and the added burden of VAT in the final quarter will reduce discretionary spending of individual.

"The Budget brought no meaningful tax relief for the person in the street, and the only positive feature this year is the mounting evidence of the rolling back of international sanctions against South Africa."

He adds that the tax proposals in the budget providing little relief from the effects of fiscal drag on middle and upper income groups.

"The extension of the 12 percent value added tax to previously untaxed services implies this fiscal year will be a tough one for consumers."

Trade surplus hit by higher imports

Bl Day 24/4/91. 74

GRETA STEYN

HIGHER imports and sluggish exports sliced SA's trade surplus to R1,14bn in March from R1,7bn in February, Customs and Excise figures show.

The March figures bring the cumulative trade surplus for the first quarter of this year to R2,99bn — almost 29% down on last year's surplus.

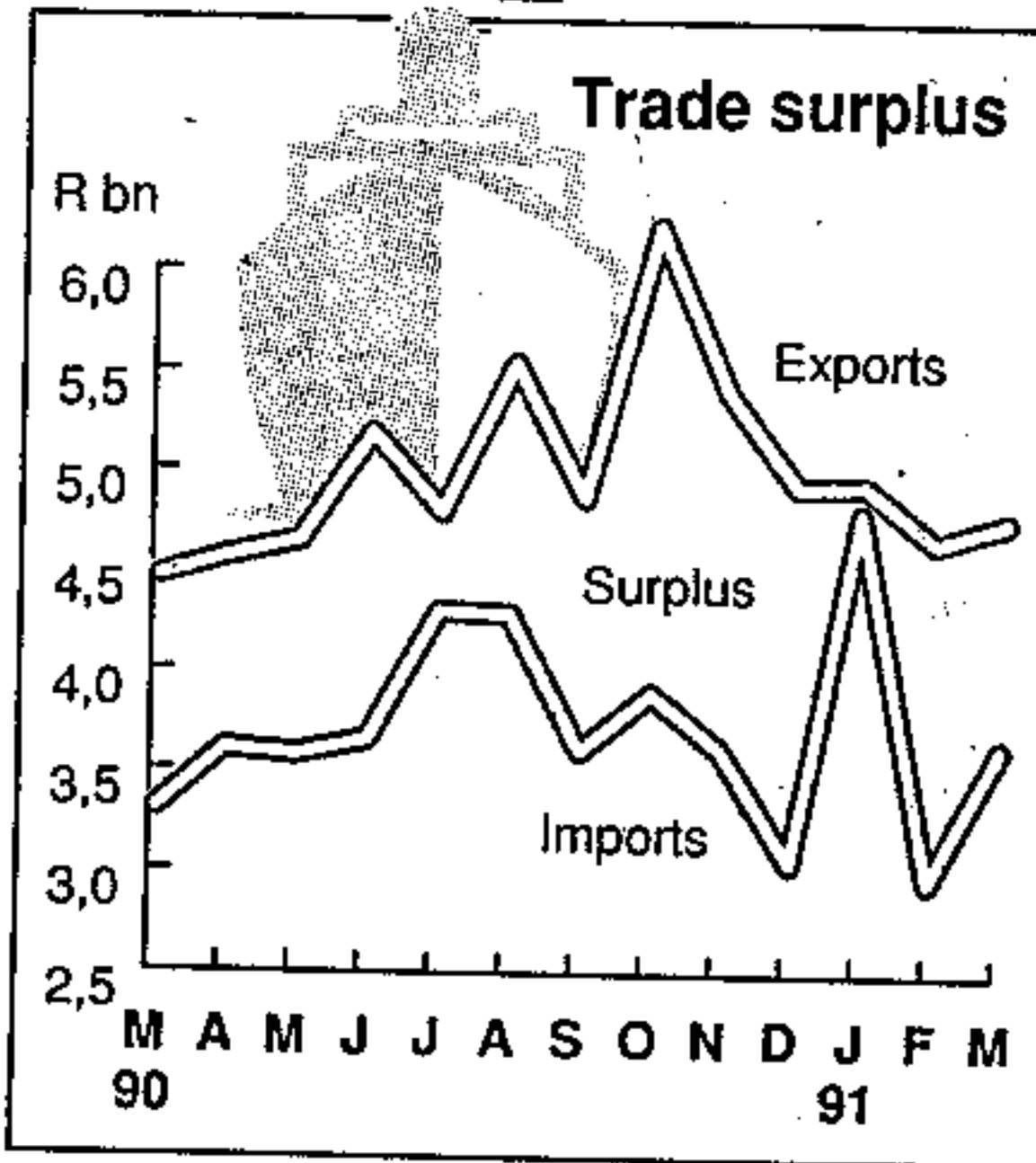
But the trade performance is in line with expectations and SA is still on course for a projected current account surplus of R3bn to R4bn for the year (the current account balance is the trade surplus less payments for services, interest and dividends).

Exports rose to R4,8bn (February: R4,69bn) with a number of major categories performing poorly this year. Categories that fell in the first quarter compared with last year include minerals, precious metals and stones, vegetable products, pulp and paper and textiles. Other important categories, such as metals and gold, rose by small margins.

Safto economist Bruce Donald said: "The poor performance of the agricultural categories reflects the weakening of international commodity prices in response to slowing global growth."

He predicted exports of precious stones would improve from current poor levels — down 17% in the first quarter.

Nedcor economist Edward Osborn told AP-DJ the increase in exports in March



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

reflected the sharp depreciation of the rand against the dollar in that month.

Imports rose sharply from February's unusually depressed levels to R3,66bn in March with some important categories rebounding.

Donald's analysis shows that if unclassified imports, mainly oil, are excluded, the import bill rose by 6% in the first quarter of this year, indicating that the present domestic recession is "relatively mild".

Donald notes imports of machinery (up 3% in the first quarter from last year) have been "surprisingly resilient".

De Klerk pleads for lifting of ban on trade

Sowetan 23/4/91

LONDON - President FW de Klerk held talks yesterday with British financial leaders to argue for new foreign investment and was expected to discuss sanctions with Prime Minister John Major.

De Klerk, who arrived in Britain on Saturday, also met British MPs. Protesters chanted anti-apartheid slogans outside the South African embassy when De Klerk arrived.

He was formally welcomed by Overseas Development Minister Lynda Chalker but his first

substantial talks of the day came in a meeting with representatives of banks and financial institutions.

A South African spokesman said Bank of England governor Robin Leigh-Pemberton was included in the meeting but declined to name any other participants or give details of the discussions, stressing that the meeting was confidential.

London banking sources, who said National Westminster Bank chairman Lord Alexander and Barclays Bank chairman Sir John Quinton were

at the meeting, said British banks were unlikely to resume lending to South Africa before full democracy was introduced.

Bankers said they doubted whether De Klerk would have made a direct request for new financing at the meeting, although that would probably emerge at a later stage.

Before leaving South Africa, De Klerk said he wanted new or renewed economic investment to underpin his reforms of apartheid laws.

74

"When I meet British bankers, I will merely inform them that there were no impediments preventing them from investing in our country," he said, adding it was very important that the private sector was properly and fully informed "about the opportunities which we believe are opening in South Africa".

The South African spokesman said De Klerk and Major would discuss the South African economy and sanctions at a working dinner later. Sapa-Reuter.



State President FW de Klerk arrives at South Africa House in London's Trafalgar Square yesterday by protesting ANC supporters. De Klerk is on an official visit to England and has met for talks with British Premier John Major.

Economics as important as 'constitutional' affairs,

HARARE — Economics, industry and trade ought to be given as high a priority in SA as constitutional negotiations, British MP David Owen told the Institute of Directors conference yesterday.

Owen told about 300 delegates that constitutional change and economics were "inextricably linked". He also warned that Eastern European demands would divert resources currently devoted to Africa.

He suggested that Angola would play an important role in the region in future. Links had been established

between SA and Angola and he suggested that the two countries might establish closer links after Angola's MPLA government and Unita rebels reached a settlement.

There was a good chance that Angolans would reach an "internal understanding" within a year, he said. If this was achieved, Angola would contribute to the region commodities which the region most lacked, particularly oil.

Owen predicted that when Angola did institute a market economy, the changeover would take

place rapidly. He would expect both the US and SA to invest in Angola.

He said there were fears, which were not groundless, that Europe would turn in on itself. However, it was more likely that a European internal market would be beneficial to the developing world.

Europe would be more open to southern African exports and would have a more cohesive attitude to development aid.

But Europe faced "massive new demands" on its own doorstep.

"We are now much more conscious that Hungary, Poland and Czechoslovakia have got to succeed."

"There are many of us who believe it is absolutely imperative that Hungary, Poland and Czechoslovakia must be taken into the community."

He said British Foreign Secretary Douglas Hurd had said last summer that resources allocated to Eastern Europe should become additional demands on the community and there should be no reduc-

tion in its commitment to Africa.

But since then the increase in the demands has been remarkable.

"The more we look at Eastern Europe, the worse it is."

On prospects for regional co-operation in southern Africa, Owen said the EC began as a modest co-operation between French and German coal and steel industries.

Similarly, he suggested, regional co-operation in southern Africa might begin with an attempt to form a regional electricity and transport grid. This should be a joint government-private sector undertaking.

Another lesson southern Africa could learn from the EC's development was the community's failure to prioritise the development of internal markets.

Internal markets did not require major political agreement of a great deal of integration. Neither did they require the discipline for breaking down protectionism and institutional barriers to trade.

Huge Larder Worries SA Farmers

HOPES are high among farmers that the final lifting of all economic sanctions against South Africa will open previously closed world markets as well as new ones for their exportable products.

But their optimism is also tempered by the realities of today's international situation, which presents a grim picture of mountains of surplus food and fibres, often accompanied by severely depressed export prices.

While it is true that in the past few years most of South Africa's export trade in agricultural products flourished in spite of sanctions, there are ominous signs that the buoyant conditions may not continue indefinitely.

The way things are develop-

ing in this country's traditional and probably most lucrative markets in Europe is particularly disturbing.

The mountains of beef in cold storage there are rising at a rate which is making officials dizzy. There are nearly 20 million tons of cereals in silos.

Warehouses are crammed with about 260 000 tons of surplus butter and 350 000 tons of milk powder, and there is considerable overproduction of many other farming commodities.

In fact, countries in the European Community are now 110 percent self-supporting in food, large volumes of which are being released at dumping prices on world markets.

South Africa is in the fortunate position that most of its export agricultural products

are produced in Europe's off-season and, to date, because of their good quality, they have been in demand.

But the excellent prices realised by them have tended to encourage other southern hemisphere competitors, notably South America and Australia, to step up their production of exportables, and fiercer rivalry from them in the future is on the cards.

There is every indication, however, that the enormous advantage of huge export subsidies on farm produce is being whittled down slowly. Pressure for the dismantling of the relevant protective measures is not only increasing but is already succeeding, albeit partially, in some producer countries.

Such deregulation, of course, is a slow process but the long-

term effect on South African farm exports should be beneficial and it is this aspect, together with an expected shift from volume to quality, that is making South African farmers cautiously optimistic about the future of their export industry.

One of our biggest agricultural earners of foreign exchange is deciduous fruit. Despite fierce competition, overseas consumers for years have shown a strong preference for the fruits of the Cape.

All is not as rosy as it may seem, however. South Africa's high inflation rate and the resultant rapidly rising production and export costs are combining to undermine our competitive position.

Wool and mohair, two of SA's other big exports, are not faring too well just now following a lengthy era of prosperity. The wool crash came earlier this year when the bad news broke that Australia was sitting on an accumulated stockpile of 5 mil-

lion bales. Since then, to the dismay of SA woolgrowers, wool prices have dropped by a whopping 30 percent.

Our mohair industry, leader of its kind in the world, is going through the most depressing time in its history.

Although producers of both these fibres are now suffering from the detrimental results of a smaller demand, an oversupply and pressure on prices, the long-term prospects for their products are bound to improve.

There were times when we exported substantial quantities of maize, but since then the area planted annually has gradually declined from just more than 4 million ha 10 years ago to just over 3 million ha today.

It seems that regular imports will be the order of the day in future.

When sanctions are finally dismantled, South Africa may be compelled to look further than Europe for the profitable disposal of its products. The question is, where?

The United States may be able to take some of our products, but the enormous transport distance and the costs involved, as well as the US's own huge production capability, may militate against the development of lucrative business.

The Far East, on the other hand, presents better prospects in spite of the distance. The Japanese, for instance, who as-tutely maintain a low profile in their dealings with our part of the world, nevertheless pursue hard-nosed trade policies behind their courteous Far Eastern smiles, and there is no

doubt their imports of farm products from South Africa will escalate rapidly once they are free to trade openly.

Some of our farmers believe South Africa should exploit the markets closer to our borders. The reasoning is sound and logical, except for one drawback.

Most of the countries in Africa are still in the developing phase, with limited resources with which to pay for imports.

Perhaps South African producers should look more closely at the domestic market, the demands of which for agricultural products are bound to keep pace with the population increase, now expected to reach 44 million by the turn of the century. With our limited productive agricultural land, they may be hard-pushed to satisfy these demands. □

SA optimism that world markets will open with the lifting of economic sanctions is tempered by the picture of European food and fibre mountains. **GEORGE NICHOLAS, The Star Agricultural Correspondent, reports.**

SA optimism that world markets will open with the lifting of economic sanctions is tempered by the picture of European food and fibre mountains. GEORGE NICHOLAS, The Star Agricultural Correspondent, reports.

SA optimism that world markets will open with the lifting of economic sanctions is tempered by the picture of European food and fibre mountains. GEORGE NICHOLAS, The Star Agricultural Correspondent, reports.

SA optimism that world markets will open with the lifting of economic sanctions is tempered by the picture of European food and fibre mountains. GEORGE NICHOLAS, The Star Agricultural Correspondent, reports.

SA optimism that world markets will open with the lifting of economic sanctions is tempered by the picture of European food and fibre mountains. GEORGE NICHOLAS, The Star Agricultural Correspondent, reports.

SA optimism that world markets will open with the lifting of economic sanctions is tempered by the picture of European food and fibre mountains. GEORGE NICHOLAS, The Star Agricultural Correspondent, reports.

SA optimism that world markets will open with the lifting of economic sanctions is tempered by the picture of European food and fibre mountains. GEORGE NICHOLAS, The Star Agricultural Correspondent, reports.



SA optimism that world markets will open with the lifting of economic sanctions is tempered by the picture of European food and fibre mountains. **GEORGE NICHOLAS, The Star Agricultural Correspondent, reports.**

SA optimism that world markets will open with the lifting of economic sanctions is tempered by the picture of European food and fibre mountains. **GEORGE NICHOLAS, The Star Agricultural Correspondent, reports.**

SA optimism that world markets will open with the lifting of economic sanctions is tempered by the picture of European food and fibre mountains. **GEORGE NICHOLAS, The Star Agricultural Correspondent, reports.**

SA optimism that world markets will open with the lifting of economic sanctions is tempered by the picture of European food and fibre mountains. **GEORGE NICHOLAS, The Star Agricultural Correspondent, reports.**

SA optimism that world markets will open with the lifting of economic sanctions is tempered by the picture of European food and fibre mountains. **GEORGE NICHOLAS, The Star Agricultural Correspondent, reports.**

SA optimism that world markets will open with the lifting of economic sanctions is tempered by the picture of European food and fibre mountains. **GEORGE NICHOLAS, The Star Agricultural Correspondent, reports.**

Rand is holding firm on European markets

By Sven Lünsche

The steady performance of the rand against a basket of foreign currencies is a clear indication that the Reserve Bank is committed to upholding the external value of the currency.

Economists said yesterday that the recent strength of the dollar had seen the rand's rate against the US currency fall by almost 11 percent since early February — but this did not signal any change in stance by the monetary authorities.

The dollar's rise on world markets has been balanced by strong performances of the rand against other major Western currencies.

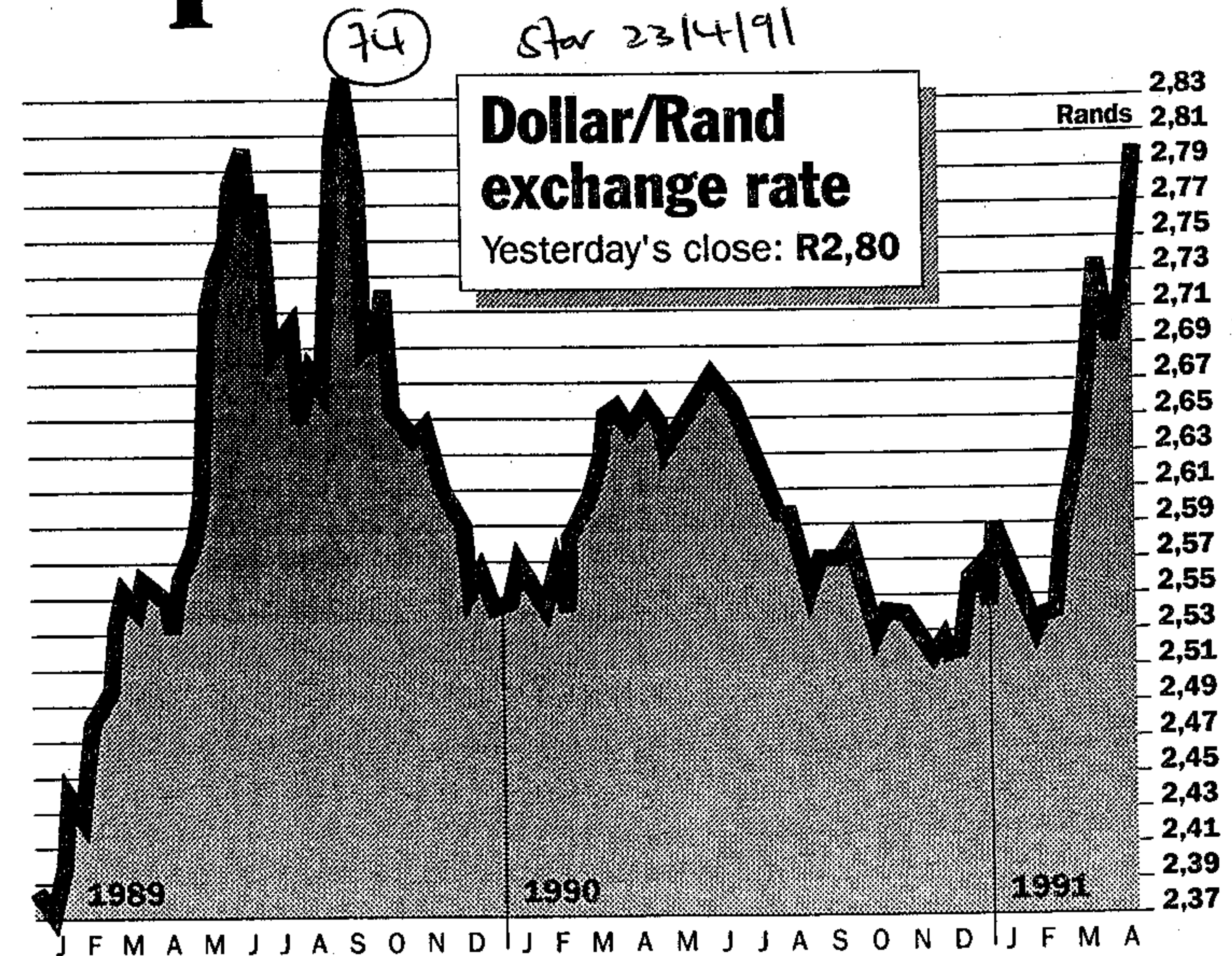
Simon Willson, economist at FNB's Treasury Department, says the trade weighted rand has been holding remarkably steady since November 1989, when Dr Chris Stals took office as Governor of the Reserve Bank.

FNB's index of the trade weighted rand, which reflects a basket of currencies according to the proportion of SA's trade in various currencies, has been running at 29,5 points for a few months and has only declined by about five percent since April 1990.

"Whenever this index threatens to fall the Reserve Bank is active to balance the losses of the rand against one currency with gains against another," Mr Willson says.

As a result the rand hit a year's high against the D-mark recently and has been trading strongly against the pound, the Swiss franc and the French franc.

"Dr Stals uses the target of a trade weighted rand to reduce the rate of increase of imported



inflation and there is no evidence of a change in that stance," Mr Willson says.

"To the contrary, the Reserve Bank has only been intervening in the foreign exchange market to support the rand."

The recent strength of the US dollar and the subsequent boost to the rand gold price is, however, welcome news for the battling gold mining industry.

Over the last two trading days alone the dollar has appreciated by almost 7c against the rand and closed yesterday at R2,794.

The dollar briefly tested the R2,80 level and is fast approaching its all-time high of R2,858 set in September 1989.

Between February 11 and April 20 the dollar surged by about 20 percent against the D-mark alone, a record increase for a major currency since the beginning of floating exchange rates in 1973.

The big question now is whether the dollar has completed the first leg of a long-term bull market which will carry it to much higher levels.

Neil Behrmann writes from London that some of the analysts and dealers who favoured the dollar earlier in the year, believe that a large proportion of the upward adjustment has already occurred. They are expecting a period of relative stability after such a run.

Major American banks, notably Citibank and Chase, however, are more optimistic about the dollar and are expecting another major upward leg to occur later in the year.

However, both the commercial and the financial rand could get strong support if international capital flows into SA improve this year.

If the gold price improves and capital shifts into the country, the financial rand could rise by 10 percent by 1992, Barclays Bank forecasts in a recent assessment of the rand.

It says the financial rate could improve to as low as R2,95 to the dollar, against a commercial rate of R2,68. If the dollar is strong, the rand could weaken slightly against the US unit, but will appreciate against European currencies and the yen, the bank says.

Capital investment given vital fillip

CAPE TOWN — The cost of imported capital goods will have declined by almost 20 percentage points by October this year — a development which will provide a vital incentive for capital investment in SA.

Until the beginning of this month, imported capital goods, such as industrial plant and machinery, were subject to a 10% import duty, a 10% surcharge and 13% GST on the total cost of the item.

In his Budget in March, Finance Minister Barend du Plessis reduced the import surcharge on capital goods to 5% and that on intermediate goods — consumables used in the production process — from 7,5% to 5%. These two concessions would result in an estimated loss to the fiscus (and a saving to the importers) of R756m.

When VAT is introduced on September 30, purchasers of capital and intermediate goods will be entitled to a full and immediate credit for tax paid on these goods — at an annual cost to the fiscus, and saving to commerce and industry, of R7,5bn.

Du Plessis took steps last week to prevent local buyers from deferring the purchase of capital goods until September 30 in order to benefit from the tax concession.

To encourage the purchase of capital goods, he announced that companies which bought capital goods between now and September 30 would, for tax purposes, be

702 710
74
B/W 22/4/94
LESLEY LAMBERT

entitled to write off an extra 15% to depreciation in the first year.

"If you add the import surcharge and tax concessions to the benefits to foreigners of investing through the financial rand, we are virtually giving away opportunities to invest in this country," says David Bridgeman, CE of Wesgro, which promotes economic growth in the western Cape.

Bridgeman, who has hosted industrial and financial delegations from most countries in the world on fact-finding visits to SA, says it is vital for the country to offer incentives which enable it to compete with other countries for foreign investment.

Global investment has become increasingly mobile, identifying and flowing to the areas which offer opportunities for the best returns.

As an example, Bridgeman refers to a major international chemicals company which recently decided to locate a plant in SA but changed its mind and invested in Singapore instead because the country offered it 10 years' tax-free.

The Finance Minister stressed in his reply to the Budget debate last week that efforts to reduce company tax were also a crucial factor in the bid to make the SA economy more attractive to foreigners.

Stals struggles on with his costly monetary policy

Blouay 22/4/91
LIKE the Dutch boy who put his finger in the dyke to stop the sea flooding in, Reserve Bank Governor Chris Stals is battling to prevent liquidity from overwhelming his monetary policy. But his save-the-Bank-rate action does not come cheaply.

At present count he has plugged the breaches in the Bank rate "dyke" with about R2bn of borrowing. Of this R1,2bn is in very short-dated Treasury bills (TBs) and bankers estimate the balance of R800m is in forward forex swaps.

Investors in the short-term TBs rewarded with a return of just over 17% discount, fractionally more when calculated as a positive return. But let us not quibble over trifles. Bankers estimate their profit from forex swaps is also around 17%. In forex swaps, banks sell rands for dollars for forward delivery. The Reserve Bank pays interest on the temporarily neutralised rands.

Some R2bn invested at 17% per annum, earns R930 000 a day. Interest on the funds invested in TBs, R1,2bn, is on the Treasury's account; the balance of R800m is the Reserve Bank's affair. Or rather we hope that it is because theoretically, the taxpayer is coughing up about R559 000 a day through the Treasury to help keep interest rates at an uncomfortably high level.

We won't worry about the R371 000 which the Reserve Bank has to meet. The Bank is a very profitable private enterprise whose annual accounts conceal much

more than they reveal. But the approximate R559 000 which comes out of Treasury's coffers and which in turn comes out of your and my pockets, hurts.

No doubt, good teacher that he is, Stals will tell us the caning he is administering for our own good and that it is hurting him as much as it hurts us. And that's true. He is also a taxpayer.

But as painful as it is, the Stals policy must be maintained. South Africans have to be disciplined ("spare the rod and spare the child"). With the changes which lie ahead, the boom-or-bust syndrome must be squeezed of the SA psyche now lest the future offers only the bust option.

By the end of next week much of the excess liquidity should be sponged up. TBs to the value of R400m will be redeemed next Wednesday, R300m on Thursday and R500m on Friday. But on Monday GS payments amounting to R1,7bn will be leaving the banks which will also start buying banknotes from the Reserve Bank.

And the April crisis will be drawing to close. Whether or not the Reserve Bank can maintain the market shortage, bank debt to the Bank — at R2,5bn — remains to be seen. On the one hand a continuing favourable balance of trade will induce domestic liquidity supplemented by a higher level of government spending; on the other hand the Treasury's borrowing programme has yet to be started. And tax payments always fall due.

Rand sheds 1% against dollar

THE commercial rand shed a further 1% against the dollar to R2,7932 yesterday as the US currency continued to climb on world currency markets.

Dealers said mild intervention by the Reserve Bank, as well as exporters entering the market more aggressively, had kept the rand from plunging faster to R2,80.

The rand is at its weakest level against the dollar since June 1989 and has lost almost 10% since the beginning of the year.

Economists said a weak rand/dollar exchange rate could put upward pressure on inflation as the bulk of SA's imports are in dollars. They added that the Reserve Bank's forward cover contracts are also written in

Blom 23/4/91

GRETA STEYN

74

dollars and that the Bank must be suffering losses because of the unexpected weakness of the rand.

First National Bank's latest survey among economists done in March showed most expected a rand of R2,68 by year-end and a further weakening to R2,80 by the end of next year.

A foreign exchange dealer said the strong dollar reflected disenchantment with Europe and a belief that the market had been overly pessimistic about the US economy.

US interest rates are seen to be bottoming and the market is dis-

counting a more favourable economic climate.

AP-DJ reports the dollar's renewed surge yesterday was triggered by German Chancellor Helmut Kohl's Christian Democrats suffering a defeat in Kohl's home state in local elections.

The dollar started the day at below DM1,75 yesterday and hit a high of DM1,7685. Dealers expect it to test DM1,80 before the end of the week. Adding fuel to the currency's run to its highest levels since December 1989 is the absence of central bank intervention.

Sapa-Reuter reports dollar resistance is pegged at DM1,7620 and at DM1,7680 above that.

Gerald L'Ange examines future ties between South Africa and Nigeria

Poised at gates of West Africa

Star 2/24/91

NIGERIA'S High Commissioner in Botswana, Mustafa Zubairu, does not envisage his government establishing full diplomatic relations with Pretoria until universal suffrage is in place in South Africa.

But he does not rule out the possibility of other exchanges developing between the two countries in the meantime, provided the process of abolishing apartheid continues.

In an interview in Gaborone Mr Zubairu said the opening of relations with a post-apartheid South Africa could benefit not only Nigeria but all of Africa.

"With your developed industries and technology you have many things to offer to West Africa," he said. And West Africa could offer many products to South Africa.

"I'm sure South Africa would love to buy our oil."

Asked whether he could envis-

age close political and economic co-operation between Nigeria and South Africa, Mr Zubairu said: "In the long run, yes, I can see that as a real prospect."

There could be similar co-operation between South Africa and other relatively wealthy African countries such as Egypt and Algeria, he said.

He accepted that as an African country South Africa was better placed than non-African countries, geographically as well as through first-hand experience of African conditions, to meet the technical and other needs of the continent.

"I think all of us agree that the whites in South Africa are Africans. For decades now we have all agreed on that. But we don't want them to practise apartheid because by doing so they show they are not African. If you are an African you have no fear of the other Africans who are in the

same country as yourself.

"Although I don't want to disparage the European nations it is true that some machinery they sold to us was unsuitable. But if South Africa gave us good machinery all would benefit, especially as we have a big internal market of 80 million or more people."

Mr Zubairu thought there would be a specially heavy demand in Nigeria for South African medical and veterinary products.

Nigeria, he said, could serve as a distribution point for South African products throughout West Africa.

"By selling something to Nigeria you are also selling it to other countries. It will filter through to Cameroon, Chad, Niger, Burkina Faso, Benin, Togo, Ghana, the Central African Republic."

On the crucial issue of when apartheid will be judged to have

been abolished, Mr Zubairu said the basic criterion in his view would be the institution of a one-man-one-vote system. He said he could not say whether his government would insist on that condition being met before it agreed to establish full diplomatic relations.

However, he believed many countries in Africa would like to encourage President de Klerk — "a very honest and courageous person" — in his reforms. If he maintained the momentum of reform it would be sufficient reason for the opening of new exchanges with South Africa.

Asked for his views on the continuing violence in South Africa, he said he could not see why the Government could not stop it.

"Any government can stop violence in its territory. The onus is on the government. In Nigeria any violence can be stopped by our government easily." □

74

128

Businessmen wait for reassurance

FW sets out to woo UK bankers

74

Star 22/4/91

By Michael Morris

LONDON — President de Klerk sets out this morning to convince some of Britain's most important financiers that South Africa is a safe bet. A sufficient reassurance from him could lead to a loans and investment boost for South Africa.

Speaking informally at his London hotel last night, President de Klerk said: "The emphasis is on the private sector."

Topping the list at a select meeting with Britain's most senior bankers will be Robin Leigh-Pemberton, Governor of the Bank of England.

Representatives of Japanese banks, which are among the most powerful in the world, will also meet Mr de Klerk.

Tonight he will seek to make a strong impression on British Prime Minister John Major, whom he meets for the first time for dinner at 10 Downing Street.

This morning he meets Deputy Minister of Foreign Affairs Lynda Chalker in what is essentially a courtesy call, and then he meets chairmen of banks and financial institutions at South Africa House.

Diplomats say banks and businesses are in a "wait and see mood".

Political and business leaders fear that violence is threatening the negotiations process and the potential for investment and economic prosperity.

New investment has already been set as the goal of Mr de Klerk's week-long tour of London, Copenhagen and Dublin.

Against him, diplomats say, is the growing international perception that violence is threatening to overwhelm South Africa.

Positive signal

Everybody wants to know what Mr de Klerk plans to do about it and if talks with the ANC remain on track.

Sources said British business had a lot of interest and money to invest in South Africa. "Many have put their investments on hold and are waiting for a positive signal before they reinvest, explore trade finance deals or open new factories. Sanctions on investment have fallen away so what they need now is to be nudged into a new posture, and Mr de Klerk is the only one who can do that," one source said.

It is felt that Mr de Klerk's peace package — the summit and standing commission on violence — will boost his case.

The South Africans have been heartened by the United States' strongly supportive response, and hope for more of the same this week.

The De Klerk visit is being seen as "very important at this juncture" to clear exaggerated impressions of events in South Africa and focus attention on "real issues" and developments in the constitutional and economic sphere.

Diplomatic sources said that if Mr de Klerk succeeded in convincing his foreign audience "that he is in control and that there is a way forward, then he will have gone a long way in changing the wait-and-see attitude".

The South Africans do not

Billions leaving SA in freight charges

18/3/91

74

CAPE TIMES 19/4/91

By AUDREY D'ANGELO
Business Editor

SA is paying out billions of rands every year in freight charges to foreign shipping companies, delegates to the national maritime conference at the Cape Sun heard yesterday.

Howard Boyd, executive director (bulk) at Safmarine, and Trevor Jones of the department of economics at the University of Natal said these charges — which greatly exceeded annual repayments of foreign debt — were having a powerful impact on the balance of payments (BoP).

They urged the government to save some of this money by encouraging SA shipping companies, through export incentives, to buy more cargo vessels.

Pointing out that the Japanese saved — and earned — foreign exchange by insisting that their imports and exports were carried on their own ships, Boyd asked SA exporters to do the same by sending their goods on costs and freight (C & F) terms instead of allowing the buyers to choose the transport by sending them free on board (Fob).

Jones estimated the annual freight bill for SA's foreign trade at R8,4bn a year. This excluded the cost of transporting petroleum and other classified products but included some cross border traffic to and from other African countries.

He said that SA was one of the top 12 sea trading nations in the world. Yet it was not a significant ship owning or ship operating nation.

"In 1989 the tonnage of vessels on the SA register amounted to a mere 397 000 gross tons or some 0,096% of the total world fleet of 410m tons.

"For obvious strategic reasons some additional tonnage under beneficial SA ownership is flagged out to foreign registries. Yet even with this extra capacity the locally owned fleet represents less than one quarter of 1% of world tonnage.

"This country's share of world sea-borne trade therefore exceeds its share of world shipping supply by a factor of more than 20 to one, with the result that the bulk of the commodities handled in SA ports are carried in foreign owned and foreign controlled ships.

"A clear consequence of this imbalance is that a high percentage of the sub-continent's sea freight payments accrues to foreign ship-owners — a situation which is immediately apparent from the shape of the services account of the BoP."

Jones said that on the basis of published BoP data, it appeared that SA residents were receiving only from 14% to 17% of the country's foreign freight bill.

"But this almost certainly represents a considerable under-estimate of the activities of foreign transport carriers."

This, he explained, was because when export sales were sent Fob the responsibility of the seller ended at the point of loading.

"Since the lion's share of our exports are sold on Fob terms, the bulk of the freight costs associated with this substantial trade involve transactions between foreign buyers and foreign shipowners, and consequently are not recorded in the BoP."

With the prospect of a rise in SA exports as foreign relations improve, Jones urged the Government to recognise the shipping industry and other service industries "as fully fledged exporters" in the new General Exports Incentives Scheme (GEIS).

Shipping's share of balance of payments should grow

LESLEY LAMBERT

CAPE TOWN — The SA shipping industry's strong contribution to the balance of payments would strengthen further during the next decade if opportunities offered by the changing political environment were realised, Trevor Jones of Natal University's Economics Department said yesterday.

Jones, speaking at the National Maritime Conference in Cape Town, said improved trading conditions in a post-sanctions world would open up considerable prospects for expansion. *Bisa 17/4/91*

In the liner sector, SA shipowners would seek to fortify their positions of comparative strength.

In the bulk sector, a freer ability to cross-trade internationally, a readier access to the coal export trade and a burgeoning spirit of sea-mindedness on the part of SA shippers would serve to increase participation by local ship-owners.

There was every reason to expect the already powerfully positive impact of the shipping industry on the balance of payments would be further strengthened.

The operation of SA deep-sea carriers had exerted a strongly favourable influence on the current account of the balance of payments in the past eight years.

Gross revenue, the lion's share of which was made up of sea freight, had increased from R361m in 1983 to R1,9bn in 1990, while estimates of expenditure affecting the current balance rose from R264m to almost R1,3bn over the same period.

SANCTIONS

NO RUSH BACK

There won't be any sudden jump in the export of Krugerrands, iron and steel to Europe following the lifting of EC sanctions this week.

And it won't be simply because other countries filled the gap left by SA exporters when sanctions were imposed in 1986. The fact is that the market for these commodities is going through lean times.

Ron Haywood, deputy director-general of the SA Chamber of Business, predicts that companies "will bring back their old customers" but expects a lull before production is increased and exports start picking up. Though prices are low, most steel producers' order books are full.

With the opening up of the eastern bloc, he believes that Europe is a much more important and valuable market now than it was when sanctions were imposed. "On its own the united Germany will be a formidable market once it is functioning as a normal country," Haywood says. "Together the two Europes will be an enormous bloc."

Eli Levine, chairman of the SA Gold Coin Exchange, says the Krugerrand will make a comeback but will have to fight to regain the market share it lost to gold coins. That won't be easy.

The gold coin market is depressed and there is no shortage of Krugerrands in Europe. There are more than 46m oz of gold

EM 19/4/91 (280) (74)

in Krugerrands, which is more than in any other gold coin. So the Mint is not yet gearing up to produce more.

Iscor deputy MD Nols Olivier says Iscor remained in constant touch with its European customers while sanctions were imposed and will start exporting to them again in the third quarter. It will be able to satisfy their requirements and serve its other markets



Haywood

because of low local demand at a time when production is being increased, particularly at the Vanderbijlpark plant.

"Before sanctions, our EC export allocation was 340 000 t of steel a year," he says.

"There is a free market there now, so we are no longer bound

by any allocations. Nevertheless, we'll take a long-term, orderly approach and build up our volumes at market-related prices," he says. "We can compete with the other countries exporting to the EC, so we won't lower our prices to try to sell all the steel we can. We don't want to be accused of dumping."

More Asian exports

Olivier feels an important spin-off of the EC move will be that SA may export more steel to some south-east Asian countries that were pressured by the US to limit their imports to pre-sanctions levels.

John Gommersall, MD of Middelburg Steel & Alloy, says: "The big news is the overall quality and spread of market that is available to us as a result of the EC move."

Like Olivier, he feels that a cautious return to Europe is essential.

This applies particularly to the stainless steel market, which "is typified by protectionism," he says.

"Caution is required when breaking into a new one or re-entering an old one.

"There are other constraints. We are running at full capacity, we developed other markets while our products were banned in the EC, and we must be careful not to incur the wrath of our ferrochrome customers by marketing stainless steel irresponsibly." ■

74
20
18/4/91

France to boost SA coal imports

Star Foreign Service

PARIS — French financial and industrial circles have warmly welcomed the EC move ending more sanctions against South Africa.

There are likely to be two main French initiatives — financial investment in South Africa, and the resumption of big SA coal imports.

French financiers have gradually abandoned investment in black Africa, and earlier this year were looking at Eastern Europe and the Soviet Union.

Idle capital

An analyst said: "Problems there were too great, and there is therefore a large amount of potential capital lying idle. We now have an opening in South Africa."

France has a great need for South Africa's coal, which is cheaper than coal mined here.

Imports, which were virtually halted four years ago, are expected to resume soon.

France still imports about 450 000 tons annually under contracts signed before the 1986 ban, but this total could quickly climb to five million tons annually and new contracts may be signed within the next month, sources say.

Increased aid opens up the African market

B/Dany 17/4/91

74

THE SA Foreign Trade Organisation (Safto), as part of its brief to promote SA exports, has identified the infrastructural development projects of international aid organisations in Africa as a lucrative market for SA companies.

Safto executive Paresh Pandya says aid to Africa from international agencies is going to increase, a view based on feedback from contacts with the World Bank and other international aid organisations.

He says the international agencies have had political reasons for maintaining their presence in Africa.

Analysts give Tanzania as an example. Tanzania received billions of dollars in international funds in the '60s and '70s despite a socialist domestic economic policy.

With the end of the Cold War, pressure "to fly the flag of capitalism" is dwin-

ding, but still important.

Mounting interest from SA companies in bank projects has been matched by the bank's interest in what SA can offer the rest of the continent in terms of development work.

Pandya says the bank sees SA fitting into medium to long-term development plans.

He says there is no lack of aid money for projects in Africa, but an absence of viable projects.

In 1990, the bank financed 222 projects worldwide, of which 87 were in Africa.

Safto has detected a shift in bank policy in the last three years away from grandiose schemes to lower key, more practical ventures in which environmental concerns are playing an important part.

SA companies are well placed to sell their expertise in environmental engi-

neering and wildlife conservation.

Safto has compiled a series of research reports to guide SA companies to the international aid market.

The reports cover the civil engineering and construction industries which will cover such areas as aerial photography, building contracts, telecommunications and architecture.

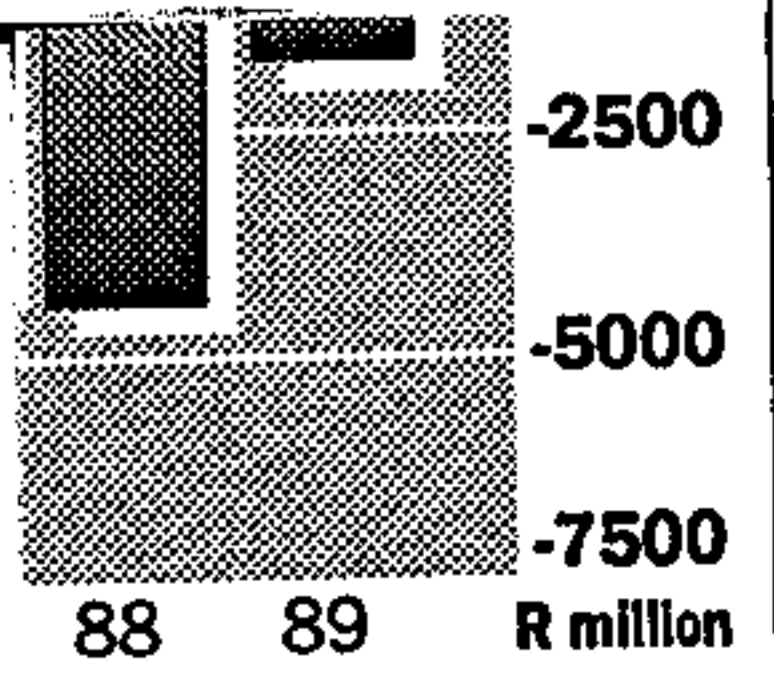
Pandya says to win contracts, companies must adhere to bank requirements.

The bank does not discriminate against any country, but funding is organised on a country-to-bank basis.

The bank lends money to governments, not to contractors.

Safto, in preliminary investigations, found a lack of awareness among SA companies of the opportunities available via the bank and other agencies which are covered in the research reports.

Exports set to as the world



Star 2/3/91 (74)

SVEN LUNSCHÉ

WITH sanctions falling by the wayside, South Africa is poised for an export boom that could transform the economy within a couple of years.

New markets are opening up from Beijing to Budapest and exporters, used to secretive under-the-counter dealings to avoid the trade restrictions, are now finding their products welcomed through the front door.

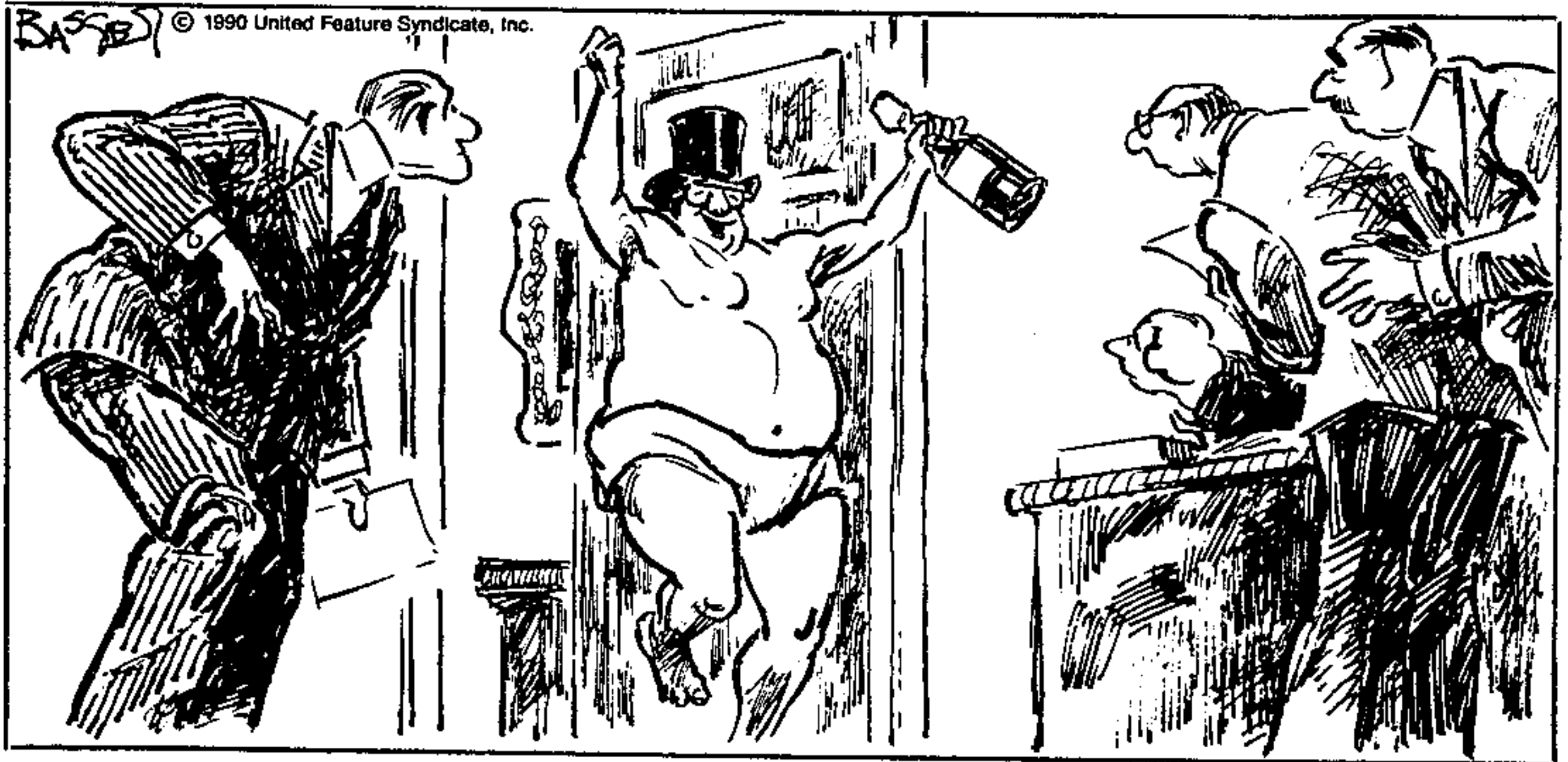
Smoothing the way and establishing new links virtually on a daily basis is the South African Foreign Trade Organisation (Safto), which yesterday lifted the veil on a wide range of trade projects in four continents.

The projects revealed to the press include the formation of a Gulf Business Development Unit; hosting a visit by a high-level Soviet delegation and facilitating contacts between the World Bank and SA companies.

Fantastic

"Our efforts to re-establish and develop business links with other countries have met with a fantastic response from local exporters," an enthusiastic David Graham, general manager of Safto's International Division, said at the press conference.

"At last we can operate openly and this has enabled us to pull off a number of 'firsts', including trade visits to Hungary, Czechoslovakia, Poland, Mada-



PARTY TIME: "OK lads, let's hear it for record exports . . . and cheap Vodka."

gascar, Kenya, Thailand and China," Mr Graham says.

The schedule for this year is even more impressive with tours taking in five countries in Africa, three each in Asia and South America and three in Eastern Europe as well as the Soviet Union.

Safto has played an even greater role as a rallying point for foreign interest directed at South Africa.

Delegations

"Within the first two months of 1991, visitors and delegations from 21 countries have already been attracted to this country and more are bound to follow," Mr Graham says.

The list is impressive, with

Africa visitors from Zaire, Burundi, Nigeria, Angola, Morocco, Mozambique and Madagascar; East Europeans from the Soviet Union, Hungary, Yugoslavia, Czechoslovakia, Poland and Bulgaria; Asians from South Korea, Japan, Thailand, Singapore, Malaysia and mainland China, as well as visitors from Scandinavia, North and South America.

Particular interest has been shown by African countries, including such former "enemies" as Angola, Kenya and Nigeria.

"These countries are encouraged by the fact that South Africa seems to be willing and able to play a role in the economic development of the region," says Martin Smith, who is responsible for Safto's Southern Hemisphere operations.

Interest in both inward and

outward trade has increased tremendously over the last few months, says Mr Smith, adding that a plane load of SA businessmen leaves for Angola every month to look for investment opportunities.

Maputo

Safto also has direct involvement in specific projects, including the Maputo harbour project, the Lesotho Highlands Water Scheme and lately the upgrading of Mpulungu harbour on the Zambian side of Lake Tanganyika.

The other major area of expansion has been Eastern Europe. Mr Graham has just returned from an exploratory visit to the Soviet Union and believes that tremendous opportunities

exist for local companies to enter the market once a legal framework for foreign investment has been established.

Soviet Union

Safto will lead the first delegation of SA businessmen to the Soviet Union in May this year, a month after hosting a high level Soviet delegation in SA.

Links with other Eastern European countries are already well established and countries such as Hungary, Yugoslavia and Czechoslovakia have indicated they would be exhibiting at this year's Rand show.

The other two areas of operation of Safto's international division include Latin America.

Trade relations with countries in South America have been low-key but Safto plans to boost two-way trade by organising SA's largest Latin America Conference so far in April.

Asia

Almost 28 percent of SA's exports are already sold to Asian countries and trade relations are well established with countries such as Japan, Hong Kong and Taiwan.

Much will depend on the lifting of sanctions in the months ahead but Safto has scheduled group visits by SA businessmen in May to Thailand and significantly mainland China.

Graham Limerick, the manager of the Asia Department, adds that businessmen from New Zealand and Australia could be visiting SA in August, in a first move to re-establish trade links.

SA firms launch Gulf project

(74)

Stev
2/3/91

FINANCE STAFF

A Gulf Business Development Unit has been launched by the SA Foreign Trade Organisation (Safto) to help SA companies win a share of the contracts that are going to arise as Kuwait and Iraq rebuild their economies.

The scheme, announced by Safto at a press conference yesterday, includes business visits to the area, the establishment of business contacts and market research for members of the unit.

Martin Smith of Safto said yesterday there had been numerous requests for such a unit from local businesses this week.

"The reconstruction of infrastructural services, buildings, industry and the oil sector in Kuwait will take years and initially SA companies are likely to be subcontractors and component suppliers to the US, UK and other European companies, which are expected to receive the majority of the contracts.

"But as they establish themselves, these companies could develop into major contractors over the next few years," Mr Smith says.

● See PAGE 12.



NICK MITCHELL, executive director of the United Kingdom SA Trade Association, and chairman KEITH STUART . . . attitude improves

UK investors wait for dust to settle

8 Times 3/3/91

By DON ROBERTSON

BRITISH investors are waiting for a clearer picture of the likely economic structure in a new SA before committing themselves.

But the attitude to investment in SA has improved dramatically in the past year and businessmen are more eager to re-enter the SA market than Eastern Europe.

Keith Stuart, chairman of the United Kingdom South Africa Trade Association (Uksata), says that any moves to nationalisation "would be a major disincentive for investment".

Gold

Sir Keith says the UK has a long history of nationalisation, but many State enterprises have been returned to private hands. Nationalisation moves in SA would be regrettable.

Sir Keith is heading a team of five visiting SA to report on attitudes about business links with SA, to reinforce associations with businessmen, to meet political leaders and to establish the outlook for the economy.

"We believe we must reward the progress that has been made in SA and no mat-

ter what the rest of the Commonwealth says, we will go ahead," says Sir Keith.

Two-way trade between the two countries is worth about R11-billion a year and is almost in balance, making Britain SA's second-largest trading partner. British investment in SA is about R50-billion, nearly half of all foreign investment here.

Initial impressions indicate that economic conditions in SA will be difficult in the short term with a low gold price and large unemployment. In the next two to five years, however, the picture looks better, says Sir Keith.

The world has changed with the opening of Eastern Europe, but initial enthusiasm about investment there has waned because of political problems in the Soviet Union.

"We are now more interested in investing in SA than Eastern Europe than we were 12 months ago."

The problems in the Middle East and the recession in the UK economy are helping to emphasise the attractions of the SA market for goods and services.

"Provided the security situation can be stabilised and improved, I think you will see a quickening in the pace of effort by UK business to increase exports to SA," says Sir Keith.

Although SA products have been effectively boycotted in the UK, this should no longer be seen as a deterrent.

"My advice to SA exporters is to go out and sell to the UK. I think they will be pleased with the results," says Sir Keith.

74

Aid bill for SA exports to Africa

74
St. Times 3/3/91

By RON SCHURINK

INTERNATIONAL aid for Africa, channelled through the Development Bank of Southern Africa, will help SA exports on the continent, says Credit Guarantee Insurance Corporation executive director Chris Leisewitz.

CGIC regards credit risk in Africa as slightly better than in South America. No credit cover is available for Zambia, where money is outstanding, and business with Zaire is conducted only on confirmed letters of credit.

"Exporters to Malawi should also be careful since tight monetary policy has made many businesses illiquid," says Mr Leisewitz.

Mr Leisewitz says CGIC's underwriting profit for the current year is expected to be 25% up on the figure to June 1990.

He says "exports are certainly more risky from a credit point of view that they were a year ago".

A breakdown of CGIC's business gives a picture of the relative importance of SA's markets.

A total of 43% concerns Europe, 25% the Far East and Australasia, 17% North America and 15% Africa.

Rising

Prime markets in Europe at the moment are Germany and Switzerland because the UK is suffering the worst rate of insolvencies in 30 years. Claims and repudiations are running high in Italy after the collapse of demand for leatherwear and wool.

Claims on buyers in the US are "often difficult, since Chapter 11 protection for illiquid business is relatively easily available".

He is sanguine about economic prospects there even though "100 banks went to the wall last year and 180 may follow this year".

CGIC has noted rising business with Eastern Europe, but urges caution.

"The best customers are joint ventures with Western companies when you can find them, as otherwise balance sheets are unknown and ageing machinery useless as an asset. Note that Western European businesses have lost large sums in Poland," says Mr Leisewitz.

CGIC has good relations with its counterparts in Germany and Austria.

"Their information about Eastern European businesses is considerably better than ours, though it is still often inadequate," says Mr Leisewitz

World Bank brings SA firms in from the cold

By Sven Lünsche

In what amounts to a tacit recognition of the role South Africa can play in the economic development of Southern Africa, a World Bank team has been making contact with local companies, which want to invest in Madagascar.

The two-man team from the World Bank met 25 South African companies over the weekend, in a meeting facilitated by the South African Foreign Trade Organisation (Safto).

Until recently the World Bank and its twin agency, the International Monetary Fund, have shied away from financing projects which could

be awarded to South African contractors.

But lately the agencies have adopted a more pragmatic approach and recognised the role the relatively sophisticated SA economy can play in infrastructural development in the region.

This has important implications for other capital projects in Southern Africa, which are financed by Western governments, and which until recently have excluded SA tenders.

Madagascar

According to Martin Smith, head of Safto's Southern Hemisphere operations, the World Bank team was here to make contact with SA com-

panies who are willing to participate in relevant projects in Madagascar.

Madagascar last year re-established political and economic links with SA.

The finance for the projects will be provided by the International Finance Corporation, which is associated to the World Bank and deals with financial aid to private enterprise in developing countries.

Mr Smith said this is the first time Safto had facilitated such contacts, but he envisaged more such meetings in the near future.

Safto on Friday announced a wide range of projects involving bi-lateral trade between South

Africa and 21 countries worldwide, but particular attention was focused on the opening of African markets to local companies.

As part of the drive to re-establish and develop business between South Africa and other African countries, Safto has recently hosted a number of visits by trade delegations, ranging from neighbouring states such as Mozambique and Madagascar, to countries as far afield as Morocco, Nigeria, Burundi, Angola and Zaire.

Over the next three months the organisation plans group visits to Mozambique, Morocco, Egypt, Angola and Madagascar.

SA coal: Japan 'important'

B. [unclear] 4/3/91 Business Day Reporter

THE Japanese were important customers for SA coal, and most exporters were seeking to increase their market share, Rand Mines Coal Division deputy chairman and a director of the Transvaal Coal Owners' Association (TCOA) Allen Cook said. (74) (75)

Cook was responding to an article published in Coal Week International and quoted in Business Day on Friday, March 1, which said the TCOA had asked the Japanese steel mills to cut their orders by 19%.

Cook said the Richards Bay coal terminal had been constructed on the basis of an 11-year contract for Witbank low ash coal entered into between TCOA and the Japanese Steel Mills. This contract had since been renewed, and the TCOA had diversified exports of this coal so as to reduce exposure to one country.

A geographic spread of Witbank low ash coal offered some protection against regional fluctuations in demand.

TCOA chairman James Campbell complained that the article could be misinterpreted.

Lower reserves no reason for gloomy expectations

B1 Day 4/3/91 *74*

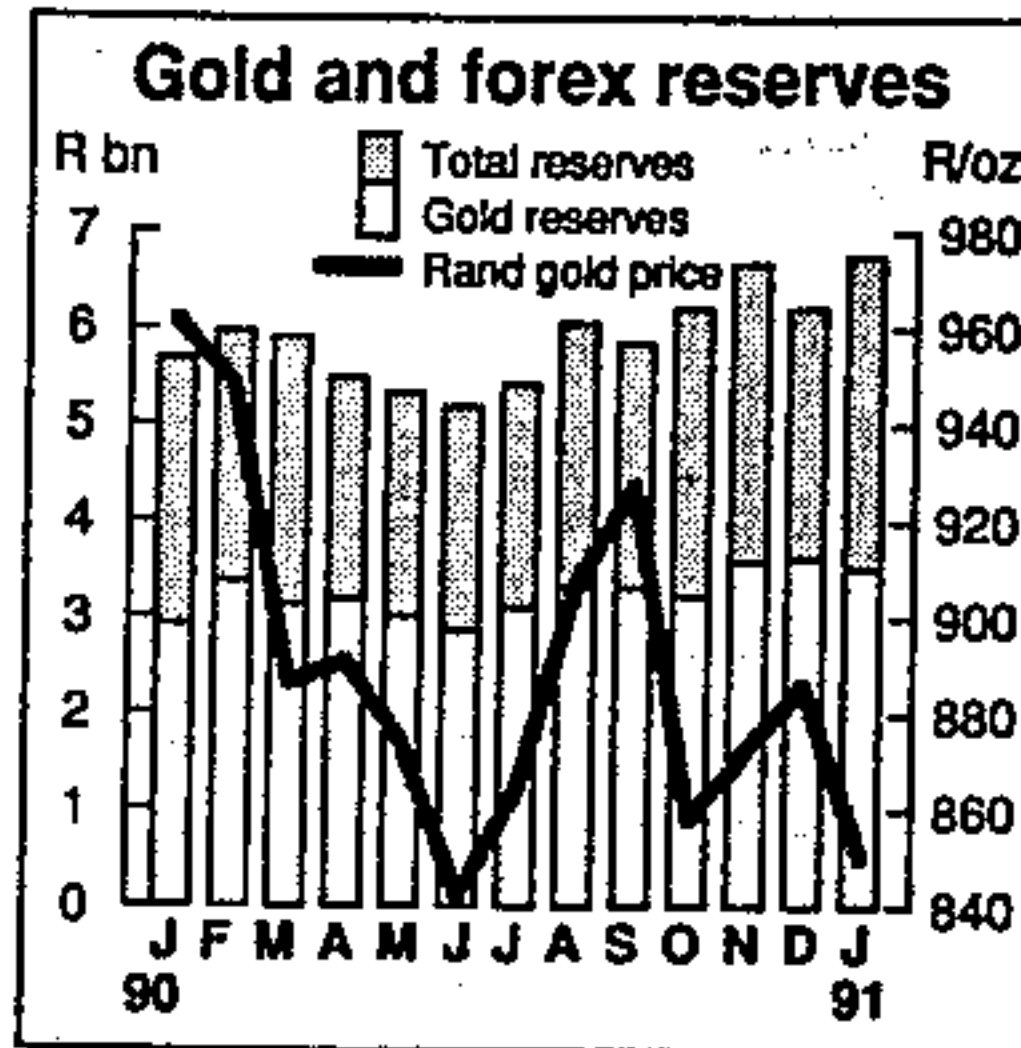
DISAPPOINTMENT about what could be a lower SA reserves figure due this week should be tempered by the realisation that the figure will be a one-off, affected by special circumstances.

The level of SA's gold and foreign exchange reserves for February is due for release around Friday, and is set to fall from the impressive outturn posted for January. Although the reserves figure follows hard on the heels of last week's unimpressive inflation figure for January, there will be less reason to be gloomy about the outlook for reserves than about inflation prospects.

The February reserves readout is going to be hit by a sizable debt repayment — possibly over \$250m — from within the debt standstill net. The effect of the repayment, together with that of the lacklustre gold price last month, is set to erode the level of February reserves from the three-year high of R6,7bn recorded for January.

Because this is a special factor affecting only February, with no further debt repayments due until the second half of the year, the reaction in the markets and among the monetary authorities should be fairly muted. Improved perceptions of SA's political prospects should eventually translate into more debt rollovers outside the net. The reserves picture for the rest of the year also looks broadly favourable.

Internationally, the key event of the week is the release of the US



Graphic: FIONA KRISCH Source: SA RESERVE BANK

employment report for February, scheduled for Friday. In the recent past, it is the employment report above anything else that has galvanised the US Federal Reserve into cutting American interest rates; Friday's figure holds the same potential to trigger a policy change in the US.

It was the grim details of the last set of US employment figures — January's, released a month ago — that spurred the Fed into uncharacteristic haste in cutting half a point from US discount rate to 6%, and from the overnight interbank Fed funds rate, to 6.25%. The urgency of the US monetary authorities' action was underlined by the half-point downward move in rates: the Fed had hitherto moved in quarter-point stages in cutting the Fed funds rate.

The breakdown of the January US jobs figures that obliged the Fed to cut interest rates so hastily showed

non-farm payrolls — that is, recruitment outside the seasonally-volatile agricultural sector — fall by 232 000. Moreover, the overall unemployment rate rose to 6.2% from 6.1%. The number of hours worked also fell.

Peering through the superficial euphoria of the Gulf war victory there have, nevertheless, been signs that the next set of figures could be just as bad. If non-farm payrolls are shown still to be falling by around 200 000 a month, the Fed may again be obliged to ease credit conditions.

Any fresh US credit easing has the potential to affect the foreign exchange markets by changing the dollar's yield characteristics. The dollar fell last week on the Gulf ceasefire, and the US currency is once again vulnerable to the state of America's economic fundamentals.

Sterling's fortunes could be shaped by a British by-election on Thursday in which Prime Minister John Major and his post-Thatcher administration face their first test of electoral opinion since Thatcher resigned last November.

One of the factors continuing to underpin the pound, despite the erosion of its yield through falling British interest rates, is the prospect that Major's Conservative government could call an early general election. Foreign confidence in British economic policy would certainly rise at another defeat of the interventionist, leftwing Labour opposition.

Market confidence that the Conservatives would win an early poll should give an appreciable boost to sterling.

Ceasefire likely to give metals exports a boost

By Neil Behrmann

LONDON — South African metals exports are likely to improve during the remainder of the year, following the capitulation of Iraq.

The demand will come from reconstruction of the Gulf and hopefully from an improvement in capital goods spending plans in the economies of the major industrialised countries.

Metals analysts and dealers however, caution that there will not be a surge in demand and prices of metals. But as an example of the confidence factor, platinum has recovered all its losses of the past few weeks and has soared to \$405 on Friday from \$375 an ounce on January 22.

Platinum jumped because Japanese buyers who had been holding off purchases during the conflict, re-entered the market with enthusiasm.

Dealers are also hoping that the decline in motor vehicle production, particularly in the US, will be arrested. The surge

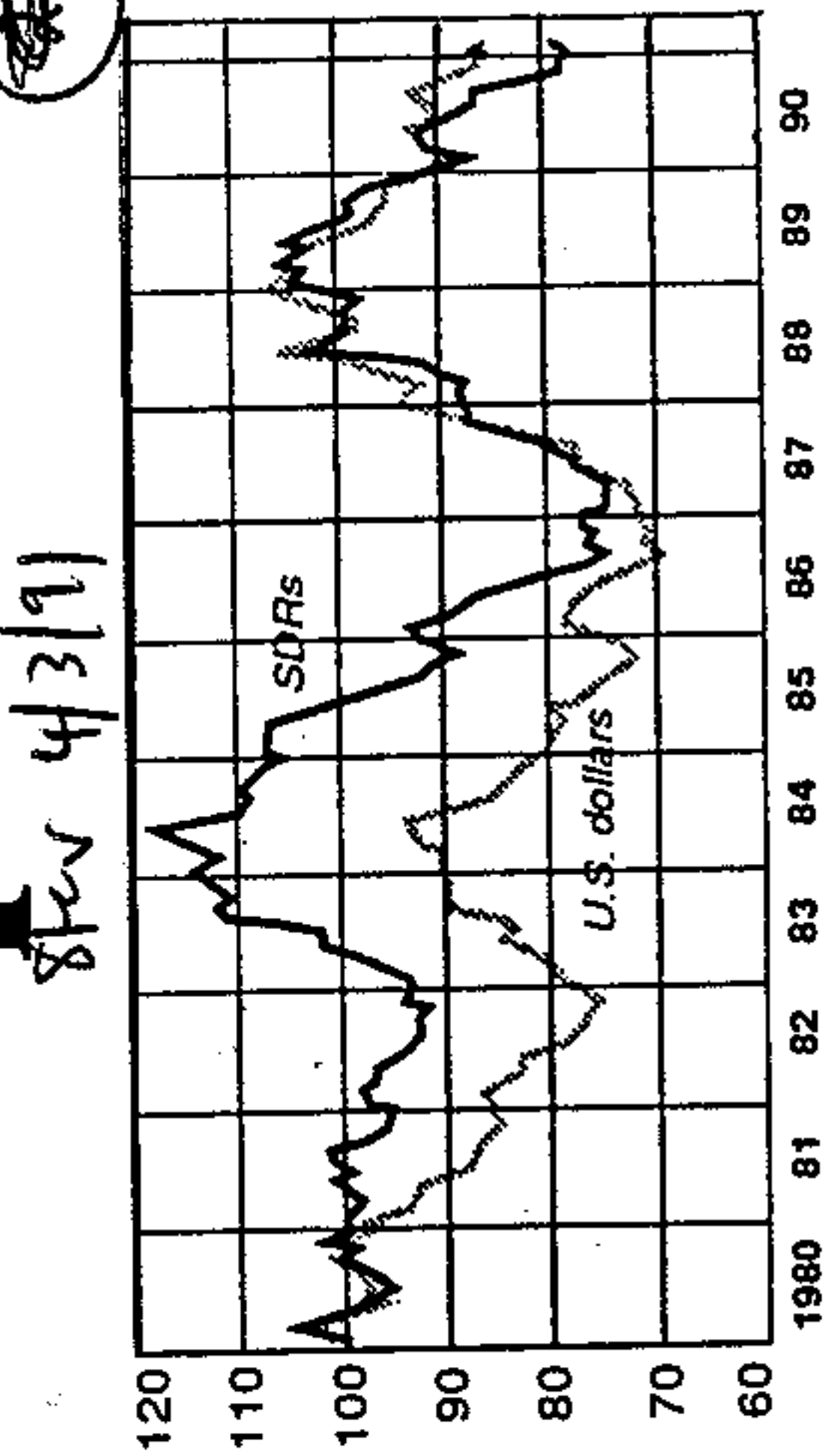
metals prices which have fallen sharply in the past few months will bottom out in the next few weeks and recover later in the year if there is evidence that the US economy is turning upwards.

Whilst stockmarkets sometimes correctly anticipate an improvement in economies, base metals prices normally turn up once the economic revival is already under way.

Copper was thus the only base metal to rise markedly following the announcement of the cease fire. The initial price rise was psychological. Dealers appreciate that production and inventories are sufficient to satisfy demand.

Any fillip to business confidence, however, will boost demand for base metals and other key industrial raw materials, sooner than expected, say analysts.

From their peaks in the middle of last year lead and nickel are down by more than 50 per cent, whilst zinc, aluminium and copper have fallen by more than 30 per cent.



Non fuel commodity prices (1980 = 100); Indices comprise 39 price series for 34 primary commodities. (Source IMF research division).

in platinum prices, however, will not necessarily be translated into a sharp upturn in platinum company profits.

Rhodium, now a major profit earner, dipped to R5100 an ounce from its recent peak of R5700.

Reconstruction of Kuwait which is estimated to cost at least \$100 billion (R250 billion) will have a significant effect on demand for steel, copper, alu-

minium, nickel, zinc and chrome.

Chrome will be needed for the stainless steel that will be used to install new de-salination plants and aluminium will be another important metal.

Following the devastation of buildings, bridges, roads and networks, construction companies will order large amounts of copper piping and cables.

Dealers believe that base

Although demand for metals could decline further in the current term...

...level of expenditure pro-

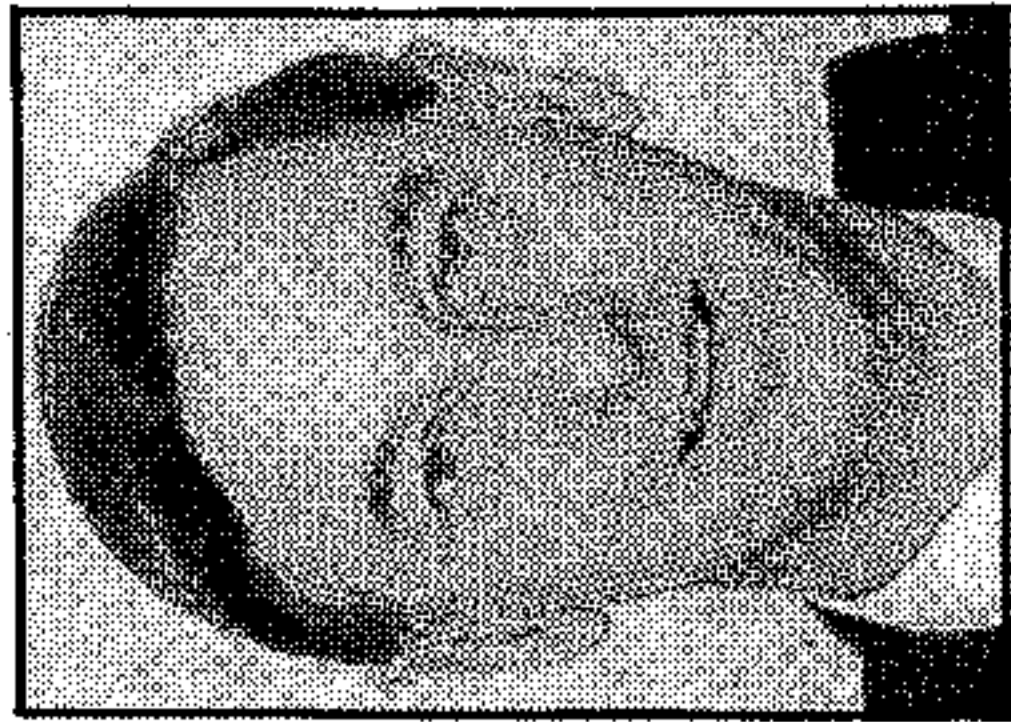
...level of expenditure pro-

SA looking for export-led growth

LONDON — Things have changed, but it's not back to normal." The speaker is Hermann Bohmer, an international marketing manager at KWV, the country's largest wine exporter; his comment reflects the experience of most South African exporters.

President FW de Klerk's reform initiatives have brought them to the threshold of normalised trade relations. But normality is not yet at hand. The export environment has undoubtedly improved, although it has yet to translate into higher profits. But few doubt these will soon follow.

While financial sanctions inflicted considerable damage on South Africa, the experience of trade sanctions has been more ambiguous. The ratio of merchandise exports to gross domestic product, in real terms, increased from 12,6 percent in 1983 to 20,4 percent in 1989.



Wim Holtes ... Profits will improve.

And 1990 was the seventh consecutive year in which the volume of exports increased, leading Dr Chris Stals, governor of the Reserve Bank, to conclude recently that trade sanctions "seemed to have had little effect on the country's total exports".

Dr Stals, however, would be the first to add two important caveats: without sanctions this performance would have been considerably im-

proved; and, while volume exports have been maintained, this has often been at the expense of profit, with exporters being forced to use expensive middlemen and accept political discounts on their products.

A familiar example is coal, South Africa's second largest foreign-exchange earner after gold, which lost about 10 million tons, or a quarter, of its export markets because of sanctions in 1986.

The volumes have been replaced, but at a political discount of about \$3 to \$5 a ton, costing the local industry about \$200 million (R450 million) a year.

But Mr Mike Salamon, managing director of Trans-Natal coal, a major exporter, believes that discount is already disappearing as international relations improve.

Likewise steel. Sanctions cost South Africa its two most profitable markets, the US and the EC, where it was selling about

0,5 million tons of steel a year in each. Mr Lesley Boyd, chairman of Highveld Steel, one of South Africa's major producers, is optimistic about prospects. "We're very confident of regaining these markets. At R5 to the pound, we'd love to be selling in Britain."

Already there is clear evidence that the deciduous fruit industry is benefiting. Sales to Holland, for example, have increased five-fold as attitudes to South Africa have improved. Soft fruit sales export are 20 percent up on 1990 figures.

Optimism

Mr Wim Holtes, chief executive of the South African Foreign Trade Organisation, believes the major effect of South Africa's improved reputation has been a boost to confidence.

"There is a tremendous feeling of optimism — that we will be able to

access any market we want. Also, people at an official level are going to do business with South Africa, whereas in the past business was done at an unofficial level."

Much is heard in South Africa about the need to generate export-led growth, particularly from manufactured goods. The role of gold has become less prominent.

To some extent the government's efforts to diversify have succeeded: gold's share of exports dropped from 50,9 percent in 1980 to 32,7 percent in 1989.

Yet South Africa remains a commodity exporter. Primary products, including mining, farming, fishing and forestry, made up 71 percent of exports in 1989.

Manufactured goods have gone from 18 percent of export in 1980 to 29 percent in 1989, so there has been progress, the real test will be whether this trend can be maintained, even accelerated.

74

Start 6/3/91

Foreign debt ^{1 day} _{6/12/91}

pelled to make large provisions against loans to countries that have imposed moratoriums on their debt commitments.

The option to take debt out of the net has proved popular, with about \$5,6bn being converted into longer-term loans since the first standstill agreement was negotiated.

The rate at which foreign bankers took SA's debt out of the standstill net slowed down last year from the previous two years. Uncertainty about SA's political and

(74) From Page 1
economic future, the possibility of IMF credits and the chance of immediate repayment of the affected debt at some point in the future are factors bankers say could have caused the slowdown in the rate of conversion.

The debt rolled over into longer-term loans has been structured to avoid a bunching, with the balance spread fairly equally over the next 10 years and not more than \$1bn falling due in any single year.

ed naitbns !

\$700m foreign debt respite

ABOUT \$700m of SA's foreign debt caught in the standstill was rolled over into longer-term loans outside the net last year, Reserve Bank figures released to Business Day show.

A further \$413m was repaid between 1990 and February this year, bringing the total reduction in affected debt in little over a year to more than \$1,1bn.

But the debt standstill net — or moratorium imposed in 1985 on the repayment of about \$14bn of foreign debt due at the time — continues to be a major obstacle to the normalisation of SA's relations with international banks and capital markets.

Reserve Bank Governor Chris Stals said the key to removing the standstill would be credit from the IMF, and that no plans to

(74)
GRETA STEYN

do away with the standstill could be made until there was certainty about SA's ability to draw foreign exchange from the IMF.

Foreign creditors have been keen to remove debt from the net for the past few years, but while rollovers and repayments have made a significant dent in the debt caught in the net, there is still about \$6bn left. SA's total foreign exchange reserves amount to about half of that.

Bankers say the moratorium severely dents SA's credit rating and is as important as the political situation in determining credit worthiness. British banks are especially affected since they are com-

To Page 2

Durr considers barter guidelines

B1024
6/3/91 BILLY PADDOCK (74)

CAPE TOWN — Trade and Industry Minister Kent Durr is considering instructing his department to draw up a complete set of rules and guidelines for international countertrade, or barter, in conjunction with the Reserve Bank.

He was not convinced that drawing up rules specifically for countertrade transactions could be justified since existing rules for cash-based transactions were also applicable to countertrade, he said in a statement yesterday.

There appeared to be a need for more information on the concept of countertrade in the private sector and the Countertrade Association of SA in conjunction with the Department of Trade and Industry would address this need.

He said the IDC report on countertrade as a mechanism in international trade recommended Trade and Industry involvement be limited to exploring and opening of markets and identifying and facilitating opportunities.

Exports done on the countertrade basis would qualify only for the normal general export incentives.

Durr said government advocated and promoted conventional cash-based trade as a priority, but it would accept countertrade as an acceptable mechanism to stimulate exports.

Entry to international markets vital ⁷⁴ Barend

Steyn 6/3/91

South Africa was poised to resume economic growth, but it had first to obtain re-entry to the international community, Finance Minister Barend du Plessis said in the House of Delegates yesterday.

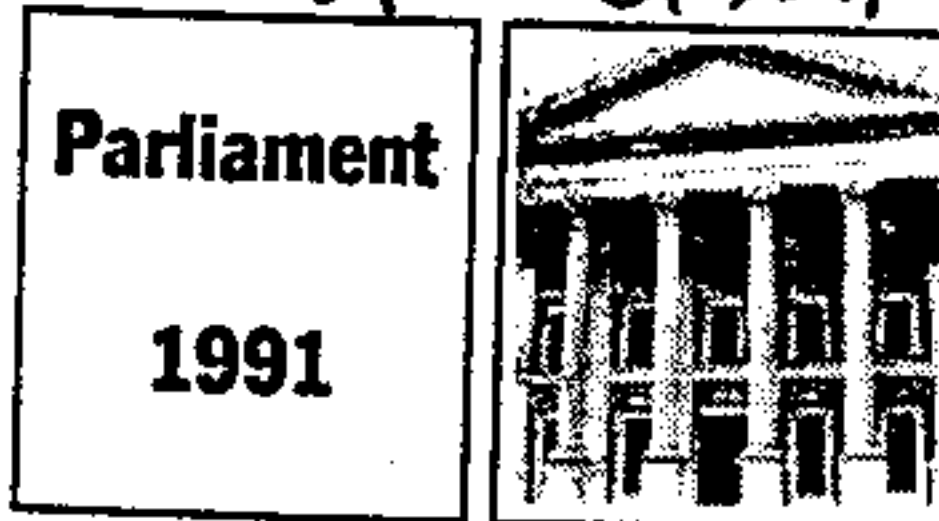
Speaking during a debate on a private member's motion by the leader of the Opposition in the House, Amichand Rajbansi, that the State President be requested to take the necessary steps to remove discrimination in the allocation of State funds, he said this re-entry was a political issue.

Sacrifice

The most noticeable price South Africa had had to pay for losing its international financing in 1985 was that it had to sacrifice growth.

"We had to try to reconstruct growth without the import propensity," he said.

On the gap in pensions among various race groups, Mr du Plessis said that morally there should be no discrimination and the gap should be closed as soon as possible.



Efforts by all concerned had resulted in the gap closing quite dramatically.

However, it was a complex historical and cost issue which involved regional differences such as the cost of accommodation.

"I think we have made progress under very difficult circumstances."

These had included a period of a shrinking per capita Gross Domestic Product, the cost of South Africa's actions in Namibia and Angola, and the defence of all its borders.

"You can calculate what the cost was of national service."

South Africa had also had to accumulate strategic reserves.

Now that the Cubans had "made good" their promise and left Angola, the whole pattern had changed.

The tragedy, however, was that since President F W de Klerk's opening of Parliament speech on February 2 last year, a larger percentage of funds had had to be spent on maintaining law and order — because of the violence — than the Government had planned.

"Therefore a restructuring of a budget was very difficult under those circumstances."

Criticism

Referring to criticism during the debate that Jan Steyn's Independent Development Trust (IDT) was taking too long to spend the R2 billion allocated for socio-economic upliftment, Mr du Plessis suggested that Members of the House of Delegates ask Mr Steyn and his housing director, Ben van der Ross, to address them.

Careful planning had to go into spending R2 billion, he said. "You can't just go on a spending spree."

The Trust was meant for the "poorest of the poor" of all races. — Sapa.
— Sapa.

Issue price of these shares has yet to be determined. Further information, including details of SunCiskei's track record, will only be forthcoming once the prospectus is published on March 15. Kersaf financial director Alan van Biljon says similar schemes, though not including listings on the JSE, are being considered for the group's Swaziland and Botswana operations. *Simon Cashmore*

EARNINGS DIP

Six months to	Dec '89	Jun '90	Dec 90
Turnover (Rm)	3 184	2 906	3 843
Pre-tax profit (Rm)	287.9	347.9	412.9
Attributable (Rm) ..	105.6	132.6	135.3
Earnings (c)	247	283	227
Dividends (c)	30	62	30

hard facts may be issued has just been pushed back by another nine months, from mid-1991 to the first quarter of next year, because of drilling delays.

Also, no go-ahead seems likely until there is a radical improvement in market sentiment towards deep-level gold projects — otherwise any rights issue to fund the mine, which will cost at least R2,5bn, could flop as badly as the Target Exploration offer held by Anglovaal's Loraine gold mine.

Main reason for the 28% rise in attributable earnings to R135,3m was the interest earned on the proceeds of last year's R822m rights issue. Income from investments was 34% down and equity-accounted earnings were 32% down because of lower dividend income from the house's gold mines and a sharp drop in profits at manganese company Assmang.

Industrial arm Anglovaal Industries (AVI) increased its earnings by 5% and for the full year to end-June expects to at least match the previous year's earnings despite the recession in the SA economy.

Within the diversified AVI group, increased profits from the rubber division of Consol, the dry food and beverage sector and the frozen food sector were offset by lower contributions from the construction and electronics and textiles sector. Irvin & Johnson maintained its contribution to group earnings.

AVI is currently negotiating to increase its stake in construction company Grinake Holdings to 51% from the present 46,5%.

Anglovaal's 28% increase in attributable earnings for the six months should be maintained or even improved on for the full year but EPS will be lower because of the increased issued capital following the rights issue. The dividend should be maintained

Brendan R.

Gold and the dollar are 'still safe investments'

SHARON WOOD

THE traditional safe-haven status of gold and the dollar has by no means been eliminated, says Bank of Lisbon in its February Economic Focus.

The dollar's qualities as a safe haven may in fact be strengthened by political, social and economic chaos in the Soviet Union which will threaten the value of the German mark, it says.

The US was now the only superpower, and its status would be enhanced by the military victory against Iraq.

Sharp falls in the dollar's value, as a result of substantial US foreign trade and budget deficits, had been stemmed by strong economic co-operation among industrial countries in the form of central bank foreign exchange intervention.

Gold's status for private investors as an insurance against chaos might have been reduced, but the role of gold for central banks had increased.

12/04 713/91.
Temporary

Gold's role as a "war chest" for central banks had been emphasised by the Gulf Crisis, which demonstrated the value of gold as an independent asset which "cannot be tampered with by foreign powers".

Developing countries' problems with debt servicing, and the possible seizure of their foreign assets, had highlighted the merits of keeping gold reserves.

The reduction in private investor interest in gold may only be a temporary phenomenon, says the Bank of Lisbon.

Once economic fundamentals for gold improved as a result of declines in real interest rates, and gold production in non-communist countries reached a plateau, the attractions of gold as a hedge instrument could be enhanced.

Both the dollar and gold fell in value after the outbreak of the Gulf war, instead of surging as usually happened in times of international political crisis.

The bank feels the surprising weakness of the dollar can be attributed to the weakness of the American banking system and the end of the Cold War.

It says gold's value as a hedge instrument is being undermined by the continuing high positive real interest rates in most Western countries.

THE CRUNCH

SOUTH 7/3-13/3/91

Funding ~~74~~ 74 sources

dry up

SOUTH 7/3-13/3/91

A SOUTH investigation has revealed that many "struggle" organisations face extinction as overseas funding sources begin to dry up.

Among the first to be hit is the South African Council of Churches (SACC) which has been forced to trim its annual budget by R6 million this year.

The SACC's support for families of detainees, trialists, prisoners and other "victims of apartheid" is drastically affected.

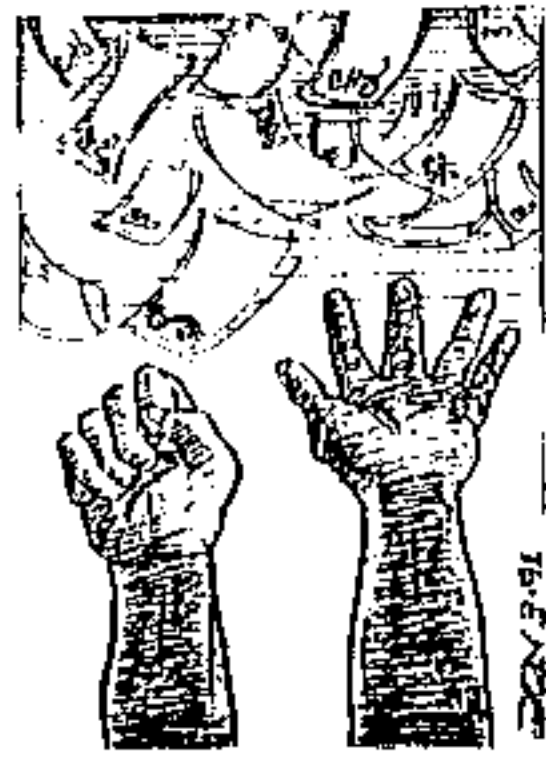
For some time now "struggle organisations" have been relying heavily on foreign funding, estimated to amount to R600 million, to conduct their activities.

In the first of a three-part series on foreign funding and development, SOUTH this week probes the implications for a "business" that has become known as "Struggle Incorporated".

● See Pages 6 & 7



The business of conducting the anti-apartheid struggle in South Africa has become a major enterprise. It could be called Struggle Incorporated (Pty) Ltd. It has boards of

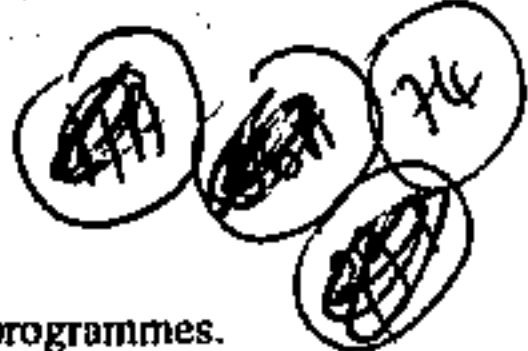


directors, trustees, employees and everything a thriving business needs to survive. In the past decade, its income has been staggering and its expenses exorbitant. But its investments have been

paltry. In the first of a three-part series on foreign funding, REHANA ROSSOUW examines where the money for the enterprise comes from.

Unveiling 'struggle incorporated'

South 7/31 - 13/3/91



FOREIGN FUNDING has changed the face of South Africa's anti-apartheid struggle. Thousands of people are employed, hectares of office space are utilised, fleets of cars are available and enough technology is employed to put modernised businesses to shame.

Yet the business is not thriving. Productivity levels have decreased and millions of rands are disappearing into what seems to be a "bottomless pit".

Political organisations, churches, trade unions, education projects, publications, cultural organisations, service projects, civic organisations and advice offices have become heavily dependent on foreign grants to keep afloat.

Most anti-apartheid organisations employ administrative and organising staff and have come to rely on technology to spread their message.

This is all done through the largesse of foreign funding.

This funding represents an important mechanism for governments to "buy" influence and favour among strategically-important groups in South Africa. It is a form of "taking out insurance" with the eventual winners in the struggle for power in the country.

There are no accurate figures available of how much money enters South Africa every year in the form of grants for anti-apartheid organisations.

From figures available, however, it can be reasonably estimated that more than R500m was pumped into organisations during 1990.

Most of the money "invested" in the anti-apartheid struggle is channelled by foreign governments into South Africa through non-governmental organisations (NGOs).

This, in turn, has led to a new industry — people employed to administer the funds inside South Africa.

Nearly all financial assistance directed to South Africa by western governments is aimed at supporting the struggle for a democratic state and preparing disadvantaged sectors of the population for an active role in a post-apartheid country.

The largest foreign grant to South Africa last year — R88m — was made by the European Community's (EC) special programme for the victims of apartheid.

The grant was part of the Community's "twin-track policy" of restrictive and positive measures, offsetting restrictive measures like sanctions with financial assistance to humanitarian and

educational programmes.

In the four years the special programme has been operational, R276m was allocated to 350 projects in South Africa and Namibia.

The United States' state department is the second largest donor, with about R70m granted to "disadvantaged" South Africans last year.

The Swedish aid budget to South Africa aimed at "humanitarian assistance in support of victims and opponents of the apartheid system" totalled R38m last year.

The Swedish government, widely regarded as an important ally in the anti-apartheid struggle, allocated some of the money directly to democratic organisations, including trade unions.

The Australian and Dutch governments also contributed a substantial amount of support last year, about R25m each.

The British government aids South African organisations to the tune of R36m annually, in addition to contributing to the EC's special fund.

The Japanese, German, French, Greek, Italian, Spanish and Swiss governments contribute to the costs of opposing apartheid as well, although to a lesser extent.

Besides these more formal grants to anti-apartheid projects in South Africa, a host of religious, educational, professional and humanitarian projects have received funding from independent donor organisations and professional associations abroad for their work opposing apartheid.

The biggest conduit for foreign funding into South Africa is Kagiso Trust, which administers the bulk of the EC special fund.

Kagiso director Mr Achmat Dangor agrees that the fund, designed specifically to help victims of apartheid overcome the effects of apartheid or resist it, has become a whole industry.

The trust has identified new development priorities in the past two years and is preparing to halt funding of projects established to oppose apartheid.

"This industry became a way of life and I think people forgot old traditional ways of working with minimum resources," Dangor said.

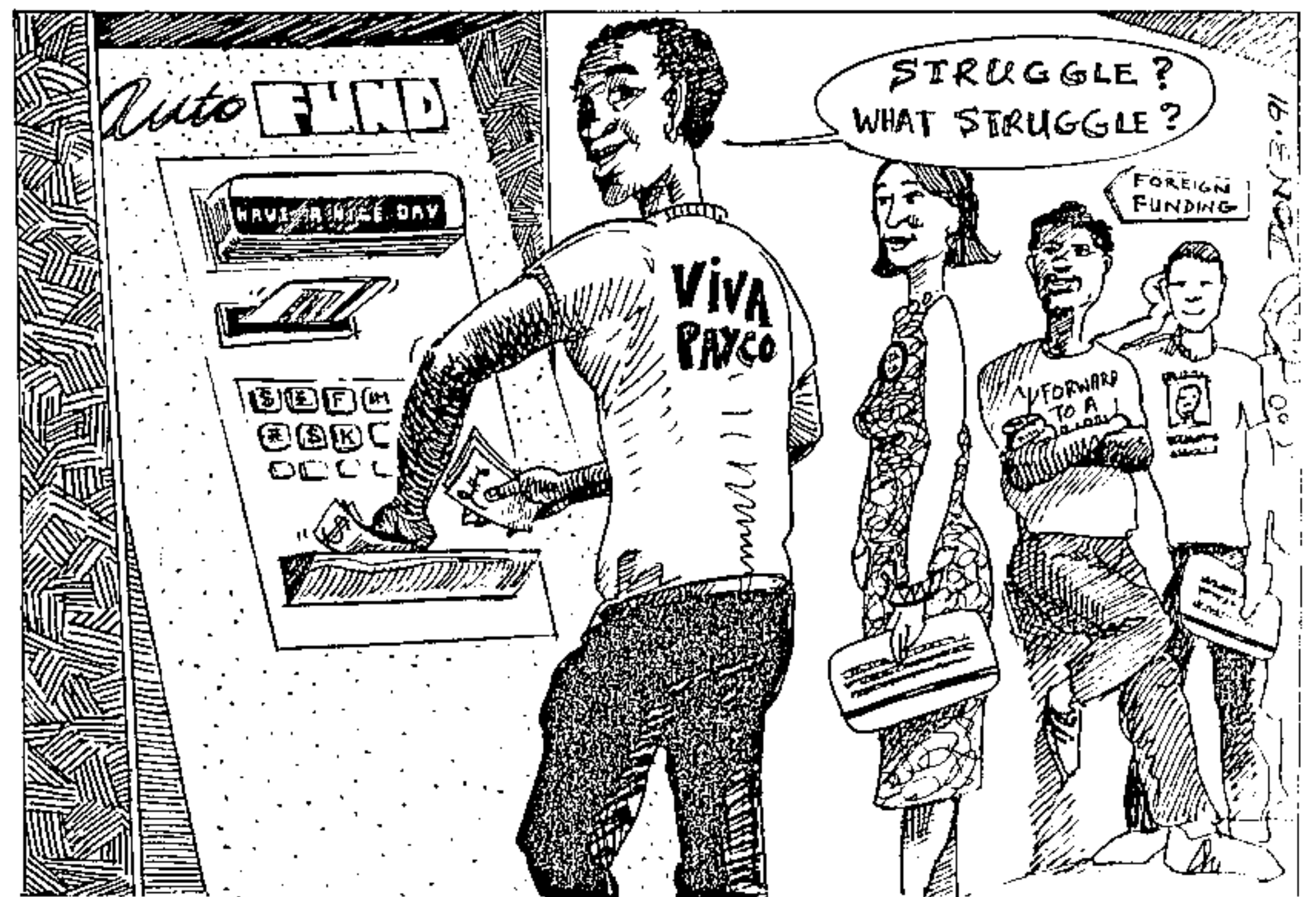
He believes that, to an extent, foreign funding has contributed to a culture of expectancy — people believe that because they are "victims of apartheid" the world owes them some kind of payment for it.

But he also believes foreign funding has had some positive aspects.

"During the worst years of repression, the funding we received was used to support whole families," Dangor said.

"The legal funds we had were used to defend people who were charged with political crimes.

"If that money had not been there, many more of our people would have gone to jail. Many of our leaders today



would have been in prison and maybe the struggle wouldn't have progressed as far as it has."

Dangor believes problems arose when people began regarding the flow of foreign funding into the country as a welfarist exercise.

The more the resource was available, the more it was requested and the more people became dependent on it to the exclusion of using other indigenous resources.

"It has diminished the capacity of activists to act without being paid to act," he said.

FUNDERS, too, had political agendas. The money was not granted because South Africa was a "worthy cause", Dangor said. There was an element of "wanting to purchase the struggle", and unscrupulous donors were often identified and shunned.

"But unscrupulous donors will still find unscrupulous recipients of money," he said.

"Kagiso Trust has experienced that. When we said no to bad projects, organisations here simply went to other people and found the money."

The trust has decided it will accept money if it sustains the struggle, and provides welfare to those who are suffering because they are victims of apartheid.

They have insisted that the foreign grants must contribute towards greater independence — an investment in training people and building community-based institutions to deal with political and social issues.

"There are many people who have a

'There are charges made that unlimited funding has even encouraged a climate of poor discipline and accountability concerning resources.'

duces the vast amount of foreign aid they have to give to other Southern African countries."

Dangor said Kagiso did not agree with the simplistic attitude that all money from abroad was evil.

Tapping the well of foreign funding used to be quite an easy exercise. Activists discovered that if they could draft proposals containing just enough political jargon, money became readily available.

In the past decade, the availability of money led to the establishment of several organisations formed to oppose certain apartheid doctrines.

People who had previously participated in anti-apartheid organisations because of their commitment, became paid fulltime organisers, based in offices.

Dr Wolfram Kistner, former head of the department of Justice and Reconciliation at the South African Council of Churches, said: "Our activists today know all the psychological tricks to get money. They know exactly what words to put into their funding proposals.

"To impress donor organisations, they talk about the good of the people.

"Then there are organisations which want to make a big impression on their funders — to show that they get things done. They do something very visible; they organise big events to show publicly that the money is being spent.

"This goes against the development principle of first spreading skills and money to the community."

Like their counterparts in South Africa, donor organisations throughout the



Mr. Achmat Dangor

'Foreign funding has contributed to a culture of expectancy — people believe that because they are "victims of apartheid" the world owes them some kind of payment for it.'



Dr. Beyers Naude

'Unlimited foreign funding has "corrupted organisations", to the extent that some merely provided "sheltered employment" for activists.'

■ NEXT WEEK: Use and Abuse. Has the money improved the quality of work done by organisations? Has the money improved the lot of the millions of unemployed, homeless and under-educated South Africans? How widespread are abuses?

South 7/3-13/3/91

world employ thousands of people to channel millions of rands to assist the anti-apartheid cause.

Kistner believes this is another mini-industry which merely "throws money at apartheid and hopes it will disappear".

"Some of these donor organisations are simply sheltered employment for useless liberals," he said.

"They need people to suffer overseas so that they can keep their jobs. They don't examine the reasons behind the suffering or do something useful to stop it. They simply subsidise the suffering masses of the world."

ROTHER JUDS PIETERSE, secretary-general of the Southern African Catholic Bishops' Conference, believes activists have lost sight of just who it is who funds them.

His church, which is heavily involved in welfare and education projects, gets funding from two sources — individual contact with sympathetic clergy in other countries and the annual Lenten appeals.

"Most of the money comes from ordinary, hard-working working-class people in other countries," Pieterse said.

"When we're talking about aid to South Africa from Western governments, we are in actual fact talking about taxes from the wages of the workers in those countries.

"So for every cent spent, we must remember whose money it is."

The impact of foreign funding on organisations and communities is being viewed more critically now that people realise that, without careful management, funding has all too often swamped or critically distorted emerging organisations.

There are charges made that unlimited funding has even encouraged a climate of poor discipline and accountability concerning resources.

Dr Beyers Naude, who was instrumental in securing funding from the EC, believes unlimited foreign funding has "corrupted organisations", to the extent that some merely provided "sheltered employment" for activists.

There was seldom consultation with the community involved when projects were established to supposedly "assist and develop" them, and activists were seldom accountable to their community on how the money was spent.

As a former member of the Broederbond, Naude witnessed the methods used by the Afrikaners when they assumed political control of the country.

"They took their people into sheltered employment, into the railways and government posts, trained them and gave them real political power," Naude said.

"We cannot allow the people we have working now in our organisations to continue working the way they do. We must learn from the Afrikaners.

What is wrong now is not a loveless criticism. It is an important criticism for the sake of our country."

Cutbacks cause retrenchments

South 7/3-13/3/91

THE Western Province Council of Churches (WPCC) has decided to retrench a third of its staff after its foreign funding had been cut in half.

Its parent body, the South African Council of Churches (SACC), is likely to retrench more than 20 staff members soon after funders failed to cover a budget shortfall of R6,34m this year.

The SACC has long been the breadbasket of aid to "victims of apartheid" during the worst years of repression. However, funders recently changed the nature of their funding, slashing grants used for "political purposes".

The SACC has been heavily affected by this change, receiving 24 percent less from funders than expected.

The organisation was forced to reorganise its departments and other areas where they spend money — cutting back heavily on their wage bill.

At the WPCC, up to six staff members from a total staff complement of 18 were going to be retrenched soon as the council could no longer afford to pay their salaries.

Pickets

The announcement of retrenchments was met with protest from staff.

Angry WPCC staff members held a picket outside their offices on Wednesday afternoon, calling for a withdrawal of the decision to retrench.

There were also pickets outside the SACC offices last month.

The staff association of the SACC office sent a message of support to the WPCC staff, saying they were "appalled at the apparent disregard by the WPCC executive of a simple human right" — to be consulted on matters regarding job security.

Like other regions of the SACC, the WPCC did not receive their full budget for 1991 requested from the parent body. Regions were instructed to work with "cash in hand" and no longer rely on pledges from donors.

The WPCC needed R800 000 to meet its commitments for 1991 but only received R400 000.

The restructuring of WPCC follows



Pickets outside the WPCC headquarters

PICTURE: YUNUS MOHAMED

months of assessment and consultation after an SACC review commission reported on the restructuring of the parent body.

Staff members interviewed by SOUTH said the assessment also examined the role of the council in the wake of the unbanning of political organisations and in a post-apartheid society. The staff members did not want to be named.

"A meeting was called with all political organisations in the Western Cape where it was openly acknowledged that the WPCC had been more closely aligned to the ANC," a staff member said.

"The assessment went into full swing from November at the instruction of the executive committee. Staff experienced a breakdown in communication with the executive committee and were told their presence was no longer required at meetings.

"Since then, relations between the staff and the executive committee were strained, with decisions being imposed top-down."

In January, staff presented a memo-

random to the executive committee raising their concerns about the operation of the WPCC.

A commission of inquiry was established to investigate their grievances and compiled a report to the staff and executive committee.

Constraints

Staff believed the executive committee was not only motivated by financial constraints, but political considerations as well.

The executive committee had decided that the council would "move to base" — be owned by the church, located within the church, coordinate the work of churches and foster ecumenism and unity.

"The assumption which follows from this is that the WPCC has never been based, that the council has never been controlled by the church but by community and political organisations, particularly the ANC," the staff members said.

However, the staff's prime concern was that they were never consulted by the executive committee on how many

people would be retrenched.

Because of the nature of the structure, their jobs had never provided real stability or fringe benefits.

"We expected mutuality between the staff and the executive. Even if financial constraints lead to retrenchments, we want to be part of the decision of which posts are to be dissolved," the staff members said.

Criticism

Responding to the staff's criticisms, the WPCC executive committee chairperson, the Rev Courtney Sampson, said the budget cuts brought with it the "haunting reality" that it was impossible for the council to continue in its former structure.

Sampson said while he sympathised with staff who were no longer secure in their jobs, the reality was that foreign funding was drying up.

"Last year already, the SACC warned that it cannot guarantee to continue paying the salaries of all staff members," Sampson said.

"We have been working with hand-outs from other people for far too long.

"Matters of compassion and morality will be taken into account when we work out retrenchment packages in conjunction with the staff."

The WPCC could not be expected to maintain the same political profile it had in the past few years, although it was still committed to the struggle for liberation, Sampson said.

The WPCC would not make any excuses for being closely aligned with the ANC as its members were in the forefront of political activity in the Western Cape for years.

The WPCC's new structure makes allowance for six staff members which will balance theological research with programmes in oppressed communities. Welfare work and service operations of the council would continue, Sampson said.

He said, politically, the council had to reassess its role.

"The church has had to carry the load of work of political organisations when they were unable to do so. It is arrogant of them to assume now, when they are unbanned, that we will continue."

Sampson said for too long church workers had been "abused and misused by political organisations to the detriment of the church."

Investors may still be wary after sanctions go

B/DW 8/3/91

74

TO WHAT extent will the lifting of formal sanctions facilitate an inflow of new foreign finance into SA? I fear that the mere abolition of sanctions may not herald any significant inflows of new foreign loan and equity finance into this country.

Any coherent discussion of new foreign finance is dependent on an understanding of the impact of the "debt standstill" of 1985 and the implications of the reintroduction of the finrand at that time.

SA has for many years carried a certain risk profile relating to its internal political and social environment. This is borne out when one reviews the history of capital flows in and out of SA. The 1961, 1976 and 1984/85 unrest all caused significant outflows of capital as foreign bankers and investors withdrew their funds from the country because of their concern about stability.

In the intervening periods, foreign investment was at a reasonable level as was the provision of loan finance. Confidence in SA's economic position was maintained and only the relatively few periods of extreme political disharmony gave rise to temporary withdrawals of capital. However, since 1976 no new net foreign equity investment came into SA, although loan finance was provided.

Capital outflows resulting from Sharpeville and the 1984/85 unrest were so significant that the authorities were compelled to introduce ex-

change controls which, in effect, prevented non-residents from withdrawing their invested funds. Furthermore, the 1984/85 unrest coupled with the negative political impact of the Rubicon speech and general anti-apartheid pressure overseas gave rise to a liquidity drain on foreign reserves of unparalleled proportions.

A closer examination of the nature of foreign finance provided to SA business prior to the introduction of the debt standstill indicates that SA banks had been securing mainly short-term foreign finance. Bankers and investors were obviously unwilling to lend money on a medium- or long-term basis because of SA's then political risk profile. The liquidity drain was caused when certain large American banks refused to renew their short-term facilities provided to local entities, and this country found itself without a banker and insufficient reserves to meet the necessary repayments.

To protect the value of the rand and to prevent the devastating consequences of a capital flight, the authorities imposed a debt moratorium or standstill which had the ultimate effect of categorising SA as a debt rescheduling nation and increased

our sovereign risk. Foreign providers of investment and loan finance also began to reflect upon the negative effect that political disharmonies would have on the economy.

The reintroduction of the finrand was a natural consequence of the debt standstill. It gave the authorities the mechanism to keep the existing foreign finance pool in the country, and to control through the various debt rescheduling agreements the quantum of leakages from the pool. (Certain categories of foreign finance were exempted — such as repayments of previously granted export credit facilities and the repayment of foreign currency bonds.)

The finrand system therefore had the effect of placing the bulk of foreign investment and loan finance invested in the country at September 1985 into a closed system. This means that if some party overseas wishes to withdraw money loaned to an SA entity prior to 1985, or withdraw any equity or bond investment since 1985 from SA, he can do so only if he can transact with somebody willing to invest in SA.

The transaction takes place via the finrand "outside" the system and

does not affect the amount of foreign finance trapped in the country. Finrand transactions take place in a separate economic reality to that of the actual day to day reality of the economy. The finrand trades at a discount to the commercial rand because of restrictions on the movements of capital and the resultant lack of liquidity in that market.

A currency's external value is determined by a number of factors, such as its relative inflation rate to its main trading partners, its relative interest rates in relation to its main trading partners, its terms of trade and the relationship of exports and imports as well as movements on the capital account.

The finrand's value, however, reflects political sentiment and the influence of the relative desire to invest or disinvest from the country. It must be remembered that the finrand transactions do not affect the actual capital account of SA as the transactions take place, between parties, outside the system.

The Reserve Bank Governor has already indicated that the finrand is a product of the debt standstill, and will probably be abolished only once SA is no longer rescheduling portions

of its foreign debt. One of the consequences of the debt standstill was to lower investment confidence in SA both internally and abroad. This gave rise to a reassessment by investors and lenders of finance of the creditworthiness of SA. It was realised SA's political problems would result in economic problems in future.

Foreign confidence is likely to be restored to a lesser or greater extent by the provision of a new IMF credit for SA. For some years SA has not been able to avail itself of IMF credit due to a congressional enactment. This law prohibits the US IMF board member from voting for new credit for SA, de facto inhibiting new credit being made available.

A future provision of IMF credit would do much to enhance the credit status of this country. It would thereby encourage those people who still wish to withdraw their funds and those who have adopted a cautious approach in their dealings with SA entities to revert to a normal business relationship.

The good news is that SA must be close to complying with all conditions required for the repeal of this law. The extent of this confidence booster may not, however, be sufficient in itself to give rise to a suspension of our debt standstill. Even if it does, SA will still have to shake off the fact that it once declared a debt moratorium and rescheduled payments on its foreign debt.

□ Part two will appear on Monday.

REVIEW

Barend discloses capital outflow figures

Star 8/3/91
South Africa exported R23,9 billion in capital after 1985, Minister of Finance Barend du Plessis said in the House of Assembly yesterday.

Replying in writing to a question from Dr Willem Botha (CP Rustenburg), who had asked for the capital outflow figures between 1980 and 1990, he said the figure was supplied on a net

(balance) basis only.

After adjustments for liabilities related to reserves, the first half of the decade had shown net annual inflows of capital ranging from R5,4 billion (1981/82) to R159 million and R445 million (80/81 and 84/85).

In 85/86 there was a R6,827 billion outflow, R5,853 billion in 86/87, R4,759 billion for 87/88,

R3,901 billion in 88/89 and R2,558 billion for 89/90.

● In August '85 President Botha dashed overseas reform hopes. This was followed by a flight of capital by SA's major banks and many of its investors, which forced the Minister to impose the debt standstill to counter the vast capital export. — Sapa.

Privatisation a major factor in the redistribution of wealth

Star 8/3/91

74

By Des Parker

Privatisation of state-owned industry may be unfashionable in South Africa at the moment - but it will be looked at afresh if the words of the head of a visiting British trade delegation fall on receptive ears.

Sir Keith Stuart is chairman of Uksata (UK South Africa Trade Association) and is heading an influential trade delegation to this country.

In addition, he chairs the board of Associated British Ports Holdings, which in 1982 was one of the first public-sector bodies to be privatised in the UK after the Conservative Party led by Margaret Thatcher was returned to power in 1979.

Interviewed yesterday Sir Keith said he understood the caution he had heard expressed on the question of privatisation in South Africa.

"When I talk to organisations on the left of the political spectrum about the drawbacks to nationalisation, I am asked, 'What other means are there to redistribute wealth?'" he said.

"I point to the consid-

erable increase in wealth of the ordinary man and woman in Britain through the medium of share-ownership in privatised facilities.

"Just as happened in South Africa, there was initial opposition from the trade unions to the concept and to the distribution of shares among workers, but when there was acceptance for it among the people and the benefits could be seen, the unions changed their approach."

Significant

Sir Keith said it was "very significant" that the Labour Party in Britain was no longer proposing re-nationalisation.

"Even if there is a change of government, Labour would leave the vast majority of privatised industry in the hands of the public."

As the biggest ports authority in Britain, Associated British Ports owns 22 of the major ports in the country, or about a quarter of the total. Its share price has increased eightfold since its flotation nine years ago.

"By far the most important aspect of privatisation is the emphasis on share-ownership among employees in order to overcome misguided accusations that it is all a capitalist plot," said Sir Keith.

At a lunch of the SA British Trade Association in Durban yesterday, Sir Keith told guests he believed the British government would move "over the next few months to remove sanctions, even if the Commonwealth and the EC drag their feet".

The "euphoria" over the emancipation of communist Eastern Europe had waned, and South Africa was once more in contention among British companies as an investment opportunity and a destination for exports.

However, Sir Keith cautioned, wariness about the country's constitutional future and at the ANC's stated views on nationalism meant there would "not be a flood of pounds in the short-term".

He warned too that while South African ex-

porters had high-quality, saleable products to sell, they were not "aggressive or determined enough" to make the most of their marketing opportunities in Britain - one of the most open markets in Europe.

"The quality of your products is good, but the quality of the marketing effort that we have seen is way behind that of people like the Japanese, the Germans and the Italians. If you go out and hard sell - particularly now that politics is no longer on the agenda - the results will be most gratifying," Sir Keith assured his audience.

South Africa was a traditional trading partner of Britain which had once again become the second biggest exporter of goods to the Republic.

Two-way trade last year grew 25 percent to R11 billion.

Sir Keith said he would tell British exporters on his return home to concentrate on traditional markets, like South Africa, and "not to be obsessed with strange new worlds like Rumania".

Gold price poses R4-bn threat

By Sven Linsche *Stew 8/3/91* **74**

South Africa could lose well over R4 billion in foreign exchange earnings a year over the next two years if the lower gold price forces the closure of marginal mining operations.

In a paper presented at a gold conference in Sydney yesterday, Mike Brown, economist at Frankel Max Pollak Vin-derine said that at a gold price of \$350 per ounce 150 tons of SA gold production, or 25 percent of the industry, was vulnerable to closure (see graph).

If the mines, however, revert to survival tactics, as Mr Brown expects, this would suggest the closure of 12 to 15 mines, entailing a loss of around 30 tons, with a further 60 tons being lost as a result of partial curtailment of other mining operations.

Based on these two scenarios — a worst case 150-ton loss and a mid-case 90-ton loss — Mr Brown has analysed the "knock-on" effect on the South African economy if gold averages \$350 until the end of 1992.

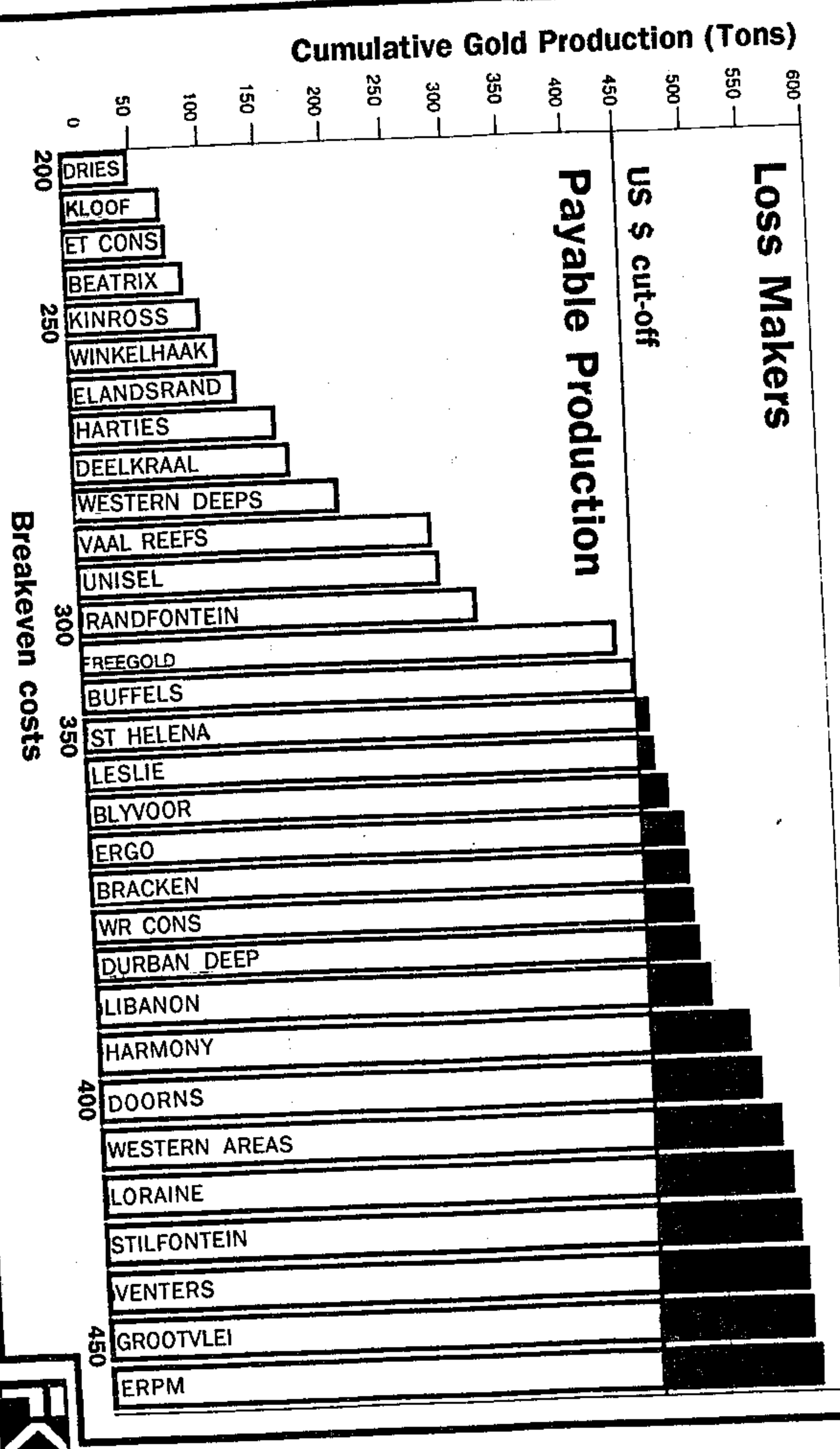
"The first implication is a drop in foreign exchange earnings, which in the case of the 150-ton loss, would reduce the South African annual current production by some R4,25 billion or by R2,55 billion in the 90-ton gold loss scenario," he says.

Foreign debt

At a current account surplus of some R6 billion last year, such a drop would significantly reduce the current account cushion required to meet foreign debt commitments of between R3 billion to R4 billion per annum.

"Losing a large chunk of gold revenue would, therefore, probably force the reimposition of restrictive demand management policies in order to protect the current account," Mr

1990 South African Gold Production and Costs



Stew 8/3/91

Brown says. The envisaged contraction in gold production would also reduce growth in the Gross Domestic Product in South Africa by some 0,5 percent to 0,7 percent, while job losses could total 75 000 (90-ton loss) and 110 000 (150-ton loss).

Mr Brown adds that given the demands for employment creation and wealth distribution, such a loss can be ill afforded.

But he does not advocate continued gold production at losses to the mining group, he argues rather that the loss of production could be partially offset

should South Africa have access to foreign loans.

"The continued imposition of sanctions on South Africa blocks any access to foreign loans, other than very short-term trade finance.

"Capital inflows, preferably of a medium- to long-term nature, would be required to make up any shortfall in foreign currency earnings arising from gold mine shut-downs."

Mr Brown says that this raised the prospect of an international gold mining lobby emerging to call for an ending of sanctions. He explains: "If the global

gold mining industry believes it would be beneficial for the gold price to see a reduction in South African gold mining output, then it must be realised that a continued imposition of sanctions tends to be counter productive."

Furthermore, he adds, the International Monetary Fund could provide compensatory financing through the Contingency Financing Scheme, which is designed to cover part of the effect on a member's balance of payments as a result of commodity price variations.

At present loans by the IMF

are blocked by a US Congressional veto on any assistance.

"To fully compensate for a 150-ton decline in output, the average gold price would need to rise from \$350 to \$465 per ounce, in the case of a 90-ton loss a rise to \$410 would suffice, if the dollar rand exchange rate remains at present levels.

"I leave it to the gold market experts to deliberate whether a 90 ton or 150-ton decline in South African production would be sufficient to push up the gold price by the required amount to compensate the hard-pressed economy," Mr Brown concludes.



THE GULF Fm 8/3/91

SEEKING CONTACT

(74)

Opportunities for exporters to participate in post-war reconstruction in the Middle East are limited. Contracts are expected to go mainly to countries which contributed to the Allied war effort. Kuwait, with damage estimated at about US\$50bn, has already given clear preference to US companies for the reconstruction of buildings and transport and oil industry infrastructure. The UK is the next favoured nation, while the best Japanese and German companies can hope for is participation in joint ventures.

Working in SA's favour is the offer of support (politely refused) for the Allied cause. On the other hand, SA is still seen in the Middle East as a close ally of Israel and Kuwait (and certainly Iraq) will be reluctant to further alienate their fellow Muslims. Kuwait is also likely to remember where much of Iraq's best artillery came from.

However, Safto has formed a Gulf Business Development Unit to take advantage of what opportunities there may be. Safto's David Graham says more than 80 companies — mostly engineering and construction firms — have inquired about the unit.

Even were SA welcome, there are practical problems. Says one analyst: "We would be competing with huge multinationals and large amounts of capital will be required. I'm at a loss to see what we could do."

Graham agrees big contracts will not be available to SA companies. But he believes there are opportunities as subcontractor or supplier. "A lot of large construction companies could provide equipment, supplies and expertise." Other possibilities include foodstuffs — a big export to the region before sanctions — security equipment, pharmaceuticals and medical supplies.

Graham says the unit's initial function will be to provide information on tenders available, contracts awarded and products in

Continue →

ECONOMY & FINANCE

Fm 8/3/91.

(74)

demand. It will help companies establish contacts for joint ventures with foreigners. Other assistance will include research and advice on entry strategy. Business tours will also be arranged. ■

Blaming tribes will fan violence

74

Star 9/3/91

IN their enthusiasm to identify causes for group violence in the Transvaal, the police and the SABC seem to have adopted the policy of instantly attributing most violent incidents to Zulu-Xhosa feuding. This appears to be the pattern in cases where violence occurs in hostels. The attitude was clearly demonstrated early this week when according to police and SABC reports, the murder of a Zulu-speaking township resident immediately caused a war between Xhosa and Zulu-speakers, resulting in many deaths.

A later Inkatha-ANC press statement rejected this claim. We are now left in the dark as to what really happened.

Firstly, assuming that this was, in fact, a Zulu-Xhosa conflict, was it right in these times of group tensions to afford it so much publicity? This could have easily led to the escalation of ethnic conflict in other parts of the country within minutes.

Secondly, assuming that this was not a Zulu-Xhosa conflict, how much damage has been done to Zulu-Xhosa attitudes at a time when our political leaders and, indeed in some cases, the SAP, are attempting to nurture a fragile peace accord?

If we are really honest in our efforts to curb inter-group violence, who are we really assist-

Through
My Eyes

OSCAR
DHLOMO



ing by emphasising the ethnic origin of the victims and perpetrators of the violence, as if it were more important than the violence itself?

While I fully accept that "the public has a right to know", I still believe there is scope for responsible institutions like the SAP, the SABC and, indeed, all media to use their discretion in reporting such cases. It should not be forgotten that group and ethnic tensions are still at a high pitch and inconsiderate reporting can easily cause an explosion.

However, the spectacle of ANC and Inkatha officials appearing together on TV, condemning the violence and calling on their followers to desist, did give one hope that all was not lost.

The joint hostel and regional committees that will be set up by the two organisations to implement the peace accord are very welcome and the leadership of the two organisations need to be commended for this effort in the cause of peace.

What's in it for JCI and Rusplats?

S/Times 10/3/91

FRONT-PAGE cautionary announcements from Barmines, Barplats, Vansa and Rand Mines were enough to push share prices comfortably off their recent lows.

A joint notice from the first three said that negotiations had been initiated with an interest party which could result in the rationalisation of operations.

Rand Mines referred to this notice, adding that controlling shareholder Barlow Rand advised that it is considering a reorganisation of

its mining and mineral divisions.

Rand Mines is the biggest shareholder and provides management for Barmines. Barplats is solely a pyramid of Barmines, while Vansa owns 12% of Barplats. Vansa also owns the Winterveld chrome mine, but its vanadium operations were mothballed last year because of poor prospects.

The named parties are keeping mum on what the announcements mean. Rand Mines says that the interest party requires anonymity. Speculation on who might

be interested is abundant. JCI and Rustenburg Platinum director Barry Davison say "no comment". But that group is a short-odds contender for several reasons.

It might wish to take over Winterveld, which supplies JCI subsidiary Consolidated Metallurgical Industries with ore from which ferrochrome is produced. But CMI is cash-strapped itself, and also has its own reserves of ore.

It could desire to expand

that tough a mining depth of between 700m and 1 400m for the first 25 years or so, and that there is already substantial infrastructure.

Another less popular school says that nobody but Rand Mines has ever considered Kennedy's Vale as a real ore body.

Anglovaal and the Severin group are active in a joint venture at Moolmeisfontein nearly three kilometres away. Anglovaal is reportedly not interested.

JCI could also be interested in the Crocodile River operations, founded at Lefkoc-

rysos by Loucas Pouroulis.

Rand Mines took it over after barely 18 months in 1988 because of cash shortfalls and lack of support for the management company.

Talk was that Mr Pouroulis was interested in regaining control of the mine, but he is incommunicado.

A relaxation in ring-fencing — the ability to write off capital expenditure of one mine against the tax liability of another — could allow cash-flush Rustenburg Platinum to pick up a R600-million or so assessed loss if it bought Crocodile River.

But the cash-strapped government is not expected to make this gesture in the budget in spite of the jobs it might create.

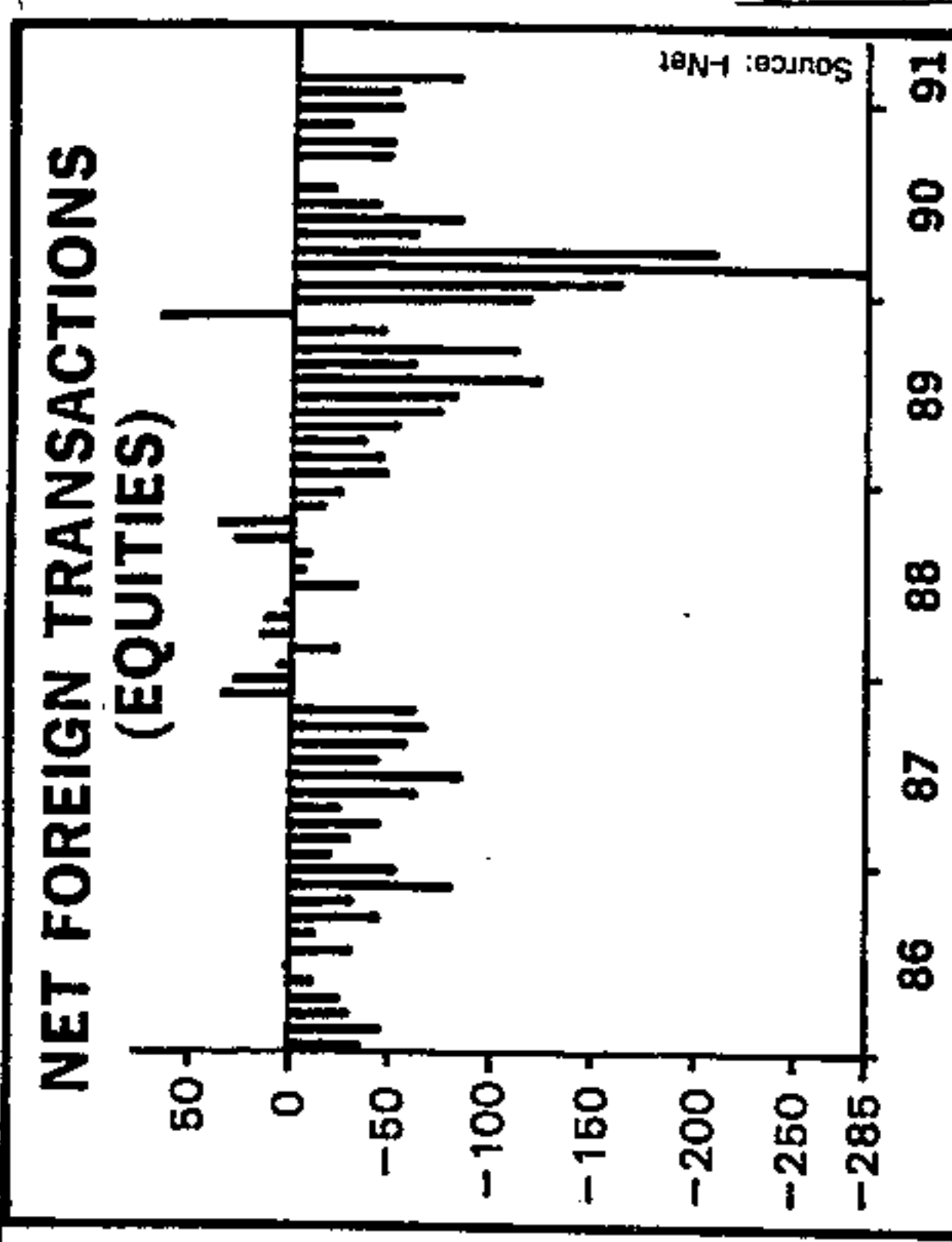
Speculation that JCI would buy Crocodile River only to close it is nonsense. Why waste R300-million or more?

Rationalisation at Barmines might mean a variety of things. It has a Rolls Royce-calibre plant and an efficient refinery which could have capacity to toll treat on behalf of other producers.

Traditionally, producers jealously guarded their figures and methods but a new era of glasnost was ushered in by Impala, which also struck a deal with Lonrho to develop jointly the Karee mine. Co-operation between rival parties can be achieved.

The low prices of Barmines and Barplats already discount worst-case scenarios and shareholders can look forward to something better.

Best odds lie on a deal with JCI or Rusplats. This looks the most likely scenario in my book.



Foreign investment in both equity and gilts is made through the commercial

through the financial rand, which offers a discount on the purchase price, and also on the resale price when stock is sold. The attraction to foreign investors is that they, and not South Africans, broadly determine the price of the financial rand.

By taking advantage of this, they are more easily able to time buying and selling to suit themselves. The other attraction is that dividends and interest are paid through the commercial rand. This effectively gives foreign holders of SA investments a most attractive yield, particularly from easily traded gilts which bear predetermined coupons. That equity trade in particular correlates so closely to political developments should serve as a warning to the new South Africa: foreign investors will invest only if there is a way to trade out of the investment, and if there is a potential profit.

Foreigners fled when a new SA hit the fan

S/Times 10/3/91

A CHILLING tale is told by this graph: all the blocks under the line represent net sales by foreign shareholders of South African equity.

The euphoria experienced on the JSE during February last year in the run-up to the release of Nelson Mandela was incorrectly attributed to foreign buying of SA stocks. In reality, foreigners were piling out en masse.

The buying of internationally traded heavyweights, such as Anglo American, De Beers and Gencor, appeared to be coming from London. This had the effect of enthusing local operators who believed it to be fundamental foreign buying.

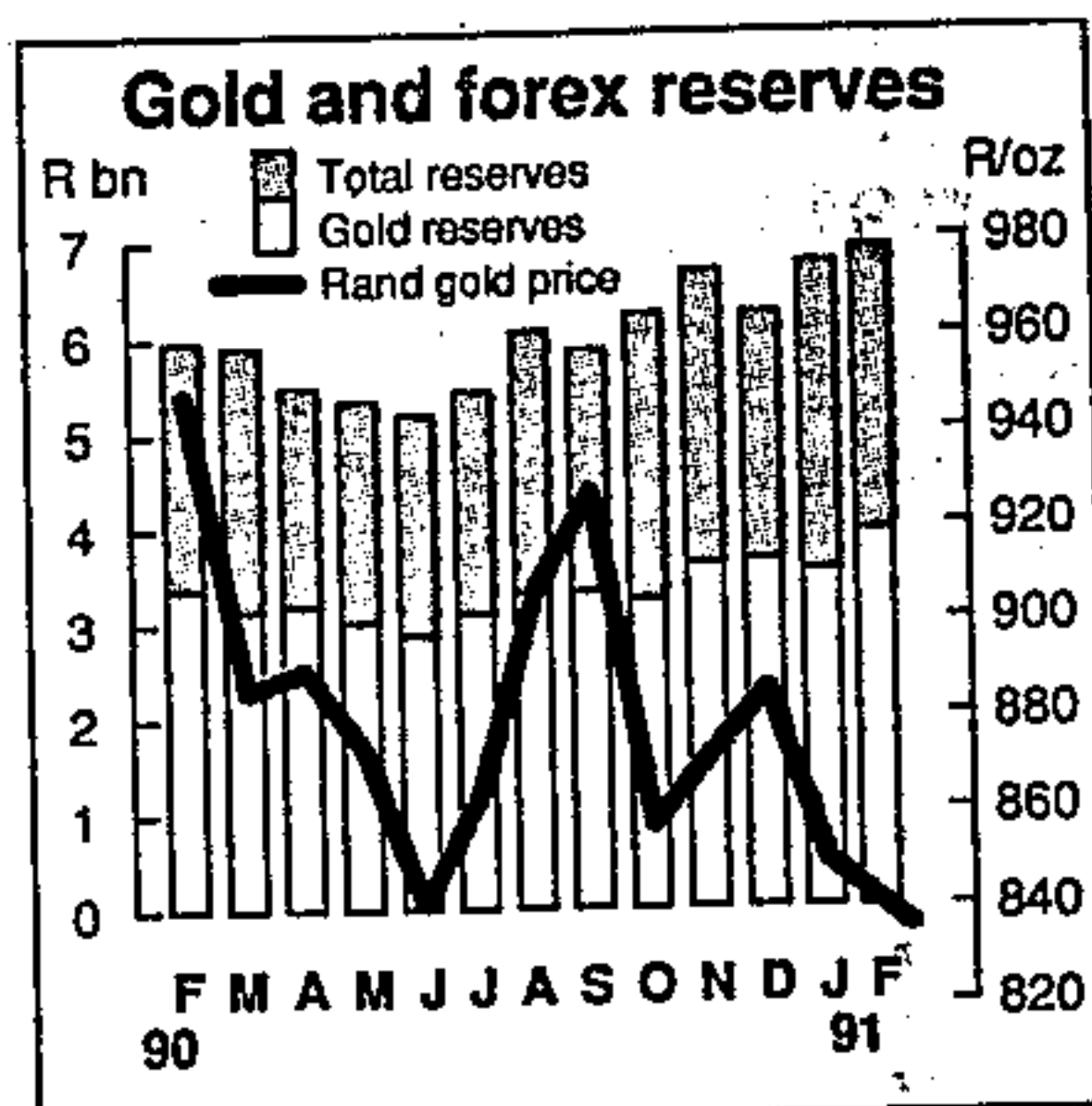
But it could be interpreted that locals were both buying and selling through London

did net foreign purchases exceed sales. That was November 1989, when FW de Klerk's government came to power and announced reformatory steps.

These moves were viewed with bullish eyes and foreigners bought with perfect timing — just soon enough to offload when the market really started to run two months later.

Since then there have been individual weeks of net purchases by foreigners, but these have been cancelled out over a month of trading.

Net foreign trade in gilts shows a different pattern — almost the mirror image of the equity graph. Foreigners have been near-consistent buyers of our bonds because of their high yields.



Graphic: LEE EMERTON Source: SA RESERVE BANK

Debt makes no dent in healthy reserves

SHARON WOOD

THE Reserve Bank sailed through debt repayments in February with total gross gold and foreign exchange reserves still rising by about 3% to R6,9bn, figures released on Friday show.

Government repaid about \$160m of debt within the standstill net. Foreign debt now falls due in February and August, instead of June and December. This failed to depress foreign reserves, and the gold and currency components rose in February.

Gold reserves improved by 4% to R3,89bn in February, despite a reduction in the average valuation for gold to R829,37 from R852,96 in January. Physical holdings of gold rose 7% to R4,69bn.

Nedbank economist Edward Osborn said the Reserve Bank had obviously held back on gold sales in a weak market.

The currency component of reserves improved marginally, rising 1% to R3,01bn.

Reserve Bank Governor Chris Stals said that improved net gold and other foreign reserves had been one favourable economic development contributing to more stable financial conditions in the last year, and the consequent reduction in Bank rate by one percentage point to 17% on Friday.

Stals said net gold and other foreign reserves had increased by R1,8bn in January and February. These exclude short-term liabilities.

Economists said the rise in the reserves to their highest level since October 1987

□ To Page 2

Reserves

showed a firm upward trend entrenched in the second half of 1990.

The improvement in February was achieved despite a lower gold price.

Standard Bank chief economist Nico Czypionka said the higher level indicated the capital account was improving.

The debt repaid in February could have been financed by a current account surplus and further leads and lags in trade finance, said Osborn.

The Bank's balance sheet also showed that "other" liabilities surged by 18,7% to

R7,8bn. This could indicate an increase in the Bank's use of foreign bridging finance.

The implementation of the Deposit-Taking Institutions Act in February pushed banks' and building societies' deposits with the Bank up by 16,7% to R2,07bn. Banks and building societies were required by the Act to bring previous off-balance sheet financing back on balance sheet.

Government deposits with the Reserve Bank fell by 68,7% to R4,42bn. Osborn attributed this to government's half yearly payment of interest.

□ From Page 1

OVERSEAS investors and bankers view the political progress and process in this country with approval. President F W de Klerk's initiatives are wholeheartedly supported and the moderate stand of many ANC leaders, including Nelson Mandela, is greatly appreciated.

However, the uncertainties inherent in the dramatic changes give rise to concerns about the future stability of our economic system. And bankers and investors shy away from uncertainty because an uncertain environment creates conditions which prevent risk from being quantified. The lifting of sanctions is unlikely, in itself, to cause a flow of new money into this country. In many countries the provision of foreign finance to SA is not subject to legal impediment and sanction. Even now, bankers in most European countries are free to provide new commercial and syndicated loans to SA entities, and to float bond issues to investors in those countries.

However, since 1985 we have not received any new commercial or syndicated loans of significance, and bond issues are still difficult to negotiate. Since 1985 the only significant successful bond issues were private placements, replacing existing maturing bonds. Even in these instances, only a relatively small proportion of the maturing bonds have been refinanced.

It is easy to speculate as to what conditions gave rise to this phenomenon. The political pressure on investors and lenders of money not to participate in transactions with SA was extremely great. However, that pressure is now on the wane and a more in-depth analysis of financing opportunities for SA is required to fully understand why access to foreign financial and capital markets is still going to be a challenge in the next few years.

It is therefore useful to consider each type of finance available to SA entities and examine the prospects of successful negotiation in respect of each. First, a brief review of the potential of trade finance and project and export finance facilities.

Trade finance is short-term finance provided to facilitate bilateral trade. The risks to the lender are limited due to its short-term nature. Generally the lender merely needs to assess the creditworthiness of the individual debtor and SA for a window of no longer than one year. Given that fairly accurate assessments of this risk can be made, and that SA's trade surplus is indicative of sufficient currency resources to meet repayment obligations, trade finance is generally available.

Secondly, project finance and export credit facilities are also generally available and they relate to capital purchases from a particular country. These facilities are available for essentially three reasons:

- The purchase of capital goods creates job opportunities in the vendor country;
- The quantum of risks of non-payment only grow incrementally, as the credit is generally provided over a period of time. This affords the lender greater protection and the ability to manage his risk; and
- Some form of insurance is generally provided for export credit facilities to the lender in the event of non-payment as a result of "country default".

Unfortunately, given the current

Fears of instability likely to discourage foreign investment

In the second of two articles, Eskom GM (Finance) MICK DAVIS examines the preconditions required for a renewed flow of foreign funds into SA.

Day 11/3/91



discount between the financial and the commercial rand. This gearing is caused because investors can invest via the financial rand and then receive interest/dividends via the commercial rand resulting in effective returns of more than 20% a year.

Those with money to invest in high risk and high yielding securities will probably invest in new foreign currency finance for this country only if they can be offered similar returns. The high return of the financial rand investment is not paid by the SA borrower or investee, but results from the discount between the financial and commercial rand.

Commensurate returns on direct new foreign currency investments would have to be paid by the borrower, as no gearing would exist — both the investment and the payment of the return (in the form of interest or dividends) would be via the commercial rand. If such returns were demanded and offered, the cost of the new borrowings would be prohibitive.

It is likely that foreign lenders, if they are to invest any significant amounts, will require the returns indicated by financial rand investment opportunities until evidence causes them to draw definitive, positive conclusions about this country's future.

SA is competing for new finance with countries in Eastern Europe and South America. Unless the social, political and economic environment is coherent and understandable to potential foreign bankers and investors, and is relatively no worse than that of our competitors for finance, affordable new foreign finance will not have an African address.

It is incumbent upon the business and political leadership to continue to put into place those conditions which will demonstrate to foreign investors an environment which, firstly, they can understand and, secondly, upon which they can base meaningful and favourable medium-term forecasts.

of the debt standstill and abolition of the financial rand are critical factors in our successful return to the capital and financial markets of the world.

to be made available at an affordable cost.

Secondly, severe political pressure from student groups, trade unions, church movements and governments made it difficult, and at times impossible, for overseas bankers to be seen to be doing long-term business with SA or to assist SA borrowers in floating of new bond issues in the overseas capital markets.

The political pressures from 1985 to 1990 are waning, and it is now our future creditworthiness which is the key. Overseas bankers and investors are looking for a political settlement which facilitates a democratic government, free market principles and social harmony and a growing economy. That is not yet certain.

Foreign investors and bankers are nervous about the nationalisation debate, the threat of unrest if sanctions are lifted, the apparent political disharmony among some black political leaders, violence in the townships and their previous experiences in Africa and South America.

So they demand a high return to compensate for their perceived risk. The required return is generally indicated by the returns earned by those who invest in the financial rand. Current interest rates and returns in SA are geared up by the

depressed nature of the SA and world economies, the use of these facilities is restricted.

New finance today can be realised only when commercial or syndicated foreign loans are available or new foreign currency bond issues are possible. Foreign bankers (who will provide the foreign loans) and foreign investors (who will invest in our foreign currency bonds) require certain conditions before they will commit significant new money for investment in SA.

The lack of new money in the latter part of the 1980s did not in itself result from any serious misgivings about SA's ability and willingness to meet its obligations. Indeed, the world financial commentators often remarked on how unborrowed the country was although the repayment structure of existing debt was a cause for concern.

The initial paucity of new foreign finance was caused by two main factors.

Firstly, banks were required to raise provisions against SA debt as a result of the debt standstill. It was therefore impossible for new money

Gold and forex reserves continue to increase (74)

By Sven Lünsche *Staw 11/3/91*

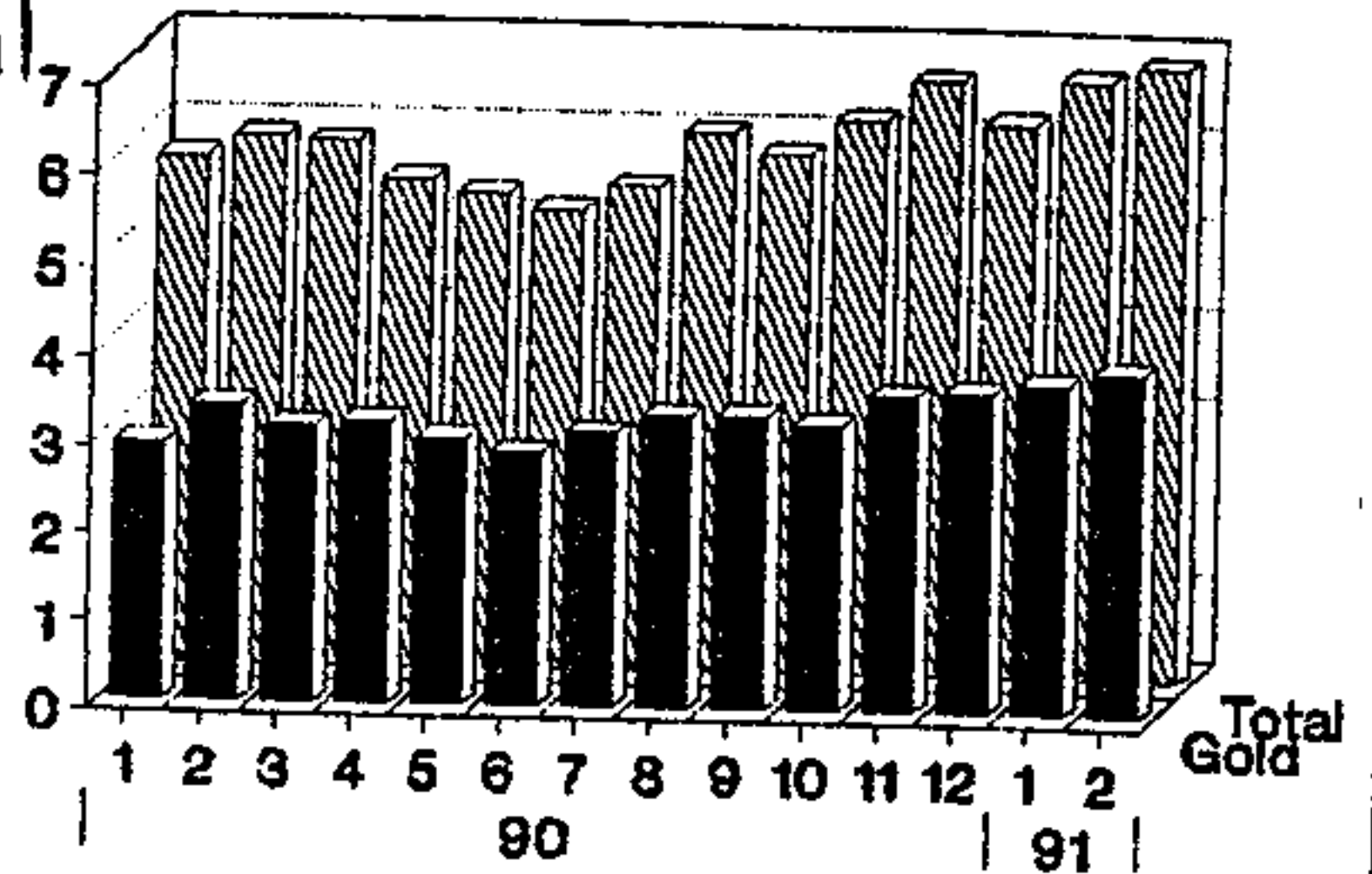
South Africa's gold and foreign exchange reserves in February rose to their highest level since October 1987 despite foreign debt repayments of \$250 million during the month.

Figures released by the Reserve Bank on Friday show that the reserves rose by 2,7 percent from R6,715 billion in January to R6,895 billion last month.

The continued rise in the Bank's holdings of gold and foreign exchange is a strong indication that the surplus on the current account of the balance of payments was high enough to offset the debt payments.

Reserve Bank Governor Dr Chris Stals said last week that South Africa had repaid up to \$400 million of debt inside the standstill net during the first two months of 1991.

Economists also estimate that up to \$300 mil-



lion of foreign debt outside the standstill net was due for repayment last month, but, given the rise in the reserves, much of this could have been rolled over into longer term debt.

The capital account of the balance of payments could have been further strengthened by net capital inflows following the improved political perceptions.

However, these figures will only be available when the Reserve Bank releases its statistics for the first quarter of this

year.

According to the bank's statement, gold holdings in February were up by 4,1 percent at R3,889 billion (R3,738 billion), while the foreign exchange content of the reserves was up by one percent to R3,006 billion, compared with R2,976 billion in January.

In February gold was valued at R829,37 an ounce (R852,96 in January), while the physical stock of bullion rose slightly from 4,382 million ounces to 4,869 million ounces.

Togo delegation in bid to encourage trade links

810 am

12/3/91

KEVIN DAVIE

74

A SEVEN-man delegation from Togo is in SA, the latest of a string of representatives from African countries trying to improve business and trade ties with Pretoria.

The senior team, which includes two ministers and senior industry representatives, is led by Planning and Mines Minister Barry Moussa Baque. The West African country initiated the visit to encourage SA investment in Togo and to increase trade between the two countries.

The delegation met Mineral and Energy Affairs Minister Dawie de Villiers, Foreign Affairs and Trade and Industry department representatives, Safto and several companies including Indian Ocean Fertilisers. The Safto meeting yesterday was attended by businessmen from 25 companies.

The visit is the first from the former French trusteeship, which is rich in phosphates. A Foreign Affairs source indicated Togo was keen to import steel.

"They are keen to promote their export-processing zone at Lome," a Safto source said.

The Francophone Togo has about 3,5-million people. The group arrived last Monday and leaves SA today.

SA taxpayers lose R50m in corrupt deals

PARLIAMENT'S top financial watchdog committee has asked President F W de Klerk to appoint a commission to investigate corruption in the Department of Development Aid.

By DE WET POTGIETER

Dr Gerrit Viljoen, minister in charge of the department at the time of the alleged corruption, said yesterday he was aware of the committee's report, but would not like to comment as the department now fell under another minister.

Police investigations and a probe by the auditor-general over the last two years have unearthed evidence of more than R50-million of taxpayers' money allegedly squandered in corrupt deals between officials and outside contractors.

Parliamentary sources on Friday confirmed that the standing committee on public accounts had at its last meeting unanimously recommended to the president that he appoint a commission of inquiry into the activities of the department, which handles black development affairs.

A committee source said shortfalls uncovered ran into "many millions" and related mainly to housing deals.

The committee's report to the president is understood to also deal with the department's failure to deal adequately with accusations of maladministration and wrong-doing by officials.

Plagued

He said irregularities that came to light while he was minister of the portfolio resulted in suspension of officials and disciplinary hearings. Some cases were referred to the attorney-general for prosecution.

The row has become a political embarrassment for the government. Dr Viljoen, the government's chief constitutional negotiator, was also head of the Department of Education and Training, which a commission of inquiry also found to be plagued with corruption.

S/ Times 2/12/90

co
cr
po
re
fis
sal
the
wa
4am
this
sur
gan
net
abic

Forward cover cost raised

Finance Staff *Star* 13/3/91

The Reserve Bank yesterday raised the cost of forward cover for importers by 0,25 percent in anticipation of a drop in import surcharges during the Budget next week.

The move is an indication that the Bank fears a possible rise in imports when the surcharges are reduced and in the wake of the recent cut in interest rates. The Bank also recent-

ly raised the forward cover to exporters. (74)

Despite the higher cover charges and the firmer rand exchange rate the accumulated loss on the forward book is still in the region of R10 billion, substantially down, though, on the R17 billion loss early last year.

The Bank has stated that its long-term aim is to withdraw completely from the forward cover market.

Govt examines new tariff report

CABINET is said to be reviewing a new trade and tariff report which could result in local manufacturing tariff protection and export subsidies being scaled down.

The Modification of Protection Policy Report's recommendations, which were compiled by the Industrial Development Corporation (IDC) last year, were disclosed by the Financial Mail (FM) yesterday.

The basis of the report was to move industry away from protectionism with the goal of promoting a more competitive market for exports.

The IDC report strongly favoured the Board of Trade and Industry's (BTI's) "structural adjustment programmes" approach to various industries as opposed to the

8/10 am 14/3/91
SEAN VAN ZYL

general export incentive scheme which came into effect nearly a year ago.

The current DTI scheme was said to have already cost taxpayers millions of rands in paid-out export subsidies.

The BTI previously devised structural adjustment programmes for different industries but these were thrown out in September 1989 in favour of the general export incentive programme.

However, the new report's thrust to government was that present tariff protection should be lowered, depending on the different industries concerned, which would in turn result in a more competitive market. Lower import tariffs would also allow manufac-

turers to acquire capital equipment at less cost.

The FM said the report recommended cutting tariffs of more than 40% by 10 percentage points and reducing tariffs of 20% to 40% by five percentage points. (74) (550)

The report also proposed the company tax rate should be brought down to 40% initially and ultimately to a 30% level. It suggested the abolition of the surcharge tax and possibly the phasing out of subsidies.

The report proposed that its recommendations would lead to a switch from a "trade orientation" approach, through which export subsidies are used to offset part of the cost incurred through high protection levels, to a policy of lower export subsidies and import tariffs.

'Economy is on the way back up'

By Derek Tommey ^{STW} 4/3/91

After five bad years during which the net foreign exchange reserves fell to R600 million and the Reserve Bank had to struggle to get foreign assistance, South Africa is at last on the way up again, says Dr Jan Lombard, senior deputy Governor of the Reserve Bank.

He told a meeting of directors of timber

group Yorkcor in Pretoria yesterday that South Africa's net foreign reserves now amount to R3,5 billion and South Africa was no longer invisible to foreign bankers, he said.

However, these bankers and investors want to know "what will be the rules of the game in the future."

South Africa had not publicly debated constitutional affairs since

1910, he said.

South Africans now have to apply their minds to this, because it is not the next election which will be important but the one after that when whoever was running the country would have to make good on their promises.

"South Africa needs to devise a constitution that cannot be overturned by any political party," said Dr Lombard.

High cost of imports sends PPI off course

Star 14/3/91. 74

By Sven Lünsche

The soaring costs of imported commodities will make it difficult to reduce the inflation rate to targeted levels this year.

The Production Price Index (PPI), which measures price rises at the manufacturing level, rose by surprising 1,5 percent on a monthly basis in January, due mainly to the surging costs of imported goods.

Central Statistical Services figures, released yesterday, show that the annual rate of increase in the PPI from January 1990 to January this year was 15,5 percent, 0,8 percentage points higher than the corresponding rate for December 1990.

The PPI for imported commodities rose by a monthly 2,8 percent in January, pushing its year-on-year increase to 18,1 percent compared with a 15,4 percent hike in December 1990.

Economists now fear that a higher import bill could hamper efforts to bring down inflation towards the year-end from its current high levels of 14,3 percent.

The volume and value of imports has picked up over the last three months and this trend is

likely to continue as monetary policy slackens off and import surcharges are eased.

A reduction in import surcharges is expected to be announced in next week's Budget.

"The lower surcharges and a likely deterioration in our terms of trade in the near future could force a significant rise in the PPI over the next few months," says Mike Brown, economist at Frankel Max Pollak Vinderine.

Import surcharges

However, he added that it was unlikely that the Finance Ministry would withdraw its decision on import surcharges, as this was an essential part of its longer term strategy.

Volkscas economist Adam Jacobs told Sapa the increase in the PPI, coming in the wake of an economic downswing, with no excess demand and with the rate of increase in money supply slowing down, was a major disappointment.

Mr Jacobs warned that if the inflation rate cannot be brought down this year with the relatively improved economic conditions in the country, it would be more diffi-

cult next year. The exchange rate, for instance, was unlikely to remain stable in 1992.

Economists were at a loss to pinpoint an exact cause for the steep rise in imported commodities, which has a weighting of around 22 percent of the total PPI, particularly as the rand held steady against most major currencies over the month.

Bankorp economist Emile van Zyl said that the rise in the "Other mining and quarrying" index (mainly oil imports) alone contributed 0,2 percentage points to the monthly 1,5 percent rise in the PPI.

In January the Government boosted its oil stockpile by almost R1,3 billion through purchases on the international market, but Mr van Zyl believes that the actual price paid was significantly higher than the current level of around \$18 per barrel.

On the domestic front the prices of food products dropped on average by one percent during January, but this was largely offset by large increases in electricity, gas and water prices, which are usually increased in the first month of the year.

**Govt debt
at R90bn**

15/3/91
GERALD REILLY

PRETORIA — Government has spent itself into massive debt which rose from R21bn at the end of 1981 to about R90bn at the close of 1990, says Pretoria Afrikaanse Sakekamer chairman Robbie Schilz.

Speaking at the chamber's annual meeting last night, he said government expenditure was rising faster than the increase in the growth rate so that the state's involvement in the economy in the past decade increased from 21% to about 30%.

An analysis of state spending showed that current expenditure particularly had risen strongly while capital spending dropped in real terms in the past few years by 25%.

To finance the increased spending, taxation was increased. At the same time government borrowed more and since 1984 had borrowed to help finance current expenditure, pushing the debt to R90bn.

SA's economic growth rate between 1981 and 1989 was a mere 1,2% a year.

He said salaries and wages, after adjustments for inflation, rose more sharply than production in the eighties.

Friday, March 15 1991

ort

'Growing by leaps and bounds' **Cross-border trade** **now R10bn a year**

CM. Tink 15/3/91

74

Own Correspondent

JOHANNESBURG. — SA's total trade with Africa amounts to almost R10bn a year and is growing in leaps and bounds, says Department of Foreign Affairs deputy director-general (Africa) Rusty Evans.

In a paper on the growing importance of cross-border liaison, Evans says that markets are being developed far and wide. Trade with Zaire has trebled in two years and Madagascar has opened up.

Non-bank investments in Africa are about R4bn.

There is no reason, he says, why trade with Madagascar

could not quickly match trade with Mauritius, which is more than R300m a year.

However, if the sub-continent is to hold its own in an increasingly competitive world, cooperation has to continue and accelerate.

"It is essential for the region's survival that we share resources and present a large, dynamic and stable market to the world.

"This would undoubtedly attract investment from abroad, without which southern Africa cannot survive", Evans says.

The surge in SA exports to Africa was attributed to government's reform initiatives.

In a report last month,

Foreign Minister Pik Botha said that SA's trade with Africa had almost doubled in the past two years, and SA would open up at least three new missions this year in countries where growth in trade was increasing most rapidly.

Safo Africa specialist Paul Runge said last week that with a few exceptions, all sub-Saharan countries were now open.

In recent months SA has hosted business delegations from Nigeria, Guinea-Bissau, Burundi, Zaire, Angola, Mozambique and Madagascar.

Representatives from 14 African states are meeting SA business representatives in Swaziland at present.

Mineral sales and exports

By Sven Lünsche *Star* 15/3/91

Sliding international mineral prices and the firmer rand trimmed SA's mineral sales and exports by almost 15 percent in real terms last year.

Provisional estimates compiled by the economics department of the Chamber of Mines show that SA mineral sales are expected to total R38 billion in 1990, virtually unchanged from sales in 1989.

However, with inflation averaging 14,4 percent last year the industry recorded a substantial decline in real output per value.

Of last year's total sales, 77 percent, or R29 billion, were exported. Excluding gold, which is sold almost exclusively overseas, the percentage of exports to total sales fell to 55 percent.

Gold exports last year dropped by 4 percent in nominal terms to R19,3 billion, but coal sales improved by 10 percent to R7,9 billion.

Among other mineral sales, copper plunged 16 percent to R1,1 billion, but iron ore surged 34 percent to R1,1 billion and other strategic minerals rose by 2,4 percent to R4,9 billion.

The Chamber says that the decline in international mineral prices was not offset by a simultaneous drop of the rand against the dollar, in which most exports are quoted.

The Minerals Bureau's SA Commodity Export Price Index (CEPI) reflects the rapid decline in international mineral prices.

From January 1990 to February this year the CEPI in current rand terms has fallen by nine percent. In dollar terms the decline was eight percent, according to the Bureau's latest Bulletin.

F M 15/3/91 74

RESERVES

UP AND UP

Thanks to the stability of the rand against the US dollar (roughly R2,56/\$ at the end of February 1990 and 1991) the value of reserves has grown by \$368m in 12 months.

"In the past," says Senekal Mouton & Kitshoff economist Leon Steenkamp, "the problem has been that while reserves could be increasing in rands, the weakening rand meant the figure was falling in terms of international currencies. That situation has started to improve."

Official reserves were up R180m (\$70m) in February (over the previous month) to just under R6,9bn (\$2,7bn). Most of the increase came in the gold category, which rose R151m (\$59m) to almost R3,9bn (\$1,5bn), as the Reserve Bank added 306 000 oz to previous holdings of 4,4m oz.

But the higher volumes were partially offset by a decrease in value from R853/oz

(\$333) to R829/oz (\$324). Forex was up R30m (\$12m) to R3bn. Though there have been ups and downs in recent months, the trend is clearly upward — reserves are R1,7bn above last year's June low and up R950m from February 1990.

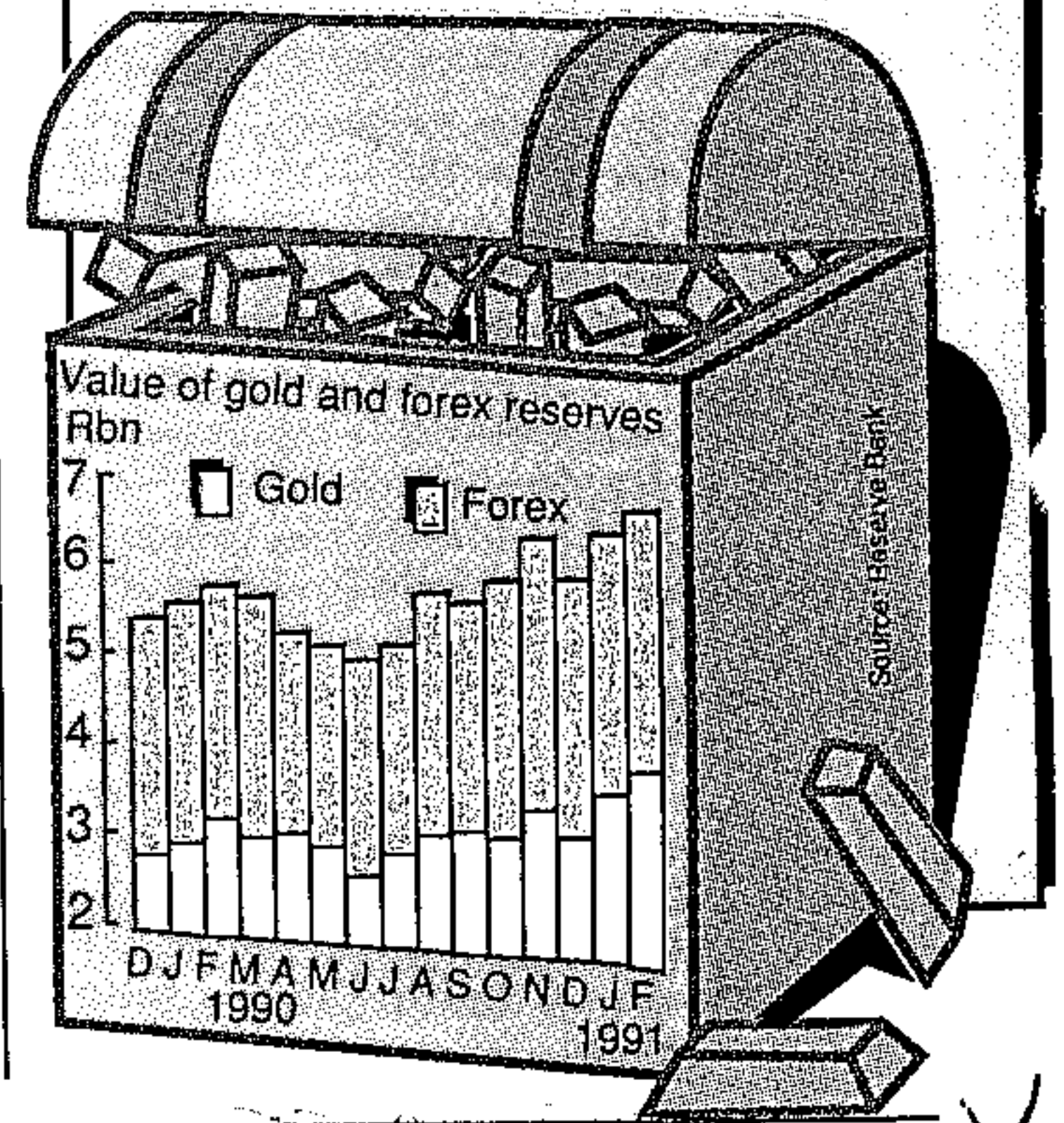
Steenkamp says the results are especially encouraging in light of the \$160m (R412m) debt repayment in February. "Together with the R180m increase, that means a R600m inflow. It contributed to the Reserve Bank's decision to lower interest rates.

"Most of the increase was probably short-term trade finance, but I believe that in addition to a monthly trade surplus, there were some long-term inflows."

But he points out reserves are still only sufficient for 1,86 months of imports — with the cash component covering 0,81 months — well below the internationally accepted three months.

"Still, I think the underlying trend was sufficiently strong to allow a relaxation of monetary policy," says Steenkamp. ■

Reving reserves



Star 15/3/77

Foreign funds essential for economic-growth generation - Parsons

By Michael Chester

34

Sound foundations to a new constitution were crucial if South Africa hoped to attract the flows of overseas investment needed to cope with the ambitions of the post-apartheid era, the Institute of Bankers was told in Johannesburg last night.

SA Chamber of Business director-general Raymond Par-

sons said it would be impossible to generate the faster economic tempo that was necessary unless new injections of long-term capital flowed in from abroad.

Without foreign funds, the annual growth rate of gross domestic product would be trapped at a ceiling of 2,5 percent at best - "far too low to meet the needs of our population".

It was less than half the

5 percent growth estimated as essential to hold the lid on unemployment, let alone handle new reform programmes.

"Any new constitution must inspire trust and confidence, not only internally but also abroad," Mr Parsons said.

"International investment flows will gravitate on a large scale to countries which are profitable. The degree of future

foreign participation in the South African economy is crucial to our growth prospects.

"Foreign investors will have to be satisfied that a new political system gives them security over and above a return on their capital - and that a new constitution makes sound economic management of the country feasible.

"Ideally, we want a constitu-

tion which guarantees that even if your worst political enemy came to power, your basic rights would be safe," he said.

Businessmen were urged to play an active role in the negotiating process and in shaping the debate - "to look at a new constitution through economic spectacles, without usurping the task of political scientists and constitutional lawyers".

Safex rebuts criticism of its operations

THE article in last week's Saturday Star, on alleged woes in the SA Futures Exchange, reflects serious misconceptions.

When the personal wealth of individuals is entrusted to brokers in a financial market, that market must offer the greatest protection to its investors and we commend any effort to further this cause. All we ask for from our critics is accuracy and objectivity.

When Safex started, no trading costs were added at the volumes that then existed. But a decline in volumes means either trading costs must be increased or the Exchange must reduce its expenses.

We have temporarily increased fees until current rationalisation can take effect, when they will be reduced as volumes permit. How, then, can Safex be said to have introduced "huge" regulation costs, and how would an unregulated informal market have reacted differently?

We have reduced our staff complement to 14 competent individuals to run the Exchange and Clearing House — a modest operation by any standard.

Regrettably, in the early days we were compelled to invoke one of the harshest provisions of our rules and place into default a member we had inherited from the informal market. However, clients

STUART REES Star 14/3/91.
**Chief executive,
SA Futures Exchange**

who were in the futures market at the time will be recompensed in full.

It is ridiculous to suggest that the Exchange be held responsible for clients' liabilities outside the futures market.

The trading floor was motivated by its stockbroking members and sufficient Safex members (including non-JSE brokers) agreed to a presence on the floor and accepted the cost of its construction. It was not built at the whim of Management, or the Executive Committee! The cost was, in fact, low by world standards. The Sydney Futures Exchange floor, for example, cost R40 million.

At R3,4 million the floor here was intended for both bond and futures trading — the proportionate cost of the latter being about R1,7 million or about R2 million with Safex's own cost. The cost of the floor will be met by those who originally required it and committed to a presence on it and no one else will be expected to carry any part thereof.

The failure of the floor resulted from the coincidence of factors, including the

rejection of a clearing system for the bond market, the brokers' reluctance to leave the equity floor and the depressed state of the financial markets.

Unfortunately the publicity surrounding the floor has harmed perceptions of the Exchange. The public should be aware that a trading floor can be, and these days often is, replaced by a computer system. At Safex, futures trading continues very effectively through the computerised screen mechanism.

Safex's Clearing System was developed for the Exchange at a software cost of about R750 000, including hardware — hardly a "huge cost" for a system that has consistently delivered on time to its clearing members.

Safex adopted a very conservative approach when it budgeted for volumes that would remain at their 1989 levels, namely 3 000 contracts a day, and accusations of fanciful predictions are most unfortunate. In fact, volumes on all markets declined and Safex followed suit.

The removal of DRS, the diminished role of the Cape Investment Bank, and the knock-on effect on the own-account volumes of other players was the single most significant factor in the decline in futures trade that occurred in November.

To ascribe the decline in volumes solely to a loss of confidence in the futures market is a gross distortion of fact. Institutions are entering the market and even Unit Trusts are now able to participate.

I challenge the relegation of SA's financial markets to insignificance. In no financial market, bonds, options or stock market, does the "Third World component" play a significant role. However, all these markets function successfully and the same applies to Futures.

Despite claims about the disinclination of foreign investors, there has been much interest overseas, where investors hold SA shares of a substantial value. Such investors are in the habit of using futures in their risk management and are likely to do the same with their SA shareholding. The lifting of sanctions should reinforce the trend.

Naturally, the level of non-resident participation will only become evident once the necessary mechanism has been approved by the SA Reserve Bank, and the process is already well underway.

●The original text supplied by Mr Rees has been edited. The full text is available from Safex, which has established a toll free hotline query service (080-01-31300).

Civil service wage bill 'may hit new high'

6/10/91 18/11/91
GERALD REILLY

PRETORIA — Almost a quarter of government spending in the new financial year will go to paying the 760 000 central government and provincial workers, estimates show.

This would bring the total pay bill to a record figure of more than R20bn.

Economists say government spending in the 1991/92 financial year will amount to about R85bn.

It will cost more than R4bn to pay the 180 000 own affairs personnel alone.

Economists estimate government revenue in 1991/92 will be no more than R75bn — leaving a deficit before borrowing of about R10bn.

Volkskas chief economist Adam Jacobs said a disturbing trend noticeable in recent state revenue figures was that collections were shrinking, possibly because of taxation and the slide in company profits and the gold mining industry.

DP finance spokesman Ken Andrew said dismantling own affairs structures could save R700m

MONEY MATTERS



Jane Mdaki displays a dress designed by a Fed member.

Fed gives jobless a skill base

By SOPHIE TEMA

A DURBAN organisation which teaches unskilled and unemployed adults to run their own cottage industries has opened a branch in Johannesburg.

The Foundation for Entrepreneurship Development (Fed) is a non-profit organisation which depends on private sector support for its survival.

Directors of the organisation said support during the five years of its existence had come mostly from overseas.

This week two sponsorship cheques were handed to Fed - one for R25 000 from the German government and the other for R8 000 from the Ithuba Trust.

The contributions will be used for the extension of the organisation's services in squatter areas around Johannesburg.

The Get Ahead Foundation has also made loans available to Fed graduates to start their own businesses.

Fed hopes to open other training centres throughout the country, where the unem-

ployed will be taught business and sewing skills.

Fed executive director Dr Dennis Wolmarans said the shortage of sponsorships has restricted the Foundation to running programmes in the clothing-related field.

"But with further funding the programmes could be extended to other fields like carpentry, leatherwork and welding," he added.

Wolmarans said the Foundation was also working towards presenting youth development programmes if the necessary sponsorship could be made available.

Investors on the run

MONEY TALK

THE surge in prices on the Johannesburg Stock Exchange last year, just before the release from prison of ANC deputy president Nelson Mandela, was generally interpreted as being due to foreigners buying shares in South African companies because of confidence in the country's future.

A review of the past year's trading figures on the JSE, however, reveals that foreigners have been selling South African shares.

What apparently happened was that many South African investors bought shares through London.

This mistaken "foreign" buying encouraged local confidence and, in a happy merry-go-round, prices surged and gave foreigners an opportunity to offload South African shares at handsome prices.

Foreigners have been disinvesting through the stock exchange for more than five years and there seems no end in sight. (Press 17/3/91)

Unfortunately, South Africans are not allowed to invest on overseas stock markets due to the shortage of foreign currency and the resultant Reserve Bank restrictions.

Because everybody is chasing the same shares, prices continue to rise, creating an impression of a strong market.

Why are foreigners disinvesting?

Economists and stockbrokers say the main reason is lack of confidence in the political future of South Africa. Another is militant trade unionism in the country and the declining productivity and competitiveness of our industries.

International confidence in our ability to manage the country politically and economically must be restored, because it is now clear that foreigners are not backing their political views with hard cash.

Differing interest policies might affect dollar

DIVERGENT interest rate policies in the US and Germany might influence the trend of the dollar during the next few weeks. The operative word, however, is "might", because in recent weeks the dollar has consistently ignored fundamentals as forex markets continued to back the bolting US bronco.

The Bundesbank, the German central bank, is expected to raise interest rates under the threat of what the Union Bank of Switzerland (UBS) terms "virulent inflation", while in the US pressure is mounting for a further rates cut.

Ironically these diametrically opposed policies have similar basic problems: high levels of unemployment. In Germany, unemployment in the west is easing, but in the east it is rising sharply. But in the US unemployment is escalating at a faster rate than had been expected.

In the normal course of events, the dollar should have lost ground last week when the US employment data were released because it indicated that the economy had not shifted to-

wards the expected post-Gulf war recovery. Parenthetically, I feel that the Americans have been expecting too much, too soon, from the economy.

However, the unfavourable figures halted the dollar's upward flight only momentarily. It recovered some of its losses but since then the dollar appears to be pinned within a definite, but wide, range.

Market sentiment, as usual, can be expected to sweep aside fundamentals. The UBS says that investors can be expected to make additional purchases whenever the dollar shows signs of weakness. It was sentiment that jacked up the dollar when the unemployment data were released.

And it will be sentiment which might sustain the dollar when German interest rates rise and those in the US ease.

The technical analysis from First National Bank (FNB) says that this week's key pivot is the intermediate bull channel support at DM1,6920. A drop below this level will see a lower high being made, breaching

8/24/91

HAROLD FRIDJHON

DM1,6790 and possibly creating a new low below DM1,6680.

It is interesting to note that yesterday the dollar opened in Europe at DM1,6940, slipped to DM1,6728 and was trading around DM1,6695. The FNB forecast range for the week, DM1,6680-DM1,700 is identical to that of UBS. Standard Bank (SBSA) agrees with the DM1,66 low but reaches up to DM1,72. If the dollar goes as high as DM1,72 it will penetrate the top of the FNB's present bull channel.

While dollar strength and Deutschmark weakness have been the features of foreign exchange markets in recent weeks, a less-publicised development has been the strength of sterling within the European Monetary System (EMS), says SBSA. Only a couple of weeks ago, sterling was the weakest member of the EMS group of currencies. This

severely constrained the ability of the UK authorities to relax monetary policy, but the recent Deutschmark weakness has enabled the pound to move to the top of the EMS band where it is second only to the Spanish peseta.

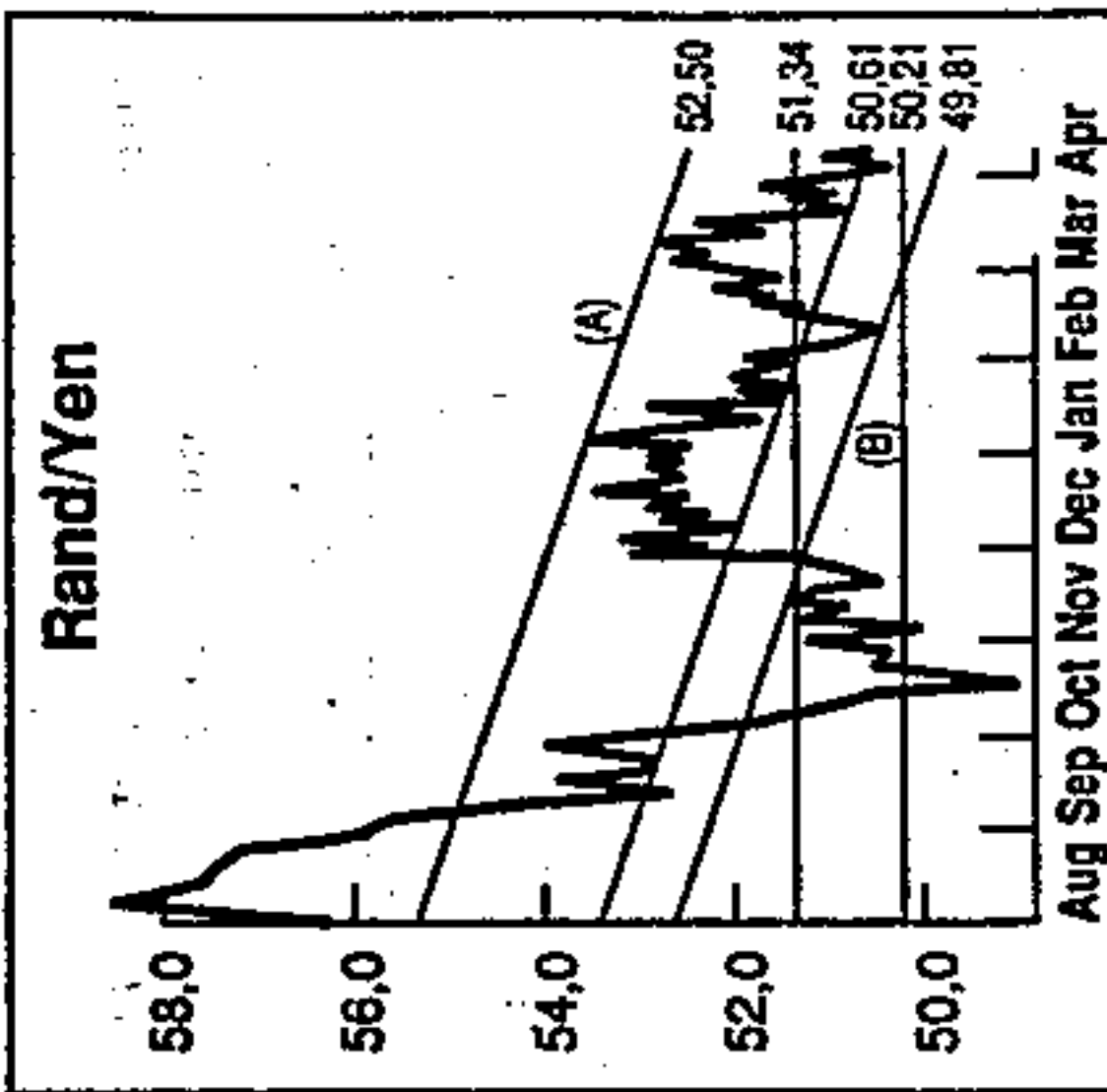
This has greatly increased the UK authorities' freedom for manoeuvre to lower interest rates and next week's publication of the UK inflation rate for March may provide just the opportunity for this to be done.

The rand, last week, was able to take advantage of the correction in the value of the dollar and appreciated by 1.59% against the US unit. As is usual at times of dollar weakness, however, the rand lost some ground against the major third currencies. Most notable was the rand's weakness against both the yen and the Swiss franc.

Local interest in the yen has been heightened by the current visit to SA of a Japanese trade delegation.

Our graph this week shows that since the beginning of the year the

yen has been strengthening against the rand which has been in a well-defined bear channel demarcated A and B. Last week it breached the intermediate channel support at 50,61 yen but it did not reach the lower 49,81 yen base. It appears to be coming to rest at 50,21 yen. If it breaks lower the next resistance line is 49,81 yen.



Graphic: FIONA KRISCH Source: TELEFRAC

COMPANIES

Big export volumes put KWV ahead

Biday 9/14/91

LESLEY LAMBERT

CAPE TOWN — Bigger export volumes and better prices in overseas markets helped KWV achieve a record growth in turnover last year.

In its 1990 annual report, the wine producers' organisation reports that continued growth in the export volumes of natural white wine and grape juice concentrate and better prices in overseas markets contributed significantly to a 43,5% increase in net income to R50,1m.

Growth in bulk sales of brandy and other spirits to domestic wholesalers also contributed to the record rise in net income.

The annual report shows how the improvement in foreign perceptions of SA has benefited the industry over the past two years. Considerable growth in export volumes achieved in 1989 was followed up by a 43% rise in volumes last year.

On the marketing side, KWV entered new markets, identified a number of new foreign buyers and established associations with long-term potential, KWV directors report.

"Besides improved terms of payment, a diversification of buyers was established,"

they say in the annual report.

The successes achieved in the natural white wine and grape juice concentrate sales enabled KWV to increase bonuses to producers of these products by almost 400%. 74 V82

But, the directors cautioned that remaining handicaps in the economy, such as inflation and high interest rates, as well as the sanctions which were still in effect, were curtailing growth in exports.

The shortage of red wines, particularly cabernet sauvignon, was another cause for concern in a sanctions-free market, the directors said.

And domestic sales of quality wine could slow down this year as a result of a sharp increase in purchases by wholesalers last year. "This trend confirms the cyclical purchasing patterns of the wholesalers, which create problems for the industry, both in terms of good wine production planning and an irregular cash flow," the directors said.

Safto plans reciprocal trade mission to Japan

81009 9/4/91

THE fact-finding mission by Japan's most powerful business organisation, Keidanren, to SA later this month is being seen as a sign that relations between SA and Japan will soon change.

The visit has prompted Safto to organise a mission to Japan within the next three months. "We feel the timing is now right," Safto international division manager David Graham said yesterday.

Japanese senior consul Yoshinobu Hiraishi said the mission could influence and form a basis for the Japanese government to review its policy on SA, currently under review, in a more sophisticated manner.

He said the purpose of the mission was to learn about recent developments in SA, particularly in the political field, in order to evaluate the prospects of future economic relations.

Graham said that because the Japanese private sector and government co-operated so closely, the visit to SA must have had the Japanese government's support.

Department of Trade and Industry director general Stef Naude said the Keidanren delegation was further proof of the normalisation of relations taking place with SA since President F W de Klerk's historic speech on February 2 1990.

Keidanren, or the Japanese Federation of Economic Organisations, represents vir-

ZILLA EFRAT

tually all branches of economic activity in Japan. It is regarded as having a significant influence over the Japanese government's policy formation.

While it represents the business community's interests, Keidanren also undertakes private diplomacy to resolve international problems in conjunction with similar business organisations overseas. Easing trade frictions is a major concern.

Naude said it was no secret that up until 1987 Japan was SA's top trading partner. "This visit by some of the most influential business leaders in the world must therefore not only be viewed against the background of the profound political changes taking place in SA, but also the major restructuring of the economy.

"There is a determination to put SA on a new growth path based on sound fundamentals and this visit by Keidanren is indeed further encouragement."

The mission, to arrive in SA on April 20, would include representatives from trading companies and probably manufacturers and would be led by Bank of Tokyo vice-president Tamotsu Yamaguchi.

Hiraishi said while meetings would be arranged with different sectors of the economy, schedules had not been finalised.

Brazil and SA are ideal partners for trade tango

B|D ay 7/4/91

SA and Brazil may be rather similar societies. Perhaps we should consider what we have in common and begin to think about how our countries could interact.

I do not wish to be naive about the prospects. Both our societies and our economies tend to look northwards to the US or Europe, and to our own immediate regions. The concept of a "southern Atlantic region" involving Brazil, Argentina and southern Africa is still very much an abstraction. Equally, however, we should remain open to possibilities of interaction which might be mutually enriching. We are, after all, not too far away from one another.

We have Portuguese-speaking neighbours in Mozambique and Angola and both South America and ourselves will be interacting much more with them in the future. We also have a very large Portuguese-speaking community in SA. Some people estimate it to be the largest foreign-language group in the country. Portuguese South Africans have brought nothing but benefit to our country.

We have similar levels of technology and both of us make goods for which there are potential markets in each other's countries. In terms of tourism we complement each other. We can offer each other contrasts

THE SA government's reforms have removed any possibility of returning to minority rule or apartheid. New expectations have been created, laws have been removed — we have passed the point of no return.

What we need is more support for the process from the outside world. If we can put together the basis for a strong economy after the end of our present recession, crime will fall, white insecurities will reduce in scope and development initiatives could expand to address black grievances more adequately. I believe that will occur as well.

In any event, I may venture to say that both Brazil and SA know that successful democracy, with sustained growth and increasing prosperity, are not merely a matter of rolling out the reforms and opening the taps of political freedom. These things are necessary, but they are not sufficient conditions for successful societies.

I would like to make a very broad prediction. Just as Brazil has resolved many of its political problems and probably knows a great deal today about how to address its economic problems, so will we, with bumps, deviations, crises and controversy, solve our political and economic problems. In five to 10 years,

ting small black farmers on the land and I know of no more successful small farmer in the country than the Portuguese-speaking market gardener. Brazil must have a great deal of experience to impart to us in the field of rural development.

Although it is a vastly bigger than SA, with a population in the region of 135-million versus our 35-million, there are some striking similarities between Brazilian society and ours. We are closer to it, in economic terms, than we are to most African countries: like Brazil, our major trading partners are in Europe and North America — and increasingly, the Far East. Like it, we have a GNP per capita in the range of \$2 000, and we too are experiencing very high rates of urbanisation, with all the problems and opportunities that this brings.

It is such similarities that lead me to believe there is much we can learn from each other. Over the past 25 years, despite the problems Brazil has faced, it has grown twice as fast as SA, measured in terms of GNP per capita and GDP.

Both nations, after having an inward-looking economy for many years, are preparing to break out into international markets more aggressively. If we look at the total import/export figures for SA and Bra-



□ VON SCHIRNDING

zil, we can see that there is considerable room for improvement in trade between our two countries, now that the artificial restrictions imposed by apartheid are ending.

Although there is much that is different between our societies, there is also much that is shared, and can, and should, be built upon to expand contact, business and interchanges of all kinds.

SA Foundation director-general KURT VON SCHIRNDING is visiting Brazil. This is an edited extract from a speech he made to commercial associations in Rio de Janeiro and Sao Paulo.

and impressions and experiences new and different to those of Europe. Our two countries are likely to experience shortages of investment capital for a long time to come. We are both competing with the capital-hungry countries of Eastern Europe. For this reason joint ventures and co-operation in establishing new products and processes cannot be ruled out.

Above all, perhaps, we share certain very similar development problems. We both need to expand formal housing opportunity for the very poor. In SA we have more than 4-million people living in shacks, just as Brazil has problems of development in the favelas. Perhaps we can learn from each other about strategies for the rapid development of housing infrastructure for the very poor.

In SA we are about to begin set-

LETTERS

SA image improves overseas . . .

KWV gears for higher exports

APPL TINTS 8/4/91 (74) [Handwritten initials]

By AUDREY D'ANGELO
Business Editor

KWV — which lifted export sales by 42,8% in 1990 — has drawn up action plans to boost them further as perceptions of SA improve overseas, the directors say in the annual report.

And it expects export earnings to improve as changing circumstances make it possible to sell more branded wines overseas.

"Full-price branded wine exports will obviously earn considerably more revenue for the producer than bulk commodity exports."

KWV's annual meeting will be held in Paarl this morning. And there are likely to be fireworks, because some wine farmers have accused the giant co-operative of competing with its own members in the domestic market.

The annual report, issued yesterday, says KWV's own sales of brandy and other spirits to domestic wholesalers showed firm growth in the past year.

"This was brought about by the growth in the market and wholesalers replenishing their stocks.

"The producers' sales of good wine to wholesalers increased by 18,8% in 1990 whereas sales of natural wine to the retail sector and the public rose by about 2% over the period.

"The conclusion drawn from this is that the wholesalers' working stocks have increased, which could lead to reduced producer sales in 1991.

"This trend confirms the cyclical purchasing patterns of the wholesalers, which create problems for the industry both in terms of good wine production planning and an irregular cash flow."

Discussing improved prospects for exports the report says: "Following the changing attitude of foreign buyers with regard to SA brands, a start has already been made with the introduction of a higher profile advertising and publicity programme in various countries.

"As political pressure eases further in foreign markets, KWV sees a great potential for further expansion of brand product exports from SA.

"To make full use of these changing circumstances, several action plans were drawn up in the year under review and some

have already been successfully implemented."

However, the report warns, high inflation and interest rates "continue to jeopardise exports. Furthermore the shortage of red wines, particularly Cabernet Sauvignon, causes concern in view of the expected sanctions-free market."

Discussing the domestic market, the report says the unfavourable exchange rate of the rand to the £1 helped sales of SA brandy by pushing up the price of imported spirits.

"It became apparent that the consumer was more price conscious during hard economic times.

"The brandy market showed a reasonable growth for the second successive year. Brandy sales increased by 4,5%. Competition among the various brands is strong, particularly in the premium and standard price categories."

In addition to this, the report says, "overall sales of natural wine showed an increase of almost 2%. Sparkling wine continued its good sales of the previous year, with an increase of 8%. This, however, was from a relatively small base."

time comes, by the appropriate line function Minister. There is the closest liaison between these two investigations in order to make sure that we arrive at the right kind of objectives.

The conclusion of this whole question is this: The idea was not to put something else in the place of the bread subsidy. *Answer 9/14/91*

Mr K M ANDREW: Pocket the money. [Interjections.]

The MINISTER: Mr Speaker, I am busy with a serious discussion such as this, and one gets this kind of childish, facetious remark, then one wonders about the integrity of the question in the first place. [Interjections.]

†The ACTING SPEAKER: Order! I must just bring it to the hon the Minister's attention that the time for the answering of questions has already been exceeded.

†The MINISTER: That suits me, Mr Speaker, thank you very much. [Interjections.]

†The ACTING SPEAKER: Order! If hon members continue to waste time in this way, we shall never get through the Question Paper.

Business interrupted in accordance with Rule 180C(3) of the Standing Rules of Parliament.

Reserve Bank: foreign exchange losses

*18. Mr L F STOFBERG asked the Minister of Finance:† *Answer 9/14/91*

- (1) What, as at the latest specified date for which figures are available, was the total amount (a) of foreign exchange losses sustained by the Reserve Bank and (b) made good or voted to the Reserve Bank out of public funds by the State since such such losses had first occurred;
- (2) (a) in what way and (b) when is it proposed to make good the exchange losses incurred by the Reserve Bank on behalf of the State? *Answer 9/14/91*

B543E

The MINISTER OF FINANCE:

- (1) (a) Audited balance due by the Treasury as at
31 March 1990 — R15 139 995 640
Unaudited balance due by the Treasury as at
28 February 1991 — R10 290 037 174

HOUSE OF ASSEMBLY

(b) Losses reimbursed to the Reserve Bank by the Treasury as approved in the respective annual budgets:

20 July 1983	R 892 343 749
13 January 1986	R 654 651 064
21 December 1989	R1 000 000 000
27 December 1990	R3 000 000 000
Total	R5 546 994 813

- (2) (a) As legal appropriation by Parliament. *Answer 9/14/91*

(b) Policy regarding this matter is continually revised. The official viewpoint was elucidated in the 1990/91 Budget Review, which was tabled on 14 March 1990. The latest trends are contained in the 1991/92 Budget Review.

New questions:

Criminal Procedure Act: section 205

*1. Mr P G SOAL asked the Minister of Justice:

- (1) whether, in the light of the public concern at the conviction of a certain person (whose name has been furnished to the Minister's Department for the purpose of his reply), he is considering reviewing section 205 of the Criminal Procedure Act, No 51 of 1977; if not, why not;
- (2) what (a) are the circumstances surrounding the conviction of this person and (b) is his name; *Answer 9/14/91*
- (3) whether he will make a statement on the matter? *Answer 9/14/91*

B585E

The MINISTER OF JUSTICE:

- (1) There can be no doubt as to the justification of the procedure set out in section 205. The objective with this section is to compel persons who are in the possession of evidence pertaining to an offence but who do not want to reveal it to the police, to furnish the information under oath. This section is applicable to each and everyone in order to ensure that justice is done. Society expects that where its interests outweigh personal interests, that there should be a duty on everyone to testify. The community has an interest in the disclosure of information which may lead to the bringing to task of a guilty

person. It is, however, understandable that certain persons may, for various reasons, choose not to disclose that which they have seen or that which they became aware of. It cannot, therefore, be doubted for one moment that this section must be applied with the greatest caution.

I have a sound appreciation for the necessary role the media has to play when they have to bring important information to the attention of the public. However, one should always strive to maintain a balance between the different interests. On the one hand journalists would for understandable reasons wish to protect a reliable and trustworthy source, but, on the other hand, justice should also prevail. Wigmore states as follows:

"When the course of justice requires the investigation of the truth, no man has any knowledge that is rightly private."

The public has a right to the evidence of each and everyone. This has indeed been an accepted principle for more than three centuries. Where any person, and that includes a journalist, has evidence at his disposal which will serve the cause of justice, there rests a moral duty on him, in the interests of society, to place that information at the disposal of the law. That journalists may face certain problem situations is evident from the work of Kelsey Stuarts', 'The Newspaperman's Guide to the Law, Fourth Edition, Chapter 19.

Due to the sensitive nature of this section, I initiated an amendment during the course of 1990, which was discussed with interested parties and which was placed on the Statute Book during the present Parliamentary session by means of the Criminal Procedure Amendment Act, 1991 (Act No 5 of 1991).

In order to prevent any random use of this section and to confine it to those cases where it is actually necessary, the authority to request that a person appear before a magistrate for questioning, is now vested in an attorney-general whose objectivity and judgment have always been above suspicion. Furthermore, a savings

provision has been added to the section to the effect that a person instructed to appear on a particular date before a magistrate for questioning and who furnishes the required information prior to the said date to the satisfaction of the attorney-general or authorised State prosecutor, his appearance before the magistrate will no longer be required. This creates a mechanism enabling the person concerned or someone else with a material interest in the matter to enter into a discussion with the attorney-general concerned. The information required may then be the product of negotiation.

An opportunity is also afforded to the person involved to inform the attorney-general of the reasons for his disinclination to make a statement and the attorney-general may in turn inform him as to why the information is regarded as being important.

I am of the opinion that the amendment I have referred to addresses this issue satisfactorily. This amendment was discussed with, *inter alia*, the Media Council of South Africa and has its approval. During consultations during March of this year, the Media Council and individual legal representatives accepted that section 205, in its amended form, should remain on the Statute Book and that this mechanism should be at the disposal of the State in appropriate circumstances. Certain proposals pertaining to administrative co-operation in the event of media involvement, which, *inter alia*, contain a closer interaction between the attorney-general and the interests of the media, have been made. These proposals are at present receiving our attention.

- (2) (a) and (b) Mr Patrick Laurence was subpoenaed to appear before a magistrate in terms of section 205 of the Criminal Procedure Act, 1977, for questioning in respect of certain allegations made by him in "The Star" of 12 February 1991. At his appearance before the magistrate on 5 March 1991, Mr Laurence refused to answer a question put to him, namely to identify the source of his allegations, whereupon he was sentenced to ten days'

HOUSE OF ASSEMBLY

THE WEEK AHEAD by William Richards

Reserves are likely to keep on growing

B/day 8/14/91
 DESPITE the lacklustre gold price last month, the level of SA reserves for March should show another increase when it is published — probably tomorrow. Indeed, another rise in reserves from the February level of R6,9bn is set to take the total above R7bn for the first time in four years.

The underlying strength of the reserves position was highlighted in the impressive February figure, which rose from the January level of R6,7bn despite a substantial foreign debt repayment. Reserves levels in the first quarter of this year will probably continue to reflect the near-record current account surplus in the fourth quarter of last year. At almost R10bn the surplus was the second-largest ever posted, bettered only by the almost R12bn recorded in the fourth quarter of 1986.

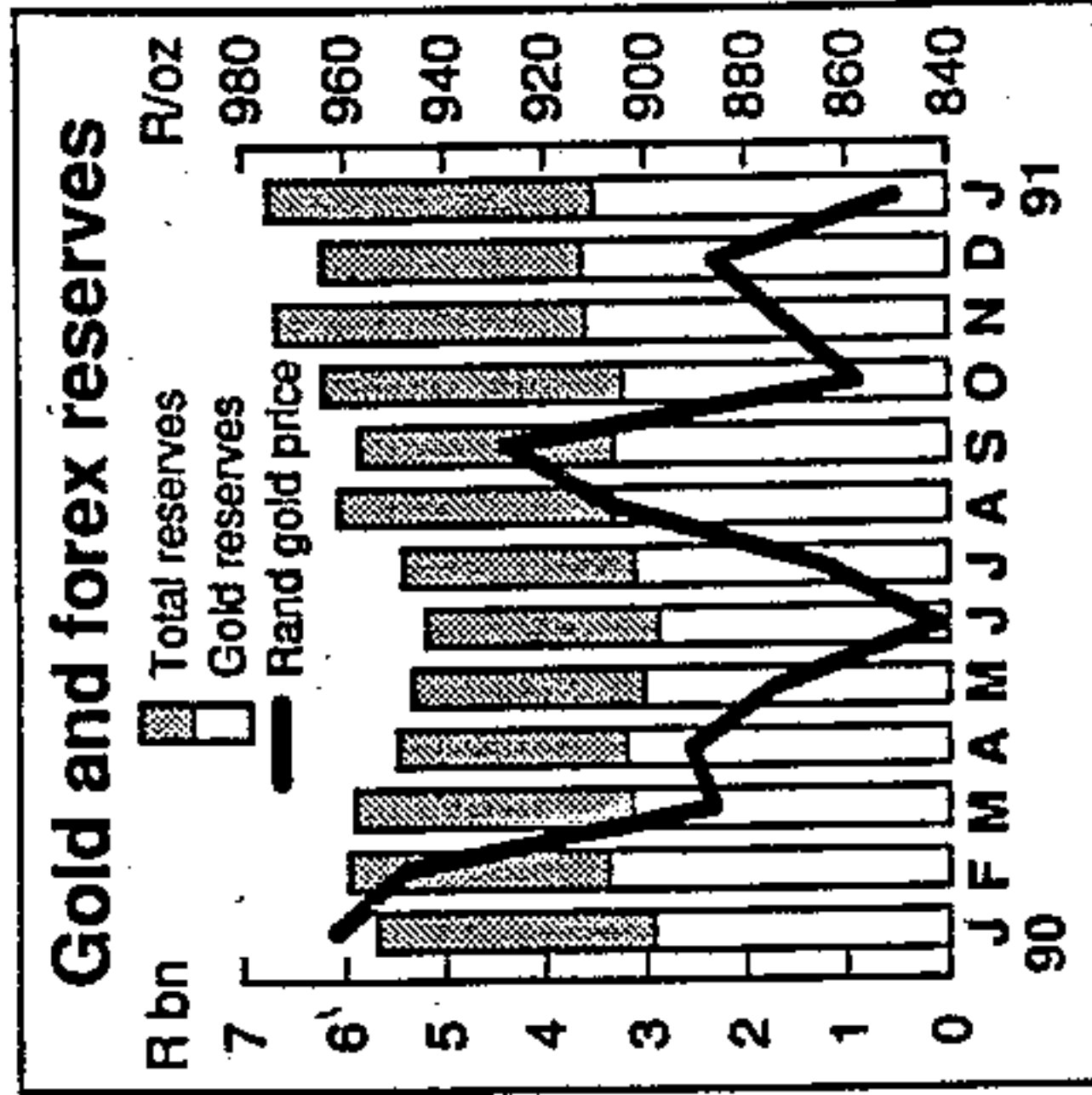
The reserves performance so far this year indicates an improvement in the capital account, which recorded a net outflow in the third quarter. The reversion to capital outflow was, however, attributable to debt repayment and to fewer trade credits rather than to capital flight. The opening of Parliament speech and the acceleration in the reform process seen in the first quarter should restore a net inflow of capital, and an improving reserves level should be the telltale sign of renewed inflow.

Militating against an improvement in re-

erves is the performance of the gold price. Since the coalition victory in the Gulf war at the end of February and the reduction of international tension, gold has looked understandably weak. The gold element of the reserves, valued at 90% of the month's last 10 London fixings, is likely to have been lower last month than in February. But higher physical gold holdings may still offset a lower valuation.

SA's trade balance for March is due for publication at the end of the week, probably Friday, and should show little deviation from February's comfortable surplus of R1,7bn. Volatility in the oil price during the lead-up to the Gulf war and during the campaign itself led to shadowy oil deals and to one-off distortions on the unclassified trade accounts in recent months. Oil's relative stability since the end of the war at levels below \$20 has restricted profit opportunities and means volumes in the unclassified sectors should stabilise at lower levels.

The March trade figures will be too early to reflect any uptick in consumer spending arising from the cut in SA interest rates announced early in the month. Imports, therefore, are likely to remain subdued, as befits the trading pattern of an economy in its sixth consecutive quarter of contraction. Similarly, the cut in the import surcharge announced in the Budget will have come too late to show up in the figures.



Graphic: LEE EMERTON Source: SA RESERVE BANK

Internationally, the statistical highlights also come late in the week in the form of the UK and US inflation figures for March — both due out on Friday. Of the two, the British figure is the more influential as it will probably lead to another cut in UK interest rates. The last half-point cut in UK base rate, to 12,5% last month, was made in the context of a very small fall in the annual inflation rate, to 8,9% in February from 9% in the year to March.

A bigger fall in the UK inflation rate — to, say, below 8,5% — on Friday would enable the Treasury to cut base rate to 12%. This would have political and economic repercussions, as another half-point cut in base rate soon after the inflation figure would prompt building societies to trim mortgage rates from May 1.

Lower mortgage rates would be announced in time to benefit the Conservative government in the local elections due a week later.

Coal exports set to fetch higher prices

74

STW
8/4/91

By David Canning

DURBAN — Contract prices for coal exports to Europe will rise by up to eight per cent this year, in line with the diminishing political stigma.

At the same time, domestic deregulation from April 1 means that Transvaal coal producers can now sell their products in Natal, and vice versa.

Mike Salamon, managing director of Genmin's Trans-Natal Coal Corporation, said in a telephone interview from London at the weekend that South African steam coal producers selling into Europe had negotiated 1991 contracts at prices on average three to eight percent higher than those of last year.

In contrast, other producer countries' European contracts had been around 1990 levels, meaning that European consumer countries generally recognised that South African coal was under-priced last year, he said.

South Africa's Far Eastern contracts on average have been at similar prices to those of 1990, although Japanese prices have been reduced.

Moreover, the stronger rand thus far for 1991 meant that net earnings from coal exports to Europe had been much the same as those of last year, despite slightly higher dollar prices. These could, however, improve with the weakening rand.

As part of the Government's three-to-four-year deregulation process, announced early last week, major producers who owned and exported through the Richards Bay terminal were already gearing up for a 20 per cent increase in exports over the next couple of years, he said.

He said the first R316 million phase of the Richards Bay project would increase the terminal's capacity from 44 million tons to 53 million tons a year by the end of 1991 — although it would take longer to reach this figure owing to the need to expand rolling stock and other facilities.

Eventually the terminal's capacity could reach 80 million tons a year.

Mr Salamon said the market would have to be watched closely to assess the impact of removal of restrictions on the sale of Transvaal coal in Natal, and vice versa.

However, he believed the relaxation was unlikely to make much difference because of high transport costs.

He said overall deregulation of the coal industry had a number of distinct aspects.

The first, a couple of years ago, flowed from the Competition Board ruling against producer cartels.

The Transvaal Coal Owners Association was consequently disbanded in 1988.

Mr Salamon said while abolition of the export quota system meant new exporters could get into the market, the going would not be easy.

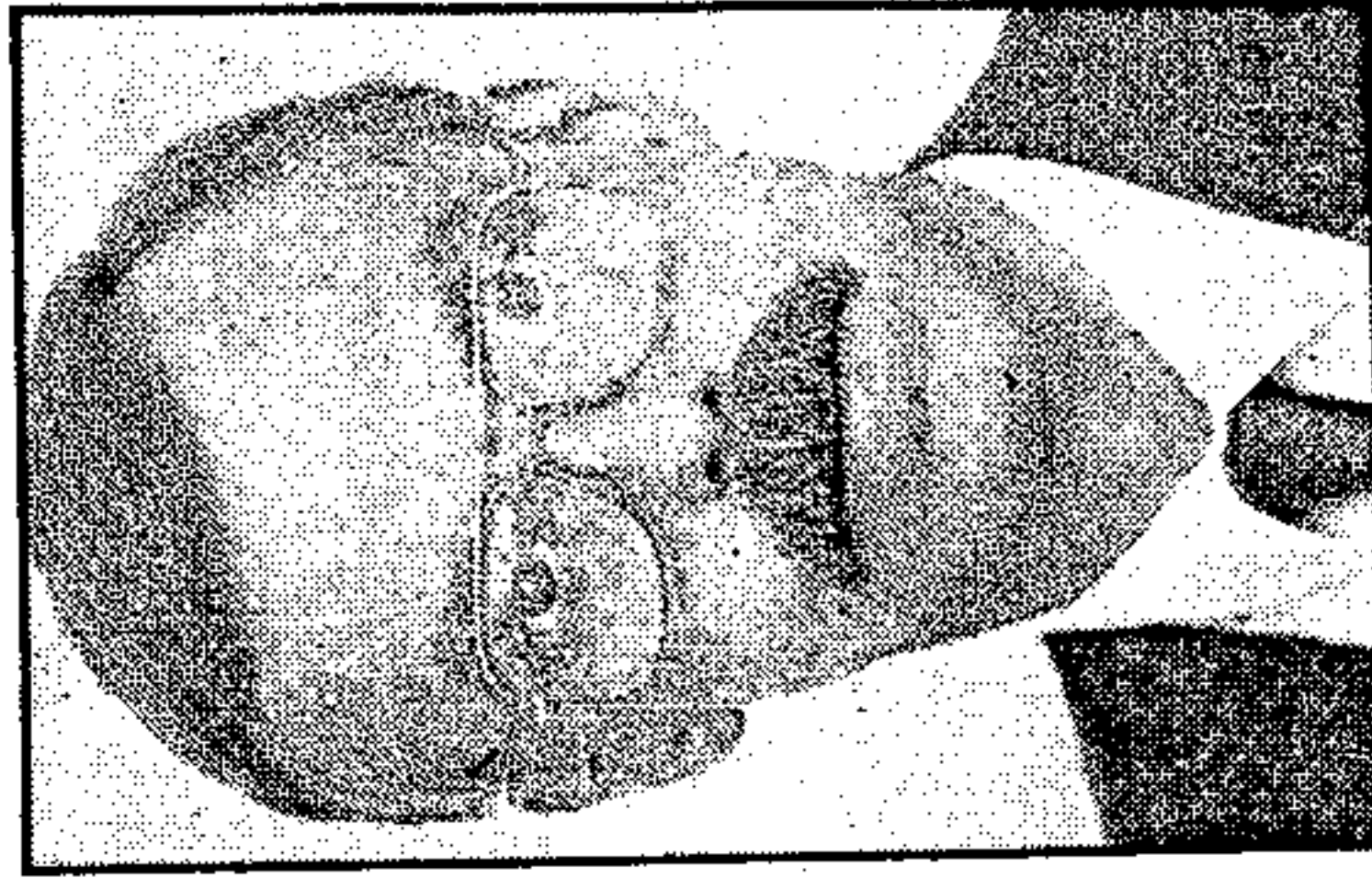
Other producer countries would fight back. South Africa already had a 26 percent stake of the world steam coal market.

They also would have to find export facilities through Durban, Maputo or elsewhere.

The Richards Bay terminal was built and is owned by private enterprise and is working at full capacity.

Equity in the terminal is owned by the former export-quota holders in proportion to their share of the phase three quotas.

In other words, Trans-Natal, which has a quota for 9,3 million tons, holds 21 percent of the equity.



Mike Salamon... export growth likely to be steady and healthy

Despite the deregulation measures, Mr Salamon stressed that export growth was likely to be steady and healthy, but not phenomenal.

He said the world market was already slightly oversupplied, sanctions were still in place in many countries and would-be new South African exporters would have to secure terminal facilities.

Optimism over SA-Hungary trade

TRADE relations with Hungary have started to take off and are set to grow in the future, a member of a Hungarian delegation visiting SA said yesterday.

In August Hungary and SA signed a bilateral trade agreement, and permanent missions are being opened by both parties in each other's country. Hungary is also participating in the Rand Show for the first time.

Bela Szentmary, a member of Hungary's Ministry of International Economic Relations and of the delegation visiting SA, said yesterday that since August direct foreign trade between the two countries had amounted to \$1m. But he believed the total figure was closer to \$5m.

Speaking at a Webber Wentzel seminar on Hungary, Szentmary said of the \$1m trade recorded, about \$760 000 related to Hungary's exports to SA. However, this balance could

Blom 5/4/91

ZILLA EFRAT

change as Hungary had now reduced the need for import licences.

He added that large contracts were being signed between companies in both countries — one a \$3,5m deal between Telkor and a Hungarian enterprise for a telephone system.

Liberal

Commenting on her recent visit to Hungary, Webber Wentzel partner Leora Blumberg said Hungary had been trying to create a stable and attractive environment for foreign investors.

The investment laws of Hungary were particularly liberal, aimed at protecting investors and allowing flexibility and versatility.

However, Blumberg warned there were risks for companies investing in Hungary and that caution should be

exercised and research done before embarking on any new venture. "The Hungarians were not used to capitalism, and there will undoubtedly be growing pains."

Szentmary said special tax allowances were available for joint ventures with Hungarian companies and the government had approved an investment fund which offered investment incentives.

Another delegate, Andras Janossy of the Hungarian Bearing Works said while the Hungarian market was a rather small one in the world's eye, some Western partners were seeing it as a new way into the Soviet market.

In the past, 50% of Hungary's trade had been with Comecon countries. This had fallen to 28% last year — with exports to developing countries growing 22% — and was expected to drop further this year as payment obstacles were reduced.

SA trade party to ⁷⁴ visit USSR in June

By Mark Suzman *SAW 4/4/91*

South Africa's first trade delegation to the Soviet Union in more than 50 years will depart in June to seek closer links between the two countries.

The delegation, led by the SA Foreign Trade Organisation (Safto), will hold discussions with a range of Soviet businesses while visiting Moscow and Leningrad. It will also visit Helsinki.

The trip was planned by Safto general manager for international operations David Graham, who recently visited the Soviet Union.

According to Safto, 39 SA companies, involved in such diverse activities as banking, chemicals, mining, technology services and foodstuffs, have expressed interest in joining the delegation.

Recent Soviet press reports have been enthusiastic about potential trade with SA, suggesting that SA might provide consumer goods, medicines and glassware in exchange for products such as civil aircraft, and mining equipment.

Mr Graham is optimistic about potential trade expansion, suggesting this is only the first of many discussions.

Most kreef, perlemoen eaten abroad

Cape Times 3/4/91

By ANTHONY JOHNSON

MOST of South Africa's sea food delights — crayfish and perlemoen — are finding their way on to foreign plates, and into foreign tummies.

In recent years, up to 90% and more of these marine delicacies caught in South African waters have been earmarked for the export market, the Minister of Environment Affairs, Mr Louis Pienaar, disclosed yesterday.

Replying to a question for written reply from the Democratic Party's environmental spokesman, Mr Rupert Lorimer, the minister said that in 1988/89 95,3% of the South Coast rock lobster catch had been exported. In 1989/90 the figure dropped to 91,4%.

In 1988/89 75,2% of the West Coast rock lobster catch was exported. The following year this figure climbed to 76,8%.

In the case of perlemoen, or abalone, 84,7% was exported in 1988/89, and 90,9% the following year.

Mr Pienaar said that 6 933,7 tons of rock lobster (tail and whole) was exported from 1988 to 1990. A total of 1 119,3 tons of abalone was exported during this period.

The Department of Environmental Affairs did not keep export statistics for other types of fish, he said.

● Kreef crisis brings boats to False Bay — Page 5

Dollar's ranging performance 'will continue'

B/Dow 2/4/91

THE US dollar is ranging. Yesterday it touched a low of DM1,6610 before sweeping up to DM1,7010. At the time of writing it shed just over half-a-penny to 1,6938.

Bankorp's GM of the foreign treasury Koos von Ettinger believes this ranging movement of the dollar will continue for a week or two. He feels that it could drop to DM1,65 or even lower to 1,62 before resuming its strong upward movement.

The temporary decline is, as he puts it, a normal correction evident in every bull movement. "No price goes up in a straight line. Corrections are sellers taking profits with new buyers coming in at lower levels, restoring momentum."

Von Ettinger, who is a buyer at 1,65, says there is a strong head of steam in the market and he feels that the next surge will take the US currency up to DM1,72, that is decisively through the next resistance level of 1,7088.

Von Ettinger's gut-feel is supported by the technical analysis produced by First National Bank (FNB). The drop in the dollar from DM1,7088 to 1,6684 is the first significant cor-

rection since the dollar was trading at its low around DM1,4430 this year. But the bull channel base at DM1,6358 has been tested. This means there has been a minor correction within an overall bull trend with a key support level at 1,6358 and a key resistance at 1,7088.

The mid-level at 1,6358 is what technical analysts term a daily pivot. A close above this level sees the formation of a higher low which is bullish for the dollar. A close below tests an intermediate support at DM1,6479.

Some commentators feel that expected bad US economic fundamentals, such as an increase in the unemployment numbers due to be published this week, will act as a rocket-jet on the upward flight of the dollar. But this is no certainty.

The recent string of unfavourable US economic data has not put a brake on the dollar, which has soared despite the fundamentals and lower interest rates. Speculative markets go where the money goes and at present there is only one front-runner in the currency markets.

HAROLD FRIDJHON

The once dominant Deutsche Mark is out of favour because its future is far less certain than that of the dollar. The gut-feel is that the mark has only had vibes and fewer prospects, while the dollar is being propelled by the hope that happier days lie ahead.

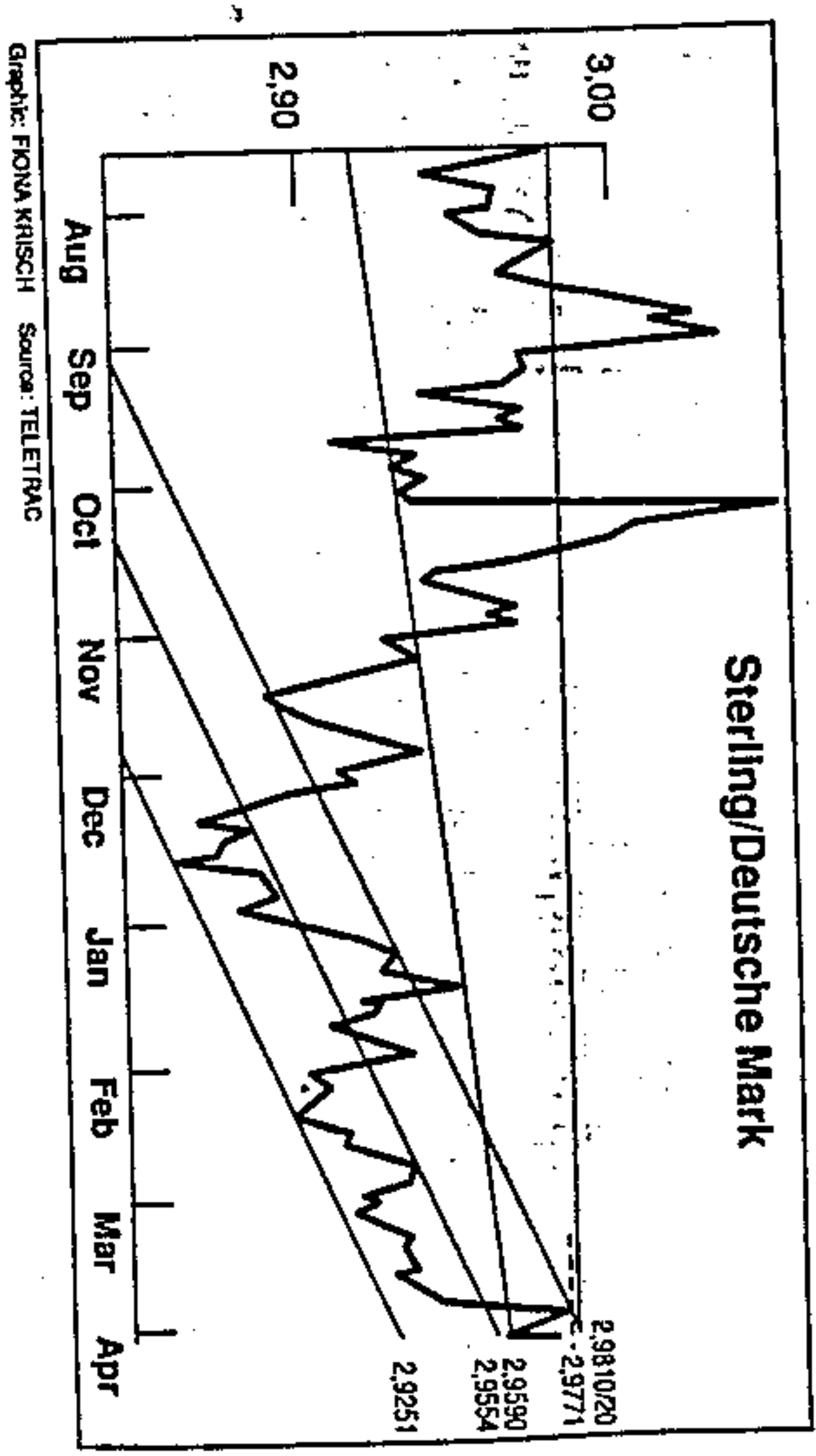
Germany is part of a Europe in disarray. Unification is putting a tremendous strain on German resources, financial and economic, which will not be eased for a couple of years. And Germany is too close to a disintegrating Russia for foreign investor peace of mind.

Even the pound, with all Britain's serious economic and social problems, is showing strength against the mark. As the graph shows, sterling began to improve last December and has been crawling its way up the slippery slope of recovery ever since — with occasional setbacks. In its last burst of strength it

soared through DM2,9590 and tried to penetrate 2,9810/20 which, to quote FNB, has a history from July/August last year. Any penetration above this critical level suggests an assault on the DM3 level.

The current bull support is DM2,9590. If the pound crashes through 2,9771 it would seem that it is on its way. Against the dollar the rand has im-

proved marginally, but on the trade-weighted index, based on a basket of the currencies of SA's major trading partners, the rand has plucked its way out of the depths of 29,50 index points and appears to be in the comfort zone of 30,00 points. Although dollar strength continues to hold back the rand, the local currency is performing favourably on the cross-rates, sterling excepted.



Graphic: FIONA KRISCH Source: TELETRAC

From the main text
See Page 4

Banks get go-ahead to hedge on gold

THE Reserve Bank has confirmed that it has given banks authorised to deal in foreign exchange the green light to transact gold-hedging operations on behalf of SA mines.

To date, mines have dealt directly with the Reserve Bank, which in turn allowed them to effect their hedging transactions through foreign bullion banks like Deutschebank or Morgan Guarantee.

The effect of this move, the result of requests by SA banks, will be to widen the scope for SA gold mines to hedge their output, while allowing the banks to offer them locally developed instruments priced in rands.

The banks understood to be in the forefront of the new development are Rand Merchant Bank, Standard Merchant Bank, Finansbank and Investec.

However, the Reserve Bank authorisation comes with three key constraints: these operations may not be speculative, they may not be done for the banks' own account and they must be subject to Reserve Bank approval.

B/D ay 2/4/91
ROBERT GENTLE

Rand Merchant Bank (RMB) consultant Sean Llewelyn said that RMB had been devoting considerable resources to this end for almost a year, and had started to develop the necessary systems as far back as 1987.

He said that RMB had already made contact with potential client mines to which it hoped to offer expertise in option-type strategies priced in both dollars and rands.

"Foreign banks at present offer only products denominated in dollars. We aim to provide significant improvements and more flexibility."

Llewelyn estimated the potential hedging market at about 250 to 300 tons of gold annually — about half SA's total output — although he said this ultimately depended on how much gold the Reserve Bank allowed SA mines to hedge.

Each mine is examined on its merits,

To Page 2

Hedging

but an accepted rule of thumb is that profitable mines may hedge up to 25% of their input, while marginal mines may hedge up to 100%.

A commonly held view in the market is that mines, irrespective of their profitability, should be free to determine their hedging needs.

A spokesman from the Reserve Bank's gold and foreign exchange division said:

From Page 1
"Whenever a mine has a commitment offshore, we will examine the case on its merits."

Ian Benfield, divisional manager at Anglovaal — the SA mining house in the forefront of hedging techniques — said: "We could use local banks."

"It all depends," he said, "on whether they can offer us something we cannot already obtain through our international contacts."

Plenty to whine about as Barend ups dumpy duty

Star 2/4/91
THE increase in excise duty on beer was disgraceful discrimination against the drink of the black man and the working man as a whole, the managing director of South African Breweries' beer division, Graham Mackay, said after Mr du Plessis had presented his Budget speech to Parliament.

Mr du Plessis announced a 3c increase in the excise duty on a beer dumpy, but no duty was levied on unfortified wine.

"I have no problem with the wine industry," Mr Mackay said "Our criticisms are aimed at the Minister of Finance."

He said South Africa's biggest beer producer was a victim and that the Government, in imposing such a heavy levy, was simply taxing what the traffic could bear.

Precisely, is the view of Daan Colesky, Commissioner of Customs and Excise at the Department of Finance.

He said he could understand that the beer industry wanted to achieve maximum sales, but the Government was faced with the problem that it had to generate revenue, for various social needs, by increasing taxes.

"People won't stop drinking beer, though. Any decrease in sales will be temporary."

He said the increase should not have come as a surprise to the beer industry; all that was unexpected was that the in-

74
In his Budget speech, Finance Minister Barend du Plessis proposed an increased excise duty of 3c on beer dummies, but wine was not taxed at all. Why this apparent discrimination?
JACQUELINE MYBURGH reports.

crease was substantially higher than last year's increase of 1c.

The Government was deliberately targeting a successful product for extra taxes, Mr Colesky said.

The beer industry had a large consumption and should be expected to make a contribution to the State coffers.

The decision to increase the excise duty on beer by 20 percent — about 5 percent higher than consumer inflation — was made for a number of reasons:

- It offered the Government much revenue because it was a buoyant industry with a large volume of sales.
- The International Monetary Fund had commented on the fact that excise duties were relatively low compared with other countries in the world and recommended that the Government should at least increase duty to keep pace with the producer prices of the articles.

Mr Mackay insists that his industry is a victim of discrimination and that the Government was taxing productivity.

"We have an impeccable pro-

duction record and attract the tax because the common view is that we can afford it."

He said beer had about 55 percent of the market share and contributed between 75 and 80 percent of the excise.

What he describes as the drink of the working man was being ignored in the interests of expediency, and excise-tax equality was not being served at all, by not taxing wine.

There was no animosity between the beer and wine industries, Mr Mackay said, because their markets varied.

"Excise-tax equality is not being served at all — any way you look at it."

Mr Colesky insisted that South Africa was in step with other wine-producing countries who did not levy excise duties on unfortified wine, targeting beer and spirits instead.

There had been a duty of 3 percent on wine until 1982, when it was abolished.

Mr Colesky said natural wine was regarded as a natural agricultural product, and therefore not taxable, and that tax on the industry would not have done it any good. □

Merchandise boosts the BoP

S/Times 31/3/91 (74)

MERCHANDISE exports helped to carry the fourth-quarter 1990 current account surplus to its highest since 1986, says the Reserve Bank.

The seasonally adjusted and annualised surplus reached R9,7-billion, bringing the total for 1990 to R5,7-billion — 86% higher than 1989.

Standard Bank group economist Nico Czipionka says the huge increase in the unclassified category, which includes weapons, oil and platinum, contributed to the one-off boost on the current account of the balance of payments.

Mr Czipionka says: "The other categories increased and are performing well given the current world economy which is still showing serious recessionary trends.

Scissors

"Commodity prices will be sluggish for some time, but South Africa is beginning to reap the peace dividend and export volumes are surging as sanctions disappear.

"For the first quarter of 1991 I expect a seasonally adjusted annual current account surplus of about R5-billion."

The stronger current account in the fourth quarter was the result of a record high in the value of merchandise exports and a "substantial decline in imports", says the Reserve Bank.

This scissors movement in the last quarter of 1990 meant that the value of exports exceeded that of imports for only the second time since 1962, measured quarterly.

Merchandise exports for the fourth quarter were worth R45,5-billion, bringing the total for the

By DIRK TIEMANN

year to R42,3-billion — up 8,4% over 1989.

Imports in the fourth quarter fell to R42,1-billion, bringing the total to R44,1-billion. This figure is only 0,5% lower than 1989's, although the decline between the third and fourth quarters totalled 10% to R42,1-billion.

Net gold exports for the year were 6,4% lower in 1990 than 1989 at R18-billion.

The volume of merchandise exports in 1990 was 6,5% higher than in 1989 and the average annual rate since 1984 was slightly more than 10% in spite of sanctions.

Import volumes in 1990 fell by 4% over 1989. The decline from the third to the fourth quarter of 1990

was 14,5%.

The ratio of merchandise export earnings to gross domestic product has risen from 11% to 16,1% in the past seven years. This means the rate of increase in the value of exports exceeded the nominal growth in gross domestic product.

Interim

The negative balance on the capital account has made current account surpluses essential for maintaining debt repayments.

There was an outflow of R1,8-billion in the fourth quarter after the third quarter recorded a net inflow of R1,5-billion.

The total 1990 net capital outflow not related to reserves amounted to R2,9-billion, "smaller than anticipated". The long-term outflow in



NICO CZYPIONKA: Peace dividend

the fourth quarter was mainly because of debt repayments outside the net. The outflow of short-term capital reflected a decline in trade credit.

December was also marked by the repayment of \$100-million in terms of the third interim debt deal. The long-term capital outflows represent repayments outside the net on bearer bonds, notes and debt inside the net that was converted to medium-term loans outside the net.

RINGING UP EXPORT SALES

74
 FM 29/3/91

Industry, in its struggle to wrench itself away from decades of import replacement and instead focus on exports, has a ready model in Richards Bay-based Bell Equipment.

Family owned Bell derived 40% of its R350m turnover last year from exports. It expects to top R1bn in turnover by 1995, with exports accounting for around 80%. The company, which makes earthmoving and haulage equipment and other types of heavy vehicles, won the State President's Award for Export Achievement in November.

MD Gary Bell is confident that this ambitious target can be reached; major sales promotions are being launched in the US, South America and Africa.

Bell's father, Irvine, started Bell Equipment 25 years ago as an engineering concern with a staff of eight. Gary Bell took over in 1983 and today the company employs about 1 500 people in SA and 180 abroad.

In the US, sales of Bell's new articulated dump truck, marketed through branch operations in five southern states, jumped 30% last year. The company recently opened an office in Miami to market its cane loaders and haulers in the Caribbean and South America.

With a boom in the Chilean timber industry expected, Bell also has opened an office in Santiago; the company sees big sales ahead for its timber-handling equipment. Apart from timber and sugar, mining and construction developments in Chile and Peru

offer lucrative sales opportunities.

Exports have been booming for some time. "Over the past four years we have doubled our export turnover each year and we expect this pattern to continue," Bell says.

The company emphasises service, which

Bureau of Standards have helped.

Bell says the combined effort has helped the company to grow "at more than double the rate of its 20-odd competitors offering imported products in the local market."

And the company's philosophy of maximum local content, Bell says, has opened its eyes to opportunities worth billions in the local market.

"The age-old excuse that local market volumes are insufficient to warrant investment in plant is no longer plausible for most products, certainly in our industry. Manufacturing technology has changed and is advancing at such a rate that small lot-size production is now the key to modern manufacturing systems."

What advice can he offer local manufacturers?

"There are incredible opportunities available — in profitable niche markets and elsewhere. Go for your area of expertise and expand into the world market — you do not need to be in the hi-tech area to

make big profits. Start off small and expand from there as you build up expertise in design, manufacturing and marketing."

In marketing, Bell adds, it pays to keep your ear close to the ground. In Africa, for example, the foreign aid streaming in creates a built-in market for SA goods that can meet African demands. Marketing, he feels, is too important to be left to someone else. "We do 95% of our own marketing here and overseas — only 5% of our products are sold through dealers."



Bell . . . moving heavy vehicles abroad

few SA companies do. But another important factor in its success is its emphasis on local design, which has kept down costs and profit margins up. "From the outset we decided that, rather than rely on technology from abroad, we would go it alone in terms of product development. We save money on licence fees, royalties, administrative and consulting fees, and warranty costs by using local design."

Local bodies such as the Council for Scientific & Industrial Research and the SA

Favourable opportunities for foreign investors

Southern
28/3/91

74
~~74~~

HUNGARIAN companies are showing great interest in doing business with South Africa.

This follows the recent establishment of commercial relations between the two countries.

This was the message of Hungary's Minister of International Economic Relations, Professor Relá Kadar, in an introductory brochure on this Central European country, which is being distributed to top South African businessmen.

The brochure also announces Hungary's first participation in the Grand Rand Show at NASREC near Johannesburg starting from March 30 to April 14.

Kadar said that his country, which experienced radical changes last year, had opened its economy to the world market and offered extremely favourable op-

By JOSHUA RABOROKO

portunities to local businessmen.

"Hungarian legislation provides favourable opportunities for foreign investors, offering them in some instances, up to 100 percent tax concessions.

"They can freely transfer their profits out of Hungary."

He said foreign investors were showing increasing interest in Hungary.

"Today, over 5 000 joint ventures - including one from South Africa - are already in Hungary. Almost 90 percent of them commenced their activities in 1990."

The establishment of trade relations between Hungary and South Africa in August 1990 and the opening of permanent and trade

missions in Johannesburg and Budapest would promote further ventures.

He was confident that mutual interests would bridge the geographical distance between the two countries,

and hoped that Hungary's exhibition at the Rand Show and the personal talks with the country's businessmen would arouse South African interest in entrepreneurial opportunities offered by Hungary.

FW's advisers back economic strategy

blow 28/3/91
THE President's Economic Advisory Council (EAC), the country's most influential economic policy body, has accepted key aspects of a report which proposes the drastic restructuring of SA industry.

The EAC's revised long-term economic strategy, which was released earlier this week, gives the rubber stamp of approval to a confidential report by the Industrial Development Corporation (IDC) which recommends sweeping changes to make SA industry more competitive internationally.

The acceptance of key IDC proposals by the EAC and the inclusion of its recommendations in its new long-term strategy represent major progress towards the implementation of the report. The EAC consists of leading businessmen and has significant influence on government.

The EAC was briefed by the IDC on its report, the Modification of Protection Policy, in October.

In its long-term strategy document, the EAC says the highest priority has to be given to increasing the economic growth potential and real growth performance of the economy to create more jobs.

In accord with the IDC report, the EAC says current protection policy is subject to serious shortcomings and requires major reform. EAC recommendations which con-

form with the IDC approach include:

- Establishing a system of protectionism based on factors which determine SA's competitiveness in foreign markets;
- Protection will have to accommodate tariff adjustments within the General Agreement on Tariffs and Trade (GATT);
- Excessively high tariffs which increase domestic costs and restrict exports should be reduced;
- Constant revision of import tariffs;
- Protection should be selective and linked to economic performance;
- An effective system of anti-dumping should be put in place;
- Infant industries should be offered protection only if they exploit competitive advantages and will become self-supporting.

Export policy, says the EAC's document, should ensure that competitive advantages are utilised. Opportunity costs of export promotion have to be evaluated continuously, and local beneficiation and processing should be promoted to be able to export more value-added commodities.

It will be necessary, it adds, to apply stringent cost-benefit accounting to programmes considered of strategic interest.

● Comment: Page 14

Fruit exports surge

By AUDREY D'ANGELO
Business Editor

EXPORTS from Cape Town harbour rose by 33,3% in February compared with the same month last year. They totalled 258 189 tons compared with 193 753 tons in February last year and 227 125 tons in January.

A spokesman for Portnet said yesterday: "We expect this upward trend to continue."

Deciduous fruit from Western Cape farms accounted for a large part of the increase. Figures issued by Portnet financial and statistical services show fruit exports rose by 44% between April 1990 and the end of February this year, to 1 128 319 tons compared with 782 822 tons the previous year.

A spokesman for United Fruit Co-operative (Unifruco), which markets the fruit overseas, said this was partly due to the fact that the crop had ripened earlier this year.

"We are still in the middle of the season but indications are that it will be a bigger crop than usual."

"All our fruit kinds are moving through the ports now but we have just started picking Granny Smiths, which are our biggest apple export."

The spokesman said it was too early in the year to estimate profits but "so far the exchange rate favours us".

He said the climate for SA exporters had improved dramati-

cally in recent months. "We are trading under normal conditions and our products are fetching their true commercial value — they are no longer being sold at a discount."

KWV also reports "a strong increase in commercial exports" with new markets opening up in Eastern Europe, particularly for bulk white wines.

Cape Town Chamber of Commerce sent its first trade mission for 10 years to Britain and Germany this month, with some members going to Belgium.

It was led by the chamber president, Lionel Hartmann, who said in an interview that it had been a great success and would

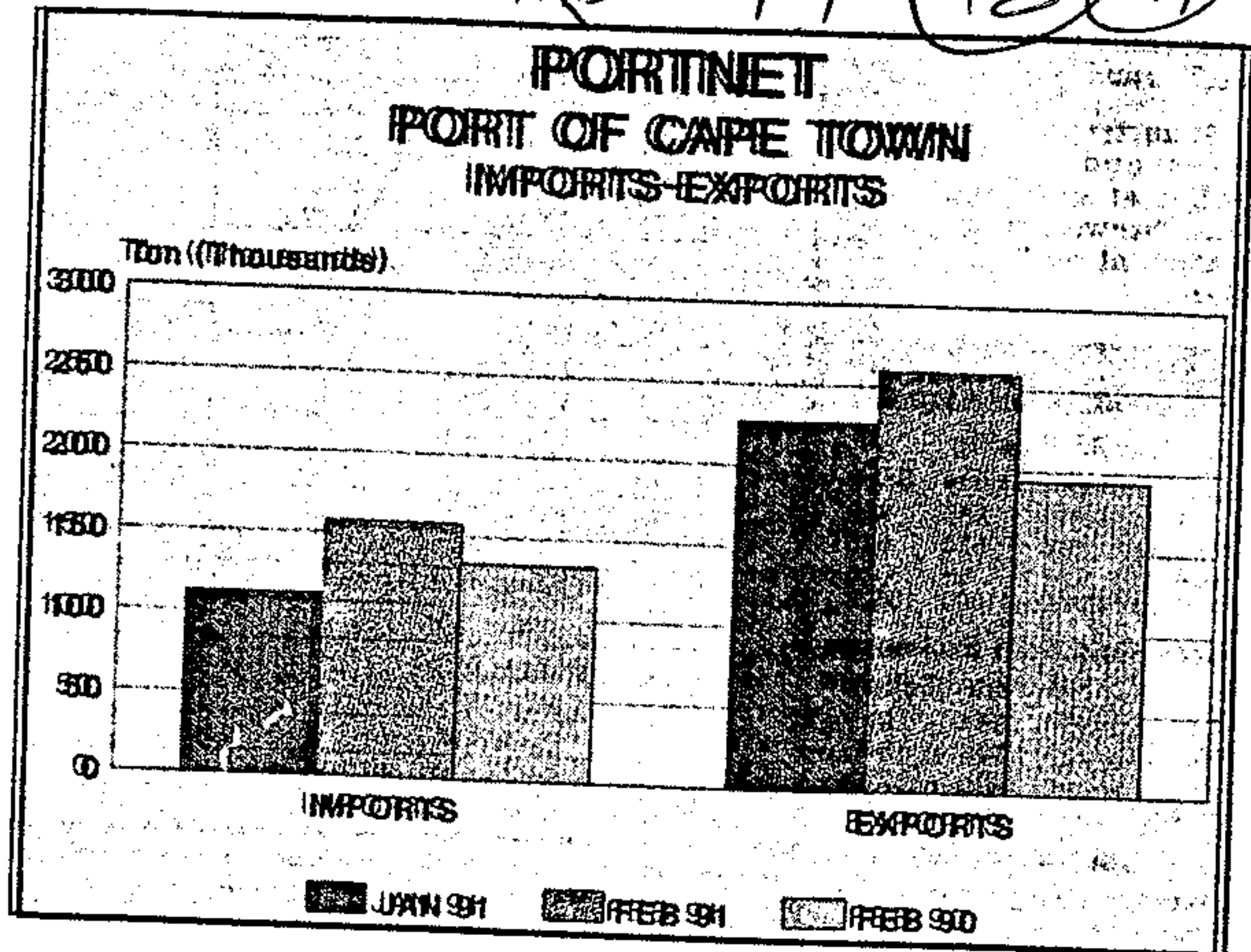
probably be repeated.

Some of the 12 members were already in the export market and had increased their overseas business.

Others had been surprised by the volumes of business — and there was a possibility of joint ventures with overseas partners.

Hartmann is quoted in the chamber's weekly bulletin as saying: "The timing of this mission was most appropriate and it was good to feel part of the world again."

A trade mission from the London Chamber of Commerce and Industry is expected in Cape Town in May.



Education a priority — Amcham charter

B/Dam 27/3/91

SHARON WOOD

EDUCATION should be a national priority, the American Chamber of Commerce (Amcham) says in an Economic Charter which stipulates the conditions required for American investment in SA.

The charter, the first to be produced by a foreign business representative body, says government should address the problem of inadequate human skills in SA as this was an impediment to new foreign investment.

The charter said government should consider and financially support "Head Start" programmes which provided pre-school education for disadvantaged children. The authorities should also support training of teachers through low cost loans and free education, the charter said.

Amcham yesterday made public the Economic Charter, which apart from education, also mentioned key elements such as reducing SA's tax burden, promoting a market-oriented system and guaranteeing the repatriation of foreign profits.

SA's corporate and personal tax burden remained a hurdle in attracting foreign investment. SA's disproportionately high corporate tax rate militated against foreign investment, the charter said. The relatively high direct personal taxes also worked against attracting and retaining skilled staff.

The charter advocated a market-orientated system in SA, free of overregulation, as one of the conditions necessary to encourage new foreign investment. The removal of sanctions would not automatical-

ly lead to new investment, said Amcham board member Rudolf Gouws.

Political, economic, tax and regulatory certainty and stability were the most essential conditions which had to be met before foreign investment, an important contributor to economic growth and welfare, would return to SA.

SA had recently turned a corner in achieving many of these conditions which had previously not been met, said Gouws.

Amcham welcomed government's recent attempts at reducing the size of budget deficits and minimising its impact on the business cycle. It also praised the more conservative stance on monetary policy.

The charter said it was reasonable for countries wishing to attract foreign capital also to have certain expectations of foreign companies investing there.

These expectations included the willingness to accept and train the local labour force, to reinvest a portion of the profits if the conditions were appropriate, and to contribute to the social and economic upliftment of the disadvantaged.

Amcham rejected restrictions on the repatriation of profits. They said that the creation of a favourable foreign investment environment would encourage foreign companies to repatriate a large portion of profits.

Peaceful industrial relations were an important prerequisite to new fixed investment, the charter said.

SA working hard on new Asian trading ties

EXPORT opportunities for SA companies have been boosted by the warming of trade relations with Thailand, says SA Foreign Trade Organisation (Safto) executive Graham Limerick.

He said yesterday Safto had made the breakthrough in relations with Thailand last year and the southeast Asian country was "the country of opportunity for joint ventures".

Since then several SA companies had picked up contracts, but he would not give details of the deals.

Limerick, Safto's Asia department manager, led a fact-finding mission to Thailand and mainland China in November. A second mission will visit the two countries in May.

As a newly industrialised country, Thailand was experiencing rapid economic growth, which had to be sustained by the import of technology. SA, with a simi-

MATTHEW CURTIN

lar mixture of "First and Third World economic components" was well placed to provide this.

Thai nationals no longer needed visas to visit SA, said Limerick. (74)

The Credit Guarantee Insurance Corporation of Africa was offering short-term credit insurance cover for exports to Thailand.

An SA trade mission returned from Hong Kong, South Korea and Taiwan last week, and Limerick said there was growing southeast Asian competition to review their position on sanctions and establish trading links with SA.

Demand for SA exports was also growing in mainland China, where there was interest in a wide range of goods: products for the mining and building industries, and chemicals in particular.

SA 'will need more than cheap labour'

Bl Day 26/3/91

SOMERSET WEST — SA could not hope to enter the highly competitive world market on the strength of cheap labour alone, an internationally renowned economist said yesterday.

Prof Alice Amsden of the New School of Social Research opened a high-level discussion on pressure groups and policy at the Wits University Economic Initiative on Policy and Development in Sub-Saharan Africa.

She and Prof Deepak Lal of University College, London, used the examples of Taiwan, Korea and Japan extensively to illustrate trends in late industrialisation.

Amsden said there was no single factor which could be identified as the determinant for more rapid growth in certain countries than in others.

Late industrialisation, however, was an exclusive process of growth through borrowed technology and through learning.

Devaluation

"The real hero of late industrialisation is the production engineer," Amsden said. It was he who knew how borrowed technology worked and how to go about adapting and improving it, and how these aspects affected the real competitive component.

Unlimited labour supply and concurrent constant downward pressure on wages was another property of late industrialisation.

Japan, Korea and Taiwan were classic examples illustrating that low wages alone could not make them competitive and how, for instance, repeated devaluation of exchange rates were necessary.

What had made them better than other countries, though, was their manner of subsidy allocation which differed markedly from the "give-away" principles applied in India and SA.

Subsidies in East Asia were generally given on the principal of reciprocity. This-

demanding substantial performance in exchange, such as high standards of production, training of labour in exchange for low wages, re-investment of profits in production rather than the export of capital or re-investment in real estate, hotels or other non-productive havens.

The result was firm discipline on capital and labour.

Another discernible property of late industrialisation was that there was no distinction to be drawn between import substitution and export growth.

"These two are totally interlinked," Amsden said. "In Korea, a classic example, no foreign cars were seen for 25 years and no Korean cars were seen in foreign countries for 25 years.

"But ultimately you got the exports . . ."

On the question of whether SA could really compete in the world on the basis of market prices, she said: "The answer is: in some (products), but in most, not. Too much has been spent on research and production development."

There was no doubt governments played a persuasive role in the East Asian champion economies, mostly controlling all the financial markets, interest rates and prices.

What characterised their success was the seriousness with which development was regarded — the resources committed to gather the necessary intelligence on which was the right industry and what were the optimal world production techniques to be employed in it.

"The world is a tremendously competitive place," she said. SA could not think it was able to enter the world market on the strength of cheap labour alone.

It depended largely on the extent to which resources were directed at identifying profitable industry sectors and techniques which would allow a "leapfrog" to the world's technological frontier. — Sapa.

Bulls and bears go out to play, and miss the news

THE financial markets have not yet responded to two items of news which, in the normal course of events, would have roused dormant bears in the money market and bulls in the bond market.

Reserve Bank Governor Chris Stals should have administered a mild tonic to money market bears when he indicated that a further reduction in Bank rate was unlikely in the near future and that the stimulatory measures in the Budget called for caution in adopting further stimulatory measures.

The bond market has not responded to the Eskom announcement that its funding programme has been slashed by 35%.

The markets' customary

convicted that the first reduction will come during August/September with a further one percentage point being doctored in December.

Bankers say that credit demand is still flaccid and that the recession is still deepening. They support Eskom's reduced borrowing programme should trigger off an easing in semi-gilt rates, although those on RSA stock might harden.

Many in the money market will not accept that the current 17% Bank rate might be eased by only one further percentage point this year, and that only in the fourth quarter. A strong element in the market is

Today when they return to their trading screens they will probably assess these two pronouncements with the sobriety that they warrant.

They had abandoned the dealing rooms to trudge around the golf course to enjoy the annual hospitality of Eskom. Their minds were more concentrated on birdies and eagles than on bulls and bears.

that the recession is still deepening. They support Eskom's reduced borrowing programme should trigger off an easing in semi-gilt rates, although those on RSA stock might harden.

Bankers say that credit demand is still flaccid and that the recession is still deepening. They support Eskom's reduced borrowing programme should trigger off an easing in semi-gilt rates, although those on RSA stock might harden.

Business Day

CLASSIFIED

TELEPHONE: 497-2910

FAX: 497-2598

119. PERSONAL SERVICES

AT CHARMANT
For exotic ladies like Oriental, Asian, Malaysian, Mauritian and European ladies.
Tel. 23-6679/0039/1221.

WHY PAY MORE? You can have the administration side of your Shipping Department handled in a professional manner on a part-time / freelance basis. Tel. (011) 363-1653 at hrs.
VHM SHIPPING SUPERVISION CC.

174. LAND & PLOTS

PLOT FOR SALE
Jeffreys Bay - Aston Bay - A lovely sea view plot near the new Marina. R120 000. Contact. (01801) 32035.

DOMINA

And ladies in the

LOW BUDGET VIDEOS PRODUCTION

145. FINANCE &

Phone RUSSELL 436-1884 or 620-7313 after 6:30 pm.

Auto/Ivory, immaculate

Govt weighing up export incentives

B/day 25/3/91 (74)

GOVERNMENT is considering a report which calls for the phasing out of export incentives worth hundreds of millions of rands.

If implemented, the Industrial Development Corporation's (IDC) Modification of Protection Policy will replace export incentives with structural adjustment programmes for selected industries.

It will also drastically reduce present import tariff protection even at the risk of job losses in the short term.

The report envisages a fundamental restructuring of SA industry from the import replacement strategy of the sanctions era to an outward policy designed to make industry more competitive internationally.

It is understood the confidential report would have already been made public, possibly with government response, but for the departure of Trade and Industry Minister Kent Durr to become ambassador in London, and the death of Economic Co-ordination Minister Wim de Villiers.

The IDC report will now be the responsibility of Org Marais, who takes office as Trade and Industry Minister on April 1.

The report has been released on a selective basis to Sacob, Seifsa and the AHI. These bodies had until Friday to respond.

"We're enthusiastic," Seifsa economist Michael McDonald said at the weekend, "but it will create problems for some industries which have high protection."

KEVIN DAVIE

McDonald added the report said current export incentives were too vague and too expensive. There needed to be consultation with industry on the package.

He said the report was another step away from the laager system of offering high protection to make SA self-sufficient and sanctions-proof.

Deputy Trade and Industry Minister Theo Alant said the report was being considered as part of government's overall economic restructuring programme.

He said government's obligation to provide for export incentives over a two-year period payable in cash as well as by promissory notes amounted to R1bn. R850m was paid out in 1989/90, of which R640m went on export incentives.

The electricity rebate scheme cost government R159m while the interest rate subsidy on capital projects cost R42m during 1989/90.

The IDC report favours the scrapping of all export subsidies, including the General Export Incentive Scheme (GEIS), as they are too costly and conflict with the General Agreement on Tariffs and Trade (GATT).

It recommends that government implement instead a policy of structural adjustment programmes for selected industries.

But, McDonald said, the report did not

To Page 2

Incentives

B/day 25/3/91

specify which programmes it favoured.

"Structural adjustment programmes were abandoned by Trade and Industry previously because they were difficult and expensive to administer. We could also end up with massive intervention by government into private sector business. We don't want that," he said.

McDonald said the major thrust of the IDC report was to remove the loss of competitive advantage because of taxes, duties and surcharges. These raised the cost of capital.

Low productivity, high inflation and high taxation compounded the problem.

From Page 1

"Government policy creates higher input costs and inflation; we should get rid of the self-induced problems." (74)

The IDC report calls for the substantial reduction of import tariffs over a period of five years. Highly protected industries can expect their tariffs to be lowered much quicker than industries which now have less protection, if government accepts the report.

Alant said government would consult organised trade and industry: "A final decision is not expected shortly due to the complexities involved."

SA, Italy in top-level talks

CAPE TOWN — Italian Foreign Trade Minister Renato Ruggiero will meet President F W de Klerk and other Ministers this week to pave the way for further trade and to revive ties with SA's banking system.

The purpose of Ruggiero's visit is to make a direct assessment of political developments in the past year, to strengthen bilateral ties and to evaluate the feasibility of co-operation projects in specific fields in SA and in southern Africa.

Italian ambassador to SA Mario Piersigilli said: "Direct contact with political leaders and the business sector is vital because he will be called upon to take some new decisions about SA with the strong interest being shown in trade with SA by Italian businesses." *B10am 28/3/91*

Ruggiero will meet Foreign Minister Pik Botha, outgoing Trade and Industry Minister Kent Durr and Trade and Industry Minister designate Org Marais.

Ruggiero's visit will be followed by two further visits in May, one by a 12-member delegation of bankers led by Italian Banking Association (ABI) GM Felice Gianani and one by the state-controlled Institute for Industrial Reconstruction (IRI).

The series of visits and meetings follow

74
BILLY PADDOCK

the visit to SA in March last year by Italian Trade and Industry Minister Adolfo Battaglia and Durr's visit to Italy in July.

The Italians are interested in discussing joint ventures — particularly beneficiation of a wide range of raw materials.

A Trade and Industry official said Italy had increasing pollution problems and was keen to import beneficiated products rather than raw materials.

Discussions with Italian state-owned corporation ENI on a possible new investment of more than R2bn in chemical, plastic and related industries in SA had reached an advanced stage and there were several other promising opportunities especially with the Italian business organisation Confindustria, which represented about 112 private enterprises.

Piersigilli said the bankers would be looking at setting up medium-term credit facilities of five to seven years as well as some shorter term facilities.

Over the past two years SA's imports from Italy have grown by 81% although this represents only R1,7bn. SA exports to Italy have grown by 89% in two years.

The Reserve Bank's net gold and foreign reserves rose by R1,8bn in the first two months of 1991, says Governor Chris Stals. This has not been reflected in the exchange rate of the rand, because the Bank has applied pressure to keep the currency stable against a basket of currencies.

Though gold and forex manager James Cross stresses it is not Bank policy to favour any sector of the economy, the beneficiaries of recent open-market interventions to hold down the rand have been exporters. A higher exchange value would reduce the rand revenue from exports, with serious consequences for gold producers, many of whom are already barely breaking even.

Old Mutual economist Rian Le Roux points out that, by discouraging imports, the stable rand has protected the surplus on the trade account. So there have been positive

continue →

macro-economic spin-offs as well.

But there are costs too, not least a missed opportunity to curb imported inflation by cutting the rand price of foreign goods.

Another opportunity lost is that of further reducing losses on the Bank's forward cover book. UBS economist Hans Falkena says: "At the beginning of last year, losses stood at R16bn. The Department of Finance paid off R3bn and another R3bn was made in profits as the rand appreciated."

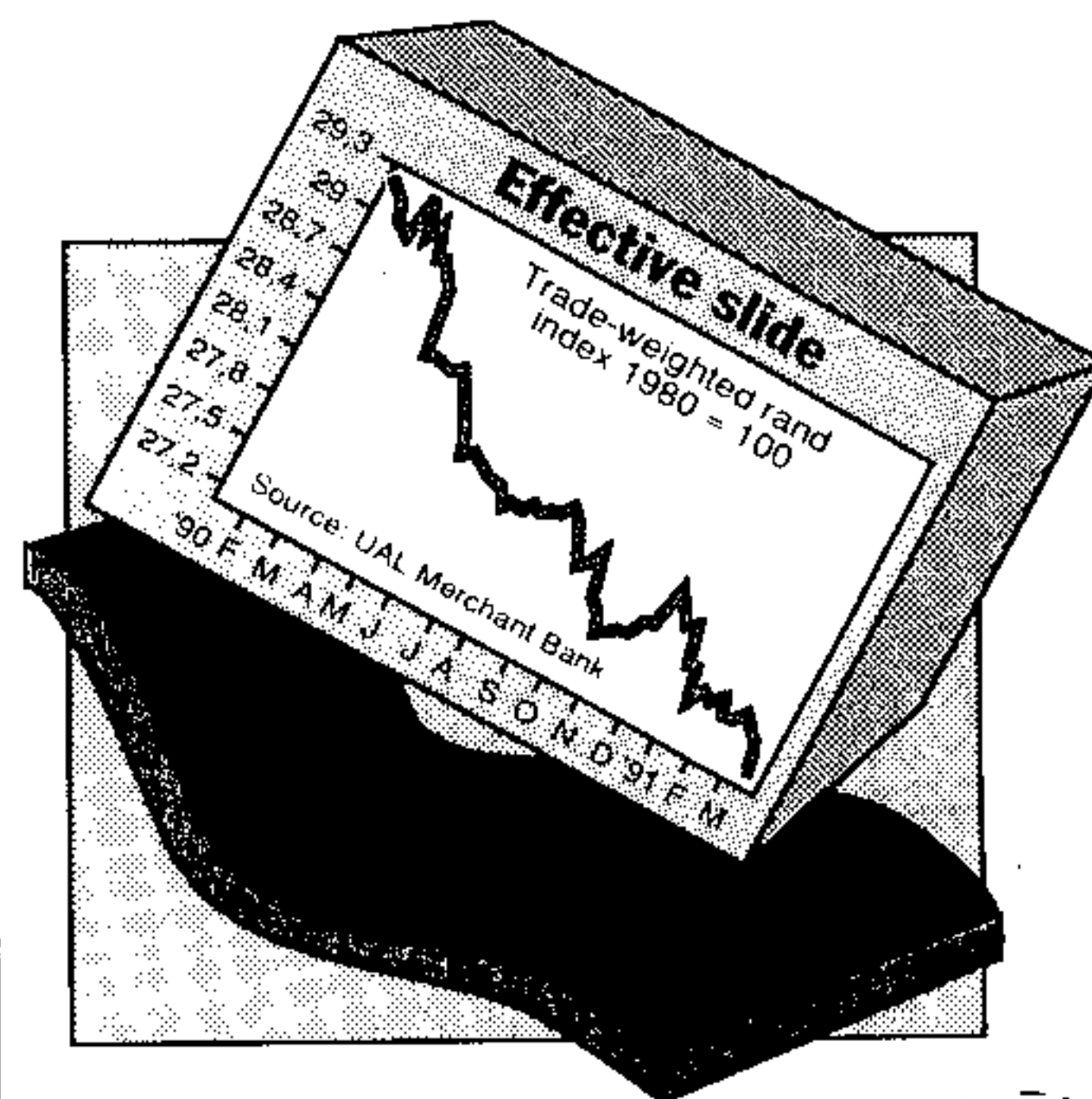
This effectively extinguished money in the system. In the face of a rising rand, these losses would have been further reduced, which would have held money supply growth down at lower levels.

In addition to these sins of omission, the Bank has been adding liquidity to the system by selling rands into the market.

Given that the governor's stated priority is to reduce inflation, is keeping the rand stable desirable? The answer depends, perhaps, on the way in which the rand is valued.

UAL economist Dennis Dykes says the exchange rate is most simply determined by supply and demand on the balance of payments, which means "rising net reserves should have pushed the rand higher." Another measure is purchasing power parity; by this, too, the rand is "clearly undervalued."

But more important perhaps is the real effective exchange rate. *Effective* means measured against a basket of other currencies, weighted according to trade with the countries concerned. "Real" means taking into account the inflation differential between SA and the trading partners in the basket. Dykes says the differential averaged



continue →

9,3% in the 12 months to December. This means the rand should decline by this much against the basket. As the nominal rate did not decline, the real rate appreciated.

Falkena says the real effective exchange rate (based on an index of 1979=100) was 81 at the beginning of 1990. By the end of that year, it was up to 84. "We calculate it is now about 83, so there is some leeway for downward movement."

Cross says the differential is one argument for not letting the rand appreciate. "If the currency is allowed to rise now, we could be setting ourselves up for a sharp devaluation in future."

Says Dykes: "When Stals says he wants to maintain a stable exchange rate, he probably means a real effective rate. That would be a managed depreciation in nominal terms."

Attempts to control movements in currencies can only be effective for a while. Says Econometrix chief economist Azar Jammine: "In the end, market forces will dictate the value of the rand." ■

TRADE FM 22/3/91
SUMMING UP (74)

SA's trade with five major partners rose from US\$16,6bn in 1989 to just over \$17,3bn in 1990. But much of the increase can be attributed to a depreciation of the dollar against the cross currencies.

Germany remains SA's biggest trading partner, despite a drop in total trade from \$5bn in 1989 to \$4,8bn. Second is the UK (fifth in 1989), with trade worth \$3,9bn in 1990, up from \$3,2bn. US companies traded goods worth \$3,4bn last year, up 3%, putting the US in third spot. The US was SA's number one trading partner in 1986.

Total trade with Japan fell 11% to just over \$3,3bn, making Japan number four, down from number two in 1989.

A sign of the times is that the Republic of China (Taiwan) has released figures on trade with SA. Previously, figures were only available from the IMF. Its trade totalled \$1,9bn, up 36% on 1989.

In 1989, Italy — which buys a major chunk of gold exports — was also among the top trading partners, with an exchange of goods worth \$3,3bn (a 33% surge on 1988). Figures for 1990 have not yet been released.

A breakdown of imports to and exports from SA shows, respectively:

- West Germany: -9% to \$3bn and +6% to \$1,8bn;
- UK: +18% to \$2bn and +27% to \$1,9bn;

- US: unchanged at \$1,7bn and +6% to \$1,7bn;
- Japan: -14% to \$1,5bn and -9% to \$1,8bn;
- Taiwan: +37% to \$712m and +30% to \$1,2bn.

SA had a healthy R1,7bn trade surplus in February, exports of R4,7bn outweighing imports of R3bn. That compares to a surplus of only R145m in January (exports of almost R5bn and imports of just over R4,8bn).

The difference is mainly due to January's huge temporary surge in "unclassified" imports (mostly oil), to R1,3bn. These fell to only R175m in February, when there were also significant decreases in imports of machinery and electrical equipment, down R205m to R958m, and transport equipment, down R350m to R361m. ■

Surcharges ⁷⁴ new demand not expected

By 2/23/91
MELANIE SERGEANT

THE Budget's reduction of import surcharges on capital goods has been welcomed by various members of the computer industry, although most said it would not have a material effect on demand for equipment.

Siltek CE Marius Furst said halving the import surcharges — from 10% to 5% — would be good for business, but he agreed with BMI-T's Brian Nielsen that the decision would not have a material impact on demand. Nielsen said the reduction could, in fact, affect the profitability of vendors — depending on whether they passed surcharges on to buyers. ²²³

The VAT announcement which will have the greatest effect on the computer industry is that input tax credit on capital goods will be available from September 30. Deloitte Pim Goldby's Doug Jolliffe said: "This will mean a pent up demand for goods up to this date, but on the upside, will mean a much cleaner implementation of VAT as opposed to phasing in this tax."

Furst agreed the move would delay buying decisions, but the Business Equipment Association's Les Wood pointed out that even though this would depress demand up to September 30, there were methods of getting around this.

"For example, buyers can rent equipment before the VAT implementation, and purchase thereafter."

While welcoming the halving of import surcharges, Wood said the industry had expected its total abolition.

Most agree VAT will affect service industries most because services have not been subject to GST.

Import surcharges halved to five percent on capital goods

By Duma Gqubule

74
As widely expected, Finance Minister Barend du Plessis announced the reduction of import surcharges on capital and intermediate goods in his Budget speech yesterday.

The import surcharge on capital goods is to be cut by half to five percent, while that on intermediate goods will be reduced from 7,5 to five percent.

The rate on mainly less essential consumer goods will be maintained at 40 percent and on white goods at 15 percent.

According to current estimates, the sur-

charges will bring about R2,1 billion into state coffers this year.

The reductions for capital and intermediate goods will involve a forfeiture of R756 million in revenue.

Revenue from import surcharges is therefore budgeted to fall by 32,4 percent to R1,41 billion in the 1991-92 fiscal year.

Economists said the total abolition of import surcharges would have cost too much in the face of other competing demands, but many expected the Minister to announce the full phasing out of surcharges in next year's Budget.

They said the sur-

Star 21/3/91
charge was imposed as a temporary measure to discourage imports and save foreign exchange at a time when the country's reserves were falling.

Because these concerns had now fallen away, it made sense to reduce the surcharges.

Sanlam's chief economist, Johan Louw, said experience had shown that the surcharge had little effect in reducing imports and had merely become a source of revenue for the government.

Mr du Plessis said the surcharges had served their purpose and were in fact inhibiting industrial development.

But limited room for

manoeuvre in the current Budget had precluded a full phasing out at present.

Many Cape companies have delayed taking delivery of containers at the docks in anticipation that the import surcharge would be cut or abolished, Tom Hood reports from Cape Town.

By holding back, they expected to save as much as R100 000 a container.

Prices of a wide range of goods from heavy machinery to car spares, television, videos, cameras and bicycles could be lowered by between 5 and 7,5 percent as a result of the surcharge reduction.

Current account surplus soars to near-record

By Sven Linische

The current account of payments surged to its second largest surplus ever in the fourth quarter of last year, the Reserve Bank reports.

The surplus, the result of record high merchandise exports and a substantial decline in imports, surged to an annualised level of R9,7 billion in the fourth quarter from R4,2 billion in the preceding three months (see graph).

In its Quarterly Review the Bank says the record exports and lower imports outweighed the effect of an increase in net service and transfer payments to foreigners and marginal decline in earnings from gold.

The surplus in the last three months of 1990 was South Africa 24th consecutive quarterly surplus and pushed the annual current account surplus for 1990 to R5,8 billion. In 1989 it was only R3,1 billion.

The positive impact of the current account was, however, partly offset by renewed outflows on the capital account.

The bank says the net inflow of foreign capital totalling R1,5 billion was reversed into a net outflow of R1,8 billion in the fourth quarter.

"The renewed outflow of long-term capital in the fourth quarter mainly took the form of debt repayments outside the standstill net, as well as an increase in SA's foreign asset holdings."

Total outflows

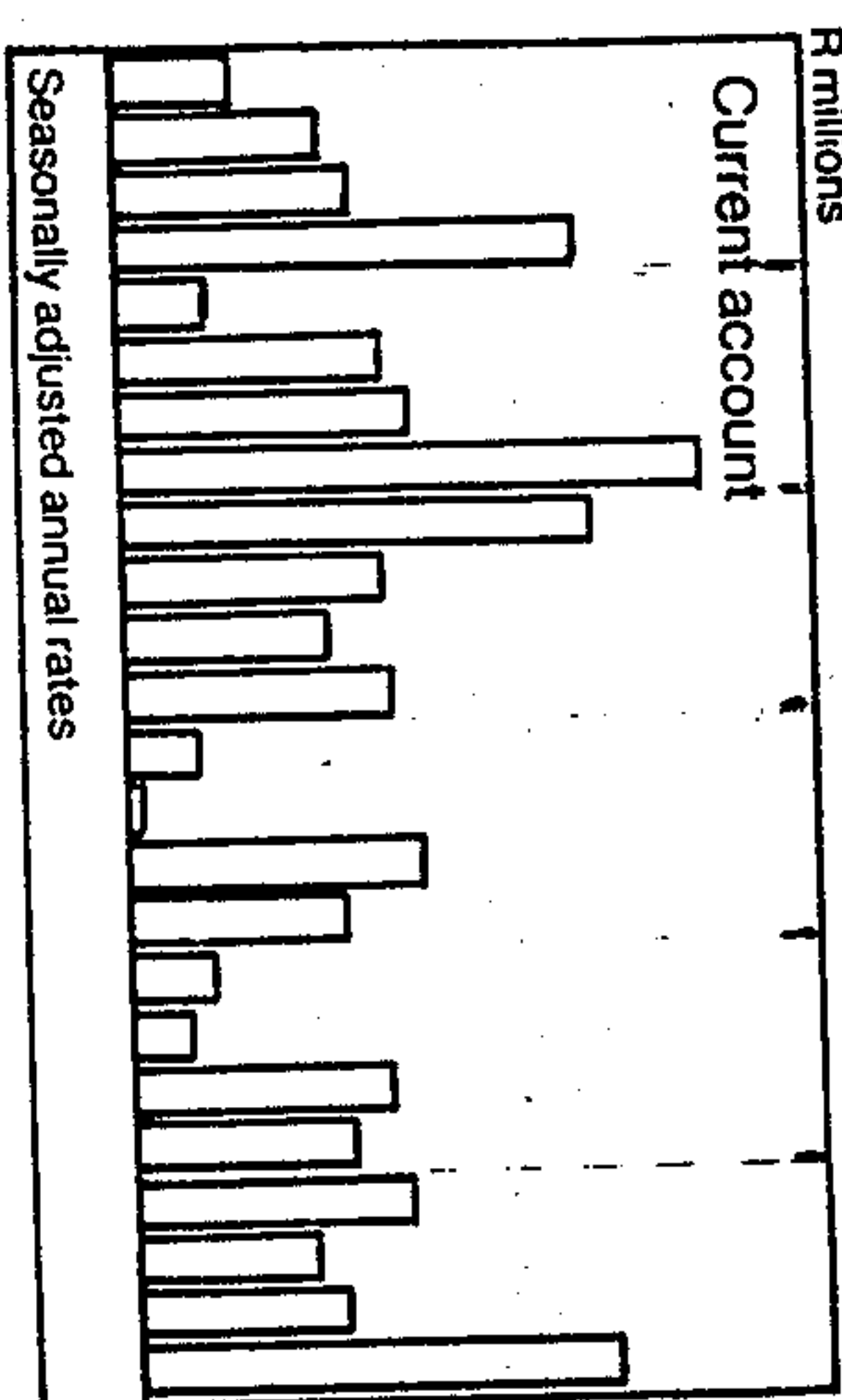
Total capital outflows last year increased to R1,9 billion from R1,2 billion in 1989.

The large and sudden rise in the surplus on the current account of the balance of payments reflected a significant decline in real gross domestic expenditure (GDE) in the fourth quarter.

GDE fell by three percent last year as companies cut back on their

R245/13/91

Balance of payments



fixed investment expenditure and reduced their inventory levels.

The decline in GDE was largely responsible for a one percent decline in the overall economy last year.

"The marked retreat of GDE, particularly in the fourth quarter last year, was largely accounted for by a further contraction of fixed capital formation and a

major drawing down of total real inventories."

Real gross domestic fixed investment and real fixed investment by the private sector fell by surprisingly low rates of one and 0,5 percent respectively, but total inventories fell by a huge R5,5 billion in the fourth quarter alone.

The net change in inventories over the year was R3 billion and this

de-stocking contributed more than 2,5 percentage points to the three percent fall in GDE.

Despite the decline in GDE, consumption expenditure by the private sector and the government showed surprisingly strong growth, particularly in the fourth quarter of last year.

Government consumption expenditure soared by an annualised 16 percent in the fourth quarter

ter, while private consumption expenditure rose by two percent during the three months, with strong outlays (five percent growth in the fourth quarter) recorded on consumer durable spending.

This boost in spending has led to an acceleration of the long-term upward drift of consumption spending relative to the gross domestic product.

"This ratio quantifies the increasingly consumption-orientated nature of SA society, which, given the rapid expansion of the labour force, is clearly at variance with the long-term interests of the economy."

Slackening of the domestic economy resulted in erratic employment growth in 1989 and higher unemployment in the first three quarters of last year.

Further growth

Total employment fell by 2,1 and 1,2 percent respectively in the second

and third quarter of last year and seems likely to show further growth in the fourth quarter.

Despite higher unemployment levels, employee remuneration still runs at levels well above the inflation rate.

In the non-agricultural private sectors the speed of year-on-year nominal wage increases retreated from a peak of 18,3 percent in the fourth quarter of 1989 to rates 17,8, 16,3 and a comparatively modest 13,4 percent in the first, second and third quarters of 1990.

Data for the fourth quarter indicated a further retardation of wage increases, "which would appear to reflect employer resistance to extravagant wage demands in the less buoyant business conditions of last year."

In the public sector the increases were more pronounced, accelerating from only 5,6 percent in the first quarter of 1990 to 18,6 and 22,2 percent in the second and third quarters respectively.

Current account surplus soars to near-record

By Sven Lintsche

The current account of the balance of payments surged to its second largest surplus ever in the fourth quarter of last year, the Reserve Bank reports.

The surplus, the result of record high merchandise exports and a substantial decline in imports, surged to an annualised level of R9,7 billion in the fourth quarter from R4,2 billion in the preceding three months (see graph).

In its Quarterly Review the Bank says the record exports and lower imports outweighed the effect of an increase in net service and transfer payments to foreigners and marginal decline in earnings from gold.

The surplus in the last three months of 1990 was South Africa 24th consecutive quarterly surplus and pushed the annual current account surplus for 1990 to R5,8 billion. In 1989 it was only R3,1 billion.

The positive impact of the current account was, however, partly offset by renewed outflows on the capital account.

The bank says the net inflow of foreign capital totalling R1,5 billion was reversed into a net outflow of R1,8 billion in the fourth quarter.

"The renewed outflow of long-term capital in the fourth quarter mainly took the form of debt repayments outside the standstill net, as well as an increase in SA's foreign asset holdings."

Total outflows

Total capital outflows last year increased to R1,9 billion from R1,2 billion in 1989.

The large and sudden rise in the surplus on the current account of the balance of payments reflected a significant decline in real gross domestic expenditure (GDE) in the fourth quarter.

GDE fell by three percent last year as companies cut back on their

fixed investment expenditure and reduced their inventory levels.

The decline in GDE was largely responsible for a one percent decline in the overall economy last year.

"The marked retreat of GDE, particularly in the fourth quarter last year, was largely accounted for by a further contraction of fixed capital formation and a

major drawing down of total real inventories."

Real gross domestic fixed investment and real fixed investment by the private sector fell by surprisingly low rates of one and 0,5 percent respectively, but total inventories fell by a huge R5,5 billion in the fourth quarter alone.

The net change in inventories over the year was R3 billion and this

de-stocking contributed more than 2,5 percentage points to the three percent fall in GDE.

Despite the decline in GDE, consumption expenditure by the private sector and the government showed surprisingly strong growth, particularly in the fourth quarter of last year.

Government consumption expenditure soared by an annualised 16 percent in the fourth quarter

while private consumption expenditure rose by two percent during the three months, with strong outlays (five percent growth in the fourth quarter) recorded on consumer durable spending.

This boost in spending has led to an acceleration of the long-term upward drift of consumption spending relative to the gross domestic product.

"This ratio quantifies the increasingly consumption-orientated nature of SA society, which, given the rapid expansion of the labour force, is clearly at variance with the long-term interests of the economy."

Slackening of the domestic economy resulted in erratic employment growth in 1989 and higher unemployment in the first three quarters of last year.

Further growth

Total employment fell by 2,1 and 1,2 percent respectively in the second

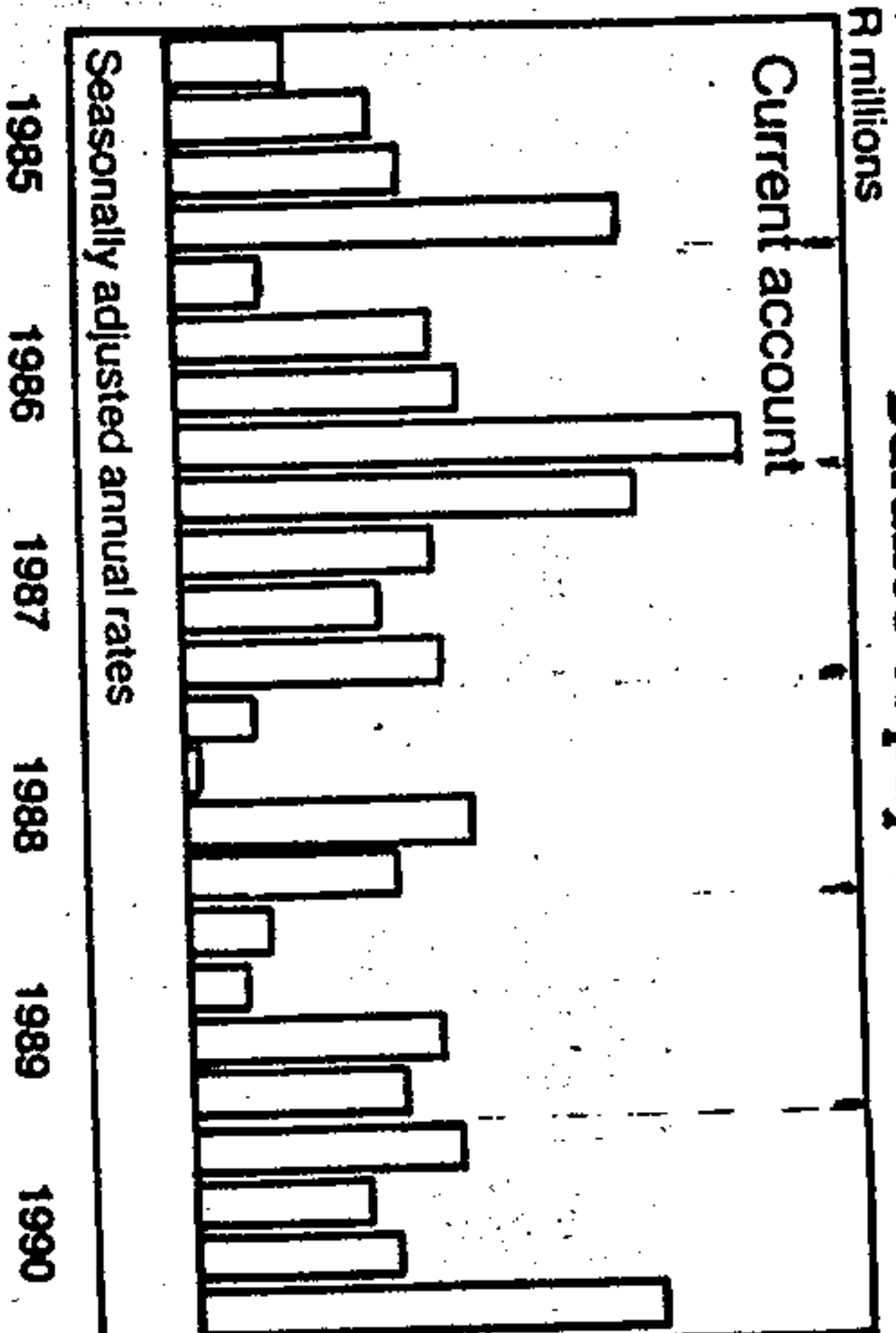
and third quarter of last year and seems likely to show further growth in the fourth quarter.

Despite higher unemployment levels, employee remuneration still runs at levels well above the inflation rate.

In the non-agricultural private sectors the speed of year-on-year nominal wage increases retreated from a peak of 18,3 percent in the fourth quarter of 1989 to rates 17,8, 16,3 and a comparatively modest 13,4 percent in the first, second and third quarters of 1990.

Data for the fourth quarter indicated a further retardation of wage increases, "which would appear to reflect employer resistance to extravagant wage demands in the less buoyant business conditions of last year."

In the public sector the increases were more pronounced, accelerating from only 5,6 percent in the first quarter of 1990 to 18,6 and 22,2 percent in the second and third quarters respectively.



SA/13/91

Balance of payments

MC

No further weakening of economy ahead, bank says

st-aw
21/3/91

By Sven Lünsche

74

The Reserve Bank says an early recovery in the economy is not likely.

It says in its March Quarterly Bulletin: "A diagnosis of an imminent bottoming-out of the current downswing would not be warranted at this stage."

However, current available economic data do not suggest a serious further weakening of the economy.

Pessimistic

The bulletin, which coincides with the economic review in yesterday's Budget, paints a pessimistic picture of economic prospects for this year "which will most probably turn out to be another year of 'consolidation'."

The bank expects little or no positive, and quite possibly mildly negative economic growth in 1991, "while the groundwork is being laid for a more de-

cisive cyclical recovery from late 1991 or early 1992 onwards".

It warns that the lack of room for manoeuvre on the balance of payments and stubborn inflation rates will preclude any substantial easing of monetary and fiscal policies.

World trade

Factors likely to hold back a more lively performance of the economy this year include:

- A further slowing down of real growth in world economies and world trade, with attendant effects on demand for SA exports.
- An indifferent performance of the gold price.
- Higher world oil prices.
- Relatively poor agricultural harvests with an accompanying need for imports of staple cereals.

The bank says investment spending will be held back by the uncer-

tainty factor arising from the current unrest and the unforeseeable nature of South Africa's future economic and constitutional dispensation.

"Allowance also has to be made for a possible setback to consumer confidence, in the light of less buoyant employment opportunities, less favourable prospects for inflation-adjusted salary and wage increases, and the heightened burden of household debt."

Turn for better

However, certain recent developments imply a "turn for the better in various respects".

These include the rapid end to the Gulf war, which has lifted the outlook for the US economy, better prospects for SA agriculture, a gradual dismantling of sanctions and disinvestment and a moderation in wage increases in the private economy.

No further weakening of economy ahead, bank says

st an 21/3/91

By Sven Lünsche

74

The Reserve Bank says an early recovery in the economy is not likely.

It says in its March Quarterly Bulletin: "A diagnosis of an imminent bottoming-out of the current downswing would not be warranted at this stage."

However, current available economic data do not suggest a serious further weakening of the economy.

Pessimistic

The bulletin, which coincides with the economic review in yesterday's Budget, paints a pessimistic picture of economic prospects for this year "which will most probably turn out to be another year of 'consolidation'."

The bank expects little or no positive, and quite possibly mildly negative economic growth in 1991, "while the groundwork is being laid for a more de-

cisive cyclical recovery from late 1991 or early 1992 onwards".

It warns that the lack of room for manoeuvre on the balance of payments and stubborn inflation rates will preclude any substantial easing of monetary and fiscal policies.

World trade

Factors likely to hold back a more lively performance of the economy this year include:

- A further slowing down of real growth in world economies and world trade, with attendant effects on demand for SA exports.
- An indifferent performance of the gold price.
- Higher world oil prices.
- Relatively poor agricultural harvests with an accompanying need for imports of staple cereals.

The bank says investment spending will be held back by the uncer-

tainty factor arising from the current unrest and the unforeseeable nature of South Africa's future economic and constitutional dispensation.

"Allowance also has to be made for a possible setback to consumer confidence, in the light of less buoyant employment opportunities, less favourable prospects for inflation-adjusted salary and wage increases, and the heightened burden of household debt."

Turn for better

However, certain recent developments imply a "turn for the better in various respects".

These include the rapid end to the Gulf war, which has lifted the outlook for the US economy, better prospects for SA agriculture, a gradual dismantling of sanctions and disinvestment and a moderation in wage increases in the private economy.

Deficit before borrowing is R10,1-bn

The Budget deficit before borrowing was R10,118 billion or 3,4 per cent of the Gross Domestic Product, the Minister of Finance, Mr Barend Du Plessis, said in his Budget speech.

R950 million of this would be financed from funds coming from the diminishing need for strategic stockpiling, while a further R206 million would be financed

from the 1990/91 surplus after borrowing.

"The remaining R8,962 billion constituted 3 percent of the GDP, which was higher than the revised ratio of 2,7 percent for 1990/91.

"The deficit before borrowing is, by virtue of all the fiscal commitments and tax reform in particularly tight economic circumstances, unfortunately still above

the level of capital spending — which is estimated to amount to 1,8 percent of GDP this year". *star 21/3/91*

Loan redemptions for 1990/91 were expected to be about R5,416 billion, which would bring the country's net financing need to R14,378 billion.

"It is planned to finance this chiefly from domestic stock sales to the amount of

R14 billion, including investment by the Public Investment Commissioners.

"In the light of the relatively modest loan programmes of other public sector institutions, the State's financing requirement this year should reinforce the slightly downward trend that long-term interest rates have begun to display," he said. — Sapa.

Finance exchanges may consider mergers

THE ruling conditions in the financial markets, and particularly the low transaction volumes, were prompting the several self-regulating associations to reappraise whether their continued existence as fully-fledged, independent exchanges was needed.

This was said yesterday by the Minister of Finance, Mr Barend du Plessis, in his budget review tabled in Parliament.

"In order to obtain the maximum benefits of scale, it has become important for the various financial exchanges to consider the merging of supporting systems and resources, as well as the establishment of central clearing facilities."

Although the share and forward markets already had their own clearing mechanisms, the need for cooperation with the gilt markets (which had not yet been formalised) should not be ignored.

"Attention is therefore now being given to the viability of a central clearing and settlement mechanism, as well as to a central repository for securities.

Sources 21/3/91
"These measures towards greater rationalisation are to be welcomed."

Among other important developments in the financial sector during the past year had been the Jacobs committee which had studied the question of equal competition between financial institu-

tions.

The investigation had recognised the fact that in the future development of the financial sector, the need for business and development finance of a more or less informal nature in developing segments of the community would have to be attended to. - Sapa

74

Surplus despite sanctions

Sowetan 21/3/91

74

DESPITE sanctions and boycotts, South Africa achieved an average growth rate of 10 percent a year in the volume of goods it exported, a review of the Budget prepared by the Department of Finance said.

For the sixth consecutive year in 1990, the current account of the balance of payments posted a surplus. This brought the cumulative surplus from 1985 to 1990 to R29 billion, which was 2,5 percent of GDP.

"This gratifying but necessary performance in South Africa's current transactions with the rest of the world was, however, obtained only at severe cost, namely the restriction of the eco-

SOWETAN Correspondent

nomic growth rate to levels much below the country's growth potential, with higher unemployment as a result," the review said.

The surplus on the current account stemmed from a restrictive monetary and fiscal policy that had to be applied virtually continually to limit the growth in imports, and from an increase in international economic activity from 1983.

This enabled South Africa, despite sanctions and boycotts, to achieve an average growth rate of 10 percent a year in the volume of goods exported.

The surplus on the current account of the balance of payments rose

from R3,1 billion in 1989 to R5,8 billion in 1990.

This was the result of an improvement in merchandise exports, and a fall in the value of merchandise a negative contribution to the increased surplus, the review said.

After having risen by 25 percent in 1989, the value of merchandise exports increased by a further 8,5 percent in 1990, despite the fact that international commodity prices have fallen since mid 1988.

The price index of merchandise exports was an average 2 percent higher in 1990 than in 1989 through a moderate fall in the effective exchange rate of the Rand.

Also, the volume of merchandise exports rose by about 6,5 percent against 1989.

The value of mer-

chandise imports fell by about 0,5 percent last year, caused by a fall in the volume of imports in the downsizing.

Import prices rose moderately.

Net service and transfer payments fell from R10,9 billion in 1989 to R10,6 billion in 1990.

This was because of increased interest earnings abroad by South Africans and increased spending by foreigners in South Africa.

Gold exports fell 6 percent last year, largely because of the decline in merchandise imports and net payments for services and transfers abroad.

Of the main com-

ponents of the current account, only the value of net gold production made gold production from about 603 tons in 1989 to 592 tons in 1990. While the average dollar price of gold rose from \$382 in 1989 to \$384 in 1990, the average rand price fell from R999 to R992.

The review saw the net outflow of capital not related to reserves fell from R6,2 billion in 1988 and R4,3 billion in 1989 to R2,9 billion in 1990.

New capital

This showed that non-residents were willing to roll over much of the debt and also to provide new capital.

"The considerable im-

provement in the net capital inflow over the three years was, however, chiefly in the form of short term capital."

The upshot of the higher balances on current account and the smaller capital outflow was that the net gold and other foreign reserves rose by R2,9 billion in 1990.

This enabled the authorities to repay R2 billion of the liabilities related to reserves. "After allowing for valuation adjustment, the gross gold and other foreign reserves therefore rose in 1990 by only R0,4 billion, to reach R7,3 billion at the end of December," the review said.

BUDGET / '91



Europe open to borrowing by Pretoria

MATTHEW CURTIN

SA PUBLIC sector borrowers were able to raise substantial amounts of money on European capital markets last year, despite unfavourable conditions wrought by the Gulf War and East European loan requirements, Finance Minister Barend du Plessis said yesterday.

In his Budget review, tabled in Parliament, Du Plessis said borrowers had entered the German capital market for the first time since the 1985 debt standstill and four private debenture issues, with a combined value of DM285m, were taken up by international investors in 1990.

SA had secured significant results in the area of foreign project financing. Examples were the SA Post Office's undersea cable project, the purchase of aircraft for SAA, locomotives for Spoornet, the Moss gas project and the Lesotho Highlands Water Project. *B. (p. 21/3/91)*

Du Plessis said: "The loans involved will, to a great extent, help to relieve pressure on the domestic capital market while at the same time protecting the capital account of the balance of payments."

Import surcharge stays but cuts are welcomed

B/Dam 21/3/91

74

THE import surcharge on capital goods would be cut by half to 5% in 1991/92, and the surcharge on intermediate goods would fall from 7,5% to 5%, Finance Minister Barend du Plessis said yesterday.

These steps would knock R756m off government revenue.

Industry and business sources gave government's decision the thumbs up, but were sorry it had not eliminated the surcharges altogether.

The introduction of the surcharges in 1989, a move Du Plessis said was designed as a temporary step to protect the balance of payments in the light of the debt standstill of the late 1980s, dramatically raised the cost of importing industrial machinery and goods unavailable in SA.

Du Plessis said the surcharges had inhibited industrial development and government would pursue the course undertaken last year to phase them out. The limited room for manoeuvre in the Budget precluded their elimination. He said the reduction in the rates would cut production costs and push the inflation rate down.

SA Foreign Trade Organisation (Safto) CE Wim Holtes said yesterday Du Plessis's emphasis on the balance of payments and the fact that the projected current account surplus for 1991 would not cover debt repayment highlighted the need for boosting SA exports.

The reduction in the import surcharges was a "small, but welcome" move in that direction, and would have a positive effect in reducing export costs.

Together with the cost-saving replacement of GST with VAT — brought about by the zero-rating of exports which could lead to 5% savings for some companies — the

MATTHEW CURTIN

step would help SA exports to stay competitive in international markets.

Holtes said the R915m provided for the financing of export incentives and the export credit reinsurance fund were encouraging developments. The incentives were an important marketing tool for SA exporters.

Steel and Engineering Industries Federation of SA executive director Brian Angus said yesterday Seifsa had campaigned for the elimination of the surcharges since 1989 and he welcomed the reduction announced yesterday.

Chamber of Mines president Clive Knobbs also welcomed government's decision on the surcharge, but said the industry "looked forward to its total abolition in due course".

Davis Borkum Hare analyst David Geise said the institution of the surcharges was a blow to highly mechanised mines like the Joel, Randfontein and Western Areas gold operations, which were designed on the basis of the cost benefits of capital intensive mining.

The latest moves would be of only light relief as the companies had switched to alternative local machinery to avoid the surcharges.

In welcoming what he described as a "broadly social budget" which also emphasised the importance of maintaining a climate conducive to economic growth, Safto president John Hall said the chamber especially endorsed the cut in the import surcharge on capital and intermediate goods.

It was to be regretted the opportunity had not been taken to eliminate the surcharge completely.

Next year's debt repayment R4bn

SA's foreign debt repayment would amount to about R4bn next year, Finance Minister Barend du Plessis said yesterday. *By Day 21/3/91.*

By the end of February this year, 3,5%, or \$300m, of the debt affected by the Third Interim Debt Arrangement had been paid back.

Nedcor chief economist Edward Osborn said the large amount of debt owed next year would be difficult to pay back unless large rollovers were secured.

The current account was expected to be considerably lower this year than in 1990, and thus would not contribute as substantially this year to foreign reserves. The current account surplus was expected to drop to between R3bn and R4bn this year, from the R5,79bn current account surplus recorded during 1990.

The government did a superb job during 1990 of paying the large amount of debt due, by securing rollovers, Osborn said.

The Reserve Bank Quarterly Bulletin

SHARON WOOD

released yesterday showed that net gold and foreign reserves rose by R2,9bn during 1990, despite hefty debt repayments during the year. (74)

The Third Interim Debt Arrangement, instituted on July 1 1990, extended the debt standstill for a further three years, ending on December 31 1993.

SA is expected to repay, in eight equal instalments, \$1,5bn of the debt which now lies inside the net. This amounts to 20,5% of the reduced balance of total estimated affected debt of \$8bn.

Under the new agreement \$255m of the debt within the net was converted to long-term debt in the half-year to December 31 1990.

The new agreement allows short-term debt within the net to be converted to long-term debt outside the net, with a term of 10 years. After seven and a half years the long-term debt must be paid in six equal instalments.

Sage makes provision for its troubled US offshoot

810 am 21/3/91

SAGE Holdings has decided to charge R55m against its reserves as a "conservative" provision against its troubled US offshoot, Independent Financial Marketing Group (IFMG). The charge represents more than a quarter of of the group's end-1989 R206,2m shareholders' funds.

The provision, calculated at the financial rand rate and due to be set against reserves at the end of Sage's 12-month financial period to end-December 1990, has been made against the US offshoot's \$15,8m accumulated borrowings. At the end of the previous financial year a R41,7m contingent liability was disclosed as a note to the end-1989 accounts.

When the 1989 accounts were released, Sage refused to say whether the liability had been calculated at the commercial or financial rand exchange rate, but yesterday conceded it had been calculated at the commercial rand rate. Foreign exchange regulations oblige SA parents to repay their foreign off-shoots' debts at the less-attractive financial rand rate if it appears the foreign company cannot be traded back to profitability.

Business Day Reporter

Sage blamed IFMG's problems on what it described as "an untenable degree of anti-South African pressure".

Press investigations last year into Sage's affairs led to court action which prevented the Financial Mail from publishing information on the offshore losses the magazine had uncovered.

IFMG is to be restructured with new finance from Coverdell, which is a US financial services company, and Glenleigh Corporation, which Sage yesterday described as a New York merchant banker. The restructuring involves Sage's \$2m sale of its subsidiary's US marketing operations, the injection of necessary capital by Coverdell and Glenleigh and their assumption of IFMG's operating liabilities and leases. Sage has a seven-year option to convert one-third of the \$2m into a joint controlling interest.

Sage said yesterday it would not be repaying its US debts immediately but is waiting until exchange rates are felt to be favourable.

Exports help ⁽⁷⁴⁾ cushion Standard

By Jabulani Sikhakhane

Increased exports and a lower tax rate helped cushion the impact of adverse local trading conditions at Standard Engineering in the six months ended-February.

Attributable earnings grew 28,5 percent to R15,759 million (R12,267 million), but a 27 percent increase in the share base shaved growth at the earnings per share level to only one percent at 46c (45,5c). The dividend has been maintained at 14c.

share 20/3/91
The increase in the issued share capital is due to the issue of 7,3 million shares to fund the acquisition of minority interests in subsidiaries last year.

Chairman Hugh Brown says Standard's performance was adversely affected by the poor showing at Astas which manufactures heavy vehicle gearboxes, axles and brake components.

Astas was hit by customers cancelling orders which reduced turnover from R119 million to R56 million. The two-month strike at Mercedes Benz, which is a major customer and the general industry cut-backs were major factors.

As a result at the end of the review period Astas's stock holding were R20 million above the normal level.

Mr Brown says gearing was reduced from 37,8 to 35,3 due to tighter working capital management in other group divisions. If it had not been for the extra stock in Astas, gearing would have been at 25 percent.

All divisions reduced working capital, except Union Carriage which had to fund the growth in turnover from R8 million to R57 million.

During the review period group turnover fell 9,2 percent to R295,989 million (R325,931 million). Because of the problems at Astas and lower margins on exports, the operating margin fell to 11,9 percent from 13,4 percent.

This translated to a 19,5 percent drop in operating income to R35,089 million (R43,593 million). Borrowings were slightly lower at R81,153 million (R87,961 million), limiting the increase in financing costs to only 4,5 percent — up to R7,902 million (R7,559 million).

Exports increased to 20 percent of group turnover and as a result the effective tax rate was reduced from 34,7 percent to 28,2 percent thanks to export allowances. This helped counter the effect of lower margins at the bottom-line.

The tax charge fell 38,7 percent to R7,663 million (R12,498 million).

Last year's acquisition of minority interest in subsidiaries meant that the outside shareholders interest fell 66,6 percent to R3,761 million (R11,265 million).

Mr Brown says the expected reduced demand from the local market will be partly offset by increased exports.

SOUTH Africans are watching the ascent of the dollar with a certain measure of apprehension; the corollary to a strengthening dollar is a weaker rand. This would be a mixed, a very mixed, blessing to this country.

Exporters of dollar-denominated commodities would fortuitously receive welcome bonuses when they cash in their dollars for rands, but importers of dollar-priced goods would receive painful solar-plexus blows.

There is, however, a silver lining to the dark clouds. Imports priced in currencies other than dollars might come cheaper because the rand has been strengthening on the cross-rates.

The question on the minds of all dollar-watchers, importers as well as exporters, is: how deep into the stratosphere will the US currency climb before it reaches a turning point?

The chartists are cautious; they virtually live from resistance line to resistance line. With the dollar blasting its way through the resistance line at DM1,6220 to the dollar, techni-

Dollar's rise is a mixed blessing

15/Dec 20/3/91

HAROLD FRIDJHON

cal analysts at First National Bank (FNB) are waiting to see whether it will push on to DM 1,6853 before tackling DM1,8271 and breaking into high ground untested for more than six years.

The gut-feel traders, however, believe that at present the US currency is on an unstoppable flight. Koos von Ettinger, Bankorp's GM of foreign treasury, is quite prepared to talk of a build-up to DM1,85 backed by the swelling dollar sentiment in world markets.

He says traders abroad do not expect the US currency to soar on a straight flight path. There will be some reaction from time to time but nothing sufficiently strong to disturb a trend which might carry the dollar to DM2,30 within months, with periodic short-covering adding upward impetus.

Reporting from Japan, the Union Bank of Switzerland says that sources associated with the Bank of Japan view the development of the

dollar as speculative, a result of post-Gulf war euphoria.

Last week, widespread and repeated central bank intervention was visibly swept aside, with the dollar's resilience to central bank activity in part attributable to evidence of non-unanimity of purpose amongst the main global monetary authorities, writes Standard Bank in its current International Currency Reviews.

The Bank of France, for instance, was a notable absentee from the various rounds of official dollar sales, somewhat surprisingly since France has traditionally been one of the most vocal proponents of the need for central bank intervention to stabilise markets.

FNB suggests that the passive central banks are waiting for the forex markets to be saturated with dollars before launching a concerted

intervention in the market. This would be in keeping with the technical analysis by signalling the start of a turnaround/consolidation in the current bull trend.

Interestingly also, other than in Japan, no official statements were made concerning dollar strength, an indication perhaps of a desire to reserve judgment on whether the dollar's recent rise is other than speculative in nature.

But the movement in the dollar has been supported, to some extent, by US economic data as well as political comment in Germany. The latest US CPI figures, though not really favourable, were better than had been expected, and the index of building starts was positive and encouraging.

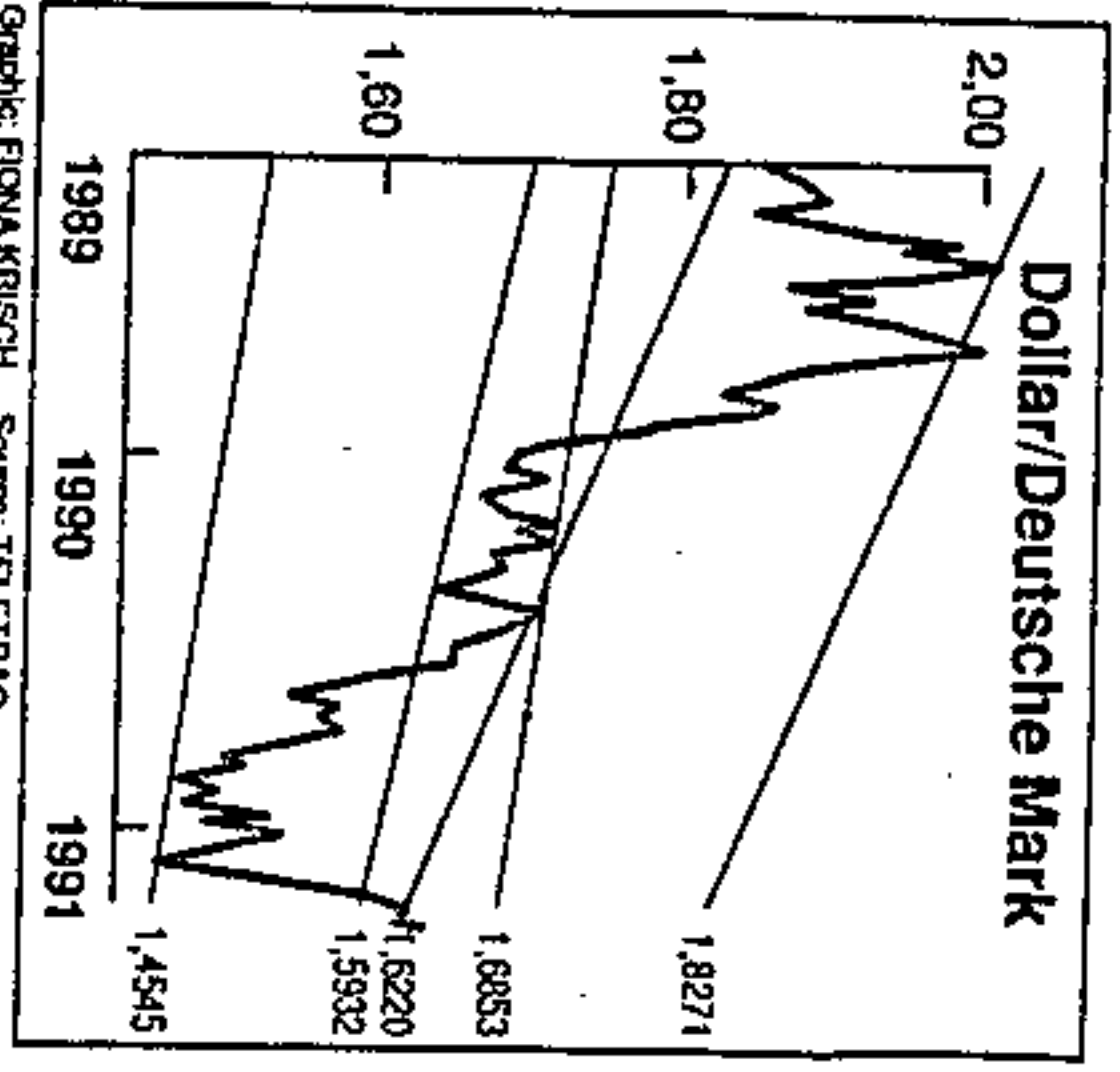
On the European front Hans-Otto Poehl, the Bundesbank president, undetermined DM sentiment when he said that German unity was financially a disaster.

The outlook for the rand is bearish,

says FNB. After breaking intermediate resistance at R2,6590 to the dollar, the next stop is R2,760. The bank recommends buying dollars on every dip in the dollar rate.

The rand has shown an improvement against sterling and the DM but it has surrendered previous gains made against the yen.

Gold appears to have little support. UBS says that the trading range for this week could be \$355-\$370, with the start of Ramadan tending to curb buying activity.



Graphic: FIONA KRISCH Source: TELEFRAC

SA exports will be welcomed in Europe

Cape Times 20/3/91

By AUDREY D'ANGELO
Business Editor

74

SA manufactured exports should have no difficulty in getting into the single European market after 1992 — provided they are of the required standard of quality, the Minister of Trade, Commerce and Tourism, Kent Durr, said yesterday.

The Minister, who is about to become SA Ambassador to Britain, was speaking to members of AIESEC — an international organisation of economics and commerce students — at the Cape Technikon yesterday.

"Europe is our major trading partner and I believe it will remain so," he told them.

Asked what effect the creation of the single European market would have on SA's economy, Durr said: "Europe '92 is a fence made of standards and specifications.

"If you can meet these, then you are in Europe. If you don't, then you are excluded.

"This is why, through the Quality Institute, we have tried to improve standards of quality in SA manufacturing. This is why the SA Bureau of Standards (SABS) is so important and works so closely with bureaux of standards in Europe.

"The Germans now accept the mark of our SABS as though it were that of their own German bureau of standards. Anything with the SABS mark has admission to the EC."

Emphasising the need for manufactured exports, Durr said it was vital that the new SA should be backed by a strong economy with tax resources sufficient to pay for enormous social spending.

"SA cannot tax people any more (than now) because our tax rates are already among the highest in the world."

It would therefore be necessary to grow the economic cake, providing bigger slices for everybody and creating a broader tax base. This would make it possible to divert more money to social spending.

Durr said experience in other countries showed that the only way to create wealth was to develop manufactured exports.

But these would have to be of the required quality and at competitive prices.

Discussing other moves to boost SA exports, Durr said transport, electricity and labour were major manufacturing costs. This was why the government had caused Eskom to be restructured, seeking greater efficiency.

The high growth of electricity tariffs in the 1970s and 1980s had obstructed the beneficiation of SA raw materials. Electricity tariffs were expected to depreciate in real terms over the next 10 years.

SA's main manufacturing area in the PWV triangle was a long way from the sea. It cost more to

transport goods from there to the port of Durban than to send them by sea from Durban to Hawaii.

This was why the transport services had been split into separate units with more focused management.

The government was also doing something about structural problems like inordinately high tariffs to protect some local industries from competition. The tariff structure was now under review.

Discussing SA's role in Africa, Durr said: "Exports to Africa rose last year by 97%."

Many of the tourists visiting SA were from other parts of Africa — some came here to shop.

Africa was emerging from its post-colonial period and "coming to terms with reality — and with us".

Many African countries had populations too small for their economies to develop. Their only hope of achieving economies of scale was through the SA market.

Plans to provide low-cost power from the SA grid to other southern African countries was an example of the type of interaction that could be expected in the future.

SA was not in a position to give budgetary help. "But by sharing our skills and through economies of scale we can make a major contribution to the economics of the region as a whole."

SA called 'land of opportunity'

PRETORIA — There was probably no other country where trade opportunities were opening up to the extent now possible for SA, Safto Africa and Latin America manager Martin Smith said yesterday.

Speaking at an SA Institute of International Affairs lunch, Smith said the business community had to act quickly to take advantage of the new situation.

"We cannot afford to be one step behind. We must be right up front in our efforts to expand our international and continental trade."

Smith said SA was exporting its

GERALD REILLY

riches by not adding sufficient value to its products, something it had in common with other African countries.

Recent visits by African countries eager to trade with SA indicated an almost continent-wide realisation that SA involvement was needed to give Africa the economic push it so badly needed.

In the past six weeks, missions had arrived from Zaire, Togo, Burundi and Madagascar, and many other countries were planning missions.

11/13/01
B/100
L/100
M/100

(74)

Reserve Bank functions reallocated in reshuffle

CAPE TOWN — Reserve Bank Governor Chris Stals has reallocated the central bank's main functions following the designation of B P Groenewald and Jaap Meijer as replacements for retiring Deputy Governor Jan Lombard.

Their appointments become effective on May 1.

As Senior Deputy Governor, Groenewald will deputise as Governor in Stals's absence. He will retain his current responsibility for the internal administration and organisation of the Bank and assume new responsibilities for internal strategic planning and broad policy decisions.

He will remain in charge of the Departments of Administration, Finance, Personnel and Secretariat and Internal Audit. He will also continue to supervise the Exchange Control Department.

As Deputy Governor, Meijer will be responsible for all the economic and statistical services of the Reserve Bank and the Information

LESLEY LAMBERT

Technology Department. He has also been assigned the task of maintaining relations with other central banks, including the monetary authorities of the members of the Common Monetary Area in Southern Africa.

Meijer will take charge of the Bank's relations with international financial institutions, such as the IMF, the World Bank and the Bank for International Settlements.

Current Deputy Governor Chris de Swardt will remain responsible for the operations of the Bank's Money and Capital Market Department and the Bank Supervision Department and will take on additional responsibility for the operations of the Gold and Foreign Exchange Department.

He will also be responsible for relations with overseas banks and take charge of the Bank's foreign loans and the administration of SA's debt standstill arrangements with creditor banks.

Trade surplus bounces back to a healthy level

Star 19/3/91

74

By Sven Lünsche

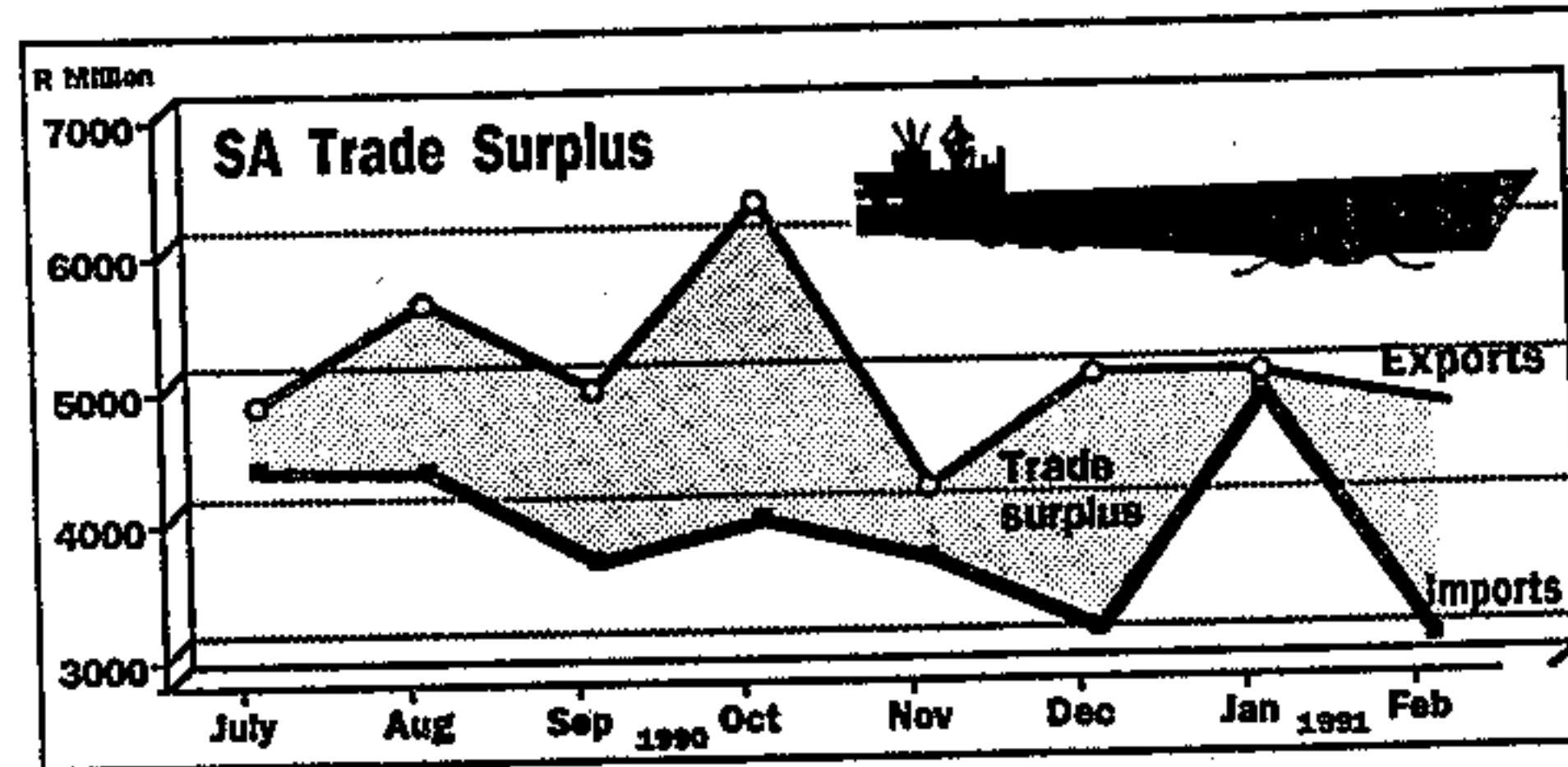
South Africa's trade surplus is set to maintain its recent strong levels despite the imminent reduction of import surcharges.

Finance Minister Barend du Plessis is expected to announce a relaxation or even the abolition of import surcharges in tomorrow's Budget to allow cheaper imports to help boost the economy while at the same time assist in reducing inflation.

However, economists do not expect this to push up the country's import bill and exert pressure on the trade surplus.

South Africa's monthly trade surplus bounced back to a healthy level of R1,747 billion in February after unusually high oil imports of about R1,3 billion in January reduced the surplus to a meagre R145 million.

Imports of unclassified goods (mainly oil) fell back to R175 million in February and the total monthly import bill resumed its falling trend of preceding months; at R2,991 billion it was also recorded below the R3 billion mark for the first time in months.



Cumulative imports of R7,818 billion for the first two months of this year were only one percent higher compared with the comparative period last year, in the wake of the domestic economic recession.

The slowdown in consumer spending is likely to further subdue demand for imports over the next few months and a relaxation in import surcharges is not expected to have a major impact on this trend, although it will slightly reduce the prices of imported goods.

"The demand for imports is income- and not price-sensitive and the authorities can therefore reduce the surcharges somewhat without putting too much pressure on the balance

of payments," says Old Mutual economist Dave Mohr.

Corporate demand, however, is still strong, according to Bruce Donald, economist at the SA Foreign Trade Association.

"Machinery imports over the first two months rose by two percent to R2,12 billion compared with last year, indicating that a fair amount of capital formation is still taking place in South Africa," Mr Donald says.

On the export side, lower commodity prices on international metal markets were largely responsible for the three percent decline in cumulative export earnings during the first two months of the year.

Exports in February also fell slightly to R4,738 billion from

R4,927 billion in January, according to the Department of Customs and Excise's trade figures.

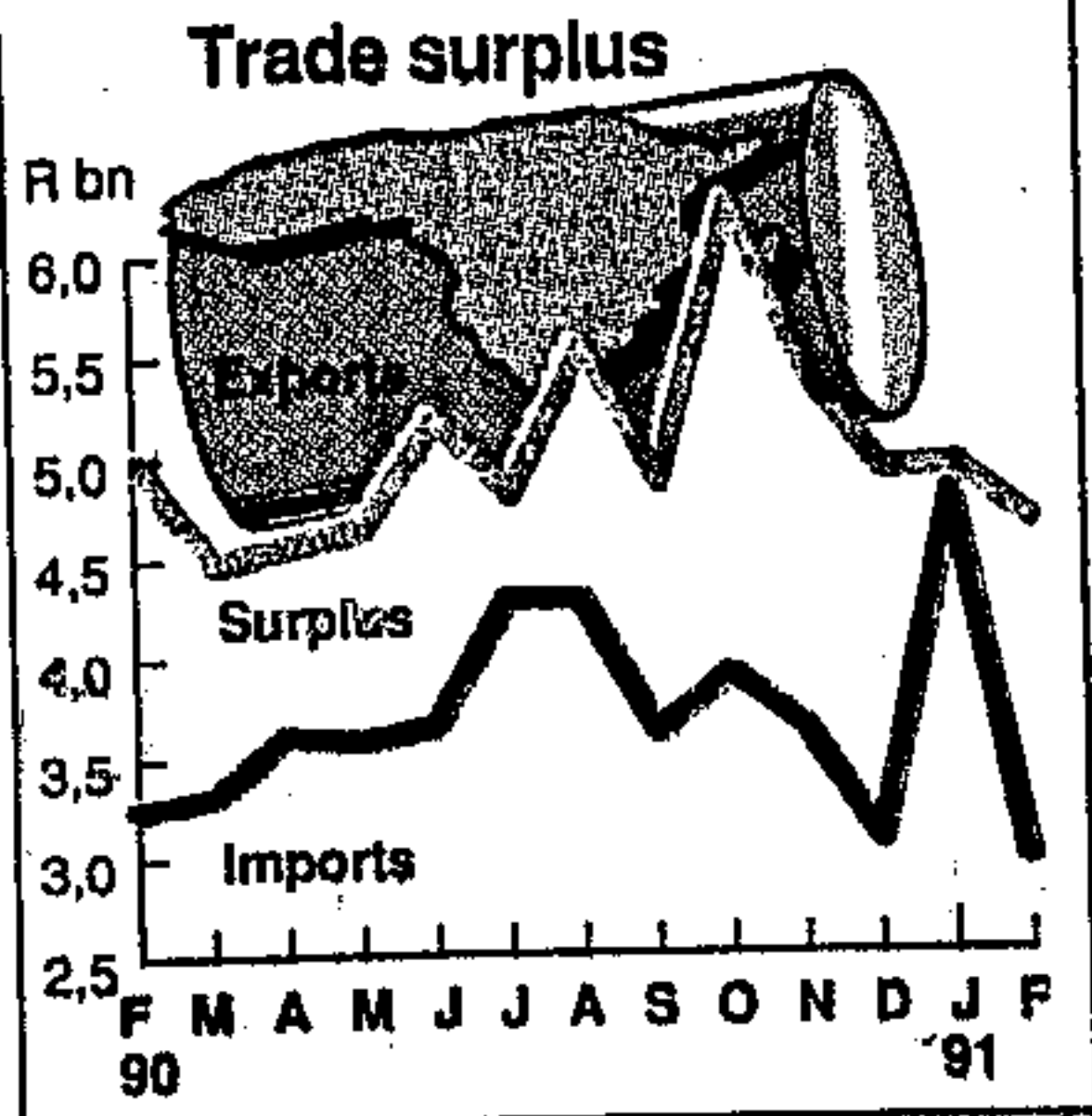
The biggest contributor to the declining trend was diamond exports, which fell by over 50 percent to R660 million in the first two months of the year.

Other primary product categories also fared badly. Mineral products fell by seven percent to R1,214 billion (January, February 1990: R1,3 billion), base metals by one percent to R1,415 billion (R1,434 billion) and vegetable products by 32 percent to R253 million (R370 million).

Unclassified exports (mainly gold, but also including oil, platinum group metals and arms) improved by six percent to R4,312 billion (R4,059 billion).

According to Safto figures the average London gold price during February at R923,2 per ounce was the lowest in almost three years and over R60 an ounce down on the January average.

Subsequently lower gold revenues must have been more than offset by higher platinum group metal exports and substantial re-sales of South African refined oil.



Trade surplus back up to normal level

610 am 19/3/91 SHARON WOOD (74)

LOWER imports pushed the monthly trade surplus up to R1,7bn in February.

This was a normalisation after January's unusually low surplus caused by the high level of "unclassified" imports (oil and arms) in that month.

The surge in the February trade surplus was caused by strong declines in SA's three major import categories (machinery, unclassified and transport equipment) and a moderate fall in total exports.

Customs and Excise figures released yesterday showed imports declining by 38,1% month-on-month to R2,99bn in February from R4,83bn.

"Unclassified" imports, the category which pushed imports up in January, fell by 86,3% month-on-month to R174,6m in February from R1,28bn in January.

Machinery and transport equipment imports fell by 17,6% and 49,2% between January and February respectively.

Low "unclassified" imports in February were probably a result of a further fall in the oil price in February and a return to normal volumes of oil imported, said Safto economist Bruce Donald.

He said the fact that machinery imports rose by 2% in the year to February from the same period last year indicated a fair amount of capital formation taking place.

Exports fell by a relatively moderate

To Page 2

Trade surplus

5,6% month-on-month to R4,69bn from R4,97bn in January.

"Unclassified" exports (gold, platinum, uranium and arms) declined by 28,7% to R1,8bn in February from R2,5bn in January. This decline could be the result of a low \$363,75 average gold price during February.

The decline in "unclassified" exports was partially counterbalanced by a 32,9% rise in mineral product exports and a 104,4% rise in precious stones and coin exports between January and February.

However, SA's second largest exported good, base metals, declined by 4,6% month-on-month in February.

Rand Merchant Bank economist Rudolf

(74) From Page 1

Gouws said the February trade surplus was caused by a return to normal import levels, from the once-off unusually large imports of oil and the import of aircraft in January.

He said slightly weaker exports, probably because of the international economic slowdown, were a worrying factor.

Falling imports were a reflection of lower spending and the recession, said Bankorp chief economist Nick Barnardt.

There should be no need for concern about the health of the trade surplus and the current account in the next few months. The trade surplus has been performing more than satisfactorily on average in the past three months, he said.

Rhodium exports to the US triple

By Sven Lünsche

Star 18/3/91

South African exports of rhodium to the United States more than tripled last year in the wake of strict exhaust emission standards set by US Congress and state governments.

Figures released by the US embassy on Friday show that rhodium sales to the US soared to \$345 million (R890 million) in 1990, 230 percent up on 1989 sales of \$105 million.

Exports

Exports of platinum over the year were \$30 million higher at \$585 million, pushing combined platinum group metal (PGM) sales to \$1,1 billion — almost two-thirds of total SA exports to the US last year.

Rhodium and platinum are essential in the manufacturing of autocatalysts, which are used to reduce exhaust emission.

The US Congress over the last few years has taken the lead in setting strict exhaust emission standards for vehicles and leg-

islation is now being strengthened further in many states.

This has led to a surge in US demand for PGM's, of which South Africa is the main supplier, but their market prices have been held back by lower US car sales and aggressive selling by the Soviet Union.

New laws

However, the Minerals Bureau counsellor in Washington, BG Russell, writes in the Bureau's latest bulletin that a number of new laws could boost the price in the months ahead.

These include:

- Extending emission control standards to include provisions for cold engine emission controls.
- Doubling the compliance specifications of catalytic converters to 160 000 kilometres.
- Controls on emission from aircraft engines.

The rise in PGM sales is a welcome boost to SA export earnings as most other commodity exports to the US declined during the year.

Nevertheless total exports

during 1990 improved slightly to \$1,7 billion from \$1,53 billion in 1989.

US imports into SA also showed a slight increase, rising from \$1,66 billion in 1989 to \$1,73 billion last year.

The import list is headed by aircraft and aircraft equipment, which cost SA just over \$150 million in 1990 (\$110 million in 1989).

Namibian trade

The embassy also released figures for US trade with Namibia and South Africans can take heart if this is a forerunner of future US-SA trade relations once sanctions and disinvestment is lifted.

Total trade between Namibia and the US in 1990, albeit tiny at \$77,5 million, more than quadrupled as sanctions were lifted when Namibia gained its independence early last year.

US exports to Namibia increased from \$12,7 million to \$44,4 million, while Namibia sold \$33,2 million (1989: \$14,8 million) worth of goods to the US last year.

Trade with ⁷⁴
rest of Africa ²
Star 18/3/91. ²
is soaring

Trade sanctions seem to have crumbled on the African continent, according to figures given by Rusty Evans, deputy director-general of the Department of Foreign Affairs, in a newly published book, "Trends Transforming South Africa".

On cross-border trade, he writes: "South Africa's total trade with Africa is growing by leaps and bounds.

"It currently amounts to almost R10 billion a year. Trade with Zaire has trebled in two years. Madagascar has opened up and there is no reason why trade with that country should not quickly match that with Mauritius — in excess of R300 million a year.

"South Africa's non-bank investments in Africa are approximately R4 billion."

THE WEEK AHEAD by William Richards

Back to normal for SA's trade surplus

A GIANT rebound is due in SA's trade balance for February, due out later today. The figure is likely to show that the puny R145m surplus posted in January was a one-off, and that the surplus has returned to its usual levels in excess of R1bn.

The statistics indicate that the trade balance almost plunged into the red in January due to a massive pick-up in "unclassified" imports — most likely oil. A rise in oil imports ties in with the near halving of the oil price in January, from more than \$28 a barrel for Brent crude at the start of the month to barely \$18 two weeks later.

As has subsequently been revealed in the Auditor-General's report to Parliament, canny oil deals by the Central Energy Fund (CEF) have realised profits, channelled into the Mossagas project. To have sold crude oil at a profit, the CEF must previously have bought into dips in the oil price of the sort seen during January.

The oil price did soften again during February. The cost of a barrel of Brent crude sank briefly below \$17 in mid-month before settling at around \$19, and averaged \$19,50 for February as a whole against January's \$24 average. However, the slowdown in the oil price's fall during February means that the CEF had fewer buying opportunities and that unclassified imports are likely to be sharply lower for the month.

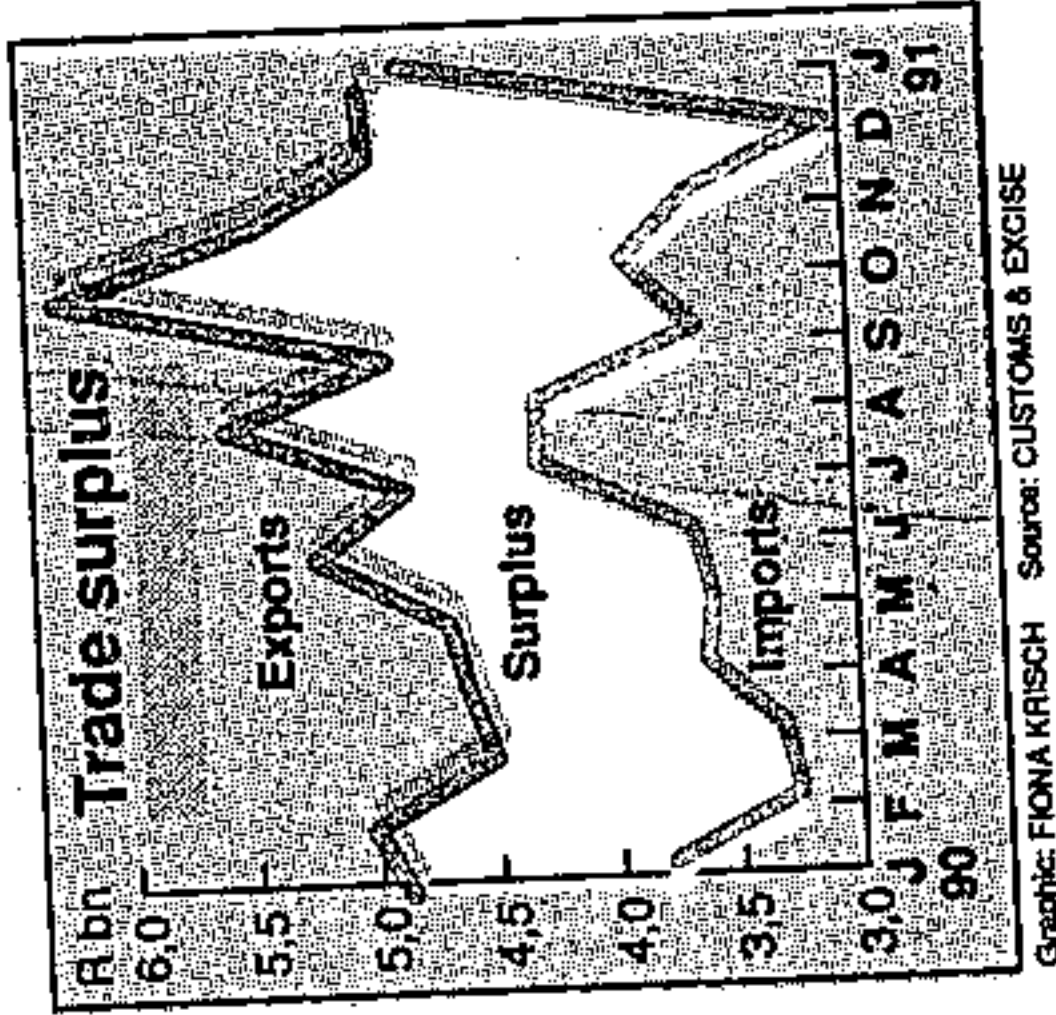
At the end of the week SA's latest inflation and money supply figures are scheduled for release — although they were almost a week late last month. Recent consumer price figures have shown continued domestically-sourced inflation, so the February CPI may be little

different from the 14.3% recorded for the year to January. The M3 figure for the year to February is still subject to statistical "noise" from reintermediation and seems set to stay around January's 10.3%.

Internationally this week is an important one for budgets. In addition to SA's Budget statement for the 1991/92 fiscal year due on Wednesday, the new British Chancellor of the

Exchequer, Norman Lamont, presents his first budget tomorrow. British budgets have often been accompanied by changes in interest rates.

Figures released last week, just as Lamont would have been finalising his package, showed a higher-than-expected rise in UK unemployment rate rose to 7%



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

ment. The overall British unemployment rate rose to 7% of the workforce last month, and to more than 2-million jobless — a two-year high. The government's good showing in the opinion polls indicates that an early general election is still a possibility.

Last week's UK figures also showed an unexpected fall in British earnings growth back to 9.5% in the year to January, closer to the prevailing 9% inflation rate. The February rate of inflation, scheduled for release on Friday, should show another fall. Now that inflation and earnings are trending down and sterling is steady between DM2,90 and DM2,95, the way is open for another cut in British interest rates.

The need for measures to ease credit conditions for the British economy should be underlined later today when the UK's preliminary retail sales figure for February is published. Markets are bracing themselves for a steepening in the fall in sales from -1.1% in the year to January to a plunge of more than -3% in the year to February.

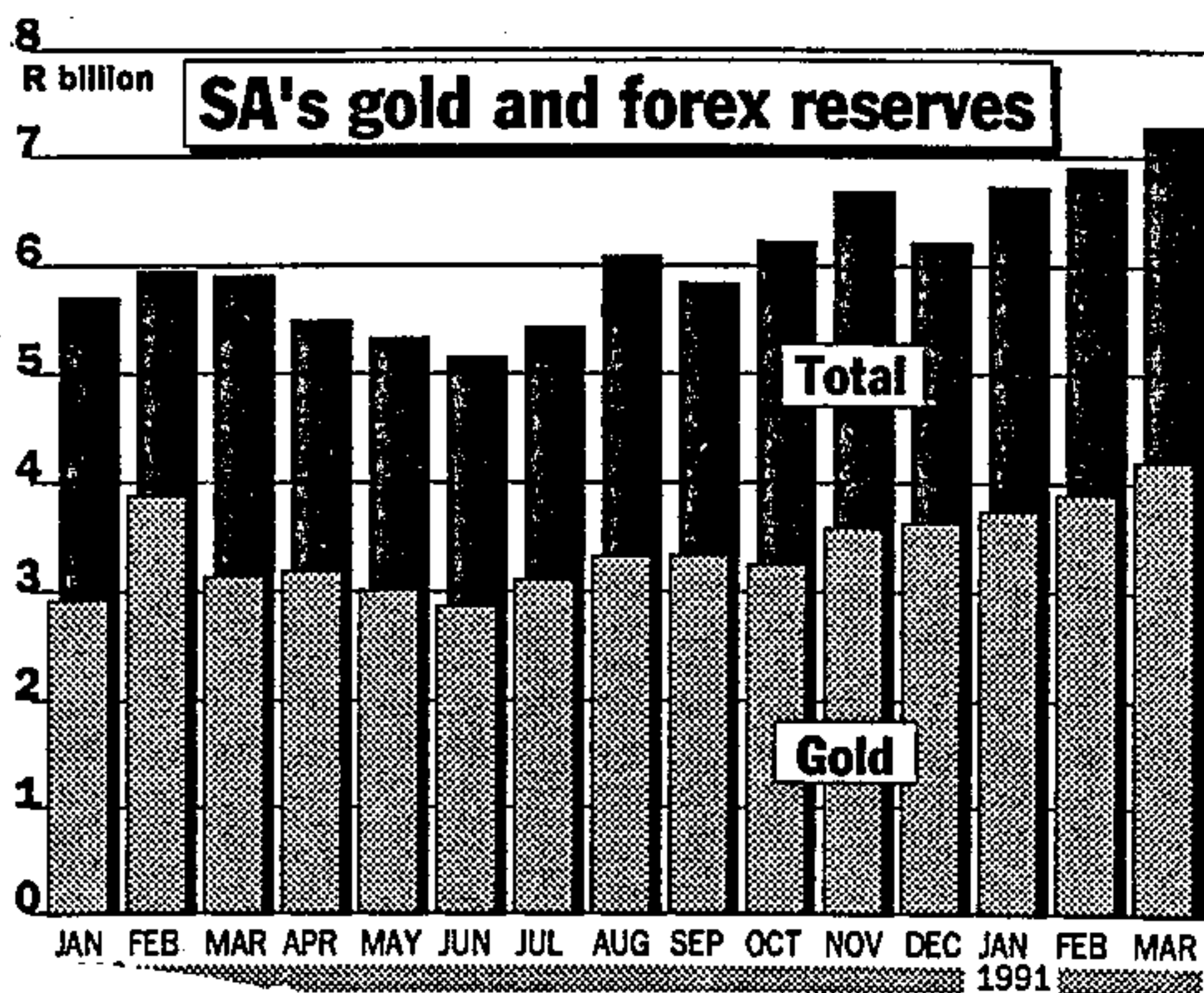
The Federal Open Market Committee, the policy-making arm of the US Federal Reserve, meets on Friday with the possibility of another cut in US interest rates on the agenda. The US CPI for February, due out tomorrow, will probably show inflation continuing to fall from the 5.7% rate posted for the year to January.

Capital inflow helps boost reserves to four-year high

Star 10/4/91

74

By Sven Lünsche



Gold and foreign exchange reserves rose to their highest level in four years in March as capital inflows continued in the wake of improved political sentiment.

However, the threat posed to the negotiation process by the latest ANC ultimatum could jolt foreign investor confidence and slow down or even reverse the inflow of foreign capital over the next three months.

The Reserve Bank reported yesterday that the gold and forex reserves in March rose by 5,6 percent to R7,28 billion from R6,9 billion in February, the first time they had exceeded R7 billion in four years.

Reflecting the weaker rand-dollar exchange rate over the

month, the reserves in dollar terms increased by only 1,3 percent from \$2,72 billion in February to \$2,75 billion.

The gold content of the reserves soared by R312,1 million to R4,21 billion, boosted by a R52 rise in the average rand gold price from R829,37 to R881,09 per ounce and a 1,7 percent increase in the gold holdings to 4,77 million ounces.

The foreign exchange content of the reserves increased marginally by R75 million to R3,08 billion.

Reserves have shown a steady rise since they hit a temporary low of R5,16 billion in June last year.

Part of this can be ascribed to the successful rollover of foreign debt caught in the standstill net, but most of all it is a reflection of an improvement in the capital account of the balance of payments.

The capital account reflects the net inflow or outflow of capital.

It has shown an improvement ever since President FW de Klerk embarked on his reform programme.

It was first mirrored in the halt to the capital flight evident in the second half of the 1980s, but in the third quarter of last year it led to a net inflow of R1,5 billion for the first time since 1987.

It reversed to a net outflow of R1,8 billion in the fourth quarter, but this was largely attributed to debt repayments and lower trade credits, rather than to capital outflow.

The strong level of the reserves suggests that a net inflow will again be recorded in the first quarter 1991, despite debt payments of about \$200 million in February.

Bankorp economist Emile van Zyl estimates that a net inflow of just under R100 million occurred in March, judging from the R1 billion of capital assets held by the Reserve Bank.

However, the situation is likely to be reversed in the current quarter, which could see a decline in the level of the reserves in the period.

While the dividend payouts are set to be fairly low, given recent poor corporate results, the strong investments by foreigners in the capital market — Mr van Zyl estimates that about 50 percent of Eskom stock is held by non-residents — will keep interest payments at their recent strong levels.

But most of all economists fear that the deteriorating political environment could halt foreign investments.

The continuing high level of violence, the social and economic backlash from rising unemployment and, in particular, last week's ultimatum by the ANC to the Government are set seriously to dent foreign investor confidence.

Export growth needed to sustain next upswing

724 Star 10/4/91

By Sven Lünsche

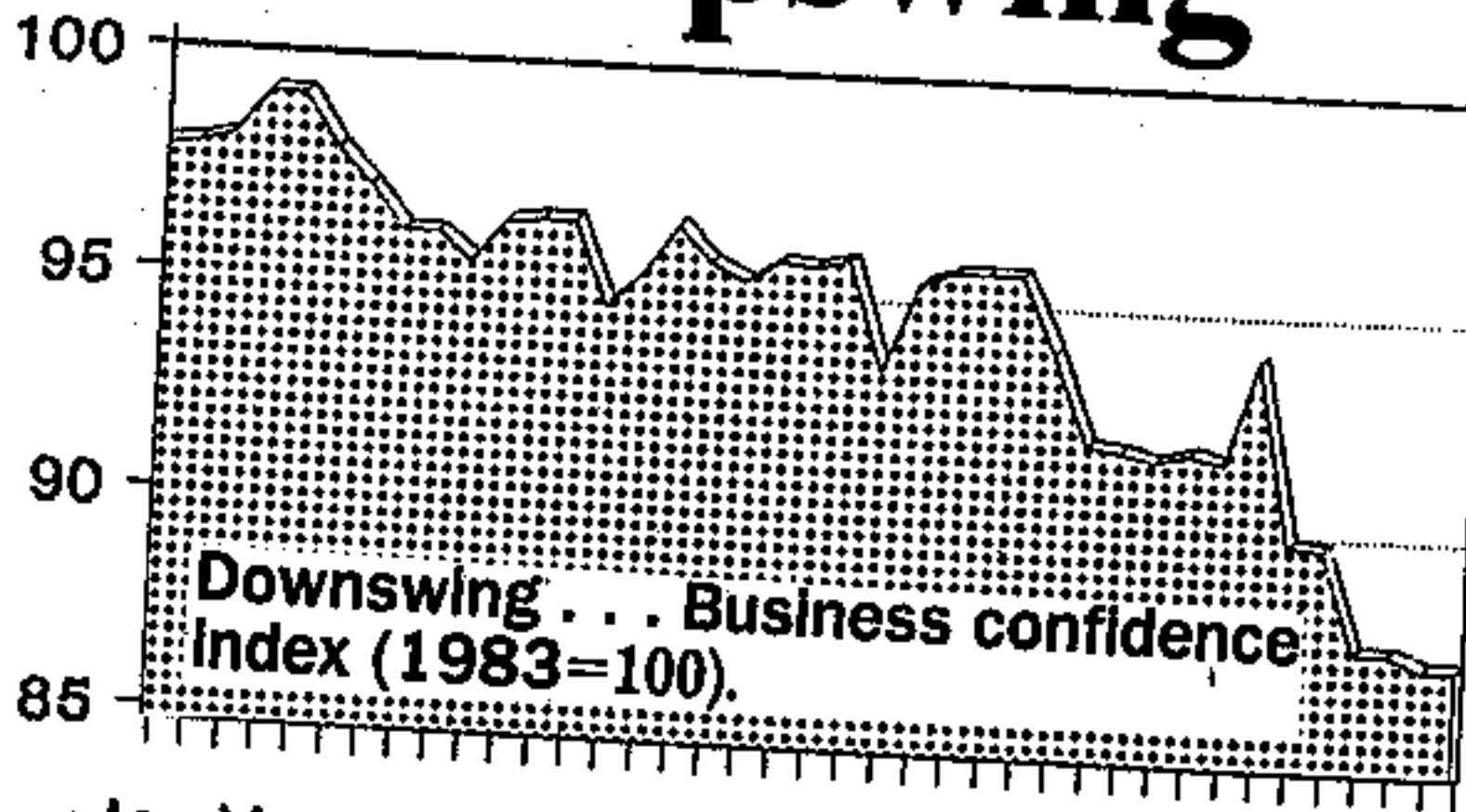
A growth in exports and investments is essential if stronger economic growth, forecast for next year, is to be maintained.

The SA Chamber of Commerce (Sacob) said yesterday that the replenishment of stocks in the manufacturing sector will give a slight boost to the production industries and could provide the initial impetus for a new upswing later this year.

"However, it is unlikely to be sufficient to sustain a new growth phase by itself and, if it is not supported by growth in exports and/or investments, the economic upswing could experience a false start," Sacob economist Dr Ben van Rensburg said.

It would be unrealistic to expect sufficient growth in exports this year to initiate an earlier upswing, given the weak world economic outlook and an expected decline in commodity prices.

Presenting the Chamber's March Business



Confidence Index (BCI) Dr van Rensburg said that on present evidence 1991 remains "a year of consolidation" and that the next real economic upturn must not be expected until 1992.

The BCI remained unchanged at 87,3 points in March this year, reflecting the mixed messages emanating from the economy.

The level of private consumption expenditure had been uncharacteristically high during the current downswing, which had led to some speculation that the economic downturn had not been as harsh as expected, Dr van Rensburg said.

On the downside how-

ever, the high unemployment rate, a conservative Budget and the continued high level of interest rates continued to impact adversely on business confidence.

Confidence levels also remain vulnerable in the present political circumstances, in particular in view of the threat posed to the political negotiation process by the latest ANC ultimatum to the Government.

Sacob's March survey of confidence levels in the important manufacturing sector showed a slight improvement in sentiment in the industry — the third month in succession confidence has risen, albeit at small margins.

Govt unveils proposals to boost exports

74

B/Pan 11/4/91

CAPE TOWN — Government yesterday released a package of proposals by the Industrial Development Corporation (IDC) which consolidates efforts to make SA trade policy more export-oriented and to boost its competitiveness internationally.

The IDC's proposals, which government is still studying, incorporate the modification of the longstanding policy of protectionism and the consequent removal of its inflationary effects.

Modification of tariff protection policy will be achieved through an increased import parity price level, lower tariffs and elimination of import surcharges.

Trade and Industry Minister Org Marais said the IDC report had already been discussed by the Economic Advisory Council and copies had been sent to organised industry for comment.

He said an export-oriented approach for local industry had to be emphasised but had to be handled with circumspection, and quoted President F W de Klerk as saying actions should be geared to the fullest utilisation of national resources. These included a shift from import replacement and strategic self-sufficiency to an export-oriented strategy.

The IDC recommended that modification of the protection policy be done within

BILLY PADDOCK

broader economic restructuring. The IDC warned that the policy would fail if individual recommendations were implemented selectively.

The reduction of import tariffs was an integral part of the process of export promotion and the selective granting of tariffs should be replaced with a system providing for introduction and reduction of tariffs on a fairly automatic basis.

This would happen within the framework of the more uniform tariff structure in which formula duties were scrapped and replaced with a system which could deal effectively with dumping.

The IDC recommended the import parity price level be reduced over the short term and stabilised over the long-term.

The abolition of import surcharges would bring about immediate and substantial reduction in the import parity price level, thereby contributing to the fight against inflation.

It proposed the imposition of a general tariff cut of 10 percentage points on all tariffs of 40% and higher and five percentage points on tariffs between 20% and 39%, based on undervaluation of the rand. This cut would be made within the first year of

□ To Page 2

IDC proposals

B/Pan 11/4/91

74

□ From Page 1

the reduction programme.

To ensure that the increase in imports was affordable, and that the BoP fluctuations did not impair the process of trade liberalisation, there would have to be an expansion of production and export capacity.

The IDC said existing special development schemes, such as Phase VI of the Local Content Programme for motor vehicles, should remain operational.

With regard to the general economic policy, the following measures were recommended as supply-side stimuli:

- Informing industry of the implications of the process of company tax reform;
- Introducing measures to boost savings in order to support export-orientation: by generating sufficient funds for financing investment and bringing about a greater

surplus of production for export;

- Maintaining a realistic exchange rate policy as the backbone of the series of policy measures to boost exports; and
- Following a policy which will improve the supply of skilled productive labour.

Trade and Industry director-general Stef Naude said the recommendations were aimed at improving the economy's supply-side and, if accepted, they would go a long way towards phasing out structural problems that had developed over the years.

He said as this was phased in, the need for subsidies would be reduced and the General Export Incentive Scheme would be adjusted downwards and phased out completely over five to six years.

● See Page 6

Tough plan to push exports

BPCy 11/4/91

KEVIN DAVIE (74)

IT HAS become a truism that SA is not export-orientated. Unprocessed products are sold at fluctuating prices on commodity markets, and surplus widgets exported to whoever will buy them.

It also is a truism that there is an urgent need to restructure the economy to engender an export consciousness. A number of thick reports have recommended this. Now a new report makes similar recommendations, but goes further in detailing measures to push exports.

The Modification of Protection Policy, a report by the Industrial Development Corporation (IDC) which was released yesterday by government for discussion, contains a vision of a radically altered industrial environment. If implemented it would send shockwaves through the system which could wrench industrial policy out of protectionism and into competition.

This would be a break with 70-year-old policy based on import replacement, the IDC report notes.

Excessive protection in the form of high import tariffs is a disease which limits industry's ability to compete internationally and damages the economy by increasing prices and inflation, the IDC says. Phased-in tariff reductions would force industry to deliver products more in line with world prices, and the effect on the economy would be deflationary.

Excessive tariffs have imposed a cost burden equal to about 12% of GDP, the IDC says. If the effects of the import surcharge are added, the

burden equals about 14% of GDP.

The report identifies the surcharge as a chief public enemy, and calls for its immediate scrapping as it has a cost-increasing effect on exports. Finance Minister Barend du Plessis, in the Budget, halved the surcharge on capital goods and reduced by one-third the surcharge on intermediate goods.

International experience (the report draws liberally on World Bank research) over the past decade has shown that countries with strongly export-orientated economies perform better than those which rely on import replacement and high protection. Growth in world trade has been

should be rewritten to include timetables for reducing protection and to provide rates for products not yet produced locally. But if the report is implemented, new industries can expect their protection to be phased out over a five-year period. The days of allowing protection to continue indefinitely will be over.

An interesting finding is that revenue earned from tariffs is about 5% of the total value of imports. This is the internationally accepted benchmark. But if import surcharges and currency factors are added, import parity pricing effectively provides a tariff wall for local industry of about 20%. This is because high tariff items are mostly locally produced and imported to a limited extent or not at all, while low tariff items comprise the bulk of imports.

A major thrust of the report is that the sweeping change it wants will only be possible with the support of industry. The setting of target rates and the reduction procedures must be determined in consultation with the industries concerned. "This will give protected industries a fair chance of improving their competitiveness and to prevent the collapse of existing industries," it says.

And it envisages government aid in extreme cases: "A safety net will have to be provided for exceptional cases."

International trade is becoming more competitive, the report finds. Markets are becoming more integrated and interdependent. But countries with high protective walls will not find it easy to join the party.

realistic and stable real exchange rate, higher domestic saving and lower company taxes.

Government must commit itself to reduction of company taxes to below 40% over the next few years, the report recommends. (Du Plessis cut company taxes by two percentage points to 48%.) It also says export subsidy schemes such as the General Export Incentive Scheme (GEIS) should be phased out eventually because lower levels of protection will reduce costs and so obviate the need for incentives to make SA industry competitive in foreign markets.

It says tariffs need to be continually reviewed; that the tariff book

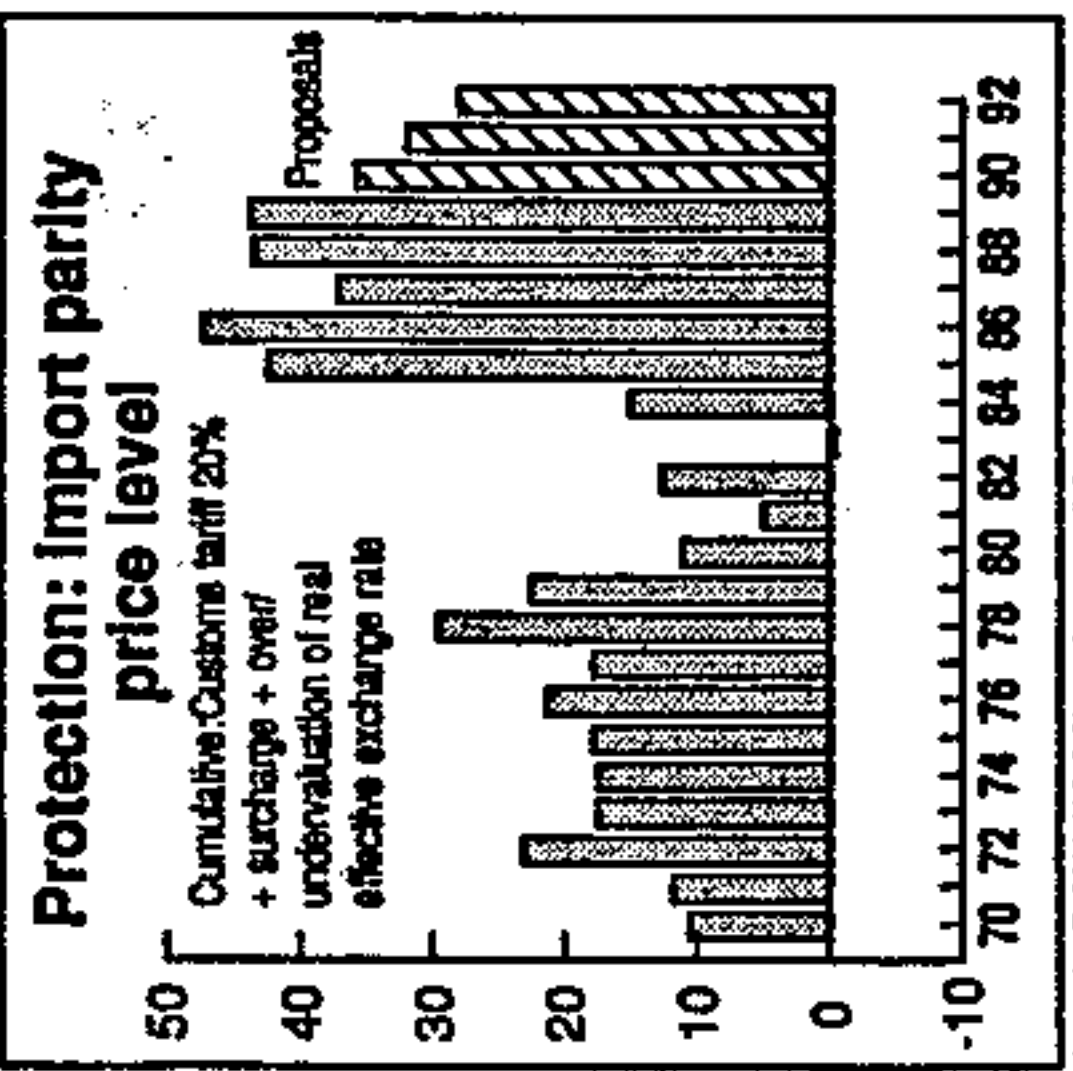
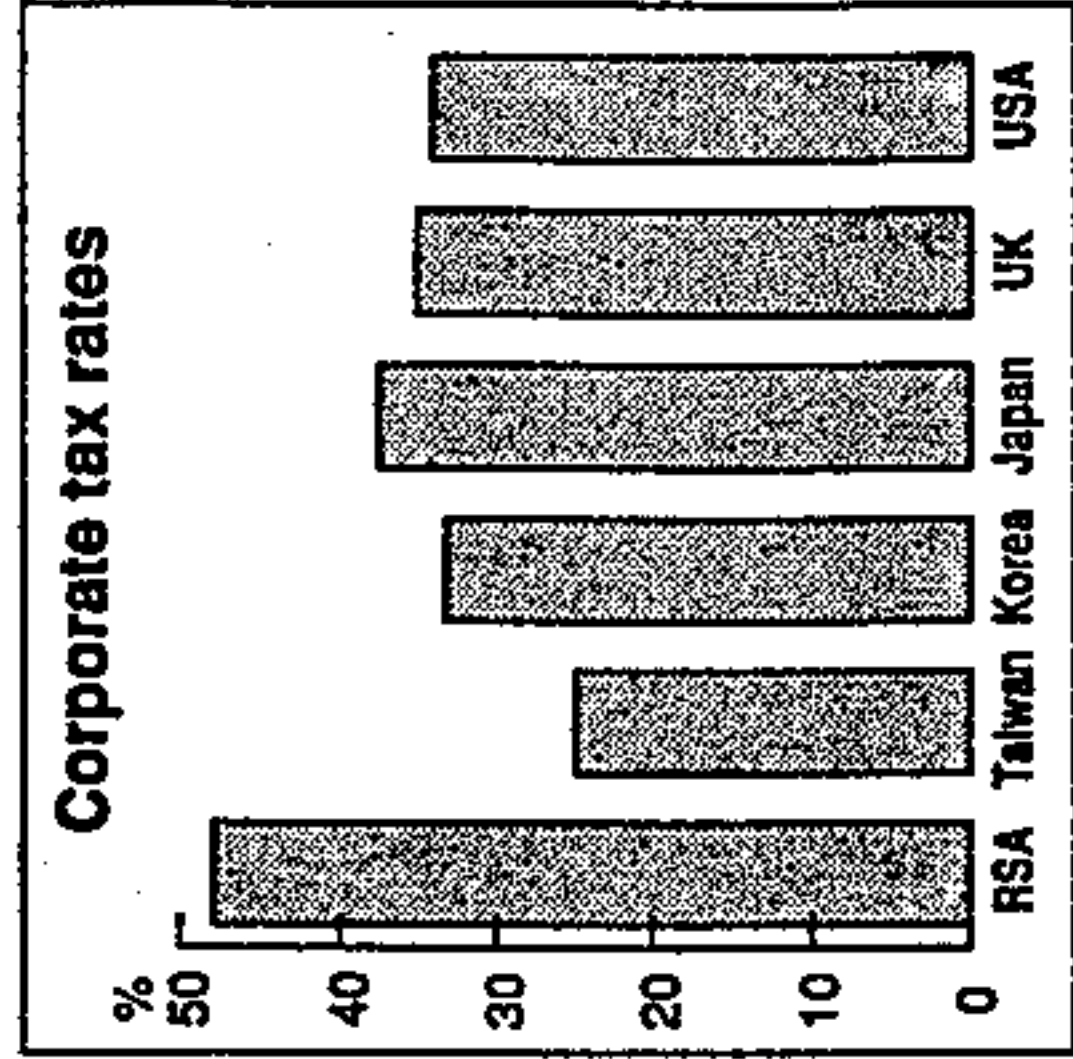
exceeding production, indicating that countries are relying on trade to an increasing extent.

But SA industry has been stagnating for a long time. The IDC's proposed cure is tough. It wants a general tariff cut of 10 percentage points on all tariffs 40% and higher, and five percentage points on all tariffs between 20% and 39%. This cut must be made within the first year and should be followed by further cuts over the next four years.

High tariffs should be reduced over this period to a maximum of 30% by value for manufactured goods, and 15% for other products. Lower tariffs should also be reduced, but at a more moderate pace.

The measures should not be implemented selectively, the report warns: "This can only have the effect that tariff reduction will fail, with a loss of credibility to policymakers which the country can ill afford."

It says the modification of protection policy also requires a plan to create a total package aimed at boosting exports. This policy is conditional on economic stability, a



SA must increase manufacturing exports Mbeki

ANC international affairs director Thabo Mbeki appealed yesterday for increased manufacturing exports and warned that it was not in SA's interests for neighbouring states to remain underdeveloped to ensure markets for its goods.

Mbeki said a future SA economy would have to relate effectively to the southern African region and to the rest of the world.

Speaking at a National African Federated Transport Organisation (Nafto) conference in Johannesburg, Mbeki said: "We need to develop the view that other countries should also be developed. It is not in the interest of a liberated SA that other countries in the region be undeveloped and remain an appendage of SA where goods can be sold."

Mbeki said SA had to be able to compete in international markets, particularly in manufacturing.

"This country continues to be an exporter of raw materials. This is an old colonial relationship that has to change."

Because of mismanagement of SA's economy, the value of manufactured products had declined as a percentage of exports from 16% in 1960 to 5% in 1989. Exports of raw materials increased from 29% to 42%.

SA had been going backwards in terms of its relationship with the more developed parts of the world, Mbeki said, and the country would be in trouble if current economic problems were not addressed.

The repeal of the Land Acts did not solve the land problem for government.

The NP had not consulted widely enough before it passed new land legislation because it wanted to soften the impact on whites of making land available to the landless.

"It's not going to work. Even if the ANC was the government, it could not unilaterally solve the land question."

THEO RAWANA

White South Africans should understand that they would be affected by the problems needing redressing. "Redistribution of wealth must make an impact on white SA," Mbeki said.

The economic objectives facing the country, and the closing of the gap between haves and have-nots, should not be only the ANC's objectives. To end poverty should be a national objective.

"This involves transferring resources from those who have to those who don't have," he said.

All South Africans had a responsibility to narrow the black-white, income and wealth gaps.

SA was a society that was divided, in conflict and prone to violence and with intolerable levels of poverty.

Sanctions

"It's an explosive mixture which spells conflict and instability."

Former Reebok International CEO Joseph la Bonte told the conference sanctions should be maintained until the majority of the people — the blacks — said they wanted them lifted.

South Africans needed to improve their image internationally. "All the outside world gets from TV and the Press is bad news — violence, disruption and lack of priorities."

He said: "Capital flows to attractive investments and South Africans need to define guidelines for investors — and to make incentives attractive."

La Bonte said these guidelines could take the form of what was being done in the areas of housing, education, job creation, health and social services and the advancement of black business.

But, the outside world should maintain sanctions until blacks said they wanted them lifted.

FM 12/4/91

(74) (28)

garian firms are participating.

Szentmary says SA sends \$3m in annual exports to Hungary while the central European country exports \$1,2m worth of goods to SA. These are official trade figures but Szentmary says unofficial trade between the two countries, conducted through other countries, totals about \$8m. He expects direct trade to grow to about \$14m in the next few years.

"Hungary is not interested in having just a favourable trade balance with SA. It's more important for us to grow the total volume."

Hungarian goods are exempt from SA's surcharge on imports. The countries have also exchanged permanent trade representatives.

Several other agreements are in the offing. Hungary has proposed that SA should sign a Protection of Investment Agreement — to end double taxation — and a tourism co-operation pact.



Szentmary

Szentmary, who says Hungary has signed similar agreements with more than 30 countries, adds: "Hungary is now awaiting a positive response from the SA authorities." He describes the proposed agreements as

Carime

HUNGARIAN TRADE

(74) (28)

CEMENTING TIES

FM 12/4/91

August's trade agreement between SA and Hungary is already bearing fruit. Telephone manufacturer Telkor has just signed a \$3,5m contract with Transelektro in Hungary for a new SA-made public telephone.

A joint venture to manufacture telephones in Hungary is also under discussion and Hungary's Ganz Electric has signed an order with Cullinan Electrical to supply the local company with \$300 000 worth of one- and three-phase electricity meters.

Hungarian Ministry of Foreign Economic Relations director-general Bela Szentmary says prospects for improved trade between the two countries are good. He is in SA for talks with his counterparts, the SA Chamber of Business and the Reserve Bank. His visit coincides with the opening of the Hungarian exhibit at the Rand Show in which 14 Hun-

BUSINESS & TECHNOLOGY

FM 12/4/91

(74) (28)

pragmatic and confidence building.

He sees further opportunities for Hungary to export pharmaceuticals, machinery, chemical products, agricultural, transport and medical equipment to SA. In return, SA supplies Hungary mostly with raw materials.

Even though Hungary has only recently emerged from a cocoon of socialism and central planning, it has lessons for SA. For example, 92% of its trade has been liberalised, which means people do not require permits to import goods — with the excep-

tion of armaments and drugs.

Szentmary says 50% of Hungary's GDP is linked to foreign trade. "That means it is vital that local industry should be competitive, both internally and in the international market."

FM 12/4/91
EXPORTS 74 ~~452~~ ~~452~~

A CASE OF DRINKS

There is great concern at KWV's Paarl headquarters. Dutch police and Customs officials have raided a KWV agent in the Netherlands in what a leading Dutch newspaper describes as a major scam involving SA wines and distilled liquors.

More than 50 Dutch law enforcement agents took part in the investigation at Wijn Expeditie Kantoor, a prominent wine distributing company — and an agent for KWV — in the town of Heesch.

KWV acting marketing chief Hermann Böhmer this week expressed his organisation's concern over press reports about the investigation.

In a telephone call from the Dutch city Hertogenbosch, Netherlands Justice Department spokesman Jan Regelink told the *FM* that the investigation may take several months and no arrests have yet been made. He confirmed that allegations about tax evasion and false export documents were being investigated.

Wijn Expeditie Kantoor financial director Willem Theelen strongly denies any irregularities at his company. He adds that the investigation does not involve the KWV or any SA wines.

"We suspect the investigation entails some administration failures. As financial director I can tell you that we have been paying our taxes, March inclusive. I have asked the fiscus (treasury) for a declaration to this effect but have not received anything from them."

Company MD Hubert Remmen also confirms that the investigation has nothing to do with wines. "It involves the export of alcohol outside the Common Market," he says.

"This whole thing has been very unsympathetic to the KWV. We have apologised to them," says Theelen. *De Telegraaf's* report stated that the action of police and Customs officials had put an end to a major fraud involving SA wines and distilled liquors.

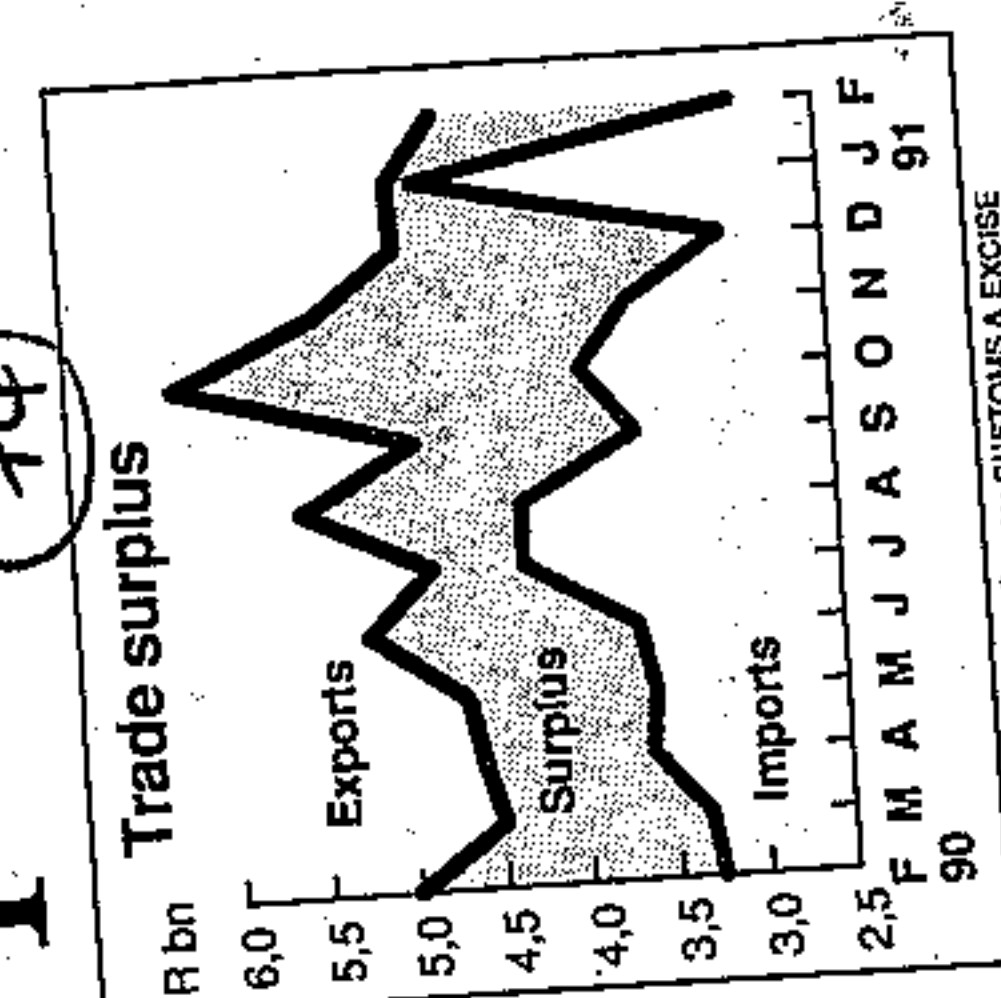
KWV's Böhmer says that after discussions with their agent it now seems clear that the investigation does not involve any KWV wines.

"We are waiting to see which way the allegations will lead. Other than the first report that appeared we know nothing about the matter," says Böhmer.

Eddie Botha

Comfortable surplus on cards

on Thursday. Elsewhere, the chairman of the US central bank is in action on Friday and may give further insights into the short-term direction of US monetary policy. Alan Greenspan goes before the US Senate's banking committee to testify on federal deposit insurance, a topic that touches on the health of America's financial institutions and the so-called "credit crunch" that some analysts believe is delaying the US economy's emergence from its current recession.



In the week's international statistics, markets will be studying the level of activity in smokestack America tomorrow when the figures for industrial production and capacity utilisation for March are published. These numbers have been negative and falling respectively for the past six months and have been powerful reasons for lowering US interest rates further. The UK unemployment level for March comes out on Thursday and is likely to rise again, showing a need for additional cuts in UK interest rates.

Deutschemark over recent months, some tax increases effective from mid-year and an inflationary 6% pay settlement won by the major German public sector labour unions last month. A German rate rise could also affect some of the rand's recent gains against the German currency. In mid-February the rand bought a mere DM0,6755 — a record rand/Deutschemark low. Barely seven weeks later the rand, reflecting the Deutschemark weakness that is so concerning the Bundesbank, bought DM0,6265. These hard-won rand gains are at risk if the Bundesbank raises rates

□ Harold Fridjhon's column in the Money Markets is on Page 9.

A rise in German rates could strongly influence the foreign exchange markets in the short term, heralding a possible Deutschemark rally against the dollar and threatening the rand's recent gains against the German currency.

Markets are suspicious that the Bundesbank is readying itself for higher interest rates after spotting telltale signals in the German money markets last week. Last Tuesday the bank raised from 8.50% to 8.60% the rate it charges commercial banks in helping them meet expected shortages in the money market via the one-month securities repurchase (repo) facility. The 8.50% repo rate had been fixed since the end-January half-point rise in German discount rate to 6.5% and could, therefore, indicate that another discount hike is in the pipeline.

There are several reasons the Bundesbank is likely to want higher interest rates. German inflation is set to rise steadily for the rest of this year from its current level of 2.7%, upsetting the notoriously conservative central bank's prices strategy. Price rises are on an upward trend as a result of the fall in the

SA's trade balance for March is due for publication towards the end of the week, probably on Thursday, and should show little deviation from February's comfortable surplus of R1,7bn.

The March trade figures will be too early to reflect any uptick in consumer spending arising from the cut in SA interest rates announced early in the month. Imports are likely to remain subdued as befits the trading pattern of an economy in its sixth consecutive quarter of recession.

Oil's relative stability since the end of the Gulf war, at levels below \$20, has restricted profit opportunities and meant volumes in the unclassified sectors should have stabilised at lower levels.

Internationally, the key event of the week seems to be Thursday's meeting of the Bundesbank, the German central bank. The bank's policymaking council assembles against a background of tightening financial conditions in Germany that could easily lead to a formal increase in leading German interest rates at Thursday's meeting.

There are several reasons the Bundesbank is likely to want higher interest rates. German inflation is set to rise steadily for the rest of this year from its current level of 2.7%, upsetting the notoriously conservative central bank's prices strategy. Price rises are on an upward trend as a result of the fall in the

Org to take action on boosting exports

BID 171491

GERALD REILLY

PRETORIA — The most important factor inhibiting SA's export trade was industry's reluctance to invest in additional production capacity, new Trade and Industry Minister Org Marais said yesterday.

Marais said in an interview action would have to be taken as SA's trade potential with Central and Eastern Europe expanded in the wake of the lifting of sanctions.

Marais said other factors restricting SA's export expansion included lack of suitable export products and a lack of export awareness.

Another was a major backlog in competitive machinery, equipment and technology.

Marais said far-reaching political and economic changes were sweeping the world, unfolding new trade opportunities for SA.

Already trade with Africa, Central



● MARAIS

and Eastern Europe was increasing and as the ability to pay improved, this would accelerate.

Marais said his department was well represented in Europe and there were no immediate plans to expand trade offices there.

However, a new and more senior management team would soon be transferred to the London trade office.

A trade office had been opened in Warsaw and within the next month similar offices would be opened in Prague and Budapest.

For the time being, the Vienna office would look after trade with Romania and the office in Milan would oversee trade with Yugoslavia.

The department had representatives in all EC countries except Luxembourg and Denmark. A trade representative was, however, attached to the SA mission and EC headquarters in Brussels.

Marais said SA had trade offices in Malawi, Mozambique, Namibia, Zaire and Zimbabwe.

There were great possibilities, however, for extending trade representation to other countries.

However, Marais said he was not in a position to name these countries.

Industrials beckon foreign investors

By Neil Behrmann

Star 15/4/91

LONDON — South African industrial shares are likely to be supported by international investors in the coming year.

The proviso, of course, is that Wall Street, London and other international bourses remain in a bull trend.

If they do, growing numbers of international investors are expected to buy leading SA industrial shares, particularly when sanctions are lifted and South Africa begins raising funds on international capital markets once again.

Illustrating the change in mood, James Capel has published a report recommending the shares.

Analyst John Taylor says the market is cheap for foreign investors.

They can buy the shares via the financial rand market on a prospective P/E ratio of eight.

15/4/91
"The South African market, with a market capitalisation equivalent to \$124 billion, is not trivial," says Mr Taylor.

"It comprises 1.2 percent of the Morgan Stanley Capital International World Index and is the 10th largest stock market in the world.

"Both in size and sectoral flavour, it resembles the Australian market.

"If social tension affects the economic situation and a period of stagflation follows, SA industrials still offer fair value.

"If high growth rates of the Sixties and Seventies return, SA industrial shares will be perceived to be ridiculously cheap."

The problem, however, is liquidity. With their billions of dollars, international investors will find it difficult to buy SA shares.

So far, wealthy German, Swiss and French individuals,

rather than institutions, have been the main buyers of SA equities.

With the surge in the financial rand in the past year, they have made huge profits on SA bonds.

Instead of switching all the funds back to their own currencies, they have been buying SA industrial shares.

"Investors who are confident about South Africa's future want to participate in growth by buying industrial counters.

"Despite the isolation of South Africa in recent years, the domestic market is prey to the same worries and fears as the major stock markets."

There may well be consolidation over the next few months, but there is only a slim chance that there will be a sharp correction.

South Africa's return to international capital markets will in the end overcome any market

setback.

James Capel favours consumer-related stocks because of rapid growth in the buying power of blacks.

Building and construction are now in recession, but the housing backlog will ensure a revival.

Shares on the buy list are Barlow Rand, Edgars, Tongaat-Hulett, Iscor, Gencor, Sappi, Engen, Malbak and Anglo Alpha.

But James Capel advises sales of Amic, Tiger Oats, Highveld Steel, Sasol and Plate Glass.

"I know Iscor has its problems, but for the international investor the P/E is three, compared with 16 for British Steel," says Mr Taylor.

He is advising clients not to chase shares, but to accumulate them during periods of weakness.

Safto looks at South America

Finance Staff

74
16/4/91

The growing investment and trade opportunities in South and Central America will be under the spotlight at a Safto-sponsored conference on Tuesday next week.

Total bilateral trade in 1989 between SA and Latin America totalled R1,7 billion (roughly two to one in SA's favour), but the return of stable civilian government to many countries has opened up numerous new export opportunities, particularly in mining and manufacturing.

Five overseas experts on Latin America will speak at the conference, including Dr George Philip from the London School of Economics.

● Safto has released its updated second edition of the Export Finance Handbook, which covers a wide range of export financial matters.

Subjects covered include export credit insurance, export incentives, forex risk management and sources of finance.

Q FOREIGN TRADE

1991

MAY — JUNE

R500m boost for export projects

10 ay 2/5/91

ZILLA EFRAT

THE Industrial Development Corporation (IDC) has announced a new R500m low-interest rate scheme to promote the export of industrial products.

The scheme, aimed at reinforcing government's attempts to boost exports and create job opportunities, has been welcomed by both Sacob and Safto.

The IDC would make available R500m at a rate of R100m a year for the financing of additional production capacity that re-

sulted in at least 30% growth in exports, had economic merit and created new jobs.

Safto CE Wim Holtes said the new scheme would contribute to solving the problem of lack of export capacity in some sectors of the economy and could be followed by increased foreign investment in SA's manufacturing sector.

A Sacob statement said the move would further as-

sist SA manufacturers to become more internationally competitive and thereby boost exports.

Sacob deputy director general Ron Haywood added that while R100m a year might not necessarily be seen as a lot of money for manufacturing projects, it was a step in the right direction to addressing the issues which placed SA manufacturers at a disadvantage in the international market.

In a statement outlining the scheme, the IDC said an interest rate of 9% p.a. would be applicable for the first three years provided that 60% or more of the sales from the project or expansion were exported.

After three years the borrower could choose between the IDC's fluctuating or fixed interest rates.

If between 30% and 60% was exported, only half the finance would qualify for the 9% interest rate. The balance could be obtained at normal IDC interest rates.

Companies with total assets of over R100m would be limited to a maximum of R20m per project, but normal IDC funds were available for the balance of the funding.

The new scheme, which would come into effect immediately, was based on the IDC's previous low-interest rate scheme launched in 1988 which provided R320m for 273 projects.

Foreigners may gain access to Safex soon

THE green light for non-resident participation in the SA Futures Exchange (Safex) via the finrand was possibly only a week or two away, according to the latest talk in the futures market.

John Postmus, GM Exchange Control at the Reserve Bank, would not reveal exact dates.

The Financial Markets Advisory Board, which is assisting Exchange Control on the issue, said yesterday that it had been informed a decision was "imminent".

The Board's chairman, Reserve Bank deputy governor Chris de

ROBERT GENTLE

Monday 2/5/91
Swardt, said the Board felt that futures, insofar as they were securities, should have the same status as equities and gilts — a reference to the fact that the latter two instruments are available to foreigners through the finrand.

The immediate inference in financial circles was that the anticipated scrapping of the finrand, alluded to by Governor Chris Stals this week, was going to take much longer than his remarks may have suggested.

74
Safex CE Stuart Rees said the fact that the finrand might disappear in the near future did not mean the market should let up in its efforts to establish non-resident finrand trade in futures.

"When the finrand does go, and as long as we have exchange control, we would need the protection of the kind we are proposing now for non-resident futures participation," he said.

Brokers, banks and institutions are counting on non-resident participation in futures to boost liquidity on Safex — and by extension, the JSE — and broaden the spread of views.

STILL A LONG WAY TO GO

President F W de Klerk's commitment to review not just the financial rand, but the whole system of exchange control, as soon as there is *rapprochement* with the World Bank and IMF goes one step further than any previous announcement on the subject. But — as with a number of suggestions by private-sector economists that the growth rate could accelerate markedly next year — it needs to be put in perspective.

For both events depend on an inflow of foreign long-term capital. And while there is clearly an improvement in both the availability of trade credit and foreign perceptions of SA (the latter being particularly evident in the continuing narrowing of the discount of the financial rand to the commercial rand), there is precious little evidence of either major new direct foreign investment or any moves by companies that disinvested in the Eighties to get back in again.

However co-operative bodies like the World Bank and IMF may come to be, two things must be addressed before we can expect any significant influx of direct foreign investment: an end to township violence and a lifting of the debt moratorium.

Indeed, even if we can overcome the psychological impact of the former, the mere existence of the latter is enough in terms of the regulations and practice of many foreign lend-

ing institutions to prevent the reinstatement of SA as a possible recipient of loans without lending penalties.

Nor are these two factors unrelated: without an end to township violence, we cannot expect enough new foreign finance or roll-overs to let the moratorium expire at the end of the present standstill agreement.

What government can do to end township violence has been discussed in several recent issues of the *FM*; it is just as important to make the ANC and Inkatha realise that township violence is not just a political, but an economic issue. All commentators agree that, without a resumed capital inflow, any economic revival that may set in next year will be short-lived and unsustainable. And sustainable economic growth cannot wait upon a political settlement; the backlog of unemployment and under-investment that has built up since 1985 must be addressed urgently.

And even if that inflow of capital materialises and the commercial and financial rand rates converge further, the room to reform exchange control will be limited, given Pretoria's reluctance to implement radical economic reform and accept a substantially lower rand value, the ANC's dubious economic policies, and a rational desire to spread risk geographically. ■

FM 3/5/91

74

land."

Japanese business stays close to its government, especially the Ministry of International Trade & Investment (Miti), and the Keidanren delegation is sure to brief the Japanese government on its findings. The visit follows a hush-hush tour of SA by a Miti delegation earlier this year.

Over the last few years, Japanese production increasingly has moved offshore with investment in facilities in Thailand and other south-east Asian countries, the US, Brazil and Europe. "They may be interested in joint ventures with SA business, possibly also looking at the wider southern African market," says Ron Haywood, deputy executive director of the SA Chamber of Business.

David Graham, GM international services for the SA Foreign Trade Organisation (Safto), says the Japanese may consider lifting visa restrictions on visiting SA business people later this year. This has been an effective way to restrict new business between the two countries. He says a Safto delegation may visit Japan in November.

The Keidanren delegation, comprising 14 representatives from a wide swathe of Japanese industry, trade, travel and banking circles, could open many doors for SA in the future. Keidanren's executive council and board includes the heads of such global giants as Mitsui, Sumitomo, Toshiba, Sony, Mitsubishi, Nippon Steel, Toyota, Nomura, Kawasaki, Nissan and Fujitsu.

"On our return to Japan we will report our impressions to Keidanren members, as well as to the Ministry of Foreign Affairs and to Miti," says the affable delegation leader Tamotsu Yamaguchi, deputy president of the giant Bank of Tokyo. The Keidanren members met a range of business and political leaders during their week-long tour as guests of the SA Foundation.

Yamaguchi says the delegation was struck by SA's "abundant natural resources, splendid infrastructure, great development potential," and its importance in helping to create a prosperous southern African market. He says Japan's current R3bn in annual trade with SA could double after sanctions are lifted. But, he adds, political and economic stability are essential for investment.

"Your country's population is almost 40m. If you can solve your political problems and meet the conditions leading to the lifting of sanctions and other economic restrictions, you could provide a tremendous advantage, not only for the subcontinent, but as the gateway for the whole of Africa." ■

JAPAN (74) FM 3/5/91

KICKING THE TYRES

Don't expect the floodgates of Japanese trade and investment to open after last week's visit to SA of an important Keidanren (Japanese Federation of Economic Organisations) delegation.

The cautious and pragmatic Japanese are keeping an eye on what the US and the UN do with sanctions before they lift their own restrictions. And, in any case, they are on the lookout for good business opportunities only, not opportunities to dispense charity.

Nevertheless, the visit is of vital importance for SA's relations with the Far East powerhouse, the world's second largest economy. "I view this visit as very significant," says SA Motor Corp CEO Spencer Stirling. "These people are not only traders, but potential investors. As soon as sanctions are lifted, one can expect them to act. Meanwhile, they are scouting out the lay of the

Can exports lead the way?

Wilmsh 3/5 - 9/5/91

With the mining sector — particularly gold — in a decline, most economists are pinning their hopes on industry to revitalise the South African economy, reports
REG RUMNEY

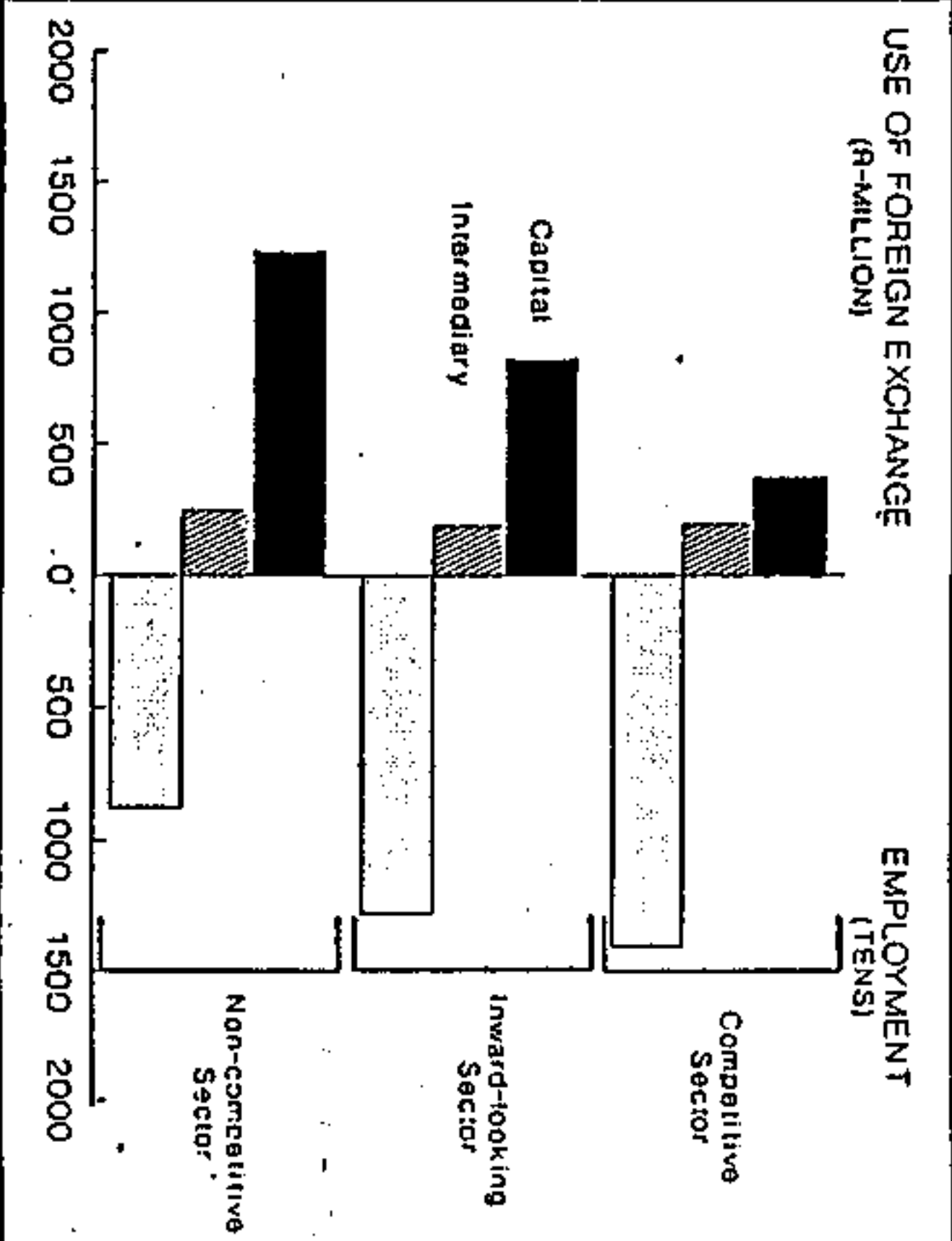
THE one belief common to both left wing and orthodox economists is that South African industry should be the engine of further growth. On how to do this there is less agreement.

There is a difference in emphasis on the export and the domestic market. Mainstream economists and indeed the government recently have stressed export-led growth. Those on the left have pinned their hopes on growth in the domestic market as redistribution of wealth enables the poverty-stricken majority to buy locally produced basic goods.

How to create jobs for the rapidly growing labour force and earn foreign exchange (rather than save it), is a question addressed in the latest *Economic Survey* by Sanlam's Economic Research Department.

The survey notes that through the crumpling of sanctions will open new doors to South African exporters, the industrial sector will have to change drastically to take advantage of these opportunities. At what stage are we now? Firstly, the industrial sector's contribution to gross domestic product — the broad measure of economic activity — rose only slightly in the past 20 years. At the same time, industrial exports as a percentage of GDP stayed still, and actually dropped in recent years. Also, industrial imports decreased, but not enough to stop the trade balance for manufactured goods showing continued deficits.

Secondly, South Africa's productivity is low. Crucially, the finger cannot, as is commonly believed, be pointed wholly at labour. Capital productivity is the villain. During the past two decades more and more capital has flowed into the industrial sector to buy plant and machinery, while the number of workers has risen only slightly. Sanlam's economists reckon on the declining relative cost of capital because of low interest rates is the cause. With interest rates at levels below the inflation rate for long periods, entrepreneurs found capital investment in plant attractive. The cost of capital investment was further reduced by the relatively generous



Boost ... the graph shows the effect of a R1-billion increase in final demand on employment and use of foreign exchange

writing-off and incentive allowances available in our tax system. "On the other hand, the cost of labour increased much faster than the consumer price index."

Our low productivity compared to our principal trading partners decreases the competitiveness of South African industrialists, notes the survey. Sanlam's economists leave the matter there, but the implication is clear: to compete in the tough international export markets industrialists will have to use capital better. Wage increases will also have to be capped, for while labour productivity is better than capital productivity it is not good.

But where to put most effort? The industrial sector is not, after all, monolithic. Sanlam's economists conclude that of four categories of the industrial sector the "competitive" and the "inward-looking" sectors are best able to create jobs and earn foreign exchange. Industries which have a competitive advantage include certain branches of the textile industry, the clothing industry, and the basic iron and steel industry, as well as basic non-iron industries.

Inward-looking industries depend mainly on the local market, and include food processing, beverages, tobacco, rubber products and the paper industry. The inward-looking sector is responsible for about 60 percent of total industrial production.

"Non-competitive" industries include the chemical industry, the motor industry, and electrical machinery. The non-competitive sector accounts for around 38 percent of total industrial production. It uses more capital and provides work for 28 percent of the total industrial labour force.

It absorbs 70 percent of industrial imports, but contributes only 26 percent of total industrial exports. What remains are "open industries", where imports as well as exports are significant. This category accounts for only 1 percent of total industrial production.

The inward-looking and non-competitive sectors both deliver about 90 percent of their production of finished goods to the domestic market. Import replacement, notes the Survey, probably caused the capital-intensive, non-competitive sector to grow at the expense of the competitive sector since 1970.

The effect of a R1-billion increase in final demand will have a markedly different effect on employment and the use of foreign exchange in each of the major categories. Increased production in the competitive and inward-looking sectors will create most jobs. In the competitive sector 14 000 jobs will be created, in

the inward-looking sector the figure will be 13 000, and in the non-competitive sector 9 000 jobs will be created. The clincher is that the first two sectors will also need the smallest amount of foreign exchange to increase production capacity.

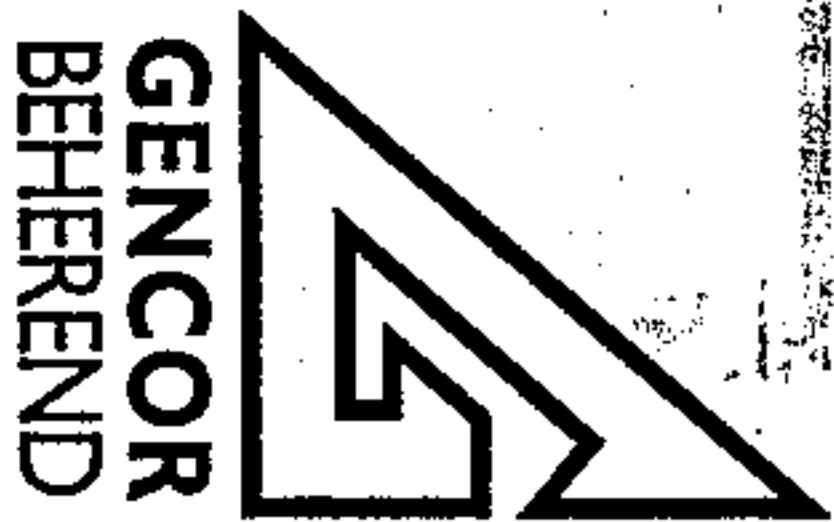
So from the Sanlam analysis it seems both export-orientated industries and suppliers of basic goods mainly for the domestic market should be favoured. The suppliers of goods from "non-competitive" industries lose out (this includes the motor industry, already subject to a foreign-exchange saving programme).

The next big question is simply: how? The Sanlam survey does not address the complex mechanics. It is clear from the survey's analysis that the emphasis should fall on exports rather than import replacement, and this appears to be accepted by the government.

However, this normally means more capital investment to produce goods with "added value" for exports. In view of South Africa's low capital productivity and high unemployment rate, this is undesirable. The best route would be a labour-intensive export-oriented industry — but this is easier said than done.

Interim results

for the six months to 28 February 1991



	Six months to 28 February		Percent increase
	1991 Unaudited	1990 Unaudited	
Attributable income R million	402	386	4
Earnings per share cents	56,9	54,7	4
Dividends per share cents	13,3	12,5	6
Net assets per share cents			
— Gencor market value			

R10m sought to fix hostels

CPA Trust 4/5/91
Political Staff

MORE THAN R10 million had been requested for converting the 139 single-sex hostels in SA into family units, the Minister of National Housing, Mr Hernus Kriel, said yesterday.

The single-sex hostels, many overcrowded, have been a point of dispute between the government and the ANC.

President F W de Klerk said in Parliament this week that an intensive study of the hostels by the Minister of National Health, Dr Rina Venter, had shown that upgrading was urgent. However, both family and single-sex units were wanted by the community.

The ANC has argued that the hostels are a flashpoint for violence.



Oversseas investors take up Govt bonds

Bar 4/57M

LONDON — South Africa is discreetly returning to international capital markets and has successfully rolled over a \$50 million (R135 million) RSA loan, bankers say.

Returns for investors are generous as the yield of the three-year loan has been placed at 10 percent, about 2.5 percent above dollar bonds of similar duration.

The privately placed bonds were rolled over in the past few weeks, according to banking sources.

Although the issue, negotiated by Swiss and other European banks is a refinancing measure, and does not attract new money to South Africa, it is regarded as significant.

It follows a Dm120 million (R192 million) loan refinancing package for Eskom and the response for that privately placed issue was also good.

This is hardly surprising. South Africa's repayment record is impeccable and the yield

NEIL BEHRMANN

at 10.75 percent on that four-year loan is about 2 percent higher than other sovereign D-mark bonds.

South Africa's re-entry into the international capital market was within weeks of President F W de Klerk's visit to Europe. Bankers were most impressed with Mr de Klerk's performance.

Initial international financing is expensive for the borrower, but there is little alternative so far.

Bankers believe the yield premium of the bonds will remain high until the debt moratorium is relegated to history.

Moreover there is continual concern about violence, uncertainty about the intentions of the African National Congress, worries about the South African economy and its high inflation rate.

Nevertheless, reflecting an impressive improvement in confidence, South African debt has soared to 87 US cents on the dol-



© 1991 United Feature Syndicate, Inc.

GOOD ADVICE: "I'm telling you, these RSA bonds are winners."

lar from 81 cents a month ago and only 70 cents last August.

That compares with Brazil's tradeable debt of 28 cents on the dollar, Argentina's 22 cents, Mexico's 57 cents, Venezuela's 62 cents and Chile's 86 cents.

The financial rand discount has narrowed to 17 percent, from around 30 percent nine

months ago. It is down to levels in the early 'eighties just before the Reserve Bank scrapped the investment currency temporarily.

Since November, when Reserve Bank governor Chris Stals hinted that the dual currency would be gradually abandoned, the financial rand has appre-

ciated by 10 percent against the dollar.

For European investors this has proved to be a boon, because the appreciation in terms of their own currencies is more than 20 percent. Meanwhile, interest income from those rand bonds amounted to about 11.5 percent in the same time-span.

cover is no more than doing business with, say, Western Europe."

PARADISE FOR FISHERMEN: A big catch at Benguerra resort

to
rt-
in-
the
gal
is-
en-
ise
nd
ar-

ow
to
ted
ity,
tax
er-
me
nd
gn-

ten
fall
ap-
of
ed
de-

Accountants get in on ground floor

515791
ACCOUNTING firm KPMG Aiken & Peat has scored a coup in Mozambique — of a financial kind.

It has won an assignment to provide specialist financial management and banking consulting services for the next two years to all three commercial banks in the country, as well as to the central bank. KPMG Aiken & Peat Mozambique was established less than a year ago.

The accounting firm has mopped up a large slice of the investment consultancy market. About 80% of the firm's new client inquiries originate from SA.

KPMG Aiken & Peat managing partner Paul de Sousa says: "The number of heavyweight SA corporations turning up at our offices is increasing. Many are relative newcomers to foreign investment."

The recent spate of interest in investment in Mozambique derives from the government's privatisation drive, says Mr de Sousa.

The Mozambique Government recently introduced an investment code which offers foreign investors tax holidays, freedom to remit dividends, guaranteed repatriation of capital and other incentives. They include the SNAAD programme which allows virtually unlimited access to foreign currency for certain classes of investments.

"Evidence of increasing visible and invisible trade with SA is that the Bank of Mozambique limits the dollars which its foreign-currency account holders can cash each month. But it places no limit on the amount of rands that can be cashed."

• S/Times (BurrTimes)

~~SA Times~~

74

186



Micor in front

SITimes (Sun Times)
RENEWED political and economic ties between SA and Madagascar and a booming economy in Mauritius have prompted Micor to strengthen its presence on the Indian Ocean islands.

Micor has appointed one of Mauritius' largest freight forwarding companies, Cargo Express, as its agent and ships more than 20 containers a month to the island.

Micor general manager of sea freight Peter West says biggest growth is in consolidations in which several exporters share a single container. The cargo is deconsolidated when it reaches the island.

Trade between SA and Madagascar is expected to improve and Micor has appointed SCTT as its Malagasy agent.

MOZAMBIQUE and the INDIAN OCEAN ISLANDS

A to Z of setting up joint venture

SITimes (Bus Times) 74

BUSINESSMEN looking to set up shop in Mozambique take heart — the opportunities are boundless and there is no shortage of foreign currency for approved projects.

But many potential investors are deterred by the seeming impossibility of wading through the red tape.

If you seek to fill your order books and export to Mozambique, the best way is to join one of the regular trips to Maputo organised by the South African Foreign Trade Organisation (Safto).

Andrew Maggs of Safto's Africa desk says interest in Mozambique as an export market has grown phenomenally.

Visa

"Many visitors have exaggerated expectations of returning with full order books. The first trip is essentially to introduce businessmen to contacts in Maputo. They can work with them until confidence is built up. This is how Mozambique operates."

There is huge scope for suppliers of building materials, essential spares, capital equipment, food, chemicals and pharmaceuticals.

Essential to bear in mind is that the only way to succeed in opening a business in Mozambique is to do it by a joint venture (JV) with a Mozambican partner. The method to do this should be rigidly followed:

- Phone or fax the Office for Foreign Investment Promotion (GPIE) in Maputo and make an appointment to see the director.

- Obtain a visa from the Mozambican Labour Office (Mozambique does not have consular representation in SA) at 99 Eloff Street. This

AS SOUTH Africa gradually re-enters the world of trade, increasing interest is being shown in countries close to home such as Mozambique and the Indian Ocean Islands — particularly Mozambique.

The obvious areas of co-operation are trade and tourism. But several ground rules still have to be established before either of these can flourish.

CIARAN RYAN investigates.

can take from one to three weeks. You will not be given a visa unless you have first asked the GPIE to telex directly the Labour Office that you are attending a business meeting with it.

- Book your air ticket well in advance. All flights are fully booked a month ahead.

Hotel rooms in Maputo cost from \$40. The Polana and Cardoza hotels are the preferred choice of visiting businessmen. But they are also the farthest from town, necessitating the hire of a car — taxis and public transport are virtually non-existent.

It should be borne in mind that the roads, even in central Maputo, are appalling. The Rovuma and Escola Andalucia hotels are within walking distance of town.

All bills must be settled in hard currency, and tipping is discouraged.

Mr Maggs says it is important for prospective investors to present a copy of their personal CVs to the GPIE together with four copies of the proposed venture, with a statement of the main idea in Portuguese.

"While it may seem bureaucratic, it is the proven way to approach a business venture in Mozambique."

"The GPIE will want to know the amount of capital required for the venture and who will provide it, the foreign-currency earnings of the project, the number of jobs to be created and whether or not the project is a joint venture."

Businessmen choosing to go it alone will run into trouble because the government wants a Mozambican partner

to be involved in any foreign investment.

Mr Maggs says the GPIE can suggest potential partners.

One of the few wholly owned SA companies in Maputo is Benguela Holdings. It took the company 18 months to get permission to set up in the capital. Seemingly endless bureaucratic obstacles had to be overcome.

Having obtained a Mozambican partner, you are in the home stretch and within 24 hours the GPIE should present you with a letter approving the project in principle. The red tape does not end there, but the task becomes decidedly easier.

The proposal then goes to the official Analysis Department of the GPIE for in-depth evaluation. But the GPIE's letter of approval opens doors in terms of raising capital for the joint venture partner (who must raise capital in Mozambique) and obtaining further visas.

Final approval should arrive within two weeks.

Default

Negotiations can now begin with the GPIE as to what goods can be imported to Mozambique free of duty, the exact terms of the tax holiday permitted to different classes of business (some pay no tax for five years) and control of the foreign-currency accounts.

Prospective businessmen must ensure that they fall within the definition of an approved venture in terms of the recently introduced SNAAD programme. It is de-

signed to encourage foreign investment by offering tax exemption and unlimited forex.

Examples of approved businesses under SNAAD are building materials, food, clothing and transport.

There is a lingering resentment of Portuguese colonialism among certain sectors of the population and a general reserve to foreigners because of past propaganda and SA's active support of Renamo until recent years.

Credit Guarantee Insurance Corporation (CGIC), which insures exporters against default, notes a steady increase in the demand for cover for shipments to Mozambique.

CGIC general manager in charge of projects Frans Joubert says: "We are doing a large amount of trade with Mozambique. We provide a letter of credit issued by Banque de Mozambique. This cover is no more expensive than doing business with, say, Western Europe."



PARADISE FOR FISHERMEN: A big catch at Benguerra resort

Accountants get in on ground floor

SITimes (Bus Times)

ACCOUNTING firm KPMG Aiken & Peat has scored a coup in Mozambique — of a financial kind.

It has won an assignment to provide specialist financial management and banking consulting services for the next two years to all three commercial banks in the country, as well as to the central bank. KPMG Aiken & Peat Mozambique was established less than a year ago.

The accounting firm has mopped up a large slice of the investment consultancy market. About 80% of the firm's new client inquiries originate from SA.

KPMG Aiken & Peat managing partner Paul de Sousa says: "The number of heavyweight SA corporations turning up at our offices is increasing. Many are relative newcomers to foreign investment."

The recent spate of interest in investment in Mozambique derives from the government's privatisation drive, says Mr de Sousa.

The Mozambique Government recently introduced an investment code which offers foreign investors tax holidays, freedom to remit dividends, guaranteed repatriation of capital and other incentives. They include the SNAAD programme which allows virtually unlimited access to foreign currency for certain classes of investments.

"Evidence of increasing visible and invisible trade with SA is that the Bank of Mozambique limits the dollars which its foreign-currency account holders can cash each month. But it places no limit on the amount of rands that can be cashed."

A Business Times Feature

New-look ports battle to regain freight traffic

S/Times (Bus Times) 5/5/91. 74

WARMING political relations between SA and black Africa could result in neighbouring countries forsaking Mozambique's ports, says Rennie's chief executive Piet Steyn.

Rail links between Malawi, Zimbabwe and Mozambique are frequent targets for Renamo attacks. Transport problems are exacerbated by bureaucratic inefficiency and other problems.

Beira is facing shipping delays as a result of refurbishment and exporters routing goods through Maputo are plagued by theft.

There are also sporadic attacks on railway lines to Maputo.

Lion

Mr Steyn says: "Unless Mozambique is able to bring the banditry under control, it stands to lose a large slice of its freight traffic to SA."

"As political and economic barriers between SA and the rest of Africa crumble, less political pressure will be brought to bear on countries such as Zimbabwe to use Mozambican ports for exports. This could result in a greater tonnage of freight from previously hostile neighbours passing through SA ports."

Rennie's subsidiary Manica has been in Mozambique for 99 years. Manica is one of the few freighting and forwarding companies to continue operating in Mozambique throughout the civil war.

Many corporations pulled out of Mozambique after Frelimo came to power in 1975, but by staying behind, Man-

ica captured the lion's share of business in spite of serious operational problems caused by the internal strife.

Road haulage, for example, has become virtually impossible in places.

Mr Steyn says: "We have to move freight by sea from Maputo to Beira and Nacala because of the danger involved in road transport. We also have two aircraft based in Mozambique so that our staff can commute around the country."

The Beira Corridor, which links the Zimbabwe town of Mutare to the port of Beira, has been made relatively secure from Renamo attacks by the widespread presence of Zimbabwean troops. But there have been occasional breaches of the security cordon, resulting in attacks on the railway line and oil pipeline.

Zimbabwean troops recently pulled out of the Tete Corridor, a vital link between Zimbabwe and the Tete province in northern Mozam-

bique. It halves the travelling time from SA to Malawi.

The Tete Corridor was reopened this year, but closed after only two months. More than 100 people were killed by bandits.

Goods from SA to Malawi now go through Zambia, resulting in at least two days' additional travelling time.

Sense

Freight companies report long delays at the Zambian borders because customs officials are unprepared for the increase in traffic.

Malawi is still unable to make extensive use of Nacala port because of a lack of rolling stock and occasional Renamo attacks.

The Nacala rail link is also in serious need of repair. The line from Zimbabwe to Maputo is still a target for rebel attacks.

Another disadvantage for Maputo is that port charges are levied in US dollars and SA ports charge rands. Neighbouring countries with

foreign-currency shortages take advantage of the rand's depreciation against the dollar.

Mozambican authorities hope to encourage SA exporters to send their goods through Maputo, but serious difficulties have to be overcome.

Mr Steyn says the city and port of Maputo are often without power and other services.

"We are looking at providing whatever assistance we can in Maputo — as we are doing in Durban. It makes sense for certain exporters, particularly in the Eastern Transvaal, to ship through Maputo."

Richards Bay recently increased its coal-handling facilities. But small coal exporters in the Eastern Transvaal could save money by exporting through Maputo.

Mr Steyn says Maputo received little in the way of aid since independence because donor nations thought it would be of direct benefit to SA.

Birds, feathered and otherwise . . .

WADING through the piles of glossy brochures punting holiday resorts in the Indian Ocean islands leaves one a little perplexed.

The pictures promise panoramas of spectral greens and blues, white sands stretching to infinity, ravishing girls, tanned and sparsely dressed, draped across reclining chairs and sin-

black parrot and remnants of the prehistoric forest, Vallee de Mai, said to be the original Garden of Eden.

Thirty minutes by air from Mahe is Cousin, an island sanctuary owned by the International Council for Bird Preservation. Cousin is home to the rare brush warbler.

MOZAMBIQUE and the INDIAN OCEAN I.

SA in challenge to French supremacy

S Times (Bus Times) 5/5/91 (74)

SOUTH AFRICAN businessmen are pouring into the Malagasy capital of Antananarivo in search of new markets.

SA is well positioned to attack France's position as the island's chief trading partner.

Behind the wave of interest from SA businessmen are the island's apparently healthy foreign-currency reserves, thanks to generous aid from the West.

English

Micor general manager Peter West has returned from Madagascar and says there is no shortage of foreign capital for importers. But the central bank occasionally pulls in the forex reins, only to release them again.

Mr West says: "There are ample opportunities for SA businesses, particularly those in construction, steel and cement. There appears to be little problem in securing irrevocable letters of credit, paid at sight in favour of the exporter."

Cape-based Kalani Investments started importing cashew nuts and green pepper corns from Madagascar six months ago.

Kalani director Andrew Whittingdale, who has visited

the island five times, says there are huge opportunities in Madagascar, but visiting businessmen are hampered by poor communications and not knowing where to start.

Mr Whittingdale says: "It is hard to make phone contact with the island from SA. We set up an office in Tana with phone, telex and fax machine and someone who speaks English to answer the phone."

"Through hard-won experience we found the correct way to make contact with businesses in Madagascar. I advise South Africans trying to do business there to find a reliable person who speaks English before trying to set up appointments."

The main languages on the island are Malagasy, followed by French. This poses a problem for SA businessmen trying to make direct contact.

If you're lucky enough to get a phone call through to the island, chances are that the person answering speaks no English.

Mr Whittingdale says there are frequently long delays in getting money out of the island in spite of the abundance of foreign currency. Consignments often go missing.

Rennies chief executive Piet Steyn says there is increased demand to move freight from SA to Madagascar, but most inquiries made

are exploratory and few result in a shipment.

Mr Steyn says: "The traffic tends to be one way — to Madagascar. We are moving mainly primary products, such as steel and food. We have been involved in freighting to Madagascar for several decades."

Madagascar has relaxed its doctrinaire socialist policies and made overtures to SA, culminating in a visit to the island by President De Klerk and Foreign Minister Pik Botha last August.

Shell

This was followed by the resumption of official ties, severed in 1972 by current president, Didier Ratsiraka.

President Ratsiraka's socialist policies transformed what was once considered one of the jewels of the French colonial empire into an African basket case, along the lines of Tanzania, Uganda and Mozambique.

It is the 11th-poorest country in the world with a per capita income of US\$200. Gross domestic product grew by a derisory 0,4% a year between 1980 and 1987 when the population's annual growth exceeded 3%.

President Ratsiraka moved to adopt more market-oriented policies in 1987 at the behest of the International Monetary Fund (IMF). Although they have caused

unemployment and poverty in many areas, inflation has been reduced from 30% to 8%.

Repeated balance of payments deficits have been assuaged by generous aid.

Shell has established a presence on the island and is prospecting for oil, which accounts for 14% of all imports. The USSR was the island's chief supplier of crude oil until 1988 when it suspended deliveries because of unpaid bills totalling \$240-million.

Onshore and offshore oil reserves were found in 1985, estimated to total 200-million barrels.

External debt in 1987 amounted to \$3,14-billion compared with gross national product of \$2,17-billion.

Several SA mining houses and Eskom have conducted exploratory trips around the island.

Agriculture provides employment for 80% of the population, coffee being the chief export. It is followed by vanilla, cloves, cotton and sugar cane.

Madagascar is privatising State-run assets, including trucking and transport, shipping, farming, telephones and electricity, all of which were run into the ground as a result of socialist policies.

Thrust

Mr Whittingdale says there is a view in Madagascar that the government is selling the country from under the feet of the people.

"Although the government has introduced far-reaching economic reforms, there is still widespread poverty. Little of the aid that enters the country reaches the ordinary person."

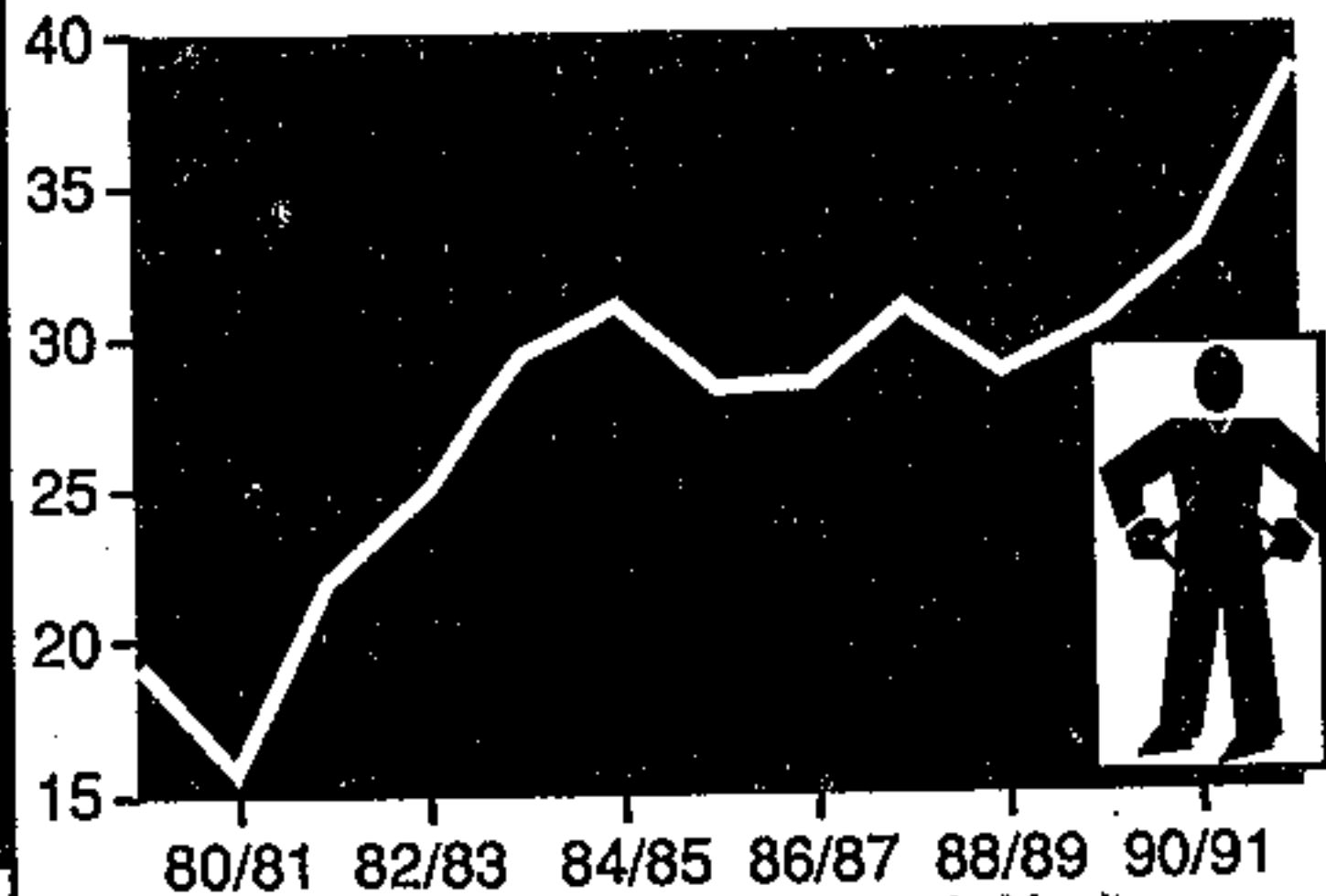
The country requires rebuilding, but the major thrust of new investment in the next few years is likely to come from the tourist and hotel groups. It is hoped that the spin-offs in terms of industrial and commercial investment will go ahead.

Capital outflows to keep lid on economy

Strives 5/591.

74 (Business Times)

Personal Income Tax as a % of Total Government Revenue



Source: Old Mutual's Economic Monitor

MONETARY policy will be relatively strict for the rest of 1991, says Old Mutual economist David Mohr.

The reason is possible capital outflows of about R4-billion compared with R2,9-billion in 1990.

Added to this is the expected poor current account performance. International commodity prices have fallen and export volumes are expected to decline or stagnate because of weaker demand.

SA's terms of trade — price of exports against that of imports — worsened by 1,9% last year and by 7,6% in 1989.

The current account surplus will probably not equal last year's, R5,8-billion and will leave little room for any reserve accumulation.

High real interest rates will be maintained to avoid a revival of domestic demand and the risk of a spurt in the inflation rate. The year-on-year inflation rate is 15%.

Recession

Mr Mohr sees the recession bottoming out towards the end of this year, with a mild improvement in business conditions in 1992. Moderate falls in interest rates and a recovery in international growth should help.

The Old Mutual says the US recession is expected to be moderate. The turning point should come before the end of the year, considerably lowering prospects of a worldwide recession.

Germany and Japan are still putting up strong performances, although weaker than last year.

Even though the outlook for 1992 is brighter, the rest of this year looks dreary. Employment is down and the wage bill is expected to follow.

The average tax burden on individual is expected to rise. Income tax on individuals is estimated to rise by 27% in 1991-1992.

The contribution of individuals to the fiscus will rise to 39% from 33%. The higher tax burden neutralises the relief granted last year.

Taxed income will rise by under 15% this year com-

By DIRK TIEMANN

pared with a 16% increase in 1990. Real private consumption expenditure will probably rise by only 1%.

Fixed investment is at a low because of political uncertainties, poor domestic demand, the expected fall in foreign buying, and the moderate fall in interest rates. The fall this year will be larger than last year's 0,3%.

Mr Mohr is bearish about gold and believes the price will remain under pressure in the medium term. This will be supported by the slower world economy and subsequent depressed industrial demand.

Lower inflation, the relatively strong dollar and positive real returns on interest-bearing investments are other factors depressing gold.

Mr Mohr says not much movement can be expected in the oil price. The UK Brent benchmark price shot up to \$40 a barrel in the Persian Gulf war, but has since settled around \$17.

The Organisation of Petroleum Exporting Countries (Opec), concerned about the drop in price, has set a target of \$21 a barrel. Several factors will probably keep the price below that.

Invasion

Opec, excluding Iraq and Kuwait, cut production by 3% between December 1990 and February 1991. Dissension in Opec has also meant that production cuts are smaller than planned.

Non-Opec members are still producing 1-million barrels a day more than before the Iraqi invasion of Kuwait. They will not necessarily follow Opec's production cuts.

The international downswing will also affect oil demand. Consumption growth increased by 3,6% and 2,2% in 1988 and 1989 respectively, but increased only 1,2% in 1990. Demand growth could stagnate this year. Price rises under these circumstances are unlikely.

International oil stocks are at their highest since 1983, supply exceeding demand by 255-million barrels.

THE WEEK AHEAD by William Richards

Reserves likely to stand at historical high

SA RESERVES should again stand at a historically high level when the figure for April is published this week, probably tomorrow. The level of gold and foreign exchange reserves last month is likely at least to match, if not better, the March outturn of R7,3bn.

Indeed, the level of total nominal reserves is likely to be, in plain rand terms, the highest recorded at something not far short of R7,5bn. But the headline reserves total is not the important part of this figure: of primary concern to the monetary authorities is the import cover afforded by the reserves total.

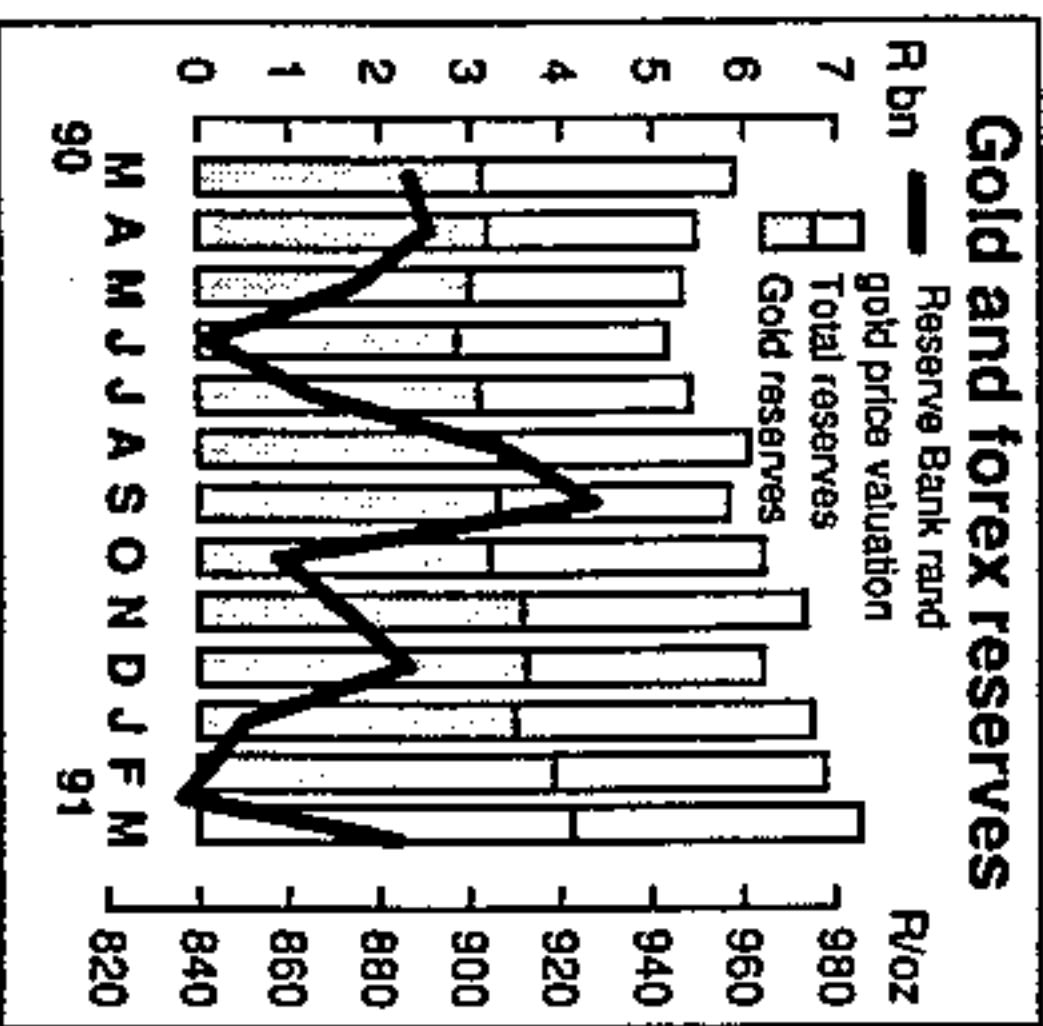
The common benchmark adopted internationally is that any self-respecting country's reserves should be high enough to pay for at least three months' imports. Even at over R7bn, SA's reserves cover imports for barely half that period. One of the authorities' most important economic policy objectives is to reach three months' import cover on reserves, and then to avoid running reserves down again below that level.

Restored health

A reserves total of around R7,5bn for April would, therefore, be historically high in nominal terms. It will certainly seem so compared to, for example, the R5bn-odd reserves totals recorded during the gold boom year of 1980. But reserves have to be seen against the background of the imports bill. While the level of 1980's reserves covered many months' imports, 1991's are only halfway towards even the most basic level of economic respectability.

The reserves picture is improving following an improvement on the capital account during the first quar-

ter, which could make good the R1,8bn outflow recorded in the fourth quarter of last year. Senior figures have been unanimous in recent days about the restored health of the capital flows position: the Reserve Bank Governor has gone public with his confidence that last year's capital outflows have been reversed, and the President has also told influential foreign audiences of hundreds of millions of rands in risk capital entering the country.



GRAPHIC: LEE EMERTON SOURCE: SA RESERVE BANK

On the foreign exchanges, the wild volatility of last week — which saw the rand bounce between R2,76 and R2,82 against the dollar — should be over. Relative interest rate levels are now more clear and more settled than they were last week, and it was uncertainty about currency yields that prompted most of the swings in

dollar support.

The move by the US central bank, the Federal Reserve, to cut discount rate by half a point to 5,5% ended speculation on one side of the Atlantic. On the other side of the ocean, the decision by the German central bank, the Bundesbank, to hold rates steady for at least another fortnight, also settled uncertain markets and should contribute to less volatile trading.

Another factor that should help to calm markets after last week's rollercoaster trading is the continuing incidence of public holidays in several markets. The British and Japanese financial markets are both closed today, which should trim volumes in the foreign exchange markets. The rand market will be closed on Thursday's public holiday in SA.

Performance

The week's statistical highlight is the release, probably on Wednesday, of the German trade and current account figures. These are of interest because the German external surpluses have been falling sharply of late. The current account swung into structural deficit for the first time in 10 years due to surging imports as a result of the unification process. The swing has been a drag on the performance of the Deutschemark and continues to provide a reason for expecting higher German interest rates in the near future.

Elsewhere, the US Treasury holds its quarterly refunding this week, starting tomorrow, in which foreign investors are invited to take out US securities to finance the American twin deficits.

Pricing seen as a major burden on SA exports

Bipay 6/5/91

ZILLA EFRAT

THE lack of competitive pricing for SA's products on world markets, rather than sanctions, is seen to be the major obstacle to SA's export growth, a recent study by Safto has found.

The study, which will be done quarterly by Safto in the future, was based on the subjective expectations of about 100 major exporters.

It found SA exporters were more confident about the long-term export prospects than those in the short term.

Safto CE Wim Holtes says SA's export growth in real terms is expected to remain static during 1991, but will pick up towards the end of the year.

However, exports should show real growth of about 3% in 1992. This is because economic growth in OECD countries is expected to improve and commodity prices to strengthen in 1992.

In addition, the local export community expects to be better able to exploit opportunities in the wake of disappearing political obstacles and a greater commitment to exports.

As a result, exporters surveyed expect their export sales in US dollars

to grow 18 points, from an index base of 50, in the next year.

The study found exporters expected foreign sales to grow three points in the first quarter of 1991 and a further five points in the second.

The survey also found that exporters expected the number of unfulfilled orders to rise in the next 12 months. This was because as world market demand picked up, shortages in capacity were anticipated.

Slump

Holtes says exporters deal with SA's high inflation rate, relative to that of trading partners, and the fall in rand exchange rate has not been sufficient to compensate for this.

Holtes attributes increased exports to disappearing sanctions and the slackening off of local demand in the current economic slump which has forced local producers to look abroad.

Other factors are the new export incentives, a desire to spread a company's risks and a greater awareness and commitment to exports.

Holtes says SA's exports grew 3% in 1990 despite the falling gold price,

the economic downturns in foreign markets and static primary exports.

Leaders in 1990 were transport equipment which rose by 66%, professional equipment by 32% and machinery by 29%. However, exports of vegetable products, pulp and paper, and chemicals declined.

While SA's total exports fell 1% in the first quarter of 1991 over the same period last year, some manufacturing sectors have been doing well.

Exports of transport equipment improved by 26%, professional equipment by 25%, prepared foods by 23%, plastic and rubber by 52% and miscellaneous manufactured goods by 75%. Chemical exports rebounded to show a 32% rise on the previous period.

Holtes says foreign market demand for SA products is growing, particularly from the EC and Africa, but product availability remains a problem.

Safto has indentified some target areas of industry that will offer the most attractive export investment opportunities. These include vegetable products, mineral products and jewellery.

74

Violence 'has sobered UK enthusiasm'

VIOLENCE in SA has had a sobering effect on UK companies that were once enthusiastic about changes taking place in the country, London Chamber of Commerce and Industry (LCCI) mission delegates said yesterday.

Speaking at a news conference in Johannesburg, mission secretary Tracey Dorrell said once stability in SA could be demonstrated — and reported in the British media — UK companies would come back to SA quickly, because it was considered an important market.

The delegation, which is in SA for two

3 10 am 7/5/91
ZILLA EFRAT

weeks, will promote a variety of products and services.

It followed a successful mission to SA last year and Dorrell said the LCCI was now planning to visit SA annually.

The mission will also visit Cape Town and Durban.

Export Market Development director Paul Hayball said there were niches in the SA market for many UK companies that had not exported to SA before.

Lloyds of London Business Press CE

Alfred Rolington said that, in the longer term, SA would not be neglected as a market in favour of Eastern Europe.

□ Sapa reports that the Afrikaanse Handelsinstituut (AHI) said yesterday the continuing violence and unrest was discouraging local and international investors.

AHI director Prof J Poolman said in a statement: "SA needs political stability more than ever to restore business confidence so that the economy can grow, and prosperity and job creation can be realised."

● Picture: Page 3

Exports of vehicle parts 'approaching R1bn'

^{B Day}
EXPORTS of vehicle parts were expected to approach R1bn this year, National Association of Automotive Components and Allied Manufacturers director Denzyl Vermooten said yesterday.

This would be about R100m up on last year's figure.

Vermooten said in an interview increased exports had helped compensate for static passenger car and truck sales.

Most companies were still operating at an unacceptably low capacity and could comfortably accommodate

^{7/1/71}
GERALD REILLY

any increase in vehicle sales that might result when the economy emerged from recession.

Vermooten said price increases this year were expected to be 'between 8% and 14% — more or less in line with inflation.'

He said main overseas markets were the UK, Germany, Austria, Italy, the US, Taiwan and sub-Saharan Africa.

All were capable of being expanded in the medium and long term.

^{7/1/71}
There was also scope for export growth in Eastern Europe.

Vermooten said the industry was unable to compete head on with the mass production industries of Europe and the US. However, niche markets where small volumes were needed could be further exploited.

Exports covered virtually the full range of components — from wheels and rear springs to bumpers and body parts.

Vermooten said high vehicle prices and static sales had resulted in owners extending their vehicles' lives.

Bleak outlook as real growth drops

Bl Day 7/5/91

SHARON WOOD

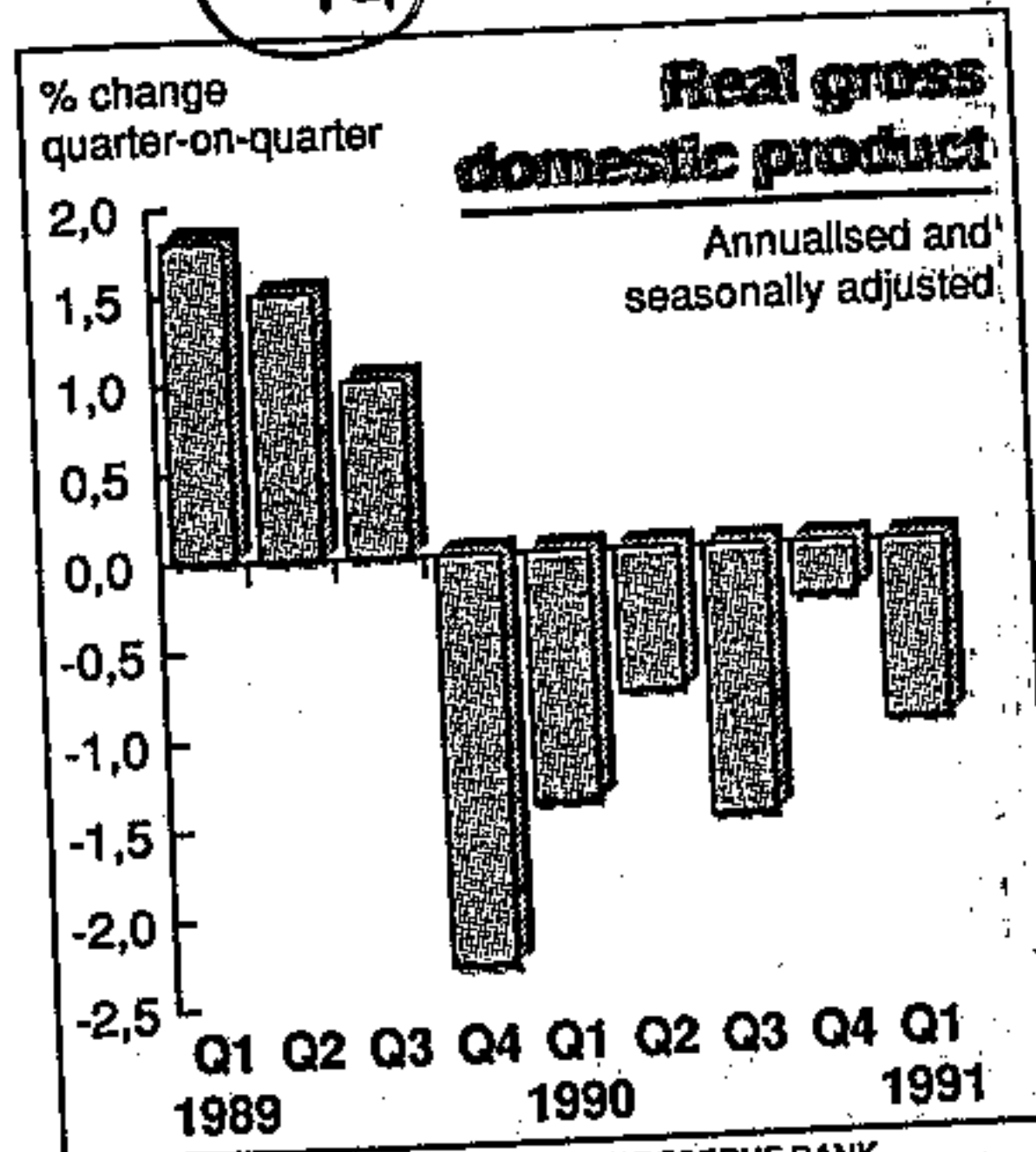
A SHARPLY lower trade surplus has intensified the economic recession in the first quarter of the year, with real economic growth falling by 1%, Reserve Bank figures show.

This heightens the possibility of another year of stagnant economic growth, a scenario which has been widely predicted by economists.

Significantly lower merchandise exports and a huge increase in imports sliced the current account surplus to less than R2bn in the first quarter, from R9,7bn in the last quarter in 1990, said Reserve Bank Governor Chris Stals.

But he added it was possible that the trade statistics were distorted by the Gulf crisis and by the number of public holidays at the end of December. The average of the results for the last two quarters gave a more satisfactory result.

A fairly general decline occurred in the total production of almost all sectors of the economy, except in agriculture where total value added increased marginally from the previous quarter, he said.



The economic trends set last year were confirmed again in the first quarter of 1991, Stals added.

Fixed investment fell at a lower rate than in the previous quarter and disinvestment in inventories was reduced. But these

□ To Page 2

Growth drops

“were not enough to offset some further increases in private sector consumer demand and in current government expenditure”, he said.

Stals said there had been a turnaround in the capital account with a net capital inflow of about R1,5bn in the first quarter — reversing the R1,8bn outflow in the fourth quarter of last year.

The first quarter fall in real gross domestic product was in line with the 0,9% negative growth recorded for 1990 as a whole and was greater than the 0,3% decline in quarter four last year.

“The prospects for this year are dull, unless there is a much brighter beginning to the agricultural season in quarter four this year,” said Nedbank chief economist Edward Osborn.

The economic recovery would probably be delayed until next year because there

was little to pull the economy into any degree of recovery.

Osborn predicted that economic growth this year would be about 0,5% — on the optimistic assumption that there would be a good start to the agricultural season.

The external account was the dominating force behind the first quarter fall in economic growth. Trade was heavily influenced by poor commodity prices, a relatively poor gold price and no maize to export, he added. Exports fell by 3,7% year-on-year in quarter one and imports rose by 3,7%.

The balance of payments showed signs of moving in the wrong direction and it was now even more imperative to roll over foreign loans, Osborn added.

Old Mutual economist Dave Mohr said this year would not be a growth year but rather a repeat of last year. He predicted zero growth in the economy this year.

74 □ From Page 1

Business confidence index shows slight rise

By Sven Lünsche ^{Star 8/5/71}

Confidence, as measured by the Chamber of Business (Sacob) Confidence Index (BCI), remained at a relatively low level in April.

The BCI rose to 87,7 in April from its four-year low of 87,3 in March, although confidence was slightly bolstered by the normalisation of external

economic relations.

"This is especially so after the State President's recent trip to Europe," Sacob said yesterday.

It added, however, that the US policy of maintaining its veto against renewed financial access by SA to IMF facilities, even if the Comprehensive Anti-Apartheid Act was repealed, was a setback to confidence.

This would maintain pressure on the Reserve Bank to build up gold and foreign exchange reserves and keep a tight rein on the demand for imports.

On balance, however, the level of business confidence appears to have bottomed out, and is rising in expectation of an upswing.

"Economic fundamentals, including signs that

activity levels in the real economy have stabilised and are now starting to rise and a lower inflation rate, could augur well for the future.

"However, the business mood remains vulnerable because of concerns about the sustainability of the strength in consumer spending, the weak gold price, and the high level of violence," Sacob said.

Tax on imports from the TBVC states

Star 915/91

So far we have focused on the application of value-added tax to "taxable supplies" made domestically by vendors of goods or services. We now turn attention to another important component of the trading mix — imports.

For VAT purposes, the categories are:

- Imports from TBVC countries (Transkei, Bophuthatswans, Venda and Ciskei).
- Imports from Botswana, Lesotho, Swaziland and Namibia (the BLSN countries).
- Imports that are required to be cleared by the Department of Customs and Excise.

From the domestic viewpoint, you will remember that exports will be zero-rated except when these are shipped to the TBVC countries which fall outside the "export country" definition, in which case the standard 12 percent VAT rate will apply.

Despite this exception, we find on examining VAT on imports that although no special distinction is applied to imports from TBVC countries — imports from across their borders will be treated as imports — selective consideration will be given to the way these are taxed.

At the root of VAT treatment is the geographic relations these countries have with South Africa's borders — it clearly would be impractical to station Customs and Excise officials at every port of import — and the need by the taxman to claim his dues in the most practical manner possible.

Normally, only where imports are to be used in the making of

VAT AND YOU



Sixteenth in a daily series by André Meyburgh, consultant on indirect taxation with chartered accountants KPMG Alken & Peat.

"taxable supplies" in South Africa will the VAT on imports be deductible as an "input tax".

The importer who will be liable to pay VAT on incoming goods will not always be required to have these goods cleared by the Department of Customs and Excise yet he might be responsible for determining the amount of VAT payable, based on the customs value if the imports had been cleared at a Customs and Excise office.

In the case of imports from TBVC countries to be used for making taxable supplies however, no VAT will be payable. The result will be: No tax paid — no input tax claim.

It is a different story if the imports are to be used to make "non-taxable" supplies: that is:

● "Exempt supplies", or

● goods used or consumed outside the normal process of a vendor in making "taxable supplies", or

● goods used by "non-vendors".

In these instances, the importer will be required to submit a special return to the Receiver of Revenue and to volunteer payment of VAT within 30 days after the date of importation.

By definition, then, where goods are imported from a TBVC state by enterprise in the business of making exempt (or non-taxable) supplies, most notably the now familiar financial or educational institutions, there will be a VAT charge (say, on the importation of special stationery or books), and no input tax set off.

Similarly, if a vendor making taxable supplies, such as sports goods and apparel, were to import TBVC-made boardroom furniture, which certainly would not form part of the process of making clothes or shoes, there would be a tax on the goods which also would not be deductible.

Furthermore, where a non-vendor trader or the man-in-the-street imports goods from a TBVC country, he will have to pay VAT, but will not have recourse to a claim back.

Remember that "persons" not registered as vendors do not really have any status in VAT terms. To illustrate the point further, if a non-vendor were to buy groceries in a TBVC state to avoid VAT at the point of purchase, these goods would be still be subject to VAT once they arrive in the Republic.

TOMORROW: The BLSN countries and imported services.

Readers who have specific value-added tax questions or problems are invited to address these to: Managing VAT, KPMG Alken and Peat, PO Box 7400, Johannesburg 2000. Replies will be dealt with confidentially, but interesting issues raised may be discussed in general terms in this series.

● A booklet comprising all the articles in this series will be available soon and can be ordered from The Star Promotions, PO Box 1014, Johannesburg 2000, at R20 plus GST.

Kaizer Nyatumba examines Thabo Mbeki's views on future foreign policy

New SA must achieve fine balance

Star 9/15/11

THE new South Africa would have to maintain cordial relations with its African neighbours and all other countries and desist from considering itself a regional power in southern Africa, says ANC international affairs director Thabo Mbeki.

In a paper on "South Africa's International Relations - Today and Tomorrow", published in the latest issue of South Africa International, Mr Mbeki says a democratic South Africa would have to deal with the consequences of 30 years of various punitive measures taken by the international community to isolate the country.

That process, Mr Mbeki says, would have to "begin during the transitional period".

He says the international community is obliged to assist South Africans to effect transformations

which would arrest apartheid and institute a social order which would uphold the objectives contained in the Universal Declaration of Human Rights and the Charter of the United Nations.

Mr Mbeki placed emphasis on the need for South Africa's involvement in the world's economic structure, and for ties with the economies of southern African countries.

He says the South African economy's growth has depended, to a certain extent, on its ability to export capital, manufactured goods, food and services to southern African countries, to maintain communication and transport links with them and import labour.

Mr Mbeki warns, however, that South Africa will have to stop being a military and economic threat to its regional neighbours.

To this end he advocates the reduction of the size of the new South African Defence Force "so it ceases to constitute a threat to any other country" and the maintenance of an open society economy which can grow and develop in a situation of contact with the world economy in all spheres, including access to world capital as well as financial and trade markets.

"At the end of the day," says Mr Mbeki, "the basic task of South African foreign policy would be to ensure that our country and its people live with the rest of the world in conditions of peace, friendship and co-operation.

"During the course of the world struggle against apartheid, millions of people were mobilised into what was in fact an international movement of friends of the people of South Africa.

These millions must remain mobilised as part of the process of establishing relations from people to people and as a resource that will help us to generate the resources we need for reconstruction and for ending the pariah status of South Africa."

The New South Africa, says Mr Mbeki, would have to establish relations with all countries and join organisations like the Organisation for African Unity, the Non-Aligned Movement, the United Nations, the Lomé Convention and the African Development Bank in addition to remaining a member of the International Monetary Fund and the World Bank.

The new country would also promote the objective of having Africa and the Indian Ocean as nuclear-free zones which would be free of foreign military forces and bases. □

Strong overseas demand cuts discount on finrand

By Sven Lünsche

The discount between the financial rand and the commercial rand fell to 14.7 percent on Wednesday, its lowest since the re-introduction of the unit in 1985.

At one stage during a day of strong overseas demand and few sellers the discount shrunk to as low as 14 percent, a dealer said.

The demand for SA bonds, in particular, has sparked considerable interest among European pension funds, which have channelled funds into the country through the financial rand.

The expression of interest in local gilts was sufficient for Credit Suisse to include a selection of rand-denominated bonds on its list of recommended bonds for the first time last week, the Financial Times reports.

The RSA 153, for example, currently yields 15.65 percent to a South African investor, but 18.8 percent for a non-resident. With inflation running at 14 percent, real yields would not be attractive if it were not for the dual exchange rate. International investors have also been making a healthy cap-

ital gain on the appreciation of the finrand and are betting on the eventual conversion of the two currencies, as indicated by State President FW de Klerk on his recent visit to Europe. However, many local economists feel that the discount is still too large to allow for a unitary rand.

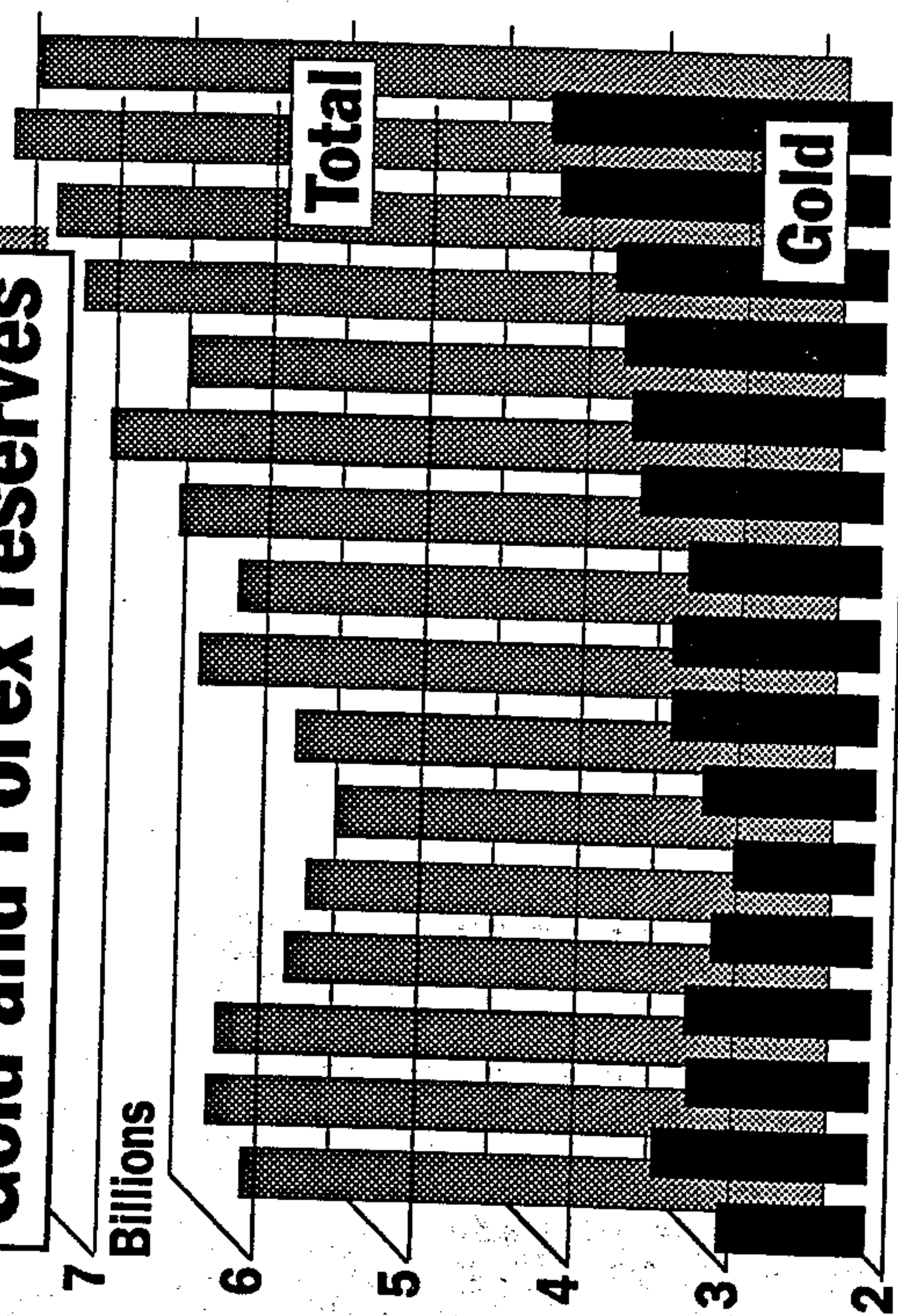
Econometrix recently estimated that a unitary rand would probably settle at eight to ten percent below the current commercial rand exchange rate and push the inflation rate up by about two percent.

"The only way in which such a devaluation could be avoided would be if the government received massive bouts of foreign exchange, in the form of a much higher gold price or access to new long-term foreign loans from the IMF," Econometrix said, echoing recent statements by the Reserve Bank.

Neither of these prerequisites was imminent, particularly since the US administration recently said it would continue to veto SA access to IMF loans even if other sanctions were scrapped. Nevertheless, Dr Stals's hints about the possibility of scrapping the finrand had pushed up the demand for the currency, thereby narrowing the discount, Econometrix said.

Gold and Forex reserves

Billions



J F M A M J J A S O N D J F M A
1990 1991

Commodity prices up

Commodity prices rose in New York today to their highest since the Gulf war. June crude traded 25 cents above \$22.03 a barrel in response to refinery troubles in Saudi Arabia.

Forward

The bank passed a law banning forward trading, closing a gap that has hindered its status as a financial centre. *by the Financial*

Gold

356.95 (\$357.25)
Closed (\$356.75)
Open (\$356.65)
High: \$358.40 (\$358.20)
Low: \$358.10 (\$357.10)

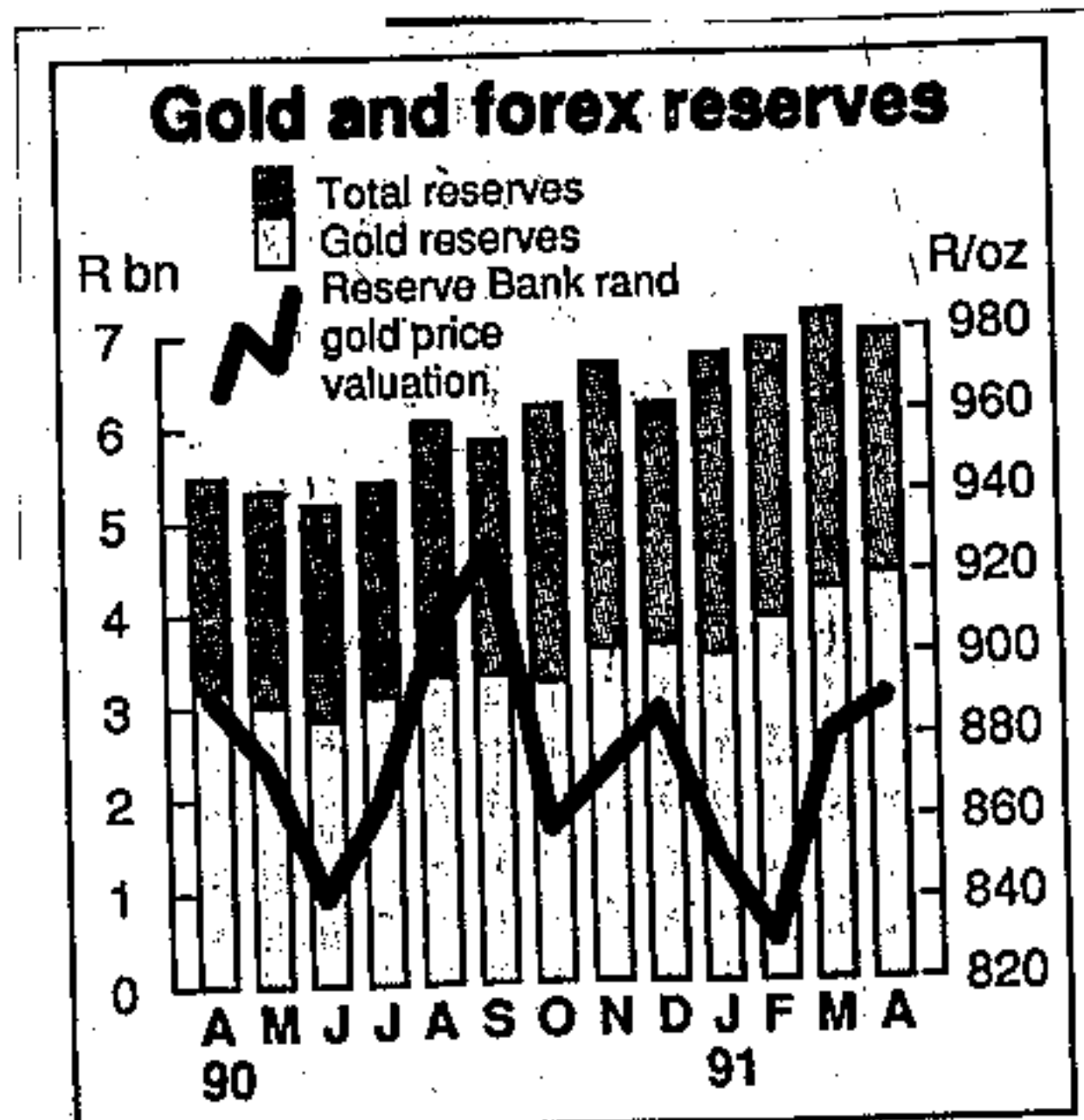
Bonds

10-year (24 1/4%)
5-year (45 3/8%)
3-month (14 1/2%)

Commodities

Oil: 442.0 (\$1 411.0)
Copper: \$392.50 (\$392.75)
Silver: \$1 620/\$1 670
Gold: \$1 106.0
Platinum: \$1 000.0 (\$8 830.0)
Natural Gas: \$50 (\$332.50)
Cotton: \$57.73 (0)
Wheat: \$114.60 (0)

Index: 2541.8 (2523.4)
DAX: 2971.15 (2930.90)



Graphic: FIONA KRISCH Source: SA RESERVE BANK

Fall in reserves ⁷⁴ reflects BoP trend

SHARON WOOD

EMERGING strains in the balance of payments reduced Reserve Bank currency holdings, leading to a 4% fall in total gold and foreign exchange assets in April, economists said yesterday.

Total Reserve Bank foreign reserves fell by R295m to R6,987bn in April from the record high of R7,282bn recorded in March.

The drop in total reserves was primarily a result of a 14,2% fall in currency reserves to R2,643bn from R3,081bn in March. *810am 10/5/91*

Gold reserves increased by 3,4% to R4,345bn from R4,201bn, on the back of a stronger rand gold price, which rose to R889,27 from R881,09. Reserve Bank physical gold holding also rose by 2,5% to 4,886-million fine ounces from 4,768-million.

Nedbank chief economist Edward Osborn said reserves were at a satisfactory level and there was no cause for alarm.

The fall in reserves in April reflected the adverse trends beginning to emerge on the current account. Imports were creeping up and exports were slackening, he said.

Pressure on repayment of foreign loans would be reduced depending on the Reserve Bank's success in rolling over foreign debt during the year.

Osborn attributed the fall in foreign currency reserves to the Reserve Bank possibly holding gold from the market while eating into currency reserves to meet the pressures on finances. This could be seen by the rise in Reserve Bank gold holdings.

The fall in the currency holdings reflected an outflow of foreign exchange, said Bankorp economist Jacques du Toit.

Safto index rates countries' accessibility to SA

THE UK, Germany and Switzerland are the easiest countries for SA to do business with, an index compiled by Safto shows.

The index, part of a report titled "Exporting from SA", takes into account each country's attitude to SA, its creditworthiness, physical accessibility, communications links and the current level of business.

Other countries that scored highly were Austria, Belgium, France, Italy, Netherlands, Botswana, Swaziland and the Republic of China (Taiwan).

10/5/91
ZILLA EFRAT

Listed among the hardest markets to do business with were Angola, Nigeria, Tanzania, Bolivia, Peru, Panama, Mexico, Saudi Arabia, Iran, Jordan, Poland, India, Malaysia and the People's Republic of China.

Accessible African markets were Lesotho, Malawi, Mauritius and Zimbabwe, while those in Asia included Singapore, Hong Kong and Japan.

The report concludes that SA has strong advantages as a manufactur-

ing centre, export base and regional head office for multinationals.

However, SA's weaknesses are a shortage of finance, lack of sufficient skilled and specialised personnel and lack of personal contacts through previous years of political isolation.

□ Sapa reports that Johannesburg Chamber of Commerce and Industry trade department manager Michelle Cohen has warned potential traders with Eastern Europe that while profitable business can be done, many pitfalls exist

Growth levels in SA depend on exports and destocking levels

SHARON WOOD

GROWTH this year — or the lack of it — will depend primarily on the outcome of export performance and the level of destocking. *Biday 10/5/91*

These two factors are uncertain variables because there is general consensus on other major variables influencing growth. Most economists expect investment to fall further and gross expenditure to grow at a lower rate, compared with last year's 1,1% growth.

While most economists forecast between zero and 0,5% growth, Standard Bank has taken a bullish outlook, predicting between 1% and 2% growth this year.

But the bank stresses that this apparently favourable picture will be attributable to technical reasons, as destocking inventories, which made a major contribution to negative growth in 1990, should lessen. Standard Bank says 1991 cannot be characterised as a recovery year, as its forecast does not take into account economic figures released for 1991.

To date the recession has affected inventory levels most severely, with destocking of about R3bn taking place in 1990 — the lowest level since 1985.

The predicted level of destocking is a crucial factor influencing growth forecasts, and explains the difference between 0,5% and 1% real growth forecasts.

Sanlam economist Johan Louw says destocking will probably fall from last year's R3bn to about R2bn.

But Old Mutual economist Dave Mohr disagrees. He says inventory accumulation will rebound only when consumption takes off, which is unlikely soon given high real interest rates.

Nedbank chief economist Edward Osborn says the authorities cannot relax the high interest rates because if they do there will be an import inventory boom, placing additional pressure on the balance of payments.

After what is likely to be a year of low growth, economists are predicting growth of over 2% for 1991.

LESLEY LAMBERT reports that the Stellenbosch Bureau for Economic Research (BER) expects a considerable improvement in SA's export performance to boost gross domestic product (GDP) by 3% next year.

Economists expect GDP to grow by about 0,5% at most this year as a result of anticipated declines in gross domestic expenditure (GDE) and export performance.

Next year, however, if GDE grows by the anticipated 2% and export performance improves, the BER forecasts that GDP could grow by almost 3%.

The BER forecasts negative growth in all sectors.

Real disposable income is expected to increase again during 1992 in reaction to fiscal drag and an anticipated decline in the rate of inflation, it says.

CURRENCY MARKETS

NEW WORLD

Fm 10/5/91

(74)

Foreign exchange markets are going through a difficult adjustment to the sober business climate of the Nineties, after the excesses of the opulent Eighties. Even the dollar pyrotechnics of this year's first quarter have given the market little solace. The unit's sharp fall against the D-mark to new all-time lows of around DM1,443 in mid-February and its subsequent meteoric rise caught the market unprepared and so ill-placed to convert the turnaround into profit.

The dollar's sudden surge was instructive. It largely reflected a one-off shift in investor sentiment after the Gulf War — after a

continue →

ECONOMY & FINANCE

Fm 10/5/91

(74)

lengthy period in which the impact of interest rates on interbank trading had been the dominant influence on exchange rate movements. This was a timely reminder to foreign exchange traders that they ignore underlying investor sentiment at their peril.

The dollar surge began only days after the official discount rates in Germany and the US "crossed over." On January 31, the Bundesbank raised its discount rate by one half percentage point to 6,5% and its more important lombard emergency funding rate by the same amount to 9%. The following day, the US Federal Reserve cut its discount rate to 6% from 6,5%.

On past experience, those changes would have pointed to continued dollar weakness. But they were countered by a number of factors, including sheer animal spirits.

On the whole, the past two years have been remarkable for currency stability in the face of striking geo-political change.

In the early Seventies, the Western world entered a protracted economic crisis with the unleashing of inflationary pressures, the first oil crisis and the collapse of the Bretton Woods fixed exchange rate system. The result was a bonanza for forex traders.

Nearly 20 years later, the collapse of communism in eastern Europe, mounting economic and political problems in the Soviet Union, the end of the boom in the industrial world and the outbreak of war in the Gulf might have been expected to create similar shock waves. But this was not the case. By the time the Iron Curtain fell, the West had got its act together.

All industrialised countries today pursue broadly similar economic policies that give priority to combating inflation and encouraging private enterprise rather than pursuing economic growth and full employment as ends in themselves. Policy co-ordination, as practised by the US, Japan, Germany, France, Italy, Britain and Canada in the Group of Seven, has emerged as a key factor influencing the foreign exchange markets.

Central banks have become progressively more adept in influencing currency movements. The G7 attempt to stabilise currencies, in the so-called Louvre Accord of February 1987, involved massive intervention and the acceptance of distortions in financial markets that may have helped trigger the global stock market crash later that year.

The G7 has since learnt to be more

pragmatic, seeking to curb wild currency fluctuations rather than defend target zones. Intervention is most effective when it reflects the clear political will of all members.

Such determination has been less apparent as the dollar has risen. But the markets have punished the G7 less harshly than in the past for signs of disarray as banks have become more risk averse.

On the plus side, the liberalisation of eastern Europe may mean that currencies such as the Polish zloty, Hungarian forint and Romanian lei will be fully convertible and actively traded in centres such as London, Frankfurt, Tokyo, New York and Singapore in a few years. But the drive for economic and monetary union in Europe could mean the disappearance of west European currencies if and when the European Community adopts a single currency and central bank.

Add to this the incipient tendency for other parts of the world to move in the direction of regional economic groupings such as the free trade area being negotiated between the US, Canada and Mexico, and it is easy to see why banks active in foreign exchange are increasingly seeking the stability provided by a solid customer base. ■

SOME JOINT VENTURES

Fm
10/15/91

74



Ray Eskinazi is international tax partner at Ernst & Young

In the light of the changing attitude of many countries to relationships with SA, local companies will explore business opportunities in potential foreign markets, such as the future single EC market and eastern Europe, with new vigour.

The alternative to expanding into a foreign market by way of a joint venture with a local partner, to maximise local expertise and market knowledge, is often advantageous, and in fact mandatory in some jurisdictions, particularly in eastern Europe. However, it is often assumed that from a commercial and fiscal point of view, a jointly owned corporate entity in the country of operations is the best vehicle.

This is not necessarily the case. A partnership may be both commercially and fiscally efficient and result in an increased return on investment. This will be an important consideration in convincing exchange control authorities that an offshore partnership is the most suitable vehicle to adopt.

The absence of limited liability will often be raised as the main stumbling block to the use of a partnership (though in both France

and Scotland, for example, a partnership may have a separate legal personality). This exposure, however, may be overcome in a number of ways, depending on the legislation in the foreign country.

Use of a limited partnership, to limit the SA company's liability to its share of the capital contributed and its profit, may be appropriate, though in some countries a limited partner is prohibited from participating in the management of a business.

Another way to achieve limited liability would be for the SA partner to set up a separate local or foreign subsidiary which will become the partner in the venture.

A partnership may also be subject to less stringent reporting requirements in the foreign jurisdiction where it is conducting operations, both with reference to initial formalities as well as annual compliance requirements. A partnership also does not have to comply with the minimum capital requirements often stipulated for a company and partners are not usually subject to capital duties on capital contributed.

Usually there will be a liability to tax in the foreign country where the partnership is conducting business, while such profits will generally be exempt from SA tax on the basis that the income is foreign-sourced. In general, for foreign tax purposes, as in SA, partnerships are treated as fiscally transparent and the individual partners are taxed on their share of the partnership profits.

In some countries, however, the partnership may have the option of being taxed as a

company or partnership. Where the partnership is treated as a taxable entity *per se* it will usually qualify for benefits under double taxation agreements such as reduced rates of withholding taxes.

It is important to compare the overall tax liability of a partnership with that of a company in the foreign jurisdiction including taxes on profits, sales taxes, withholding taxes on distributions, capital taxes on transfer of assets and net worth taxes on the value of assets. The main advantage of the partnership form is to be found in the *look-through* rules applying to the taxation of partnership profits which will generally result in the SA partner paying tax only once on its overseas profits.

This tax burden will usually be less than when operating through a company where the profit is taxed once in the company, and then again on distribution to the SA shareholder (irrespective of whether dividend withholding tax is reduced in terms of a double taxation agreement or not.)

In appropriate circumstances, therefore, and properly used, a partnership may merit serious consideration as a vehicle for joint foreign business operations.

□ Ray Eskinazi will speak at the joint FM-Ernst & Young conference on *Tax Planning in Today's World — Perspectives for the New SA*. The conference will be held at the Sandton Sun on Tuesday and in Cape Town at the Arthur's Seat Hotel on Thursday. Contact Monique Bergh (011) 498-1578 or Debbé Meyer (021) 21-1100.

DEDICATED TO WAR

Wim
Agreement on (74)

'cultural weapons'

10/5 - 16/5/91 (118)
PRESIDENT FW de Klerk and Inkatha leader Mangosuthu Buthelezi reached an agreement this week on "cultural weapons" that they hoped would be acceptable to the ANC.

A joint statement after the Tuynhuys talks suggested there had been some tough talking by De Klerk on the controversial issue. He told parliament last week that such weapons must only be on display at traditionally cultural events, and not on township streets.

Tuesday evening's statement said Buthelezi had been informed the government was "considering special steps in unrest areas, including a stricter control of dangerous weapons".

De Klerk said the talks had "cleared a few misunderstandings", and the Zulu chief had shown him the difference between truly "cultural weapons" and others.

SA firms flock to Soviet fair

Star 11/5/91
74
MARK SUZMAN

"TO Russia ... with business" reads the advertisement in the paper.

And South African companies are rushing to respond in an effort to display their wares at the first Soviet trade fair, to which South Africa has been invited.

Sponsored by Edhill International in conjunction with Soviet, Swiss and German contacts, a massive trade fair, Sovex 91, has been scheduled for August.

Merchandise

The fair will provide a golden opportunity for southern African companies to display their merchandise.

According to Edhill managing director Ed Pinshow, the show will last for one week and will be held in Moscow's modern exhibition centre.

"It's a marvellous opportunity to get involved with one of the world's largest economies," he observed.

So far, it seems, South African business agrees with him: in the two weeks since the show was announced, 39 companies

involved in industries as diverse as mining, foodstuffs and computers, have expressed interest in participating in the exhibition.

"The response has been quite fantastic," notes Mr Pinshow.

"We have 1 800 sq m of floor space to rent out by the end of May, but I think now that we'll comfortably make that."

While he says that it is impossible to put a rand figure on possible trade between the two countries, he notes that there is "enormous potential" for business in the Soviet Union.

Trade

The trade fair is the latest in a series of moves designed to improve trade and increase the level of economic interchange between the two countries.

The South African Foreign Trade Organisation will lead a separate delegation in June to Leningrad and Moscow for trade talks.

To Russia . . . with

business

ARGUS 11/5/91

1/8
74
9/1

11/5/91

Rush to show SA wares at trade fair in Moscow

The Argus Correspondent

JOHANNESBURG. — "To Russia . . . with business" reads the newspaper ad — and South African companies are rushing to respond in an effort to include their wares at the first Soviet trade fair to which South Africa has been invited.

Sponsored by Edhill International in conjunction with Soviet, Swiss and German contacts, a huge trade exposition, SOVEX 91, has been scheduled for August for Southern African companies to display their merchandise.

Edhill managing director Mr Ed Pinshow said here the show, to be held in Moscow's modern Exhibition Centre, would last for a week.

"This is a marvellous opportunity to become involved with one of the world's largest economies."

So far, it seems, South African business agrees with him. In just two weeks since the show was announced, 39 companies — involved in industries as diverse as mining, foodstuffs and computers — have shown interest.

"The response has been quite fantastic," said Mr Pinshow.

"We have 1 800 square metres of floor space to rent out by the end of May and I think we'll comfortably fill it all. There is enormous potential for business in the Soviet Union."

The fair is the latest in a series of moves designed to improve trade and increase economic interchange between the two countries.

Soviet businessmen have already visited South Africa to look at trade prospects, and in June the South African Foreign Trade Organisation is due to lead a delegation to Leningrad and Moscow for trade talks.

R10bn trade

S Times 12/5/91

By MIKE ROBERTSON
Political Correspondent

SOUTH AFRICA's trade with the rest of Africa has soared and now stands at R10-billion.

In some cases, trade has doubled within a year and in others it has leapt by a quarter. The prospects of forging full diplomatic ties with formerly hostile countries such as Egypt, Morocco, Nigeria and Kenya are now at an all-time high.

Building on a new acceptance of South Africa after President FW de Klerk's moves to dismantle apartheid, Foreign Affairs officials have criss-crossed the continent, visiting 29 countries.

The breakthroughs they have achieved were evident in Cape Town this week when 17 African trade mission heads arrived to attend the debate on the Foreign Affairs budget vote.

Apart from the TVBC states, South Africa now has representatives in Lesotho, Swaziland, Zimbabwe, Mozambique, Malawi, Mauritius, Madagascar, Comores, Togo, the Ivory Coast and Zaire.

The Ivory Coast representative is also accredited in Sao Tome while the Zairean mission head is accredited in Rwanda. The Department of Foreign Affairs also has a representative in Jamba.

Within months South Africa is expected to establish a mission in Rabat, Morocco. And Nigeria sent a representative to the opening of Parliament this year.

Double

Foreign Affairs deputy director-general for Africa, Rusty Evans, said the department was now concentrating on improving links with major countries on the continent such as Egypt, Nigeria and Zaire. Mr Evans said South Africa also placed high priority on establishing a mission in Angola.

Along with increased diplomatic representation, South Africa is enjoying burgeoning trade with the continent and has secured widespread landing and overflying rights.

South African tourists are also being welcomed in more countries in Africa than ever before.

South Africa's "visible" trade with African countries — excluding those in the

Once hostile states now roll out the red carpet

customs union — rose by 24,7 percent to R5,088-billion last year.

The Republic traded with every African country except Equatorial Guinea and Djibouti.

However, Mr Evans estimates that, when invisible earnings — from transport and electricity supply — are included, total trade with Africa last year amounted to about R10-billion. Visible trade with the Frontline states grew by 13,4 percent.

Trade with the Indian Ocean islands was up 19,6 percent and trade with Madagascar more than doubled following Mr De Klerk's visit to the island.

South Africa's trade with East Africa increased by 26,5 percent, while that with West and Central Africa was up 23 percent.

In the first three months of this year there were 21 visits to South Africa by representatives of 12 African countries.

Trade delegations from Gabon, Guinea Bissau, Cape Verde, Congo-Brazzaville, Morocco and Mauritius visited South Africa in the past year.

And the prospects of South African Airways being able to fly over the continent are now better than ever.

Visas

South Africa has concluded agreements on overflying and landing rights with the Ivory Coast, Togo, Sao Tome, Gabon, Congo-Brazzaville, Rwanda, Zaire, Kenya, Comores, Madagascar, Reunion, Mauritius, Cape Verde and the Seychelles.

African countries which now grant tourist visas to South Africans include Kenya, Morocco, Egypt, Zaire, Madagascar, Ivory Coast, Mauritius, Comores, Seychelles, Cape Verde and Rwanda.

● See also Page 7

With Africa

Poles on buying mission

S/Times
POLAND's first privately funded trade mission to South Africa arrives in Johannesburg next Sunday.

Unlike previous missions, it will not sell Polish goods or at-

12/5/91 Sun Times 74
tract investment to Poland but buy SA products.

A source in the Polish-South Africa Chamber of Commerce and Industry says the mission

represents more than 10 companies. They are interested in buying furniture, clothing, a variety of food products, fruit, beverages, chemicals, motor parts, fabric and machinery.

- (1) What total amount is it estimated will his Department save in (a) operating costs and (b) salaries during the first 12-month period following the closure of the St Patrick's Primary School (Kokstad), Eston Primary School and Bulwer Primary School;
- (2) whether he will make a statement on the matter?

B922E

The MINISTER OF EDUCATION AND CULTURE:

No final decision has been taken on the closure of the schools. If the schools mentioned should be closed, the saving for the period mentioned will be the following:

- (1) (a) R45 894,00
(b) R477 000,00

However, when the closure of a school is being considered a decision is taken not only on the grounds of possible savings which could be effected, but other factors such as the wishes of the community, educationally accountable provision of education, provision of extracurricular activities, etc are thoroughly taken into account;

- (2) no.

Business interrupted in accordance with Rule 180C (3) of the Standing Rules of Parliament.

Deaths by intravenous drips: investigation

*4. Mr A E DE WET asked the Minister of Health Services:

- (1) Whether she or her Department has been informed of the deaths of approximately 27 persons that were allegedly caused by intravenous drips; if so,
- (2) whether an investigation is being made into these deaths; if not, why not; if so, what progress has been made;
- (3) whether any action is being taken against the company responsible for the manufacturing of these drips; if not, why not; if so, what action?

B978E

The MINISTER OF HEALTH SERVICES:

- (1) The Department of Health Services and Welfare: House of Assembly, became

HOUSE OF ASSEMBLY

aware of the outbreak of a neonatal infection and death of seven babies on 28 August 1990 at the following private hospitals: Park Lane Clinic, Morningside Clinic and Garden City Clinic

- (2) The Department of Health Services and Welfare: House of Assembly investigated the deaths and all relative documents were forwarded to the Attorney-General, Witwatersrand Local Division. The Attorney-General submitted all the clinical information submitted to him to a panel of experts which, at his request was organised by the Department of Health Services and Welfare, Administration: House of Assembly, to decide if the babies in fact died from unnatural causes. The Attorney-General will make a decision as soon as all the reports have been received and studied and the police investigation has been finalised.
- (3) The company responsible for the manufacturing of these drips, voluntarily closed the production facility concerned. The Attorney-General is considering amongst others, the question whether any penal responsibility exists in respect of any medical practitioner, institution or any other party because of the death of the persons.

For written reply:

General Affairs:

Customs Union Agreement: amounts paid over

330. Mr K M ANDREW asked the Minister of Finance:

- (1) What amounts were paid over to (a) each of the independent Black states and (b) (i) Botswana, (ii) Lesotho and (iii) Swaziland in terms of the Customs Union Agreement in the 1990-91 financial year;
- (2) what was the balance that accrued to the Republic of South Africa?

B858E

The MINISTER OF FINANCE:

- (1) (a) Transkei R502 084 000
Bophuthatswana R698 418 000
Venda R 99 580 000
Ciskei R265 989 000

- (b) (i) Botswana R661 046 000
(ii) Lesotho R354 658 000
(iii) Swaziland R338 040 000

(2) After provision was made from total customs and excise receipts for an amount of R657 633 000 in respect of Namibia, the balance, that accrued to the Republic of South Africa, amounted to R4 462 508 724.

Own Affairs:

Cape Province: 1990 matriculation results

71. Mr J H MOMBORG asked the Minister of Education and Culture:

- (1) How many pupils at schools falling under the control of his Department (a) (i) passed, (ii) failed, and (iii) obtained matriculation exemption in, and (b) wrote, the matriculation examinations in respect of the Cape Province at the end of 1990;
- (2) how many of these pupils obtained (a) A, (b) B, (c) C, (d) D, (e) E, (f) F and (g) other aggregate symbols in the 1990 matriculation examinations;

- (3) how many of these pupils passed in (a) Mathematics and (b) Physical Science in the above-mentioned year?

B887E

The MINISTER OF EDUCATION AND CULTURE:

- (1) (a) (i) 16 261
(ii) 942
(iii) 7 343

- (b) 17 203

- (2)* (a) 650

- (b) 1 379

- (c) 2 680

- (d) 2 278

- (e) 356

- (f) 0

- (g) 0

- (3)** (a) 9 335

- (b) 5 858

*Only candidates entered for matriculation exemption.

**Higher, standard and lower grade candidates included.

HOUSE OF ASSEMBLY

Agricultural imports could top R500m

Bidam 14/5/91
PRETORIA — Disastrous early summer drought and frost could force government to import wheat and maize worth more than R500m, agriculture authorities said yesterday.

Importing 500 000 tons of wheat alone to supplement last season's drought-ravaged crop of 1,6-million tons will cost more than R200m.

The first two shipments of 100 000 tons each have

GERALD REILLY

already been delivered.

Local consumption is 2,3-million tons.

The landed price of the wheat is R380 a ton, compared with the board's selling price to the trade of R520 a ton.

Government will therefore make a profit of R140 a ton or a total of about R70m. However, no-one in government is prepared to

say whether this will be used to benefit consumers.

The Wheat Board and government will evaluate next season's crop in July, as well as the trends in demand for wheaten products before deciding on further imports.

The Board says consumption of wheaten products, particularly bread, has declined by as much as 5% since price control was lifted last month.

SA told to prepare for upswing

COMPANIES should use the downswing period by upgrading staff and researching new products, says Bankorp chief economist Nick Barnardt.

It is critical that executives fully understand that there will be an upswing through to 1993/94, and that they make provision for it, he adds.

A political situation which facilitates a net inflow of funds is necessary to sustain a durable upswing and if this does not happen, the entire economy will have to be cut back.

"The domestic upswing projected for mid-1992 will raise the country's import volumes.

"Consequently, the overall performance of the balance of payments remains the determinant of the du-

rability of the upswing.

"Due to the surprisingly sharp increase in net reserves in recent months and weaker growth prospects in the next year, SA seems set to enter the upswing with a higher level of foreign reserves than originally expected," he says.

The United group, in its latest Economic Monitor, says it expects recessionary trends to persist into the third quarter of this year.

Barnardt predicts the downswing phase will continue for another year.

"Conditions will present a real survival challenge to most enterprises," he adds.

"Negative factors for the remainder of the downswing include the imple-

mentation of VAT, which will temporarily push up the inflation rate with a resulting negative impact on the business cycle, effectively preventing interest rates from declining rapidly," he says.

The United predicts the prime rate will be "some 18% or roughly 5% in real terms" by year-end.

But it cautions that the considerable probability of too high money supply growth and high inflation in the near-term may postpone the announcement of the next reduction.

According to the Economic Monitor, inflation is expected to remain at a high level during the first half of 1991, but is likely to recede in the second half of the year and continue to decline into 1992.

SHARON WOOD



UK firms urged to boycott

SA goods

Star 14/5/91
Star Bureau

LONDON — Firms that trade with South Africa through the port of Bristol are being urged to seek imports from other countries.

Bristol Anti-Apartheid Advisory Panel claims South Africa is only dismantling "petty apartheid" and no fundamental shift towards nonracial democracy has yet been made.

A report, commissioned by Bristol City Council, which owns the port, said that total trade with South Africa has dropped from 206 000 tons in 1985 to 149 000 tons in 1989.

In 1988 the Labour-controlled council decided to continue handling existing South African trade contracts, but said it would not seek new ones.

The three main imports are wood pulp, fluorspar and molasses.

UK firms urged to boycott

SA goods

Star 14/5/91
Star Bureau

LONDON — Firms that trade with South Africa through the port of Bristol are being urged to seek imports from other countries.

Bristol Anti-Apartheid Advisory Panel claims South Africa is only dismantling "petty apartheid" and no fundamental shift towards nonracial democracy has yet been made.

A report, commissioned by Bristol City Council, which owns the port, said that total trade with South Africa has dropped from 206 000 tons in 1985 to 149 000 tons in 1989.

In 1988 the Labour-controlled council decided to continue handling existing South African trade contracts, but said it would not seek new ones.

The three main imports are wood pulp, fluorspar and molasses.

Local US laws limit return of investment

8/10am
15/5/91

PATRICK BULGER

(32)

US local government laws will restrict the return of US corporate investment to SA to a trickle, says an article in the May issue of the SA Foundation Review. The article, by Washington-based Investor Responsibility Research Centre (IRRC) senior analyst Witney Schneidman, says a relaxation of federal sanctions will not mean a return to the previous status quo, especially in the field of economic ties.

The IRRC surveys show that there are 85 cities, 22 counties and 26 states in the US which have some type of sanction in place.

The measures include a ban on investing in companies with interests in SA, restrictions against using financial institutions that facilitate commercial transactions with SA and a prohibition on buying SA goods. "While the pace of disinvestment has slowed to a crawl ... many localities continue to introduce new sanctions legislation or toughen existing measures."

Other measures used to restrict economic ties with SA include a Los Angeles anti-apartheid contracting policy, a New York initiative to rate banks on their efforts to place anti-apartheid pressure on the SA government and the creation of "Shell-free zones" in the US.

An IRRC survey of 73 publicly controlled money funds found that only 5.6% of total holdings had been subject to local disinvestment legislation. Consumer boycotts have similarly not affected the sales of target groups. "The same cannot be said of selective purchasing laws. These measures have forced many businesses to choose between doing business in SA or the US. Last year at least 10 companies severed their non-equity links, such as licensing and distribution agreements, in response to local contracting laws which penalise businesses having ties with SA," the article says.

Germans use more SA coal

8/10am 15/5/91

MATTHEW CURTIN

LONG-TERM prospects for SA coal exports to Europe were excellent, Trans-Natal senior marketing manager Gordon Osterloh said yesterday. (18)

Germany, he said, was burning increasing amounts of SA coal as sanctions fell away and the cost of European supplies rose.

Although there was an 18-million ton rise in the amount of steam coal consumed in the developed world in 1990, EC exports fell 16% and Polish exports by 10%, he said. (74)

Rising costs, particularly in Poland, were making European coal unattractive to local consumers. (7)

SA exports to Germany grew by about 1-million tons in 1990. City councils which had refused to buy SA coal for power stations in protest at apartheid had now lifted restrictions for the first time for years.

A recent Coal Week International report said SA supplied between 2.5-million and 3-million tons of the 8-million tons imported by Germany in 1990.

Four join ... as company judges

BTI urged to retain import controls on tyres

SOUTH African tyre manufacturers have urged the Board of Trade and Industry (BTI) to retain import controls on tyres until at least year end. (74) (75)

Last month the BTI called for the removal of the stringent quantitative controls on imported tyres.

SA Tyre Manufacturers' Conference spokesman Gert Fischer said yesterday the BTI had still not taken an official decision on the matter.

MARC HASENFUSS

He said there were a number of problems in the tyre industry that needed to be dealt with before the import restrictions could be lifted. *Blom 15/5/91.*

Fischer said the current overproduction of tyres locally, the pending change to the export incentive scheme under Phase VI of the local content programme and tariff structure adjustments for imported tyres needed to be addressed.

Little light at end of economic tunnel

DISCLOSURES by the SA Chamber of Business that no fewer than 55 percent of companies in the manufacturing sector plan cutbacks in the size of their labour force over the next 12 months have set alarm bells ringing.

"The jobs outlook is bleak," Sacob economist Keith Lockwood told a news conference in Johannesburg last week when the forecasts of widespread labour cuts emerged from nationwide surveys that keep track of the business mood.

The message was made all the more chilling by National Manpower Commission estimates that the unemployment toll in South Africa already stands as high as 4 million. There are estimates that it may be even higher.

It added still more gloom to the dark clouds caused by a wave of retrenchments at a growing list of gold mines. The chronic weakness of bullion prices on world markets has slashed into profits and threatened mines with deepening production losses.

The Chamber of Mines has already confirmed the loss of more than 80 000 jobs and warned that thousands more jobs are on the line if gold prices do not recover — because production costs are running them into losses.

Mineworkers have not been alone in the redundancy dilem-

ma. As the recession drags on, the axe has also fallen elsewhere — from the Johannesburg Stock Exchange, where several brokers have trimmed back on the size of their pin-striped staff, to the motor industry, where more than 1 500 jobs disappeared in the first three months of this year.

The Steel and Engineering Federation reports that 25 000 factory jobs were wiped out last year — and the casualty list is expected to grow.

Transnet has announced that its huge labour force will be cut by 60 000 by the end of the year. The Transvaal Provincial Administration forecasts cutbacks of around 10 000.

men collide with competitors on world markets.

How far South Africa has lost the price edge it used to enjoy on overseas markets, as a result of the "cheap labour" always on hand before black trade unions flexed their muscles, has been hammered home all the more as exporters now have their first chance in years

to battle their way back into markets that were closed to them during the sanctions blockade.

It comes as no surprise to the National Productivity Institute, which has long been wagging a warning finger about soaring production costs as wages have tried to keep pace with the inflation spiral.

to world export markets

That has also been underscored in the results of a survey conducted by the SA Foreign Trade Organisation into the export outlook.

Safto economist Bruce Donald finds that exporters list a straightforward lack of price competitiveness as the main obstacle to more overseas trade when South African sales-

men collide with competitors on world markets.

How far South Africa has lost the price edge it used to enjoy on overseas markets, as a result of the "cheap labour" always on hand before black trade unions flexed their muscles, has been hammered home all the more as exporters now have their first chance in years

to battle their way back into markets that were closed to them during the sanctions blockade.

It comes as no surprise to the National Productivity Institute, which has long been wagging a warning finger about soaring production costs as wages have tried to keep pace with the inflation spiral.

to world export markets

That has also been underscored in the results of a survey conducted by the SA Foreign Trade Organisation into the export outlook.

Safto economist Bruce Donald finds that exporters list a straightforward lack of price competitiveness as the main obstacle to more overseas trade when South African sales-

men collide with competitors on world markets.

How far South Africa has lost the price edge it used to enjoy on overseas markets, as a result of the "cheap labour" always on hand before black trade unions flexed their muscles, has been hammered home all the more as exporters now have their first chance in years

to world export markets

That has also been underscored in the results of a survey conducted by the SA Foreign Trade Organisation into the export outlook.

Safto economist Bruce Donald finds that exporters list a straightforward lack of price competitiveness as the main obstacle to more overseas trade when South African sales-

men collide with competitors on world markets.

How far South Africa has lost the price edge it used to enjoy on overseas markets, as a result of the "cheap labour" always on hand before black trade unions flexed their muscles, has been hammered home all the more as exporters now have their first chance in years

to battle their way back into markets that were closed to them during the sanctions blockade.

It comes as no surprise to the National Productivity Institute, which has long been wagging a warning finger about soaring production costs as wages have tried to keep pace with the inflation spiral.

to world export markets

That has also been underscored in the results of a survey conducted by the SA Foreign Trade Organisation into the export outlook.

Safto economist Bruce Donald finds that exporters list a straightforward lack of price competitiveness as the main obstacle to more overseas trade when South African sales-

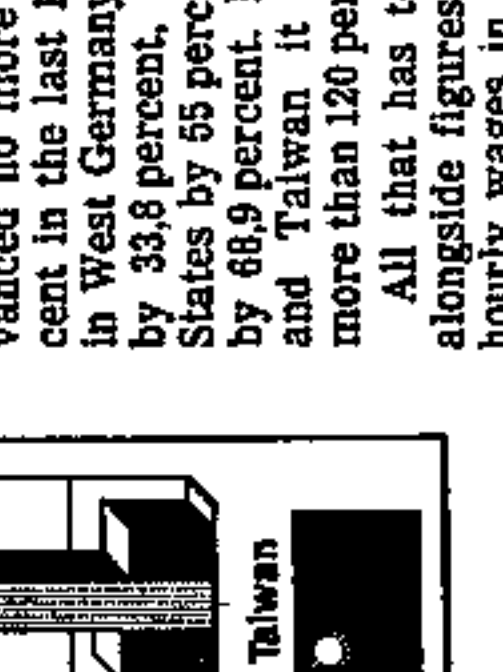
men collide with competitors on world markets.

How far South Africa has lost the price edge it used to enjoy on overseas markets, as a result of the "cheap labour" always on hand before black trade unions flexed their muscles, has been hammered home all the more as exporters now have their first chance in years

to world export markets

That has also been underscored in the results of a survey conducted by the SA Foreign Trade Organisation into the export outlook.

Safto economist Bruce Donald finds that exporters list a straightforward lack of price competitiveness as the main obstacle to more overseas trade when South African sales-



men collide with competitors on world markets.

How far South Africa has lost the price edge it used to enjoy on overseas markets, as a result of the "cheap labour" always on hand before black trade unions flexed their muscles, has been hammered home all the more as exporters now have their first chance in years

to battle their way back into markets that were closed to them during the sanctions blockade.

It comes as no surprise to the National Productivity Institute, which has long been wagging a warning finger about soaring production costs as wages have tried to keep pace with the inflation spiral.

to world export markets

That has also been underscored in the results of a survey conducted by the SA Foreign Trade Organisation into the export outlook.

Safto economist Bruce Donald finds that exporters list a straightforward lack of price competitiveness as the main obstacle to more overseas trade when South African sales-

to battle their way back into markets that were closed to them during the sanctions blockade.

It comes as no surprise to the National Productivity Institute, which has long been wagging a warning finger about soaring production costs as wages have tried to keep pace with the inflation spiral.

to world export markets

That has also been underscored in the results of a survey conducted by the SA Foreign Trade Organisation into the export outlook.

Safto economist Bruce Donald finds that exporters list a straightforward lack of price competitiveness as the main obstacle to more overseas trade when South African sales-

men collide with competitors on world markets.

How far South Africa has lost the price edge it used to enjoy on overseas markets, as a result of the "cheap labour" always on hand before black trade unions flexed their muscles, has been hammered home all the more as exporters now have their first chance in years

to world export markets

That has also been underscored in the results of a survey conducted by the SA Foreign Trade Organisation into the export outlook.

Safto economist Bruce Donald finds that exporters list a straightforward lack of price competitiveness as the main obstacle to more overseas trade when South African sales-

men collide with competitors on world markets.

How far South Africa has lost the price edge it used to enjoy on overseas markets, as a result of the "cheap labour" always on hand before black trade unions flexed their muscles, has been hammered home all the more as exporters now have their first chance in years

to battle their way back into markets that were closed to them during the sanctions blockade.

It comes as no surprise to the National Productivity Institute, which has long been wagging a warning finger about soaring production costs as wages have tried to keep pace with the inflation spiral.

to world export markets

That has also been underscored in the results of a survey conducted by the SA Foreign Trade Organisation into the export outlook.

Safto economist Bruce Donald finds that exporters list a straightforward lack of price competitiveness as the main obstacle to more overseas trade when South African sales-

men collide with competitors on world markets.

How far South Africa has lost the price edge it used to enjoy on overseas markets, as a result of the "cheap labour" always on hand before black trade unions flexed their muscles, has been hammered home all the more as exporters now have their first chance in years

to world export markets

That has also been underscored in the results of a survey conducted by the SA Foreign Trade Organisation into the export outlook.

Safto economist Bruce Donald finds that exporters list a straightforward lack of price competitiveness as the main obstacle to more overseas trade when South African sales-

men collide with competitors on world markets.

How far South Africa has lost the price edge it used to enjoy on overseas markets, as a result of the "cheap labour" always on hand before black trade unions flexed their muscles, has been hammered home all the more as exporters now have their first chance in years

to battle their way back into markets that were closed to them during the sanctions blockade.

It comes as no surprise to the National Productivity Institute, which has long been wagging a warning finger about soaring production costs as wages have tried to keep pace with the inflation spiral.

to world export markets

That has also been underscored in the results of a survey conducted by the SA Foreign Trade Organisation into the export outlook.

Safto economist Bruce Donald finds that exporters list a straightforward lack of price competitiveness as the main obstacle to more overseas trade when South African sales-

men collide with competitors on world markets.

How far South Africa has lost the price edge it used to enjoy on overseas markets, as a result of the "cheap labour" always on hand before black trade unions flexed their muscles, has been hammered home all the more as exporters now have their first chance in years

to world export markets

That has also been underscored in the results of a survey conducted by the SA Foreign Trade Organisation into the export outlook.

Safto economist Bruce Donald finds that exporters list a straightforward lack of price competitiveness as the main obstacle to more overseas trade when South African sales-

men collide with competitors on world markets.

How far South Africa has lost the price edge it used to enjoy on overseas markets, as a result of the "cheap labour" always on hand before black trade unions flexed their muscles, has been hammered home all the more as exporters now have their first chance in years

to battle their way back into markets that were closed to them during the sanctions blockade.

It comes as no surprise to the National Productivity Institute, which has long been wagging a warning finger about soaring production costs as wages have tried to keep pace with the inflation spiral.

to world export markets

That has also been underscored in the results of a survey conducted by the SA Foreign Trade Organisation into the export outlook.

Safto economist Bruce Donald finds that exporters list a straightforward lack of price competitiveness as the main obstacle to more overseas trade when South African sales-

men collide with competitors on world markets.

How far South Africa has lost the price edge it used to enjoy on overseas markets, as a result of the "cheap labour" always on hand before black trade unions flexed their muscles, has been hammered home all the more as exporters now have their first chance in years

to world export markets

That has also been underscored in the results of a survey conducted by the SA Foreign Trade Organisation into the export outlook.

Safto economist Bruce Donald finds that exporters list a straightforward lack of price competitiveness as the main obstacle to more overseas trade when South African sales-

74

Stev 1615191

SA Chamber of Business

Manpower Commission

SAFTA

RESERVES FM 17/5/91

DEBT DIP (74)

Repayment of about R250m of debt outside the standstill net was the main reason for a drop in total gold and foreign exchange reserves in April, says Reserve Bank gold and foreign exchange GM James Cross.

Another factor, he adds, was the strength of the dollar, which created technical mismatches in currency transactions. Leads and lags were created as importers made payments as early as possible while exporters delayed remittances. Rollovers of third currency forward contracts when the value of the dollar was rising also had a negative effect. Having bought currency forward, in expectation of repayment, debtors were forced to sell spot when contracts were rolled over. This resulted in dollar losses.

Reserves remain below the target three months of import cover but, UAL economist Dennis Dykes says, "This need not indicate pressure on the balance of payments. Rather, it's a small correction after encouraging rises in recent months." Cross agrees.

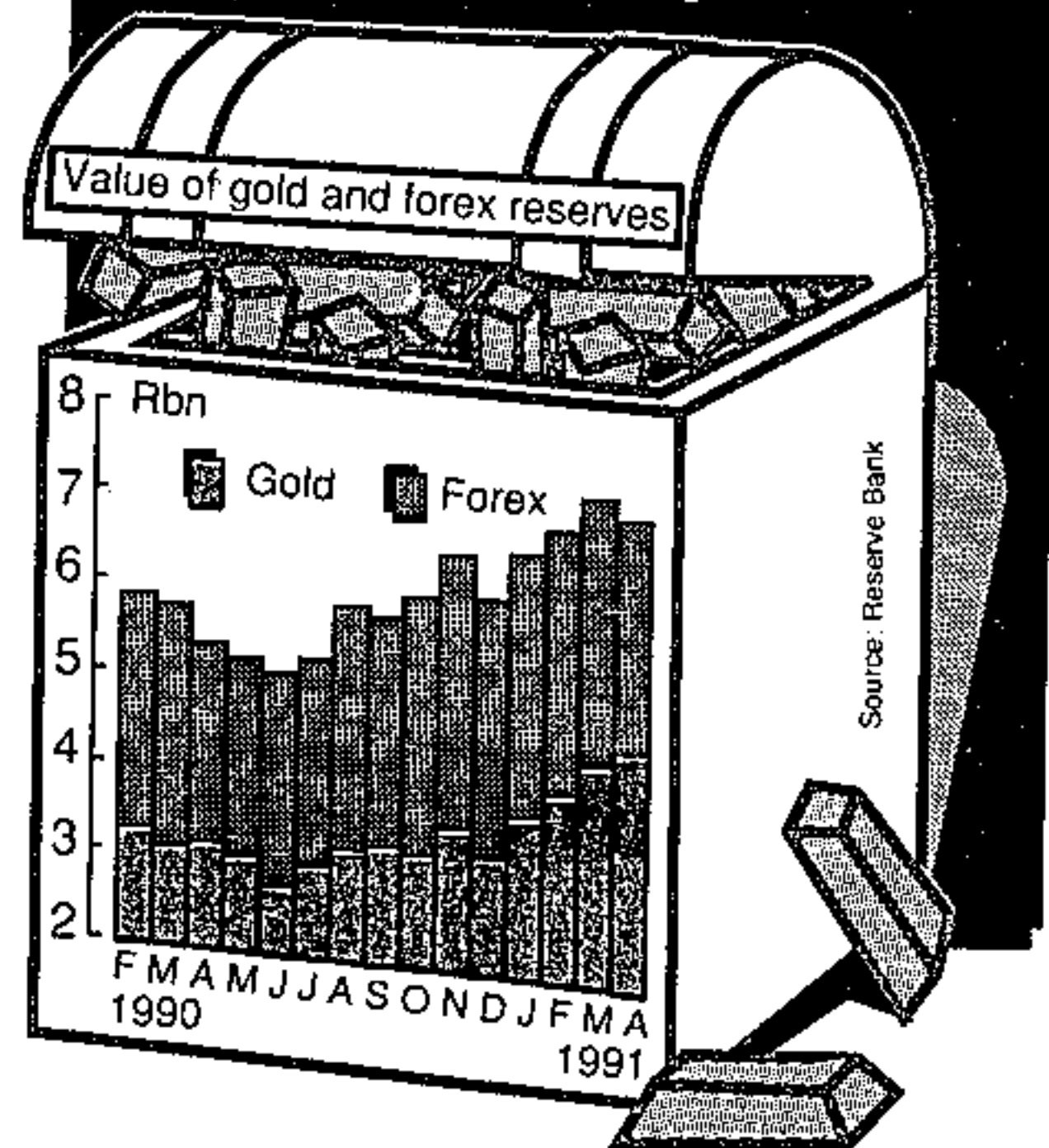
Reserves shed R294m (US\$107m) of March's record R7,3bn (\$2,7bn) to just under R7bn (\$2,5bn). Forex reserves fell

Continue →

ECONOMY & FINANCE

FM 17/5/91 (74)

April dip



R438m from R3,1bn to R2,6bn. This was partly offset by a R144m rise in gold reserves, from R4,2bn to R4,3bn, reflecting both a stronger rand price and a rise in physical holdings from 4,8m to 4,9m fine oz. The latter in turn simply reflects reduced selling in the face of a lower dollar price. ■

F M 1715191

BUSINESS CONFIDENCE
TICKING UP ~~80~~
 74

Manufacturing is playing an increasingly important part in the economy as revenues from gold exports continue to disappoint and world commodity prices remain depressed. So 1991 growth depends largely on the performance of the manufacturing sector.

The SA Chamber of Business's April survey of manufacturing confidence shows that, despite some erosion of confidence, most respondents expect sales and production volumes, as well as capacity utilisation, to rise in both the short and medium terms.

Sacob economist Keith Lockwood suggests this is the result of the low level of inventories throughout the economy. The marginal decline in optimism (58% of respondents believe sales will increase, compared with 62% in March), he says, "reflects concern about the sustainability of consumer demand and the high level of violence."

An increase in capital expenditure — measured in constant 1985 prices — is expected. This will be on new plant, not only on replacement, but employment of skilled, and especially unskilled, workers will probably decline. Lockwood says this may indicate that companies are becoming more capital intensive to reduce their exposure to labour disruptions after deadlocked wage negotiations.

Manufacturing companies are not planning to increase their own stock levels significantly because high interest rates make it expensive to maintain them.

Sacob says the economic downturn may be bottoming out. April saw a 0,4 point rise in

its Business Confidence Index to 87,7. The figure for the previous two months was 87,3, the lowest since December 1987 (87).

The index, a composite measure of activity in selected markets, was buoyed by:

- Increases in: imports and exports, the JSE overall index, the number of new motor vehicles sold, physical volume of manufacturing production, real value of building plans passed and net migration; and
- Declines in: the BA rate, the prime lending rate (from 21% to 20%), inflation (from 15% in March year-on-year to 14,1%) and the number of insolvencies.

Negative influences include:

- Falls in the dollar gold price and the rand/dollar exchange rate; an expected decline in retail sales; fewer new companies registered; and more unemployment. ■

Taiwan now SA's sixth biggest trading partner

TOM HOOD
Business Editor

16/5/91
AEGIS 18/5/91

BUSINESS with Taiwan is booming, with South Africa benefiting from a huge trade surplus and 250 factories set up by investors providing jobs for 40 000 workers.

Foreign trade figures published by the customs authority of the Republic of China show exports to South Africa amounted to R1,84 billion and imports totalled R3,07 billion, resulting in a R1,23 billion surplus in favour of South Africa.

The two-way trade vol-

ume of R4,91 billion (figures converted on the 1990 average exchange rate of \$1:R2,5877) has made Taiwan the sixth largest trading partner of South Africa following Germany, Britain, the United States, Japan and Italy.

Although a 30,6 per cent growth in two-way trade between the two countries was recorded in 1990 over 1989, the figure of R4,91 billion amounts to just 1,5 per cent of Taiwan's total two-way foreign trade volume.

"There is therefore plenty room for traders from both of our countries to increase their business, especially in view of the mutually complementary nature of the two economies," said a Taiwanese embassy spokesman

South African commodities exported to Taiwan are primarily raw materials, bulk farm produce and semi-finished products such as coal, gold, semi-finished products of iron or non-alloy steel, refined copper and copper alloys.



THE WEEK AHEAD by William Richards

Buoyant imports may trim trade surplus

ALTHOUGH a rise in SA exports is overdue, extended buoyancy in imports may hold back an improvement in the April SA trade surplus figures due out today. Later in the week, figures should show that the inflation rate slowed further last month and that monetary expansion was also steady in April.

Internationally, it looks a quiet week, starting with a holiday today throughout most of Europe and Scandinavia.

Largely because imports are unlikely to have fallen significantly during the month, the April trade surplus seems set to fall short of the impressive R1,7bn outturn posted in February and is more likely to be in the region of the R1,1bn in March.

Imports are being boosted by resilient demand and spending in some areas of the economy, particularly in the retail sector. Although, as official figures confirmed last week, the economy is in its sixth consecutive quarter of contraction, the recession remains both shallow and mild.

Moreover, the drought at the beginning of last summer and the early frost at the end of it have resulted in substantial wheat imports, which are now arriving. The first two shipments of 100 000 tons each have already been landed and three more are due, accounting altogether for more than R200m of extra imports.

If shortfalls in the frost-hit maize crop are added, the total extra cost of agricultural imports could exceed R500m — a factor that will bolster overall import costs throughout the first half of calendar 1991. Exports may continue to be restrained by sluggish international economic growth, pending the expected recovery of the US from recession in the second half.

The trade picture should brighten considerably in the second half of the year.

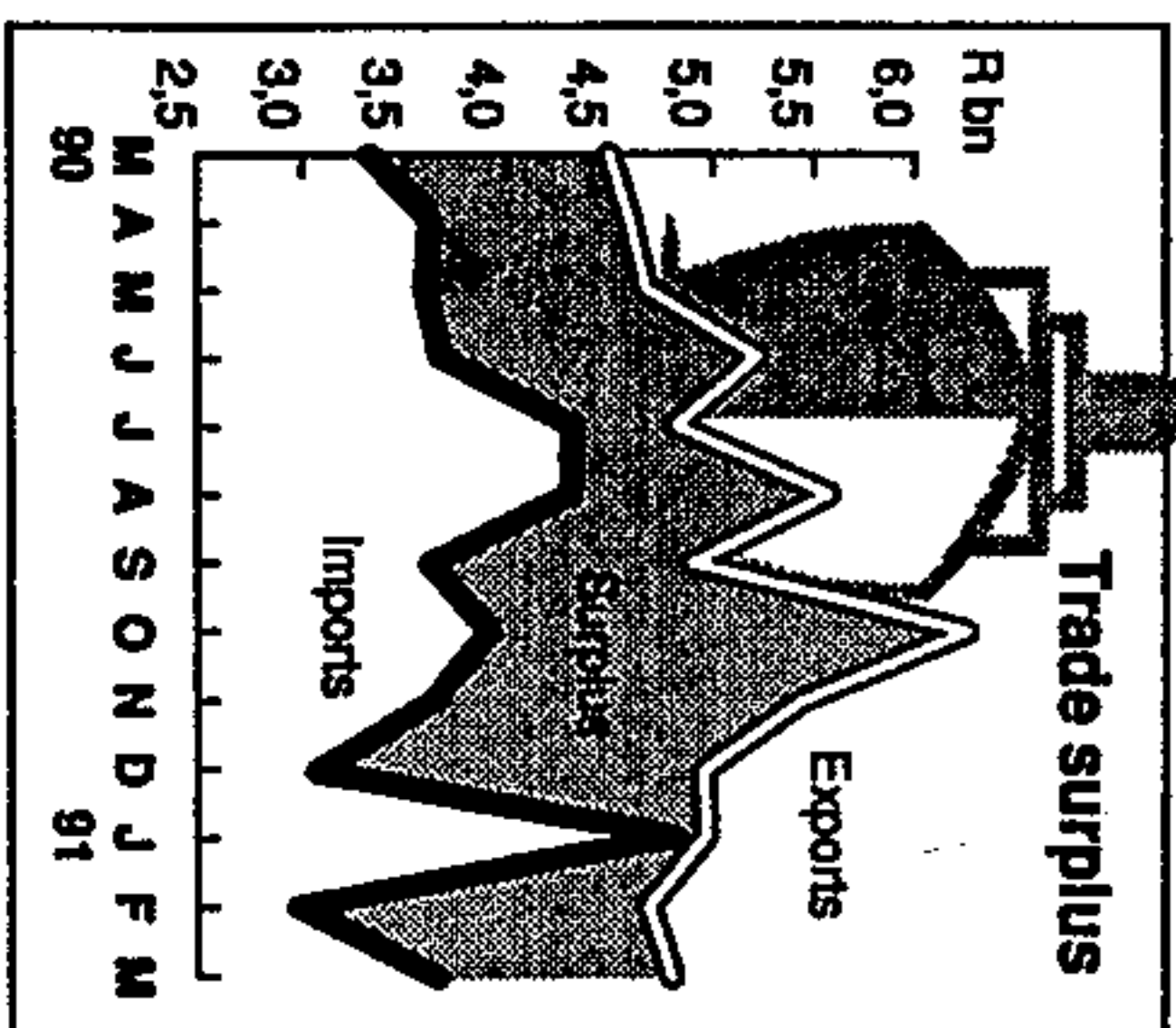
The first effects of the removal of sanctions could begin to show in coal and iron ore exports. Given the price-competitiveness of most of SA's primary exports, the only obstacle to rising volumes will be domestic production and freighting capacity constraints.

The favourable prospects for coal exports were evident last week in reports that German city councils, for example, were removing official blocks on imports of SA coal for power generation. SA coal exports to Germany grew by 1-million tons in 1990 alone — before EC sanctions on coal imports were officially lifted.

The SA inflation rate, as measured by the consumer price index (CPI), should have slowed slightly last month from the 14,1% posted in the year to March. A continued slowdown in the rate at this stage can be ascribed partly to technical factors and partly to the signals already given by the producer price index.

The technical factors indicating another, moderate slowing in the inflation rate are based on the movement of the CPI 12 months ago. It so happens that there was a fair increase in the index in April over March in 1990 and, in particular, a sizeable jump in the food index. Food holds the largest weighting in the CPI basket and price changes in the food sector are, accordingly, quite influential. Big movements in the CPI 12 months ago give the year-on-year index calculation a higher base and, therefore, the likelihood of a lower year-on-year percentage increase.

Furthermore, recent PPI readouts have heralded a slowing in the CPI growth rate. The most potent factor slowing inflation at PPI level is currently the sharp drop in imported inflation. This can be attributed to the rock-steady rand: official Reserve



Graphic: POLINA KRASCH. Source: CUSTOMS & EXCISE

Bank figures say the rand was dead level in trade-weighted terms during the first quarter of the year.

The April measure of monetary growth in the broad M3 band may again slow in year-on-year terms from the 13% recorded for March. The M3 measure the authorities are watching, however, is the rolling increase based on the fourth quarter of last year, for which the guideline range is 8%-12%. By this measure, the March M3 was still way over target at 18,6% and is likely still to be over the 12% guideline ceiling in April. This heralds continued tight monetary policy by the Reserve Bank.



BARPLATS INVESTMENTS LIMITED

(Incorporated in the Republic of South Africa)

Bid to attract foreign trade

81 Day 2015/91
ZILLA EFRAT 74

A TRADE and investment seminar is to be held in Oslo, Norway, in August to influence Scandinavians to do business with SA.

The seminar, being organised by Scansacom, will be the forerunner of a Scandinavian delegation set to visit Cape Town and Johannesburg in October to meet government and the business community.

In addition, Safto has set up an inaugural SA business mission to Scandinavia in the second half of 1991.

For many years Scandinavia was one of the industrial regions more critical of SA, but Safto's international division GM David Graham says a change in attitude became apparent some months ago. The change was particularly dramatic in Finland which responded to its own circumstances — the Soviet Union's cancellation of a trade agreement.

In March diplomatic links between SA and Finland were renewed. And business missions from Norway have visited SA.

Scansacom MD Jane Sheridan says the Scandinavian business community is frustrated with sanctions and believes it is losing out economically because of them.

Now Dutch eye SA coal imports

61p au 20/5/91
AMSTERDAM — The Dutch electricity board SEP was considering buying SA coal once all sanctions against the country were lifted, the Dutch newspaper Financieel Dagblad reported on Friday.

The move would reverse a decades-old voluntary embargo on SA coal by electricity producers in the Netherlands, a spokesman for the industry's jointly owned body Samenwerkende Electriciteits-Productiebedrijven told the newspaper.

EC sanctions against SA, some of which were lifted last month, included bans on imports of gold coins and iron and steel, but not coal.

Figures from the privately funded Shipping Research Bureau based in Amster-

dam show that of 50-million tons of coal exported by SA last year, nearly 24-million tons were bought by EC countries.

SEP uses no SA coal, but other Dutch businesses do. Imports in 1990 rose 23% to 1,4-million tons. (61) (75)

The Shipping Research Bureau says in its latest newsletter that import figures for the Netherlands exceed the country's domestic needs. It says the balance is blended to disguise its origin and re-exported to Britain and France, which both deny their public utilities use SA coal.

Germany, one of SA's biggest trading partners, increased its annual imports of SA coal by 76,5% in 1990 to 4,5-million tons, the newsletter says. — Sapa-Reuter.

R1bn windfall in oil awaits Reserve Bank

74 SHARON WOOD

THE current account surplus could be boosted by up to R1bn this year if government implemented its plan to sell SA's strategic oil pile to local refineries, economists said on Friday.

A recent Petroleum Intelligence Weekly report said that government would sell oil hoarded in disused coal mines to local refineries, resulting in a three-month halt in crude oil imports from June.

Some economists expressed doubt that oil imports would be completely halted for three months. But if they were, the savings of R1bn on oil imports, an estimated quarter of SA's annual oil import bill, would boost the current account surplus by the same amount. *Blom 20/5/91*

First National Bank international economist Simon Willson said halting oil imports for three months was possible and he had had "independent, semi-official corroboration" that this would take place.

The sale of oil stockpiles locally would help meet two objectives, he said. It would generate funds for socio-economic development and it would help the Reserve Bank achieve its target of building up three-months import cover.

"The suspension of oil imports would conveniently reverse out the sudden rush of unclassified imports in January. It would also be conveniently placed to help over the next bulk debt repayments in August," said Willson.

Safto CE Wim Holtes said it would be a good idea to sell strategic oil stockpiles. "At current interest rates the stockpiles are very expensive to keep and the money should be used now," he said.

"The stockpiles are keeping money out of the economy and they should be sold to put in a bit more liquidity while interest rates are kept high," he said.

Nedbank chief economist Edward Osborn said: "If this (the sale of stockpiles) is true it will have a significant effect. But it would be extraordinary to cut off supplies totally and then hope to resume them again after three months."

"We are looking at a current account surplus of R2,7bn and if oil imports are halted for three months this would be boosted to about R4bn," he said.

To Page 2

Windfall

Blom 20/5/91
He said a higher current account surplus on the BoP would ease the burden of a debt redemption of about R5,5bn this year.

With a current account surplus of R4bn, SA would have to roll over about 30% of its debt this year — as opposed to 50% with a R2,7bn surplus.

Bankorp chief economist Nick Barnardt said that the sale of oil reserves would raise liquidity in the money market, which would make liquidity management more difficult for the Reserve Bank.

From Page 1

74
The money raised from the sale of oil stockpiles would be used to finance development.

This would eventually have a negative effect on the BoP by raising imports, although this effect was difficult to quantify.

Government authorities have refused to confirm or deny that they intend selling strategic oil stockpiles, because this is considered classified information.

UK board targets SA as a market

SA HAS been designated as a target market, and one that merits special attention in the British Overseas Trade Board's (BOTB's) forward plan, board chairman Sir Derek Hornby said yesterday.

Speaking at an Institute of Directors of Southern Africa luncheon in Johannesburg, Hornby said the plan aimed to set out how resources for Britain's official export promotion effort would be allocated.

The UK Department of Trade and Industry now offered exporters its full range of export services for the SA market.

Hornby said the UK had recently informed the Commonwealth it was resuming funding for trade missions to SA and participation in exhibitions in SA.

As a result, there would be a number of trade missions visiting SA this year and considerably more next year.

Hornby said SA was one of his first priorities and his first major foreign visit since taking up the chairmanship of the board in November last year.

The BOTB consisted of a group of businessmen who advised the Secretary of State. As part of this task they prepared a "forward plan" which identified countries which they believed merited special attention. SA was such a country.

Hornby said the UK viewed SA as the

entry point into Africa as a whole. SA was unique in the sub-Saharan region because of its advanced industrial infrastructure.

In addition, with the ending of apartheid, SA would be allowed to play a positive role in increasing trade and prosperity in southern Africa. The international community saw SA as a potential powerhouse for regeneration in the region. There was also a growing view of SA as "the development bridge between Africa and the West, a bridge between Western skills and African conditions".

Investor

Hornby said SA had traditionally been a large and important market for the UK and the UK welcomed the recent positive developments which had taken place under the leadership of President F W de Klerk.

The UK had substantial trade and investment interests in SA. Its annual exports to SA had exceeded £1bn in each of the last three years and the country was by far the largest overseas investor in SA.

In 1990, SA was the UK's 19th largest market and its sixth largest outside North America and Western Europe. While the UK was SA's second largest trading partner, the UK aimed to improve its position.



British Overseas Trade Board chairman Sir Derek Hornby, left, with Institute of Directors of Southern Africa chairman Brian Hawksworth at a luncheon hosted by the institute in Johannesburg yesterday.

Picture: ROBERT BOTHA

"Our traditional relationship with SA should provide us with a secure foundation to build on for the future.

"Britain has always had strong historical, economic and cultural ties with SA and as a result we are well placed to respond to the opportunities which may arise in the market."

Hornby said he was aware of the effects of SA's violence on investment, but was confident that things would be under control in the next few months.

He had also sensed some concern from SA business people about the possibility of a "Fortress Europe" after 1992.

However, much of the action required to make Europe a common market in 1992 was already in place and he did not expect "Europe 1992" to be a barrier to SA trade.

Rather, joint ventures between SA and UK companies could take SA into European countries that it had not been doing business with.

UK trade chief positive about SA links

Stew 21/5/91

74

PRETORIA — The chairman of the British Overseas Trade Board (BOTB), Sir Derek Hornby, said last night that he was "positive" and "optimistic" about improved trade prospects between South Africa and Britain.

He told a news conference at Jan Smuts Airport, at the conclusion of a fact-finding mission to South Africa, that he would recommend to the BOTB that South Africa be categorised as a priority trade area.

Asked whether the ANC's refusal to participate in President

de Klerk's peace summit at the end of the week would be detrimental to foreign business confidence, Sir Derek said he did not think "daily" news events such as this impasse would affect the business outlook.

Trade missions

"There is currently a very positive atmosphere in the UK regarding South Africa," Sir Derek said.

Sir Derek said he hoped there would be a number of trade missions to South Africa in the

near future, as well as trade fairs.

He said local businessmen he had spoken to were very anxious to do business with the UK.

Sir Derek said he had had the opportunity of meeting most of the South African Cabinet at a banquet in Cape Town this week.

He said he had been "anxious to get down here as soon as we possibly could" to appraise business opportunities ahead of the French, Germans, and Japanese. — Sapa.

Mystery exports boost trade surplus

8/Day 22/5/91

74

SHARON WOOD

A MASSIVE surge in unclassified exports boosted the April trade surplus to R1,7bn, figures released by Customs and Excise yesterday showed.

The rise in unclassified exports (mainly gold, platinum, uranium and arms) took economists by surprise because the weak gold price and lower gold production in April should have depressed gold exports, which form the largest part of unclassified exports. Instead, unclassified exports jumped by 42,6% to R2,6bn from R1,8bn in March.

Exports rose by 21,8% to R5,85bn from R4,8bn, outweighing the 13,1% rise in imports to R4,14bn from R3,7bn.

Exports reached their second highest level in April. The highest level was in October 1990, when suspected arms sales boosted exports to R6,3bn.

Other major exports, excluding agricultural products, also recorded relatively large monthly rises. Mineral product exports rose by 32%, base metals by 5,6% and precious stones and coins by 14,7%.

Agricultural exports reflected the poor state of the sector, declining by 18,3% between March and April.

Unclassified imports (mainly oil and arms) also rose significantly by 86,0% to R594,6m in April from R319,7m in March.

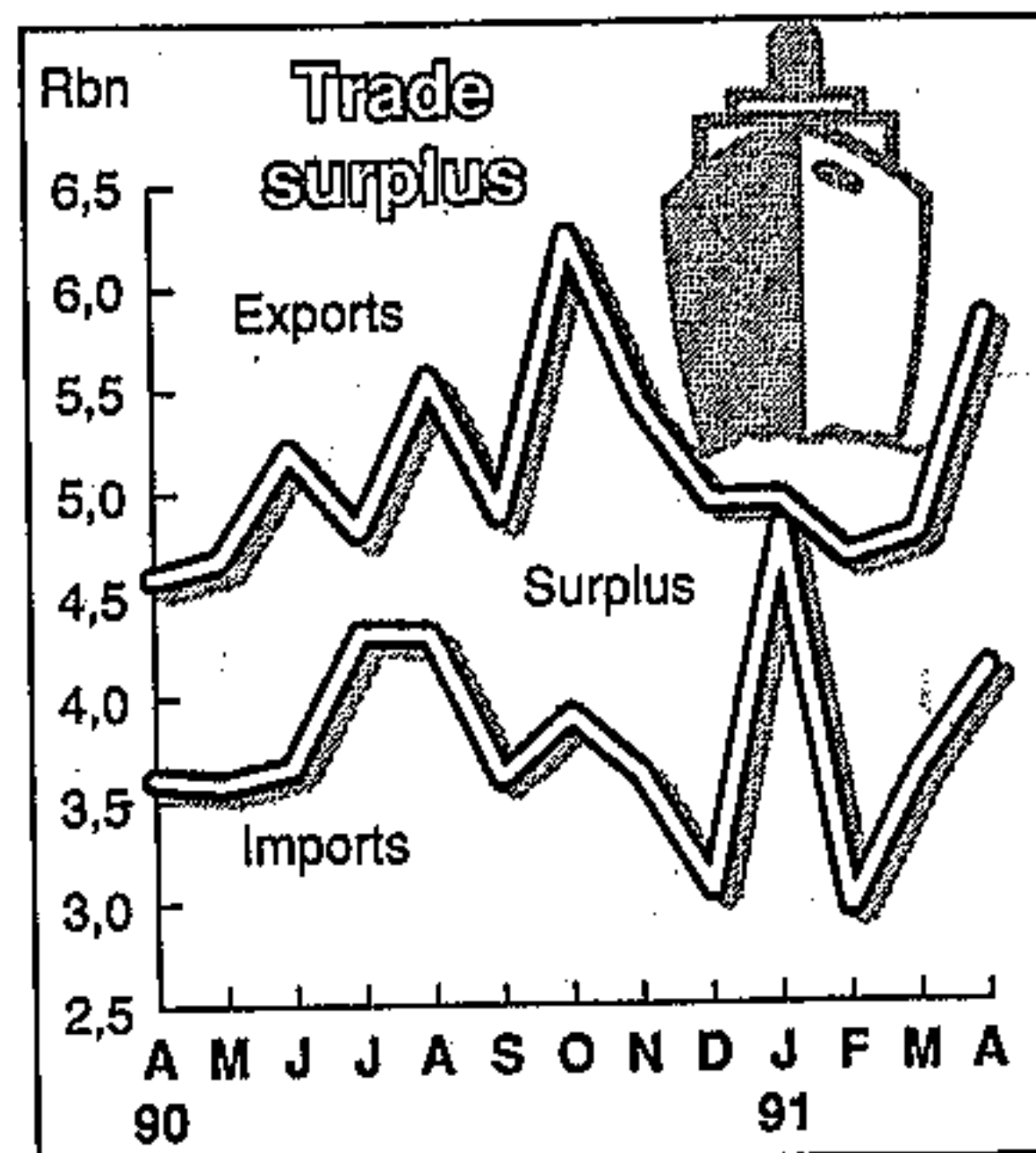
Machinery imports rose by 6,6% in

April, chemical product imports by 16,4%. Transport imports fell by 9,7%.

Grain product imports, to supplement poor domestic production, rose by 33,5% in March.

Once again the mysterious unclassified category was the decisive factor behind the size of the trade surplus.

□ To Page 2



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

Trade surplus

8/Day 22/5/91

74

□ From Page 1

Nedbank chief economist Edward Osborn said nothing in the overall economic situation justified an increase of this size in unclassified exports.

The performance of imports in the first four months of the year, which were up 4,8% on last year, indicated that some inventory replenishment was taking place.

Safto economist Bruce Donald said: "A substantial fall in the rand exchange rate in April boosted SA's export earnings and

placed upward pressure on the country's import bill.

"The net outcome was a healthy trade surplus for the month."

Rand Merchant Bank chief economist Rudolf Gouws said the major move in unclassified exports was difficult to explain.

"The rand's weakness against the dollar may have provided a fillip to the rand value of gold, but this could not possibly explain the whole amount."

Exporters show way out of the recession

Star 22/5/91

By Sven Lünsche

(74)

Exporters are poised to lead the economy out of the current recession.

Exports in April soared by R1 billion to their second-highest level ever, and economists are predicting that a further export surge will boost economic growth in the second half of the year.

Customs and Excise reported yesterday that exports in April rose to R5,85 billion, compared with a monthly average of R4,8 billion in the first three months of the year, as the fall in the rand-dollar exchange rate boosted income from precious and base metals.

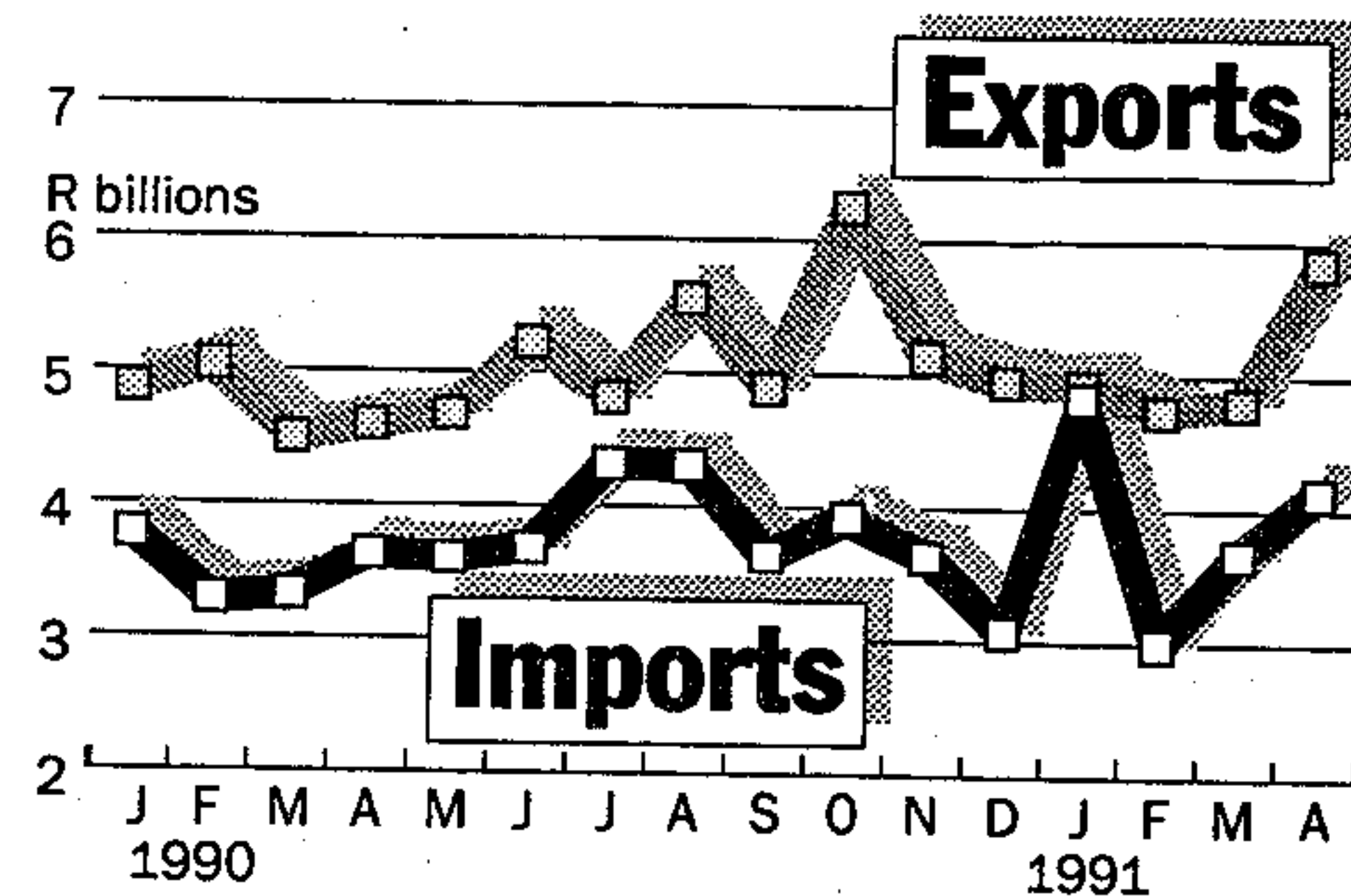
However, the lower rand also led to an increase in imports from R3,66 billion in March to R4,14 billion last month.

As a result, the trade surplus rose to R1,71 billion from R1,15 billion in March, lifting the cumulative surplus for the first four months of the year to R4,7 billion.

In the main the boost in exports can be attributed to the fall in the rand against key currencies.

Over the past three months the rand has plunged by nine percent against the dollar and by five percent against the yen.

This resulted in a rise in the average rand gold price in April, for example, from R963 per ounce to R981, although the dollar gold price declined by \$5



to \$358 over the same period.

Exports of unclassified goods (mainly gold and platinum) in the January-to-April period at R8,78 billion were almost R750 million up on the corresponding period in 1990.

Other primary commodity exports also showed strong growth.

Revenue from diamond sales so far this year stands at R2,04 billion (R1,85 million) and from base metals at R2,98 billion (R2,78 billion).

Industrial exports performed well, as manufacturers attempted to find alternative markets for their products in the face of slower domestic demand, says Safto economist Bruce Donald.

Over the first four months, for example, exports of chemi-

cal products increased by 21 percent, transport equipments by 32 percent and machinery by seven percent.

The higher export revenue will allow for a build-up in the foreign exchange reserves and subsequently lift the surplus on the current account of the balance of payments.

Economists believe, however, that export growth will be led by a recovery in international commodity prices and higher export volumes, rather than by a weaker rand.

Both the Bureau for Economic Research (BER) and Frankel Max Pollak Vinderine economist Mike Brown predict positive quarterly export growth rates for the remainder of the year after the value of exported goods fell by 4,2 percent in the

first quarter.

However, the major boost from export earnings is expected next year when a general recovery in world economic growth should lift commodity prices and boost industrial and consumer demand.

Mr Brown expects exports of goods to soar by 6,9 percent in 1992, while the BER gives a more conservative forecast of 4,3 percent.

Coupled with renewed capital inflows, or at least substantially lower capital outflows, stronger export volumes will allow the authorities to pursue a lower interest rate strategy, and promote rather than restrict domestic economic activity.

Despite the slowdown in the economy, imports remained surprisingly buoyant, with machinery imports rising to R1,2 billion in April, compared with an average R1,1 billion in the preceding three months.

"This suggests that industry may still be replacing unskilled manpower with machinery," Mr Donald says.

The authorities have also been forced to import certain agricultural products in the wake of substantially reduced estimates for the current summer crop.

So far this year exports of farm products have plunged by almost R250 million to R550 million.

Imports of these products have risen from R240 million in 1990 to R375 million this year.

Weak rand boosts SA trade surplus

QT 2245191. 74

By PIETER COETZEE
Financial Editor

A SUBSTANTIAL fall in the rand exchange rate in April this year boosted SA's trade surplus to R1,71bn, which is R570m higher than the March surplus of R1,14bn and the highest in six months, economists said.

They expect the weaker rand exchange rate to further boost the trade surplus in May. Southern Life economist Mike Daly puts the total surplus for the year at R15bn which should see to a current account surplus of R4bn for the year.

Customs and Excise figures show that exports rose sharply by more than R1bn from R4,8bn to R5,85bn.

Metropolitan Life economist Chris Visser says this was mainly due to the weaker rand exchange rate against the dollar and the sharp increase

from R1,84bn to R2,63bn in unclassified exports.

Imports rose from R3,66bn to R4,14bn, also mainly because of the weaker rand/dollar exchange rate.

Total exports for the first four months of the year came to R20,32bn, which is slightly higher than the R19,67bn for the corresponding period in the previous year.

Imports for the first four months rose from R14bn in the corresponding period last year to R15,61bn.

This leaves the trade surplus for the first four months at R4,71bn against R5,25bn in the corresponding period in the previous year.

Safto economist Bruce Donald says the fall in the rand exchange rate boosted export earnings but also placed upward pressure on the import bill. However, the net outcome was a healthy trade surplus.

The rand fell from an average of 38,70 US cents in the first quarter of 1991 to 36,50 cents in April, strengthening earnings in rand terms from many of SA's important commodity exports. This was in spite of a simultaneous fall in the dollar price of a number of these commodities.

The gold price, for example, fell from an average of \$363,40 an ounce in March to \$358,10 in April.

However, in rand terms, the average gold price rose from R963 an ounce to R980,60 over the same period, partly explaining the strong upward movement in unclassified exports.

Donald says in addition to unclassified exports, improvements were seen in the following major export categories: diamonds (R737m compared with R434m) and base metals (R801m compared with R724m).

Industrial exports also performed well, in spite of the world recession, reflected in the performance of a number of categories for January to April 1991 compared with the same period last year for example, chemicals (21%), machinery (7%) and transport equipment (32%).

He says this can be partly explained by the efforts made by local manufacturers to find alternative markets for their products as domestic demand slows down.

"Domestic demand may be down, but the relative buoyancy of imports would indicate that the economy has not entered a deep recession."

Machinery imports were strong in April (R1,2bn compared with a monthly average of R1,1bn for the first quarter), suggesting that industry may still be replacing unskilled manpower with machinery.



Anton Berkovitz has been appointed to head the investments administration at Metropolitan Life.



Peter Halkett has been appointed corporate affairs manager of SA Philips.

Forex frauds

sentation and *B10am*
2315791.

□ That the director or person authorised by him may, for the purposes of an inquiry, without prior notice enter premises where anything connected with the inquiry is suspected to be and search the premises, make inquiries, examine objects, make copies or take any extracts of books or documentation found there.

Earlier this year the commercial crime unit said it was investigating fraud involving R5,6bn, with a "hefty" proportion made

74

□ From Page 1

up of round-tripping.

Last month Witwatersrand Attorney-General Klaus von Lieres und Wilkau said outstanding cases on the Witwatersrand involved between R1bn and R1,5bn.

A police spokesman said police were investigating 69 cases of fraud. Sources in the Cape Attorney-General's office said the office was investigating cases involving at least another R500m.

Kahn said he did not know the tally of cases involving forex fraud but there was a substantial backlog.

Provision for a Fraud Office

Bill gives new clout to forex probes

B10am 23/5/91

74

CAPE TOWN — Investigations into serious foreign exchange fraud are to get stronger legal backing with the tabling of a new Bill in Parliament setting up a Serious Fraud Office.

The Serious Economic Offences Bill, based to a large extent on the British Serious Fraud Office, is a result of a huge increase in fraud and theft involving financial and transactions and contraventions of currency exchange measures over the past three years.

A Justice Department official said the provision existed for the office to investigate and facilitate prosecution.

The office will not be limited to investigating only alleged offences which occurred after its establishment.

The office is to be run by a jurist director with the status of an attorney-general or higher. Informed speculation is that Attorney-General Frank Kahn, attached to the Cape division, is a likely contender for the post because of his experience in investigating forex fraud.

A Justice official said there was an urgent need for a prompt and effective investigation process in cases of forex fraud and financial round-tripping. The Bill made provision for setting up a permanent office of jurists to take swift, co-ordinated action together with other financial authorities and institutions.

Wide powers are to be conferred on the

BILLY PADDOCK

director to investigate any offence he regards as serious as well as any matters brought to his attention by the Justice Department or any member of the public.

After investigation, he would hand his report to the Justice Minister and the relevant attorney-general.

Should the Bill be passed, it would apply in all self-governing homelands.

The office is expected initially to be staffed by the director, an assistant director, up to three Justice Department officials, a Reserve Bank official and a police officer. It would expand on demand.

The Bill states that if any person has reasonable grounds for believing fraud is taking place or being attempted, the director may hold an inquiry. He does not, however, have to wait for a report and may act on his own suspicions.

All proceedings will take place in camera. The procedure followed and recording of evidence are at the director's discretion.

Other provisions include:

- That the director may summon any person to give evidence or produce documentation or other objects in his possession at an inquiry;
- That privilege, as in a criminal case in a Magistrate's Court, applies;
- That anyone is entitled to legal repre-

To Page 2

Forex frauds

sentation and B10am 23/5/91

- That the director or person authorised by him may, for the purposes of an inquiry, without prior notice enter premises where anything connected with the inquiry is suspected to be and search the premises, make inquiries, examine objects, make copies or take any extracts of books or documentation found there.

Earlier this year the commercial crime unit said it was investigating fraud involving R5,6bn, with a "hefty" proportion made

74

From Page 1

up of round-tripping.

Last month Witwatersrand Attorney-General Klaus von Lieres und Wilkau said outstanding cases on the Witwatersrand involved between R1bn and R1,5bn.

A police spokesman said police were investigating 69 cases of fraud. Sources in the Cape Attorney-General's office said the office was investigating cases involving at least another R500m.

Kahn said he did not know the tally of cases involving forex fraud but there was a substantial backlog.

Germany occupies the top export-import slot

GERMANY is the leading destination and country of origin for air cargo travelling into and out of SA, latest airline statistics show.

About 16% of all cargo flown out of SA is directed to Germany, carried either by Lufthansa German Airlines or SAA.

The No 2 destination is the UK with 10%.

More than 21% of all imports to SA are flown in by Lufthansa and SAA from Germany's Frankfurt-am-Main airport.

By Day 24/5/91

LINDEN BIRNS

The UK trails with only 14% of imports.

Lufthansa's southern Africa marketing manager Peter Burmeister said yesterday he expected the German-SA figures to rise even further when the airline introduced its Boeing 747-400 Combi aircraft on the Frankfurt-Johannesburg route next month.

The airline already operates 747-

200 Combis on the route, which it flies five times a week. These aircraft fly with payload restrictions because of Johannesburg's high altitude.

SAA, which is to take delivery of its second 747-400 next month, also expects to use the aircraft on its lucrative Frankfurt flights.

The new aircraft will be able to fly a full payload non-stop in either direction between the two cities.

An average 41% of all international traffic to and from SA is operated by SAA.

Dutch products promoted

DUTCH export promotion executive Pieter Prak will visit SA next week to promote the products and services of 570 manufacturers — all members of the Nederlandse Export Combinatie (NEC) — the equivalent of Safto.

"After many years of absence or low-profile trade, Dutch business is keen to establish new contacts in SA," Prak said in a statement. 61004 24/591

Prak's tour will begin on Monday and end on June 20. He will visit Johannesburg, Cape Town and Durban. (74)

The NEC is a non-profit export foundation, not linked to the government.

Change in formula benefits exporters

B10am
24/5/91. SHARON WOOD

74

AN amendment in the "exchange rate factor" in the General Export Incentive Scheme (GEIS) formula, announced yesterday by the Department of Trade and Industry, would add 1% to the benefits derived by exporters under the scheme, Safto GM Ann Moore said yesterday.

This factor, also known as the E-factor, is a measure of movements in the exchange rate and is one of the variables which affect the value of incentives given to exporters under the GEIS.

The DTI announced that henceforth the exchange rate would be measured over a three-month period and would be averaged out in the E-factor.

The E-factor was previously calculated every six months by the Reserve Bank measuring the external value of the rand against a basket of currencies. A percentage point appreciation in the rand against the basket would increase the E-factor in the formula by 0,5%.

Moore said the 1% tax-free benefit provided by the new calculation could amount to the difference between a viable and non-viable export transaction.

The stability of the rand, and its recent strength against the dollar, had made export products marginally less competitive.

The DTI said the new approach meant it had been possible to recalculate the E-factor for the April 1 to September 30 1991 period, adjusting it downwards from minus 7,5% to minus 6,5%.

SA producers in legal battle over US penalty

74
1821
MATTHEW GURTIN

8 Day 24/5/91
GOVERNMENT and local ferrochrome producers are embroiled in an expensive legal battle in the US to prevent the imposition of a 3,33% retroactive penalty tariff on their exports to the US in 1989 and 1990.

Two US producers, Macalloy and Elkem, have petitioned the US Commerce Department for the tariff, claiming that SA producers had received unfair export incentives and rebates.

Consolidated Metallurgical Industries (CMI) chairman David Kovarsky said yesterday that if the duty was imposed it would not cripple the industry but the cost would be "sizeable" — up to R8,4m.

Not only were the Trade and Industry Department and the Ferro-alloys Producers' Association (Fapa) lobbying the US Commerce Department and Macalloy and Elkem, but CMI had employed attorneys to represent its own interests.

Hans Smith, MD of SA's leading ferrochrome producer Samancor, said yesterday the affair was "a storm in teacup". He estimated that if the US Commerce Department accepted the petition from US producers to slap the ad valorem duty on imports of SA ferrochrome, it would cost the industry only an extra R5,6m, a fraction of Samancor's current turnover.

However, legal costs were mounting as attorneys continued to lobby for the SA

parties in Washington. He said SA producers might be tempted simply to pay the extra costs to end the dispute.

Macalloy and Elkem renewed protests this year, claiming SA producers received unfair export incentives and rebates, after the Commerce Department announced it intended to suspend its review of penalty duties.

Metals Week, a US-based journal, reported the wrangle was becoming increasingly complicated as the SA government submitted that penalty duties should be imposed on a company rather than a country industry basis. Countervailing benefits or subsidies from the SA government ranged from 2,74% for CMI to 0,2% for Middelburg Steel & Alloys, less than the minimum assessment level of 0,5%.

The journal said Minerai, a US importer of SA ferrochrome, claimed Macalloy and Elkem had no case because neither was in commercial ferrochrome production. Minerai said the US companies were trying to bolster imports to the US of ferrochrome produced in Norway from a company now owned by Elkem.

Macalloy and Elkem had insisted they were bona fide producers and called for a country-wide penalty tariff.

SOUTH Africa needs to accelerate its rate of growth in order to create work opportunities for its rapidly growing population and to be able to divert more resources to the upliftment of the underprivileged.

Even Karl Marx realised that without production there would be no real income to distribute and that people would not produce simply to have the income from their production distributed by the state. Those who argue that we can willy-nilly increase the effective tax burden on the economy from 25% to 35%, which in effect amounts to a rise of 40%, without impairing saving and investment, do not believe in the system of private enterprise.

It is no use suggesting that the new constitution should "guarantee basic human rights in relation to nutrition, shelter, education, health, employment and welfare" if the economy cannot deliver. Economic growth cannot be legislated. It has to be fostered and nurtured.

Most political parties in SA stress the need to promote export-oriented growth. It implies that more resources will have to be directed to research, technology and product design; that we must curb inflation; that fixed investment has to be stimulated; that technical education and training has to be stepped up and that we should improve labour and capital productivity.

It also means the company tax rate must be lowered and, above all, that we should have free access, for trading purposes, to the international markets and that SA should not only have access to foreign finance but should also be able to attract a net inflow of foreign capital.

It also entails a review of SA's customs tariff policy, which is in need of revitalisation in accordance with the objective of rendering the economy more competitive. The exchange rate policy is of extreme importance but we must be careful

SA must nurture an export economy to create new jobs

8 Day 24/5/79

(74)

JAPIE JACOBS

not to see in the depreciation of the rand exchange rate a substitute for higher productivity.

We must also realise that if we provide too high protection barriers for manufacturing semiprocessed raw materials, we are in fact jeopardising the prospects of establishing industries which could successfully use these intermediate inputs to manufacture products that could successfully compete on quality and price in export markets.

Nobody has suggested that SA should endeavour to enter the international markets in high-tech products. We do have certain comparative cost advantages and there is no reason why they cannot be utilised.

There are of course protagonists of the policy of inward industrialisation, supplemented by import-replacement growth, who would prefer to use this strategy as a springboard for future economic growth. It can never in the longer term raise the growth rate above 3% per annum and, moreover, this implies greater unemployment and poverty.

Whatever arguments are advanced in favour of such a policy, the

fact remains that it cannot support sustainable growth and will furthermore soon cause the economy to run into balance of payments problems.

We are past masters at running such policies, but the end result will inevitably enforce resort to stop-go policies unless we strengthen the export base of the economy.

The economic miracles of the Far East have all been triggered by the export of value-added products which, in contrast to raw materials and minerals, show the greatest growth potential.

We are aware of the hurdles which we have to clear in order to step up our exports of value-added products, but why can we not export clothing more successfully, or benefited products for that matter?

We have to build up our export base gradually, and there is no reason why we cannot implement a programme of this nature with immediate effect.

Inflation remains an obstacle to sound long-term economic growth, and it is essential that the authorities should continue to pursue policies

aimed at combating inflation and breaking the vicious circle of inflationary expectations.

The availability of skilled and trained labour has been one of the recurring bottlenecks in SA's economic development in the post-war period. This, together with job reservation and poor education and training for blacks, contributed to the skewness in the availability of skills and in the pattern of remuneration.

Nobody in SA is advocating a low-wage policy for the economy as an inducement for greater employment and growth. It is, however, our function to point out that higher wages can be soundly based only if they are supported by higher productivity — both capital and labour.

We are not pointing an accusing finger at trade unions in this regard. To the extent that labour contributes to higher productivity and thus production, it should be duly rewarded for that. It is obvious, moreover, that old management styles will have to be changed and that labour should be seen as a partner in the running and management of enterprises.

We can, however, ill afford unnecessary stayaways, the intimi-

dation of workers to strike and excessive wage settlements. It is our function as policy-makers to point out that excessive wage settlements enforced by strikes contribute to lower economic growth and greater unemployment.

Those who share in the inner circles (insiders) live comfortably, whereas those in the outer circle (outsiders) have to be supported by transfer payments.

The authorities would, from an economic growth and anti-inflation point of view, prefer to see a lower rise in the unit cost of labour. However, government has no intention of intervening in wage negotiating procedures.

Government has no wish to cross swords with organised labour. It has no intention of even considering the implementation of an incomes policy.

It can basically only use fiscal and monetary restraints to curb the rate of inflation and in this way convey a message to both employers and employees that high wage settlements are impairing the country's long-term growth potential.

It would be advisable for management to consult trade unions more openly on matters of common interest. More resources will have to be devoted to the training of workers; consideration will have to be given to incentive schemes to allow workers to share in profits earned through higher productivity and share incentive schemes would promote team spirit at enterprise level.

Trade unions must, however, realise that they can be consulted in the determination of policies at plant level, but that the ultimate responsibilities of management cannot be usurped in the name of democratising the economy. That will ring the death bell of the system of private enterprise in SA.

□ Jacobs is special economic adviser to the Finance Minister. This is an edited excerpt from an address to a wage restraint seminar in Johannesburg yesterday.

FOREIGN TRADE FM 24/5/91

APRIL RISE

74

April exports worth R5,8bn (up R1,1bn on the March figure) and imports of R4,1bn (up R478m) produced a trade surplus of R1,7bn. This is R600m higher than the March surplus.

In the first four months of this year, imports were R15,6bn and exports R20,3bn, giving an accumulated surplus for the four months of R4,7bn.

The largest contribution to the rise in April exports came from increased unclassified exports and balance of payments adjustments, up R2,6bn to nearly R9bn. Though it includes gold and other minerals, oil and armaments, Nedbank chief economist Edward Osborn suggests most of the gain was due to adjustments from previous months.

There were also significant increases in exports of base metals, precious or semiprecious stones (diamonds) and mineral products (coal).

If the effect of depreciation of the rand is eliminated, Osborn says, cumulative exports are relatively static — their value rose 2,1% year-on-year. "The export picture is shaky. Commodity prices are weak and SA has become a net importer of grain. In contrast, imports have risen by 4,8%, which suggests inventory replacement across the board." ■

Black businessman (74) gets US contract

A LEADING New York publishing company, Lushena, has given a South African black businessman in the import/export trade, the sole distribution rights of their wide range of black history books previously unavailable in the country.

Former journalist and founder member of *Jive* magazine, Mr Siphon Jacobs, has already established outlets for the distribution of the books in other parts of Africa, such as Zimbabwe, Malawi and Zambia, where he hopes to extend the network to the rest of Africa, including South Africa. *Sowden 24/5/91*

The books are written and researched by well-known authors and the titles include 100 amazing facts about the African struggle for liberation, religion and history.

The move might be seen in many circles to be 'sanction busting tactic' at the time when the liberation movements such as the ANC, PAC and Azapo, have vociferously echoed their stance on disinvestment in the country.

boom

74 184 ARGUS 25/5/91
TOM HOOD, Business Editor

EXPORTS from Western Cape clothing factories have soared by 45 percent to about R100 million in the past year as a result of greater buying of fashionable high-quality garments by foreign clothing retailers, mail-order houses and wholesalers.

This export effort is a major factor in the country's clothing industry increasing production volumes by 4,5 percent in 1990.

In money terms, the output of clothing manufacturers increased by R540 million — and R77 million of this came from exports. Total clothing exports were worth R195 million.

The volume growth is remarkable when compared with declines of 1,3 percent in manufacturing as a whole and 15 percent in textiles, said a spokesman for the National Clothing Federation.

"The lifting of sanctions on South African clothing, especially by the United States, will give an added boost to exports and investment in the industry, which will in turn provide many more jobs."

The surge in exports shows that Cape manufacturers are also cashing in on government's export incentive schemes.

However, the huge growth in clothing industry volume was achieved in a year when 40 number factories closed, cutting jobs by 1 300 to 123 000 in the 12 months ending January this year.

"Many employers are producing more with the excess capacity which clearly exists in the industry," said the federation spokesman.

"More clothing employers are also embarking on shift work implementation." The federation calculates that at

less than R3 000 in fixed capital per worker, the industry is likely to be a leading provider of new jobs through exports.

Estimates show that if the local garment industry reaches its potential of R1,2 billion in exports by the end of the decade, another 50 000 people could be employed in making products for the world clothing market.

This could in turn allow another 200 000 dependents of these clothing workers to be fed, clothed, housed and educated.

To achieve this export target, however, three hurdles will have to be overcome.

□ First, the industry needs access to fabrics at world price, quality and delivery standards.

Says the federation: "If successful, current applications by the local textile industry to increase the already high protection on yarns and fabrics will raise the already prohibitive cost of inputs to the clothing industry."

"This in turn will make local clothing much more expensive in all markets and reduce the demand for clothing made in South Africa."

□ Second, there is a critical need to develop a more stable, better-trained and productive work force to meet stringent foreign requirements.

□ Third, there is still room for improvement in the fiscal incentives to local and foreign investment.

For example, the boom in Mauritian clothing exports in the last two decades was fuelled by a variety of measures including 15 percent company taxes, tax-free holidays of 10 to 20 years, tax-free dividends for 10 years, duty-free machinery and raw material imports, low-interest loans, low-rental buildings and electricity and water at cost.

Cape clothing exports

Proposals within two months

New scheme to kickstart the economy

BIDam 2715791

CAPE TOWN — A package of financial incentives to give a vital kickstart to proposed multibillion-rand industrial projects will be introduced soon, Trade and Industry Minister Org Marais has indicated.

In an interview after his department's budget vote in Parliament on Friday, Marais said he was hoping to produce within the next two months proposals for measures to assist the development of new projects in the chemicals, engineering and mineral beneficiation sectors.

The new projects had been proposed by leading SA industrialists, he said.

Marais declined to provide details on the projects concerned or the incentives under consideration, but said an announcement would be made soon. He said his department was looking at a wide range of financial incentives, including possible partial funding and tax concessions.

He said the projects had the potential to provide significant benefits to the SA economy in the form of millions of rands in new capital investment and employment.

They could also provide catalysts for much needed foreign investment in SA.

"If we are able to offer incentives and if they are competitive, the local industrialists may be able to sell off portions of the projects to foreign investors."

LESLEY LAMBERT

Marais said government would also have to give urgent attention to a longer term incentive package, in line with those offered by other countries, or SA would be unable to attract foreign capital.

But the restructuring of the Industrial Development Corporation (IDC) had made it necessary for the state to consider providing assistance to help selected new industrial projects over the initial unprofitable stage.

Finance Minister Barend du Plessis announced during his Budget that he had instructed the IDC to disburse some of its holdings and inject R500m a year into the economy for new developments over the next two years.

In the debate on the Trade and Industry Department's budget, Marais said government also hoped to stimulate the rate of technological development in SA by providing partial funding to projects aimed at developing new technological products or processes.

This was in line with proposals in the draft technology policy statement for initial, temporary support to activate growth.

Government also intended to encourage venture capital investment in technology

□ To Page 2

New scheme

BIDam 2715791

and the commercialisation of technological operations in the military and the atomic energy sectors, Marais said.

Practical measures to achieve specific results would be proposed in the almost completed technology policy statement.

Proposals for the industrial incentives had not yet been submitted to Cabinet.

Marais said: "We have discussed the pro-

ject with the SA industrialists who proposed them and have decided — in conjunction with other departments and in line with proposals by the late (Economic Co-ordination Minister) Wim de Villiers — to give as much attention as possible to the question of assisting new capital investment and industrial development.

"If there are ways we can assist, they will have to be decided within weeks."

□ From Page 1

Natal distillers keep Reds in good spirits

^{B Day 2-715191}
SANCTIONS-busting Soviet diplomats based in Mozambique have developed a taste for SA vodka, among many other local delicacies they stock up on each month.

A Durban importer-exporter who has done business with the Maputo embassy said at the weekend the Soviets spent up to R300 000 a month on as many as 40 consumable items, including beer, whisky, cigarettes, fresh beef and salami.

The imports are used to feed the scores of Soviet military and technical advisers, doctors, teachers and other nationals liv-

~~737~~
JONATHON REES

ing in Mozambique.

Cape wines, KWV brandy, Hankey Banister whisky and Lion and Castle lager appear on the Soviets' shopping list. They buy up to 50 cases of spirits and 700 cases of beer at a time.

Count Pushkin and Smirnoff are their favourite vodkas — both distilled in or near Durban, according to the businessman.

Cheese, ham, flour, rice, polony and raisins are all ordered in bulk from SA, and transported by road through Swaziland to

⁷⁴
impoverished Mozambique, where they are offloaded at a Soviet receiving depot in Maputo for distribution as far away as Pemba, about 3 000km north of the capital.

The importer-exporter, who asked not to be named, said he was also asked to supply brass screws, nuts and bolts and paint for repairs to Soviet fishing trawlers operating off the Mozambique coast.

There are believed to be 22 trawlers granted exclusive rights to deep-sea prawns off the Mozambique coast, in exchange for continued Soviet military assistance to the Frelimo government.

SA's debt (74) burden eased

By JOHN CAVILL 27/1/89

LONDON — A private placing of a DM150m (R240m) loan for the Post and Telecommunications Department by BHF-Bank of Frankfurt has taken more pressure off SA's debt repayment burden.

A BHF-Bank spokesman said on Friday that this was a refinancing of a loan issued in 1984. Most of it was being placed with private investors. He would not disclose the terms of the refinancing.

Another DM680m (R1,1bn) of SA Eurobond loans will mature this year and all of them, as well as a \$100m (R278m) Eskom bond in July, are expected to be refinanced by German investors.

No public issues by SA borrowers are likely until all sanctions are lifted.

A Frankfurt bank official said while financial institutions did not yet want to be seen to be involved in new loans for SA, there was no need for public issues at this stage. He added that SA issues were always popular among German investors, because yields were good "and the money is always paid ... like clockwork".

Rollovers will give BoP a needed fillip

By Sven Lünsche ^{Star} 27/5/91

News that South African borrowers are rolling over much of their foreign debt due this year is a welcome and necessary boost to the balance of payments.

The Financial Times reported from Frankfurt over the weekend that SA parastatals were expected to refinance up to \$550 million (R1,4 billion) of maturing bonds, with private placements in the German capital market this year.

This follows on the successful rollover of a \$50 million RSA loan earlier this month, in a refinancing measure negotiated primarily by Swiss banks.

The debt rollover comes at an opportune time for South Africa as lower exports and a virtually unchanged level of imports this year are expected to exert pressure on the current account of the balance of payments.

According to recent forecasts by the Nedbank Economic Unit, the trade surplus is expected to be lower by about R3 billion in 1991 than in 1990.

As a result, the current account surplus will be reduced to about R2,8 billion in 1991, compared with a R5,8 billion surplus recorded last year.

This falls well short of this year's expected debt redemptions of R5,5 billion, both inside

and outside the debt standstill net because nine of the 20 outstanding public bond issues made by SA borrowers in the 1980s mature this year.

Furthermore, says Nedbank, R3 billion of foreign debt falls due in 1992, and as much as R5,5 billion again in 1993.

"Clearly, the redemption problem this year can be resolved only through maintaining restraints on imports and securing rollovers to the extent of 50 percent or more," the Nedbank economists argue.

So far this year SA has repaid roughly R1 billion of debt inside the net, but has also achieved significant success in rolling over some of the debt, as evidenced by the strong R1,5 billion surplus on the capital account recorded in the first quarter this year.

Given the latest successes in refinancing debt on the German capital market, some economists estimate that at least 60 percent of debt maturing this year will be rolled over.

According to the Financial Times report, the BHF-Bank in Frankfurt was arranging a Dm150 million private placement with German investors to refinance a public bond issue made in 1984 by the SA Department of Posts and Telecommunications.

A BHF-Bank official said that the purpose of the transaction

was to refinance a Dm150 million bond issue, which was due to mature on June 16.

No new money was being raised, and the placement was concentrated among German retail investors, he added.

Other issues which may be refinanced include a Dm50 million issue by the Industrial Development Corporation and a \$100 million issue by Eskom, both of which mature in July, the newspaper reported.

The majority of South African Eurobond issues are denominated in D-marks, and a total of Dm630 million of paper falls due in 1991.

While bankers are reluctant to talk about the deals in the open, they concede that most of the maturing paper is being successfully refinanced through private placements.

The response to previous SA re-financing measures in Europe has always been good, which is hardly surprising, given SA's impeccable repayment record and the fact that yields on these loans are on average two percent higher than other sovereign D-mark bonds.

The re-financing measures are also crucial in that they allow SA borrowers to maintain contact with international capital markets, which could be crucial when the time comes for renewed public bond issues by SA borrowers.

74

Debt rollover boosts BOP 74

From SVEN LUNSCHÉ

Argus
27/5/91.

JOHANNESBURG. — News that South African borrowers are rolling over much of their foreign debt due this year is a welcome and necessary boost to the balance of payments.

The Financial Times reported from Frankfurt over the weekend that SA parastatals were expected to refinance up to R1,4 billion of maturing bonds, with private placements in the German capital market this year.

This follows on the successful rollover of a RSA loan earlier this month, in a refinancing measure negotiated primarily by Swiss banks.

The debt rollover comes at an opportune time for South Africa as lower exports and a virtually unchanged level of imports this year are expected to exert pressure on the current account of the balance of payments.

According to recent forecasts by the Nedbank Economic Unit, the trade surplus is expected to be lower by about R3 billion in 1991 than in 1990.

As a result, the current account surplus will be reduced to about R2,8 billion in 1991, compared with a R5,8 billion surplus recorded last year.

This falls well short of this year's expected debt redemptions of R5,5 billion, inside and outside the debt standstill net, because nine of the 20 outstanding public bond issues made by South African borrowers in the 1980s mature this year.

Furthermore, says Nedbank, R3 billion of foreign debt falls due in 1992, and as much as R5,5 billion again in 1993.

"Clearly, the redemption problem this year can be resolved only through maintaining restraints on imports and securing rollovers to the extent of 50 per cent or more," the Nedbank economists argue.

So far this year South Africa has repaid roughly R1 billion of debt inside the net, but has also achieved significant success in rolling over some of the debt.

74

~~74~~

~~74~~

ADE's export drive kicks off in Botswana

ATLANTIS Diesel Engines (ADE) has launched its export drive into southern Africa with the appointment of the group's first engine distributor in Botswana.

Equipment Sales in Gaborone is ADE's first branch outside SA and is part of the group's strategy to open export markets to offset the depressed diesel engine market in SA.

ADE parts manager Johan Kellerman said yesterday the group was considering

MARC HASENFUSS

appointing distributors in other southern African countries which represented key growth opportunities.

Kellerman said there was considerable interest in ADE's product outside SA.

Replacement parts, marketed as Ade-part, were readily available, and ADE had training programmes for its distributors' service and parts staff, he said.

Blom 29/5/91

ADE's export drive kicks off in Botswana

ATLANTIS Diesel Engines (ADE) has launched its export drive into southern Africa with the appointment of the group's first engine distributor in Botswana.

Equipment Sales in Gaborone is ADE's first branch outside SA and is part of the group's strategy to open export markets to offset the depressed diesel engine market in SA.

ADE parts manager Johan Kellerman said yesterday the group was considering

appointing distributors in other southern African countries which represented key growth opportunities.

Kellerman said there was considerable interest in ADE's product outside SA.

Replacement parts, marketed as Ade-part, were readily available, and ADE had training programmes for its distributors' service and parts staff, he said.

MARC HASENFUSS

Bloom 29/5/91

Holidays affect currencies

By Day 29/5/77

SHARON WOOD

SPRING fever in the northern hemisphere, with a succession of holidays during May, has led to sluggish forex markets, which should continue until next week.

Currencies drifted as market observers talked of ranging movements within well-defined bounds. The probable reason for this is an unwillingness to take long positions. The tendency is to take profits on short movements, up and down, keeping books reasonably in balance.

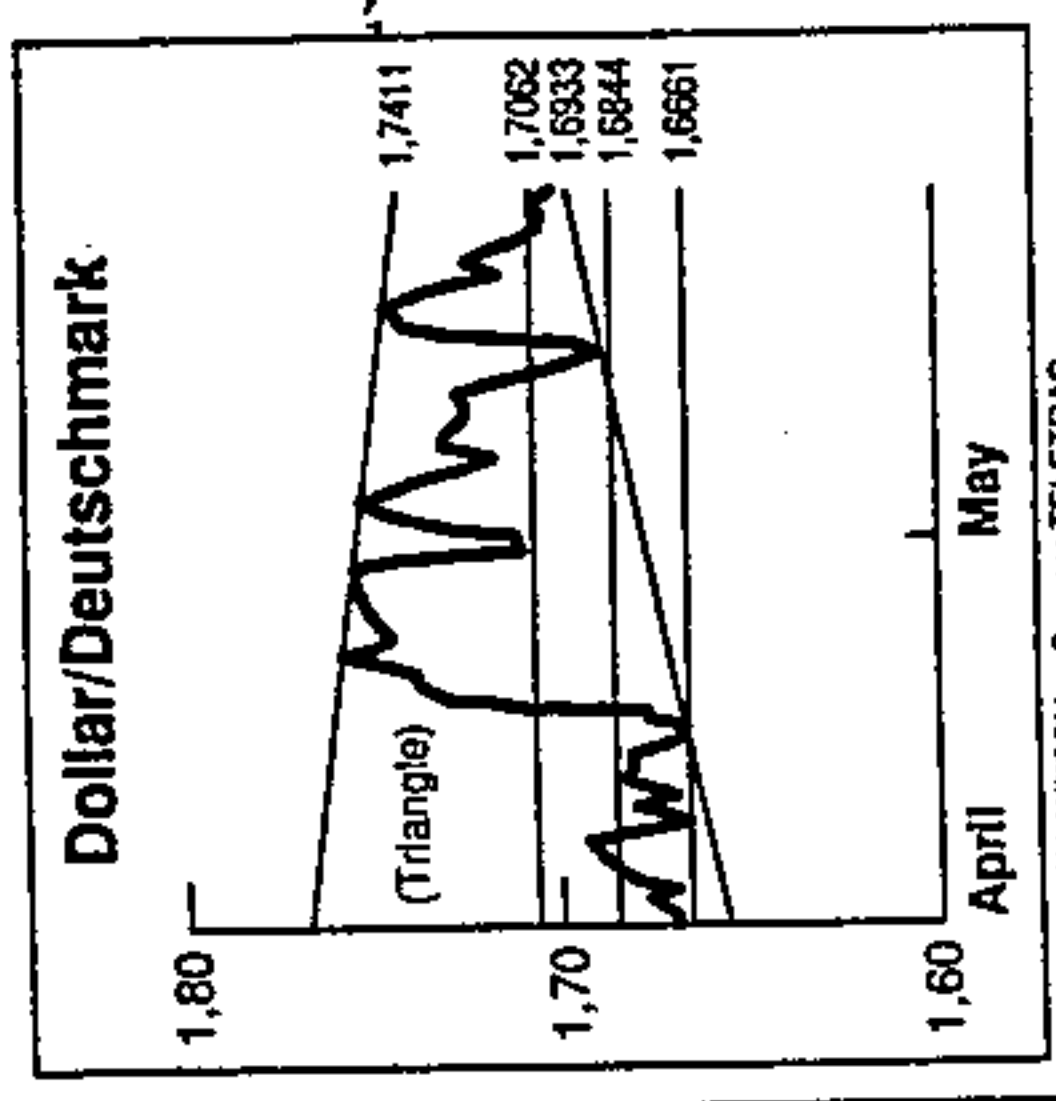
The dearth of economic indicators, so often the trigger mechanism in forex markets, left rumour loobies grasping for straws.

Earlier volatility in the dollar subsided later in the week and the dollar essentially remained within pre-defined ranges, said Standard Bank in its weekly International Comment.

Positive sentiment towards the dollar because of Sweden's decision to formally link the krona with the European currency unit (ecu) tended to dissipate as the week wore on.

Standard Bank said it became clear later in the week that the necessary dollar purchases had probably been concluded and, in the absence of anything more specific on which to focus, the dollar closed the week well below the levels at which it opened.

First National Bank's technical commentary said the dollar re-



Graphic: FIONA KRISCH Source: TELETRAC

In contrast to a quiet week in the US, several major economic indicators were released in the UK. But market response was muted.

Standard Bank says the release of money supply figures and first quarter GDP figures last Tuesday were significant because this culminated in a further 0.5% reduction in domestic interest rates on Friday.

But in the holiday climate markets failed to respond to the encouraging signals.

Money supply figures showed a sharp contraction from the levels prevailing a year ago. Growth figures were slightly better than forex market expected, but still highlighted the extent of the current downturn in the UK.

Technical analysis shows the pound was also involved in testing the parameters of the constricting triangle.

Even though it may break through

its resistance at \$1,7382, it will have done so from a firm \$1,6882 to \$1,8000 range dating from mid-April.

The rand weakened against the dollar during the week, against a generally unresponsive gold price and the release of disappointing economic figures, said Standard Bank. Activity was subdued and confined within narrow ranges.

Consumer price inflation and money supply figures released last week were worse than the market expected.

They provided further strength to the belief that interest rates were unlikely to fall this year, because restrictive monetary policy had still failed to yield results.

FNB said the rand was at present attempting to penetrate through its bull channel base at R2,8016.

Standard Bank set the expected trading range for the rand at between R2,77 and R2,82.

The outlook for gold is not encouraging.

Its movements are virtually trendless at present, with interest in the bullion market still at an ebb.

REVIEW

IDC grants R67m to promote exports

31 Dec 2015 11
THE Industrial Development Corporation (IDC) has approved six applications, amounting to R67m, for its R500m low-interest rate scheme to promote export-oriented manufacture.

IDC senior GM Jan de Bruyn said this week there had been 13 applications for the scheme, which was launched three weeks ago. "The investment climate is not good for industry. This is the IDC's contribution to promote export in the manufacturing industry. It is a start-up assistance with a below-prime interest rate of 9%."

The scheme, which will make R100m available a year, will provide finance on a first-come-first-served basis for the acquisition of fixed assets.

74
THEO RAWANA

After the first three years, normal IDC rates for the remaining term of the loan would apply for projects fully complying with the scheme, said De Bruyn.

"For projects partially complying, half of the finance is available at the preferential 9% rate for the first three years and the balance at normal IDC rates."

The scheme was available to industrialists or groups with total assets of about R1m or more at the time of application.

It was designed to finance projects creating or adding capacity, generating sales of which at least 30% was directed towards exports, and creating jobs.

BUSINESS

w/mail 30/5 - 6/6/91

Govt seeking fresh foreign funding

By REG RUMNEY

THE South African government and its parastatals have quietly gone looking for millions in foreign loan money.

According to a report in the *Natal Witness*, quoting the London-based finance magazine *International Insider*, the government itself is looking at tapping the international bond market again later this year.

It is mainly needed to refinance some of the DM630-million (R990-million) that reportedly falls due this year in Deutschmark-denominated Eurobond issues.

The Financial Times says South African borrowers are expected to refinance up to R1,4-billion of maturing bonds with private placements in the German capital markets this year.

According to *II*, the government recently raised a \$50-million (R140-million) no-publicity private placement bond through a group of German banks and Chartered WestLB. The coupon on that bond, according to the magazine, was 10 percent.

It also says Posts and Telecommunications is in the market for DM50-million to DM75-million (R82-million to R123-million). BHF-Bank, it says, is understood to be leading the government-guaranteed private placement, to refinance a loan which expires.

Carlos Martins, deputising for the Post Office treasury manager, confirms that a loan is due to be refinanced, but says the figure quoted is wrong. He declines to say what amount is up for refinancing.

The Financial Times puts the loan at DM150-million (R197-million).

II says Eskom has been to the private placement market twice recently, once for DM120-million (R197-million) over three years. It also raised \$50-million of new money, in a government-guaranteed loan, through an international bank in London.

The IDC is also expected to come to the private placement market soon.

The *FT* recently put the issue to be refinanced this year by the IDC at DM50-million (R82-million).

II also says NatWest, the informal long-time chairman of South Africa's international bank creditors, is expected to visit Pretoria in June.

The magazine says this year will be difficult because of a debt hump, in that \$1,5-billion to \$2-billion (R4,2-billion to R5,6-billion) in loans matures.

China in secret bid to trade with SA

74
25A

BEIJING — The Chinese government, a vocal champion of continuing sanctions against Pretoria, has sent a secret mission to South Africa to discuss trade and other links, Chinese sources say.

The delegation, led by a senior Foreign Ministry official, flew to South Africa earlier this month for a 10-day visit.

It is thought to be the first time China has sent senior diplomats to a country it still pillories and supposedly shuns as a bastion of racism.

The visit, which is believed to have focused on exploring commercial opportunities, follows earlier reports that a Chinese delegation went to South Africa in February to discuss a chemical project between the two countries.

Having been asked four days ago to confirm or deny this month's mission, the Foreign Ministry yesterday said it had "not had time" to prepare a

response.

China's growing but still secret links with South Africa are a particularly sensitive subject for Beijing, which presents itself as a steadfast advocate for Third World interests and solidarity.

A Chinese United Nations official, Zhen Daode, was quoted by the New China News Agency in February as opposing any relaxation of sanctions against South Africa.

Dismantling

"The fact remains that black people still live under such an evil system and that the struggle of the international community against racism and apartheid is still far from reaching its end," he said.

Beijing has described the gradual dismantling of apartheid laws as "deserving welcome" but still proclaims a policy of non-contact.

China's clout in other parts of

black Africa, however, has waned in recent years. Traditional friends such as Tanzania and Guinea have turned away from Chinese-inspired Marxism, while Beijing has in turn cut back on aid projects to the continent.

This month's Chinese visit to South Africa, diplomats say, reflects Beijing's determination not to let ideological scruples get in the way of commercial benefits. It follows a steady improvement in Chinese ties with two other past foes, South Korea and Israel.

Though stopping short of diplomatic recognition, Beijing has exchanged semi-official representative offices with both Seoul and Tel Aviv. China's ties with South Korea, which it fought to eliminate during the Korean War from 1950-53, are particularly healthy, boosted by a surge of trade and China's appetite for South Korean investment and know-how. — The Independent News Service.

New Romanian link forged

By Roy Cokayne

74

Star
31/5/91

The Northern Transvaal Chamber of Industries' new affiliate body, the International Chamber of Trade and Industry, has signed a co-operation agreement for economic, cultural and sporting ties with the National Confederation of the Romanian Owners of Private Companies (Patronat).

The confederation represents more than 100 000 employer organisations in Romania, employing about 1,2 million people.

In terms of the pact, Romania and South Africa, through the NTCI, will try to strengthen economic relations between the two countries.

A delegation of the International Chamber of Trade and Industry will visit Romania and on a trip coinciding with the Poznan Fair in Poland in early June.

CURRENT ACCOUNT

SLIDING SURPLUS

The earliest official information about the first-quarter surplus on the current account of the balance of payments will come with the publication next month of the Reserve Bank *Quarterly Bulletin*. Nedbank chief economist Edward Osborn believes it will be under R1bn — based on a trade surplus of nearly R3bn (as published by Customs & Excise) and his estimate of a net outflow on services of R2bn-plus.

As expected, this will show a surplus running well below last year's, when R2,3bn was recorded in the first quarter.

The erosion is due to an increase in value of imports, not matched by the increase in exports. Latest available trade figure, for the year to April, shows exports up 7% while imports rose 11%. When the



Osborn

depreciation of the rand is stripped out, Osborn says growth is 2% and 5%, respectively.

Much of the rise in both imports and exports is buried in the item *other unclassified goods and balance of payments adjustments*. Apart from adjustments this includes gold, platinum, palladium, rhodium, uranium and armaments exports and oil imports.

Four-month imports in this category total R2,4bn (1990: R1,9bn) and exports R8,8bn (R8bn). Imports were worth R1,3bn in January, R175m in February, R320m in March and R595m in April, and exports R2,5bn in January, R1,8bn in February, R1,9bn in March and R2,6bn in April.

Without more information it is difficult to extrapolate historical figures to predict the future.

Says Osborn: "The alternative to extrapolating trends is to carry out balance of payments calculations for the whole year, on the basis of commodity-by-commodity estimates for principal exports, taking account of the major macroeconomic domestic variables.

"Broadly, SA is contending with depressed international commodity prices, a gold price that appears locked into a US\$350-\$370 range, a serious collapse of the wool price, and a poor agricultural season — SA has swung from being a net exporter of grains to a net importer this year.

"On the import side, macroeconomic aspects to be taken into account include:

- Private consumption remaining buoyant but at a reduced growth level; and
- Fixed capital formation in plant, machinery and equipment being confined to replacement expenditure — but even that delayed by the impending introduction of VAT, and by the inventory cycle.

"The last is now possibly the most important, in that inventory levels were at a low ebb by the end of 1990 and need replenish-

ing. The 5% rise in imports to date could be largely attributable to this, as well as the effects of higher oil procurement costs and special importation of aircraft in January."

Osborn reckons that the balance of payments surplus for the year, taking all these factors into account, could fall from last year's R5,8bn to R2,7bn. "However, if reports of oil reserves being used are correct, allowing for reduced imports, the surplus might be raised to R4bn."

This, he points out, is still less than the year's calculated foreign debt repayment obligations of R5,5bn. "Consequently, there remains a need for continued monetary restraint and a roll-over of debt, and additional foreign trade-related credits." ■

US-SA trade 'about 200% higher' than last year

Weekend Argus Correspondent

LEVELS of US-SA trade and business inquiries appear to be "about 200 percent higher than at this time last year," according to Wayne Mitchell, executive director of the American Chamber of Commerce (Amcham).

Mr Mitchell said he had received a copy of Mr Geary's proposals but — for

policy reasons — could not comment on them.

He said trade inquiries had escalated so dramatically that Amcham — which has operated on a political level through the sanctions era — is having to relaunch a range of commercial services.

While numerous US companies cur-

rently are conducting in-depth trade and investment inquiries, prior to the possible dropping of the US CAAA barriers — they were insistent any projects should be socially desirable.

He also cautioned disappearance of the CAAA would not herald a new wave of reinvestment while doubts remained about future socio-economic stability and the direction of the economy.

ARGUS 1/6/91

13
14

Govt, business in master plan

STimes 2/6/91

74

(Bus/Times)

By CURT VON KEYSERLINGK

AFTER being at odds for years over economic policy, the Government and the private sector are teaming up to prepare South Africa's faltering economy for growth.

SA Breweries executive chairman Meyer Kahn has been appointed part-time special adviser to Economic Co-ordination and Public Enterprises Minister Dawie de Villiers.

Mr Kahn says: "We are at a stage where there are no fundamental differences between the Government and business on economic issues. The only differences are those of degree."

"For example, we agree that there should be real interest rates, but have not yet defined how high they should be."

There is also growing co-operation between the SA Chamber of Business (Sacob) and the Department of Trade, Industry and Tourism.

Sacob this week released a 63-page document — A concept for the development of a new industrial policy for South Africa — which analyses factors restraining growth and makes recommendations on how to deal with them.

Input

Sacob notes the similarity of its conclusions with those of the new Minister of Trade, Industry and Tourism, Dr Org Marais. Barring one exception about which it requires more information, Sacob says: "The policy stances touched on by Dr Marais have in most cases been arrived at in consultation with Sacob and the rest of the organised business community."

Dr De Villiers said in an interview this week that the Sacob document would be used as an input in the Economic Development Programme being prepared in his department for publication late this year.

Dr De Villiers says the private sector is the locomotive of growth. He is determined to eliminate factors controlled by government that needlessly raise business costs.

His priorities include: tax reform, the fight against inflation, supply-side economics, revision of import protection and the control of State spending.

"The private sector must be encouraged to make 'production profits' instead of capital profits that come from investing in property developments or the stock exchange."

Dr De Villiers is keenly aware that co-operation between the Government and business will not by itself solve SA's economic problems.

"We must restore confidence in our economy and everybody with a genuine interest in the welfare of the country should help."

"The brutal political violence should be stopped, so should the irresponsible utterances about economic policy by certain political figures."

Dr De Villiers says the Government is trying to pro-

mote what he calls social contracts between disadvantaged communities and various State and private organisations to provide basic housing and infrastructure, including electricity, clinics and schools.

"It would stabilise these communities by creating jobs for their members and giving them the facilities they think they need most."

"But we cannot merely hand out money. We need their involvement and we require that they take responsibility for ensuring that the projects succeed. This is not always easy because some parties appear bent on breaking down local authority structures."

"The poor people of this country will be the first beneficiaries of economic growth and it is a tragedy that those who purport to represent them appear to be working against it."

"If we cannot start growing now, whoever becomes the new government one day will inherit national poverty."

"The ANC has moved a lot in its economic outlook — for example, there is little talk about nationalisation now. We must give them credit for it. But until the ANC formally commits itself to more moderate views, foreigners will remain wary of investing here."

Painful

Dr De Villiers says aspects of the new economic programme, such as the fresh approach to tariff protection, could necessitate painful adjustments for certain industries.

"But the public sector has already begun to make painful adjustments of its own. Organisations such as Transnet, Eskom and Armscor have made huge staff reductions in switching to commercialisation. There have been big spending cuts in many Government departments."

Dr De Villiers says his job as Minister of Economic Co-ordination does not make him a "super minister" with authority over other departments involved in economic affairs.

"They have line authority over their own activities, but I chair the meetings of all ministers involved in economic matters. I have to ensure that they do not depart from agreed guidelines relating to the achievement of national economic objectives."



DAWIE DE VILLIERS: Poor first to benefit Picture: TERRY SHEAN

Sacob nails the high cost of inputs

By CURT VON
KEYSERLINGK

SOUTH AFRICAN manufacturers are on average at a 15% cost disadvantage to those in Organisation for Economic Co-operation and Development countries.

Their cost disadvantage to manufacturers in newly industrialising countries is even greater.

These are the findings of a study by the SA Chamber of Business (Sacob).

The report says SA manufacturers pay more than their foreign counterparts for all but one of their cost items — electricity. But this does not help them much because electricity accounts for only 2,9% of their costs.

They get no cost advantage from the mining sector in SA because in most cases they pay world prices for minerals mined here.

Sacob says inputs bought by manufacturers from their SA counterparts have the highest cost-raising effect. This is because import surcharges and high tariffs raise the prices of these goods above international levels.

Reasons

The most important SA-made inputs to the manufacturing sector — fabrics and yarns, chemicals and plastics, fabricated metals and motor vehicles — receive high protection.

Iron and steel and paper and pulp have medium levels of protection. Only SA-produced non-ferrous metals receive low protection.

The report says the cost of capital in SA is another important cost-raising element. There are several reasons, including:

- Investors in SA expect a higher rate of return because of the what they see as a high risk element.
- Nominal corporate tax of 50% is among the highest in the world.
- Real interest rates and inflation are high.
- Debt-equity ratios are high, leading to greater demand for top short-term yields.

The cost-raising effect of labour is also high.

SA's exports as a percentage of world trade show a large decline in recent years. In 1961, exports, including gold, accounted for 1,7% of the world figure. By 1989, they had fallen to 0,5% of world trade.

SA's export sector still needs to go some distance

74

Monday 3/6/91.

THEO RAWANA

WORLD markets are opening up to SA exports, but local manufacturers are being rendered uncompetitive by more than the distance separating them from potential clients.

The SA Chamber of Business (Sacob) has published the first results of a comparative study of SA and foreign costs and productivity, and has come up with suggestions on what should be done.

Sacob hopes its study will dovetail with others being done by government and result in a White Paper on industrial policy.

Highlight

Sacob has found that it is not just SA's high labour costs, low productivity and heavy tax burden which hinder local performance and international competitiveness. Some countries, such as Indonesia, give guarantees against nationalisation and undertakings that profits and capital can be exported.

The study is designed to highlight areas where policy decisions are needed, such as tax breaks for local and foreign investors, if the economy is to grow, if jobs are to be created and if SA products are to be made competitive on international

markets.

The research document, A Concept for the Development of a New Industrial Policy for SA, cites four areas that need to be tackled in order to revive the manufacturing sector: cost of capital; productivity of capital; productivity of labour; and cost of intermediate inputs.

Sacob deputy director-general Ron Haywood said: "The results of Sacob's data base now provide a sound foundation from which policies can be formulated. It in fact provides very clear pointers to the weaknesses in our present structures which need to be addressed."

In terms of the cost of capital, the following aspects need to be addressed: investor expectations; the taxation rate; the interest rate; the inflation rate; and the ratio of debt to equity.

For capital productivity, imports and imported plants need to be addressed. For labour productivity, low added value per worker needs to be addressed. And import tariffs and import surcharges need attention to remedy intermediate inputs.

"The manufacturing sector, if anything, is slightly smaller than the equivalent in the more developed

countries, both in terms of its contribution to GDP and share of employment. Investment in this sector, particularly in productive machinery and equipment is appreciably lower," says Sacob industrial policy chairman Paul Hatty.

Investment in the manufacturing sector has declined so much since 1990 that the volume of output has remained static and productive capacity has decreased.

Addressed

An analysis of the SA manufacturing sector's competitiveness shows that in almost all areas of inputs, it is placed at a competitive disadvantage on costs.

The analysis covers the inputs in three major areas:

- Cost and productive use of capital;
- Cost and productive use of labour; and
- Cost of intermediate inputs.

It also identifies a number of factors affecting the ability of this sector to grow.

"If the country is to regain some of its lost market share in the world markets and get manufacturing back on a growth curve, these factors are going to have to be addressed," Hatty says.

FW to visit ⁷⁴ Kenya; trade tops agenda

By TOS WENTZEL on the PRESIDENCY
PRESIDENT De Klerk is to visit Kenya at the weekend.

A number of ministers including the Minister of Foreign Affairs, Mr Pik Botha, Agriculture Minister Dr Kraai van Niekerk, Trade and Industry Minister Dr Org Marais and Mineral and Energy Affairs Minister Mr George Bartlett are expected to travel with President De Klerk.

The visit will be aimed at strengthening trade ties between the two countries.

The government is trying to maintain a low profile over the visit but diplomatic sources have confirmed that Kenyan President Daniel Arap Moi has invited President De Klerk.

He has done so against the background of controversy in the Organisation of African Unity over sanctions against South Africa.

A high-ranking Kenyan politician recently visited South Africa.

The visit will strengthen ties between the countries. Relations were boosted last after a visit by the South African Foreign Minister. South African Airways now has regular flights to Nairobi and South African tourists are allowed into Kenya.

Mr De Klerk is also expected to pay a brief visit to Swaziland soon.

Wraps on FW trip to Africa

Political Staff

PRESIDENT FW de Klerk and members of his cabinet are to visit a major African country, believed to be Kenya, for two days next weekend.

Foreign Affairs and government officials declined to disclose Mr De Klerk's destination, for fear that pressure would be brought to bear on the host country by the OAU at its meeting in Nigeria this week.

A senior Kenyan politician visited South Africa last month, and South Africa and Kenya have agreed to allow SA Airways landing rights at Nairobi.

South African tourists were also now being allowed to enter Kenya.

Egypt too far

Other possible destinations include Egypt and Nigeria. Sources said they did not think Mr De Klerk would visit Nigeria so soon after the OAU summit this week, and one source said Egypt was too far for the short trip.

It is understood that Mr De Klerk will be accompanied by Foreign Minister Mr Pik Botha, Trade and Industry Minister Mr Org Marais, Agriculture Minister Dr Kraai van Niekerk and Mineral and Energy Affairs Minister Mr George Bartlett.

Given the composition of the delegation accompanying Mr De Klerk, it is expected that major trade deals are expected to be struck.

K

O

ABUJA, N of state h: annual Or ty summi growing against S

An increase flouting OAU tions, are co. draft resoluti urging them

The draft v days of deba: bitter excha delegations Coast and oth have opened

The row in FW de Kler: prepare to vi to be Kenya,

The hardli ministers can

AMID the unmitigated gloom of the latest domestic inflation and money supply statistics, it is SA's external sector that currently offers the best prospects of returning respectable and improving outturns.

Thus the authorities are likely to be looking at the May gold and foreign exchange reserves figure due at the end of this week for some consolation.

After bottoming out last June, the level of total reserves has been on a general recovery path in the present cycle — hitting a record high of R7,3bn in March. The total dipped narrowly below R7bn in April but should, from last month, begin to reflect the perkier trade balance seen to date in the second quarter.

Markets would do well to remember, though, that building the reserves level to one that covers at least three months' imports is also a publicly stated Reserve Bank target. If the reserves figure emulates those for inflation and money supply in failing to meet the authorities' expectations and guidelines, then there will be just one more impediment to any further easing in the overall credit stance in calendar 1991.

At around R7bn the reserves level is still, technically, less than halfway towards the official Reserve Bank target of three months' import cover — a level that would be about R16bn at the moment. Although the recent reserves

Reserves may offer some consolation

B/day 3/6/91

74

performance has been encouraging, therefore, the variable stands alongside other problem areas such as M3 money supply growth in being well adrift of its official target area.

Internationally, markets will again be concentrating on the end of the week when the latest US unemployment data are due for publication. The May employment report is scheduled for release on Friday and of interest will be whether the unexpected fall in US unemployment in April was a freak. The April figures showed that the US unemployment rate dipped for the first time since May last year, from 6,8% to 6,6%.

Unemployment is usually one of the last indicators to signal recovery from an economic recession. A confirmed turnaround in the year-long rise in US joblessness at this stage of the business cycle would cause some hurried reassessments of US economic forecasts in many quarters, not least in predictions on the dollar's value. Friday's figures, however should reverse out the fall in unemployment in April and show the rate heading for 7%.

What will be decipherable from the data is that the rate at which US unemployment is growing is slowing up appreciably. This should be enough to confirm general impressions that the short and shallow US recession will be over some time during the third quarter of this year. This, in turn, dovetails with expectations that a fundamentals-backed dollar advance is due in the second half of the year.

An earlier indication of the US economy's progress — or otherwise — in recovering from recession comes later today with the publication of the purchasing manager's index for May. The index, which measures industries' expectations on orders and production, rose to 42,1% in April from 40,0% in March. Another rise in May would represent a third consecutive increase from a trough in January.

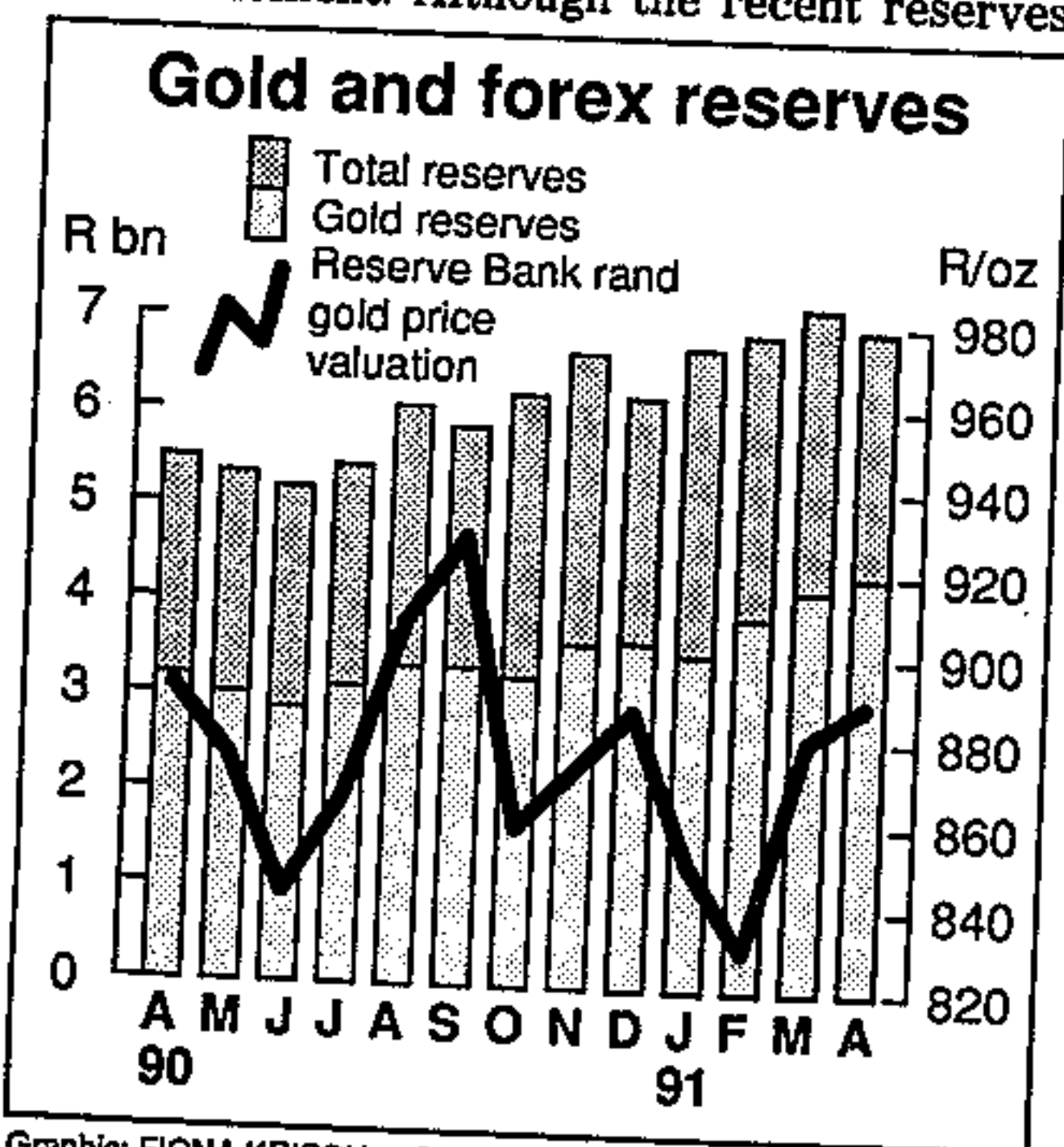
Although this could be another harbinger of economic recovery further down the line, an index below 44% still shows a declining level of overall activity — even though that decline may be slowing. While it looks as though a third successive rise in the index is in store today, a revival to levels above 44% seems to be another month away.

Opec oil ministers start the first of their twice-yearly price-fixing meetings in Vienna tomorrow. The oil price is sluggish at levels around \$2 below Opec's target price of \$21 a barrel, and the cartel will need to cut production quotas if it still wants \$21 reference price. Alternatively, members could settle for a lower price of \$18 to encourage higher consumption, and raise overall output.

German party politics do not often intrude into the world's financial markets, but one of those rare occasions comes up this weekend. On Friday a crisis meeting begins of the Christian Democrats-Free Democrats coalition. Although no one is saying as much in public, the meeting looks set to assess the party's national standing following its by-election loss of a safe province to the opposition last month.

The unspoken point some party members may seek to make is that the CDU leader, federal chancellor Helmut Kohl, has been at the helm for 10 years and is the focus of much of the resentment about the problems of Germany unification. Anger about unification, it may be argued, is rubbing off onto the party although the swift absorption of the former East Germany was largely Kohl's idea.

A quiet campaign to replace Kohl could well start at this meeting. If it gains momentum quickly, fresh political instability looks set to add to the Deutschmark's problems just as the beleaguered Germany currency is getting over the potentially traumatic resignation of the German central bank governor.



Graphic: FIONA KRISCH Source: SA RESERVE BANK

New local content level set for cars

~~13~~ MARC HASENFUSS (74)

THE Board of Trade and Industry (BTI) has raised local content levels for the motor industry to 70% (previously 65%) despite warnings that the move could lead to higher new car prices.

A BTI statement said the move, from June 1, had been motivated by the better than expected local content levels achieved by the industry.

National Association of Automobile Manufacturers of SA (Naamsa) director Nico Vermeulen warned that the move could increase motor vehicle prices further as manufacturers would incur additional costs to meet the new requirements.

The amendment to Phase VI of the local content programme, announced at the weekend, states that the specific excise duty on imported parts be increased from 32,5% to 35%.

This effectively means a 70% local content level by value must be met by motor manufacturers in order to qualify for a rebate. *B/Dam 3/6/91*

Manufacturers earn 50% excise rebate on the value of exports of components. The exports have so far exceeded the penalty levied on manufacturers should they produce vehicles below the required local content level.

In addition, the ad valorem excise duty was increased from 9% to 12% on passenger cars and from 0,5% to 2,5% on commercial vehicles and buses.

At the end of last year rebates achieved by carmakers from exports under Phase VI far outstripped the import penalties, and the BTI imposed a temporary 2,5% ad valorem duty on vehicles to compensate for a R64m shortfall in revenue.

To Page 2

Local content *B/Dam 3/6/91*

The BTI said the increase in excise duties was unavoidable as Phase VI was intended to be self-financing.

Toyota marketing MD Brand Pretorius said the increase had been anticipated by the industry and largely provided for.

However, the ad valorem duty was unexpected and would have a negative effect on

the already depressed commercial market.

"The ad valorem duty will be an additional cost and could increase prices for commercial vehicles," Pretorius said.

Naamsa's Vermeulen said the BTI had not indicated whether the ad valorem duty was only a temporary measure.

From Page 1



New Zealand's ruling party wants SA ties

74
4/6/91

The Argus Foreign Service

WELLINGTON. — Delegates at the ruling National Party's South Island divisional conference have called on the New Zealand government to resume trade and sporting relations with South Africa.

The resolution, passed by majority, is to go forward to the party's national conference this year.

The call has come hot on the heels of an indication that the government intended relaxing its policy on contact with South African sports officials and diplomats.

External Relations and Trade Minister Mr Don McKinnon said sports officials would be allowed to visit this country as long as they were not promoting sports with a code involving apartheid and which was contrary to conditions set by the Commonwealth sporting contacts policy.

Mr McKinnon said the cabinet had also given its approval for New Zealand diplomats to resume "normal

professional relations" with their South African counterparts.

At the South Island conference, Mr Noel Lowe, who introduced the resolution to resume trade and sports links, said the great strides made by President De Klerk meant apartheid would soon be a "political dodo."

Political reform was progressing so well, it was time to resume links.

New Zealand groups which continued to press for sanctions against South Africa were "sad apologies for failed Marxist dogma", he added.

Mr Tom Harrison said it was "hypocrisy on a grand scale" and "selective morality" to impose sanctions against South Africa when New Zealand continued to trade and play sport against countries which had worse humanitarian records.

Mr Cliff Bedwell, divisional Maori advisory committee chairman, said it was too early to resume links.

"I consider the situation in South Africa as far too unclear to restore trade and sporting contacts at this time," Mr Bedwell added.

UK trade group comes shopping in SA

MORE signs are emerging from the US and Britain that SA is edging out of the financial cold. *Bloom 4/6/91*

UK SA Trade Association (Uksata) executive director Nick Mitchell said yesterday some of Britain's smaller merchant banks were looking at entering the SA market. *(74)*

He was speaking at a news conference for the visiting Uksata trade mission, the first officially sponsored British mission to SA since 1985.

British consul general John Doble later confirmed that a number of UK merchant banks had visited SA over the last year to

ZILLA EFRAT

examine increasing their presence and business in SA.

While nothing had been finalised, Doble said there could soon be involvement by UK merchant banks that had not been in SA in the past, with some possibly setting up offices in the country.

He added that Barclays and Standard had maintained links with SA and financed a lot of trade.

In a separate development, US-owned Monsanto Agricultural Company, one of

□ To Page 2

Trade group *Bloom 4/6/91*

the world's largest producers of agricultural and industrial chemicals, has announced a plan to give its SA operations a wider role.

The move will see the multinational, which has its headquarters in St Louis, Missouri, making a substantial investment in people and promotion to support its South African business.

In addition, if local sales and exports to southern Africa increased, there could be increased investment in Monsanto's local production facilities, Monsanto SA marketing manager Chris Jones said.

The aim was to turn Monsanto's SA operations into a major player in the global development of new products, new chemistry and new technology.

Prominent SA chemical agronomist Jim Findlay has been appointed Monsanto SA

vice-chairman and southern and east African technical director, a new position which includes a global brief.

While Monsanto had in the the past been cautious about increasing investment in SA, Jones said it believed that the SA market offered vast potential.

Monsanto's Brussels-based director of European and African operations Bob Noels said: "During the difficult times we showed confidence in the future of SA and now the country is strategically important in our worldwide development programmes."

"Its location in the southern hemisphere provides excellent opportunities for researching potential new products during the northern off-season."

● Picture: Page 3

□ From Page 1

Favourable US economic data boost markets

HOLIDAY lethargy in world forex markets was left behind as favourable US economic data loosened reins on the dollar.

International forex markets are now waiting anxiously for the release of key May economic indicators, particularly on employment, later this week. Favourable news will stimulate current positive sentiment for the currency which has recently been ranging aimlessly.

Since the Gulf war ended forex markets have been optimistic about a US economic upturn, which now appears likely, and it seems little is needed to entice the dollar bulls out of the paddock.

Standard Bank's weekly International Comment reported that the release of the US leading indicator index for April on Friday gave a thrust to market optimism, since it combined an upward revision in March's figure with the third monthly increase in April.

In addition, US factory goods orders in April rose for the first time in six months, fuelling the expectation

that the recession could be bottoming out.

Despite the highly volatile movements in the dollar during the week, First National Bank technical analysts say the currency still remains within the outside range DM1,6661-DM1,7587.

However, as the graph shows, the dollar broke out of its triangle (AB) in its end-of-the-week surge.

The bull trend established earlier this year will be resumed only once the dollar penetrates DM1,7446 (trendline D) and then breaches its last high of DM1,7587 (E).

So far there have been no signs of central bank intervention but dealers say if the dollar breaks through the DM1,7800 level, the central banks are bound to step into the market.

As usual, the rand eased as the dollar strengthened during the short trading week, and while local dealers were enjoying last week's Friday break, the rand lost about 2c against the dollar.

But yesterday the local currency opened slightly firmer against the

16 Day 5/1/91
SHARON WOOD

dollar as foreign profit-taking in the dollar blunted the surge in the US currency.

Market attention — and possibly the Reserve Bank's too — remained focused on the persistent inflation rate and money supply statistics released the week before.

The strength of the dollar knocked other major currencies, the Deutschmark, sterling and yen, which also suffered from negative domestic developments during the week.

In Germany positive developments in the form of slowing money supply growth and the nomination of the "hawkish" Helmut Schlesinger to succeed Karl Otto Poehl were counterbalanced by disappointing inflation figures and the SDP election success in Hamburg.

But in the light of the higher inflation figures, the Bundesbank will have no choice but to keep the

interest rates where they are.

Union Bank of Switzerland's weekly currency report forecasts a stable Deutschmark, moving in the recent range against the dollar. But it cautions that the possibility of a dollar surge is greater than it was a week ago, which would depress the Deutschmark.

On the British front, the ruling Conservative Party took a knock during the week when the opposition Labour Party scored ahead of the Conservatives in two opinion polls.

An interest rate cut in the UK in the near future seems unlikely if the Conservatives intend to stay voter-friendly, Union Bank says.

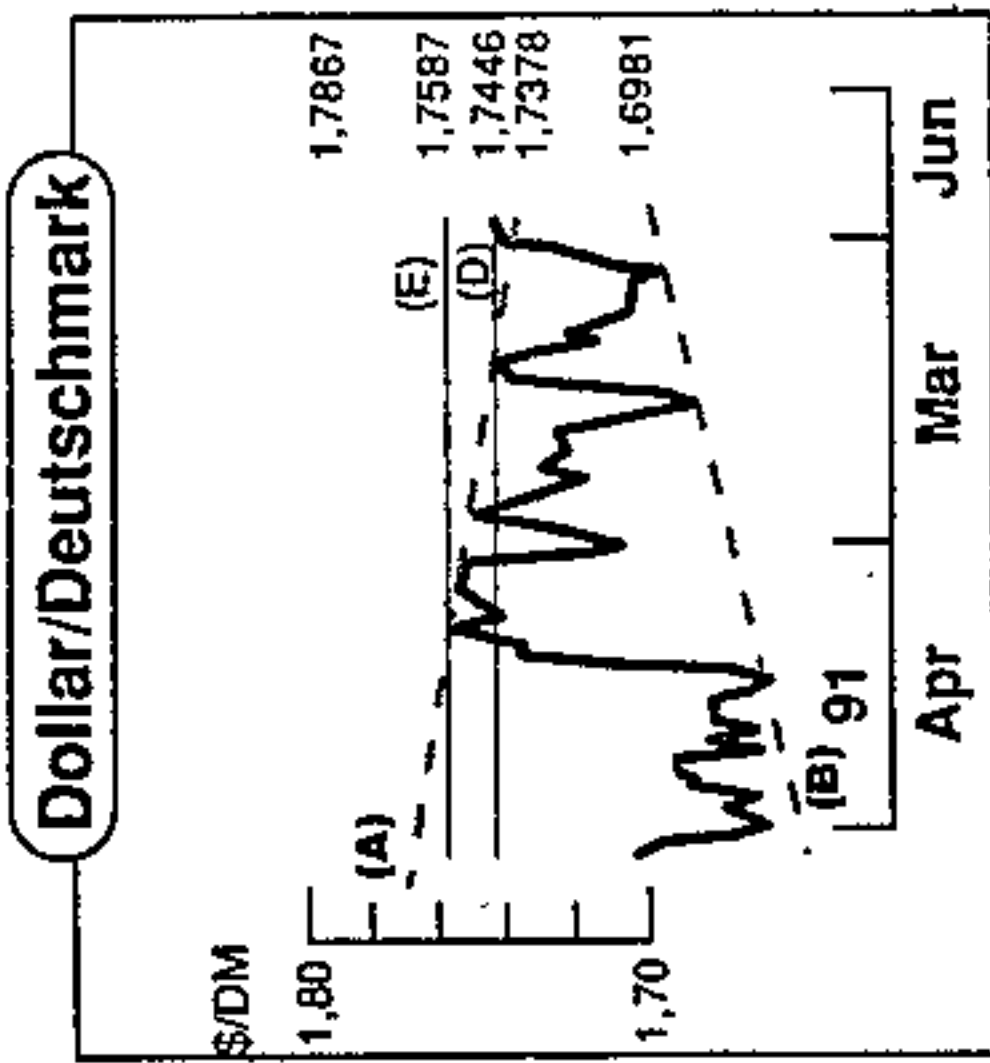
The pound should remain at current levels because neither the political side nor the interest front will provide the pound with the motivation to move up sharply.

Sterling broke out of its triangle and moved down towards the technical support level of \$1,6864. FNB technical analysts say if sterling breaches this level the currency may

enter a bearish phase, possibly falling to \$1,6353.

The yen weakened on the back of the stronger dollar. But the currency may be pushed higher against the European currencies this week if the Bank of Japan postpones lowering interest rates.

Nissan-knocked platinum barely dented the gold price, which is currently ranging around \$363. Gold is expected to range between \$350 and \$365 during the week.



Graphic: LEE EMERTON Source: TELETRAC

REVIEW

DESIGNATION

NSA Investments to fight on

B10ay 5/6/91

SUSAN RUSSELL

EVERY possible action would be taken to oppose the R55m transaction which gives Fedlife the right to obtain control of Saambou, NSA Investments MD Hardie Joubert said yesterday.

Joubert was reacting to the failure yesterday of an urgent court application by NSA Investments and associated company CC Exchange challenging the validity of the agreement between Fedlife and Saambou. NSA Investments and CC Exchange are both Saambou shareholders.

Both are also associated to insurance brokers Prestasi.

Mr Justice Zulman yesterday dismissed with costs their application to have the Fedlife agreement declared null and void and unenforceable.

Joubert said NSA Investments was still opposed to the transaction and the court case was only one of the steps taken to fight it.

"We are convinced the transaction is detrimental to the shareholders," he said.

"It is in the interest of the small shareholders that we continue opposing the

transaction".

Prestasi chairman Jan Erasmus said he was willing to co-operate with Fedlife and Saambou management to find ways in which the best interests of small shareholders, Saambou and its personnel could be served.

NSA Investment's attorney Henry Vorster said the court had not given Fedlife carte blanche to convert their debentures into shares.

"It appears that the deal will need to be restructured and resubmitted to Saambou's shareholders for approval, should Saambou and Fedlife wish to continue with the transaction," he said.

Vorster said the judgment would first be studied before NSA Investments decided what further steps could be taken.

Joubert said Saambou and Fedlife's actions would be carefully monitored, and that he was satisfied he had assisted in guarding the minorities' interests.

Not too late to claim on exports — tax man

B10ay 5/6/91

GILLIAN HAYNE

74

TIME is running out for exporters wanting to claim tax deductions on money spent marketing exports, but it is not too late for some benefits to be gained, Ernst & Young tax partner Raoul Kaplan says.

Claims under section 11 bis of the Income Tax Act will be discontinued on March 31 1992, although expenditure unclaimed at that date — because of turnover limitations — can be carried forward and claimed against export turnover in the year to March 31 1993.

The allowance, which is to be discontinued partly because of its use in tax avoidance, has been changed from time to time. The most recent change limited an exporter's claim to 20% of export turnover. The restriction applied to expenditure incurred after March 9 1989, unless the exporter was contractually bound to incur the expenditure at that date.

However, there are ways to increase the deduction while section 11 bis is around, Kaplan says.

The export marketing allowance is available to exporters of goods and to the export service industry. This means that where exporters conduct their export business through an agent, the agent and the exporter qualify for the section 11 bis deduction.

"The agent can be within the same group but in order to ensure the Receiver identifies it as an arm's length transaction, the agent should also carry out exports for other exporters outside the group," Kaplan warns.

Expenditure on advertising in an export country is also deductible in terms of section 11 bis.

Kaplan says: "It is therefore possible to claim a double deduction in respect of expenditure on sponsoring sports or cultural events in an export country and in so doing finance the sponsorship through the equivalent tax saving, whilst receiving very good exposure."

Once section 11 bis has been discontinued exporters will be able to get help through "primary export market research assistance".

23 000 out of work over three months

B10ay 5/6/91

GERALD REILLY

PRETORIA — About 23 000 employees lost their jobs in SA's mining, quarrying, manufacturing and construction industries between last December and the end of March this year, Central Statistical Service's (CSS's) latest employment report has found.

At the end of the four months 2 540 166 people were employed in these sectors, the report said.

In the mining and quarrying industry, employment levels dropped by 9 103 to 650 948.

Job losses in the manufacturing industry totalled 8 300 between December and March with 441 118 people keeping their jobs by the end of that period.

During the same period 7 400 construction workers lost their jobs reducing the total number of employees in that sector to 396 300.

Employment levels in the electricity industry remained static at 48 000.

Economists have warned that layoffs in these major sectors are likely to continue until the first half of 1992.

More aggressive exporting must be aim ⁽⁷⁴⁾ Iscor chief

B10cy 5/6/91.

GERALD REILLY

PRETORIA — SA should urgently review its reliance on raw material exports and its inward economic orientation, as these tendencies were impeding the country's economic performance, Transnet and Iscor chairman Marius de Waal said in Pretoria yesterday.

Speaking at a conference on the "Total Logistics Concept" at the CSIR, De Waal said the complacency born of an ability to export raw materials had inhibited development of human resources and a manufacturing industry able to compete in international markets.

There was an urgent need for SA to be more outward oriented, to take advantage of the emerging global growth scenario and to increase its exports, he said.

In the past SA relied on its mineral and agricultural resources to boost exports and maintain a positive balance of payments.

"However, the time is overdue that this propensity to export raw materials and beneficiated products be augmented and overtaken by products where considerably higher values are added through manufacturing."

Countries with poor economic per-



● DE WAAL

formances had policies of inward orientation. They relied on natural resources to earn foreign exchange without competing in international industrial markets, De Waal said.

"The analogy with the SA position is too close for comfort," he added.

Only through international competition were technological and productivity refinements, which could

help make a country a winning nation, brought to the fore, he said.

The global village concept was materialising "before our eyes".

SA's participation in global trading was a prerequisite for a strong economy during the next decade.

De Waal said SA industries, which were under-utilised, should be mobilised to manufacture products for export and create desperately needed jobs.

The lifting of economic sanctions, which appeared imminent, would make foreign markets more accessible.

He said a longterm economic strategy had been devised to achieve this, but it had to be followed up with a clear action plan to ensure manufacturing played a major export role by the mid-nineties.

De Waal said SA would have to remain closely in touch with state-of-the-art developments and technology.

SA's geographic position meant it could become the gateway to southern African development. As SA was the economic leader in sub-Saharan Africa, it would be a pity not to prepare for such an opportunity.

In Africa, economic considerations were beginning to transcend political considerations. Marxism had been overtaken by economic reality.

JCCI plans trade mission to Europe

IN AN atmosphere marked by the softening of sanctions, the Johannesburg Chamber of Commerce and Industry (JCCI) will be taking its first trade mission to Europe since 1986.

The September mission to Portugal, Spain, Belgium, France and the UK is the latest in a number of trade missions planned for SA exporters to countries now showing a growing interest in SA.

This interest has also led to a rush of foreign missions to SA.

JCCI says among those due in SA shortly are delegations from Brazil, Chile, UK, Portugal, Belgium and Madrid. In addition, representatives or small groups are expected from Zaire, the Madrid Chamber of Commerce, Australia, Austria, China, Hungary, Madagascar and Reunion.

Safto says a group of Finnish businessmen will visit SA at the end of this month and a group of Danish businessmen are set to arrive in October. In addition, a mission from the Soviet Union's Chamber of Commerce and Industry will come to SA at the end of June.

An Argentinian commercial delegation from the SA-Argentinian Chamber of Commerce arrives in Johannesburg today for a 13-day visit.

74
B/day 5/6/91

ZILLA EFRAT

Already in SA is a Belgian-SA Chamber of Commerce trade delegation, the second in a series of trade missions to SA planned by different Belgian interests.

In addition, the first officially sponsored British mission to SA since 1985, organised by the UK SA Trade Association, is currently in SA, as is a mission from the Portuguese Chamber of Commerce and Industry.

And a number of trade missions to foreign markets have been planned. This month, Safto will undertake an inaugural visit to the Soviet Union and Finland. It also has group visits planned for Kenya and Angola.

Other countries which Safto groups will visit this year include South Korea, Thailand, China, Egypt, Scandinavia, Turkey, Bulgaria, Columbia, Panama, Venezuela, Singapore and Australia.

Reuter reports that a Dutch trade delegation of 25 senior ministry officials and company representatives will visit SA from June 22 to 29 to explore investment opportunities, the Dutch Economic Affairs ministry said yesterday.

The delegation will meet Finance Minister Barend du Plessis and other senior politicians.



AWARDS DINNER: Guests at the dinner, from left: Mr Brian Setterfield, SANS; Mrs Vera Setterfield; Mr Mike Hankinson, Romatex and Mrs Dee Hankinson.

74 Argus 6/6/91

Winning engineering firm making inroads overseas

Business Staff

CONSANI Engineering, winner of the Weekend Argus/Cape Chamber of Industries Western Cape Exporter of the Year Competition, is no stranger to the world of accolades for its export achievements.

Last year the Elsie River-based company won the coveted State President's Award for Export Achievement.

Now part of Genrec, the firm was founded in 1928 by Italian Mr Adriano Consani.

Today Consani has cornered more than 20 percent of the lucrative world ISO tank container market and has created the largest production facility of its kind in the world to produce the products.

Exports account for about 60 percent of Consani's overall turnover after regular growth in recent years.

In charge of exports is divisional director Mr Gerald Greybe.

He said Consani now had the production capacity to manufacture 1 200 ISO tank containers each year.

Consani first started making the containers under licence from a German company, but soon saw the potential of making more money on its own.

"We looked at other possible licencing agreements but they all limited us to this territory. So we came up with our own design and began manufacturing," Mr Greybe said.

Consani is the only company in the world manufacturing the containers entirely on its premises, from design to final completion.

A Paris office was established to direct European and US export sales, and Consani now domi-

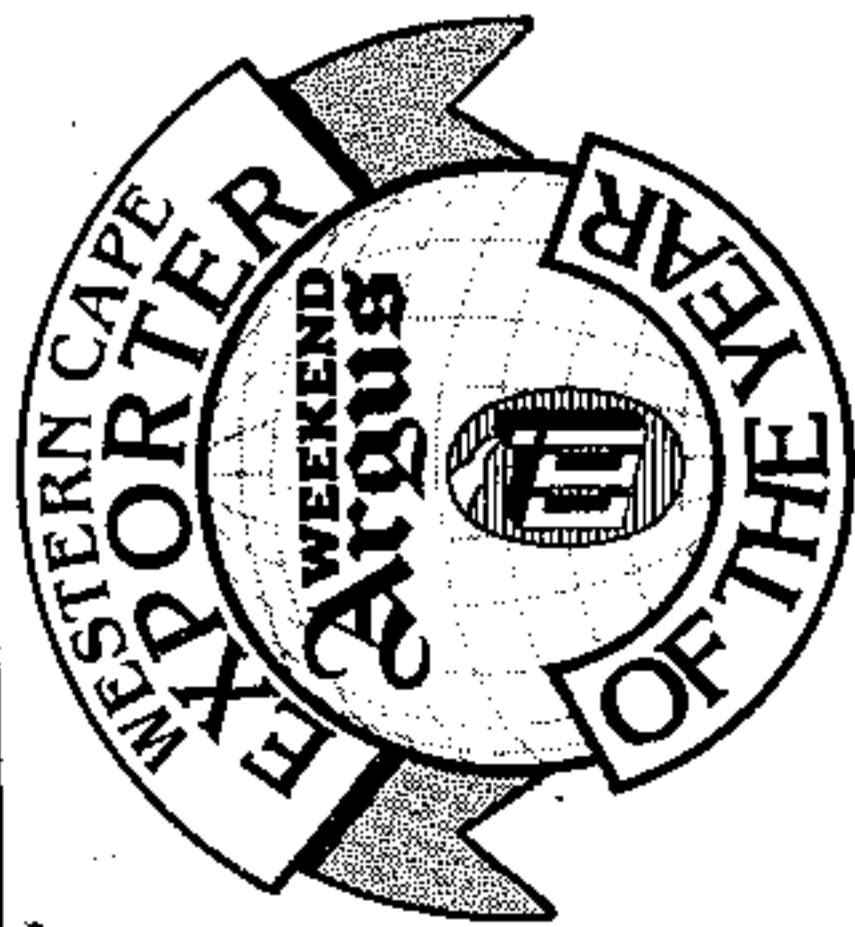
nates the US market and has made significant inroads into the Eastern Bloch countries, including Russia.

Consani managing director Mr Ian Bell said: "Our export drive began in earnest in 1984. Management then had the foresight to get into the overseas market. We have been very successful and are currently considering other products for export."

Consani also makes fermentation vessels for SAB, wine tanks, pressure vessels and bulk tanks. The company also handled major contracts for pressure vessels at Moss gas.

Quality and timing are paramount in the highly competitive market and Consani has an enviable reputation for both.

Mr Greybe spends months overseas each year, and completed Consani's competition entry on a plane.



74

ARGUS 6/6/91

Elsies River firm wins export achievement award

Minister says South Africa 'is on the brink of a boom'

By BLAISE HOPKINSON, Business Staff

THE Weekend Argus/Cape Chamber of Industries Exporter of the Year award was won last night by Elsies River-based Consani Engineering for its outstanding export achievements.

Dr Org Marais, Minister of Trade, Industry and Tourism, presented the award to Consani's managing director, Mr Ian Bell, at a banquet at the Mount Nelson Hotel.

Urging guests to seek greater export excellence, Dr Marais said: 'Be competitive. It doesn't matter if we have upheavals and political disasters. If you are competitive you can survive.'

He said his department was working on a new export strategy which would be announced next week.

Dr Marais said he believed the country was on the brink of a boom

and urged exporters to take advantage of the steps taken by government to have South Africa accepted back on to the world stage.

"We have done our bit. Now we want you to utilise what has opened up for you, in Africa, in the Far East," Dr Marais said.

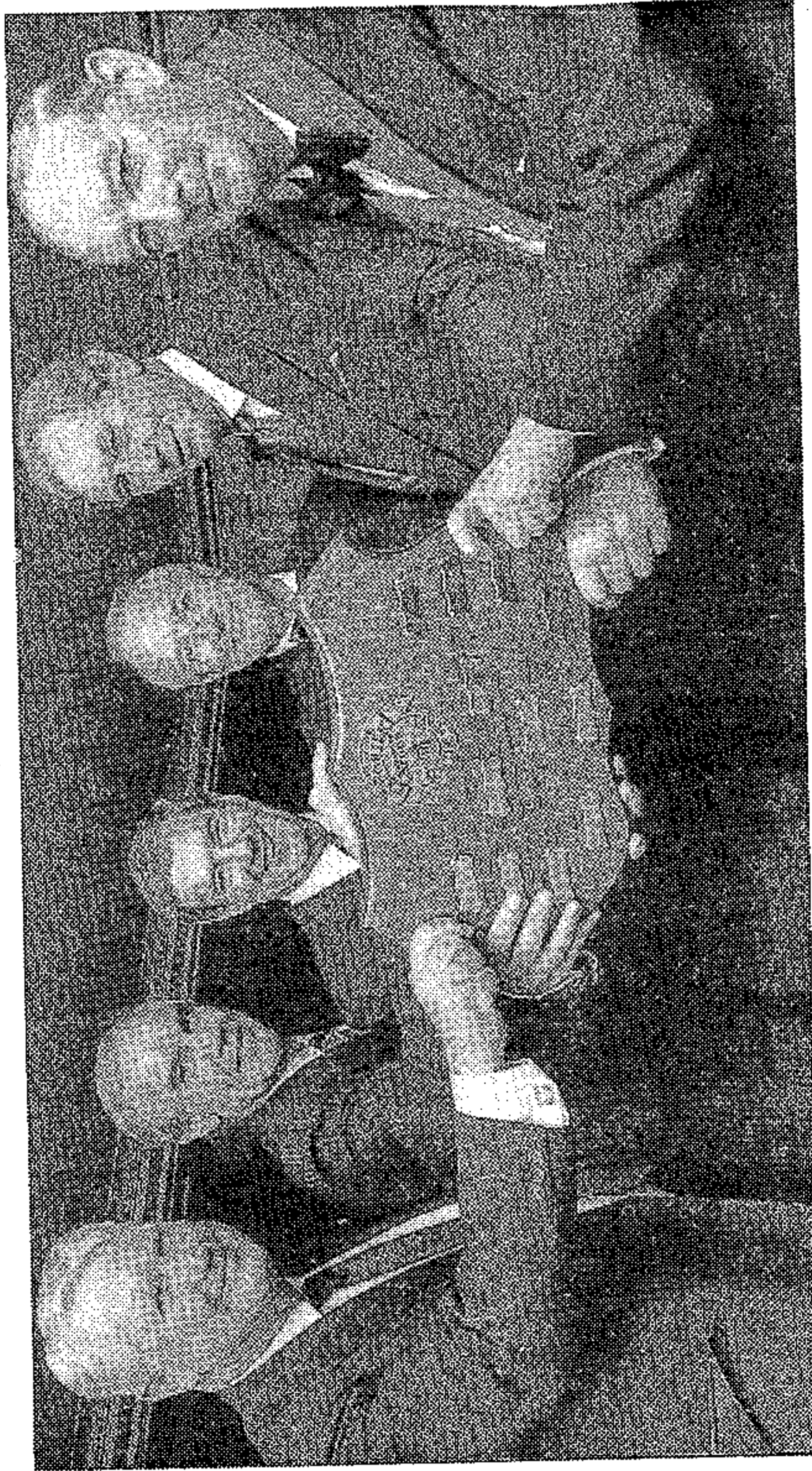
Keynote speaker was Barlows chairman and chief executive Mr Warren Clewlow.

Argus managing editor Mr Leon Marshall quipped that the minister should receive the award on behalf of the government.

"The minister should receive the award because it is the style of politics we are exporting that has enabled us to again have our goods on the shop shelves of the world," Mr Marshall said.

About 200 people attended the banquet.

CCI president Mr Ernest Wilson said the award would become an annual event.



BEHIND THE SHIELD: At the Weekend Argus/Cape Chamber of Industries Exporter of the Year awards last night were, from left: Mr Colin McCarthy, executive director, CCI; Mr Leon Marshall, managing editor, The Argus; Dr Org Marais, minister of Trade and Industry; Mr Ian Bell, managing director of Consani Engineering, winners of the award; Mr Warren Clewlow, chairman of Barlows and Mr Ernest Wilson.

China, South Africa joining trade hands

By Sven Lünsche *Star* 6/6/91

Beijing

(74)

The first step has been taken in the establishment of trade links between the People's Republic of China and South Africa.

The SA Foreign Trade Association (Safto) said yesterday that a trade mission visited China in March and had official discussions with various government ministries in

The People's Republic acknowledged for the first time last week that it had established official contact with South African non-government organisations.

Safto manager (Asia and Australia), Graham Limerick, who led the delegation of eight businessmen, said yesterday the People's Republic's attitude towards trade

links with SA was slowly changing.

"They are falling in line with other Asian countries, which are slowly beginning to lift sanctions, rather than waiting for the US to take the lead," he said.

"South Africa has a lot to offer China in terms of technology and raw materials, while SA is a strong market for Chinese goods."

Textile exports up 70%

Bigger rise seen as markets open for SA manufacturers

By AUDREY D'ANGELO
Business Editor

SA's textile industry is struggling in the recession with major manufacturers reporting disappointing results and appealing to the government for protection against fabric imports.

Yet the Textile Federation reports an impressive rise in manufactured textile exports in 1990. They rose by more than 70% to a total of R432m.

Yarns made up 49% of total textile exports and fabrics 26%. The figure does not include agricultural fibre exports.

The federation expects the rise to be even bigger by the end of this year.

"Early indications are that this rise could be sustained in 1991 as more overseas markets are likely to open up to SA manufacturers," Brian Brink, director of

the federation, said in a telephone interview yesterday.

"The US has not yet lifted sanctions against imports of SA textiles and clothing but indications are that this is likely to happen in the fourth quarter of this year."

Brink said the recession in SA was encouraging textile manufacturers to become more export-orientated.

Although they could not compete with mass produced products from Red China and other countries where manufacturers' costs were lower, they could find specialised niche markets overseas.

"More SA textile firms are getting into the export market. An export culture is starting to take hold. It is true that there is an economic downturn in most world markets, but they are beginning to recover."

Asked to explain the apparent contradiction between export success and difficulties at home, Brink said the rise in

exports did not compensate SA textile manufacturers for lower domestic sales.

"The average volume of production of textiles declined by 16% in 1990 compared with 1989."

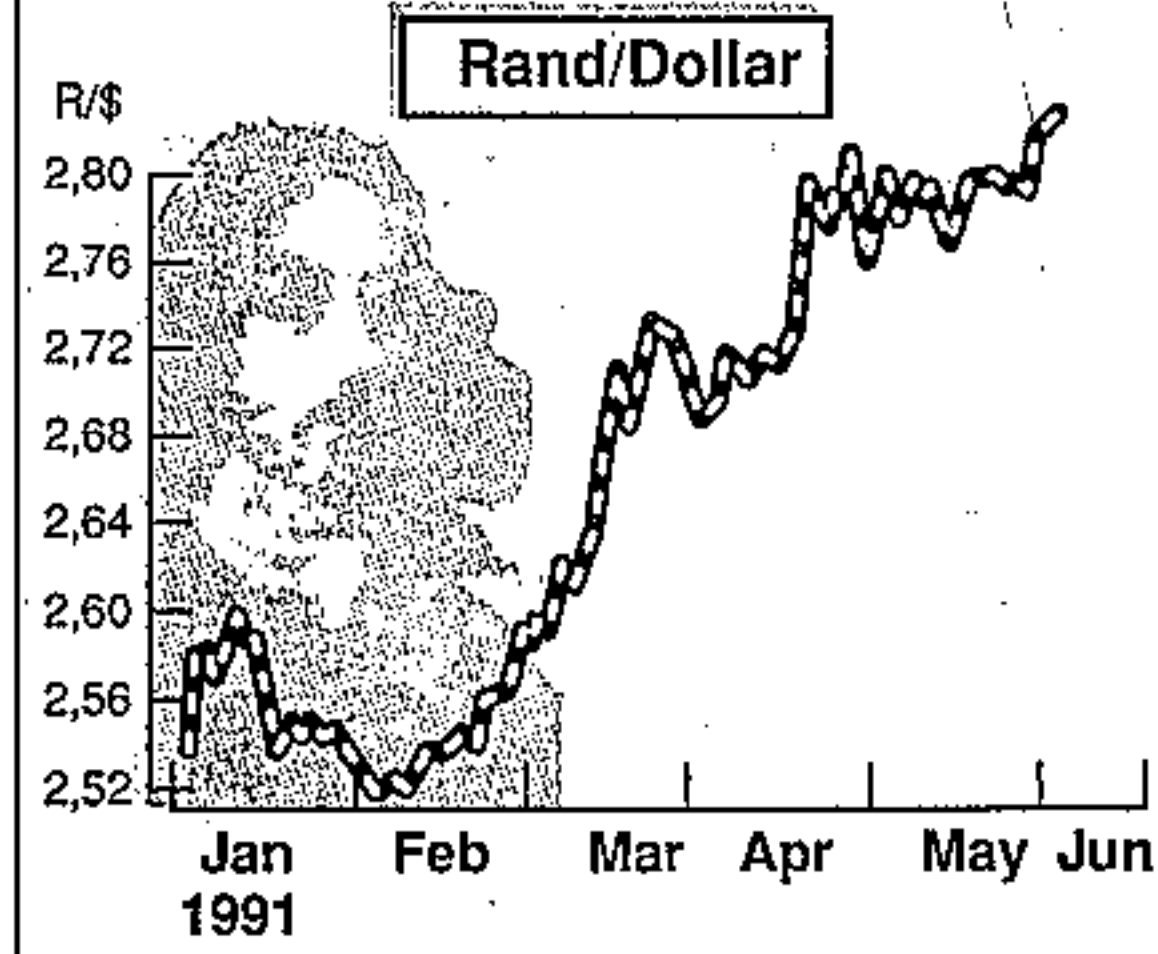
Textile production volumes were 13% lower in February than in the same month a year ago.

"The domestic market for textiles is shrinking although the volume of clothing produced by local manufacturers has increased — showing that they are using more imported fabrics," said Brink.

Brink said the present export incentive scheme, which gave larger grants to exporters of finished goods than to those of "intermediate" goods, meant that fabric producers received only a third of the grant made to exporters of clothing.

He thought this incentive scheme might be replaced in a few months by one more in line with the General Agreement on Tariff and Trade (Gatt).

~~154~~
714 b/b/a1 er



Rampant dollar ⁽⁷⁴⁾ batters reserves

SHARON WOOD

THE rampant dollar put SA's foreign exchange reserves under pressure by creating adverse leads and lags in foreign payments, Reserve Bank foreign exchange GM James Cross said yesterday

Leads and lags arise when importers speed up payments while exporters delay them — both in anticipation of a weakening rand. The rand has shed 10% against the dollar this year.

SA's foreign exchange reserves shed R294m in April in spite of a healthy trade surplus.

Cross said technical factors relating to the stronger dollar — adverse leads and lags in trade finance — had combined with foreign debt payments to prevent a strengthening in reserves during that month. *Blpaw 6/6/91*

"If the dollar had stayed at the levels it achieved earlier this year the picture would have looked very different," he said.

The strong dollar had also adversely affected the Bank's forward cover book.

But Cross was optimistic that easing foreign debt obligations for the rest of the year would boost foreign exchange reserves. He said reserves rose again in May and, barring political problems, reserves would continue to strengthen during the year. Foreign reserve figures are due for release tomorrow.

The repayment of debt would set re-

To Page 2

Reserves ⁽⁷⁴⁾ *Blpaw 6/6/91*

...serves back one month, but not many debt repayments outside the debt standstill arrangement would occur from July to December, he added.

Under the third interim debt arrangement, SA is expected to repay, in eight equal instalments, \$1,5bn of debt which now lies inside the net. Debt inside the net is repayed in February and August.

Cross said there had been a lot of debt rollovers in the first five months of the

From Page 1

year, but declined to be specific. About \$1,4bn of foreign debt falls due this year.

Large rollovers of SA debt need to be secured to relieve the pressure of debt repayments on the balance of payments. The current account is expected to be considerably lower this year, between R3bn and R4bn compared to last year's R5,79bn, and thus will not contribute substantially to foreign reserves.



Exports offset mineral losses

By BLAISE HOPKINSON
Business Staff

74 ARGUS
6/6/91

THE growth of manufactured exports from South Africa has largely offset the decline in income from gold and other mineral sales and enabled the country to maintain a positive balance of payments.

Barlows chairman, Mr Warren Clewlow, said last night exports were a vital component of the national economic strategy.

At the awards dinner for the Weekend Argus/Cape Chamber of Industries Western Cape Exporter of the Year competition, Mr Clewlow said exporters had kept the lines of communication and technology open.

"It has been exporters who, in the face of sanctions, have searched for and found new markets and new applications for their products," he said.

The normalising of relationships, especially in Africa, had been among the best news lately.

"As a starter, an economic alliance between South Africa and Angola could be a powerful factor in the sub-continent."

However, he added: "Whether we like it or not, it is a reality that many South African markets are protected either formally through tariffs and duties or informally by virtue of long distances from suppliers and by being, in world terms, relatively small."

He warned it was possible for manufacturers in a country like South Africa to fall into the trap of setting standards of quality, cost and service at a level which would be tolerated by the local market.

"The problem is that we have been living behind something of an artificial wall in this country.

"Our geographical, political and, to a certain extent, our economic isolation has left our domestic markets relatively secure from the cut and thrust of world trade."

Quality and costs also had to be competitive in world terms.

He said it was good news that South Africa would be readmitted into the world trading family and that economic, financial and other restrictions would soon be lifted.



economic, financial and other restrictions would soon be lifted.

"It offers great opportunities for us. The bad news is that while we have been on the edge of that world community of nations, they have been forging ahead economically and the world out there is substantially different to the world 10 to 15 years ago."

"I don't believe that cutting ourselves off is a viable operation for the future. There are too many examples north of us in Africa and also in Europe and parts of South America which show that economic isolationism in order to build domestic industry and market is a sure medium for long-term disaster."

He said there was a major and urgent need for measures to promote domestic industry and, in particular, industry which created jobs made a dent in unemployment and distributed wealth more widely.

No one should doubt the catastrophic consequences of ignoring the needs of the poor and those who would work but could find no opportunities or who were ill-equipped to take a role in the wealth-creation process.

Mr Clewlow said the Western Cape had long been the home of industries which were world players, both in agriculture and manufacturing.

"You have your own sets of advantages, disadvantages, challenges and opportunities to deal with. Perhaps you are more aware than most of how well trade is going — with Cape Town being a port, the number of ships in the harbour is always a clear indication of just how much activity is going on."

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

Budget: deficit before loans

52. Dr W J BOTHA asked the Minister of Finance:†

- (1) What was the last financial year in which there was no deficit before loans in the budget;
- (2) (a) how large was the deficit before loans for each financial year since the financial year referred to in paragraph (1) above

and (b) what percentage did each such deficit represent of the (i) State Revenue Account and (ii) gross domestic product of the financial year concerned?

B75E

The MINISTER OF FINANCE:

During the 1976/77 financial year, the separate revenue, loans and Black Education Accounts were replaced by the present single State Revenue Account. In addition the SWA Account lapsed in 1979/80 and was replaced by a transfer which was deposited in the Central Revenue Fund of SWA.

As a result of the above-mentioned changes, the deficit before borrowing (as presently calculated) is not strictly comparable with previous periods. However, the Department published series of comparable figures in the Statistical/Economic Reviews (1983/84 to 1990/91). The following calculations are derived therefrom.

	Total actual expenditure ¹⁾	Total actual expenditure ²⁾	Deficit before borrowing	Deficit as % of total expenditure	Deficit as % of total GDP
	Rm	Rm	Rm		
1973/74	4 405,4	4 058,8	346,6	7,9%	1,6%
1974/75	5 500,9	4 817,0	683,9	12,4%	2,7%
1975/76	6 803,4	5 486,3	1 317,1	19,4%	4,7%
1976/77	8 244,6	6 357,0	1 887,6	22,9%	6,0%
1977/78	8 960,5	7 016,4	1 944,1	21,7%	5,5%
1978/79	9 955,3	8 138,4	1 816,9	18,3%	4,4%
1979/80	11 441,0	9 787,5	1 653,5	14,5%	3,3%
1980/81	13 595,4	13 310,3	285,1	2,1%	0,5%
1981/82	16 431,3	14 416,3	2 015,0	12,3%	2,8%
1982/83	19 183,0	17 173,0	2 010,0	10,5%	2,4%
1983/84	22 316,8	19 087,7	3 229,1	14,5%	3,4%
1984/85	27 130,0	23 425,9	3 704,1	13,7%	3,3%
1985/86	32 908,4	29 320,1	3 588,3	10,9%	2,8%
1986/87	40 247,4	34 135,9	6 111,5	15,2%	4,1%
1987/88	47 449,8	37 892,5	9 557,3	20,1%	5,6%
1988/89	55 926,7	48 071,4	7 855,3	14,0%	3,8%
1989/90	65 517,4	61 101,3	4 416,1	6,7%	1,8%
1990/91*	74 730,6	67 379,5	7 351,1	9,8%	2,7%

Sources: Statistical/Economic Review 1983/84 to 1990/91

Budget Review, 20 March 1991

- 1) Excluding discount on sale of new stock.
 - 2) Excluding loan levy, revenue for standing allocations, transfers from reserve accounts and privatisation income.
- * Revised estimate

Toys from the Far East: importation figures

365. Mr D G H NOLTE asked the Minister of Finance:†

- (1) What did the importation of toys from the Far East amount to in each of the latest specified three financial years for which figures are available;
- (2) whether the Government, with a view to preventing foreign exchange losses as a result of the importation of toys of poor quality, is exercising control over the quality of imported toys; if not, why not; if so, what control?

B975E

The MINISTER OF FINANCE:

- (1) The following statistics are in respect of calendar years since they are not available for financial years.

1988 —	R49 845 714
1989 —	R44 157 192
1990 —	R53 263 965

- (2) No. Neither legislation nor any other provisions exist according to which the Department of Finance or the Reserve Bank can enforce quality control measures on such goods.

Toll roads/shares in toll-road companies: investments

385. Adv M J MENTZ asked the Minister of Finance:†

- Whether any (a) insurance companies and/or (b) other institutions have been granted permission to invest in toll roads or shares in toll-road companies; if so, (i) which (aa) insurance companies and (bb) other institutions and (ii) to what percentages of (aa) income from premiums and/or (bb) cash surpluses, in each case?

B1017E

The MINISTER OF FINANCE:

- (a) and (b) No.
- (i) and (ii) Fall away.

Commuters transported from Qwaqwa: subsidies

396. Mr J J WALSH asked the Minister of Transport:

- (1) What total amount was paid out in subsidies to companies transporting commuters between (a) Qwaqwa and Harrismith, (b) Qwaqwa and Bethlehem, (c) Qwaqwa and the Orange Free State Goldfields, (d) Qwaqwa and Kroonstad and (e) Qwaqwa and the PWV area in respect of the 1984-85, 1987-88 and 1989-90 financial years, respectively;

- (2) how many commuters were involved in each of these financial years?

B1025E

The MINISTER OF TRANSPORT:

- (1) Bus Companies *per se* are not granted any subsidies, however the total subsidy amounts which have been paid during the relevant financial years with regard to commuters, between the relevant places, are as follows:

(a) Qwaqwa and Harrismith —

Financial year	Subsidy amount
1984/85	R1 736 752,87
1987/88	R3 490 952,54
1989/90	R3 561 039,10

(b) Qwaqwa and Bethlehem —

Financial year	Subsidy amount
1984/85	R 76 618,50
1987/88	R 203 036,30
1989/90	R 195 136,85

(c) Qwaqwa and the Orange Free State Goldfields—None.

(d) Qwaqwa and Kroonstad—None.

(e) Qwaqwa and the PWV area—None.

August 1 sewerage by 10% and removal by 15,8%.
Additional revenue from rates would be R40,1m and total rates revenue R198,9m.
The deficit budgeted for amounted to

13 381 council posts, while in the new financial year the figure would be 13 347 — a decrease of 34 posts during 20 years of phenomenal growth in Pretoria.

FOSCHINI LIMITED

(Reg. No. 05/10893/07)
(Incorporated in the Republic of South Africa)

NOTICE TO HOLDERS OF 11% UNSECURED DEBENTURES 1993/1997 OF R1,00 EACH

Interest Payment No. 23

NOTICE IS HEREBY GIVEN that interest payment number 23 at the rate of 5,5 cents per debenture has been declared payable to all debenture holders registered in the books of the Company as at close of business on 21 June 1991.

Cheques in payment of the interest will be posted on or about the 28 June 1991.

By Order of the Board

7 June 1991

S. LEWIS
Chairman

Transfer Office
Mercantile Registrars Limited
94 President Street
6th Floor
Johannesburg 2001

Registered Office
12th Floor
Shell House
9 Riebeeck Street
Cape Town
8001

Enigma

Aid possible for some exporters

8/06/91
7/6/91
THE Department of Trade and Industry was prepared to study the need for individual export assistance schemes for specific service sectors, it was announced yesterday (7/6/91).

This follows the withdrawal on March 31 of the marketing allowance, known as the Category B export incentive scheme.

Individual export service sectors which have problems performing without government assistance should approach the DTI before the end of July or they will be deemed to have no need for assistance under any incentive scheme.
— Sapa.

Lower import costs see producer price rises ease

By Sven Lünsche

Star
7/6/91

Producer price inflation fell further in April as the cost of imported goods and fuel products continued to decline.

The Central Statistical Service reported yesterday that the annual rate of increase in the Producer Price Index (PPI) fell to 13,8 percent in April, compared with a 14,5 percent rise from March 1990 to March this year.

On a monthly basis, the PPI rose by a seasonally adjusted 0,4 percent from March to April this year.

The declining cost of imported producer goods contributed significantly to the slower rate of increase, reflecting the recent steady performance of the rand against a basket of major foreign

currencies.

The PPI for imported commodities rose by a year-on-year 7,6 percent in April (March: 8,3 percent). But more encouraging was the one percent monthly decline reported by the CSS.

There were some significant monthly falls in the price of locally produced goods, notably a 3,8 percent drop in the price index of petroleum and coal products.

However, in a trend that does not bode well for a drop in consumer inflation, food and agricultural products showed large monthly increases of six percent and 6,1 percent respectively.

On balance, the PPI for locally produced commodities showed a rate of increase of 15,2 percent in April, 0,7 percent down on the corresponding rate in March.

(24) 74

SANCTIONS FM 7/6/91

BEHIND THE WORDS

While Africa's leaders — many of them dictators — insisted at the OAU summit in Nigeria this week that sanctions be maintained against SA until a democracy is established, their citizens back home went shopping as usual to buy SA goods.

The value of SA's direct exports to Africa (excluding Botswana, Lesotho, Swaziland and Namibia) last year was just over R4bn, an increase of 30% on 1989, according to a

Continue →

FM 7/6/91

reliable source involved in trade with the continent.

The true figure could be closer to R5,5bn, because a considerable volume of goods destined for Africa is channelled through third countries. Other indirect business and the value of services could push the total figure to between R7bn and R10bn.

Based on the figure of R4bn, nearly 10% of SA's non-gold exports went to Africa last year — and 8% went to the US. The corresponding figures for 1988 were 8% and 13%, respectively.

Around 25% of SA's manufactured exports are sold into Africa. They include steel, domestic appliances, building materials, paper products and processed foodstuffs. The value of SA's imports from Africa — excluding Botswana, Swaziland, Lesotho and Namibia — decreased marginally from R715m in 1989 to R713m last year, which is about 2% of total imports.

With the exception of Zimbabwe, from which SA imports a wide range of goods, imports from Africa are mainly primary products such as tea, tobacco, cotton and base metals.

In terms of a Cabinet decision, Pretoria does not disclose the value or volume of trade between SA and individual countries. However, apart from the four Customs Union partners, SA's main customers in Africa are, in order of importance based on the value of

imports: Zimbabwe, Zambia, Zaire, Mozambique, Malawi, Mauritius, Reunion, Morocco, Ivory Coast and the Seychelles.

SA's main suppliers in Africa according to value of imports are: Zimbabwe (62% of the total by value), Malawi (11%), the Ivory Coast (6%), Mozambique (4%) and Zaire (3%).

Last year just over 25% of SA's total exports to Africa went to Zimbabwe (whose president, Robert Mugabe, is one of SA's staunchest critics on the continent), 12% to Zambia, 11% to Zaire, 10% to Mozambique, 9% to Malawi and 7% to Mauritius.

Only Equatorial Guinea and Djibouti did not trade directly with SA last year (though both did trade with SA in the previous financial year).

Direct trade with North African states increased by 14% to R115m, and is expected to increase even further with the opening this year of a SA office in Rabat, Morocco. ■

Business confidence improves

et 7/6/91

Financial Editor

THE further rise of nearly 1% in the Business Confidence Index (BCI) in May confirms that business confidence has stabilised, at least for the time being, the SA Chamber of Business (Sacob) says in its latest BCI report released yesterday.

Sacob says the improvement is attributable to factors such as the view among many businessmen that the end of the current economic downswing is in sight and that an upturn can be expected by 1992.

There has also been a positive response from the business community to the continuing normalisation of SA's external economic relations and the renewed interest abroad in the SA economy.

Another factor is the willingness of many investors to look beyond the current problems of violence and political uncertainty to the future potential of the country.

Evidence of this is the strong performance of industrial shares on the Johannesburg Stock Exchange.

Sacob notes that trade and other relations with SA are being re-established in spite of the opposition of some of the black political organisations.

Nevertheless, there is a widespread belief among economists that a continued export surge in the coming months could provide the boost for the economic growth which is expected to occur towards the end of the year.

The negative side of the foreign trade picture is to be found in the fact that imports showed a similar tendency to increase which means that the much-needed improvement in gold and foreign exchange reserves has not

been realised, says Sacob.

The present surge in imports, however, could be an indication of inventory replenishment because of depletion which took place in the immediate past.

These specifics need to be evaluated against the broad economic background which is characterised by continued high price increases at all levels sustaining the inflation rate at levels above 14%.

Also a need for stringent monetary policy and levels of government expenditure which are in danger of resulting in more relaxed rather than a restrictive fiscal policy approach necessitated by the present state of the economy.

Sacob notes that the economies of SA's main trading partners are also struggling to emerge from severe recessionary conditions.

Inflationary conditions in these countries call for high interest rates which are keeping the gold price down at uncomfortable levels for the SA gold industry.

Although the official unemployment figures in SA show an improvement, narrative evidence tends to prove the opposite.

The overall performance of manufacturing production also provides reason for concern, says Sacob.

Sacob warns that the slight increase in the BCI may yet prove to be a false start, especially by the number of the remaining uncertainties which influence business confidence in SA.

Continued violence and the threat this holds for the transformation process, lack of clear-cut action with the VAT introduction process and the continued recession in the rest of the world may play a role in this regard.

Zim asks for new trade deal with SA

74
3/2
CT 7/6/97

HARARE. — Zimbabwe has formally requested a revision of the 27-year trade agreement with South Africa, official sources confirmed yesterday.

The request for a change to the agreement was presented by the Zimbabwe Ministry of Industry and Commerce to the South African Trade Mission here on May 29, they said.

The agreement provides for low import tariffs on goods moving between the two countries, conferring "most favoured nation" status on each partner.

The sources were confirming a claim by South African Foreign Minister Mr Pik Botha, broadcast by the BBC on Thursday, that the request coincided with the submission by the Zimbabwe delegation at the Organisation of African Unity summit in Abuja,

Nigeria, of a hardline draft calling for the maintenance of sanctions against South Africa.

The draft also slated unnamed African countries for proposing that sanctions were no longer effective and should be lifted. It was significantly weakened when it was passed in the summit's plenary session.

The agreement was first implemented between South Africa and the Rhodesian government in 1964, and renegotiated without amendment with the Zimbabwe government in 1982.

Observers here are dismayed that Mr Mugabe chose to take the lead at the OAU summit in putting pressure on countries such as Madagascar, Kenya and Zambia, which are on the point of opening South African missions, when Zimbabwe itself has a long-established and obviously thriving South African presence. — Sapa

Pro-sanctions Harare seeks new SA trade pact

74
Biday 7/6/91

HARARE — There was an embarrassed silence yesterday from Zimbabwean President Robert Mugabe's government over SA Foreign Minister Pik Botha's claim that it is asking for "most favoured nation" status in a renewed trade pact with Pretoria.

Botha said in a BBC interview monitored here yesterday that on the same day Mugabe put his militant resolution on sanctions before the Organisation of African Unity (OAU) summit in Abuja, Zimbabwe approached Pretoria to renegotiate the 1964 trade agreement inherited from Ian Smith's Rhodesian government.

Confirming that the approach was made by the Zimbabwean Industry and Commerce Ministry on May 30, business sources in Harare said Zimbabwean industrialists were anxious to see the 1964 agreement updated.

Some tariff rebated scales had been rendered unrealistic by inflation, and new commodities needed to be included.

Trade between Zimbabwe and SA last year topped R1bn with SA remaining by far the most profitable market for Zimbabwean exports, although Britain and Germany edged it into third place as a source of imports.

SA recently streamlined visa procedures for Zimbabwean businessmen in a goodwill gesture towards Zimbabwe's economic liberalisation drive. Nevertheless

MICHAEL HARTNACK

black-market "shoppers" yesterday maintained the customary 200m queue for visas on the pavement outside the SA trade mission in Harare.

Observers here are dismayed that Mugabe chose to take the lead at Abuja in putting pressure on countries such as Madagascar, Kenya and Zambia, which are on the point of opening SA missions, when Zimbabwe itself has a long established and obviously thriving SA presence.

Export

Written requests for comment on Botha's remarks were made to Mugabe's office, to the Zimbabwean Foreign Affairs Ministry, and to the Industry and Commerce Ministry. There was no response.

The 1964 trade agreement, re-promulgated word for word in a Zimbabwean government notice in 1982, specifically uses the term "most favoured nation" in referring to tariff rates the two countries will apply to a schedule of each other's exports.

Zimbabwean textiles are a particularly important export directed at the SA market.

Mugabe's militant resolution on continued isolation of SA was, in the event, toned down by his Nigerian hosts.

Outlook brightens as rand gold price nears record high

Star 10/6/91.

By Derek Tommey

Prospects are starting to brighten for the troubled gold mining industry.

As a result of a strongly resurgent dollar, the desperately needed increase in the gold price seems to be happening.

But gold mining companies are not the only ones to gain from a strong dollar.

Many other exports, including coal, diamonds, platinum, iron ore, manganese, ferro-alloys and copper, are traded in dollars.

The result is that their producers are benefiting handsomely from a better exchange rate.

Although the dollar price of gold has firmed only a little, the rand gold price — which is what the mines are paid in — is at its highest sustained level for more than a year.

After falling to a three-year low of R909 an ounce in February, it had recovered to R1044 by the weekend.

This is a gain of almost 15 percent and suggests that this quarter's gold price could be the highest for more than a year.

The price of R1044 is not a record in rand terms. It has another R30 to go to qualify for that accolade.

But at its present price it makes the difference at many mines between profit and loss.

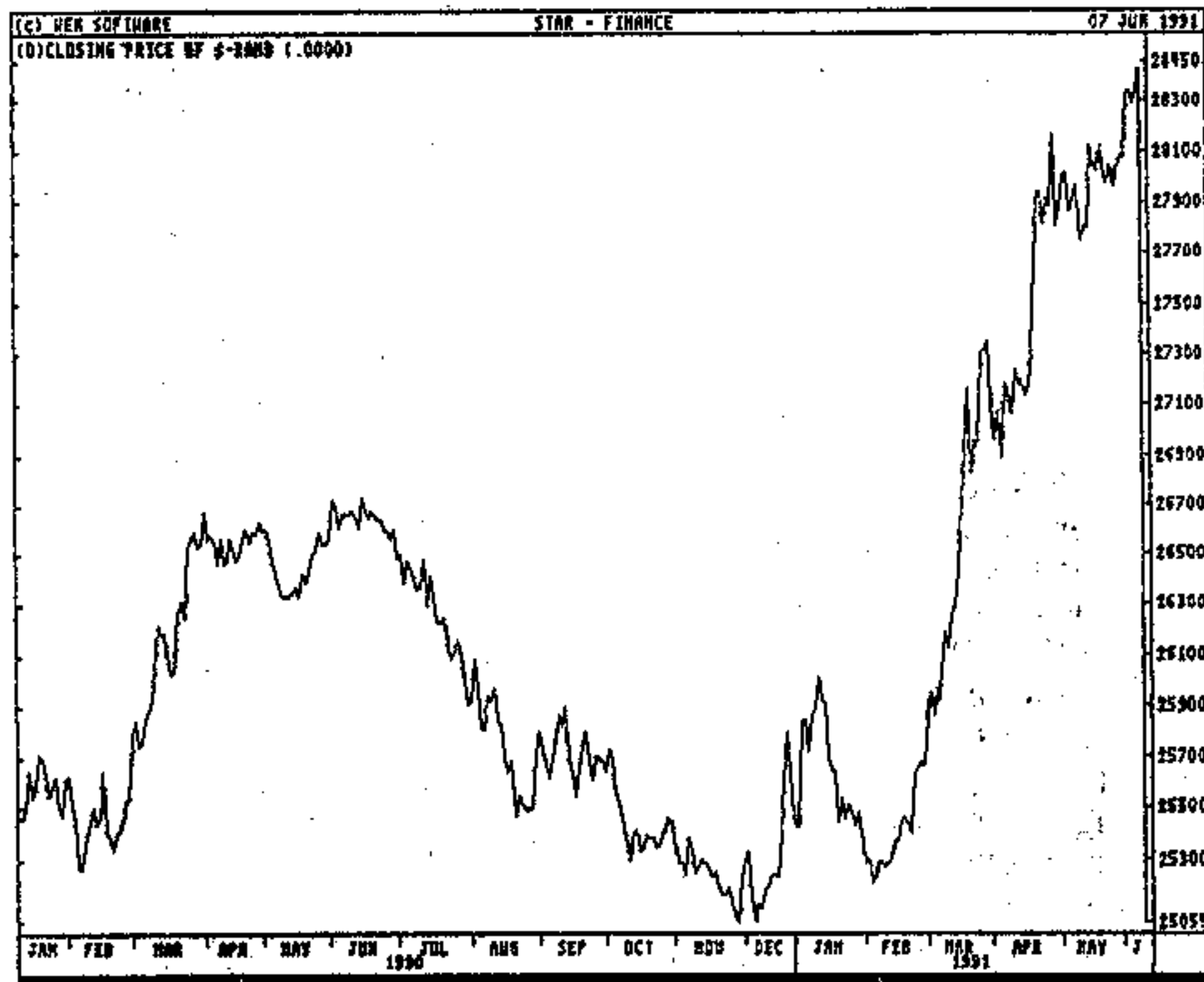
The average gold price so far this quarter has been just under R1000, which is 4,3 percent above the the March quarter average of R958.

Last December the average price was R962. In the September quarter (helped by the Gulf crisis) it was R990 and R970 in the June quarter.

One has to go back to the March quarter last year when it was R1045 to find a higher price than is likely this quarter.

The main factor for the rise in price has been the 11 percent jump in the exchange rate of the dollar against the rand since last December. A small rise in the dollar gold price since February accounted for the balance of the improvement.

The increase in the gold price



The jump in the dollar against the rand since February

makes a difference to a number of mines, especially those which have been taking active steps to cut costs.

The working costs and capital expenditure of Freegold, the world's largest gold mine, last quarter totalled R988 and the mine had a loss after capital expenditure of R32 an ounce, according to figures compiled by brokers Davis Borkum Hare.

If the gold price remains where it is, Freegold has a good chance of moving into the black after capital expenditure this quarter and doing even better next quarter.

Unfortunately, one cannot just use working costs to determine a mine's profitability. It is also necessary to include capital expenditure because without it a mine cannot continue to operate.

Rand Mines' problematical mine, ERPM, had working costs last quarter of R1012 an ounce. Capital expenditure absorbed another R51 a ton.

It now seems possible that this quarter ERPM could cover its working costs — and even its capital expenditure next quarter, should there no change in the gold price.

Western Areas is another important beneficiary of the improved price. Its total costs last quarter were R1007 an ounce. Clearly, with a slight cut in costs,

it could be showing profits this quarter.

Blyvooruitzicht is another mine which a higher gold price and a small reduction in costs could make profitable.

Working costs last quarter were R1029 an ounce, while capital expenditure took a further R8, resulting in total costs of R1037 an ounce.

If Blyvoors does not break even this quarter it might have a good chance to do so next quarter.

Libanon, with working costs of R975 an ounce and capital expenditure of R33 an ounce — a total of R1008 — also seems likely to be in the black.

However, even at the higher price, major mines are still likely to report losses this quarter.

They include Doornfontein, which had working costs of R1096 last quarter, Loraine (R1159), Harmony (R1227 — though costs should be sharply lower), Stilfontein (R1238) and Ventersdorp (R1147).

Joel, a mine being developed in the Free State, had working costs last quarter of R1220 an ounce and incurred capital expenditure equal to R268 an ounce to show a loss of R501 an ounce.

But the higher price and increased production could make a considerable difference to this quarter's profit-and-loss figures.

German demand for SA coal surges

275 74 ca 10/6/91

Own Correspondent

JOHANNESBURG. — SA's coal exports to Germany and to Belgium shot up by 76% and 42% respectively in 1990, as exports to the EC as a whole rose 16%, the Netherlands-based Shipping Research Bureau (SRB) said in its latest quarterly report.

However, although EC sanctions were lifted earlier this year, analysts last week repeated their warning that the immediate prospects for SA coal exports were less than rosy.

The research bureau said German demand for SA coal had been fuelled by increased power-station usage combined with lower local production and longer than expected shut-downs at nuclear power stations.

But the report described the 23% hike in Dutch use of SA exports as "mysterious", given public statements last year from local utilities that they did not intend to use SA coal.

The bureau said the Dutch might have re-exported the coal as "Dutch coal" to France and Britain whose power utilities had also boycotted SA coal.

The bureau said SA's exports to the EC rose from 21m tons to 24m tons in 1990, while total exports rose 6% from 47m tons to 49m tons.

In contrast, SA exports to the Far East — a market targeted particularly by SA producers

after European sanctions were imposed — dropped in 1990, with Taiwan (5,5m tons) overtaking Japan (5m tons) as SA's largest customer in the area. Exports to Japan, Hong Kong, and South Korea, as well as to Israel and Turkey, fell.

Anglo American Coal Corporation (Amcoal) deputy MD James Campbell said at the weekend the bureau figures were too high, but reflected the general trend for SA exports in 1990.

He said the short-term opportunities for increasing SA exports to Europe and Japan were not good. Most EC buyers had placed their coal orders for 1991. Demand was static and the main option for SA producers was to take market share from competitors.

Campbell said that strategy risked a price war, which would cut into the already narrow margins, at a time when SA producers were in a phase of large scale investment in the export market. Amcoal, Trans-Natal and Witbank Colliery were spending R855m, R500m and R66m respectively on expanding production and export potential.

He said that although Japan had relaxed sanctions on SA coal imports, sanctions had cost SA the initiative in playing a role in Japan's cautious forward planning. SA producers might have to

wait until new power stations were commissioned in 1993/4 before improving their share of the Japanese market.

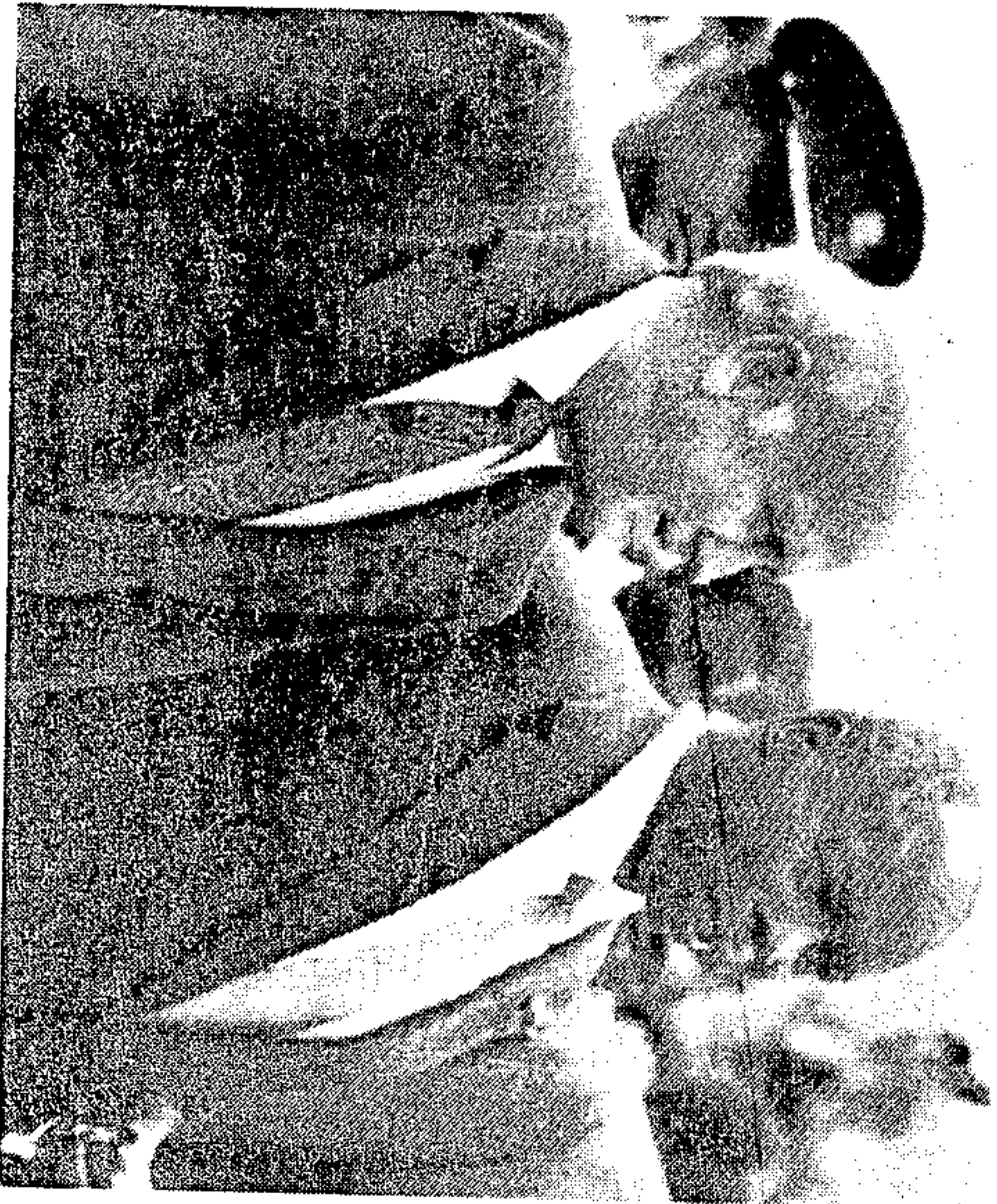
Irish & Menell Rosenberg analyst Dave Russell said yesterday several factors militated against SA coal producers sustaining the rise in exports. International supply and demand was "extremely tight".

He noted that Amcoal chairman Graham Boustred and Witbank Colliery chairman Allen Sealey had warned loudly of the dangers of flooding the market with SA coal and driving the price down.

Russell said practical problems of increasing SA exports through the Richards Bay coal terminal — whose current capacity was 48m tons with an upgrading programme to 53m tons under way — were also important.

The imposition of sanctions had put the synchronisation of raising the capacity of the terminal, the rail links and rolling-stock out of kilter with each other.

Spoornet had upgraded the railway to 63m tons capacity, in line with coal export expansion plans conceived before sanctions bit, but was yet to reap the rewards of their investments. Meanwhile, rolling stock capacity was now only 47m tons a year, with a 2m-ton increase by the end of the year.



President FW de Klerk with Kenyan President Daniel arap Moi after the South African leader arrived in Nairobi on Saturday for a two-day State visit.

FW has trade network plan

Sowetan 10/6/91.

NAIROBI - In ground-breaking talks with Kenyan leader Mr Daniel Arap Moi, South African President FW de Klerk has proposed that Africa should be divided into a network of trade blocs to obtain its share of world prosperity.

De Klerk said on Saturday after three hours of talks with Moi that South Africa, Kenya, Nigeria and Egypt could be the leaders of four interlocking trading regions that could compete against a united Europe.

Important

"We feel that we can play a constructive role in interaction with other fairly prosperous countries such as Kenya," he told reporters.

"I think it is important that we should have specific interaction with what could be described as other regional powers."

De Klerk noted that South Africa's 1990 gross domestic product of R300-billion almost equalled the R325-billion GDP of all the other 40 countries of sub-Saharan Africa.

South African Government sources have ex-

pressed increasing concern over the past year that Africa's economic decline and the opening of new markets and investment zones in Europe could cut access to aid and investment capital.

South African and Kenyan ministers of trade, industry, agriculture and energy met simultaneously on Saturday

to identify areas for potential cooperation.

"The foundation is there now," said South African Trade and Industry Minister Org Marais. "I expect things to start moving soon."

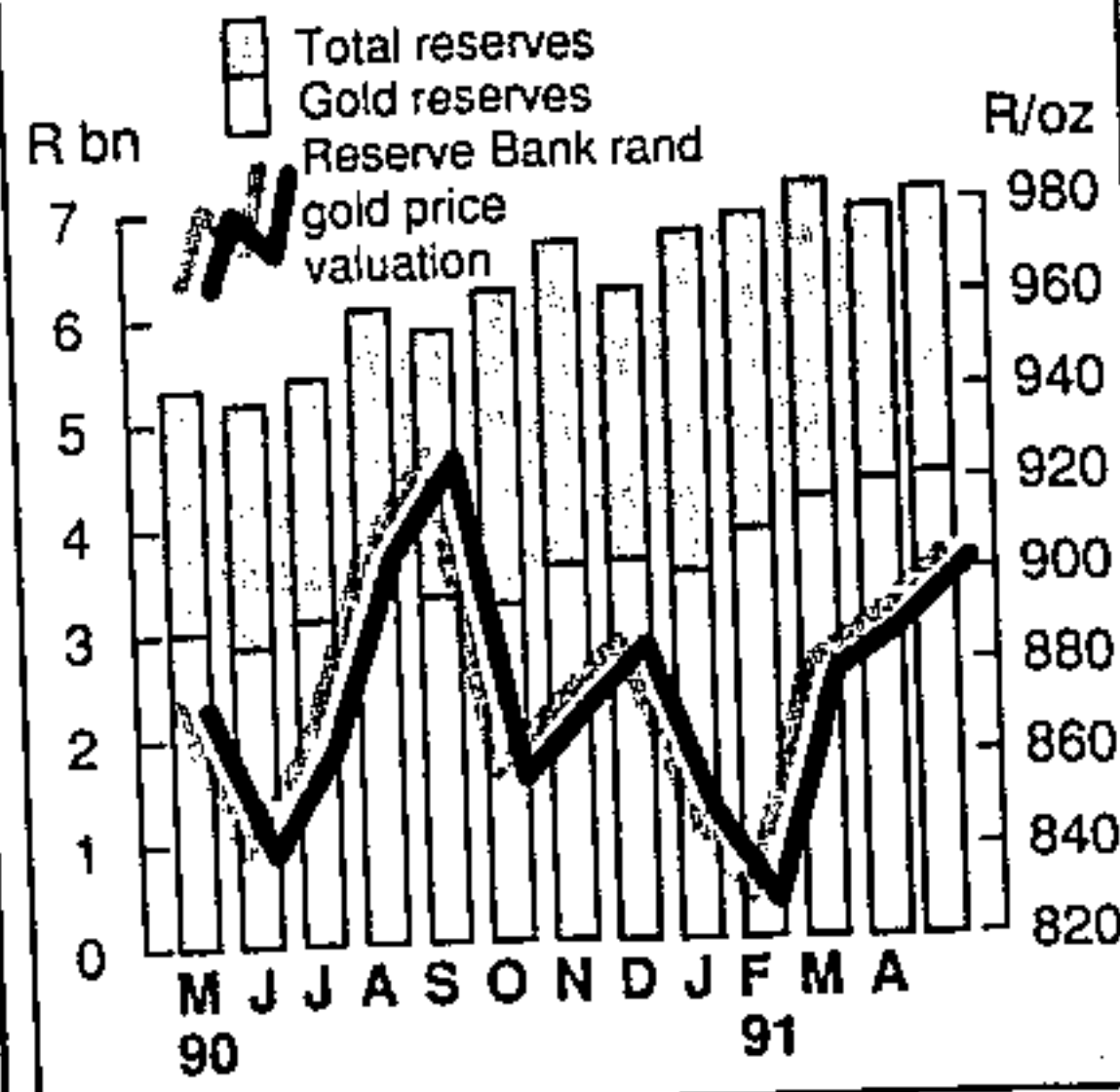
De Klerk has travelled widely in the United States, Europe and Africa since he moved to end decades of political and

economic isolation last year with a promise to end 42 years of apartheid.

But he said some powerful members of the 51-nation Organisation of African Unity had been slow to recognise the significance of the changes already made and the reforms in the pipeline.

Sapa-Reuter

Gold and forex reserves



Graphic: LEE EMERTON Source: SA RESERVE BANK

Foreign reserves rise 3,1% in May

SHARON WOOD

FIRMER foreign currency and gold reserves led to a 3,1% rise in Reserve Bank total foreign reserves in May, figures released on Friday showed.

Total reserves rose to R7,18bn from April's R6,99bn, having recovered from a temporary setback caused by the strong dollar and foreign debt payments.

The long-term trend is a slow but steady rise in reserves during the past year.

Foreign reserves have risen about R2bn since May 1990 — about half a month's import cover. *10/6/91*

Current reserves provide less than two months' import cover, which is still well below the Reserve Bank's aim of providing three months' import cover.

A R15,26 rise in the gold price to R904,53 in May helped push gold reserves up 2,2% to R4,44bn from April's R4,35bn. Gold reserves have risen steadily throughout 1991. In addition, the Bank's physical gold holdings rose 0,5% in May to 4 908 352oz from 4 885 619oz in April.

Foreign currency holdings rose 3,8% to R2,74bn in April from R2,64bn in March.

The Reserve Bank expects reserves to continue climbing this year as a result of easing debt repayments outside the debt standstill agreement and debt rollovers.

But if the rand continues to weaken, foreign currency reserves will be placed under pressure. A dollar bull trend could re-emerge if the expected US turnaround materialises.

De Klerk invites Moi to visit

Kenya set to increase trade links with SA

Biday 10/6/91

ANTHONY JOHNSON

NAIROBI — President F W de Klerk is to invite Kenyan President Daniel arap Moi to visit SA after their weekend meeting which laid the foundations for closer co-operation and expanded trade between the two countries.

De Klerk announced an "open invitation" to Kenya's 32 cabinet ministers to visit SA after a "very fruitful" separate meeting between government ministers involved with trade, industry, energy and agricultural affairs.

Sources close to the talks predicted that a number of concrete benefits for both countries could flow from the discussions.

These included:

- The posting of government representatives — possibly "within weeks" — in Nairobi and Pretoria to facilitate the expected mushrooming of official and business contacts;
- A "tremendous increase" in trade between the two countries. Kenya has been one of the strictest observers of OAU sanctions against Pretoria;
- The upgrading of the Tanzam railway line, particularly to boost trade through Mombasa, with the help of SA expertise;
- A dramatic increase in trade and business delegations between the two countries. A Kenyan delegation has already visited the western Cape with a view to buying large consignments of SA wines;
- A tourism deal to promote joint package deals for tourists to visit Kenya and SA. An aggressive drive to get SA tourists to visit Kenya is also on the cards;
- An arrangement to allow Kenyan Airlines to fly regularly to SA, including a

possible deal giving SAA and Kenya Airways the lion's share of the tourism market; and

- Regular visits by technical experts in the fields of telecommunications, energy, plant and animal diseases and small farming management between the countries.

At his news conference De Klerk told journalists and diplomats that there was "no doubt" that SA and Kenya would increase their co-operation in trade, agriculture and a number of other fields.

"SA has much to offer regarding its know-how and expertise and we find it extremely important that we expand our contact and co-operation with such an important country as Kenya."

Government ministers from both countries expressed delight at the progress made at the "overwhelmingly friendly" and "very constructive" three-hour meeting between the two leaders in Nairobi.

De Klerk said he had still to formally extend to Moi the invitation to visit SA, but would do so soon.

There was no immediate response from the Kenyan government, but a Kenyan minister said the trip could take place any time after the SA government formally scrapped the remaining key apartheid laws.

Members of the SA delegation said they believed their Kenyan counterparts "felt cheated" that other African countries, which had paid lip service to sanctions but had received a head start in trade with SA.

One Kenyan minister privately com-

□ To Page 2

Kenya

Biday 10/6/91

plained that some African countries had been highly critical of SA "above the table" but had continued to expand trade relations with Pretoria "under the table."

A senior member of the SA delegation said: "The key to the trade issue is that Kenya can get many manufactured goods from SA cheaper, with a shorter delivery time and more reliably than is the case from most other countries."

Another said the warming of relations

□ From Page 1

between SA and its long-standing bitter enemy would have a powerful effect on the opening of trade and diplomatic contacts with other states in Africa and the Commonwealth.

□ After receiving a rousing official welcome in Nairobi on Saturday, De Klerk and his entourage travelled to the Kenyan highlands yesterday to attend a church service of the Reformed Church of East Africa.

Jocum disputes import claims

By TOM HOOD, Business Editor
AECUS 11/6/91

CLAIMS that the textile industry is being hit by increased imports of fabrics by clothing firms and that it needs protection from imports are disputed by Mr Simon Jocum, chairman of the Cape Clothing Manufacturers Association.

Mr Brian Brink, executive director of the Textile Federation, reported that the domestic market for textiles was shrinking and said the volume of clothing produced by local manufacturers had increased — "showing that they are using more imported fabrics."

However, Mr Jocum said in a statement that imports of textiles were in fact down in volume by 2 percent in 1990 compared to 1989.

"The Textile Federation persistently blames the clothing industry for the recession in South Africa as well as the recession in the textile industry."

"This is just not on. The clothing industry is also in a recession but with a difference in that it does not ask the government to bale it out with requests for further protection to ride out the recession."

The economy was expected to

improve in the third and fourth quarters and history had shown that both industries could ride out of recession without further protection.

The increase in the clothing industry's output in 1990 over 1989 was 3.6 percent.

The textile industry only supplied 37.5 percent of its total output to the clothing industry. The balance went to packaging, towels, industrial, household textiles, furniture and upholstery, carpets and the motor industry.

Said Mr Jocum: "Perhaps it is the reduced volumes in industries other than clothing which is accounting for the textile industry's reduction in volumes of 16 percent in 1990 compared with 1989. So why pick on the clothing industry? Any increases in duty will damage the clothing industry as well as further erode volumes in the textile industry."

● THE marked deterioration in profitability in the textile industry and contraction in local production is of concern to both clothing retailers and manufacturers, says EDGAR's chairman, Mr Meyer Kahn.

He says in his annual review the rate of inflation on clothing

has exceeded the consumer price index for the past two years.

"The solution to this problem should be sought through improved productivity with higher volumes being produced for the local and export markets."

Mr Kahn believes greater levels of protection through increased duties would undermine vital elements of the structural adjustment programme which seeks to make South African industry internationally competitive.

Many manufacturers faced with severe cost pressures have sustained their operations by developing exports and earning export incentives, Mr Kahn says.

Commenting on the prospects for the group in the current financial year, he expects private consumption expenditure to remain depressed, aggravated by high interest rates, increasing unemployment, and the introduction of VAT.

"Uncertainty and the stubborn unrest situation is likely to affect trading adversely."

Satisfactory growth in earnings, but at a lower rate can be expected for the year to March, says Mr Kahn.

Pretoria touts its plan to cure Africa's woes

ANTHONY JOHNSON

SA Foreign Affairs officials say there is a growing appreciation for the proposition that Africa, as a unit, is too large, diverse and unwieldy to put together an economic rescue plan.

African leaders are now having to come to grips with the fact that the continent, after decades of economic decline since the heady days of independence, is no longer regarded as interesting by investors or even development economists.

The imminent economic union of Western Europe, and the developed world's pre-occupation with rebuilding the economies of Eastern Europe, have highlighted the possibility that Africa, with all its problems, could be bypassed.

In its contacts with African leaders, Pretoria has been at pains to emphasise that unless countries in the proposed development zones give the outside world the impression that they are relatively stable and working constructively towards specific targets, they face a bleak future.

Botha is upbeat about the prospects of the SA approach to Africa. Indeed, buoyed by the success of his latest African expedition, he was confident enough to say: "I love it when a plan comes together."

CAPE TOWN - President F W de Klerk and Foreign Minister Pik Botha are aggressively marketing the concept that Africa's best chance of economic survival is to divide into regional economic blocs modelled on the EC.

Within each common market, the most powerful national economy would act as an "engine of development" for the region. While the various "dynamos of development" would help to co-ordinate the continent's economic revival, regional self-interest would remain paramount.

In their recent African safaris - many of them unpublicised - SA politicians have proposed that the continent be carved up into at least four economic blocs, each with an integrated plan to encourage trade and attract foreign investment.

Unsurprisingly, Pretoria is proposing SA as the "locomotive" of development for southern Africa, with Kenya fulfilling this role in East Africa, Nigeria in West Africa and Egypt in North Africa.

Just how Zaire and some of the other Francophone countries will fit into this game plan is still unclear.

But the proposal has clearly struck a responsive chord in a number of African states, particularly with those considered suited to leading regional development.

Barred SA still owes UN \$60m

GERALD REILLY

PRETORIA — SA's debt to the UN has soared to \$60m since the country was expelled from the General Assembly in 1974. The debt, says Foreign Affairs Director-General Neil van Heerden, is made up of \$45m in arrears on the UN's regular budget and additional arrears stemming from the working capital fund and the world body's peacekeeping operations. The fact that SA does not participate in the General Assembly in no way absolves it from paying its dues. Asked if the UN would insist on payment of backlogs if SA were readmitted to the General Assembly, Van Heerden said the question arose whether a country could be held responsible for payment of arrears when it was illegally prevented from exercising its rights at the UN. SA considered the non-acceptance of its credentials in 1974 as a violation of the spirit of the UN Charter.

"The question of SA's arrears will be considered by government when it becomes clear that the country's right of participation is respected." Asked if there was a likelihood of SA being readmitted to the General Assembly for either this year's session, or next year's, Van Heerden said there were signs the climate for SA was improving. But it was too early to speculate on precisely when SA's right of participation might resume. SA's annual UN assessment runs at about \$4m in addition to smaller amounts relating to peacekeeping operations. It was interesting to note, Van Heerden said, that the US, which was also in arrears and contributed 25% of the UN budget, owed \$430m at the beginning of this year.

8/26/74

Foreign buying 'a mixed blessing'

B1 Day 12/6/91
INFLUENTIAL foreign buying in the capital market in recent months has kept it stable in the face of relatively bearish local investors.

Analysts estimate a large portion of SA's two biggest borrowers' stock is now in the hands of foreign investors. Although they believe the strong overseas presence is encouraging, it could also be dangerous.

The concern is that a further narrowing in the discount between the financial and commercial rands could result in a major sell-off. Also a worsening political situation could see foreigners "dump" their SA stock.

It would probably result in a significant uptick in rates as the local market was not in a position to absorb the stock at current prices, especially in the prevailing nervous climate.

If the situation turned nasty, "the mother and father of all bear markets", was likely, a dealer said.

The potential "dumping" of stock currently held by overseas investors has been estimated to be as high as R16bn, but analysts believe a large portion of this is in safe hands.

Eskom has estimated about 44% (almost R10bn) of its stock is held overseas, but no exact figure is available because of the large amount of investment through nominees.

Market estimates for the amount of government stock held by foreigners vary between 5% and 10% (R4bn and R8bn).

ANDREW GILL

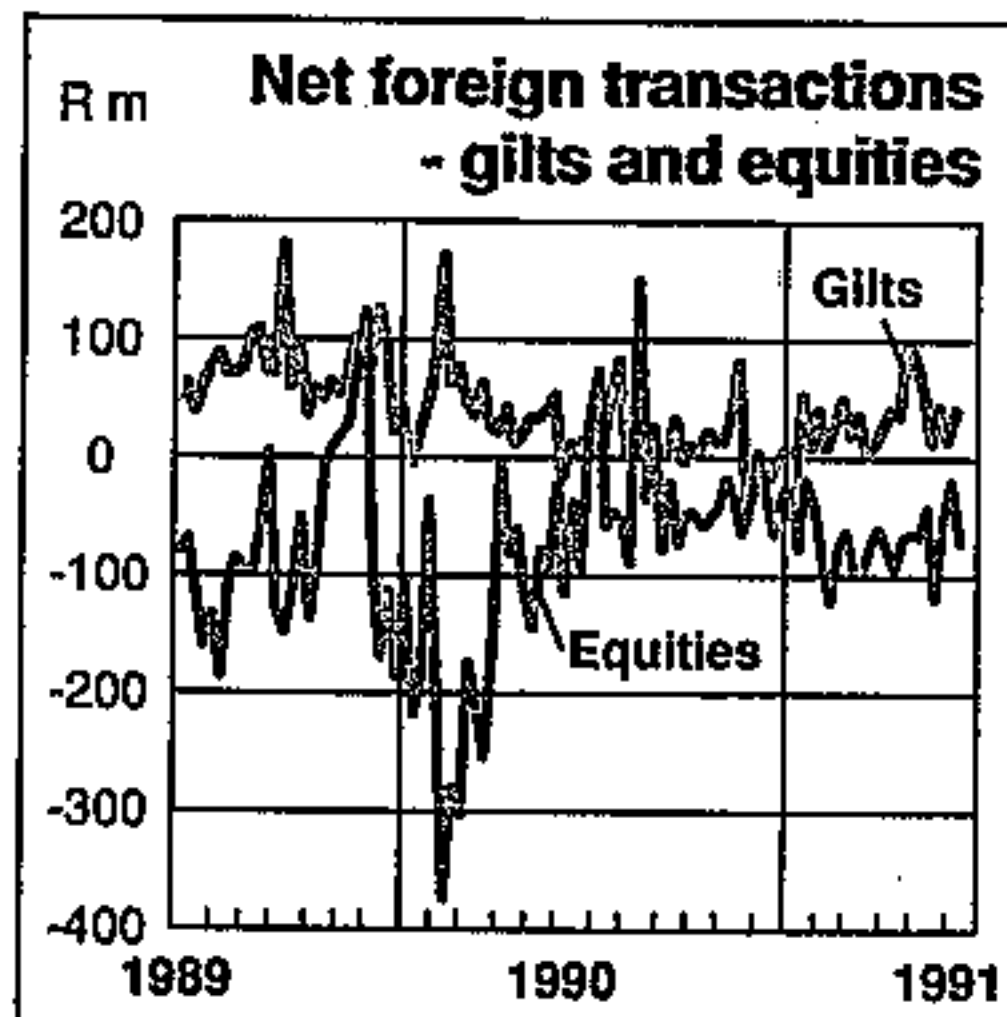
Concern is growing that the narrowing discount between the financial and commercial rand, which stands at about 14%, will prompt investors to take profits.

Evidence of this emerged last week when the discount fell to between 12% and 13%.

Also, the yield on the benchmark Eskom 168 through the finrand has dropped substantially since the middle of last year, because of the strengthening finrand.

□ In the past two years only seven weekly net outflows have been recorded in the gilts market, as reported in weekly JSE statistics.

This compares favourably with the relatively steady outflows recorded on the equity market, with net weekly inflows since August 1990.



Graphic: FIONA KRISCH Source: I-NET

Aussies pledge aid package of R4,2m

CT 12/6/91

74

Own Correspondent

JOHANNESBURG. — Australian Foreign Minister Mr Gareth Evans yesterday announced a R4,2-million assistance package for the development of economic planning in South Africa.

Mr Evans said at a media conference that the Australian government was sponsoring the programme to help develop the capacity of the anti-apartheid movement to play an effective role in post-apartheid South Africa.

● SA cricket gets some strong support — Back Page

SABC: pirate viewing/annual loss

376. Mr L F STOFFBERG asked the Minister of Home Affairs:†

- (1) Whether he has been informed that the SABC annually loses an amount of approximately R150 million as a result of pirate viewing; if not, why not; if so, (a) what was the amount of this loss during the latest specified financial year for which figures are available and (b) what percentage did it constitute of the SABC's total revenue from licence fees for that financial year;
- (2) whether he intends granting the SABC a further increase of licence fees; if so, (a) why, (b) when and (c) by what percentage?

B969E

The MINISTER OF HOME AFFAIRS:

- (1) No. The amount the SABC loses annually as a result of pirate viewing is difficult to ascertain, since accurate statistics in respect of television ownership are not available. Television set movements arising from private transactions are also not easily ascertainable. The estimated amount of money lost through pirate viewing may be as high as R100 million. Assuming this amount to be accurate, this would constitute about 28,6% of the estimated potential revenue from licence fees.

- (2) No request for a further increase has been received from the SABC.

Public telephones: cost of repairs

406. Mr P G SOAL asked the Minister for Economic Co-ordination and Public Enterprises:

- What was the estimated cost of repairing public telephones in the Republic (a) in 1987 and (b) during the latest specified 12-month period for which information is available?

B1071E

The MINISTER FOR ECONOMIC CO-ORDINATION AND PUBLIC ENTERPRISES:

- (a) R12 976 007,64 during the 1987/88 financial year; and

- (b) R23 953 734,81 for the period 1 April 1990 until 31 March 1991

Note:

The figure against (a) does not include the cost in respect of the Western Cape, as it is not readily available.

Average value of rand: changes

410. Mr J CHIOLE asked the Minister of Finance:†

How has the average value of the rand changed on a year-to-year basis over the past 10 years in respect of the basket of currencies of each of the six most important trading partners of South Africa?

B1083E

The MINISTER OF FINANCE:

Statistics for 1981 is not readily available. The annual percentage change since 1982 is as follows:

Year	Germany	France	Japan	Switzerland	UK	USA
	Mark	Franc	Yen	Franc	Pound	Dollar
82	-13,4	-2,5	-9,1	-17,1	-6,9	-19,6
83	2,4	13,0	-6,9	0,9	12,3	-2,8
84	-14,4	-11,9	-23,1	-14,2	-12,8	-22,6
85	-30,9	-31,3	-33,2	-30,0	-30,6	-34,4
86	-29,4	-26,3	-32,2	-29,9	-16,2	-3,5
87	-7,9	-3,3	-4,7	-7,9	-0,11	11,5
88	-12,3	-11,1	-20,2	-12,0	-17,3	-10,0
89	-7,3	-7,2	-7,1	-3,2	-6,2	-13,6
90	-13,0	-13,6	6,3	-13,9	-6,6	1,2

Foreign currency unit per rand — middle rate index (1979 = 100)

HOUSE OF ASSEMBLY

Notifiable diseases

414. Mr M J ELLIS asked the Minister of National Health:

How many cases of each notifiable disease

were notified in respect of each race group in 1990? B1092E

The MINISTER OF NATIONAL HEALTH:
Notified cases of each notifiable medical condition in 1990 RSA (as at 28 May 1991)

Disease	Population Group					Total
	Unknown	Indian	Black	Coloured	White	
Cholera	0	0	1	0	0	1
Typhoid fever	1	10	1 541	25	19	1 596
Paratyphoid fever	0	0	1	0	0	1
Food poisoning	0	0	295	80	127	502
Tuberculosis	44	575	49 663	19 568	879	70 729
Bruceellosis	0	1	2	0	6	9
Leprosy	0	0	35	1	0	36
Diphtheria	0	0	7	3	8	18
Meningococcal infection	0	4	434	355	56	849
Tetanus	1	2	96	5	0	101
Legionellosis	0	1	1	0	0	2
Poliomyelitis	0	0	2	0	1	3
Measles	5	32	4 828	299	490	5 654
Crimmean-Congo	0	0	1	0	3	4
Haemorrhagic fever	3	73	855	406	1 128	2 465
Viral Hepatitis	0	0	15	1	0	16
Rabies	0	0	3	0	1	4
Trachoma	0	0	6 028	7	231	6 271
Malaria	1	0	2	6	50	59
Encephalitis	0	15	44	20	2	81
Acute rheumatic fever	1	0	65	5	1	72
Rheumatic heart disease	0	2	55	32	16	105
Pesticidal poisoning	0	0	0	0	0	0
Plague	0	0	0	0	0	0
Anthrax	0	0	0	0	0	0
Smallpox	0	0	0	0	0	0
Yellow fever	0	0	0	0	0	0
Other haemorrhagic fevers	0	0	0	0	0	0
Typhus fever	0	0	0	0	0	0
Lead poisoning	0	0	0	0	0	0

Population Development Programme

416. Mr J A JORDAAN asked the Minister of National Health:†

- (1) How much money was spent in her Department on the Population Development Programme in the latest specified financial year for which information is available;
- (2) what total amount was spent on the Population Development Programme in each financial year since the inception of this programme;
- (3) what are her Department's future plans regarding this programme?

B1097E

HOUSE OF ASSEMBLY

CCI slams phasing-out of tax rebates

By AUDREY D'ANGELO
Business Editor

EXPORTERS will be discouraged by the phasing-out of tax rebates for marketing expenditure overseas, says the Cape Chamber of Industries (CCI).

These rebates are due to end on February 28, 1992. But the Private Sector Export Advisory Committee (PSEAC), which represents the interests of the export community, is asking the government to continue to give realistic marketing assistance.

Harold Storey, chairman of the CCI foreign trade committee, said yesterday that new exporters, in particular, would be discouraged by the loss of allowances for costs such as

advertising and promotional literature. 74

He said it could cost between R50 000 and R100 000 to break into a new export market. This was a lot for a company — particularly a small one — to spend without any certainty of a return.

The CCI weekly bulletin says it is "essential that some form of marketing assistance, beyond what is provided under the unrealistic budget for Export Marketing Assistance (EMA), should remain available for the many bonafide exporters and potential exporters."

The bulletin says it is being argued that Section 11 (bis) of the Income Tax Act, under which re-

bates for marketing expenses are given, "should at least be replaced by an expanded EMA to incorporate certain existing expenditure items of Section 11 (bis)."

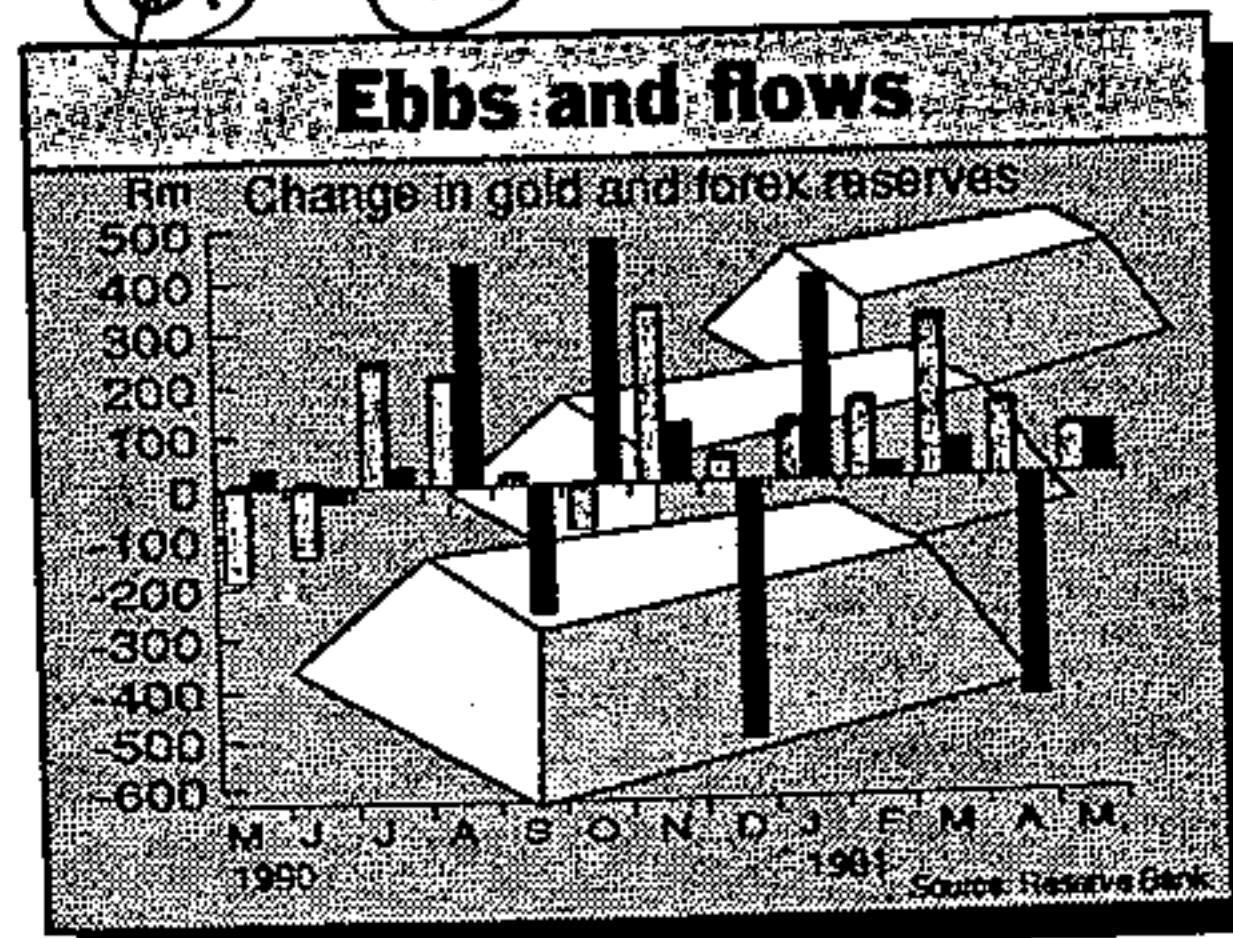
The Cape Regional Export Advisory Committee, which is represented on PSEAC, recommends that, while export marketing assistance should be performance based, it should include travel and hotel costs.

The committee recommends that established exporters should be able to claim 50% of travel and hotel costs, up to 2% of turnover, and that new exporters should be able to claim 75% of these costs in the first year, up to a limit of R50 000.

RESERVING JUDGMENT

Reserve Bank gold and foreign exchange holdings gained R196m (US\$70m) in May, to R7,2bn (\$2,6bn). Gold rose R95m (\$34m) to R4,4bn (\$1,6bn), largely thanks to a R15/oz rise in the price, as well as a modest increase in physical holdings from 4,89m fine oz to 4,91m. Forex holdings recovered by R101m (\$36m) to R2,7bn (\$1bn), after a R438m (\$160m) drop last month.

A generally positive trend in reserves over the past 12 months has been punctuated by



several declines, usually reflecting exchange rate pressure or debt repayments (see graph). The next repayment from within the standstill net is due in August.

"Though these figures suggest an improvement in the reserves," says a Standard Bank economist, "much depends on the Bank's foreign liabilities." These are disclosed only in the *Quarterly Bulletin*; in the monthly statement of assets and liabilities they are hidden under "other liabilities" (up R723m in May, to R8,6bn).

"This increase could reflect foreign borrowing — by the Bank or Treasury — or, say, dollar swaps with commercial banks. But this is pure speculation."

The reserves still cover less than two months' imports, well below the IMF's recommended three months. ■

Rand hammered as dollar powers on

Steve 14/6/91

By Sven Lünsche (74)

The rand fell to an all-time low of R2,89 against the US dollar yesterday and economists predict that it could fall below the crucial R3 level within weeks.

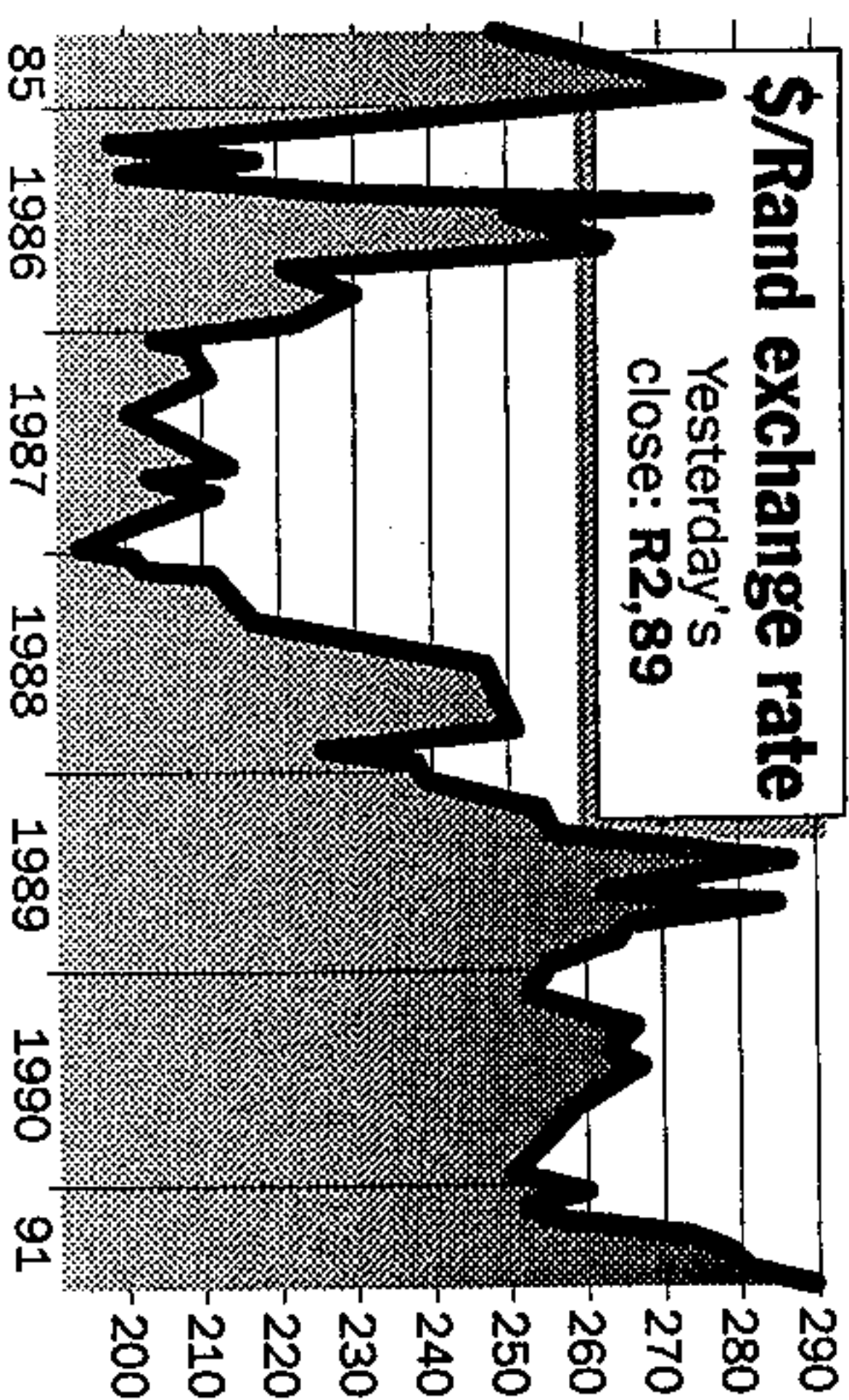
In a day of hectic trading the dollar gained 3c against the rand reflecting its rise on international currency markets.

However, the rand has held steady against most other major currencies.

The US dollar yesterday closed at a 19-month high against the German mark of just over Dm1,80. Since February the US currency has surged by almost 25 percent against Deutschemark.

It's surge against the rand from just over R2,50 in February to yesterday's close of R2,89, shows a gain of 16 percent.

"There has been a very strong correlation between the rand's fall against the dollar and the US currency's gain against the D-mark," says Simon Willson, FNB's Treasury



economist.

The rand's future course will thus be determined by the dollar's performance on international markets and "until the G7 meeting of industrial powers in mid-July the currency will virtually have free rein," Mr Willson adds.

Recent economic indicators point to an upturn in the US economy and coupled with a strong trade surplus this could well boost the dollar to Dm1,90 before the G7 meeting.

Using cross currencies this could see the dollar at R3,01 in

mid-July, Mr Willson says, adding that a US dollar at such strong levels will see concerted action by the major central banks following on the G7 meeting to bring down the value of the currency.

Mike Brown, economist at Frankel Max Pollak Vinderinge is less pessimistic on the rand, but he adds that a level of R3 is possible towards the end of the year if the dollar continues to make strong gains.

Despite the fall of the rand against the US currency it has performed strongly against

most other Western currencies, particularly the D-mark and pound sterling.

As a result the trade weighted rand has declined by a mere three percent since the beginning of the year, and currency dealers note that the Reserve Bank has been supporting the rand only when a fall in the trade-weighted value appeared on the cards.

The Bank has attempted to protect the external value of the rand to reduce the impact of imported inflation on local consumer price increases.

While Mr Brown forecasts a further two percent decline in the trade-weighted rand this year, he expects the steady surplus on the current account of the balance of payments to bolster the rand against non-dollar currencies.

The lower rand-dollar exchange rate will also boost the earnings of South Africa precious metal mines in the current quarter and most likely in the quarter to follow.

The rand gold price closed yesterday at R1 068 an ounce, bringing its gain since February to R160, or just over 17 percent.

Private sector to help govt on trade strategy

BILLY PADDOCK

74

CAPE TOWN — The Board of Trade and Industry is to be radically restructured, employing private sector businessmen to help chart a new trade strategy.

Trade and Industry Minister Org Marais says three of the remaining five BTI members will retire at the end of the year. He will bring in people from the private sector on both a full-time and a part-time basis.

The key to the new Trade and Industry strategy lies in stimulating competition and manufacturing. This rests heavily on three elements: creating a conducive investment climate; business-oriented measures; and industry-oriented measures.

Private research and development should be encouraged. There should be support for training and tax incentives should be given. B 10am 14/6/91

The department's major role lies in supporting specific industries such as textiles and the motor industry.

The major assignments the board will have to undertake are:

- Investigating and helping to plan industry/micro-economic strategy as well as any inquiries Marais might direct to it; and
- Working out effective ways of implementing IDC recommendations such as combatting dumping, reducing tariff protection, and eliminating unfair competition, especially from international competitors.

The board's personnel structure will be changed to enable it to carry out its tasks without relying on secondments from the department.

It will draw far more on the private sector. There will be closer co-operation between the department and business organisations such as Sacob and the Afrikaanse Handelsinstituut, and organised labour. Many of the initiatives emanated from proposals put forward by Sacob and the AHI.

Late last year 90 members of the BTI on secondment from the department were pulled back during the restructuring under former Minister Kent Durr. The board faced substantial opposition from business and free marketers for being too inter-

To Page 2

Strategy

B 10am 14/6/91

74

From Page 1

ventionist and causing local prices to be higher than international prices through protection policies.

Marais says he is working on forcing industries benefiting from incentives to sell their products locally at internationally competitive prices.

One of the board's main programmes still in existence is the motor industry's Phase VI local content programme.

In March last year Durr shut the door on further structural programmes.

Trade and Industry director-general Stef Naude said these programmes had to go as they required far too many bureaucrats to administer them, and government, under the direction of the late Dr Wim de

Villiers, wanted to move away from interfering with business.

A study by the Commission for Administration found that many of the board's functions were being duplicated by other government departments, including the Department of Trade and Industry.

Marais says the role the board played was important in the 1970s. With sanctions disappearing and the hope that balance of payment problems will not have to be funded from the current account for too much longer, this role has to change to meet the challenges facing SA.

Marais says he will be tabling a Bill early in the next session of Parliament to give effect to this new strategy.

Rand crumbles as dollar goes wild

Monday 14/6/91.

ANDREW GILL and
MATHEW CURTIN

THE rand slumped to its weakest level against the dollar yesterday as the US currency went on the rampage on international foreign exchange markets.

The bulls were given further ammunition with the release of unexpectedly strong US retail sales and producer price inflation data, which swept the dollar to recent highs against major currencies and a record high against the rand.

The rand ended the day at R2,8847 to the dollar after crumbling to R2,89 earlier in the day.

It closed on Wednesday at R2,8623.

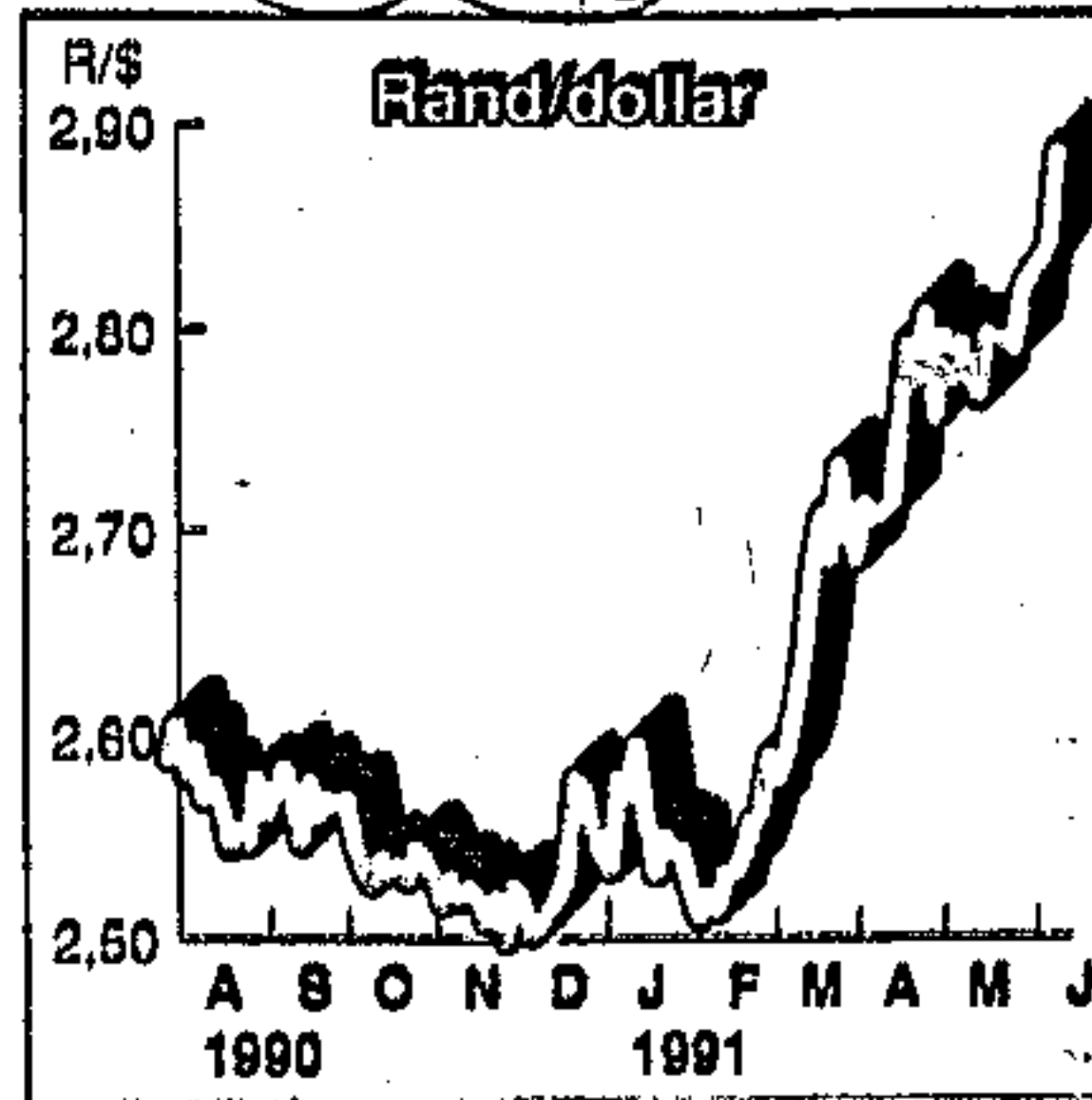
However, it held steady against the basket of currencies as other rates took an even bigger beating because of the US currency's improved fundamentals.

US consumer inflation and industrial production figures are due for release today. If positive, these could see the dollar clamber even higher.

Analysts said the solid gold price and the tumbling rand had given SA's gold mining industry a double boost which, if sustained, would drag several mines from their current marginal status.

Gold hit year highs yesterday of almost R1,070/oz or R34 350/kg.

Chamber of Mines economist Ivor



Graphic: FIONA KRISCH Source: REUTERS

Liebowitz said chamber figures showed that with last year's average price of R31 976/kg, 11 mines were dangerously close or on the wrong side of the critical break-even mark.

However, the latest price, in the long term, would change the marginal status of the Libanon, West Rand Consolidated, Marievale, Harmony, Western Areas, and Doornfontein mines.

Still at risk would be Loraine, Grootvlei, Venterspost and ERPM, which needed a gold price of between R34 500/kg and R40 000/kg to break even.

FM 14/6/91

74



DESIGNING EXPORTS



Michael Hunt runs an engineering design consultancy and heads the design division of the SA Institution of Mechanical Engineers. He chairs a seven-person committee of industry and research officials that will re-

port by the end of the year on what obstacles should be removed and what steps can be taken to promote local design.

Few issues are more important to SA's economic future than design, but few are as consistently overlooked.

The manufacturing sector is generally acknowledged as our main hope for providing the employment growth needed for the country's prosperity. But the ghost of our colonial heritage still causes many of our industrial decision-makers to believe that design, the essential ingredient in manufacture, is something that can be done only overseas. Thus local industry prefers to manufacture under licence or under the direction of a foreign company. The result: SA spends more than R500m a year on overseas licences and royalties.

Maybe this is considered just what the doctor ordered, getting overseas technology straight into our factories. However, as with many medicines, the symptoms are covered up, and the side effects can be severe, even fatal. Manufacturing under licence automatically means a time lag before the latest designs are implemented. And licensing agreements usually stifle local development

and restrict the right to export.

In this climate, we will never develop our design skills. Qualified young engineers and technicians are generally discouraged from becoming involved with design ("we mustn't try to re-invent the wheel, you know"). Shunted into maintenance and well-paid administrative posts, they bypass their true vocation, thus depriving the country of their professional skills. The result is that it is widely believed that we cannot design or redesign anything locally (except for the few genuinely entrepreneurial firms and some of the defence projects).

However, the reasons behind this inferiority complex have largely disappeared. With the vast progress in design technology over the last few years, relatively small firms can now afford to enter the design field and compete on both home and world markets. The vast teams of draftsmen and analysts have given way to handfuls of designers operating computers.

And exports must be a goal of all local manufacturing, whether or not the design is local. The excuse that the local market is too small to justify local design and development is as discredited as the notion that industry should aim only at import replacement.

But how can SA become a major exporter of manufactured products?

We must overcome our inferiority complex about design, and we should nurture design as the key to success that it can be. The Japanese say their manufacturing success is directly dependent on the speed that design changes can be introduced into the finished products.

If we buy technology, we must ensure that

it will benefit exports. The Japanese actually spend more money on importing technology than on exporting it — but they use it in the products they export.

We must aim to extract our overseas technology from early in the production process, when it is cheaper, more adaptable and more current than the licensed technology that comes towards the end of the process. It may even cost nothing at all: Great industrial successes often come from copying other ideas and improving on them.

Several local companies have succeeded by using local design as a springboard. Export Award winner Bell Equipment in Richards Bay exports 45% of its products, which are all designed locally (*Business & Technology* March 29). The company attributes its phenomenal growth to the competitiveness afforded by its policy on local design.

Ermelo-based Celair is the world leader with its fully aerobatic glider, the Celstar, which has received exclusively overseas orders so far. But, despite the product's complexity, members of the company's in-house design team can be counted on one hand.

SA-designed swimming pool cleaners sell throughout the world. There are even local design firms that sell their design skills to overseas manufacturers. Pentagraph in Sandton does design work under contract for several major international companies, including Mercedes in Germany.

It has been all too easy for us to export our unbeneficiated raw materials. Reliance on such a policy will be economic suicide in the years ahead. We have no choice but to expand dramatically our export of manufactured products — by design.

Rampant dollar boosts SA

ARGUS
74 15/6/91

BUSINESS PERSONALITY OF THE WEEK

Exports

DAVID CUMMING, Weekend Argus Correspondent

the US currency's move this week was a correction because it had been unduly low for some time. It was now back at more comfortable longer term levels.

"What is perturbing right now is the question of whether or not it will develop an upward momentum and strengthen above those comfortable levels. If this happens, it might be difficult to bring it down again."

He said it was important to remember that the week's events reflected the strength of the dollar rather than weakness in the rand. The rand had remained steady against the other major currencies.

Meanwhile in London in marked contrast to their pessimism earlier in the year, growing numbers of analysts and dealers believe the dollar will be the best performing currency in the coming 12 months.

In a faster growing economy, the US currency will soon enter a second phase of a long-term bull market, the super-dollar bulls say.

As a result of reports that the US economy is reviving and inflation is higher than expected, the market believes US interest rates will rise and boost the dollar.

Much of the optimism is based on the belief that the dollar is undervalued in terms of purchasing power parity (PPP), the comparison of prices between nations.

Nevertheless some analysts and the central bank committee are extremely wary about the US currency's newly found glamour.

It has appreciated by 25 per cent against the Swiss franc since its low point in February, is up by 23 per cent against the Deutschmark, 19 per cent against sterling and has risen (Turn to page 3, col 1)

Exports boosted

(Cont from page 1) 74

Reflecting official thinking the Bank For International Settlements, the central banks' central bank, concludes that the present value of the dollar is "altogether realistic, even if it is still somewhat below the appropriate levels suggested by purchasing power parity comparisons."

To be sure, there are veiled BIS hints that there is room for dollar depreciation against key competitive currencies, notably the Deutschmark and the yen.

SOUTH Africa could receive a double benefit from the strengthening this week of the American dollar against the other major currencies.

The rand dropped to its lowest-ever rate of R2,88 to the dollar, (or 34,46 US cents) this week, recovering to R2,87 last night.

Economists point out that most of the country's exports are dollar-denominated while the bulk of its imports are paid for in third currencies.

"The question now is how long can the dollar maintain its strength," said Volkskas economist Adam Jacobs.

"At current levels, the dollar makes it more difficult for the US to compete internationally and sooner or later this must see it move lower but it is difficult to predict just when that will be."

He believed that in the short term, however, the dollar would remain strong with the concomitant trade benefits for South Africa.

Nedbank economist Edward Osborne said the rise should improve the country's balance of payments this year.

"I have been pessimistic about the prospects on this front but whereas I had expected a balance of payments surplus of about R3 billion for the year, it could now go as high as R4 billion."

He said the dollar had a much higher weighting in calculation of the effective exchange rate for exports than it did for imports and the gap between the two was widening in South Africa's favour.

"The spin-off, however, will be monetary rather than in real terms because of the relatively depressed world commodity markets."

Mr Osborne said he believed

ARG 15/6/91

THE COST OF CAPITAL COMPARISONS

	RSA	AUSTRALIA	USA	JAPAN	GERMANY	FRANCE
INVESTOR EXPECTATIONS (EARNINGS YIELD)	18,3%	8,6%	7,8%	1,9%	6,0%	7,9%
CORPORATE TAX RATE	50%	39%	34%	32%	50%	39%
COST OF EQUITY (PRE-TAX)	36,6%	14,1%	11,8%	2,8%	12%	13,1%
$\left[\frac{A}{100.B} \times 100 \right]$						
REAL INTEREST RATE	7,0%	11,4%	5,7%	1,9%	5,0%	6,5%
INFLATION RATE	14,0%	7%	4,5%	1,7%	3,3%	3,4%
COST OF BORROWINGS (DEBT) (D + E)	21,0%	18,4%	10,2%	3,6%	8,3%	9,9%
DEBT/EQUITY RATIO	33/66	41/49	25/75	71/28	61/39	49/51
TOTAL COST OF CAPITAL	31,1%	14,5%	11,4%	3,4%	9,7%	11,5%
$\left[\frac{C \times H}{100} + \frac{F \times G}{100} \right]$						

LEGEND: A investor expectations. B corporate tax rate. C cost of equity. D real interest rate. E inflation rate. F cost of borrowings. G debt. H equity

Capital costs hit added value

(74)
SITimes 16/6/91
(Bus Times)

By IAN ROBINSON

IT HAS long been argued that South Africa could increase its export earnings if it invested more in benefiting its minerals.

But new evidence suggests this may not always be the case because of SA's relatively high cost of capital. This message was delivered by Paul Hatty, special projects consultant for Barlow Rand, in the keynote address at the metal survival and growth strategies seminar at Mintek this week.

Mr Hatty says the industrial environment in which the SA mineral beneficiation industry operates is unfavourable because of the high cost of capital compared with that of other countries.

The table left, above was compiled by the SA Chamber of Business in a recent survey on the relative cost of doing business in South Africa. It shows that the cost of capital in SA is significantly higher than in several other countries because of such factors as high interest, inflation and tax rates. Higher yields are required because of political risk.

Close

The cost of capital has inhibited the growth of beneficiation of raw materials in SA.

The exception is where the cost of some other input is low enough to offset the disadvantage of the cost of capital — for example, the ferroalloy industry which has power and ore at prices below world levels. However, the close association between the Government and industry through the Department of Trade and Industry and the South African Chamber of Business (Sacob), augurs well for a more coherent approach for finding mechanisms to promote industrial growth.

The proposed Samancor-Highveld Steel Columbus stainless-steel project has focused attention on the problems involved in minerals beneficiation and the urgency to find solutions to these problems

Kallenbach in big drive for exports

St Times (Business Times) 16/6/91

HIT BY a full-blown recession and shaved margins, SA's biggest office furniture group Kallenbach-Hendler has been revamped to take advantage of greater export opportunities.

KH, jointly owned by Mathieson & Ashley and SA Breweries' Afcol and managed by M&H, is to be split into two subsidiaries — KH Manufacturing, which will make and market office furniture for group companies and domestic and export markets, and KH International, which will spearhead a drive into markets abroad.

Distinct

M&A group managing director John Beck says: "This will boost our strategy to get into the international office furniture industry and optimise group resources in manufacturing."

The quality and price of group products is "extremely competitive".

Mr Beck says: "The backing of a service and profit-oriented group manufacturing resource should increase competitiveness."

"We have no doubt that the group, through KH International, is geared to become a major player in the world office furniture industry."

Another listed office furniture manufacturer, Grant Andrews Holdings, is also well advanced with plans to penetrate foreign markets.

KH Manufacturing, under group operations director

By IAN SMITH

Bill Helyar, is a separate business unit at arm's length from other group operating companies, as distinct from being a group manufacturing facility.

Mr Helyar will have full responsibility for bottom-line profits and growth, says Mr Beck.

The company's first responsibility will be to develop and manufacture high-quality products firstly for KH subsidiaries Anglo Dutch, Offex and Officemart and then for other SA customers and for export.

Anglo Dutch managing director Alan Green will take on the additional responsibility for KH International. Mr

Green and Mr Helyar will report to Mr Beck.

"These are senior, strategic appointments," says Mr Beck.

The group earned its first export income in the year last June through the Offex subsidiary, which sells middle-market office furniture. Offex sold know-how for desk and storage ranges to a UK manufacturer.

But the dramatic downturn in the SA market and heavy price cutting meant that the M&A group reported a 27% drop in earnings for the year — after compound earnings growth of 42% the three previous years.

At the interim stage on December 31 the group passed its dividend after a 65,3% fall in attributable profits to R939 000.

WEEK IN BRIEF

A SUMMARY of the week's corporate announcements.

MONDAY: Anglovaal's offer to AVF Group shareholders is accepted in respect of 0,15% of the shares. CMI to raise R100-million through convertible preference shares, last day to register 28/6. Tamboti to raise R60,5-million through the issue of shares for 100 at 270c.

TUESDAY: Gengold announces curtailment at Weltevred Mine. MIT and Datakor buy 49% of Timeplex for R720-million of which R300-million will be equity.

WEDNESDAY: Lenco offer to Compak minorities opens 21 closes 12/7. Colombia offers 54c a share to Pride members. Pri delisted on 13/6. Eurevest's capital restructure becomes effective 19/7.

THURSDAY: RIH scheme meeting is on 9/7. Messina Investments prospectus offers 12,49-million shares at 100c.

FRIDAY: Tempora to raise R40,5-million, last day to register 28/6. Rand Leases warns of negotiations. Crendell members accept HCT's offer in respect of 1,25% of the shares.

DZI's assets to be distributed to members. DZI will delist. D to renounce its rights to CMI's offer to its members.

COMP

PRELIMS

Turn

Low output keeps SA back

■ MONEY TALK

74


ONE of the most depressing problems South Africa faces on world markets is that our goods are no longer really competitively priced.

The reason is our high inflation rate, which economists say is the direct result of low productivity.

It is demoralising to look at worker productivity which has been declining for years with no sign of reverse:

In other words, the world will continue buying the products of Taiwan, Korea, Western Europe, Japan and the US because they offer better value for money.

The reasons for our declining productivity include lack of investment in modern technology, lack of training and motivation of workers, illegal strikes, stayaways, unrest and mediocre management. But most demoralising is the confrontational attitude of both management and the trade unions.

Endless debates between the two parties have solved nothing. Instead of co-operating they have been blaming each other for lack of progress.

But during the past week a breakthrough was announced. A new agreement between Anglo American gold producer Ergo and the National Union of Mineworkers has been worked out in a spirit of co-operation which could change the face of negotiations.

The agreement provides for a mere five percent general wage increase, but bonuses tied to productivity can be as much as 15 percent, depending on company profits and the performance of employees.

There is speculation that the agreement can form the basis of this year's agreement between the NUM and gold producers who are members of the Chamber of Mines. That would indeed be a breakthrough.

HOUSE OF ASSEMBLY

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

Pretoria Minute: prisoners released

430. Mr F J LE ROUX asked the Minister of Correctional Services:†

(a) How many prisoners have been released in terms of the Pretoria Minute since 6 August 1990, (b)(i) with what crime or crimes was each such prisoner charged and (ii) of what crime or crimes was each such prisoner convicted, (c) what punishment was imposed, in each case, and (d) how long was each such prisoner in prison?

B1129E

The MINISTER OF CORRECTIONAL SERVICES:

(a) and (b)

I refer the hon member to my oral reply in the House of Assembly on 11 June 1991 to question number 2 (see col 1826).

(c) and (d)

Due to the extensive information required by the hon member with regard to each individual

case, it cannot be provided within the scope of this reply. However, should the hon member be interested in the details of a specific case he is most welcome to approach my office whereafter I will make the information available to him on a personal basis.

Vote: Trade and Industry

432. Mr L F STOFBERG asked the Minister of Trade and Industry and Tourism:†

Whether, with regard to Vote No 20—Trade and Industry, he will subdivide the amount of R1 411 647 000 under Main Division 4—"Foreign trade relations and export promotion", according to aims; if not, why not; if so, what are the relevant details?

74 B1137E

The MINISTER OF TRADE AND INDUSTRY AND TOURISM:

The estimated expenditure under Programme 4: Foreign Trade Relations and Export Promotion, of Vote 20: Trade and Industry, is set out in detail in the Estimate of the Expenditure to be defrayed from State Revenue Account during the Financial Year ending 31 March 1992 (pp 20-11 to 20-14).

In addition, full details of the Department's activities in regard to this programme are contained in the Department's Annual Report for 1990.

Both documents were presented to Parliament and the details are thus freely available.

Tax changes will boost capital projects

By Magnus Heystek
Finance Editor

star
18/6/91

The Government has taken another decisive step to promote exports with its decision drastically to increase the allowances for capital-intensive projects geared to the export of benefited local raw materials.

As a result, capital projects worth several billions of rands could be announced in the next few months.

This follows on major changes proposed last week in the Taxation Laws Amendment Bill now before Parliament.

An announcement of at least one major capital project is expected this week, according to a government source.

Re-evaluated

Other capital projects, which have been suspended in recent months, could be re-evaluated in the light of the proposed tax changes.

This includes the stainless steel plant Highveld Steel has been planning in conjunction with Samancor for several years.

A spokesman at Samancor declined to comment yesterday morning, however.

The drastic changes to the tax allowances were likely to boost exports of benefited goods substantially and create many thousands of job opportunities in the next couple of years, economists said.

Anne Moore, a general manager of Safto, welcomed the proposed changes to export allowances, saying they would lead to increased exports and have a trickle-down effect on job-creation in the long run.

In terms of the proposed changes, announced in the Government Gazette on Friday, industrialists will in future be able to claim tax deductions for capital goods and property in the year in which the goods were bought or leased.

At present, these allowances are calculated only after the completion of the project.

Exemption

These changes, taken in conjunction with the exemption of capital goods from VAT, would boost SA's export competitiveness even further, analysts said.

Companies that can prove that capital projects are geared to export markets and to the local beneficiation of raw materials will in future claim tax allowances for depreciation and pre-production interest charges immediately.

The Bill also proposes the appointment of a committee by the Department of Trade and Industry, which could include members of the private sector to approve claims.

Further announcements in this regard were expected from the office of the Department of Inland Revenue, a spokesman said.

New local authorities Bill passed despite opposition

CAPE TOWN — The Interim Measures for Local Government Bill, which gives local authorities the opportunity to set up unitary councils, was passed by Parliament yesterday, with the DP abstaining in protest and the CP voting against it.

DP leader Zach de Beer said his party did not want to be associated with the CP's stand but could not support the Bill as there had been little consultation before it was promulgated.

The Bill was an attempt at a compromise to democratise local government, but it left too much power in the hand of the legislators, De Beer said.

Desmond Lockey (LP Northern Cape) said the Labour Party supported the Bill as it was an experiment in trying to rectify the failure of apartheid. The Bill was only a blueprint to lay down guidelines for local government.

The CP opposed the Bill on the grounds that it allowed one person to make decisions for an area or to set up a single multiracial council structure.

Jan Hoon (CP Kuruman) said an administrator could decide to make a single local authority in a town by uniting the black and white areas.

The Upgrading of Land Tenure Rights Bill, which grants all South Africans full land ownership rights, was also passed yesterday, opposed only by the CP.

Schalk Pienaar (CP Potgietersrus) said

the Bill forced a Third World dispensation on a First World population. Blacks did not attach the same value as whites to the private ownership of land.

Douglas Gibson (DP Yeoville) said the DP firmly supported the Bill as it made an enormous contribution to economic freedom and democracy in SA.

Jurie Mentz (NP Vryheid) said nothing was being taken from whites, but blacks had been brought to the point where they had equal land ownership rights.

The Less Formal Township Establishment Bill was also passed, opposed only by the CP, who said the Bill had become necessary to government because it had lost control of blacks who were streaming to cities and towns. Hoon said government was powerless against the establishment of squatter camps.

Errol Moorcroft (DP Albany) said the DP supported the Bill as it addressed the greatest social need in SA — creating living space for those moving to the cities. Urbanisation would be an unstoppable process for years to come and considerable land would have to be found for this, and to address existing backlogs.

Ten other Bills were passed unopposed, including the Investigation of Serious Economic Offences Bill, Magistrate's Courts Amendment Bill and Financial Institutions Second Amendment Bill. — Sapa.

Alant aims to boost exports

LESLEY LAMBERT

CAPE TOWN — New assistance measures for companies involved in mineral beneficiation were aimed at encouraging investment in new projects with export potential, Deputy Finance Minister Theo Alant said yesterday.

Introducing parliamentary debate on the Taxation Laws Amendment Bill, Alant said the measures would accelerate write-offs of the costs of machinery, plant and buildings used in beneficiation processes, and pre-production interest incurred on those costs.

An explanatory memorandum said the enhanced allowances would be available only for plants erected after the yet to be fixed implementation date.

Companies involved in beneficiation would be allowed to claim for tax deductions on the depreciation and interest costs of the capital goods and property immediately after they had been bought, rather than when they were put into operation.

Monday 18/6/91.
**Alant aims to
boost exports**

LESLEY LAMBERT *74*

CAPE TOWN — New assistance measures for companies involved in mineral beneficiation were aimed at encouraging investment in new projects with export potential, Deputy Finance Minister Theo Alant said yesterday.

Introducing parliamentary debate on the Taxation Laws Amendment Bill, Alant said the measures would accelerate write-offs of the costs of machinery, plant and buildings used in beneficiation processes, and pre-production interest incurred on those costs.

An explanatory memorandum said the enhanced allowances would be available only for plants erected after the yet to be fixed implementation date.

Companies involved in beneficiation would be allowed to claim for tax deductions on the depreciation and interest costs of the capital goods and property immediately after they had been bought, rather than when they were put into operation.

Huge govt spending increase does not dampen budget target expectations

15 May 1974

SHARON WOOD

GOVERNMENT spending soared by 23.9% in May because of increased expenditure on police, education and training, Finance Department director-general Gerhard Croeser said yesterday.

Speaking at a seminar hosted by the Johannesburg Economics Society and Sacob, he said the first two months of the fiscal year had seen huge spending increases but government was still confident about reaching the revised budget targets. In April government expenditure rose by 35% year-on-year.

But government borrowing appears to be under control. Croeser estimated "a small amount of R400m needs to be raised

during the rest of the year, which will place no pressure on the markets".

Government had raised R4,5bn in cash and R2,7bn had already been sold to the market.

In addition, options for R1,5bn of stock had been exercised by investors, maturing in July, November and February.

Croeser's estimate for borrowings needed for the rest of this year relied on R7bn revenue from the Public Investors Commission (PIC), the same amount raised last year, and debt rollovers of R2,5bn.

Once investment restrictions on the

state pension fund had been removed investment in property and equities would be done gradually, said Croeser.

"Obviously it is not our intention to disrupt the market and any flow of funds into equities or property would have to be very carefully handled.

"Markets can absorb only a small portion of the cash flows and government will still use the PIC for some time and diversify eventually," he said.

Croeser added: "The last factor which could fuel markets this year is if VAT pushes up the inflation rate this year.

"An IMF study says that at worst there will be a once-off rise in the rate of infla-

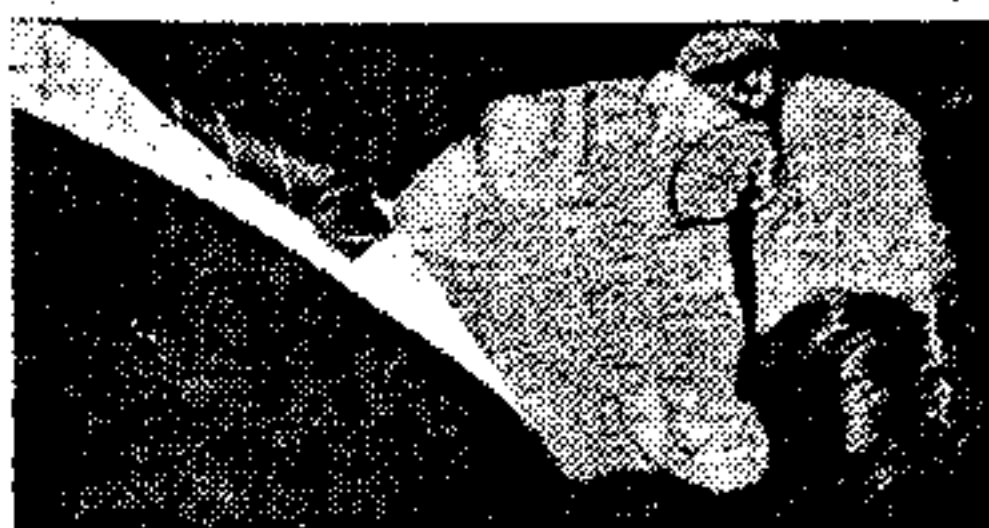
tion, but I don't expect businessmen to push all input credits through to lower prices."

Deputy Reserve Bank Governor Jaap Meijer said expectations would be decisive in determining whether VAT had a once-off impact on inflation or an inflationary effect.

Inflationary expectations have replaced wage increases as the largest contributor to inflation.

In response to a question of whether a once-off increase in the inflation rate as a result of VAT would determine the direction of interest rates, Meijer said: "the Re-

To Page 2



● MEIJER



● CROESER

Spending

810 am 1974

serve Bank would consider the particular conditions at the time."

Croeser said he was concerned about the current state of the economy. "We can perform a first world operation but I am scared the patient will be killed in the process.

"With interest rates down at least we can maintain jobs and survive," he said.

74

From Page 1

Meijer was recently reported as saying a cut in interest rates this year would be unlikely.

But he said "an interest rate reduction before the end of the year is possible, provided it is linked with a meaningful fall in inflation".

Retaining price stability should be the thing everyone was working towards, he said.

Population Group	(a)	(b)
Orange Free State	R2 089 420 423	71,38%
Transvaal	R316 283 686	10,80%
Lung cancer: deaths	R172 270 023	5,88%
	R29 384 570	1,00%
	R320 231 776	10,94%

426. Mr M J ELLIS asked the Minister of National Health:
 How many persons in each race group in each province died of lung cancer in 1990?
 B1110E

The MINISTER OF NATIONAL HEALTH:
 As of 15 December 1989 lung cancer has no longer been listed as a notifiable medical condition. There are therefore no notifications of deaths because of this disease available for 1990.

Amounts spent

428. Mr R M BURROWS asked the Minister of Education and Training:
 (a) What was the amount spent by his Department on (i) salaries of teachers and principals, (ii) salaries of administrative staff, (iii) salaries of inspectorate and executive officials, (iv) salaries of any other specified staff, (v) capital expenditure, (vi) supplies and services, (vii) equipment and (viii) other items and (b) what percentage of the total education expenditure by his Department in 1990 does each of the above amounts constitute?
 B1113E

The MINISTER OF EDUCATION AND TRAINING:
 The information as requested in a(i) to (iv) is not readily available and a total amount for personnel expenditure is supplied:

(1) (a) The capital amount to which the interest relates to is as follows:

- State debt as at 31 March 1991: R94 283 439 560,51
- Expected increase in State debt to finance the deficit before borrowing during the 1991/92 financial year: R11 740 000 000,00
- Expected State debt as 31 March 1992: R106 023 439 560,51

(b) The amounts per exchange unit are as follows:

- Internal debt: R105 302 090 351,12
- Foreign debt at book value:
 - USA Dollars 256 303 483 = R381 735 446,30
 - German Mark 250 000 000 = R148 782 955,42
 - Swiss Franc 141 349 065 = R168 850 756,15
 - European Currency Units 20 946 000 = R21 980 051,52

431. Mr C UYS asked the Minister of Finance:
 (1) Whether, with regard to Vote No 12—Finance, he will furnish further information on the amount in interest of R12 738 512 000 appearing under the item "Commitments in respect of the State debts"; if not, why not; if so, what are the details of the (a) capital sum to which the interest relates and (b) amounts per foreign exchange unit:
 Vote: Finance

(2) whether in respect of the above-mentioned vote he will furnish further information on the amount of R2 741 000 000 appearing under the item "Commitments in respect of loans by community councils"; if not, why not; if so, what are the details of the (a) capital sum to which the cost of concluding loans relates and (b) amounts per foreign exchange unit?
 B1136E

The MINISTER OF FINANCE:

The information as requested in a(i) to (iv) is not readily available and a total amount for personnel expenditure is supplied:

- State debt as at 31 March 1991: R94 283 439 560,51
- Expected increase in State debt to finance the deficit before borrowing during the 1991/92 financial year: R11 740 000 000,00
- Expected State debt as 31 March 1992: R106 023 439 560,51

(b) The amounts per exchange unit are as follows:

- Internal debt: R105 302 090 351,12
- Foreign debt at book value:
 - USA Dollars 256 303 483 = R381 735 446,30
 - German Mark 250 000 000 = R148 782 955,42
 - Swiss Franc 141 349 065 = R168 850 756,15
 - European Currency Units 20 946 000 = R21 980 051,52

OBJECTIVE	BUDGET
Internal Research	R782 000
External Research	R301 000
Regulation and promotion of training:	
Centres and schemes	R1 446 000
Financial assistance to certain schemes:	
South African Agricultural Union	R1 500 000
Cash Allowances	R3 350 000
Training in Labour Relations	R650 000
Rebate Training	R4 500 000
Manpower Development Fund	R1 000
Regulation of apprenticeship training	R4 392 000
Regulation of artisan training	R4 317 000
Training of workseekers:	
Establishment and regulation	R3 719 000
Contributions to fund for training of unemployed persons	R75 000 000
Training in certain occupations	R1 000
Central Organisation for Trade Testing	R9 505 000
Administrative auxiliary services	R568 000
Training and development of personnel	R9 000
Total	R110 607 000

(2) (a) and (b) The amount of R2 741 000 000 does not appear under the Main division "Commitments in respect of loans by community councils". Above-mentioned amount represents the estimated amount of the discount with which the gross amount to be borrowed by means of Government Stock issues will be reduced during the 1991/92 financial year. In accordance with section 20 of the Exchequer Act, 1975 (Act 66 of 1975) discount costs shall be deemed to be expenditure chargeable to the State Revenue Account and the net amount so borrowed shall be increased by the amount of such costs in the State Revenue Account. Since the discount therefore realizes as an expenditure as well as an income in the State Revenue Account during a financial year, it is, for the sake of completeness, shown as expenditure under the item "Cost of raising loans" and deducted under the item "Discount" so that only the net amount to be borrowed is eventually budgeted for in the State Revenue Account.
 B1141E

Commitments in respect of loans by community councils therefore only amounts to R73 496 000 whilst the capital amount to which this cost relates to will amount to R16 891 000 000 during the 1991/92 financial year. Seeing that the amounts will be borrowed locally the exchange unit will only be that applicable to the Rand Monetary area, i.e. Rand.
 B1141E

Vote: Manpower

435. Mr P J PAULUS asked the Minister of Manpower:
 Whether, with regard to Vote No 15—Manpower, he will subdivide the amount of R110 607 000 under Main Division 4—"Training", according to aims; if not, why not; if so, what are the relevant details?
 B1141E

The MINISTER OF MANPOWER:
 Yes.

OBJECTIVE	BUDGET
National Training Board:	
Administration	R566 000

450. Adv J J S PRINSLOO asked the Minister of Defence:
 Whether, with regard to Vote No 6—Defence Force, he will subdivide according to aims the amount of R4 173 538 under Main Division 7—"Special Defence Account" for the financial year ending 31 March 1992; if not, why not; if so, what are the relevant details?
 B1165E

Export tax plan seen leading to big projects

From MAGNUS HEYSTEK

ARCUS 19/6/91

JOHANNESBURG. — The government has taken another decisive step to promote exports by drastically increasing the allowances for capital-intensive projects geared to the export of beneficiated local raw materials.

As a result, capital projects worth several billions of rands could be announced in the next few months.

This follows major changes proposed last week in the Taxation Laws Amendment Bill now before Parliament.

An announcement of at least one major capital project is expected this week, according to a government source.

Other capital projects suspended in recent months could be re-evaluated in the light of the proposed tax changes.

This includes the stainless steel plant Highveld Steel has been planning in conjunction with Samancor for several years.

A spokesman at Samancor declined to comment yesterday morning, however.

The drastic changes to the tax allowances were likely to boost exports of beneficiated goods substantially and create many thousands of job opportunities in the next couple of years, economists said.

Ms Anne Moore, a general manager of Safto, welcomed the proposed changes to export allowances, saying they would lead to increased exports and have a trickle-down effect on job-creation in the long run.

In terms of the proposed changes, announced in the Government Gazette on Friday, industrialists will in future be able to claim tax deductions for capital goods and property in the year in which the goods were bought or leased.

At present, these allowances are calculated only after the completion of the project.

These changes, taken in conjunction with the exemption of capital goods from VAT, would boost South Africa's export competitiveness even further, analysts said.

Companies that can prove capital projects are geared to export markets and to the local beneficiation of raw materials will in future claim tax allowances for depreciation and pre-production interest charges immediately.

The Bill also proposes the appointment of a committee by the Department of Trade and Industry, which could include members of the private sector, to approve claims.

Further announcements about this were expected from the office of the Department of Inland Revenue, a spokesman said.

Upturn at end of year, says Barend

Bl Day 19/6/91

(132) (133) (14)

CAPE TOWN — Finance Minister Barend du Plessis said yesterday he could "confidently predict" that the economic upturn would begin at the end of the year or early in 1992.

But its duration would be curtailed and growth of more than 2,6% would not be attainable unless SA had access to IMF funds.

Du Plessis said in Parliament that the downturn had lasted longer than previous economic recessions — 27 months compared with the usual 17. But it had not been as severe, largely due to the sustained strength of private consumption.

Access to foreign funds and strong foreign reserves were major determinants of a new growth phase, Du Plessis said.

SA's foreign reserves were currently sufficient to cover two months' imports, but the country needed at least three months' reserves before it could move into a growth phase.

Once the economy had turned around, there were several factors which would place a ceiling on its revival and sustained long-term growth. These included the country's ability to attract foreign funding and compete in foreign markets, and ANC proposals for higher tax rates and a more liberal monetary policy, both of which would discourage foreign investment.

LESLEY LAMBERT

SA's shortage of entrepreneurs and its low level of productivity would have to be addressed. The country would also have to assure foreign investors that they could repatriate capital and not just dividends. It would only be able to do this with the backing of IMF funds.

"The next growth phase will begin short-

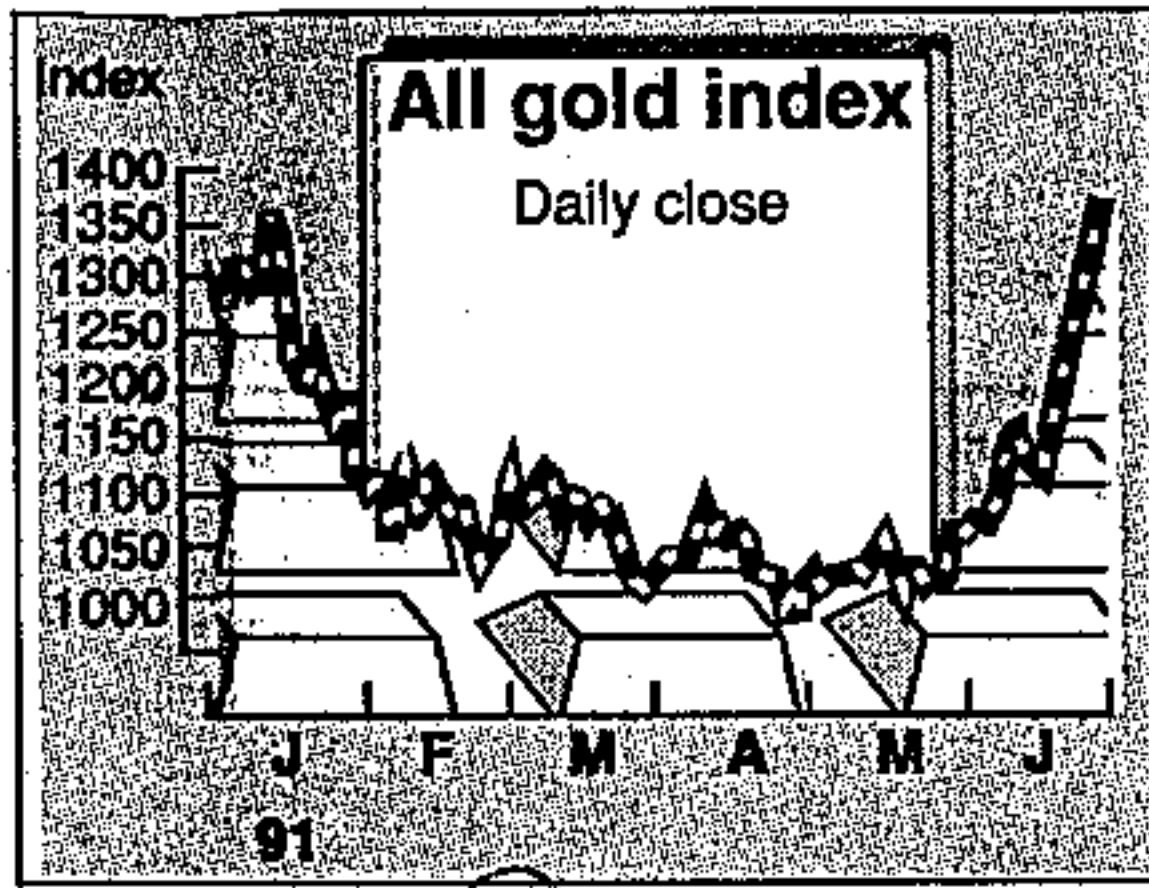


● DU PLESSIS

ly. But will we be able this time to exceed the point at which we have had to kill growth in the past because of a lack of IMF funding? Without assistance, we cannot exceed 2,6% growth per annum," Du Plessis said.

He made a plea to the US Congress to drop sanctions after Monday's repeal

of the Population Registration Act and he lashed out at the CP and the ANC for jeopardising the lifting of sanctions.



Graphic: LEE EMERTON Source: INET

Bullion surge gives shares a lift

MERVYN HARRIS and ANDREW GILL

A SURGING gold price in dollar and rand terms, amid buoyant sentiment on the political front, swept share prices sharply higher in hectic trading on Diagonal Street yesterday.

Ignoring the strength of a rampant US dollar, the gold price leapt \$3 from \$368 to \$371 within a few minutes in early afternoon trading. The rise came on a rally in silver in early New York dealings and large buying from a Middle East player.

The rand plunged to its second record low in as many weeks as it threatened to break through R2,90 to the dollar.

Demand for gold shares was fuelled by renewed dollar strength which pushed the rand gold price to R1 070/oz as the rand improved to R2,8892 to the dollar after touching the record low of R2,8968.

The rand gold price is only R25 below its peak of R1 095 reached in November 1989, according to First National's data base, when the rand was then at R2,6137 to the dollar and gold above \$400.

Forex analysts said the dollar rally was likely to continue with recent figures reflecting a US economic recovery.

The rand could fall to R2,93 to the dollar in the short term, an analyst said. At the current dollar gold price of about \$370, a rand gold price of R1 085/oz would be realised.

The losses against the dollar have been countered by a strong performance against the cross rates with a 3% gain against sterling in just over a week compared with a 1,5% fall against the dollar over the same period.

□ To Page 2

Shares

A boon for dollar exporters would result if the low levels were maintained, an analyst said, on top of which inflationary fears resulting from the rand's fall would subside because the rand's performance against a basket of currencies had been "remarkably stable".

The JSE all gold index climbed 4% or 53 points to 1 372, while the industrial index maintained its run-up to fresh peaks with a gain of 18 points to 3 786 to lift the overall index 30 points to 3 312.

Analysts said institutional cash flows

and positive announcements on the political front, including the possible lifting of sanctions, were creating a firm environment for the industrial market which was discounting fundamentals 18 months down the line.

"There is strong demand for quality stock but an absolute lack of sellers as nobody is prepared to release them," a dealer said. An example of the shortage of scrip on offer was the fact that Barlows first traded yesterday only late in the afternoon when the price firmed 25c to R41,75.

□ From Page 1

Healthy surplus on trade in May 79

By Sven Lünsche

Star 2/16/19

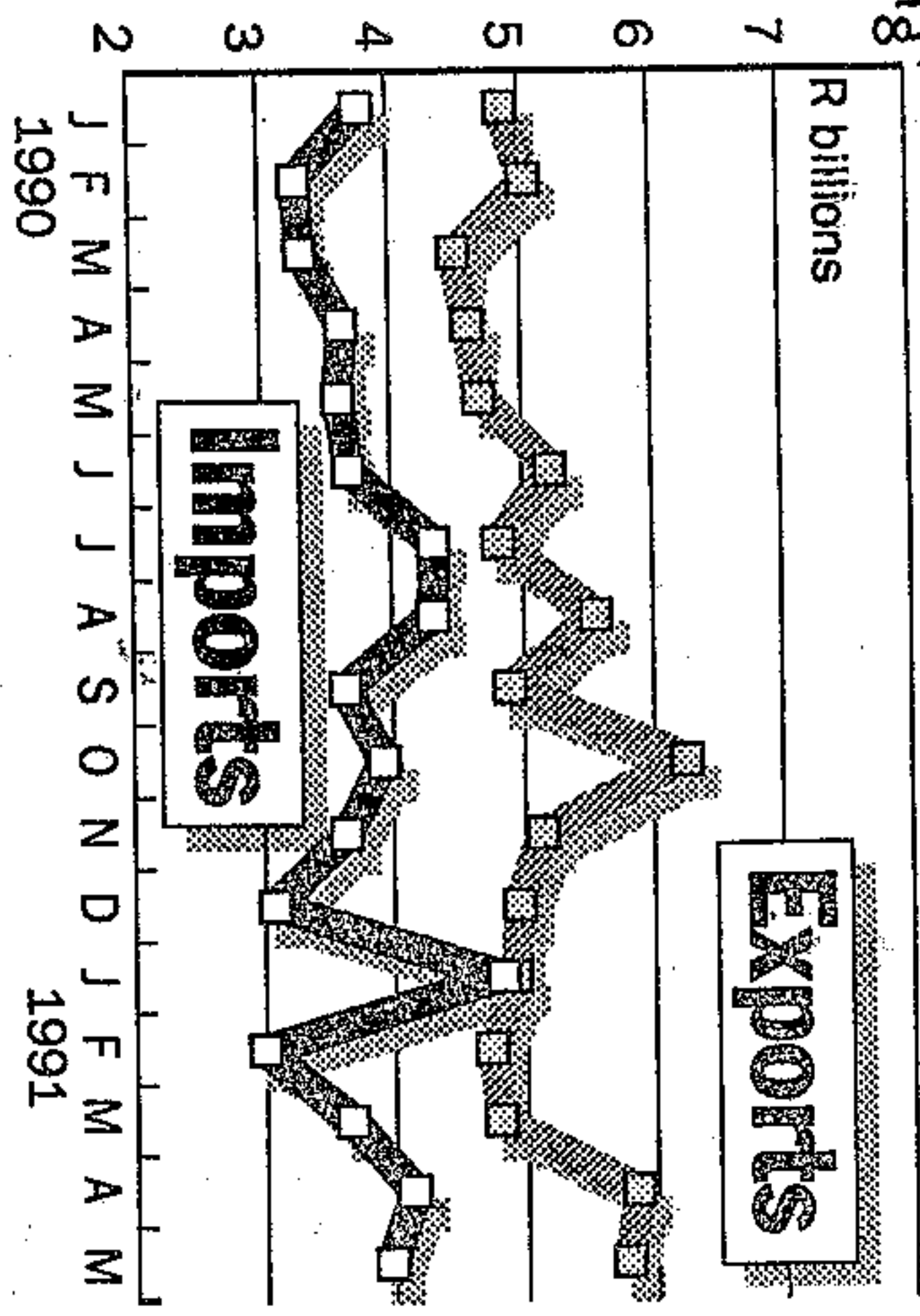
South Africa's exporters are taking full advantage of the opening of new markets and the recent weakening of the rand against the US dollar.

Exports in May at R5,78 billion were slightly down from April's record level of R5,85 billion, but pushed total exports so far this year to R26,1 billion from R24 billion in the same period last year.

The trade surplus in May rose to R1,83 billion (April: R1,71 billion) as imports during the month declined slightly from R4,14 billion to R3,96 billion.

The fall in imports, after three successive monthly increases, is an indication that the recessionary conditions are finally impacting on demand for imported goods.

For the first five months of



the year, however, total imports of R19,57 billion are still well ahead of last year's comparative figure of R17,6 billion.

Many sectors of the South African economy reported an improvement in exports in the January to May period this year.

Exports of unclassified goods (mainly gold and other precious metals) rose to R11,06 billion (January to May 1990: R9,97 billion) while base metals increased to R3,83 billion (R3,52 billion). On the manufacturing side exports of vehicles, aircraft and

transport equipment improved from R542 million to R562 million.

However, reflecting lower international mineral prices, the revenue from mineral products fell from R3,03 billion to R2,76 billion.

Agricultural exports continued to fall in May as a result of the poor harvest and exports so far this year are R200 million lower at R801 million.

At the same time the country has been forced to import wheat and maize which has pushed up imports of vegetable products from R290 million to R490 million.

Imports of unclassified goods (mainly oil) were substantially higher at R2,85 billion (R2,2 billion) but were boosted by unusual imports of about R1 billion in January to boost the strategic oil stockpile.

Machinery imports were up by over R300 million to R5,64 billion.

MONETARY POLICY

MAPPED OUT

74
21/6/91

A useful indicator of the stance of monetary policy is the differential between the "natural" rate of interest and the actual rate, says UBS economist Hans Falkena in the latest *United Perspective*.

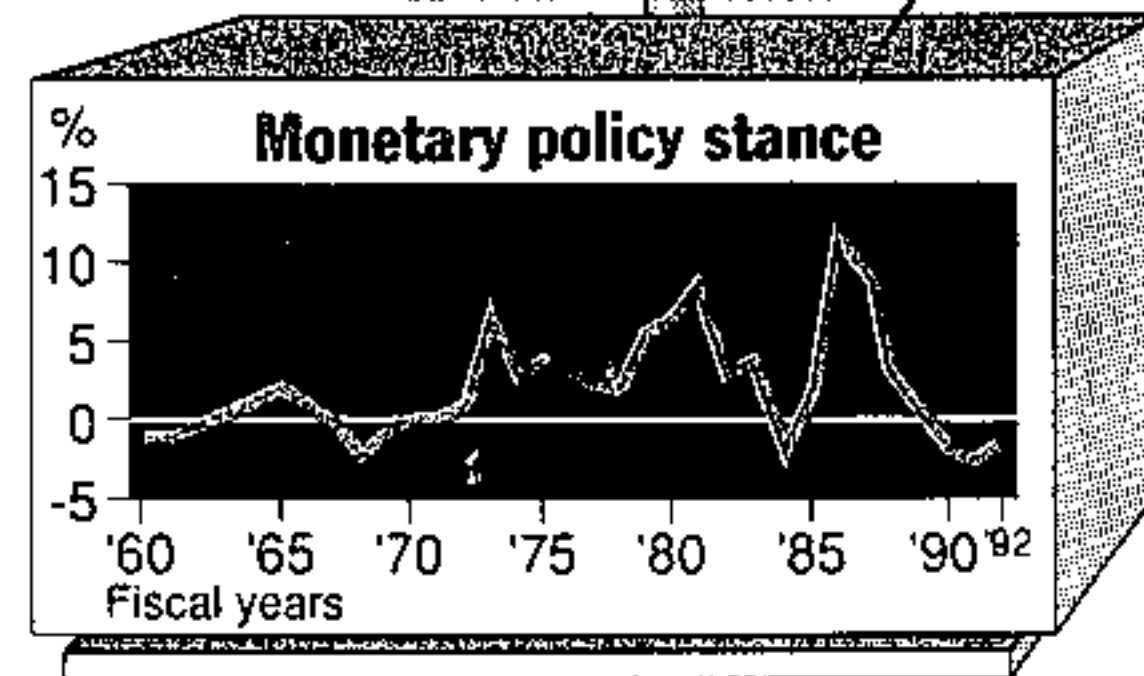
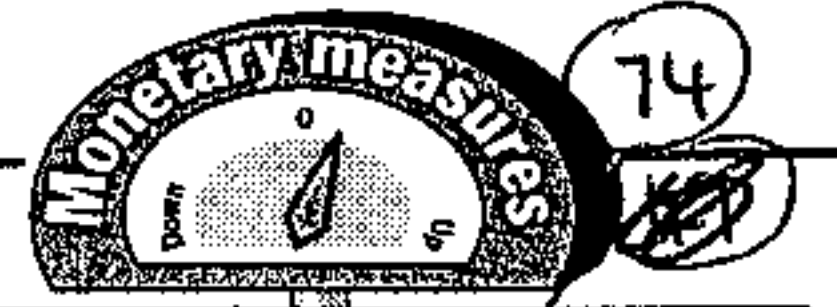
"The natural rate," he says, "should depend on profit expectations of entrepreneurs. For instance, the forward rate that balances the supply and demand for forward foreign exchange (in the absence of official interference in this market) is an acceptable proxy for the natural rate as it adequately reflects profit and inflation expectations of exporters and importers."

The actual rate should be either the Bank rate or a market rate such as that paid on bankers' acceptances. If the natural rate is lower than the actual rate, the differential is negative and monetary policy is restrictive; and if it is higher, the differential is positive and monetary policy is expansionary.

Falkena uses this differential to illustrate the stance of monetary policy since 1960 (see graph). In the period, policy has been con-

Continue →

Fm 21/6/91



tractionary for only a limited number of comparatively short periods.

The change in the policy stance is also relevant, says Falkena. "This is defined as the impulse of monetary policy. A positive impulse implies that monetary policy becomes more expansionary or less restrictive. Conversely, a negative impulse indicates a tighter stance or a less expansionary one."

The significance of this "impulse measurement" is that the monetary authorities are more interested in the direction of a policy measure than in its absolute level.

"Since the early Seventies and up to about 1988 the successive impulses of monetary policy were extremely volatile."

Considering the high inflation rate and the far more subdued changes in the business cycle, this volatility indicates the erratic impact of monetary policy. Fortunately, since 1988, monetary policy has been more consistent as it becomes progressively tighter to address the inflation problem."

Falkena examines the consequences of an actual rate that is too low in relation to the natural rate. "If Bank rate is below its natural rate, you will have massive switching from foreign to domestic financing, which will blow up the money supply, in turn fuelling inflationary pressures in the economy." ■

Sustained export drive predicted

More good trade figures fuel optimism

74
B10am
21/6/91

AN UNEXPECTEDLY strong foreign trade performance was on the cards for 1991, economists said yesterday following another set of buoyant trade figures in May.

The May trade surplus climbed to R1,826bn from April's R1,713bn and March's R1,1bn, Customs and Excise figures yesterday showed. It brought the cumulative surplus for the five months to end-May to R6,532bn, a 2% improvement on the corresponding period last year.

This could see the year's trade surplus climb to R15,7bn and, after subtracting about R11bn in net foreign service payments, a R4,5bn surplus on the current account could be achieved, economists said. The revised estimates compare to predictions as low as R3bn earlier this year and do not account for the expected R1bn saving on oil imports proposed by government.

ANDREW GILL

Imports in May were R3,6bn and exports R5,78bn. Although lower than April's export figure of R5,9bn, it was well up on the monthly average of R5,1bn in the first four months of the year. The year-on-year increase from May 1990 to May 1991 was a strong 21,6% for exports, thanks largely to significant increases in diamond and base metal exports.

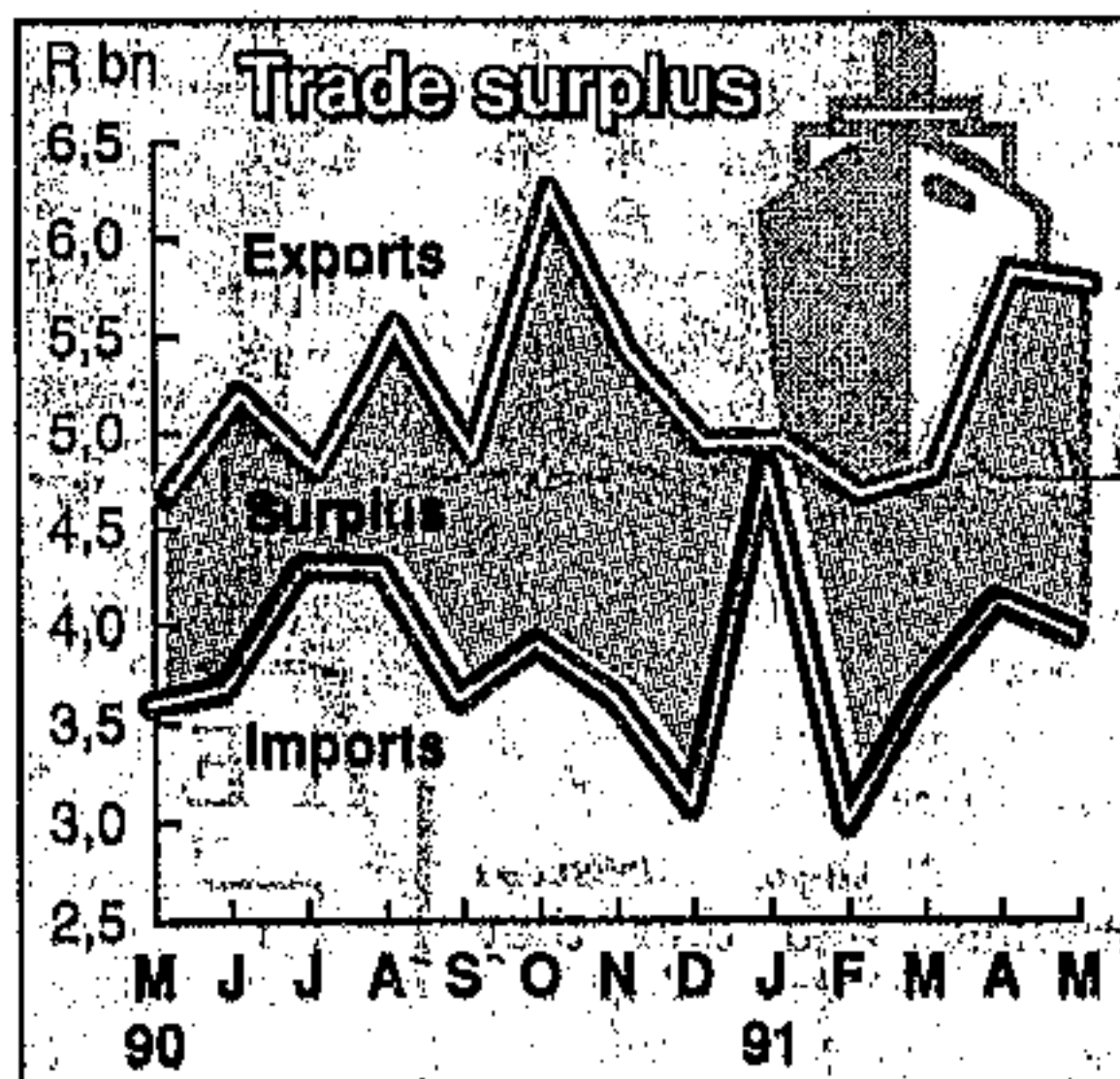
SA Foreign Trade Organisation (Safto) economist Bruce Donald said the continued fall in the rand exchange rate in May had boosted export earnings.

Export sectors showing strong improvement this year included vehicles and transport equipment (up 33%), chemicals (up 25%) and plastics (up 47%).

Nedbank economist Edward Osborn said it was significant that an increase had been maintained in May despite low commodity prices. One of the factors that was likely to be boosting exports, he said, was rhodium. The metal's phenomenal rise last year occurred only at the end of June and it was still holding at relatively high levels.

Bankorp economist Emile van Zyl said a worst-case scenario would see exports doing the same as last year with government currently doing a lot to create a sound environment for exporters.

Reserve Bank gold and foreign exchange GM James Cross has said a \$1,4bn capital outflow could be expected in 1991 if no rollovers were secured. This would be covered by the expected current account surplus, leading to an increase in foreign exchange reserves.



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

INTEREST RATES ^{FM 21/6/91}

OUT OF STEP ^{(74) (74)}

The rate on the Eskom 11% moved over 16% at the close of business on Friday, for the first time since January. This benchmark rate has risen steadily from a low of 15,37% on February 19, reflecting declining confidence in political developments and a revival of inflationary expectations. It was given further impetus by sales of government stock of just over R3bn in April-May, the first two months of the fiscal year.

While investors are reluctant to lock into longer-term investments, they are seeking paper in the money market. Surplus funds coming from increasing foreign exchange reserves and government spending have reduced the shortage (despite central bank intervention) to under R2bn. This is well below a high of R2,3bn in January and the 1990 high of R4,8bn that January.

Short rates are propped up only by continual Reserve Bank operations to remove cash from the system. On Friday, the Bank sold R300m liquid RSAs (government stock of under three-year maturity), with an undertaking to buy back within 12 days (giving banks the opportunity to enter a reverse

ECONOMY & FINANCE ^{(74) (74)}

^{FM 21/6/91}

repurchase agreement.) The offer was oversubscribed, attracting tenders of R720m.

This is only the latest in a series of moves, which include offers of special Treasury bills and dollar swaps, which have flattened the slide in short rates. In recent weeks, rates on liquid bankers' acceptances (BAs) have remained around 16,75%-16,8% and on six-month certificates of deposit at about 17,3%.

The yield curve is still inverse (long-dated stock is yielding less than short-dated securities), as it has been since the end of 1989, after Bank Governor Chris Stals pushed Bank rate to 18%. The market's confidence in his anti-inflationary policy sent the Eskom 11% below 15,5%, while the rate on three-month BAs rose to around 18%.

Later (despite unwavering monetary policy) confidence waned and the BA rate moved down, blipped up twice in the second half of last year, and then fell to present levels. The Eskom 11% moved generally upward for most of 1990, falling steeply towards the end of the year, and resuming its upward path in February.

With rates back over 16% there may be a revival of institutional interest. ■

Continue - 17

tries, deciding what products would be made and where, what can be imported and what must be kept out — exactly how SA got into its mess in the first place.

Free market-leaning countries such as the US studiously avoid any hint of an industrial policy; when Congress raises the issue, the veto threats from the White House are immediate. And besides, the success of Japan, South Korea, Taiwan and especially Hong Kong is not the result of government meddling in business decisions, but their emphasis on market policies — positive real interest rates, low taxes, low tariffs, minimal regulations and a strong focus on education and training.

The debate was heightened recently with the SA Chamber of Business's long-awaited release of its study, *Concept for the Development of a New Industrial Policy for SA*. This followed another important contribution to the debate — the release of the Industrial Development Corp's report strongly recommending sharp tariff reductions.

The chamber plans to follow the report with an analysis of various manufacturing sectors and then have each sector use the information to formulate its own strategy.

In the marketplace for industrial blueprints, the chamber believes it has a comparative advantage. Says chamber economist Ben van Rensburg: "Government is not

competent enough to devise such strategies off its own bat. The private sector needs to determine its own priorities."

The chamber's report certainly reveals that something must be done:

□ The manufacturing sector's contribution to GDP dropped from 26% in 1981 to 23,6% in 1989 — surely one cause of the 7% drop in the average South African's living standard between 1979 and 1989;

□ While production volumes in SA were dropping between 1981 and 1989, South Korea and Malaysia averaged real manufacturing growth of 7% a year between 1980 and 1988;

□ Total industrial employment increased by a mere 0,2% a year in the Eighties; and

□ Investment in machinery and equipment, as a share of GDP, declined from 10,7% in 1982 to 7,3% in 1989. "The current level of investment in machinery and equipment is at a similar level to what it was in the early Seventies," the chamber says.

The high cost of capital is highlighted as the central problem. "For SA, the cost of capital is an estimated 31,3%. This means that for each R1 000 used to fund working capital and capital stock in business, a margin of R311 is required to service the cost of capital. This margin must come from the selling price of the products."

SA's 48% company tax rate means that products must cost roughly 15% more to

Fm 21/6/91
INDUSTRIAL POLICY
AVOIDING THE PITFALLS

The chorus for an industrial policy grows louder by the day. SA must have an industrial policy, it is argued, to avoid the "ad hockery" of past decision-making and to put the economy on the right "growth path."

Advocates of this school of thought, whether from business, government or the ANC, cite the economic powers of the Far East as examples of what an effective industrial policy can do to kick-start an economy.

But for free market proponents, calls for an industrial policy sound an alarm. For industrial polices usually mean interventionism: governments picking favoured indus-

yield the same profits as products made in a country with a 30% rate, says the report. And with interest rates at 20%, local manufacturers must add 4% more to their prices than competitors who pay 10% for funds.

The country's 31,1% cost of capital is far higher than Australia's 14,5%, the US's 11,4%, France's 11,5%, Germany's 9,7% and Japan's 3,4%, according to the report. And the cost and productivity of labour, as well as the political risk, further add to SA's lack of attraction for investors.

On top of all this, factors such as import duties and surcharges, GST and other charges put SA industry at an even greater disadvantage to other countries. Compared with a UK manufacturer importing capital equipment, for example, a local manufacturer faces costs that are as much as 58% higher (see table).

If SA must have an industrial policy, these facts and figures show that a simple policy aimed at eliminating the burdens holding down industry would be very effective. Many of the proposals for industrial policies aim to do just that. For example, economist Michael McDonald of the Steel & Engineering Industries Federation of SA suggests a policy that eliminates import surcharges, eventually reduces company tax to 30%, and dramatically chops tariffs.

But business can't resist asking for some perks for itself; clearing away all the obsta-

Cost of imported equipment		
	for a UK manufacturer	for a SA manufacturer
Equipment bought in Germany	R100 000	R100 000
Trucking & installation	R10 000	0
CIF charges: 10%	0	R10 000
Import duty: 10%	0	R11 000
Import surcharge: 10%	0	R12 000
GST: 13%	0	R17 303
Vat	0*	0
Wharfage & railage	0	R5 000
Installation & commissioning	0	R15 000
Interest for extra delivery time	0	R3 300
TOTAL INSTALLED COST	R110 000	R173 703

Higher cost for SA manufacturing: 58%
*Vat on productive equipment immediately refundable

mate by following correct monetary and fiscal policies, leading to lower inflation.

But, he added, it should also introduce "activity-specific" policies — tax incentives and other benefits for chosen sectors. He said government intervention should be aimed at improving competition and at facilitating the beneficiation of raw materials for export by "kick-starting" industry, if necessary.

This is where market advocates begin to get nervous. Were not decentralisation, import replacement, government ownership of certain industries

cles to growth isn't enough. So McDonald also says he feels that SA may need specific policies such as tax holidays and other incentives to promote industrial investment.

Likewise, government can't resist carving out a role for itself; if it eliminated all the impediments and stepped aside, the politicians and bureaucrats would have nothing to do. In his budget vote last month, Trade & Industry Minister Org Marais said government must create the right investment cli-

and other discredited programmes once part of an interventionist industrial policy?

Organised business groups and government met recently to discuss the issue and they plan to press ahead. "What we need is a constant monitoring of progress to develop an industrial strategy for SA," McDonald says. "What we must prevent at all costs is a fall-back to the ad hockery of the past."

What he also might have added is a fall-back to the interventionism of the past. ■

Boontime as trade rumbles

AS sanction-busting political changes in South Africa continue, Messina, the town described as "The Gateway to Africa" is gearing itself for a major trade explosion.

Messina braced for big spin-off

Star 22/6/91
DIRK NEL

Private enterprise in this country has taken to the roads in a big way, and Messina is feeling the impact of a procession of huge container trucks bound for central and east Africa, carrying appliances, spares, food and other commodities, returning with fertiliser, cement, tobacco, and other reciprocal products.

He said tourism from Africa was showing a rapid upward trend, and this meant more money for Messina, as the first town on the route south of the border.

"The facilities at Beit Bridge are completely inadequate — it is becoming quite embarrassing, and something drastic will have to be done if trade with Africa continues to grow at the present rate," said Mr Klaff.

He saw decentralisation by major exporters to Messina as a logical de-

velopment in the near future.

Seven trainloads of goods cross the bridge every day for delivery to African states, a Spoornet spokesman said.

This week a new passenger train service between Bulawayo and Johannesburg was launched as a result of improved tourism prospects.

A visit to the Messina station and the congested Beit Bridge border post confirmed Mr. Klaff's claims.

Many of the truck drivers at the bridge said they did round trips which included Zimbabwe, Zaire, Zambia and Botswana. Most of the trucks were fitted with sleeping bunks,

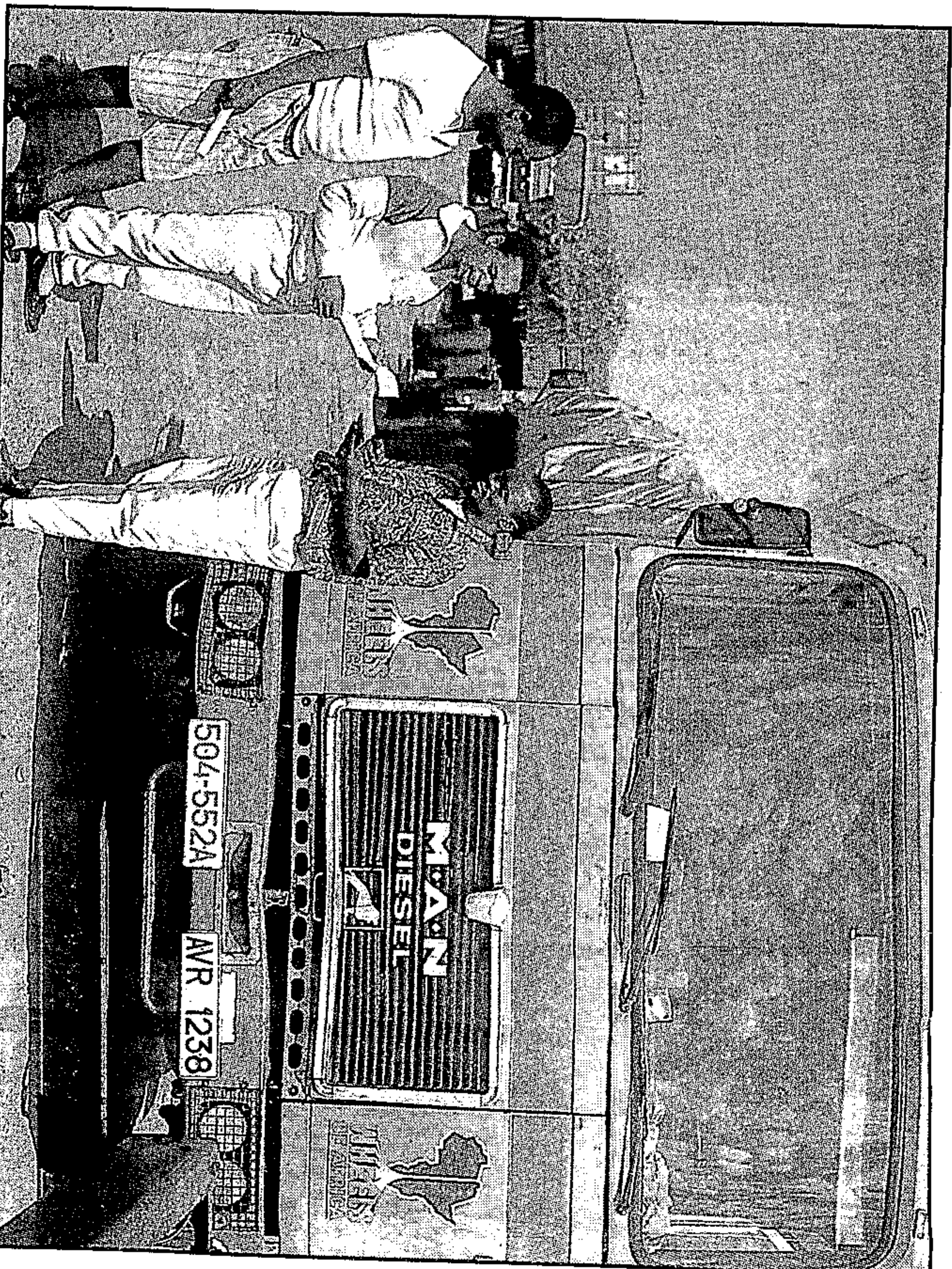
and the drivers carried international credit cards for fuel, food and spares.

"It's a tiring job, but I enjoy it, and the pay is good," responded cheerful Cyprian Diamini of Durban, when asked about his daily routine.

"On the road again — no time to lose," Anderson Chivovopo of Zimbabwe said as he slid behind the wheel, after checking through customs.

About 600 km a day appeared to be routine for these hardy travellers.

They welcomed the road-widening construction work in progress on the N1 between Louis Trichardt and Messina, saying they thought it was long overdue.



BUSY TIMES COMING: Heavy duty truck drivers relax for a chat before continuing on their way across Africa.

Foreign traders

keen to buy

Cape clothing

TOM HOOD, Business Editor

FOREIGN trade delegations and international financing agencies are showing increasing interest in buying clothing from Cape Town factories, says Mr Peter Cragg, executive director of the Cape Clothing Manufacturers Association.

"Already the largest contributor to the national gross clothing export effort, Cape manufacturers seem poised to grow this aspect of their markets even further," he says.

He has arranged presentations on international clothing trends for members as well as convening meetings with foreign embassies for senior industry executives to brief visiting delegations.

Mr Simon Jocum, chairman of the association, says an important observation made by these visitors is that manufacturers who expect to reap exceptional profits from exporting will be disappointed.

"Foreign buyers are extremely demanding on both quality and price. Producers need to work much harder at export orders than they do for some of their less demanding local buyers.

"However, the real pay-offs come by the improved output capacity to fill local orders. The result of exporting is a leaner, more competitive company than has developed a far more robust profile due to its international experience.

"This in turn creates far better returns on their local trade."

Mr Jocum said on the labour front, manufacturers were still reporting closures, short time and retrenchments. However, the net position was stabilising, lost jobs being replaced by new factory openings.

R77m jump for clothing exports

AGUS 22/6/91 Business Editor

THE value of clothing exports increased from R118 million in 1989 to R195 million last year and the figure could be R1,2 billion by 2000, providing work for an additional 50 000 people, says National Clothing Federation (NCF) economist Arnold Werbeloff.

Mr Werbeloff attributes the increase to State export incentives and to improved sales of "big ticket" items.

But he warns in an article in NCF's mid-year newsletter that the textile sector could nip export growth in the bud if it succeeds in an application to Government for higher tariff protection on yarns and fabrics.

Textile manufactured volumes declined by 16,6 percent in 1990, compared with a 1,2 percent drop for all sectors.

Although the clothing industry achieved a healthy, export-led growth in manufacturing volume of 3,6 percent last year, 41 factories closed their doors and 1 300 people lost their jobs.

Employment now stands at about 123 370.

ST Times 23/6/91 (161) (74)

Japan is prisoner-bound

(Bus Times) (785)

TWO-WAY trade between South Africa and Japan could double to about \$8-billion within a year of the removal of all sanctions.

But it will not happen until the ANC has certified that the SA government has released all political prisoners.

Japan's promise to review its long-standing sanctions after the removal of the last apartheid legislation this week raised hopes that the way would be cleared to en-

By IAN SMITH

courage reciprocal trade and the door would be opened to Japanese investment in SA.

But that is not on — for the time being at least.

Japan's Foreign Ministry is still strongly resisting pressure from the Ministry of International Trade and Industry (Miti) and the Federation of Economic Organisations (Keidanren) for the

removal of all sanctions.

Foreign Ministry officials are apparently unwilling to risk offending the African bloc at the UN or the black lobby in the US before Japan is given a seat in the UN Security Council.

The sanctions issue will now be handled in two phases. The first phase, linked to the scrapping of apartheid legislation, will remove restraints which have little real impact.

They include the lifting of visa restrictions on tourists to and from Japan, the removal on the ban on promoting tourism to SA in Japan and the removal of the ban on Japanese officials travelling on SAA. These measures were announced on Friday.

The second phase, which would see the removal of the ban on direct Japanese investment in SA, will be linked to the release of political prisoners.

The catch lies in the fact that the Japanese will require the ANC to certify that all political prisoners have been freed. They also will not move until the US has scrapped at least some of its anti-SA sanctions.

Observers point out that all Japan has done so far is remove the "informal" restrictions which limited trade to 1986 levels.

Success

Japan has taken a much harder line on prisoners than the US, which has said that it does not regard people who have committed acts of violence for political reasons as political prisoners.

Tokyo's stance has been particularly disappointing for SA business because of the success of the Keidanren's first visit to SA in decades last April. Japanese businessmen were highly impressed by what they saw in SA.

They forecast that reciprocal business could be doubled within a year from the current \$4-billion.

Bank acts on gold swap reserves

MOVES by the Reserve Bank to halt the depletion of its gold swap portfolio reflected its comfortable reserves position and would reduce downward pressure on the gold price, analysts said yesterday.

Reserve Bank gold and foreign exchange reserve GM James Cross, in Vienna for the Financial Times World Gold Conference, was quoted by Reuter as saying the Bank did not intend reducing its swap portfolio further and would like to buy back gold and build up reserves.

The Bank had been compelled to swap gold reserves for dollars during the 1980s when foreign exchange reserves were needed to repay debt commitments. Although the swap was a form of a loan "with absolute surety", the bullion involved in swaps was sold down over time.

Since the end of 1988, Cross said, the

ANDREW GILL and
MERVYN HARRIS

swap portfolio had fallen to around 5-million ounces from 12.8-million. This represented a net outflow of 7.8-million ounces.

Physical gold holdings of the Reserve Bank are running at 4.9-million ounces.

Frankel Max Pollak Vinderine economist Mike Brown said the move reflected a more confident approach by the Bank towards its reserves, especially with other access to financing becoming available in the future.

It had been an expensive way of financing reserves, with bullion being swapped at a discount of between 10% and 20% of its

To Page 2

Gold swaps

price in a declining gold price environment.

Davis Borkum Hare analyst Dave Giese said the move reflected the imminent accessibility of other forms of financing for reserves.

Gold tumbled through several key support levels on bullion markets yesterday to go briefly below \$360 in what traders described as a vicious sell-off by professionals in early New York dealing.

The metal recovered some of its poise to close \$5.30 down at \$361.45 in London, but the sudden plunge in thin conditions sparked "a little panic selling" of gold shares on Diagonal Street, dealers said. In New York gold closed at \$363.15.

The JSE all gold index fell 3.4% to 1 326 in a market where the much needed correction of leading industrial shares got under way after their record-breaking run had created an over-heated market.

From Page 1

Safto strives to open channels in Africa

B/Day 25/6/91 Business Day Reporter

74

SAFTO is working hard to open up channels with the World Bank and African Development Bank to enable SA companies to participate more directly in the development of southern Africa.

Writing in the Barlow Rand group's journal, Safto CE Wim Holtes said Europe was withdrawing from Africa in setting up the 1992 EC single market. With Africa rapidly opening up to SA, it was up to SA business and government to respond.

Almost 40% of SA's total manufactured exports were sold to African countries, Holtes said. There was "virtually no product or service sold in SA" that could not find a niche market somewhere in Africa.

Exports to Africa made up nearly 15% of SA's non-gold exports. B/Day 25/6/91

Holtes believed SA companies might ease off their sales campaigns in some of the new Far East markets. The drive into new markets might be lost as new market development carried a high cost, he said.

"It is likely that export companies not primarily dependent on Western Europe will turn increasingly to Africa, where so much success has been achieved by our manufacturing export sector and the services sector during the past few years."

While the poor payments situation in Africa continued to present a problem, Holtes noted it was "remarkable" how well SA companies had succeeded in overcoming this "major restraint".

Trade between SA and the Southern African Development Co-ordination Conference (SADCC) was seven times that of inter-SADCC trade and 20% to 40% of the region's exports moved through SA transport systems.

However, Europe remained important for SA. Half of SA's trade was with the continent, and the possibility of bilateral trade agreements should not be excluded in future relations with the EC.

Short-term capital gives boost to BoP

B1 Day 25/6/91

74

ANDREW GILL

SA's balance of payments was boosted in the first quarter of 1991 in the form of a net inflow of short-term capital to the tune of R1,4bn — the largest quarterly short-term inflow in more than a decade.

The latest Reserve Bank Quarterly Bulletin says that the inflow was due to trade financing, reflecting an increase in the value of merchandise imports and relatively cheap foreign borrowing compared to local funding.

Reversed

It compared to a R1,15bn outflow in the last quarter of 1990 and a R929m outflow for the whole of the year.

The strong short-term performance resulted in an overall capital inflow of R779m in the first quarter despite further long-term capital drains.

Repayments of approximately \$200m of foreign debt in terms of the Third Interim Debt Arrangement were recorded in the quarter. These were mainly responsible for the almost R600m outflow in long-term

capital, the Bulletin said.

Analysts warned the short-term capital movements could just as easily be reversed and have a poor effect on the country's still tenuous capital account.

Long-term capital movements saw R583m leaving the country in the first three months of the year following 1990's R1,95bn outflow.

Further long-term outflows from public authorities and the non-bank private sector were partly balanced by inflows in the banking sector and public corporations.

Inflows to public corporations climbed to R188m from R173m in the last quarter of 1990 while the banking sector received its first inflow since the end of 1989 at R273m.

The total inflow to the corporations since the fourth quarter of 1988 was R1,66bn.

However, an R877m outflow from the non-banking private sector and a R167m outflow from public authorities saw the long-term account remain in the red.

Economic handshake awaited

Star 26/6/91

PHILIP GAWITH reports
from London

THE idea of regional economic integration in southern Africa has been on the agenda since the turn of the century, when romantic engineers toyed with the idea of running the gold mines of the Witwatersrand from hydro-power generated at Victoria Falls.

That was never realised, but the idea of a regional grouping received new vigour earlier this month when President de Klerk floated it on his historic visit to Kenya.

Two years ago such talk would have been inconceivable. But the speed of South Africa's reintegration into Africa has rivalled even the formidable rate of internal political reform. The two, of course, are intimately related.

As Dr Erich Leistner of the Africa Institute in Pretoria observes: Apartheid was the futile attempt of white South Africans to escape the realities of their African existence.

The shedding of apartheid has not only made South Africa more acceptable to its African neighbours, it has also reminded South Africans that their well-being is bound up inextricably with Africa's.

The simultaneous failure of foreign aid and advice to arrest sub-Saharan Africa's debilitating economic spiral has also brought South Africa and Africa closer together.

Previously the relationship was distorted by political factors, notably the desire of Frontline states to distance themselves from South Africa.

To this end they formed the Southern African Development Co-ordination Conference (SADCC) in 1980, with the aim of promoting development in the 10 Frontline states and reducing their dependence

on South Africa. Only now are economic criteria beginning to enter the discussion.

In terms of infrastructure and trade, there is already a substantial base to build upon. Eskom, South Africa's power utility which produces 60 per cent of the continent's electricity, sells to six Frontline states.

Trade between South Africa and Africa is also flourishing. Accurate figures are difficult to come by, but officials estimate it totalled between R7 billion to R10 billion last year.

Developments in South Africa, Angola and Mozambique will all play a part in integration, while South Africa's rehabilitation will be incomplete without the imprimatur of the Organisation of African Unity. Africa and South Africa are enjoying a honeymoon phase. Difficult decisions, however, lie ahead.

In particular, what form will regional co-operation take? How will existing overlapping structures such as the SADCC, South African Customs Union (which allows for the free interchange of goods among South Africa, Botswana, Lesotho and Swaziland, with Pretoria distributing customs revenue among the members according to an agreed formula), and the Preferential Trade Agreement (a grouping which includes 12 southern states) be rationalised?

Dr Leistner, who believes co-operation should initially be bilateral and functional in emphasis, cautions strenuously against grandiose schemes. He is sceptical about the prospects for trade integration between countries with little trade among themselves.

He also notes that SA is faced with factors which have bedevilled other African regional groupings: narrow nationalisms, failure to equalise the costs and benefits of closer union, disparate ideologies, and the lack of a strong political commitment to regionalism.

For Pretoria's partners, there is danger that their industrial sectors will be overwhelmed if fully exposed to competition from South Africa. If trade is to flourish, South Africa will have to find ways of increasing its imports from the region.

There are other dangers: excessive expectations and excessive introspection. Guilty on the former count are numerous African politicians who seem to think South Africa will be able to wave some sort of magic wand over the continent's problems. It cannot.

Going too far in the other direction is the ANC, which has come close to enunciating a "South Africa first" policy. — Financial Times. □

Japanese business remains cautious on SA

Star 26/6/91

By Edward Neilan
Star Foreign Service

TOKYO — Japanese business circles have welcomed the Tokyo government's decision to lift sanctions on exchanges with South Africa as a major step towards improving business ties between the two countries.

Lifting of the remaining economic sanctions is expected soon on the condition that political prisoners are released and that human rights for blacks improve.

These sanctions include a ban on iron and steel imports, and new direct investment by Japanese firms, as well as a call for restraint in loan extensions and gold coin imports.

Tourism is the first industry that may see a surge, analysts say. Hong Kong's Cathay Pacific Airways already

has plans for a Johannesburg flight which can be fed by its current service from Tokyo to carry high-spending Japanese travellers to a "new" destination.

But most domestic firms remain cautious, expecting that the recent slump in the South African economy will serve as a temporary barrier to the expansion of bilateral trade and investment.

Takashi Watanabe, general manager of the regional analysis department of Mitsui and Co, said: "South Africa, which is rich in precious metal and mineral resources, has no doubt the highest potential for economic growth in Africa."

In the long run, the company was willing to support the rehabilitation of the country's economy, he said.

However, while economic and political situ-

ations were seen as unstable by Japanese firms, Mr Mitsui said Mitsui and others were likely to refrain from direct investment or loans to the country.

His views were largely shared by other trading firms and by firms involved in the current limited trading with South Africa.

Rapid growth

Soichiro Toyoda, president of Toyota Motor Co, said: "Because rapid economic growth in the South Africa is not assured, we plan to increase auto parts exports to the country only gradually while monitoring the situation closely."

The company's production and sales company in Johannesburg began local assembly in 1962.

Although the local subsidiary has strongly re-

quested an increase in motor parts exports to South Africa to boost production, Toyota refrained from increasing exports of engines and other parts beginning in 1988 in line with the government's call for restrictions on trade with Pretoria.

Spokesmen for Hitachi, Matsushita Electric Industrial Co and Sharp Corp, which have exported electrical appliances to firms and households in South Africa, told the Japan Times they did not plan to expand trade with the country immediately.

Contrary to the prevailing cautious attitude, Royal Co, a Kyoto-based fruit trading firm, has resumed imports from South Africa after a lapse of five years.

The company made the move after the Agriculture, Forestry and Fisheries Ministry gave

permission in May for the import of South African grapefruit, oranges and lemons.

This year's shipment of about 3 600 tons of grapefruit, 680 tons of oranges and 1 020 tons of lemons was scheduled to arrive by October, a spokesman for the company said.

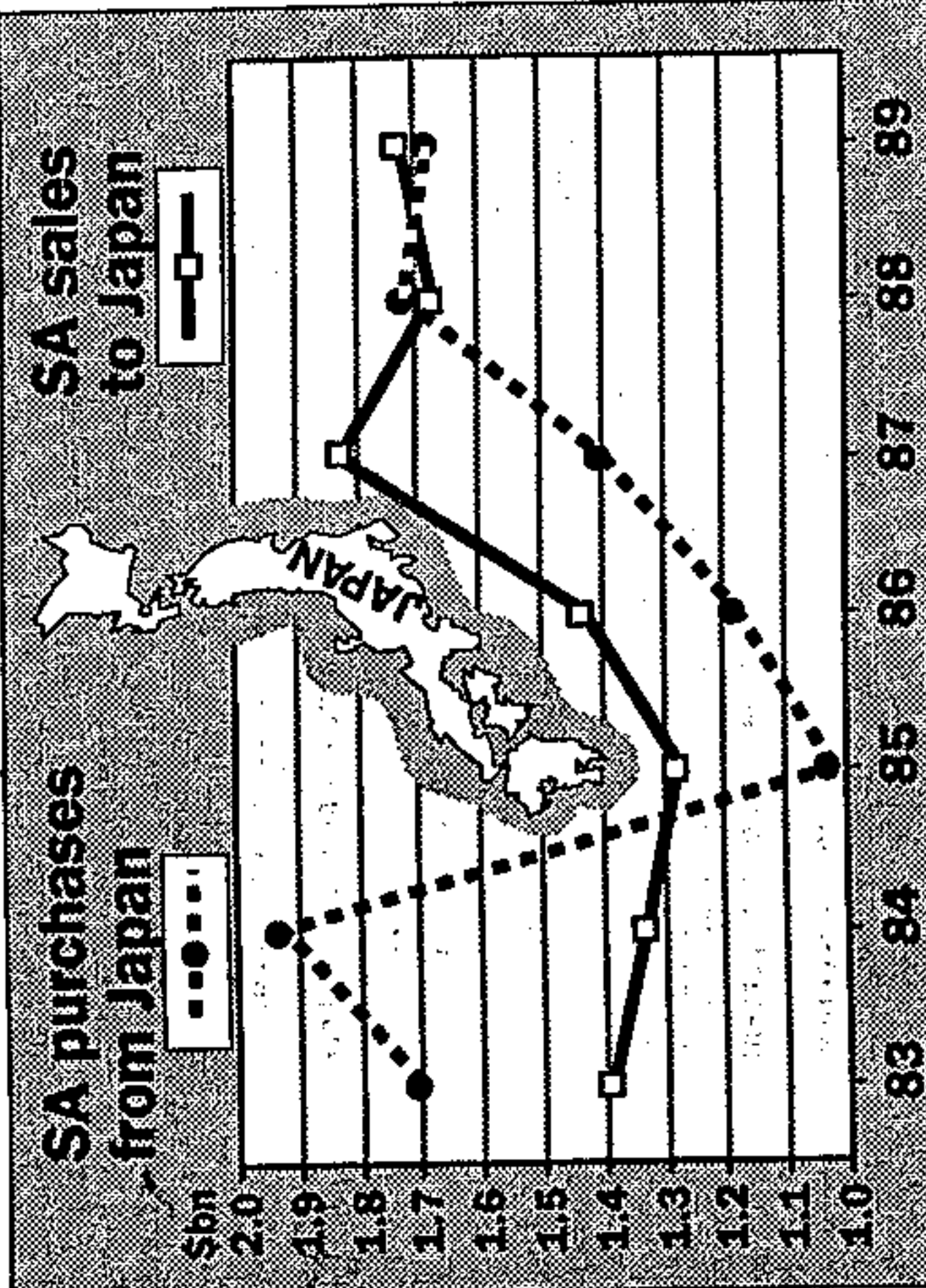
Boost imports

He said Royal Co, which was the only company importing citrus fruit from South Africa, planned to boost imports threefold to about 17 000 tons next year.

The company began importing South African citrus fruit in 1974, but it halted imports in 1986 in line with the government's policy of restricting trade with South Africa.

"Considering that the buying price of South African grapefruit is about \$11 (per unit), which is about \$5 less than California grapefruit, we see a great potential in the South African market," the spokesman said.

The Electric Power Development Co, a gov-



ernment-affiliated power company, hopes to increase coal imports from South Africa from the last fiscal year's 260 000 tons to about 400 000 tons this year, assuming economic sanctions are lifted in the near future.

But the company, which imported a total of about 7 million tons of coal last year, empha-

sized that the plan needed further negotiation and close co-ordination with the Ministry of International Trade and Industry.

"Public and government consensus on the opening of active trading with the country is indispensable when taking such a measure," a

spokesman said. The Japan Institute for Social and Economic Affairs said its exports to South Africa totalled \$1.8 billion (about R5.2 billion) in 1989, while imports from Pretoria amounted to \$2 billion (R5.8 billion) — about one percent of Japan's foreign trade for the year.

Property value responds

Foreigners take a peek

THE international market has already begun to respond to the promise of a new SA with a growing flow of inquiries about office space for businessmen, banks, trading houses, agents, members of the travel industry and embassies.

Another often forgotten factor in the equation are representatives of international aid and human rights agencies linked to the United Nations, which have already taken Windhoek by storm, says Ampros national leasing director Grahame Lindop.

But, he says, the growth in the market will not truly come into its own until SA has truly committed itself to a complete change in political structure.

"There is far more to the so-called new SA than we have seen as yet — and many potential tenants based overseas are waiting in the wings for it to be established," he says.

"But once SA has a new constitution, and has undergone a democratic election to bring in

74
50
a government chosen by all its people, we will see a real change in demand."

Parallel with this demand from the overseas market, he predicts a steady growth in enquiries from black businessmen.

"We are not going to see a sudden surge in lettings to black businessmen — who have, after all, had access to space in the CBDs for some time.

"But with the change in socio-political climate we can expect the number of blacks in business to grow exponentially — albeit from a relatively small base — and they will come into the CBDs which are serviced with public transport," he says.

The result, predicts Mr Lindop, will be the development of two distinct markets — the one price-driven and focussed on the C and D sectors, and the other less sensitive to price, from the international sector.

In the meantime, he says, on the industrial front there is still "considerably more talk than action".

to politics and VAT

Financial rand unresponsive to changes

By Neil Behrmann

(74)

LONDON — The financial rand's response has been muted so far considering that lifting of US sanctions will enable South Africa to borrow from the International Monetary Fund again and raise its status in international capital markets.

The firrand rose by only one percent after President Bush's clear signal that US sanctions would soon end.

Moreover, its present level of around 30 US cents to the rand is below the peak of 31.5 cents seen in the first quarter of this year.

On the face of it, the movement of the currency is disappointing.

On the other hand, the international market anticipated the potential good news several months ago.

Reserve Bank and government officials have said for some time that they intend phasing out the dual exchange

rate system as soon as South Africa can borrow from the International Monetary Fund.

As a result of those statements, international investors have already boosted the value of the firrand by buying high yielding South African bonds.

Since November last year, when officials hinted that there would be a change in the system, the firrand has appreciated by 9 percent against the dollar.

Reserve Bank

The commercial rand depreciated by 9 percent in the same period, so the financial rand discount to the commercial unit has narrowed to only 12 percent from around 30 percent.

The big question is whether the Reserve Bank will be in a position to abandon the two-tier currency system and exchange controls which have helped bolster the foreign exchange reserves.

Acceptance by the Interna-

tional Monetary Fund will undoubtedly raise South Africa's status in international markets and enable the country to borrow funds abroad.

But bankers say that in the present tight international financial climate there is no rush to lend significant amounts to South Africa.

Recent loans by the South African Treasury and parastatals such as Eskom and Post and Telecommunications are rollovers rather than new investment.

A return to international capital markets is thus unlikely to bring about a substantial improvement in the foreign exchange reserves.

Also, the financial rand recovery is mainly the result of South African bond purchases, largely by German and Swiss investors. Foreigners now own more than 40 percent of Eskom rand bonds, officials say.

These investors have done exceedingly well in the past six

months because their currencies have tumbled against the dollar and hence the financial rand.

The currency gain in Eskom bonds for a German investor would have been 33 percent since November. Inclusive of income over the eight months, the appreciation of the bond is an extraordinary 48 percent.

Bond yields

Following such a gain, the temptation to take profits must be great. There are already reports that German investors are increasing purchases of domestic Government bonds because yields in the low inflation economy are 8.5 percent and the currency has become depressed.

These bond yields compare with Eskom's yields of 18 percent, leaving a margin for currency risk of only 9.5 percent.

The financial rand trades in an extremely narrow market

and is thus volatile and highly speculative for international investors.

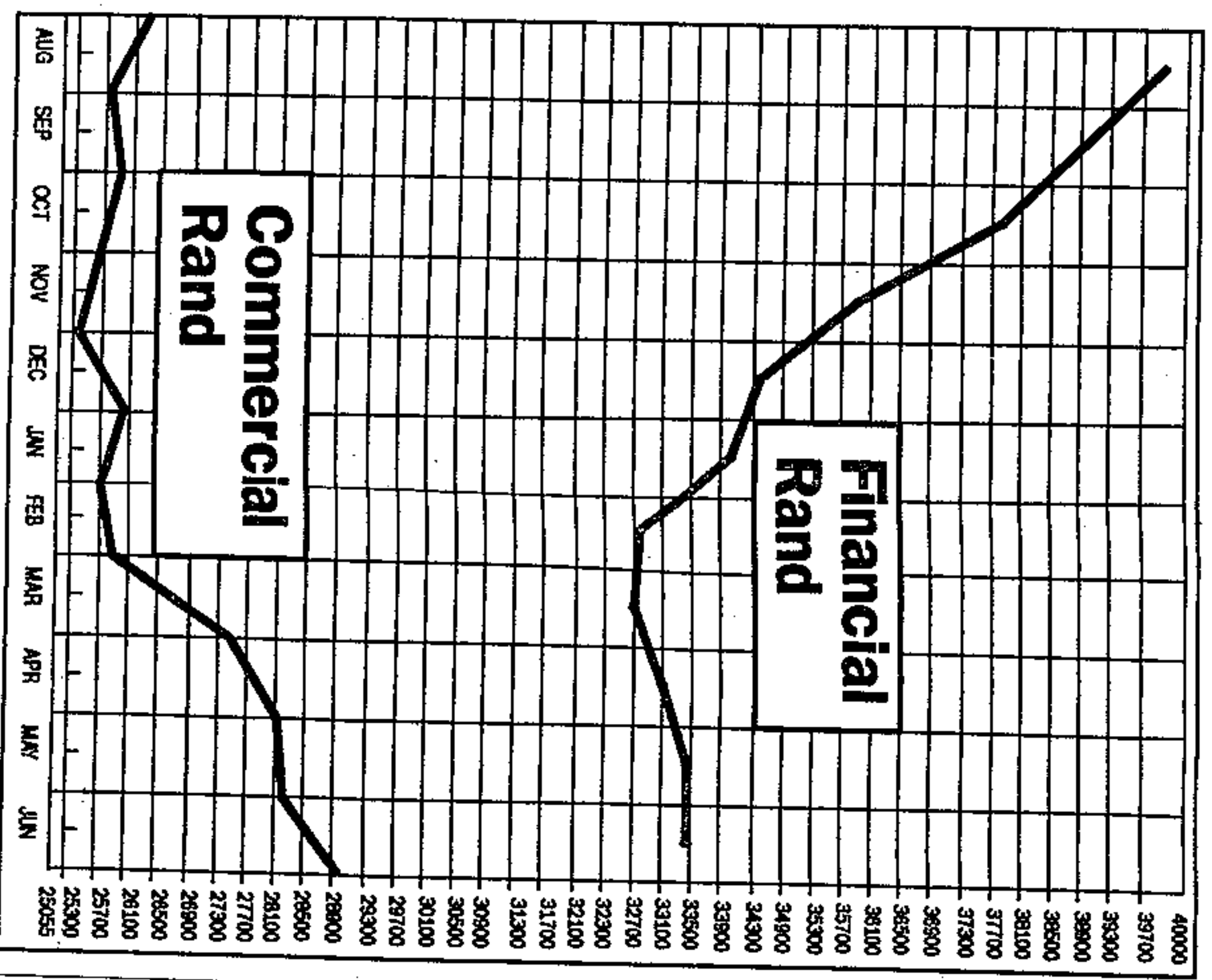
Its market is so narrow that spreads between bid and offer rates are as wide as 1.7 percent, a ludicrous level when compared with other foreign exchange rates.

The SA bond market is also illiquid from an international investment standpoint.

In this illiquid market, sudden sales or purchases of the financial rand have in the past invariably altered values by as much as 10 percent or more within days.

The danger for the Reserve Bank is the possibility that foreign investors will take profits on SA bonds and place pressure on the financial rand market.

This would not be the result of politics. International investors are fickle. They recently dumped Spanish bonds after appreciation of 40 percent and the peseta has weakened.



African markets opening for SA

74
CF 26/6/91

Own Correspondent

DURBAN. — Markets are opening up in Africa, the Minister of Finance Mr Barend du Plessis said at a presentation by local stockbrokers Frankel Max Pollak Vinderine last night.

The minister, who was in the city for the opening of the Reserve Bank's new building, said even a modest increase in SA's current trade of R1bn a year with Africa would make a considerable difference.

Du Plessis said the economic picture for SA was changing fast with approaches from various African countries — many of them were able to pay such as Nigeria and Angola with their oil resources.

And an era of drastic economic

change brought on by the Debt Standstill in 1985 could be eased as foreign capital returned to the country and access to the International Monetary Fund became possible.

Inflation remained a problem and this week's "dismaying" figures did not remove the possibility of a fall in the rate by the year-end.

He told the private sector that it must move away from budgetting for a 15% increase in costs — "if you provide for it, you will surely get that sort of rise in costs".

Some of the inflationary factors were embraced by payments to workers who were not productive — this would have to be dealt with.

The economy was going to be given encouragement so that SA became export-orientated.

A special two-year programme of cash allowances was planned so that the private sector could "concentrate on the window of opportunity that was now opening for exports".

SA should learn a lesson from the closing of the R1bn-a-year American market which was replaced in a matter of months by other markets "which were there all the time, but South Africans had not made the effort to find these markets".

He forecast that, together with political developments, the country was "coming in for a turbulent landing".

Japan ~~1990~~ eases ⁷⁴ restraints ^{Star 26/6/91} on trade

TOKYO — Japan has unofficially lifted its call for "voluntary restraint" on expanding trade with South Africa, but has cautioned companies not to go too fast, trading firm officials said yesterday.

The Ministry of International Trade and Industry has told trading companies they can expand trade with the country, but at a maximum of 20 percent a year, the officials said.

In 1987 Japan became South Africa's top trading partner, spurring strong criticism in the West. As a result, Tokyo banned new investment and said trade volume should not increase.

Dismantled

Last Friday, Japan ended curbs on tourism and other human exchanges with South Africa but said it would retain strict economic sanctions until apartheid was totally dismantled.

Japanese figures show imports from SA, mainly coal and minerals, in the year ending last March 31 at \$1,8 billion (about R4,9 billion), down 14,7 percent from a year earlier.

In the same period, exports to South Africa, mainly cars, electrical appliances and machinery, totalled \$1,48 billion (R4,1 billion), down 6,1 percent from a year earlier. — Sapa-Reuter.

74
ARG 27/6/91

Zambian-SA trade links may be set up in weeks

Argus Africa News Service

LUSAKA. — Zambia and South Africa could establish official trade relations within the next few weeks, according to the leader of a delegation from the National African Federated Chamber of Commerce and Industry (Nafcoc).

Zambian journalists have reported that the delegation is in Zambia to lay the groundwork for formal trade relations between the two countries.

Although there is substantial trade between them, Zambia has avoided formalising it by allowing South Africa to set up a trade commission in Lusaka and opening a reciprocal office in Johannesburg, as Zimbabwe and some other neighbouring countries have done.

The Africa News Organisation

quoted Mr Makhuvha Takalani, vice-president of Nafcoc and leader of the delegation, as saying that the two countries could open formal trade relations within the next few weeks.

He said he expected that reciprocal trade missions would be established before the year was out.

Mr Takalani's views were supported from the Zambian side by the governor of Lusaka, Mr Henry Muyoba, who said: "We hope that by July apartheid will have been buried in South Africa, to pave the way for free trade between the two countries.

"I am therefore inviting all South African investors to Lusaka."

Mr Muyoba said arrangements were being made for the twinning of Lusaka and Johannesburg.

Star 27/6/91

Zambia likely to establish formal trade ties soon

LUSAKA — Zambia and South Africa could establish official trade relations within the next few weeks, according to the leader of a delegation from the National African Federated Chamber of Commerce and Industry (Nafcoc).

Zambian journalists have reported that the delegation is in Zambia to lay the groundwork for formal trade relations between the two countries.

Although there is substantial trade between them, Zambia has avoided formalising it by allowing South Africa to set up a trade commission in Lusaka and opening a reciprocal office in Johannesburg, as Zimbabwe and some other neighbouring countries have done.

The Africa News Organisation (Ano) quoted Makhuvha Takalani of Nafcoc saying that the two countries could open formal trade relations soon. — Star Africa Service.

Barend pledges assistance to industries in the export field

By David Canning
2/16/91

DURBAN — The Government was committed to kick-starting industries which could make a contribution to export earnings, Minister of Finance Barend du Plessis said on Tuesday.

Speaking at a Max Pollak Vinderine seminar in Durban, Mr du Plessis rejected a plea for reimplementing of an initial set-up allowance and other blanket tax concessions.

However, small industries had to be kick-started, particularly in the export manufacturing area. The country had to rapidly supplement its export earnings and help to build up its reserves.

A high degree of discretion would be exercised by government experts over the next two years to encourage industries to get off the ground. Thereafter, however, there would be a return to strict tax rules.

Higher growth would be achieved by lower direct tax — hopefully a top marginal tax

rate of 40 percent by 1994/5.

He said protection levels had been too high in many industries and the changed circumstances meant there now had to be adjustments. At the same time, export industries had to be encouraged.

Windows of opportunities were opening and industries would be able to use SA's comparative advantages, for example, electricity and transportation costs should be more competitive between now and the turn of the century.

Capital shortage

Most industrial countries had undergone severe structural adjustments in the early Eighties following the oil crisis. Smoke-stack industries had given way to high-tech businesses and the power of the "greens" had emerged.

In the past South Africa simultaneously had experienced a shortage of capital and negative real interest rates. Ironically the country had suffered from a

shortage of capital while that capital was very cheap. One of the spinoffs was very expensive unit wage levels.

Incorrect pricing policies had to be corrected. The country had to choose very rapidly between free services or user charges. Why, for example, should a developer be able to obtain a map for one rand which cost R200 to R300 to produce. Why should the taxpayer have to subsidise medical costs of the very affluent?

Company and direct tax had to be reduced to a level where economic growth would be encouraged. "We need a system that will allow us to get tax from those who can afford to pay." This would go hand in hand with deregulation and privatisation.

The Government had to force financial self-discipline in a wide range of areas. This discipline would not come if free handouts continued to be made. The poor had to be subsidised in an effective way.

People did not work harder

without the motivation to do so.

Mr du Plessis said Government spending increases of more than one percent in real terms and high salary increases for civil servants inhibited economic growth — but in a high wage environment the Government had to retain a corps of motivated staff.

Nevertheless the number of bureaucrats had fallen sharply while there had been growth in the social areas like teachers and policemen.

Inquiry

Mr du Plessis also said he was very pleased the State President had initiated an inquiry in to the idea of putting directors general of government departments on to an incentive basis.

He personally believed that about 60 percent should be a basic salary — and bonuses accorded, depending on how well certain goals were achieved, such as achieving spending targets.

Lawfin goes international as doors open for SA loans

CAPE-based financial services company Lawfin is to open offices in London and the Channel Islands to take advantage of the offshore lending facilities which are opening up to SA companies as sanctions recede.

SA ambassador to the UK Kent Durr will open the London office on July 3.

FSI Corporate Services has taken a 15% stake, other SA shareholders 5% and foreign shareholders 14%, with this share being gradually increased to 25%.

The company, now Lawfin International, has been expanded with leading SA, German and English shareholders being brought in.

Lawfin's SA executive directors include FSI chairman Jeff Liebesman, Bergers Group chairman Howard Mauerberger and Clinic Holdings chairman Barney Hurwitz. Foreign directors include senior executives of major international companies.

Lawfin's operations in the foreign loans market for the past 16 years has been low key, but its activities were nevertheless large in scope for a small operation.

Executive chairman, founder and major shareholder Lawrence Miller estimates that Lawfin was instrumental in initiating up to 10% of SA's medium-term interna-

LINDA ENSOR

tional borrowing by the mid-1980s.

Traditionally Lawfin arranged syndicated, state-guaranteed foreign bank loans for public utilities such as Eskom, the Post Office and Spornet and has established a good network of contacts with international banks.

"Our focus will be on sourcing and negotiating new foreign loan and trade finance for southern African borrowers and exporters, structuring and advising on longer-term interest and cross currency swap transactions, identifying investment and joint venture opportunities in SA and foreign debt standstill advice and trade," says MD Nigel Palmer.

Palmer has had 16 years' experience in international banking and treasury operations with Morgan Grenfell, EBC Amro Bank and the Arab Banking Corporation.

In contrast with SA banks, emphasis will be on medium to long-term loans.

Miller believes the debt standstill and SA's re-entry into world capital markets will be reviewed later this year after US sanctions and the ban on IMF and World Bank loans are lifted.

74
27/6/91
B10

Ire over plan to tax paper imports

5/027 27/6/91
74
A ROW has erupted between the Board of Trade and Industry (BTI) and printers and paper distributors who are dismayed at the BTI's plan to increase import protection for paper suppliers.

The BTI proposals come after an application by the Mondi Group in February for a 15% duty to be levied on imported, uncoated paper which is one of the paper manufacturer's major products. A number of operators in the industry, through the Printing Industries Federation of SA (Pifsa) and the Association of Paper Distributors (APD), lodged an objection with the BTI over the Mondi application.

They argued the duty would be inflationary, would allow the paper manufacturers to continue to apply import parity pricing and would favour the manufacturers over the printing sector. Import parity pricing occurs when suppliers raise prices to the same level as the imported product.

The proposed new import protection structure has seen the number of tariff headings cut from 477 to 212 but the end result is more protection. More than 700 objections to the new system were lodged with the BTI by industry operators.

PAUL ASH

The system incorporates nearly all paper products, whether made in SA or not, with products that were previously exempt from duty now subject to tariffs ranging from 1-25%.

Local printers and paper distributors believed a 7% duty — and not 15%, as planned — would be fair. This would be in line with that imposed by EC countries, First Paper House CEO Derek Smith said.

Smith said the new tariffs would cause local prices to rocket and more problems for the beleaguered printing industry. That duties could suddenly be levied on imported products that had been duty-free for years was "out of line", he added.

Printing Industries Federation of SA Chairman Chris Sykes said the federation was "absolutely horrified" at the proposals. "Printers are being forced into a worse and worse situation," he said, adding that protection was justified in the case of certain "fledgling industries". The BTI proposals favoured the manufacturers and there was no indication that Sappi and

Mondi, both with substantial investments overseas, required protection.

Executive sources at Mondi said the application was an attempt to remove inequalities in international competition. EC countries and Brazil were in a position to export cheaper material to SA and in turn were damaging the local market. Those countries applied duty on SA papers. Neither Mondi nor Sappi wanted to comment on the record.

The SA economy was structured for import replacement and therefore protectionism, said BTI chairman Lawrence McCrystal in defence of the board's proposed new tariff structure.

The tariff structure, which was not final, was designed to reduce the "great selectivity built into the existing tariff and to have fewer tariff levels", McCrystal said. The BTI had given interested parties more than four weeks to comment.

The BTI said the fact that a product was manufactured locally or was of poorer quality than the imported product was no longer reason enough for duty-free provision.

Cut-price Polish tractors due in SA

CAPE TOWN — Polish tractors are to be introduced to the SA market at a price about 20% lower than other models.

Janisch Industries of Cape Town has been awarded the distribution rights for the Ursus tractors and plans to capture about 10% of the local market in its first year of operation. Sales of about 350 to 400 units are targeted despite the depressed state of the tractor market.

A range of 12 tractors from 22kW to 114kW will be offered and Janisch GM Ronnie Holthauzen says there will be nationwide service and spare part availability through a network of about 45 branches.

Ursus is the largest tractor manufacturer in Europe. It was originally state-owned but is being privatised.

SA tractor manufacturer ADE yesterday

LINDA ENSOR

day welcomed the competition. (74)
The Polish tractor connection is just one of the increasing number of trade links between Poland and SA.

Polish commercial counsellor to SA Wojtek Tomaszewski said at a function last night to launch the tractor that bilateral trade was expected to reach \$50m from \$10m in the last seven months of last year.

Poland is exporting machinery, tools, components, light aircraft, ships, foodstuffs, textile machinery and textiles and is importing raw materials, foodstuffs and technology. Four Polish companies have established themselves in SA while SA's United Carbon International had opened up a coal processing factory in Poland.

BIDEN 27/6/91

Yugoslavian group promoting trade

Aslan 28/6/91
Business Day Reporter

74

BUSINESS leaders in Yugoslavia were seeking to explore trade in the fields of shipbuilding, mining, telecommunications, electronics, medical equipment and agriculture, a seminar in Johannesburg was told yesterday. Yugoslavian trade delegation leader Nikola Stojsic told representatives of 40 companies that his delegation was laying the groundwork for a visit by a larger group. He said President F W de Klerk had paved the way for trade links between the two countries during behind-the-scenes talks with Yugoslavian government ministers at the 1989 Namibian independence celebrations. These talks, he said, had resulted in Foreign Minister Ptk Botha visiting Belgrade for talks and a later tour by an SA trade delegation. At the end of last year there had also been a conference on bilateral trade. He said Yugoslavia had in recent years introduced radical changes to its foreign investment laws to encourage investment. Changes to the law in 1989 delivered positive results with some 578 new foreign investments being registered since the introduction of the law, Sapa reports. Since the shift away from a socialist economy to a market-oriented economy, foreign investment had increased for such an extent that it accounted for 47.2% of all investments in Yugoslavia. The majority of these investments came from Germany, France, Italy and America. It is now guaranteed that their (foreign investors) rights laid down in the investment agreement and the statute or articles of incorporation of the company cannot be diminished under any subsequent laws or other regulations," Stojsic said.

World market for SA sugar likely to grow

28/6/91

Aslan 28/6/91

TOKYO — Far East consumers may start to depend more on Thailand as a source of sugar as the lifting of economic sanctions against SA expands the world market for its sugar exports and diverts supplies from Asia, Tokyo traders said. "I think Canada, Israel and Portugal, which have rejected SA origin sugar since the late 1980s, will start importing again," said trade house Toshoku Ltd MD Hiroyuki Minakawa, adding that that could lead to a decline in sugar supplies to the Far East. "Asian consumers will have to depend on the Thailand origin more, raising its premium," he said.

Alternative

International Sugar Organisation (ISO) data shows that SA exported about 1,02-million tons of sugar to world markets in 1985 with 171 068 tons to Canada, 74 155 to Israel, 30 121 to Portugal and 67 021 to the US.

But trade curbs by Western nations, protesting against apartheid, whittled away SA's share of the world sugar market.

By 1989, major sugar importers, such as Canada, Israel, the US, Sri Lanka, Portugal and Mozambique, had stopped importing the commodity from SA.

Major sugar consumers in Asia like Japan and South Korea are searching for alternative suppliers and will consequently look to their neighbouring producer — Thailand. "Australia, Cuba, Thailand and India have

been major sugar suppliers. But Australia is expected to cut some of its exports because it is suffering from a drought this year.

"India, which has had financial troubles, needs large subsidies to sell the commodity on the international market," a major trading house official said.

"Thailand is the most likely sugar source to replace the share of SA," the official said.

"It makes sense that sugar exports to these markets will resume. Given the lower freight rate, Europe and North America are attractive destinations for SA.

"It will diversify the destinations for its sugar exports and domestic sugar consumption is also increasing as living standards improve. That could make supply/demand conditions in the Far East tighter," he said.

Traders said the premium on Thailand origin against the spot New York price may climb to about 120 points later this year from around 20 in mid-1990, reflecting growing popularity among Asian consumers.

Trade house Toshoku estimates Japan's sugar imports in calendar 1991 as 637 000 tonnes from Thailand, 550 000 from Australia, 250 000 from SA and 200 000 from Cuba.

In calendar 1989, Japan imported 673 697 tons.

Thailand produced a record 40.6-million tons of sugar cane in the 1990/1991 cane crushing season against 33.6-million the year before and a previous annual high of 36.7-million in 1988/89, the industry ministry said. — Reuter.

UNHAPPY DAZE

Clem Sunter may not have got it all right with his now-famous Anglo-sponsored scenario for the future of SA, but he brought the low road/high road options into the language. A disturbing new survey has found that 70% of business leaders appear to accept the low road as inevitable and are planning (if that's the word) for it.

The survey was conducted by the Decision Makers Group, a business and marketing consultancy. Though the sample of only 60 senior executives was small, it was representative of 80% of the country's business power, according to Decision Makers' executive director Tony van der Schyf.

The executives tended to split into two camps: the pessimistic 70% and the more bullish minority. The majority was found to be paralysed by fear and uncertainty and unwilling or unable to adapt to changing marketing conditions. The minority feels more optimistic and is more aggressive in adapting to and capitalising on change.

Even though most of the executives accepted that exports, the black market and added-value products were the major potential sources of growth, new products and markets were generally seen in the context of "getting back to basics," as Van der Schyf puts it. Strategic imperatives were expressed in such terms as "sticking to the knitting" or concentrating on the core business. Big companies saw acquisitions and mergers as the major short-term opportunity for growth.

Instead of preparing for the changes ahead, they were obsessed with cost-cutting and staff rationalisation. Short-term thinking took precedence, a factor aggravated in listed companies that are under pressure to maximise short-term profits and return on shareholders' investments.

"Organisations less exposed to investment scrutiny were more favourably disposed to current conditions," Van der Schyf says. Thus the bullish minority was comprised of a greater number of executives of smaller and privately owned companies.

Other attitudes that he found worrisome included:

- The apparent inability or even unwillingness, especially among middle management, to recognise and adapt to changing market conditions;
- Procrastination and indecision about what action to take;
- A lack of consensus on the need for a focused strategy. Lip-service is being paid to

BUSINESS

Fm 28/6/91
strategic planning, new products and new markets; and

- A lack of understanding of the source of their companies' true core competence.

Perhaps most alarming, the business leaders showed no commitment to stopping inflation. Virtually all the executives interviewed were highly critical of the financial authorities for their approach to inflation. Most felt the battle had now reached the stage of overkill and that a quick fix for inflation was not possible without severely damaging the economy. ■

191

Fm 28/6/91

The FSB paints a different picture. The 15% commission is a business acquisition cost paid by the underwriter to the intermediary. It is invisible to the consumer. A fee is different and should, a spokesman says, be pointed out in writing as a separate item.

For underwriters, regulated commissions are convenient and easily budgeted. But the system fails to address the anomaly that corporate brokers and parochial operations are — notionally — rewarded in the same structure.

For the rest, there is little new in the latest draft Short-Term Bill. It eliminates the proposal for underwriters to offer 50% of their reinsurance programmes to the seven local professional reinsurers.

That had been seen by underwriters as a hand-out for the reinsurance market and potentially inflationary.

Reinsurers, however, will not after all be forced to separate life and short-term business into separate companies. Five of the seven are composites and may continue to operate as such.

Bryan Deans.

Fm 28/6/91
ECONOMIC INDICATORS
SUMMING UP 74

Domestic markets have had a lot to absorb this week: the sudden fall in the gold price from US\$365,20/oz to \$360,90 between London's Monday fixes; the release of key economic statistics and figures on the Exchequer account in the first two months of the fiscal year; and publication of the Reserve Bank *Quarterly Bulletin*.

Despite the improved monthly surplus on the trade account, the net effect of the news was bearish, taking the top off the recent crest in share prices and sending up interest rates, even in the money market which has had the benefit of strong spending by government. In April-May, Exchequer issues of R15,4bn were up 28% on those months of the previous year. Revenue, on the other hand, at R9,5bn, is less than 11% up on last year.

The bulletin records that first-quarter GDP fell 0,9%, the shrinkage came in the trade balance, with exports falling 21,7% and imports rising 34,9%. As a result the surplus on the current account was down to R1,5bn from R9,7bn in the fourth quarter. GDE, on the other hand, was up 18,5%, due to a slowing in inventory decumulation, a 1,1% increase in private consumption and a 19,5% increase in government consumption. (All figures are seasonally adjusted and annualised.)

Between the end of February and the end of May, the broad monetary aggregate M3 grew by a seasonally adjusted 2,8%. Annualised, this amounts to 12%, just within the Bank's 8%-12% guidelines.

This is a better indicator of underlying growth than the year-on-year rate, as M3 was sharply boosted by technical factors in February, when the Deposit-Taking Institutions Act came into effect, bringing in cer-

tain transactions that previously did not form part of the money supply. Credit extended by all monetary institutions at the end of April amounted to R175,3bn, down on the R175,9bn at the end of March and the R175,5bn at the end of February.

In the 12 months to May, M3 grew an estimated 15,14% to R173,8bn. Annualised growth from the base of the current target year is a seasonally adjusted R174,9bn. Equivalent figures for April, now revised, show growth of 14,52% and 21,75%. In the 12 months to April, M2 grew 17,56%, M1, 11,8% and M1A, 15,11%.

Figures released by the Central Statistical Service (CSS) show inflation jumped 0,6 of a percentage point to reach 15,2% year-on-year in May, the highest since November. The seasonally adjusted monthly increase in the consumer price index (CPI) was 1,6%.

The three-month moving average, which has declined since November, was up 1,2 percentage points to 15%. Food price rises remain rampant — the index rose 17,5% year-on-year.

CSS is to revise weightings used in computing CPI. These are based on a survey of household expenditure patterns, made every five years. The new weightings will come into force in the August CPI, to be published in September.

From Customs & Excise come figures which show export growth in the first five months of this year was strongest in the category of miscellaneous manufactured articles — 61,1% up on the same period of 1990. This was followed by plastics and rubber (47,3%), building materials (42,8%), live animals (37%) and vehicles and transport equipment (32,8%).

Each of these categories is a small proportion of exports but together they're significant. Other unclassified goods (mainly gold and platinum-group metals), which constitute 42% of the total, rose by only 10,9%. The long-term international trend is for industrial products, particularly capital-intensive manufactured goods, to gain market share at the expense of raw materials.

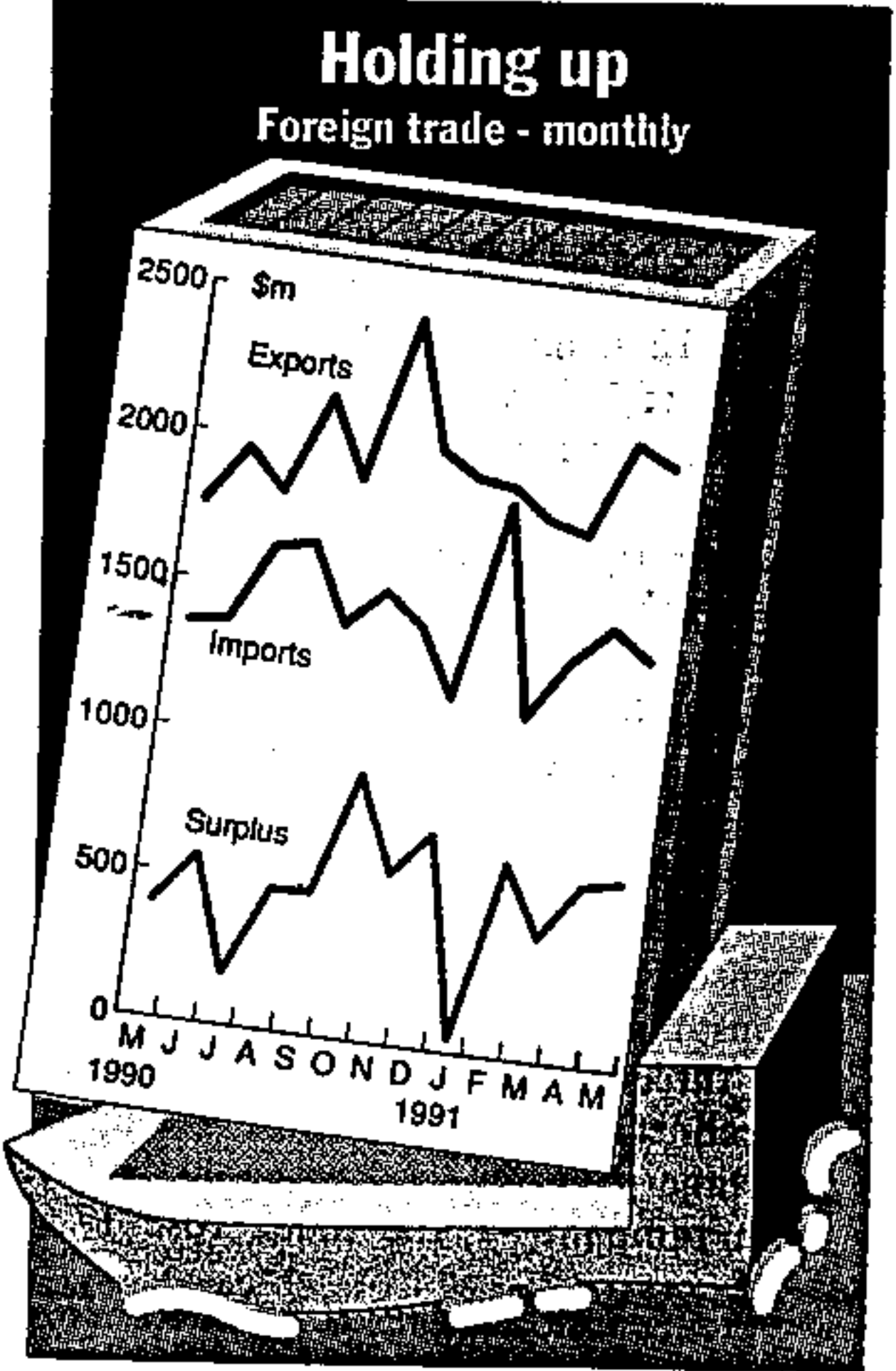
Main influence

In the plastics sector, according to Ferguson Bros energy analyst Richard Price, the main influence was Sasol's polypropylene surplus — the local market can absorb only 25% of production and the rest is exported.

Other industries are also exporting surplus produce to sustain production. An example is the depressed building industry, which Safto economic consultant Gad Ariovitch believes is exporting largely to Africa.

Improved live animal exports, he says, reflect distress selling in the face of prolonged drought.

There are three reasons for strong growth in exports of vehicles and transport equipment; Ariovitch says competitiveness has improved in the transport industry; foreign motor companies are allowing exports from SA subsidiaries; and manufacturers are taking advantage of export incentives.



□ May's trade surplus rose to R1,83bn (\$650m) compared to R1,71bn (\$630m) in April, largely due to lower imports of R3,95bn (\$1,42bn) after April's R4,14bn (\$1,51bn). Exports were little changed at R5,78bn (\$2,07bn) from April's R5,85bn (\$2,13bn). The cumulative surplus for the year to May is R9,78bn (\$3,50bn).

Yugoslavian group promoting trade

Business Day Reporter

BUSINESS leaders in Yugoslavia were seeking to explore trade in the fields of shipbuilding, mining, telecommunications, electronics, medical equipment and agriculture, a seminar in Johannesburg was told yesterday.

Yugoslavian trade delegation leader Nikola Stojsic told representatives of 40 companies that his delegation was laying the groundwork for a visit by a larger group.

He said President F W de Klerk had paved the way for trade links between the two countries during behind-the-scenes talks with Yugoslavian government ministers at the 1989 Namibian independence celebrations.

These talks, he said, had resulted in Foreign Minister Pik Botha visiting Belgrade for talks and a later tour by an SA trade delegation. At the end of last year there had also been a conference on bilateral trade.

He said Yugoslavia had in recent years introduced radical changes to its foreign investment laws to encourage investment.

Changes to the law in 1989 delivered positive results with some 578 new foreign investments being registered since the introduction of the law, Sapa reports.

Since the shift away from a socialist economy to a market-oriented economy, foreign investment had increased to such an extent that it accounted for 47,2% of all investments in Yugoslavia. The majority of these investments came from Germany, France, Italy and America.

It is now guaranteed that their (foreign investors') rights laid down in the investment agreement and the statute or articles of incorporation of the company cannot be diminished under any subsequent laws or other regulations," Stojsic said.

Dutch: 'Good word for SA'

74

CT 28/6/91

Staff Reporter

NOW that it has officially renewed relations with South Africa, the Netherlands will use its position as new EC leader to influence the trade policies of other European nations towards the post-apartheid country.

This was the message of a high-powered Dutch trade mission which visited South Africa this week formally to renew relations and to announce a R20m investment by The Haig in black education and training.

The Netherlands takes its turn at the rotating EC presidency on Monday and will be in a position to influence the attitude of other member nations towards South Africa, delegation leader and Dutch foreign economic relations

director-general Mr F A Engering told journalists yesterday.

But he warned that while the Dutch private sector — one of the world's biggest sources of foreign investment — was keen to invest in South Africa, it would not do so until there was certainty that the country's future economy would be based on free-market principles.

"The R20m investment is the start of a new policy aimed at developmental projects. But, it is small by comparison with the trade and investment opportunities which will open up as a result of the renewal of special political, cultural and economic relations between South Africa and the Netherlands," Mr Engering said.

He said that last year the Dutch private sector invested the equivalent of R35bn in other countries.

But, while trade opportunities look promising in the short term, because they involve shorter contracts, large-scale investment by the private sector is subject to tough conditions which may materialise only in a couple of years.

"No businessman in the world will invest in a country which is in the process of negotiating new constitutional and economic settlements," Mr Engering said.

He said the trade mission, organised by the Netherlands Centre for Trade Promotion, will be followed up in January with an exhibition featuring the Netherlands's 10 major economic sectors.

NP MPs

R224 000 ⁽⁷⁴⁾ 28/6/91 import duty scam: 2 guilty

By JACQUELYN SWARTZ
Staff Reporter

TWO men have been found guilty in Cape Town Regional Court of contravening the Customs and Excise Act by trying to help two import companies avoid taxes of more than R224 000.

The court found Ebrahim Arendse, 36, of Visson Way, Rocklands, Mitchell's Plain, guilty on 18 counts.

His co-accused, Isaac David Turner, 49, of 26 Hanell Walk, Hanover Park, was found guilty of eight counts of contravening the Customs and Excise Act in that he gave Arendse a R3 000 bribe to stamp bills of entry.

Both men pleaded guilty.

Between April last year and March this year, while employed in the customs and excise department of the Department of Finances, Arendse stamped 18 bills of entry with cus-

toms and other stamps although the import taxes had not been paid. He received R9 000.

Arendse also was found guilty of 18 charges of forgery by stamping the import documents with import date stamps and other stamps.

He also was found guilty on 18 counts of uttering by handing over the forged documents.

He was sentenced to three years' jail, 18 months suspended for five years.

Arendse has a previous theft conviction for which he got a suspended sentence.

Turner was acting for an importer and got a bribe of R 3000.

His sentence was R2 500 or 12 months' jail.

The magistrate, Mr P M Louw, said this type of crime could disadvantage the ordinary taxpayer who would have to supplement loss of import duties.

TRADE & INDUSTRY

74 FM 28/6/91.

OUTLINING ORG MARAIS' VIEW

After three months, Trade & Industry Minister Org Marais has settled into his new post and his vision for SA business is coming into focus. He stresses the importance of broad, co-ordinated industrial, fiscal, monetary, education and training policies. Above all, he emphasises that the level of competitiveness in SA's economy must increase.

"The chief aim of my business strategy for SA is to improve competition," Marais says. "While the Organisation for Economic Co-operation and Development has said any State industrial policy equals intervention-

ism, my policy will promote competition." Finance Department, such as import surcharges and changes in depreciation allowances, not only undermined confidence and complicated investment decisions, but also added hugely to capital costs.

One example of the new co-operation between Marais' department and Finance is the recently tabled Taxation Laws Amendment Bill, which provides for immediate tax allowances of the full capital expenditure on new mineral beneficiation projects, aimed at exporting a minimum of 60% of output.

Another is the March Budget announcement that value-added tax will not be levied on capital and intermediary inputs as of September 30, a possible R7bn savings to industry, Marais says. Coupled with the Budget's reduction of surcharges and company tax, these measures will allow SA industry to become more globally competitive.

Says Marais: "Government's role is to improve the investment and competitive climates in which industry and the private sector must operate."

He adds that domestic competition must be enhanced by creating "countervailing forces" — not by State intervention, such as anti-trust legislation.

This would include both increased investment by SA companies — encouraged by government's technology policy, which provides R40m a year to subsidise new research and development projects, and the new education and training policies — and foreign investors, who will find SA an increasingly attractive option.

"And the phased reduction of SA's high tariff protection walls, based on the recent Industrial Development Corp report, also will allow greater competitiveness in the local market as more competitive imports flow in," Marais says. The tariff policy is now being studied, but industrialists need not fear any sudden imposition of a new tariff regime, he says. Government recognises that existing structures were allowed to develop over decades and that structural adjustment will take a number of years.

But, he says, this will not prevent some industry sectors from feeling the competitive heat sooner than others.

"The new tax concession package for ben-

eficiated exports, announced last week, is a provisional move because the president must still sign the Bill and it is subject to possible amendment. But the principle that a committee, comprised of officials from my department and the Department of Finance, will determine which companies will qualify for the tax concessions, is a sound one."

And, he says he is now looking into linking such tax write-offs of capital costs to the abolition of tariff protection for the projects involved. "This would help increase competitive pricing in the local economy and also would pressure the project initiators to ensure that the prices of their products will be globally competitive."

Also forming part of the new comprehensive policy approach now being hammered out by the Cabinet to improve the competitive climate for mega-projects is Eskom's offer of discounted electricity, because of its huge power-generating surplus, as well as cheaper rates offered by Transnet. This week's announcement of Alusaf's proposed aluminium mega-project is the first response (see *Fox*), while Highveld Steel and Samancor's joint Columbus stainless steel project and Engen's proposed multi-billion rand catalytic cracker may be next in line.

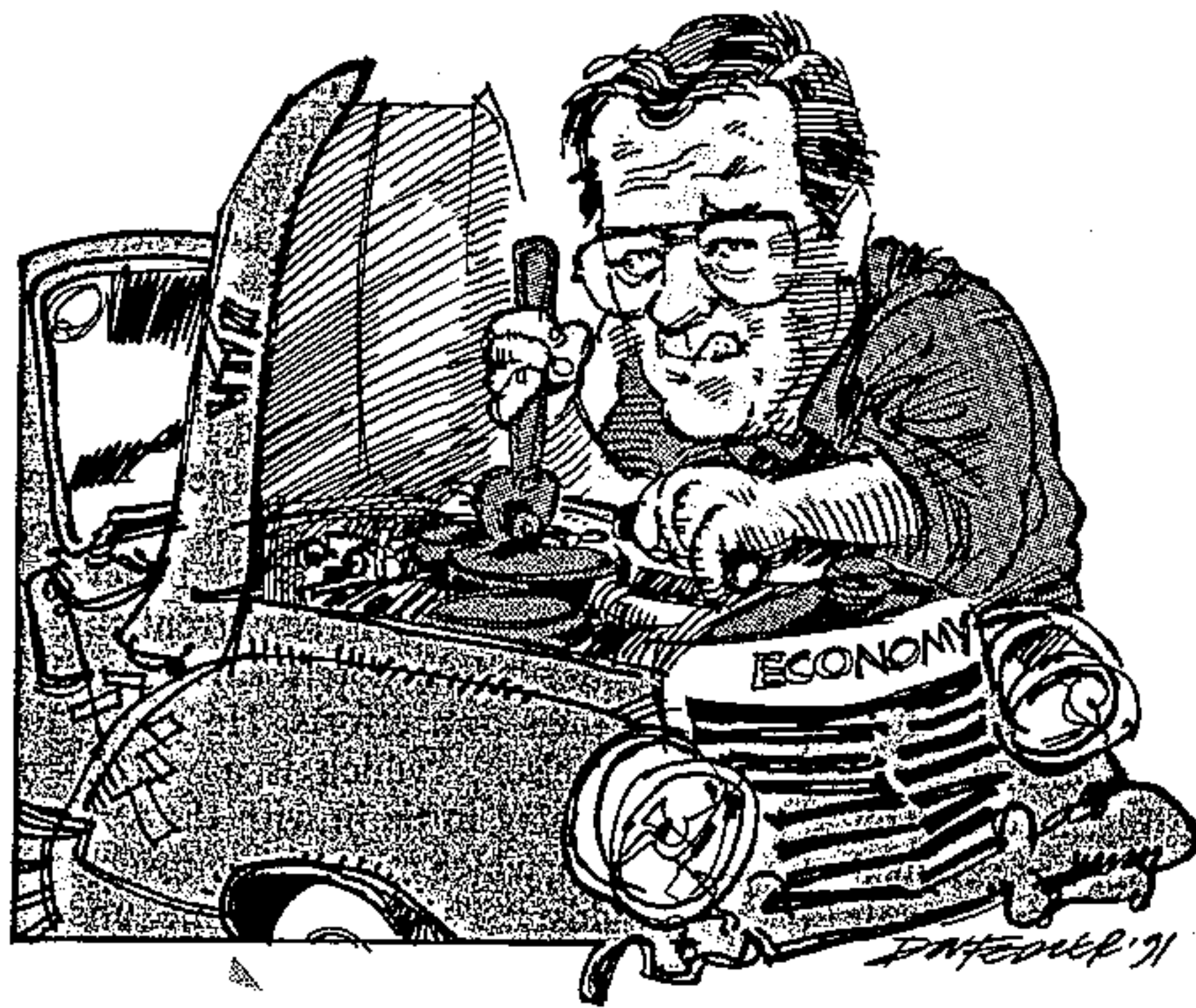
SA's fourth Trade & Industry Minister in as many years has a lot to build on — the groundwork laid by his predecessors and late Economic Co-ordination Minister Wim de Villiers, the recent tariff protection report and studies on tourism, VAT, technology policy and others.

Coming from the Department of Finance, Marais also fits in well with the Cabinet's new "team approach" towards devising appropriate economic, manpower and industrial policies for SA. "The team approach to economic policy-making is typified by the two committees operating at Cabinet level. One is the Economic Co-ordination Committee, operating under the chairmanship of Minister Dawie de Villiers and involving Ministers Barend du Plessis, Eli Louw, Amie Venter and myself. The second is the Cabinet committee on economic issues, operating under the chairmanship of Du Plessis and involving the same team, as well as the Department of Agriculture." ■

ADVERTISING

CHANGES AT GREY

Grey Advertising MD Ivor Abelheim is leaving the agency after little more than a year at the helm of the country's third largest ad agency group. Abelheim, whose reasons are genuinely personal, will be gone within the



ism, my policy will promote competition."

The former Deputy Finance Minister, who took over Trade & Industry from Kent Durr, outlined his views in a recent interview with the *FM*. While market purists will say he still advocates far too much intervention and ANC economists will argue that government is relinquishing a responsibility to direct the economy for the benefit of the poorest citizens, Marais' philosophy is a sharp departure from the inward-looking, command-orientated policies of the past that put SA at the bottom of the growth league.

Marais says that to achieve his more competitive economy, government "intervention" will still be necessary. But this will differ from the protectionism of the past, which sheltered industry behind high tariff walls, allowing companies to ignore exports and world trends and to feast on import replacement to fatten the bottom line.

Now, he says, competitive winds will be allowed to blow more freely through the SA economy. In addition, a co-ordinated policy approach involving several departments will mean a move away from the "ad hockery" of the past, the bane of many industrialists. Poorly thought-out measures imposed by the

Finland lifts trade ban

ARGUS 29/6/91
Weekend Argus
Correspondent

PRETORIA. — Finland has announced its ban on imports from and exports to South Africa will be lifted from Monday.

In a statement released here, the Finnish embassy said the Finnish Council of State had also decided to remove the restrictions on payment, credit and financial guarantee arrangements related to international trade with South Africa.

"As from July 1, trade with South Africa will be conducted in a normal way, following the same procedure as with other countries," the embassy said.

"Some important sanctions imposed by Finland, such as the ban on investment, will nevertheless remain in force as do the proscriptions on the granting of patents and manufacturing licences, monetary loans, credit and financial guarantees and the arms embargo."

Finnish President Mr Mauno Koivisto has signed a decree lifting the ban.

Zambia urges SA trade

JOHANNESBURG. — Zambian MPs have urged their government to officially open trade with South Africa since the political climate has been made "palatable".

CT 29/6/91 ~~SAP~~ (SAP) (74)
The MP's have also urged the government to establish a strong trade mission in South Africa because Zambian businessmen are already selling South African goods.

(SAP)
The MPs appealed to the government to negotiate with South Africa so that Zambians could enter South Africa without visas, and one has suggested a meeting between President Kenneth Kaunda and President F W de Klerk. — Sapa

Finland to do business with SA

PRETORIA. — Finland yesterday announced that as from Monday it will lift its ban on imports from and exports to South Africa. CT 29/6/91

In a statement, the Finnish embassy said the Finnish Council of State had also decided to remove "as of the same date" the restrictions on payment, credit and financial guarantee arrangements related to international trade with South Africa.

"Thus, as from July 1, trade with South Africa will be conducted in a normal way, following the same procedure as with other countries," the embassy said.

"Some important sanctions imposed by

Finland, such as the ban on investment, will nevertheless remain in force.

"Monetary loans, credit and financial guarantees to the Republic of South Africa are still forbidden for all purposes other than that of international trade.

"The Finnish government has closely observed internal developments in South Africa, particularly since 1990, at which time the South African government set itself the goal of dismantling the country's system of racial segregation."

It said progress had been made and South Africa had repealed all four of the main apartheid laws that had formed the

principle basis of Finland's voluntary imposition of a total embargo on the country.

Before this new measure, Finland had already mitigated its policy on the granting of visas to South African citizens and will raise its diplomatic representation to ambassadorial status as from October 1.

"The reform process within South Africa is not complete. The Finnish government will not, therefore, repeal all sanctions against South Africa at once, but is advancing gradually to encourage continuation of reforms," the embassy said. — Sapa

74 277 Closer to the USSR

TOP-LEVEL links are being forged between South African and Soviet Union business leaders. *S Times (Dun)*

Two visits to the USSR by SA groups have been successful. They are likely to be followed by a visit to SA by USSR Chamber of Commerce and Industry president Vladislav Malkevich. *30/6/91*

Mr Malkevich, a business leader with near-ministerial rank, is expected to sign co-operation agreements with the SA Chamber of Business, Afrikaanse Handelsinstituut, SA Foreign Trade Organisation, National African Federated Chambers of Commerce and the Chamber of Mines.

One of the groups which visited Russia was led by Department of Trade and Industry Director-General Steffen Naude and Sacob deputy director Ron Heywood.

Business hoping for a signal

CIP News 30/6/91

LOCAL and foreign businessmen are taking a keen interest in this week's ANC congress.

The key question is whether the new leadership of South Africa's biggest political party will give a clear indication of future economic policy.

Statements made during the past few months have created the impression among local and foreign businessmen that the ANC is softening its stance on nationalisation and redistribution.

In business circles the ANC's policies on centralised control of business and sanctions are viewed with deep concern and suspicion. Business confi-

MONEY TALK

.....
dence is at a low ebb and very little investment in new undertakings (which means more jobs) is taking place.

Although rather simplistic, the approach seems to be: why take the risk of building up or expanding a business if you will end up losing everything.

It is an open secret that many businessmen today are more interested in getting money out of the country than investing in their companies.

Foreign businessmen

are visiting South Africa in record numbers, but one gains the impression they are more interested in selling to us than in investing substantial amounts of money.

The international economy has cooled off and everybody is looking for new business.

Whether we are going to enjoy strong economic growth after our long recession will mainly depend on a recovery of business confidence in the near future.

A contribution in this direction was made last week by Walter Sisulu, who said, according to reports, that to call for the intensification of sanc-

tions is no longer realistic. He pointed out that certain countries have already decided to lift sanctions and said a proposal for the phased lifting of sanctions was "reasonable".

The proposal will, according to the reports, be discussed at the ANC congress.

The actual lifting of sanctions will make very little difference to our economic situation in the short term. But at least the pressure on our embattled business community will be reduced if the congress accepts Sisulu's thinking.