2000 Country Reports on Economic Policy and Trade Practices
Released by the Bureau of Economic and Business Affairs
U.S. Department of State, March 2001

SOUTH AFRICA

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1997	1998	1999
Income, Production and Employment: 1/			
Nominal GDP (at nominal prices)	147.5	134.0	130.0
Real GDP Growth (pct)	2.5	0.6	1.2
GDP by Sector:			
Agriculture	4.5	4.4	4.5
Mining and Quarrying	6.6	6.5	6.4
Manufacturing	20.6	20.1	19.9
Wholesale/Retail Trade	14.0	13.7	13.5
Transport, communications	9.5	10.2	10.7
Electricity, water	3.6	3.6	3.6
Construction	3.1	3.1	3.0
Financial Services	17.1	17.6	17.9
Government	20.8	20.6	20.4
Per Capita GDP (US$)	2,987	3,100	3,000
Total labor employed (millions)	9.25	9.39	10.37
Total economically active (millions)	11.7	12.6	13.53
Official unemployment Rate (pct)	21.0	25.2	23.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	18.7	13.6	13.6
Consumer Price Index	8.6	6.9	5.2
Exchange Rate (Rand/US$ annual average) 1/	4.61	5.53	6.11
Balance of Payments and Trade:			
Total Exports FOB 2/	25.6	24.6	24.4
Exports to U.S. 3/	2.5	3.0	3.0
Total Imports CIF 2/	28.9	27.3	24.6
Imports from U.S.3/	3.0	3.6	2.4
Trade Balance 2/	-3.3	-2.5	-0.2
Trade Balance with U.S. 3/	-0.5	-0.6	0.6
External Public Debt/GDP (pct) 4/	3.3	2.7	2.0
Fiscal Deficit/GDP (pct)	4.2	12.8	2.6
Current Account Deficit/GDP (pct)	1.5	-1.6	-0.4
Debt Service Payments/GDP (pct)	6.1	6.3	5.5

GrossGold and Foreign Exchange Reserves	7.7	7.6	11.0
Aid from U.S. (US$ millions) 5/	111	71	53
Total Aid (US $ millions) 6/	126	172	124

1/ The following exchange rates were used in the calculations: $1/R4.61 for 1997, $1/R5.53 for 1998, and $1/R6.11 for 1999.

2/ All South African trade statistics include export and import data for the five members of the Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa, and Swaziland) up to December 1997.

3/ Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis.

4/ 1997 and 1998 from IMF Yearbook, September 1999.
Figure for 1999 from SA Reserve Bank Quarterly Bulletin September 2000.

5/ The figures represent aid from USAID only.

6/ Funds for foreign technical cooperation and some grants have been received from all over the world for the Reconstruction and Development Fund (RDP). It contributes less than one percent to government revenue. Source SA Department of Finance 2000 Budget Review.

l. General Policy Framework

South Africa is a middle-income developing country with an economy marked by substantial natural resources, a sophisticated industrial base, and modern telecommunications and transport infrastructure. It has a well-developed legal and sophisticated financial sector with a stock exchange that ranks among the 20 largest in the world. However, to date, South Africa has made little progress in changing its low overall income levels, highly skewed income distribution, and a poor record of economic growth and job creation.

Notwithstanding the deep faultlines in its society, South Africa's transition process has been more peaceful than most expected at its onset in 1993, when apartheid was ended. The second democratic elections and hand-over of the presidency to Thabo Mbeki from Nelson Mandela took place peacefully, demonstrating that South Africa's democracy has developed firm roots.

For the years 1988-1992, South Africa had a negative real GDP growth as a consequence of apartheid-era policies, which included under-investment in human capital, large budgetary outlays for duplicative layers of government and facilities and a lack of foreign investment and imported goods, resulting from international sanctions. In the lead-up to the 1994 elections, the South African economy, however, started enjoying a period of recovery. Real GDP growth rates went to 2.5 percent in 1994, 3.1 percent in 1995, 4.2 percent in 1996 and 2.5 percent in 1997. The 1998 growth rate however came in at 0.6 percent largely due to the financial turmoil that hit almost all emerging markets. A turnaround started in 1999 with a 1.2 percent growth rate and real GDP is expected to grow by 3 to 4 percent per year this decade, significantly faster than the average of just 1.3 percent in the 1990s.

A key impediment to faster growth is the country's geographical location. Both Mexico and the Eastern European transition economies have huge export markets on their doorsteps to which they have special access through free trade or association agreements. Conversely, South Africa's neighbors continue to struggle, and political and economic troubles, such as those currently experienced by Zimbabwe, tend to have a serious adverse effect on regional export prospects and affect investor perception in general.

With its large structural savings/investment gap, South Africa depends on foreign savings to support investment and growth. However, progress in attracting higher levels of FDI has been uneven at best, hindered by the sluggish pace of privatization. As a result, South Africa has had instead to rely on more volatile portfolio inflows. Inflows of FDI are still more than fully offset by South African corporations' expansion and investment abroad as exchange controls are relaxed. Portfolio inflows reached record highs in 1999 with the bulk of these inflows, however, going into the domestic equity market. Capital account developments in South Africa continue to be marked by considerable vulnerability to changes in investor confidence because of this reliance on portfolio investment inflows. Recent developments this year, with investors turning bearish and divesting from South African bond and equity markets, are evidence again of this vulnerability.

The South African Reserve Bank (SARB) now operates in much the same way as western central banks, influencing interest rates and controlling liquidity through its rates on funds provided to private sector banks, and to a lesser degree through the placement of government paper. Previous policies of quantitative credit controls and administrative control of deposit and lending rates have long since disappeared. The SARB's monetary policy remains committed to orthodox policy targets in the form of stable prices and stable financial markets and institutions. Over the past 12 months important personnel and institutional changes substantially strengthened the policy framework and enhanced transparency and predictability of policy formulation. In his first policy statement, the new governor announced the creation of a broader Monetary Policy Committee (MPC), made up of the governor, the deputy governor, and senior officials of the bank as nonvoting members. In a further step to revamp South Africa's monetary policy framework, an inflation-targeting framework was announced by the Minister of Finance in February.

In November 1999 the South African Reserve Board announced preparations to introduce inflation targeting. After extensive consultations, the SARG stated it would use CPIX (Consumer Price Index for metropolitan and urban areas excluding interest costs on mortgage bonds) as the benchmark for inflation targeting. The government subsequently announced a target band of three to six percent CPIX for the year 2002. The SARB Monetary Policy Committee closely monitors CPIX and maintains that it will meet the inflation target.

The Government of South Africa demonstrated its commitment to open markets, privatization and a favorable investment climate with its release of the crucial Growth, Employment and Redistribution (GEAR) strategy to cover 1996-2000. The strategy had mixed success. It brought greater financial discipline and stability, but has failed to deliver in key areas. Per capita income slipped from $3,545 to about $3,000 between 1995 and 1999, formal employment continued to decline, and despite the ongoing efforts of black empowerment, and signs of a fledgling black middle class and social mobility, the country's wealth remains very unequally distributed along racial lines. South Africa's budgetary reforms such as the Medium-Term Expenditure Framework and the Public Finance Management Act (which aims at better reporting, auditing, and increased accountability) and the structural changes to its monetary policy framework (including this year's move to inflation targeting) have, however, created a transparency and predictability and are widely acclaimed. Trade liberalization has also progressed substantially since the early 1990s. Average import tariffs in South Africa have declined to 14.3 percent in 1999 from more than 30 percent in 1990. These efforts, together with South Africa's implementation of its World Trade Organization (WTO) obligations, show South Africa's acceptance of free market principles.

A new Competition Act came into effect in September 1999. The act provides for a much stronger and more independent competition authority than the previous Competition Board. In its first year, it has handled over sixty merger cases and is playing a significant role in opening the economy.

Although poverty, inequality, unemployment, lack of skilled labor, crime and the rising incidence of HIV/AIDS remain significant socio-political problems facing South Africa, the country's economic fundamentals are in place and it remains, by far, the largest economy in Africa. As a result, South Africa is important to U.S. trade and investment.

2. Exchange Rate Policy and Foreign Exchange Controls

South Africa's exchange rate policy is market driven with the rate determined by supply and demand in the currency market. The SARB may, in line with prevailing monetary and exchange rate policy, intervene in the market from time to time. When intervening in the market, the Bank does not attempt to bring about any structural change in the economy or to affect longer-term movements in balance of payments transactions. It merely intervenes to smooth out unduly large short-term fluctuations in the money market liquidity or in the exchange rate. While the SARB has the option of intervention, its current policy is that it will not take that action.

South African authorities continue to maintain foreign exchange controls to prevent large capital outflows. However, in principle, they have taken a decision to abolish exchange controls in full. In implementing this decision, the authorities have opted for a phased approach, which allows the consequences of certain relaxations to be absorbed before further measures are introduced. They argue that the abolition of all existing exchange control rulings in one step could very easily give rise to a massive demand for foreign exchange that could upset and destabilize the South African foreign exchange market. There is basically no exchange control on non-residents and exchange controls for South African corporates, institutional investors, and resident private individuals have been relaxed steadily. For example, private individuals have been permitted to invest some funds abroad since July 1997. The limit of R500, 000 per year was increased to R750, 000 on February 23, 2000.

The existing exchange controls are administered by the SARB's Exchange Control Department through commercial banks that have been authorized to deal in foreign exchange. All international commercial transactions must be accounted for through these "authorized foreign exchange dealers." The government is more likely to approve foreign exchange purchases for investment abroad if the foreign partner of the South African party conducts an asset swap, whereby the foreign partner invests an equivalent amount of foreign exchange in South Africa. Although domestic as well as foreign business concerns have lobbied hard for the lifting of the asset swap requirement, it is unlikely that the government will do so until foreign reserve levels approach the three-month coverage level.

The 2000/2001 budget introduced a number of other steps in the exchange control liberalization process. According to the SARB, further relaxations will take into account the circumstances prevailing at the time and, in particular, the foreign liquidity position of the country. A full liberalization of remaining limitations is unlikely until the Reserve Bank has closed its forward book, which currently stands at just under $10 billion. However, the Department of Finance is facing increased pressure from corporate and institutional investors for greater freedom of capital flows.

3. Structural Policies

Prices are market-determined with the exception of petroleum products. With regard to agricultural products, the sugar industry is the only area in which a degree of regulation still exists. Purchases by government agencies and major private buyers are by competitive tender for projects or supply contracts. Bidders must pre-qualify, with some preferences allowed for local content and black economic empowerment advantages.

The South African tax system used to be based on the source principle and tax was levied on income from a source within South Africa irrespective of whether it was earned by a resident or non-resident. Commencing January 2001, South Africa will move to a residence-based income tax system. Tax will be levied on residents of South Africa irrespective of where in the world the income is earned. Taxpayers will be taxed on their world-wide income but some categories of income and activities undertaken outside the country will be exempt from South African tax. Legislation must still be passed to implement this new system.

Income tax payers are divided into two categories: individuals, who are taxed at progressive rates, and companies, taxed at 30 percent of taxable income. A secondary tax on companies (STC) (an additional tax on company income) is imposed at a rate of 12.5 percent on the net amount of dividends declared by a company. Withholding taxes are imposed on interest and royalties are remitted to non-residents. Capital gains are not currently taxed, but effective April 2001, South Africa will institute a capital gains tax. Effective rates for individuals will range from zero to 10.5 percent, retirement funds 6.25 percent, unit trusts 7.5 percent, life assurers from 6.25 to 15 percent, and companies 15 percent. Legislation on the proposed new tax must still be drafted. SA has a 14 percent value-added tax (VAT). Exports are zero-rated, and no VAT is payable on imported capital goods.

The government has undertaken some measures recently to ease the tax burden on foreign and domestic investors. It has steadily reduced the corporate primary income tax rate from 40 percent in 1994 to 30 percent in 1999. In addition, the Secondary Tax on Corporate Dividends was halved to 12.5 percent in March 1996. In the 2000 Budget, extensive relief was also allowed on individual tax rates, with the top marginal tax rate to decrease to 42 from 45 percent and the lowest to 18 from 19 percent.

4. Debt Management Policies

At the end of 1999 the SARB reported that total foreign (public and private) debt amounted to approximately $38.9 billion. The ratio of total foreign debt to GDP has remained steady at around 26 to 30 percent over the past three years, while interest payments as a percentage of total export earnings have remained at levels ranging from 7.3 percent to 8.7 percent.

The government primarily finances its debt through the issuance of government bonds. To a lesser extent, the government has opted to finance some short-term debt obligations through the sale of foreign exchange and gold reserves. As a corollary to its restrictive financial policies, the government has not opted to finance deficit spending through loans from commercial banks. South Africa's liquid and sophisticated domestic capital market helped the country to cope relatively well with the 1998 global financial market crisis. The country did not require an IMF program and could easily afford not to borrow from international markets. Domestic debt (of which the bulk is medium- and long-term, with an average duration of close to five years) accounts for over 90 percent of the national government's total debt portfolio. Foreign debt (almost entirely capital market debt) accounts for only six to seven percent of the portfolio and is mainly denominated in U.S. dollars, euros, and Japanese yen.

5. Aid

Funds for foreign technical cooperation and some grants have been received from all over the world for the South African "Reconstruction and Development Fund." According to the Department of Finance 2000 Budget Review, the amount received from outside donors during the 1999/2000 budget was $124 million. A Development Cooperation Report for South Africa was released during October 2000, which provides an overview of Overseas Development Aid commitments from different donor countries for the period 1994-1999. The largest donor was the European Union, followed by USAID. Besides the aid of $53.4 million from USAID for 1999 noted in the front table, the United States also provides a small amount in military aid to South Africa.

6. Barriers to U.S. Exports

Under the terms of the Import and Export Control Act of 1963, South Africa's Minister of Trade and Industry may act in the national interest to prohibit, ration, or otherwise regulate imports. In recent years, the list of restricted goods requiring import permits has been reduced, but still includes goods such as: fish and dairy products (health concerns), petroleum products (strategic concerns), Montreal Protocol chemicals (international obligations), pneumatic tires (quality specifications), footwear (monitoring in respect of WTO quotas), as well as firearms and ammunition (safety concerns). Nonetheless, the South African government remains committed to the simplification and reduction of tariffs within the WTO framework, and maintains active discussions in trade organizations.

The government is attempting to centralize and standardize the buying procedures of national, provincial, local, and state-owned corporate entities. Purchases are by competitive tender for project, supply and other contracts. As part of the government's policy to encourage local industry, a price preference schedule, based on the percent of local content in relation to the tendered price, is employed to compare tenders. To claim preference for local content, tenders must enclose with their bid a certificate showing classification of supplies offered in terms of local content. An additional preference may be claimed if a product bears the mark of the South African Bureau of Standards. On tenders of less than R2 million ($350,000), the government awards preference points to enterprises and companies operating in South Africa that demonstrate significant ownership or employment of previously disadvantaged individuals.

Since late 1996, the Industrial Participation Program (IPP) has mandated a countertrade/offset package for all state and parastatal purchases of goods, services, and lease contracts in excess of $10 million. Under the program, all bidders on government and parastatal contracts who exceed the imported content threshold must also submit an industrial participation package worth 30 percent of the imported content value. The bidder then has seven years to discharge the industrial participation obligation. Non-performance of the contract is subject to a penalty of five percent of the outstanding industrial participation obligation.

7. Export Subsidies Policies

The Export Marketing Assistance Scheme (EMA) offers financial assistance for the development of new export markets, through financing for trade missions and market research. The Export Finance Guarantee Scheme for small exporters promotes small and medium exporters through credit guarantees issued by participating financial organizations. Provisions of the Income Tax Act also permit accelerated write-offs of certain buildings and machinery associated with beneficiation processes carried on for export, and deductions for the use of an export agent outside South Africa.

8. Protection of U.S. Intellectual Property

Patents may be registered under the Patents Act of 1978 and are granted for 20 years. Trademarks can be registered under the Trademarks Act of 1973, and are granted for ten years with a possible renewal of an additional ten years. New designs may be registered under the Designs Act of 1967, which grants copyrights for five years. Literary, musical and artistic works, cinematographic films and sound recordings are eligible for copyrights under the Copyright Act of 1978. This act is based on the provisions of the Bern Convention as modified in Paris in 1971 and was amended in 1992 to include computer software. The government passed two IPR-related bills in parliament at the end of 1997: the Counterfeit Goods Bill and the Intellectual Property Laws Amendment Bill, bringing South Africa's laws largely into conformity with its international trade obligations under the Trade Related Intellectual Property Agreement of the WTO. The

Patents, Trademarks, Designs, and Copyrights Registrar of the Department of Trade and Industry administers these acts.

South Africa is a member of the Paris Union and acceded to the Stockholm Text of the Paris Convention for the Protection of Industrial Property. South Africa is also a member of the World Intellectual Property Organization.

Although South Africa's intellectual property laws are generally in conformity with those of the industrialized nations, firms do experience some problems. The trademarks of a number of U.S. companies were misappropriated under the former government, when local firms took advantage of inadequate protection for famous marks. In April 1995 the U.S. Trade Representative placed South Africa on the “Special 301” Watch List in an attempt to resolve these cases. South Africa was removed from the list in 1996 due to progress on several fronts. In May 1998, however, South Africa was placed back on the Watch List, in part because of a lack of adequate protection of undisclosed data and a law, passed in December 1997, which appeared to empower the Minister of Health to abrogate patent rights for pharmaceuticals. After extensive consultations, the U.S. and South African governments reached an understanding on this Act in September 1999. USTR removed South Africa from the Watch List in December 1999.

Software piracy occurs frequently in South Africa. The Business Software Alliance (BSA) estimates that as much as 47 percent of South Africa's business software is pirated, resulting in a loss of over $68.4 million to computer companies. Piracy in the video and sound industry is also an issue of concern, with an estimated sound piracy rate in 1998 of 40 percent and a video piracy rate of 16 percent. Total annual losses due to audiovisual piracy in South Africa during 1998 are estimated to be $24.0 million.

9. Worker Rights

a. *The Right of Association:* Freedom of association is guaranteed by the constitution and given statutory effect by the Labor Relations Act (LRA). All workers in the private sector and most in the public are entitled to join a union. Moreover, no employee can be fired or prejudiced because of membership in or advocacy of a trade union. Unions in South Africa have an approximate membership of 3.4 million or 35 percent of those employed in the wage economy. The right to strike is guaranteed in the constitution, and is given statutory effect by the LRA. The International Labor Organization (ILO) readmitted South Africa in 1994. There is no government restriction against union affiliation with regional or international labor organizations.

b. *The Right to Organize and Bargain Collectively*: South African law defines and protects the rights to organize and bargain collectively. The government does not interfere with union organizing and generally has not interfered in the collective bargaining process. The new LRA statutorily entrenches "organizational rights,” such as trade union access to work sites, deductions for trade union subscriptions, and leave for trade union officials.

c. *Prohibition of Forced or Compulsory Labor:* Forced labor is illegal under the constitution. There are reports, however, that women and children have been forced into prostitution.

d. *Minimum Age for Employment of Children:* Employment of minors under age 15 is prohibited by South African law. Nor may children between ages 15 and 18 work if such employment "places at risk the child's well-being, education, physical or mental health, or spiritual, moral or social development." Child labor is nevertheless prevalent in the rural areas of the former "homelands" and in the informal sector.

e. *Acceptable Conditions of Work:* There is no legally mandated national minimum wage in South Africa. Instead, the LRA provides a mechanism for negotiations between labor and management to set minimum wage standards industry by industry. In those sectors of the economy not sufficiently organized to engage in the collective bargaining processes which establish minimum wages, the Basic Conditions of Employment Act, which went into effect in December 1998, gives the Minister of Labor authority to set wages, including for the first time wages for farm and domestic workers. Occupational health and safety issues remain a top priority of trade unions, especially in the mining and heavy manufacturing industries which are still considered hazardous by international standards.

f. *Worker Rights in Sectors with U.S. Investment:* The worker rights conditions described above do not differ from those found in sectors with U.S. capital investment.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		372
Total Manufacturing		836
Food & Kindred Products	166	
Chemicals & Allied Products	191	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	34	
Electric & Electronic Equipment	60	
Transportation Equipment	76	
Other Manufacturing	(1)	
Wholesale Trade		87
Banking		(1)
Finance/Insurance/Real Estate		605
Services		317
Other Industries		(1)
TOTAL ALL INDUSTRIES		3,258

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.