FOREIGN TRADE -gew

APR - JUL

Be pragmatic on finance, SA told

SA's entry into the global financial market would be eased if it adopted pragmatic and authoritative financial regulations, said Michael Gordon-Williams, head of compliance at London-based Smith New Court. B/Day 1/4/92

Gordon-Williams told a Johannesburg conference on the outlook for southern African financial markets that the basis for a good market was sensible and effective regulation. This would gain investor confidence and greater market activity. One lesson learnt in the UK was not to allow regulators and parliamentarians free rein on codification, he said.

"The complexity of structure and the difficulty in interpretation that we experienced with those first rule books taught us lesson No 1: in a self-regulatory environment it is essential to have practitioner involvement at the highest level when drawing up or amending the codes of practice," he said. 74

The regulatory environment should also walk the fine line between protection for the individual and allowing professionals to conduct business with a minimum of effort. Clarity in documentation and implementation would help to alleviate the cost of compliance. — Reuter.

Exchange controls must remain, maintains Reserve Bank adviser

B/Day 1/4/92

74 (60) (20)

SHERIDAN CONNOLLY

EXCHANGE controls would be retained until SA earned enough foreign exchange to pay for the bulk of the country's imports at high growth levels, and attracted sufficient investment to finance the remaining current account deficit, Reserve Bank adviser Desmond Krogh said at a conference yesterday.

Krogh said one of the first steps of exchange control relaxation would be in respect of non-resident transactions. The abolition of the financial rand could, however, not be expected as long as the terms of the present debt rescheduling agreement were in force, he warned.

"Very few, if any, constraints remain on SA's accessibility to overseas financial markets other than that imposed by its own exchange control regulations," Krogh said.

He said the only disappointment was the slow progress made in reducing the size and deficit of the government's budget which was, however, closely linked to the unstable transitional socio-political conditions.

Krogh said although good progress had been made in regaining control over money supply growth and in the strengthening of SA's financial system, all the basic conditions which justified the retention of exchange controls over residents, and in the form of the financial rand system as far as non-residents were concerned, still applied.

Over the last 30 years, exchange controls had been applied in southern African countries with varying intensity, either because of structural economic or political reasons, or both, he said.

He said for SA to be the anchor economy of the southern African region, it would at least require a relatively stable new political dispensation and a dynamic economy. These conditions were "still at the programming stage after a decade of social upheaval and economic stagnation," he added.

Krogh highlighted the successful financial experience of "diverse but dynamic" Asian economies such as Korea and Taiwan to illustrate that there was ample scope, even with exchange controls, to develop a whole range of sophisticated financial services in a regional as well as a global context.

He said it was only after these two countries had reached the stage of becoming sizeable capital exporting countries that they could begin to relax their exchange controls simultaneously for residents and non-residents, and actively embark on achieving greater international financial intermediation.

Unpredictable mutant in forex market

BDay 1/4/92

SIMON WILLSON

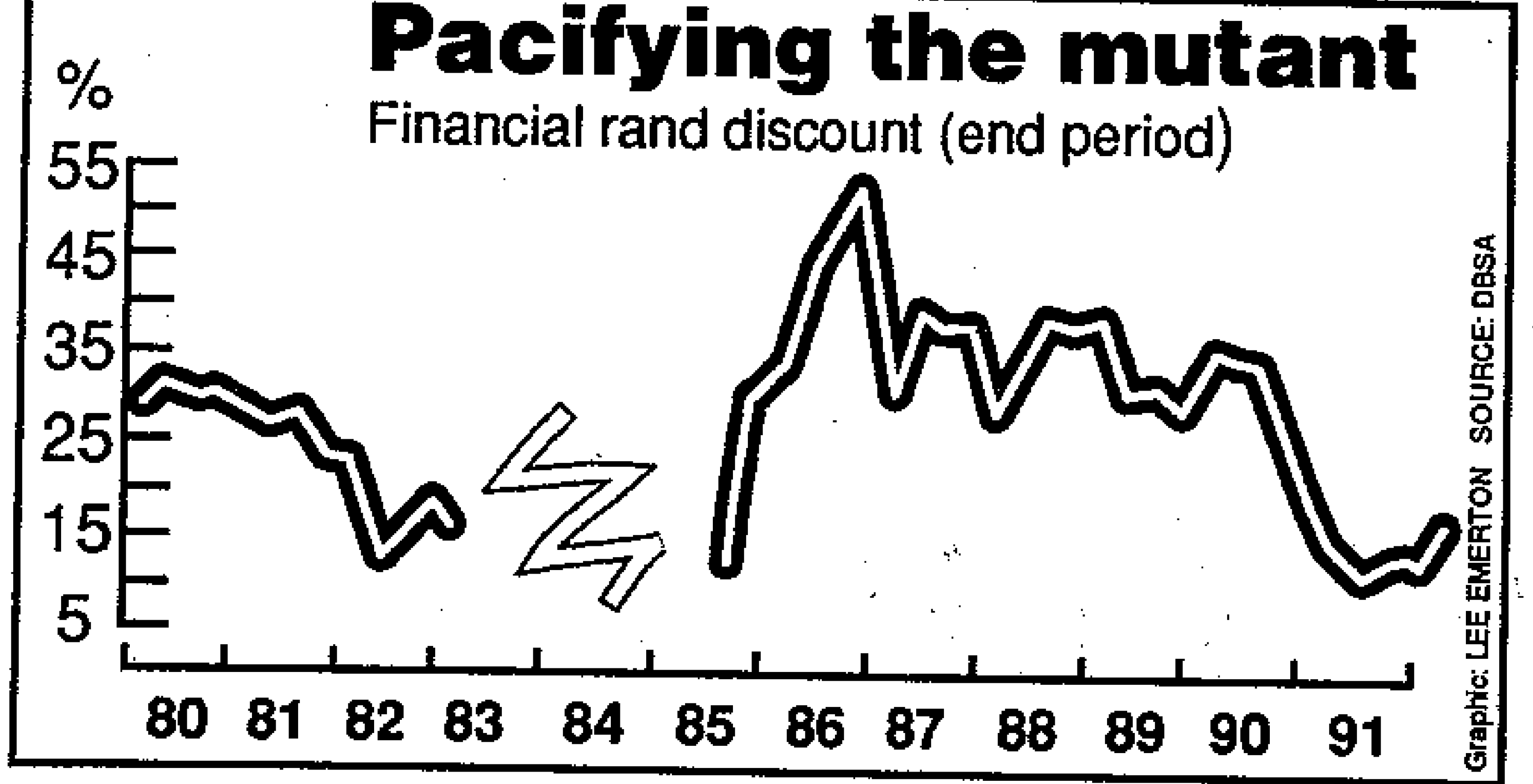
OLD horror films generally had satisfying dénouements in which freakish laboratory organisms rounded on their creators. A particularly unpredictable mutant is currently stumbling around the local foreign exchange market as its creator tries to pacify it.

After allowing the financial rand freely to reflect market conditions since its unwelcome resurrection in 1985, the Reserve Bank has decided that it is time to restrain the creature. The Bank ultimately intends to strap the thing back on the slab and give it a lethal injection, but cannot say as much within its earshot.

So, for now, the begetter of the finrand has to talk tamely in terms of intervention — shackling the mutant until it is sufficiently docile to be finished off, suddenly and quickly. Since the beginning of last week the Bank has, for the first time, been free to intervene in the finrand market and has, by its own admission, already done so.

In theory there is a case for managing the finrand level in the same way that the commercial rand's value is massaged by official intervention. The Bank's primary goal is greater finrand stability, on the premise that the volatility of the unit has discouraged foreign investors from using it to buy SA equities.

Greater stability, the Bank's reasoning goes, will prompt greater willingness to transact in finrands, which will narrow the discount. The unspoken part of the Bank's scenario is that the unit can then be unified with the commercial rate about 18 months hence with hardly a jolt in the market.



As the chart shows, the finrand discount has moved into the abolition zone that triggered the unit's temporary demise in February 1983. The third interim foreign debt arrangement expires at the end of next year and discussions around this time next year on its replacement are sure to include the finrand's future. In 18 months' time the unit could be looking highly disposable.

In announcing that it will intervene the Bank has, however, announced to the market that it is a buyer. One way to narrow the finrand discount is to reduce the total supply of the unit in the market, and the Bank can only contribute to such a trend by being a net purchaser.

This means, in dealing parlance, that the market knows that "Sarb's on the bid". The Bank can be relied on to perform a dog-style retrieval of cheap finrands whenever these become available in a weak market. This has led to some predatory pricing by the commercial banks while the Reserve Bank has come into the market during the past 10 days. There is already wry amusement at the Bank at how other players are automatically reading it as a buyer and quoting prices several points outside the market.

Some traders feel the finrand has already passed its first test as a central bank-managed currency by remaining firm yesterday in spite of a Cosatu statement promoting investor-unfriendly concepts such as a general strike, nationalisation, price control and wealth tax.

The aberrant finrand market is tiny as international currency markets go. There are only 10 serious players — those who will make a two-way price — and they are based only in Johannesburg and London. Unlike conventional currency trading, which has the volumes and the players to conceal official intervention, official dabbling will be eminently detectable in the fraternal and latently incestuous finrand market.

The market's established players are gleefully awaiting Reserve Bank attempts to disguise intervention in thin volumes among so few traders.

Bright forecast for SA borrowers

BDay 2/4/92 (74)

SHERIDAN CONNOLLY

SA AND its borrowers could be optimistic about their future in the international capital markets in spite of concern over future political and economic developments, Eskom financing manager Theunis Kotze told a Johannesburg conference yesterday.

Kotze said he believed SA borrowers now had the potential to operate in other Euromarket sectors in the next year or so. Borrowers already had an established base in the Deutschmark market, he said.

"The time is now right to start to diversify the international investor base by a carefully planned and gradual return to the other Euromarket sectors," Kotze said.

The Swiss franc market had been a major source of funds to SA before the debt standstill in 1985 and this sector could again be most receptive. The sterling sector was more difficult because of internal credit restrictions and a lack of familiarity with SA names.

Kotze said a fixed-rate public issue by a SA entity without a government guarantee would be possible only in exceptional cases. The government-guaranteed route improved name awareness.

Kotze said Eskom had always been a large borrower in the international capital markets and would probably need overseas loans. The utility therefore considered a consistent, though moderate borrowing programme as essential to ensure investor familiarity with Eskom.

Eskom's track record and the improved political perception of SA had enabled it to refinance successfully over the last two years. In addition, Eskom was able to launch two new private placements in the US dollar sector, Kotze said.

Exchange controls are here to stay

RESERVE BANK advisor Desmond Krogh said this week exchange controls would only go once foreign earnings enabled the country to pay for imports even when growth surged and South Africa had enough foreign investment to finance the current account deficit. The abolition of the financial rand mechanism would be the fist step towards abolishing exchange rate restrictions. This could not be done while the debt rescheduling agreement was in force.

(74) Citizen 3/4 - 9/4/92

Decline of effective rand slows to 0,7%

Bday 7/4/92

(88)(74)(69)

SIMON WILLSON

THE decline of the effective rand — the rand's value against a basket of trading partners' currencies — slowed to 0,7% in the first quarter from a 1% fall in the fourth quarter of 1991, Reserve Bank figures show.

The rand's quarterly effective depreciation in the three months to March was the smallest since the 0,6% fall in the third quarter of 1990.

The effective, or trade-weighted, rand is expressed as an index against the currencies of SA's six major trading partners. The rand's effective index gives a broader assessment of its value than a bilateral exchange rate.

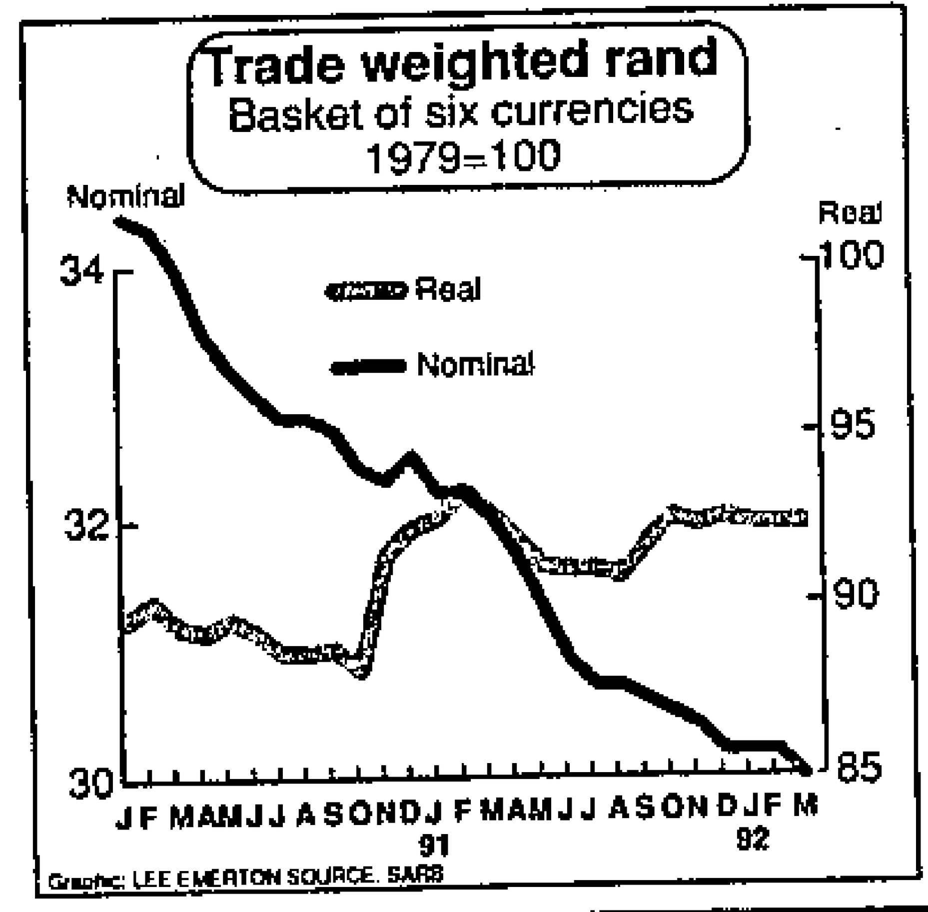
The rand's effective index, based on 100 in January 1979, stood at 30,0 at the end of March. The six trading-partner currencies against which the effective rand's value is measured are the US dollar, sterling, Deutschmark, yen, guilder and the lira.

Although 30,0 is a record low in nominal terms, if the effective rand is adjusted for inflation it is steadily strengthening. The effective rand should be depreciating in line with SA's inflation differential with major trading partners, currently about 10 percentage points at consumer level, but less at producer level.

Instead, reflecting the Reserve Bank's domestic credit policies and exchange-rate management, the effective rand declined only 6,2% last year. Because the nominal effective rand is not weakening in line with the inflation differential, the real effective rand is strengthening.

The strong real trade-weighted rand is currently contributing to the relatively low rate of producer price inflation by restraining import costs. Import prices actually fell 2% in January producer price data, thanks to the strong effective rand and to the unwinding of the effect of a rise in the oil price a year earlier.

The continued resilience of the nominal trade-weighted rand and the extended strength of the real effective rand herald further disinflationary influences from imports during the rest of the year.



SA in Ivory Coast link

STAR 8/4/92 (74) (280)

CAPE TOWN — South Africa is to establish full diplomatic relations with the Ivory Coast.

Foreign Minister Pik Botha announced the decision yesterday as the campaign to isolate South Africa continued to crumble.

Djibouti said it was lifting all trade and travel restrictions on South Africa due to "very positive developments" here.

An official statement said the Council of Ministers had agreed to lift the boycott on all goods for or from South Africa and on goods passing through the tiny Horn of Africa state's port.

Djibouti's port is strategically located at the mouth of the Red Sea leading to the Suez canal and has the largest container facility north of Durban on the eastern coast. — Political Correspondent, Sapa-Reuter.

Gold and forex reserves

Reserve Bank rand gold price valuation
Total reserves
Gold reserves

10, 8, 6, 4, 2, 0 | 960, 940, 920, 900, 880, 860, 840, 820

M A M J J A S O N D J F M
92

Graphic: LEE EMERTON Source: SA RESERVE BANK

R500m dive in gold and forex reserves

SIMON WILLSON

GOLD and foreign exchange reserves took an unexpected R500m dive in March, Reserve Bank data indicate.

Figures released yesterday showed total reserves at R8,96bn at the end of last month, against R9,46bn at end-February. The dip in March's reserves is only the second monthly decline in reserves in the past 12 months.

The Bank's gold valuation, reflecting the slide in the gold price last month, eased to R883/oz from February's R901. The gold component of the March reserves rose despite the lower valuation thanks to an increase in gold holdings, up at 6,7-million ounces from February's 6,4-million.

The first of the year's two scheduled inside the net debt repayments was made in February, and partially accounted for reserves ending that month only marginally up from January's R9,36bn.

Nedbank chief economist Edward Osborn blamed a flat current account of the balance of payments position in the first quarter and heavy capital payments outside the foreign debt standstill for the decline in reserves last month.

"The first quarter trade figures may have looked good on the surface, but the main export performer was diamonds."

The monthly trade figures accounted for all Southern African Customs Union members. "The export figures include items such as sugar and citrus from Swaziland and, particularly, diamonds from Botswana. Prospects for SA's own primary exports this year are not at all good."

Big demand for government bond

B Day 9/4/92 (74)

SIMON WILLSON

INVESTORS more than two times oversubscribed yesterday's tender for a re-issue of five-year government stock, heralding a firm price for the topped-up bond when it goes into its first full day's trading today.

Tenders totalling R530m were received for the R200m allotted to the 14% R119 1997. The average rate for the tender was 15,88%, but in late trading after the closure of the tender the rate eased to 15,86% as the disappointed tenderers bid for the bond in the secondary market.

The re-issue of a five-year bond fills a gap in the gilts market's maturity structure. A vacuum had developed around 1997, and five-year stock is proving popular with capital market investors.

Although R200m is a relatively modest sum to raise from a tender of this type, market players expect the authorities to capitalise on the popularity of five-year instruments by topping up the amount raised through the R119. One dealer said yesterday the issue could grow to R2bn over the next 12 months.

A useful by-product for the Bank is that the issue will help to absorb some of the liquidity in the local market, which the Bank has been trying to drain at the short end by means of special treasury bills. In addition, around the 15,80%-plus yield the R119 is expected to be attractive to foreigners investing through the financial rand mechanism.

The re-issue of the R119 represents potentially lower borrowing costs for the government.

Long-dated government stock, such as the RSA 2005, bears a yield of 16,35% — almost half a point higher than the 15,88% yield expected for the R119 in the market today.

Unusual

It is unusual for the Bank to issue an open tender for government stock. Issues are usually tapped quietly into the market for unfavoured players to discover a month later in the Government Gazette.

Some dealers said the authorities only put the R119 re-issue out to tender because it was not a traded stock. Others said they detected a move by the authorities away from tapping and back to tendering, following allegations of favouritism and secrecy in the tapping system.

IDC launches bond in Germany

B Day 9/4/92 (14) (2)

SHARON WOOD

THE Industrial Development Corporation (IDC) launched a DM50m bond for private placement on the German capital market yesterday.

"This is not the first time the IDC has borrowed money on the international capital markets. The IDC has made several private placings," IDC GM Louis Kingma said.

Three private bond issues had been placed on the German capital market during the past three years, raising a total of DM100m. The IDC was a modest borrower and raised money at most twice a year, he added.

The five-year bond issue placed yesterday with a 10% coupon is priced at par and will mature on April 28 1997.

Private investors in Germany had taken up the issue, Kingma said.

It was a small bond issue and would be used for the general purposes of the IDC, he said. The organisation had no plans to raise more money for a while.

When asked whether the IDC was concerned about ANC reaction to the bond issue, Kingma said the IDC did not wish to comment.

The ANC voiced opposition to a DM200m Development Bank of Southern Africa bond issue in February this year, saying bonds issued on international capital markets would leave costly and heavy international debts for a future SA government.

Gilts, cash 'better bets than shares'

LINDA ENSOR

CAPE TOWN — Gilts and cash were presently better investment bets than shares, Syfrets portfolio manager Rob Nichol said in the latest Syfrets Quarterly Economic Review.

"Economic recovery in SA is being delayed and high JSE ratings based on earnings growth expectations are premature," Nichol said.

"We expect the capital market to perform well over the next six to 12 months."

Nichol believed the only factors limiting a strong bull market in bonds were the ability of a future government to maintain strict discipline in its monetary and fiscal policy and that a classical bull market required the potential for a large fall in short rates.

Syfrets expected the inflation rate to decline to about 13,5% by year-end, the current account to halve as a result of the drought and growth in GDP to be minimal.

The diamond market was expected to remain in the doldrums for most of the year, gold was unlikely to exceed $365/oz because banks were still mobilising their reserves and coal export volumes were likely to remain unchanged with prices softening.

COMPANIES

Japan can determine SA recovery

LINDA ENSOR

CAPE TOWN — The start of SA's economic recovery depended to a large extent on the Japanese economy remaining relatively isolated from the plunging fortunes of the Japanese stock market, fund managers said yesterday. BDay 10/4/92

A deepening of the Japanese recession would have serious spinoffs for SA, as Japan is a major trading partner.

"The danger is that if the Japanese market continues to fall and business confidence gets knocked, its effects might spread to the real economy. In this event the recovery of the SA economy would be delayed," Board of Executors senior portfolio manager Rob Lee said.

Lee felt that the sharp slowdown in the Japanese economy would continue but should turn by the end of the year and certainly by 1993. Interest rates had dropped, fiscal policy had eased and inflation was falling so there should be real growth in personal disposable incomes.

He said the next major support on the charts for the Nikkei index was 12 000. Typically one could expect the market at this stage to bounce back to about 20 000 before falling again.

Lee believed the SA market was due for a correction as the ratings of the shares were still historically high. (74)

Sanlam investment GM Ronald Masson said a lot would depend on the response of the Dow Jones to the collapse of the Japanese market as the SA market was more influenced by the US.

"The international market is very nervous and if the Japanese investors start pulling out of the US, this will pull the bottom out of the SA market. It does not look promising. The SA market could drop another 5% and then stabilise," he said.

Southern Life investment GM Carel de Ridder expressed optimism about the SA stock market which he felt should recover pretty quickly from the recent fall and prices should be higher by mid-year than they were at present.

Of greater concern, De Ridder said, was the impact of US President George Bush losing the US election which would depress the US and consequently the SA markets.

Pik pleads for 'world-beating' African unity

BARRY STREEK

ABUJA — A strong plea for unity in Africa to enable it to take on the industrialised world was made yesterday by Foreign Minister Pik Botha and his Nigerian counterpart Ike Nwachukwe.

Unity would result in a stronger SA, Nwachukwe said at the start of talks between the two governments.

People in Nigeria and Africa were pleased with the progress being made at Codesa and would like to see further progress so that everyone could feel happy and welcome in one African family.

"In our view the Boers are one of the several tribes that make up Africa," Nwachukwe added.

Botha said the visit to Nigeria was the most important trip he had undertaken.

"This is a historical fact of Africa — that SA and Nigeria are the two giants of sub-Saharan Africa — and now that apartheid is dead we can meet each other as fellow Africans."

The visit to Nigeria by President F W de Klerk was a landmark one for both countries. It was a symbol of Nigerian support of the new SA and a signal to the rest of Africa that it accepted that apartheid really was dead, he said.

Botha said there were now no differences of principle between his government and party and the government of Nigeria. "We now feel free and liberated, free to share with our brothers in Africa who believe in the same principles."

While the two men did not go into any details about their agenda before the start of their meeting, the warmth in their opening comments indicated that the talks between De Klerk and President Ibrahim Babangida were likely to result in much closer ties between the two countries. This is expected to be the case in regard to trade and diplomatic relations, as well as to visa requirements.

FM 10/4/92 (74)

FOREIGN TRADE (74) FM 10/4/92

The Italians are here

Italy's Industry Ministry is spending millions this month on a massive effort to break into the SA market. It's the largest promotion ever mounted by a country to sell goods here and Italian officials are hoping the campaign will pay off by whittling down Italy's US$1,7bn trade deficit with SA.

Italy is SA's largest export market — $2,3bn in goods were sold there last year, mostly gold — and the trade surplus with Italy is the largest SA has with any country.

The centrepiece of the ministry's effort is a 900 m² indoor exhibit at the Rand Show — the largest staged by a single exhibitor in the 84-year history of the annual event.

Simultaneously, Italy has taken all the exhibition space available at Johannesburg's Market Theatre complex for a display by 115 companies that specialise in hand-crafted metal, jewellery and textile articles. The Rand Show and the exhibit at the Market run until April 20.

To garner even more attention, the ministry has installed the Italian chef Gemignani at Harridans restaurant in the Market Theatre complex, where he is serving up his Italian cuisine until Tuesday. Gemignani has cooked for Queen Elizabeth and his Tuscany restaurant is a stomping ground for the royal and film-star set.

The budget for the Italians' big splash appears to be open-ended. The government airfreighted the shelving and fittings for the exhibits from Italy and more than 50 trade specialists and technicians were flown in to staff and organise the exhibits. Several TV crews are on hand to record the scene for Italian TV.

Johannesburg-based Italian trade commissioner Aldo Castellari won't say how many lira his government is spending on the promotion, but just a couple of the basic costs add up quickly. For example, the average cost of indoor space at the Rand Show is R220/m² and the cheapest return air fare at this time of year on Alitalia is R3 604.

For Castellari, this is a dream come true. He has been trying to persuade authorities in Rome to launch such a campaign for two years. "This is a government venture, and it must stay exactly that. The Fair of Milan wanted to organise it. The SA-Italian Chamber of Trade & Industries wanted a stand. But we turned them down because we don't want any confusion about who is sponsoring the event. We want to make it abundantly clear that the Italian government wants to convert the agreement — signed in Rome with SA in February — into action."

The exhibit at the Rand Show is devoted to technology. IRA, Italy's biggest government-owned company, described by Castellari as "a holding company of holding companies," will occupy 300 m².

Fiat, Italy's biggest private-sector company, will occupy 200 m², and the rest of the space will be taken by 10 other companies, including Agip, the Italian petroleum giant.

IRA's 150 companies, ranging from banks and hi-tech engineering to shipbuilding and aviation, employ 2,5% of Italy's work force. IRA is also a part owner of Alitalia.

"We want to portray the technological side of Italy at the Rand Show," Castellari says. "We want to shed the stereotyped image of Italy and tell South Africans that if they're looking for engineering or hi-tech products, they mustn't just look at Germany and Japan. So there won't be any shoes, furniture, textiles or food on display at the Rand Show."

Fiat, whose Uno cars are made, marketed and backed in SA by Nissan SA, and Lancia will use the exhibit to test public reaction.

Hawking their wares ... *cars and more*

Fiat is showing two Alfa Romeo cars that are being seen here for the first time — the Duetto and the 115 Alfa Romeo. The 115 has yet to be widely seen in Italy.

While the big push may lead to more Italian goods turning up here, it won't lead to much Italian investment — at least not for a while. Gian Carlo Barsotti, secretary-general of the Italian-SA Chamber of Trade and Industries, points out: "They're coming to sell if they can, they're not coming to invest in SA. Apart from one company that wants to invest R5m-R6m in a factory to build caravans and campers, I do not know of any Italian company that wants to open a factory in SA, or is considering a joint venture with an SA industrialist." ■

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SALDRU LIBRARY

PIK'S ENGINES OF GROWTH PUFF FOR A UNITED AFRICA

S1 Times 12/4/92 (74)

By CLAIRE ROBERTSON: Abuja, Nigeria

SOUTH AFRICA came home to Africa this week and in true form its fellow Big Brother of the continent killed the fatted calf.

Nigerians did not turn out in droves to cheer President FW de Klerk's motorcade through Abuja. Then again, there are no droves living in the underpopulated building-site-in-the-bush that is Nigeria's new federal capital.

But the official welcome matched the tropical heat of central Nigeria for warmth, with displays of mutual delight as the two giants of Africa met 30 years after suspending diplomatic relations in 1962.

This was the "most important visit of my career outside South Africa", said Foreign Minister Pik Botha. For many of his entourage it was the reward for years of work as contact with lesser countries culminated in the visit to the country considered SA's peer in sub-Saharan Africa.

Nigeria's President Ibrahim Badamasi Babangida's recognition of SA's reform holds considerable clout. As chairman of the Organisation of African Unity, he can influence South Africa's formal readmission to organised African politics. Although no official announcement was made, OAU membership is in the offing.

The visit also highlighted a vision of a new Africa, one united economically in the face of a unified Europe and economic pacts in North America and the Pacific Rim.

Mr Botha outlined his plan for economic co-operation in Africa, with four regions each "pulled" to prosperity by the locomotive of its region — South Africa, Kenya to the east, Egypt to the north and Nigeria in west Africa.

These engines of growth would in turn unite to speak for Africa — "and if there is one thing Africa needs urgently it is one voice" — he said.

"We must help our continent to survive against enormous odds. If Nigeria and South Africa can put together a strategy against the world tendency to discard us, we would be fulfilling a historic mission."

The Nigerian foreign minister, Major General Ike Nwachuku, said he believed a new South Africa would "usher in a stronger Africa and make it possible for Africa to be heard much louder than in the past".

South Africa has committed itself wholeheartedly to the continent — even halving its diplomatic representation in the United States to finance its push into Africa and the Far East.

The warm "welcome home" offered by Nigeria this week is bolstered by rich economic opportunities for South Africa in West Africa.

Estimates of the potential trade between the two countries are as high as R3 000-million, according to Foreign Affairs officials.

Last year South African sales to Nigeria were worth just R1-million.

A country with an estimated unemployment rate of 40 percent, where a loaf of bread costs 50 percent more than the minimum daily wage, Nigeria is clearly looking to South Africa for an economic miracle.

The high expectations African countries have of South Africa's wealth and generosity are a headache for diplomats in the delicate courtship stage of relations.

"Expectations are excessively high as regards economic assistance from South Africa. There is an enormous expectation that we will become a donor nation, but we have to let them know we simply do not have the wherewithal," said the Africa section chief at the Department of Foreign Affairs, Mr Derek Auret.

After the emotionally charged and intensely positive visit by President De Klerk, President Babangida sounded a note of caution in talks on Friday.

He emphasised the importance of a transitional government coming into being to facilitate the normalisation of relations between South Africa and Nigeria, according to a joint communiqué issued by the two leaders.

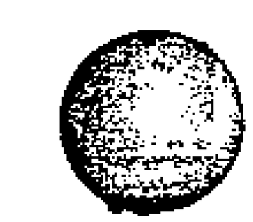
Nigerian officials spoke of their delight at being able to welcome the South African delegation.

The Nigerian man in the street shared the sentiment. "I'm so proud, I'm so happy. This Africa has to be one," said Lagos businessman Chief Patrick Abi.

A local cultural group composed a special song for President De Klerk to a tune from the South African musical *Ipi Tombi*. To a blushing Mr De Klerk they sang: "De Klerk saw a black man caught in a trap, he asked himself what shall I do? Apartheid is dying for good."

Then, to the delight of the guests at the state reception, the two presidential couples joined hands to the music of Ibo singer Nelly Uchendu.

After the SA presidential couple had flown out of Nigeria, the visit ended with a meeting between Mr Botha and a Pan Africanist Congress delegation at which the PAC said it repudiated a reported chant of "one boertjie, one bullet" made at a recent congress.



Bahrain hopes to become centre for SA trade

B Day 13/4/92

MANAMA — Bahraini businessmen wanted to make their Gulf island state a centre for SA trade in the region, a top executive said at the weekend.

Bahrain's Chamber of Commerce and Industry president Ali Yousif Fakhro said the Bahraini business delegation visiting SA wanted to establish a centre on the island for marketing SA products.

"We are inviting (South Africans) to come here. There are no official ties yet but this is not necessary — many countries are changing their policy on SA," he said.

The Bahraini delegation in SA, led by Fakhro's deputy Hassan Zainalabedin, came to SA for talks with the SA Foreign Trade Organisation, the SA Chamber of Business, senior businessmen and officials from the departments of Foreign Affairs and Trade and Industry.

The private delegation arrived at Jan Smuts last week with official instructions from Bahrain's prime minister to invite SA to trade.

Bahrain is a major offshore banking centre for the Middle East, with over 100 commercial, investment and specialist banks. It also imports a wide range of goods, from heavy equipment, technology and know-how to consumer items. (74)

Gulf Arab states do not have diplomatic relations with SA but in recent months business contacts and visits from both sides have quietly increased.

Gulf businessmen say trade has already begun through at least one SA-based shipping line which calls at other African ports before reaching the region. SA buys oil from the Gulf states through independent traders. — Reuter.

Zero rate bonds tax puzzle

B|Day 13/4/92 (74)

WILLEM CRONJE

IT WAS recently announced that government intends to raise funds through the issue of long-term zero coupon bonds. These are bonds which pay no coupon interest.

For example, assume a bond with a maturity value of R100, due to mature in 10 years. At current interest rates, the present value would be about R25.

The government would therefore receive R25 now, have the use of the money for 10 years without paying any interest, and then after 10 years redeem the bond for R100.

This will clearly have cash flow advantages for the borrower, although there is a burdensome payment or refinancing requirement at the end of the period.

Zero coupon bonds raise unique tax problems for holders. Are holders taxable? If so, when? Is there a difference in the tax treatment of investors and dealers?

Although total clarity is lacking, it can probably safely be said that neither investor nor dealer can be taxed until the bond is sold, or matures. Although there have been recent Income Tax Special Court cases ruling that interest accrues from day to day, this has not been adjudicated by the Appellate Division.

As the law now stands, interest income accrues when it becomes payable. On a zero coupon bond, interest becomes "payable" only when the bond is negotiated or redeemed.

It can also safely be said that the dealer will be taxed on the profit arising from the sale or redemption of the bond. The dealer is, however, better off than had he purchased an ordinary (interest-bearing) bond, as his tax is delayed.

How would an investor be taxed?

The tax authorities could well argue that, as no interest is receivable, the only purpose in purchasing the bond was to realise it at a profit, either on redemption or earlier sale.

A zero bond is therefore "all-in" — the only motivation for buying it would be gain, albeit perhaps in the distant future.

An investor may therefore be better advised to purchase a regular coupon bond trading below face value. The investor would then be in a position to argue that he purchased the bond for its interest coupon, and that the long-term trend in the redemption value is of a capital nature.

As stated above, this argument would fail in the case of a zero coupon bond.

Zero bonds issued by government could have tax advantages in the case of individual investors considering emigration, as if such individual ceases to be ordinarily resident. To carry on business in SA he would probably be exempt from SA tax in terms of present law.

However, this exempt status will fall away in the case of emigrants from a date fixed by the Finance Minister. This date has not yet been fixed.

The emigrant's exemption in respect of bonds and other interest bearing securities issued by government and qualifying state-controlled corporations depends on the return being in the form of interest. However, it is a moot point whether the return on a zero bond is interest at all. The fiscus may possibly argue that the gain is "trading profit" and not interest, in which case the well-known "emigrants exemption" will not apply.

The exchange control aspects of the gain on the bond — where the holder has emigrated — may also prove complicated.

In terms of exchange control rules, only income earned after emigration may be remitted abroad. If a zero bond is purchased some time before emigration, and sold or redeemed after emigration, there may be some doubt as to what portion, if any, of the gain is remittable abroad.

Zero coupon bonds will raise unique tax and exchange control issues, some of which are likely to be addressed by legislation when these bonds become a reality.

☐ **Cronje is a partner at Deloitte Pim Goldby Taxation Services.**

BOOKS

Breakthrough in Scandinavia

Danish visit opens new doors for SA

B/Day 13/4/92 (74)

KATHRYN STRACHAN

DENMARK has broken from the pro-sanctions stance of its Scandinavian neighbours with the arrival in SA yesterday of a high-level trade delegation led by its foreign minister.

Danish Foreign Minister Uffe Ellemann-Jensen said after meeting his SA counterpart Pik Botha in Pretoria yesterday that Denmark was ready to donate $100m in development aid to SA once an interim government was formed.

A five-year aid project to develop social, educational and agricultural structures was planned. It was still to be decided whether the funds would be distributed through state or non-governmental organisations.

Ellemann-Jensen said he believed SA still had a long way to go towards realising full democracy, but his government was impressed by the courage the SA government had shown in calling last month's referendum. He was confident SA would cover "the last part of the road" and soon be welcomed as a full member of the international community.

Danish Information Department spokesman Lis Garval said Denmark, as the only Scandinavian member of the EC, saw itself as a bridge between the EC and Scandinavia, and believed it led the way in relations with the rest of the world.

She expected Sweden and Norway to lift sanctions and establish trade links soon, following the example set by Denmark when it lifted its five-year embargo against SA last month. Denmark was the last EC member to lift sanctions, but the first of the Nordic countries to do so.

Ellemann-Jensen said Denmark's business community was eager to re-establish ties and said the delegation of 40 high-level businessmen represented a wide range of Denmark's industries.

Reuter reports that Danish business leaders believe the country could export up to $240m of goods a year to SA.

On the import side, Danish electricity producers are checking the current price and quality of coal from SA, previously their biggest single supplier.

In welcoming the delegation, Botha said Denmark gave 1% of its total GDP to development aid and he hoped other European countries would soon follow its example. He said the visit, which was the first by a Danish cabinet minister, had opened the door to "completely normalising" relations between SA and Denmark.

During his five-day trip Ellemann-Jensen will meet President F W de Klerk, ANC president Nelson Mandela, ANC head of International Affairs Thabo Mbeki, SA Council of Churches general secretary Frank Chikane, DP leader Zach de Beer and businessmen.

Meanwhile, Sapa-Reuter reports from Bonn that German firms have reacted positively to commments by Mbeki that the ANC was not wedded to nationalisation and favoured a market economy.

But German industry still fears violence could continue and that a new government could nationalise firms.

German banks have already plunged back into the SA capital market, issuing nearly 1-billion Deutschmarks ($615m) of bonds over the past eight months.

However, soaring demand for invest-

☐ To Page 2

Denmark

B/Day 13/4/92

☐ From Page 1

ments in other areas — notably east Germany and the rest of eastern Europe — will limit available funds.

Mbeki said last week the ANC favoured a free market approach and had no ideological commitment to nationalisation.

He told a conference in Germany that a blend of policies, which could include nationalisation in isolated cases, would be needed to "rebalance" the economy.

But any nationalisations would be arbitrated, guaranteeing due process and adequate compensation, Mbeki said.

Volker Schuermann, head of foreign trade at Germany's third biggest chemical group Hoechst AG, said he was heartened by Mbeki's statements.

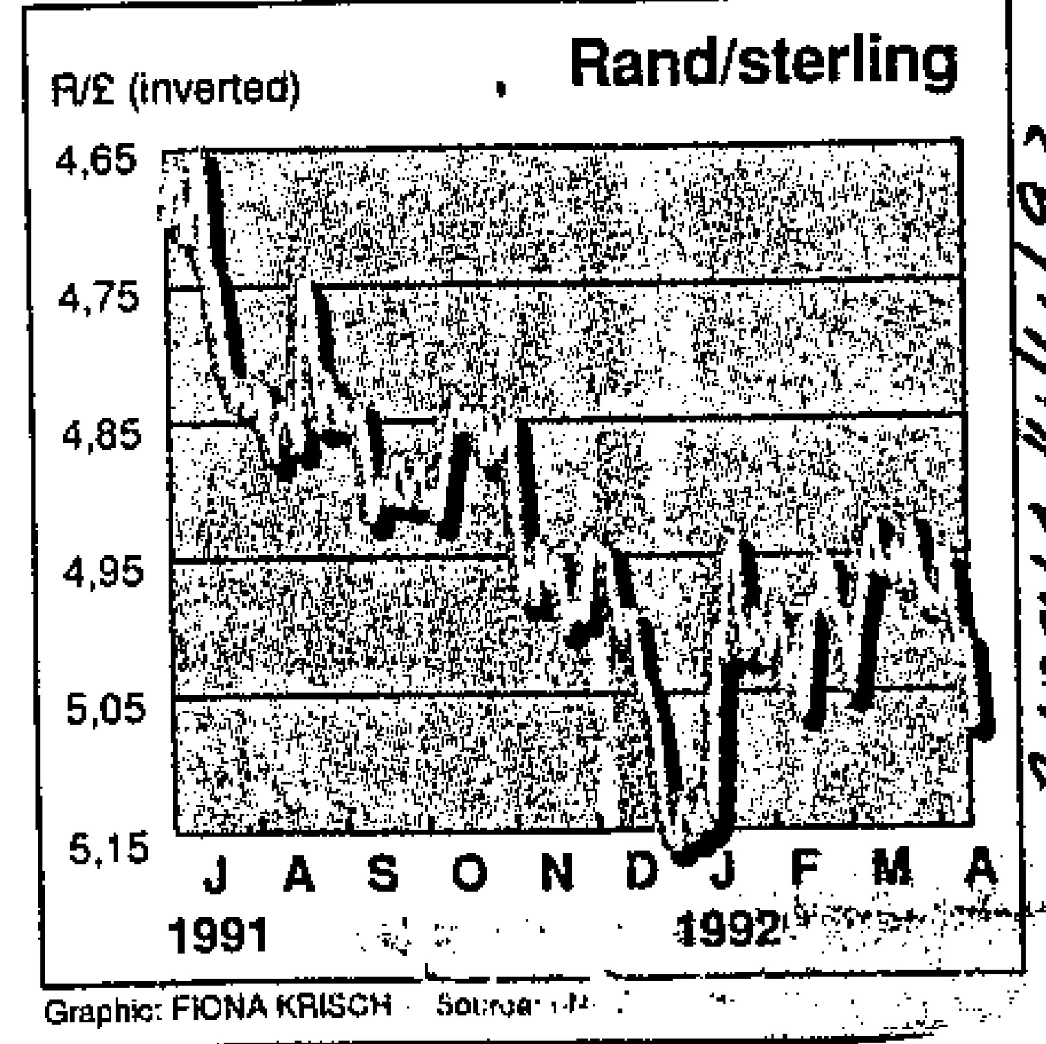
"I'm not convinced yet, but it appears the ANC is learning they need a free market approach," he said. "If this sentiment really takes root in the ANC, it would be the basis for more foreign investment in the long term."

P S Buys, trade chief at SA's consulate in Hamburg, said investment would pick up after creation of an interim government.

"German firms know and understand SA and they will probably be among the top investors," Buys said, predicting British, US and Japanese firms would also join in.

Rand steady against strong dollar

SIMON WILLSON



THE commercial rand resisted advances by both the dollar and sterling yesterday to recover some of the cross-rate losses it suffered late last week.

The rand held steady in the face of the stronger dollar as the US currency firmed against the Deutschmark. The rand closed at R2,8768 to the dollar — little changed from its opening level of R2,8778.

The dollar, meanwhile, had risen more than half a pfennig from the DM1,6415 level it held when the rand market opened. Dealers attributed the rand's resilience to an inflow of exporter dollars and to the petering out of a large dollar buying order

□ To Page 2

Rand

□ From Page 1

that hit the market last week.

In holding its level against the dollar, the rand was firmer overall on its principal cross rates as the major third currencies themselves yielded to the dollar surge. The rand was steady at R5,07 against the pound and firmer at DM0,5728 and Sf0,5263 from respective closes on Friday at DM0,5670 and Sf0,5215.

For the first time in four trading days, dealers said they had not noted Reserve Bank intervention to support the rand. Traders said the Bank had sold dollars into the market in the latter half of last week to offset the large dollar buying order that had the rand under pressure.

The dollar rose — despite a quarter-point cut in one of the US money market's interest rates at the end of last week — on higher hopes of US economic recovery, market fears about political instability in Russia and the gloomy outlook for the German economy.

Sterling, meanwhile, posted handsome gains as markets, relieved at last week's re-election of Britain's Conservative government, clamoured for pounds on the foreign exchanges. The pound burst through the DM2,90 level for the first time since November, and briefly topped $1,77 for the first time in six weeks.

Demand for the pound was initially whipped up on Friday. In final pre-weekend deals sterling surged more than three pfennigs to DM2,89 and forced the rand six cents lower to R5,07.

SA 'needs body to co-ordinate trade'

14/4/92 LINDA ENSOR

CAPE TOWN — The absence of a central body to co-ordinate foreign investment in SA was an obstacle to the implementation of effective investment programmes, the Cape Town Chamber of Commerce's recent trade mission to France and Holland discovered.

The chamber's latest bulletin said it became clear during discussions with policy-makers overseas that SA had been earmarked for investment, but the lack of a co-ordinating body was an impediment.

"It was realised everywhere that SA would form the commercial gateway to Africa and that its infrastructure, raw materials, labour force and technology were the vital components to become the economic engine of southern Africa. It is now waiting for SA to take the next step and indicate under what conditions it will re-enter the international market."

Chamber president Kenneth Marcus said close co-operation by government, local authorities and chambers of commerce and industry would be necessary to devise a plan for participation in world trade.

"In particular, it will be vital to meet foreign standards ... have a clear understanding of the markets and customers ... and develop an appropriate export culture ..."

Regional business conference planned

BDay 14/4/92 (74)

SHARON WOOD

SEVERAL southern African business leaders will take part in a conference this month hosted by the SA Foreign Trade Organisation (Safto) and the SA-British Trade Association in SA to discuss the future of the region's trade and investment.

Safto Africa division head Paul Runge says it is the first time a conference of this nature — at which practical business matters, not politics, will be discussed — has been arranged in SA. "People throughout the region are now realising the necessity of working in a trading bloc in line with international trends of economic co-operation," he says.

Speakers will include former Nigerian president Olusegan Obasanjo and former Zairean economic planning minister Crispin Mulumba Lukoji. Speakers from Kenya, Tanzania, Mauritius and Ivory Coast will also attend.

Ivory Coast delegation members, with Serge Bombo, foreground, arrive at Jan Smuts Airport. Picture: BRIAN HENDLER

Ivory Coast 12 seek SA partners

THEO RAWANA

A GROUP of 12 Ivory Coast businessmen flew into SA yesterday in search of trade contacts and joint ventures.

Sponsored by Ivorean business consultant Honore de Sumo, the group ranges from coconut butter producers to builders and hotel owners.

The leader of the delegation is Kone Banga, whose housing and construction services company Sicogi would like to meet building promoters for co-operation and exchange of experience, and investors with whom to discuss the possibility and terms of financing social accommodation infrastructure at about R100m.

Serge Bombo, a commercial director of coconut butter manufacturer Sicor, hopes to find distributors and a partner in SA.

Aliou Sibi wishes to act as an agent for SA manufacturers or marketing companies of security systems.

Amadou Khabore, a publisher, is interested in buying printing, typesetting and lay-out (DTP) equipment.

Ouezzin Coulibaly wants to start a pencil manufacturing plant, but requires an investment of about R5m.

Paul Danho is looking for a partner (finance or construction) for a three-star hotel in Abidjan.

Alassane Hamza, MD of international consulting services ICS CI, is looking for potential importers or exporters to west Africa who need advice on legal or other matters.

The delegation will be in SA for one week.

BDay 15/4/92

ANC trade policy to be released soon

B/Day 15/4/92

THE ANC would release a trade policy in the next few months, possibly as early as May, ANC economic affairs deputy director Tito Mboweni said yesterday.

He described the level of import tariffs as a critical issue. He said he was committed to the principles of trade liberalisation in accordance with GATT, but there had to be a way to protect consumers and producers.

Mboweni said recently the ANC would publish a draft economic policy statement soon.

The trade policy, which he said could come as early as May, would be a separate section of the overall economic policy.

Mboweni also said yesterday the ANC would take steps to redistribute land to the estimated 3,5-million people removed from their land by apartheid. At the same time the ANC would be careful not to destroy agricultural production.

An ANC government was unlikely to remove foreign exchange controls immediately, but would like to lift them gradually.

On nationalisation, Mboweni said the ANC was considering economic policies that redistributed personal and corporate wealth "within the context of macro-economic policies".

Restructuring the tax system and enacting anti-trust legislation were alternatives to nationalistion for redistributing wealth. However, the business community had to understand the ANC was under political pressure from blacks to use the word nationalisation.

"If you went to the townships and rural areas ... you'd be struck by the way people are dismayed if the words redistribution and nationalisation aren't mentioned." — AP-DJ.

Protection of industry seen as harmful in the longer term

BDay 16/4/92 (74)

THE protection of local industry has come under much criticism for its inflationary influence on the economy and for artificially boosting the market.

Market commentators admit protectionism can help an economy in the short term to boost employment and economic activity but in the longer term it becomes self-destructive — keeping out competition and resulting in companies which are not internationally competitive.

Quality of goods and services is also put at jeopardy, they say.

Government is studying the effects of protection on local industry. However, no decision has been taken on the Industrial Development Corporation's (IDC) 1990 tariff report, which recommends across-the-board tariff reductions to 30% over the next five years.

At present it is calculated that tariffs are about 45%.

SA's protectionist policy mainly centres on import control and tariff protection.

The Department of Trade and Industry (DTI) says protection measures have always been undertaken "moderately and selectively".

"The aim is to compensate local industrialists for their cost disadvantage; protect them in the initial stages and help them to get their project off the ground; make the product internationally competitive; stimulate industrial development; and create employment opportunities.

Launch

"Looking at the scoreboard, although the system is not perfect, it has helped to launch many large industries," a DTI spokesman says.

The current trend is towards trade liberalisation.

The IDC's report focusses on the lifting of protective tariffs and the creation of an economic environment conducive to competitiveness on international markets (lower interest rates, lower inflation, tax reform, etc).

Trade and Industry and Economic Co-ordination Minister Derek Keys says the report should be considered as a broad framework of reference rather than implemented wholesale.

He agrees protective tariffs need to be lowered but this should be done slowly and carefully to give protected industries an opportunity to adapt and to ensure there are jobs and training facilities for the people who are unemployed as a result of the changes.

The IDC has also put forward suggestions on new anti-dumping legislation.

Ernst & Young tax partner Ken Walton says there is a further block against getting rid of import control. Import surcharges, for example, are a lucrative source of income for the fiscus.

In the last financial year, customs duty netted Revenue R3,1bn, import surcharges R1,7bn and excise tax 4,7bn.

Countertrade can overcome forex problem

B/Day 16/4/92 (74)

MANY of SA's potential trading partners, especially in Africa and central Europe, have severe foreign exchange problems. But this should not put a lid on trade, says Countertrade Association executive chairman Fred Bell.

Through countertrade methods, forex limitations can be overcome and economic activity can be increased in both countries involved in the deal.

One of the more popular methods of countertrade is counter-purchase.

Earmarked

With counter-purchase, instead of being unable to trade with a country in "economic distress" because of its lack of hard currency, SA looks at what it can buy from that country. Any purchases are paid for in hard currency on the understanding that the forex earned is earmarked for trade with SA.

"In other words, SA provides the forex for the debt-ridden economy to buy its essentials and most of that forex then returns to SA through trade with SA exporters," says Bell.

For example, a west African country wants to buy affordable housing from SA. It has virtually no foreign exchange but has cocoa to trade in return.

SA will buy the cocoa, the west African country will use the forex earned in the transaction to buy its low cost housing from SA, and SA will sell the cocoa on the international market, boosting forex earnings even further.

Bell says the process is complicated and one needs to be innovative to find things to buy in many of the cash-strapped countries which wish to trade with SA.

"Countertrade is not an alternative to cash trade. It is an alternative to no trade at all. Although the country with economic problems does not gain much forex, it does not lose either.

"Similarly, its debt does not increase but trade increases, which is great for the economy," he says.

Barter is also a form of countertrade but is not allowed by the SA Reserve Bank because it is the easiest way to circumvent forex regulations and leads to abuse.

Central Europe has a huge countertrade potential with SA.

Countertrade potential in the current maize shortage is also enormous. SA is trying to work a deal where the forex earned by countries from which SA is buying maize is used for trade with SA.

Countertrade on the international scene is well established, with many large corporations in the US having countertrade departments.

In 1990 it was estimated that about 12% of the world's trade was countertrade. This figure is expected to rise to 20% by the end of the century.

Total countertrade in SA is estimated at between R20m and R30m a year.

Expertise

Buy-back is another form of countertrade. In this case SA invests in a less developed country, provides the technology and expertise and buys back the total production of the venture to either use or sell on the world market.

The advantage for the less developed country is that it supplies labour and raw materials and benefits from the development of related industries. Botswana's Sua Pan soda ash plant and the Lesotho Highlands Water Scheme are two examples of buy-back.

Offset is another major form of countertrade and is being used to great success in the aeronautical industry worldwide. In addition, Kuwait, which has estimated the cost of its reconstruction following the Gulf War at US$34bn, has insisted that all deals have an element of offset.

Offset is a system whereby one country will agree to buy goods from another country on condition that the other country also gives other benefits such as establishing high-technology facilities in the purchasing country.

The biggest offset contract ever negotiated is between Saudi Arabia and UK with a total value, in two phases, of £20bn.

Offset

Out of this contract for British Tornado aircraft, air bases, helicopters and the like, some of the offset requirements are an aluminium smelter, a computer training school, a textile plant, and production for animal feed.

And to top it all, the UK will be paid with oil for the aircraft and air bases, while investment in Saudi Arabia for the benefit facilities must be in hard currency.

Bell says sanctions severely curtailed SA's opportunity to use offset. "We were only too happy if somebody was willing to sell to us, without putting conditions on the sale."

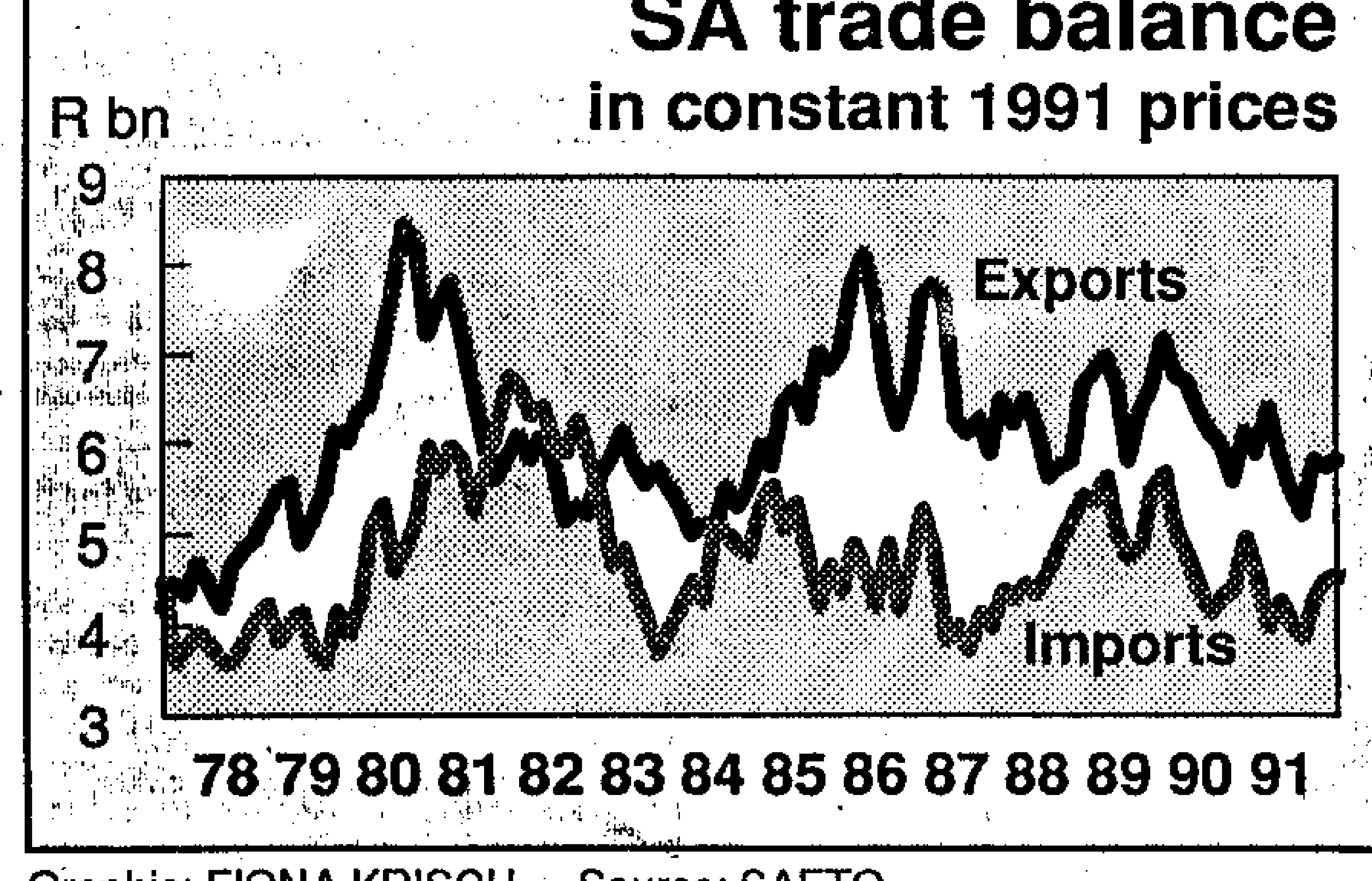
The Countertrade Association of SA works closely with the Department of Trade and Industry (DTI).

"Although the DTI obviously encourages cash trade, it recognises the extra potential for trade through alternative methods.

"We do not want to contaminate normal cash trade but if there is no cash we come into action," Bell says.

Business Day SURVEY

For exports to increase substantially, there will have to be an increase in fixed capital investment in SA. But it is no good trying to stimulate industries with excess capacity. Consumption expenditure has to be stimulated and local entrepreneurs need to commit themselves to world-scale plants and total dependence on export markets. GILLIAN HAYNE reports.



Graphic: FIONA KRISCH Source: SAFTO

Trading hampered but not crippled by sanctions

ALTHOUGH it is unarguable that sanctions hurt SA, financial sanctions were more damaging than trade sanctions, according to the Department for Trade and Industry (DTI).

Trade sanctions compelled SA to conduct costly and cumbersome indirect trade relations, but trade did continue.

The favourable rand/dollar exchange rate, for example, did much to boost exports despite sanctions.

Statistics from the DTI show that exports to Taiwan increased by 552,3% between 1985 to 1990. Imports from Taiwan rose by 365,2% in the same period. Exports to Kenya increased by 233,9% from 1986 to 1990 and imports rose by 25,53% — the main growth coming since the beginning of 1988.

With SA's reacceptance into the world arena, a bevy of new markets has become accessible.

Eastern European countries are eager to trade with SA and there is tremendous potential for SA exports to the Russian Commonwealth. Also, countries in east Asia are looking to SA to source many raw materials.

"SA can also provide foreign traders with a springboard to the African market. South Africans are conversant with the African market, mentality and technology.

"Their mining and agricultural expertise and experience in creating infrastructure and managerial skills make them invaluable contractors on any African development project," says a spokesman at the DTI.

But for SA to capture its share of the foreign markets, it must increase its production capacity, step up manufacture and increase productivity.

In an effort to inject foreign capital into SA's manufacturing sector the DTI has embarked on a "purposeful campaign" to market SA as an investment destination.

Safto senior manager Mike Veysie says SA needs not only need financial investment but also the active, local involvement of international companies. "They need to bring their own company and country's cultures into SA and teach local industries about the world scene."

Foreign companies operating in SA face few restrictions:

- ☐ There is no compulsory local participation in ownership (100% foreign ownership is allowed);
- ☐ There are no quotas on employment of foreign personnel;
- ☐ Profits are freely transmitted from SA through normal banking channels;
- ☐ Utilisation of foreign capital on a loan basis is no longer subject to specific exchange control;
- ☐ Local borrowing facilities are directly related to the proportion of local ownership in a company.

With the lifting of sanctions SA could also become the gateway to Africa — but only if tariffs and taxes are lowered, Veysie says.

"SA needs to lift tariffs to be able to source components more competitively. This would encourage companies to move to SA with the sole purpose of exporting to Africa."

Insurance vital as commercial risks increase

EXPORTERS may be facing decreasing political risk because of SA's changing political situation, but commercial risks are on the up, says Credit Guarantee Insurance Corporation senior GM Mike Truter.

The demise of sanctions and a severe local recession is encouraging many companies to turn to exports to boost profits, but Truter warns that companies must move with caution before dealing with new markets.

The recession is also biting in countries which constitute some of SA's major trading partners.

"About 50% more businesses in the US failed in the first half of this year than in the same period last year, while in the UK one in 50 active companies went into liquidation in the year ended June 1991. Credit Guarantee has seen commercial export claims rocket in the past year".

Credit Guarantee economist Luke Doig says insolvency figures from some of SA's major trading partners are a warning for exporters to tread carefully in their dealings abroad.

In the UK, insolvencies rose by 78% in the third quarter of 1991 compared with the same period the year before. In Japan, business failures left bad debts of R178bn in 1991, twice the previous record in 1985.

Truter says it is essential to take out credit insurance before venturing into the export market.

Africa, a logical market for SA's exporters, is a high risk area because of foreign exchange shortages and political instability.

However, Credit Guarantee is setting up communication lines with other African countries and information is becoming more accessible.

In 1991, Credit Guarantee covered export turnover in Africa worth R1,7bn (compared with R546,7m in 1987). Dealings in Africa comprised 16,4% of Credit Guarantee's total business, up from less than 10% in the past.

But the company had to pay out over R2,1m in claims relating to African countries — 13,63% of total claims.

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Macau trade mission to visit SA

By Michael Chester

Macau, the tiny Portuguese enclave on mainland China that claims to be emerging as the fifth economic miracle in the Far East, plans to join the growing list of overseas countries seeking closer trade links with South Africa.

A trade mission led by the Secretary for Economic and Financial Affairs will arrive in Johannesburg on May 10 at the start of a 10-day buying and selling tour.

Macau, which like Hong Kong is due to be handed back to Chinese sovereignty by the end of the 1990s, wants to export textiles, clothing, toys, video equipment, optical goods and electronic products.

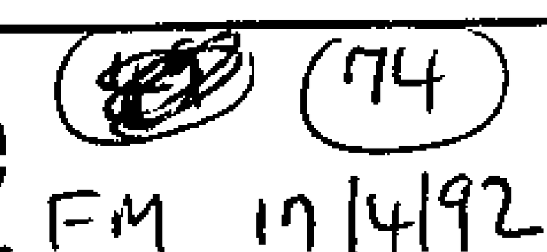
It wants to import from South Africa iron and steel products, precious and semi-precious stones, foodstuffs, paper products and raw materials.

The team will include financial and investment consultants who want to explore the potential of joint business ventures.

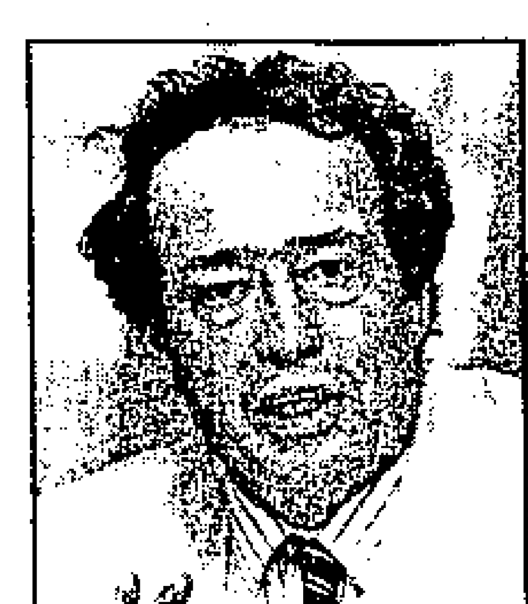
Portrade SA, based in Johannesburg, believes the mission will also be stressing the potential role of Macau as a gateway for South African exporters into the People's Republic of China and other key Asian markets.

The mission will visit Mozambique and Angola.

Give monetary policy its due



FM 17/4/92



Brian Kantor is a professor of economics at the University of Cape Town

It would be wrong to blame politics for the recession. The world's marketplaces that deal in SA assets have given political change here a big vote of confidence.

Marketmakers are an unsentimental lot; they didn't hesitate to dump SA assets in 1985. But, as seen in Figure 1, the US dollar value of a representative sample of SA industrials traded in New York has improved by much more than the Dow Jones industrial average, itself no sluggard, over the recent period of dramatic political change.

The interruptions in the strengthening of the national balance sheet, caused by the adverse reaction to ANC president Nelson Mandela's call for nationalisation on his release in February 1990, and the threat of a conservative resistance to reform early this year, are clearly shown in Figure 1.

Investment and other spending in SA have declined this year despite the fundamentally improved investor sentiment. It has done so for an old-fashioned reason: monetary policy has been devastatingly severe, as seen in Figure 2. The decline in the supply of money in real terms was sharper last year than it had been in 1976, 1982 or 1984-1985, previous periods of tight money.

The cycle of monetary growth has always led the cycle of economic activity and followed the state of the balance of trade. Predictably, the monetary authorities relaxed their policies when the balance of trade provided them with a comfortable cushion of foreign exchange reserves. They tightened up when the health of the balance of payments was threatened by excessive spending.

Thus booms were brought to an end with higher interest rates and recessions with cuts in interest rates. The economy danced to the rhythm of the balance of trade, until last year when the beat of another drum sounded. The different beat was that of the Reserve Bank and its new mission to defend the rand's internal and external value.

Politicians left it to the task. Government did not interfere with an independent central bank defending the currency and setting an example to the new SA. Populist opposition to government, which would be expected to complain about monetarist policies, seemed to ignore the Reserve Bank while it fired away at Finance Minister Barend du Plessis.

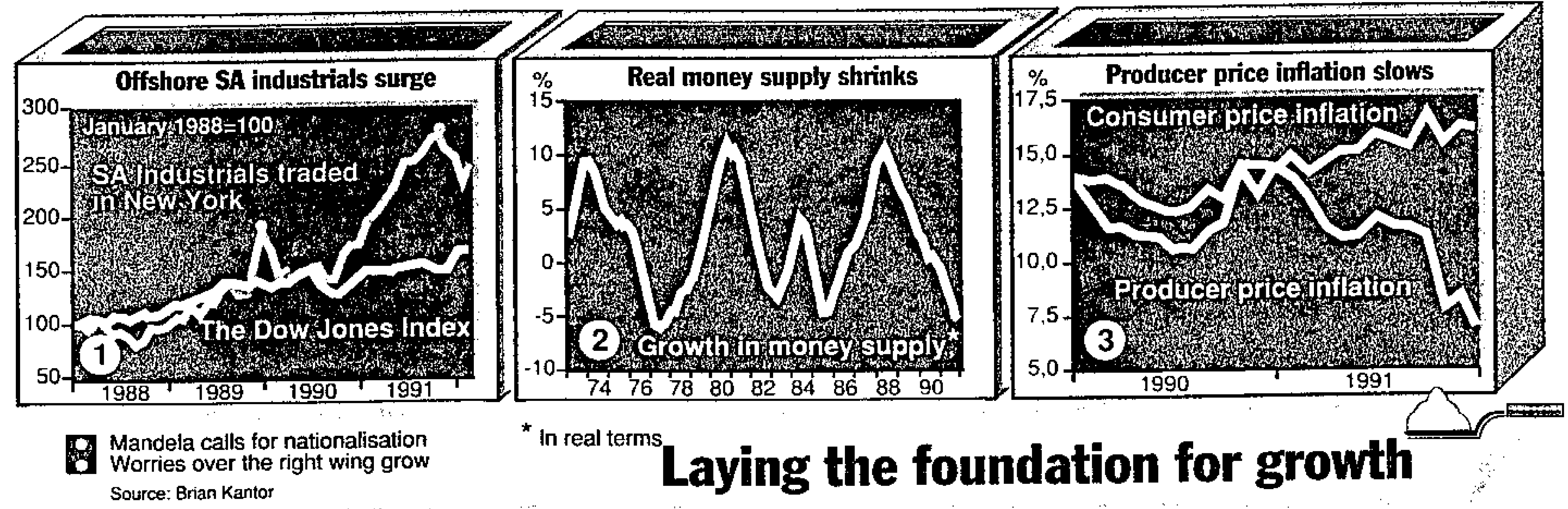
So monetary policy has remained highly deflationary for far longer than normal — despite a marked and continuous improvement in the trade and capital accounts of the balance of payments. Unfortunately, the deflation of expenditure has been far more real than the deflation of prices, at least the prices consumers pay at the stores.

But the prices producers are able to charge have been responding dramatically and predictably. As seen in Figure 3, monetary policy is working in a classically effective way on producer prices.

The large gap that has opened between consumer and producer price inflation is unprecedented and has nothing to do with the demand side of the price equation, which is the side that monetary policy operates on. But by the end of the year, the tax and food supply-side shocks that have kept producer and consumer price trends apart, will fall away and consumer price trends will fall in line with the fundamentals.

The Reserve Bank now needs to lift its gaze beyond the short-term consumer price trends and recognise the success it has had with prices and will continue to have, provided it maintains the rand's external value. Recent political developments make the capital account of the balance of payments a source of support for the currency.

So growth and still-lower inflation are likely over the next 24 months, if only the Bank would be guided by its success with producer prices and therefore loosen its grip on the economy.



Laying the foundation for growth

RESERVES FM 17/4/92 (74)

Quarter dip

Foreign exchange reserves fell R598m in March to R3,05bn (US$1,06bn). Bankorp chief economist Nick Barnardt says one reason is that, at the end of each quarter, there is usually a flow of foreign exchange from the Reserve Bank into the rest of the banking sector, in the form of dividends and interest payments. This is normally matched by a flow back in the following month.

Another possible reason is the import of maize because of the drought. But he doubts whether this would have been reflected yet in the reserves figures. There has been speculation that the Bank's intervention in the financial rand market in late March could also have drained reserves. But Bank GM, gold and foreign exchange, James Cross says this has had little effect. "Rather the change is a reflection of quarter-end commitments as well as some capital payments following the scrapping of preferential forward cover last year."

Gold reserves rose R104m or 1,8% to R5,9bn ($2,06bn). A drop in the value of gold holdings from R901/oz to R883/oz over March countered the effect of the increase in total gold holdings from 6,4m oz in February to 6,7m in March. ■

Macao seeks trade

S1Times EBUSS7 19/4/92

THE first trade mission from Macao, the Portuguese colony in China, will visit South Africa in May.

Among the officials will be the secretary for economic and financial affairs and a representative of the departments of economy, foreign trade and investment.

The 25-member delegation will include industrialists, bankers, exporters and importers.

Macao, which has shown an average economic growth of 8% a year, will pass to Chinese sovereignty in 1999.

Macao has reduced its dependence on casinos and tourism for foreign earnings by expanding its manufactured exports, especially textiles and garments.

It has also embarked on infrastructural projects including an international airport and a harbour.

Chamber of Industries eyes Kenya

(74) Sowetan (Cape Metro) 19/4/92

THE Cape Chamber of Industries is mounting a trade mission to Kenya from June 20 to 28.

The chamber says Kenya offers a relative degree of sophistication and a free market system that should interact well with South Africa's industrial level of competence.

The Western Cape, with its concentration of consumer orientated industry covering a wide field, is regarded as well placed to expand business into Kenya.

The trade mission is open to registered exporters. It is limited to 15 participants, who will be accepted on a first-come first-served basis.

The total cost will be R7 000, with a deposit of R2 000 and the balance paid by May 29.

Under the Export Marketing Assistance Scheme (EMA), registered exporters will qualify for financial assistance of 50 percent of the airfare and a daily allowance of R300.

Further details from the deputy director of the Cape Chamber of Industries, Colin Boyes, on ☎ (021) 21 5180.

Tanzania at Safto

A SENIOR member of the Tanzanian Government and a Southern Africa Development Co-ordination Conference (SADCC) executive will visit SA.

They will address the SA Foreign Trade Organisation (Safto) conference on April 28 and 29 on "SA — a new scenario for trade and industry". S/Times (BUSS) 19/4/92

George Kahama, director general of Tanzania's Investment Promotion Centre, will also meet Department of Foreign Affairs officials and businessmen.

Harry Thompson, chairman of the SADCC regional council, will talk about regional trading blocks at the Safto conference. Tanzania is believed to be considering the removal of visa requirements for South Africans.

Drought will cost millions in forex losses

Star 20/4/92 (74)

CAPE TOWN — The serious drought will cost South Africa thousands of millions of rands in foreign-exchange losses, chief economist of Sanlam, Johan Louw, says in the group's latest economic report.

He predicts that imported maize and maize products alone may cause a foreign-exchange loss of R3 000 million.

Overall, prospects for South Africa's foreign trade balance are reported as not favourable. Although an upswing is expected in the economies of South Africa's major trading partners during the course of the year, Sanlam does not foresee much of an improvement in exports before late 1992. A notable increase in the gold price also seems unlikely.

As a result, considerably smaller surpluses are expected on the current account of the balance of payments.

A surplus of R4 000 million is predicted for 1992, compared with last year's surplus of R7 422 million, but due to the lifting of sanctions, and the possibility of IMF loans, an improvement on the capital account may well be expected. This should make up for the smaller surpluses on the current account to the extent that foreign reserves should continue increasing.

An average inflation rate of around 14,5 percent is predicted for 1992, compared with last year's 15,3 percent. By December the rate should be between 12 percent and 13 percent.— Sapa.

STAR 21/4/92

Australians aim to forge trade links

SYDNEY — A delegation of Australian business leaders will visit South Africa in August in anticipation that Australia will lift trade sanctions and open formal trade talks by July, the organisers said yesterday.

The Australia-Southern African Business Council said timing of its mission was based on expectations that South Africa would have an interim government and constitutional assembly by July, allowing Australia to scrap remaining sanctions.

Organiser Cliff Reece said: "It's in everybody's interest to get trade going with South Africa as soon as possible.

"While we prevaricate on whether we should or not, other countries like Germany, Norway, the USA and all the south-east Asian countries are in there already, signing up export orders and forming joint ventures," he said.

The mission had the support of the African National Congress, he said.

Council chairman Mike Jones said Australians were particularly interested in joint ventures, drawing on the similarities between Australian and South African resource-based economies.

Australian trade bans on South Africa include exports of oil and imports of key South African products such as uranium, coal and steel.

Australia last year renewed direct air links and cultural and scientific exchanges. — Sapa-Reuter.

China-SA ties

S/Day 22/4/92

BEIJING — Communist Party general secretary Jiang Zemin gave further indications that China and SA could establish ties soon, at a meeting with a delegation of SA communists reported in Beijing yesterday.

Speaking to SACP general secretary Chris Hani, Jiang said "China ... wishes to maintain relations with all the world's countries on the basis of the principles of peaceful co-existence". (74)

Jiang's remarks confirmed Beijing's already expressed desire to normalise ties with President F W de Klerk's government.

China and SA are exploring ways of expanding bilateral trade. — Sapa-AFP.

enthusiasm of some of the private entrepreneurs who wish to flourish. [Time expired.]

Mr M RAJAB: Mr Chairman, I stand corrected by the hon the Minister of Transport who said that we require R2,8 billion instead of R2,269 billion to keep our roads in a proper state of maintenance. Quite obviously I bow to the hon the Minister's expertise in this regard. After all, he is the Minister, not I.

I appreciate the admission made here by the hon the Minister this afternoon that we do require more money for the maintenance of our road system. It is interesting that just two weeks ago, in the debate on provincial affairs, his colleague, the hon MEC in charge of roads in Natal, was decrying the fact that not enough had been allocated to Natal per se for the maintenance of roads in that province. I was wondering whether, in the provincial allocation of the budget for the maintenance of roads, Natal was not in fact short-changed.

The CHAIRMAN OF THE HOUSE: Order! I regret that I have to short-change the hon member. His time has expired.

The MINISTER OF TRANSPORT: Mr Chairman, I agree that everyone is short of money. If that is valid for Natal, it is valid also for all the other provinces as well as the SA Roads Board.

I should like to say that there is an alternative. There is always an alternative. It is part and parcel of the practice of toll roads. I think the hon the Leader of the Official Opposition is correct in saying we must not push people onto new toll roads. We must have another look at the matter, however. We cannot keep two roads right next to each other in a superb condition. We shall have to address this again. It will be a political debate, however, and therefore I do not think it would be appropriate to discuss it now.

I should like to say that according to the Budget, the SA Roads Board will get about 52% from the Exchequer in 1992-93. The rest, 48%, will be financed by toll roads. Toll roads, therefore, are a major roleplayer in providing roads in South Africa. Unfortunately it will not be possible to build roads without toll roads.

I should also like to say that because of the shortage of money, we introduced a new policy on roads at the end of last year. I should like to summarise it, as the hon member for Bayview asked me to do. In terms of the new policy for roads, we shall maintain the existing road network. If there is money left in the kitty, we shall upgrade the roads. If there is money left after that, we shall build new roads. That is our policy. We should like to ask the four provinces as well as the independent and self-governing states to help us in implementing this policy.

Our national road assets are valued at about R90 billion. We have to keep those assets intact for future usage. That is why maintenance is our first priority. [Time expired.]

Debate concluded.

QUESTIONS

†Indicates translated version

For oral reply:

General Affairs:

Second-hand clothing: permits

*1. Mr M RAJAB asked the Minister of Trade and Industry: (74)

(1) Whether his Department has issued any permits to churches and welfare bodies to import second-hand clothing duty-free; if so, (a) why and (b) how many such permits were issued;

(2) whether he will make a statement on the matter?

D102E

The DEPUTY MINISTER OF JUSTICE (for the Minister of Trade and Industry):

(1) The provision in rebate item 405.04/63.09/01.00 in Annexure 4 to the Customs and Excise Act allows churches and welfare organizations to import second-hand clothing duty-free, provided the churches and organizations distribute the clothing free of charge. To qualify for the duty rebate, these organizations are required to submit a written statement to Customs and Excise in which they undertake to distribute the clothing free of charge. Under normal conditions, the import of second-hand clothing is subject to import control in terms of the Import and Export Control Act, 1963.

After it came to light that the provision concerned had allegedly been misused to a great extent, and that some of the clothing imported in terms of the provision had become available in ordinary business, the matter was investigated by the Board of Trade and Industry who will soon submit proposals to Government for the amendment of the provision in order to restrict the misuse thereof. The alleged misuses are specifically connected with a *concession* granted a few years ago which allowed the organizations concerned to sell a part of their second-hand clothing in order to cover import and distribution costs. It will, inter alia, be recommended that the abovementioned *concession* be cancelled. (74)

(a) The goods in question are supplied free of charge by churches and welfare organizations abroad to similar organizations in South Africa which in turn, distribute them free of charge to needy people. Import permits are therefore issued for humanitarian reasons.

(b) During 1991, 121 "no-value" import permits with a value of R639 939 for Customs purposes were issued to churches and welfare organizations.

(2) No.

Mr M RAJAB: Mr Chairman, arising out of the hon the Deputy Minister's reply, I wish to state that I have a list of supplementary questions with which I will not burden the hon the Deputy Minister of Justice and of the National Intelligence Service. I have had a communication from his colleague the hon the Deputy Minister of Trade and Industry and I appreciate the fact that he is not here because he is in Johannesburg. I will ask these supplementary questions by means of direct communication with him.

Voluntary euthanasia

*2. Mr M RAJAB asked the Minister of Justice:

(1) Whether he has set up or intends to set up a body to investigate voluntary euthanasia; if not, why not; if so, what are the relevant details;

(2) whether he will make a statement on the matter?

D103E

The DEPUTY MINISTER OF JUSTICE:

(1) and (2) The South African Law Commission, at its meeting held on 3 February 1992, recommended that the question of "Euthanasia and the artificial preservation of life" be included in an investigation in its programme. On 2 March 1992 I formally approved that the matter be included in the programme of the Law Commission under the title "Living Will". At present the project is receiving the Law Commission's attention and interested parties are welcome to submit proposals in this regard to the Secretariat of the Law Commission.

INTERPELLATION

The sign * indicates a translation. The sign †, used subsequently in the same interpellation, indicates the original language.

Own Affairs:

Springfield College of Education: facilities

1. Mr M RAJAB asked the Minister of Education and Culture:

(1) Whether it is the intention of his Department to restructure the facilities at the Springfield College of Education in view of its in-service programme; if not, why not; if so, what are the relevant details;

(2) whether he will make a statement on the matter?

D116E.INT

The MINISTER OF EDUCATION AND CULTURE: The answer to the first part of the interpellation is no. The intention of the Department to restructure facilities at the college is not due to the implementation of the in-service education and training programme.

The facilities and infrastructure at the college are being refurbished by way of renovations and repairs to the tune of R2 169 796 for the pre-service programmes on offer at the college. The enrolment in these programmes has increased to approximately 577. The projections for the next two years are an intake of approximately 650 for 1993 and an intake of about 700 students in 1994. These renovations and repairs include offices for the rectorate, updating administration offices, updating the cafeteria, a new staff room, a new

Post-apartheid era faces great challenge

Sowetan 24/4/92

POST-APARTHEID Southern Africa faces an enormous challenge of turning the transport sector into a vehicle of real economic empowerment.

This was one of the views expressed by many leaders during the annual meeting of National African Federated Transport Organisation (Nafto) held in Johannesburg last week.

They said South Africa was on the verge of an era which promised a better future for transport and related organisations such as Nafto and the Southern Africa Black Taxi Association, and indeed the entire Southern Africa.

It should be noted that economic performance of sub-Saharan Africa, and in particular its transport component, has left much to be desired.

In this sub-region apartheid has been chiefly destructive on the economic and social nucleus, especially on transport networks in the SADCC sub-region.

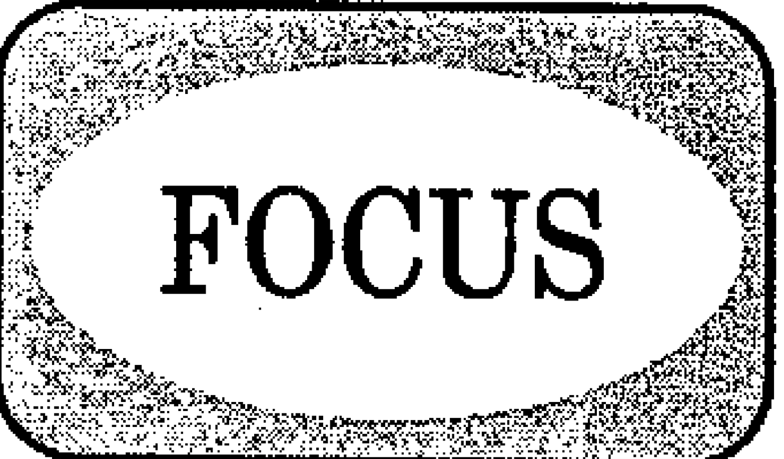
The new political era dawning on South Africa will provide Southern Africa with a golden opportunity to release its full potential of realising the dream of creating a Cape-to-Cairo transport network.

Change

The opportunities are further enhanced by the "winds of change" in the sub-region.

These are manifested in the growing role the private sector is assuming in the economy, the emergence of a bigger voice for professionals and renewed determination by Southern African countries to take charge of their own destiny.

Among the leaders who addressed the conference, whose theme was "Opportunities and challenges facing the new South



Africa - the role of transport in economic empowerment", were presidents of the ANC Mr Nelson Mandela, the PAC's Mr Clarence Makwetu, Azapo's Mr Pandelani Nefolovhodwe and Nafcoc's Dr Sam Motsuenyane.

International participants included the secretary-general of the Preferential Trade Area for Eastern and Southern African States, Dr Bingu Wa Mutharika, and the director-general of the Eastern and Southern African Management Institute (Esami), Dr Kasuku Mutukwa.

Joint ventures

The opportunities and challenges were aptly put by Mutukwa when he said: "There are now massive opportunities for investment, for joint ventures, for facilitating free movement of goods and people in respect of all modes in the Eastern and Southern Africa sub-region."

He said a healthy political dispensation in South Africa might allow the sub-region's economic interdependence and overall growth taking advantage of the country's (SA) industrial and technological skills.

Second, substantial infrastructural facilities have been provided whose usage could be free from the political restraints of the past.

Third, a wider market and a joint approach could increase the bargaining power of the sub-region.

Fourth, given trade liberalisation, increased opening up of trade

By JOSHUA RABORoKO

and therefore transport demand between South Africa and the sub-region, the transport integration would take place in an environment better disposed towards regional co-operation both at continental level and at the second-tier PTA level, where Esami was recognised.

He said Nafto trucks and buses should be able to go as far as the equator and beyond. Indeed, he added, in these changed time, the "dream of Cape-to-Cairo" transport services is within reach.

"In pursuing various strategies bent on the realisation of her objectives, Nafto can count on the support of Esami. We are putting our management development programme and consultancy services at the disposal of the new South Africa."

Revenue

Mutharika said: "It is a well documented fact that the Republic of South Africa dominates the markets of the sub-region, especially those of its neighbours and beyond, to which it exports manufactured and other goods. And in turn these countries are an important source of revenue for South Africa's transport sector, especially its harbours and railways.

"According to SADCC estimates, total trade between its member countries and South Africa amounted to 6,5 billion US dollars as compared to intra-SADCC trade of less than 2 billion dollars in 1986."

Mutharika said a trade-related area of co-operation between the PTA and post-apartheid South Africa was the creation of Eastern and Southern African common market. "This would imply the merger of the South African Customs Union with the PTA", he said.

The liberation movement collectively concurred with the notion of regional and continental economic co-operation transport.

Optimistic

Mandela said he hoped Codesa would be one of the vehicles of creating a post-apartheid base for a transport network and co-operation in Southern Africa.

He said he was optimistic that sanctions would go and more investment would help empower the Africans economically. But, he added, before that could happen "we need to join hands for peace and reconciliation in the sub-region."

He urged trade unions, political and business organisations to debate the future economy of South Africa.

Makwetu asked the transport organisations to join hands in exploiting the new route from Cape to Cairo. It was up to them to take advantage of the opportunities.

Nefolovhodwe said transport would play a vital role in promoting healthy business.

President of Nafto Mr Peter Rabali said his organisation planned to diversify from freight transport to help transport people across the continent.

Export growth sees trade surplus climb

B/Day 24/4/92

SHERIDAN CONNOLLY

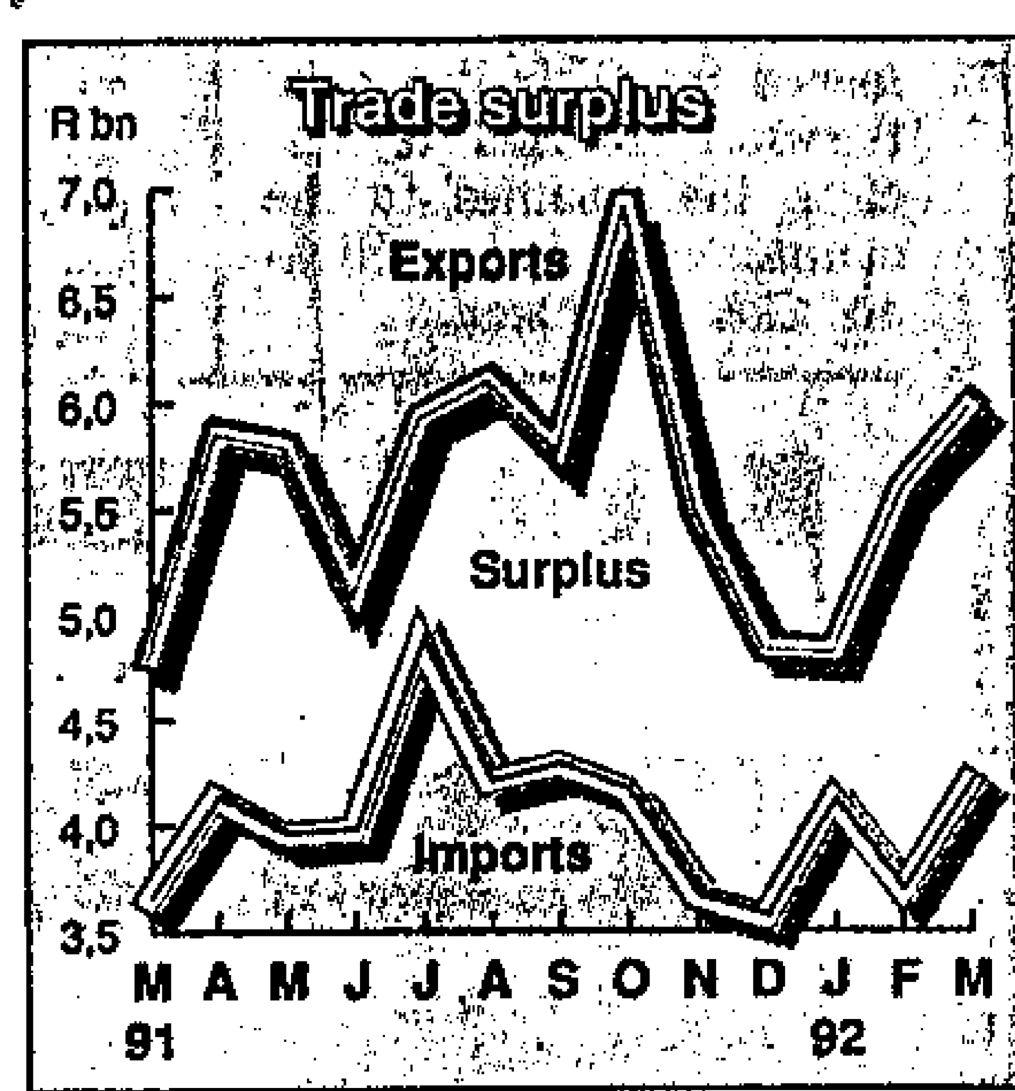
GOOD export performance in the first three months of this year saw the trade surplus 38% higher than the surplus recorded in the first quarter of 1991, figures released yesterday by the Customs and Excise directorate showed.

The trade surplus narrowed to R1,77bn in March from R1,89bn in February with a small rise in exports to R5,97bn compared with R5,58bn in February and R4,8bn in March 1991. Unclassified exports — mainly of gold and armaments — were also higher at R1,96bn in March from R1,87bn in February.

Total imports increased to R4,198bn in March from R3,68bn in February and R3,66bn a year ago. The rise in total imports reflected a steep rise in unclassified imports — mainly oil — to R644,9m in March as against R371,4m in February.

SA Foreign Trade Organisation (Safto) chief economist Bruce Donald said despite tough conditions in foreign markets, SA performed reasonably well. The 38% increase in the first quarter of 1992 brought the trade surplus to R4,4bn.

Exports grew 12% in nominal rand terms to R16,4bn in the first quarter compared with the same quarter last year while imports grew 5% to R12bn, he said.



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

Donald said the biggest contributor to the export growth trend was the jewellery and precious stones category (mainly diamonds), up 79% in the first quarter.

Commenting on manufactured products, Donald said transport equipment had put in a remarkably strong performance in the first three months of the year, rising by 75%. "Other manufactured products" also continued their positive trend with plastics up 45%, chemicals 35% higher, and machinery re-

☐ To Page 2

Exports

B/Day 24/4/92 74

☐ From Page 1

cording an increase of 26%.

Donald said their sustained growth might be partly linked to the benefits that manufacturers obtained through the General Export Incentive Scheme (GEIS), and, in the case of the motor industry, the benefits gained through Phase VI of the local content programme. This trend was "assisting in the diversification of SA's exports away from their dependence on primary and minimally processed products".

The "statistical anomaly" created by massive imports of oil at the beginning of last year in response to the Gulf crisis was of particular relevance, he said. Excluding unclassified imports, imports grew 10% in nominal rand terms in the first quarter compared to the same quarter last year.

"Consistent with the recessionary conditions in the local economy, imports of industrial materials remained relatively static," Donald said.

Keys tour to develop Far East trade links

(74) Biday 24/4/92

KARIN FRANKEN

TRADE and Industry Minister Derek Keys left on a Far East tour yesterday to develop closer trade relations, particularly with China and Japan.

Keys was accompanied by Trade and Industry director-general Stef Naude, the Finance Ministry's special economic adviser, Japie Jacobs, and prominent businessmen and representatives of the Afrikaanse Handelsinstituut and Sacob. The group includes Attie du Plessis (Sankorp), Spencer Sterling (Samcor), Dawid Mostert (Dorbyl), David Brink (Murray & Roberts) and Basil Hersov (Anglovaal).

Keys will visit China, Japan and Taiwan, and Naude will then lead the delegation to South Korea and India.

Keys said the visit to China — at the invitation of Foreign Economic Relations and Trade Minister Li Lanqing — would involve top-level talks to normalise trade relations. In February, business leaders from mainland China paid their first visit to SA, also to normalise relations.

In Japan, Keys will meet Trade and Industry Minister Kozo Watanabe and Finance Minister Tsutomu Hata.

A department spokesman said the visit was important as it was the first major trade mission at ministerial level.

In Taiwan Keys will meet Economic Affairs Minister Vincent Siew.

'Hostile' trade bodies send delegates to SA

SHARON WOOD

TWO regional trade organisations, formerly hostile to SA, are sending delegates to speak at an SA function next week.

The Southern African Development Co-ordination Conference (SADCC) and the Preferential Trade Area (PTA) will each send two senior representatives to a trade conference organised by the SA Foreign Trade Organisation (Safto). BDay

Both groups aim to liberalise trade, encourage economic co-operation and create a regional common market. The SADCC was originally created to reduce its members' dependence on SA. 24/4/92

A senior PTA representative, who did not wish to be named until the conference, agreed this week to attend along with SADCC Regional Business Council chairman Harry Thomson. (74)

The additions to the conference's speakers top a list from multilateral funding agencies and the private sector in Nigeria, Tanzania, Ivory Coast, Angola, Namibia, Zimbabwe, Zaire, Botswana, Mauritius, Madagascar, Malawi and Reunion.

"The burning need for regional co-operation in sub-Saharan Africa to create the infrastructure for a prosperous trading bloc and to overcome disasters such as drought will be addressed at the conference," Safto Africa division head Paul Runge said.

FM 24/4/92 (74)

Into the great wide open

SA can no longer afford the 'self-sufficiency' which underpinned apartheid

Our economic problems are too complex for any single factor to take the blame. Excessive State spending, inflation and negative interest rates come to mind. So does protectionism — aspects of which have been applied with cunning sophistication and geared to fulfil grand political designs.

The issue has never been free of a political dimension — self-sufficiency in the face of a hostile world. It is time SA evaluated its usefulness and long-term consequences.

Tariff walls have grown higher with import, surcharges, compounded by an undervalued rand. Yet, in a world where the 100-plus signatories to the General Agreement on Tariffs & Trade have benefited hugely from trade liberalisation, government's lethargy has been counter-productive.

The Industrial Development Corp (IDC) — a major structural implement of policy — is well aware of this. MD Carel van der Merwe says the system of "import replacement" has been singularly ineffective in triggering development. Little real progress has been made by local manufacturers in meeting domestic needs, despite "rather high protection and the emphasis placed on self-sufficiency in the sanctions period."

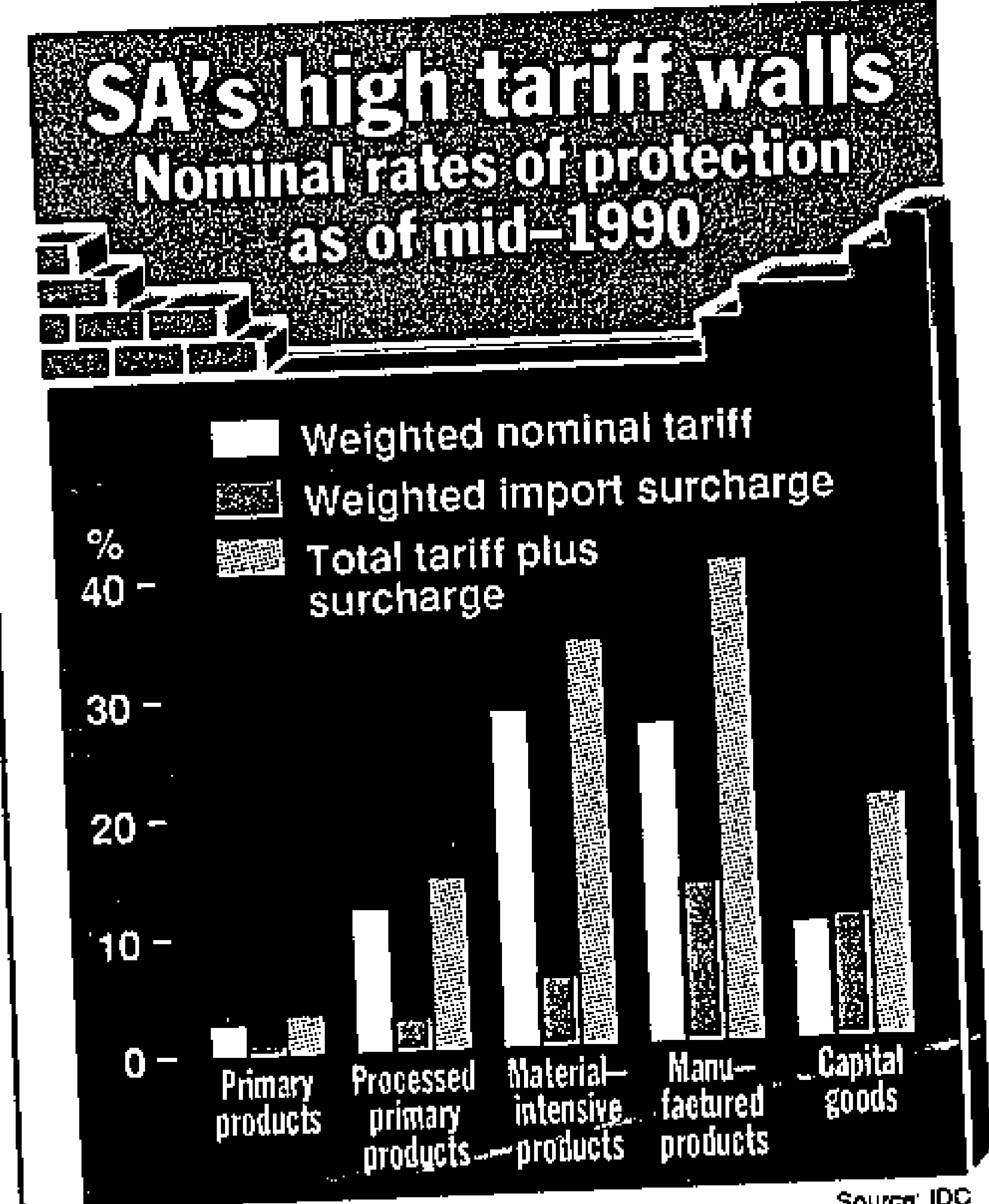
He says the IDC also found that export sectors performed far better in terms of growth and productivity than the rest of industry, while "sectors receiving moderate protection performed better than those with high protection."

Breyl

Indeed, high duties had "left SA unsophisticated in the use of non-tariff measures to counter dumping and disruptive competition."

The outcome of protectionism is thrown into focus by comparison with Taiwan, where trade barriers began to be dismantled in the mid-Fifties as a deliberate measure to foster trade and increase prosperity.

In 1970, says Van der Merwe, SA's per capita GDP was about US$600, Taiwan's $360. Twenty years later, Taiwan's had zoomed to more than $6 000 — and still growing — while SA's reached a mere $1 600. Last year, Taiwan's foreign reserves were $82bn (the highest in the world) compared with SA's $3bn. And, like Switzerland, Hong Kong, Singapore and all countries that keep trade



Source: IDC

cont -->

Taiwanese exports ... *success through relaxation*

protected textile manufacturers, making them uncompetitive in export markets.

Grinker adds that local industry's export competitiveness is further eroded by tariffs on imported machinery — which make local goods even more expensive.

"Protectionism leads to inefficient allocation of resources and hinders the competitive mechanism present in the free market, leading to skewed economic development and monopolies. The situation can no longer be tolerated where the consumer is considered a criminal for wanting to buy cheaper and better-quality foreign goods rather than inferior local products."

barriers low, Taiwan has low unemployment.

SA has, therefore, been held back in a world where commodity-based, protectionist economies are the laggards.

Taiwan's export boom is the envy of the world. India — seen as the most promising Asian economy in the early Fifties — chose the opposite route. Only now is it beginning to recover from its dismal growth record under a highly protectionist economic regime. The SA experience is not dissimilar.

International Freedom Foundation (SA) research fellow Anthony Grinker wrote in January: "The only reason for the reversal in Taiwan's economic fortunes was the lifting of protectionist barriers and the general freeing-up of the economy."

He argued: "Though government attempted to make SA self-sufficient, the local economy failed to substitute many items, forcing both industry and the consumer to buy imported versions that, due to tariffs, are more expensive than they need be. Not only is the consumer forced to pay more, directly, but indirectly consumers also have to pay more through higher taxes to pay for government subsidies to local industry."

Trade & Industry spokesman Gerrie Breyl says government budgeted more than R2bn in March for export subsidies — to recompense exporters for lack of competitiveness.

University of Cape Town economist Brian Kantor comments: "We are chasing our own tail by penalising imports on the one hand and subsidising exports on the other. If we want to move away from our dependency on minerals exports, the ability to source competitively is crucial. We must gradually reduce tariffs in a phased way and make use of the law of comparative advantage to develop niche markets for manufactured goods."

The penalties are real. Grinker points out that a local cup of tea costing 5c would have cost 3,5c had government not sanctioned an agreement between the SA Tea Council and local packers forcing them to take 54% of requirements from local crops. Similarly, we pay R2 800/t for PVC polymers, against a world average of R1 300/t. Clothing manufacturers are forced to pay inflated prices to

Frank Vorhies of Midrand Campus, a successful private-sector tertiary institution, is worried that State concessions to huge enterprises such as the Columbus stainless steel project and Alusaf's capex expansion could distort prices in the local market. He says there should be no attempt to "protect" these projects against cheaper imports; what is needed is renewed focus on economic reform.

He adds: "I am also worried about a proposed economic pact involving big business, big labour and big government."

Cape Town Chamber of Commerce's Herbert Hirsch agrees: "The economy has suffered tremendously from incorrect protection policies. Lack of competition has aggravated inflation. To lift the economy out of the doldrums, it must be based on competitive exports — which means that protective distortions must be removed."

The lessons are clear: protectionism leads to waste and economic stagnation. Its cumulative effect encourages those who enjoy protection to seek further isolation from market forces through cartels and orderly market agreements, in a vicious anti-growth circle.

Conversely, free-trade policies and reduced tariff barriers have set off a global trade surge. "Growth in world trade exceeds growth in world production, which indicates that countries are relying on trade to an increasing extent," says Van der Merwe.

Kantor

Vorhies

An integral part of long-term restructuring should be speedy implementation of the IDC's tariff reform policy report — handed to government in July 1990.

Politicians and some business leaders still ascribe our economic malaise to a combination of trade and financial sanctions, political violence and investor uncertainty over future ANC economic policies. While these factors do have a strong impact on savings and investment and, ultimately, on economic growth, one of the most harmful impediments to prosperity is protectionism aimed at impractical levels of self-sufficiency. These were originally demanded by apartheid — to foster fledgling industries or retaliate against some other free-trade "transgressor." This is what needs to be unravelled.

The essence of the IDC proposals were summed up in the International Monetary Fund's January 1992 report, *Economic Policies for a New SA*. They include:

☐ A more uniform tariff structure. Formula duties (which tend to create floor prices) should be eliminated and replaced with "more standard anti-dumping procedures." According to Webber Wentzel's Leora Blumberg, government has indicated that SA will soon sign the Gatt Anti-Dumping Code. New anti-dumping legislation was expected to pass its second reading in parliament this week. But many see anti-dumping measures as the protectionist's favourite policy tool;

☐ Import surcharges should be eliminated soon as inappropriate;

☐ There should be a schedule of reductions in ad valorem duties over five or six years, with faster tariff reduction aimed at maximum protection of 30% for the manufacturing sector and 15% for other sectors; and

☐ The selective approach to granting import tariffs should be replaced by an "automatic system that would operate within the overall policy framework of lowering levels of protection. As an immediate step, the requirement that protection be contemplated only when at least 60% of local demand can be met would be eliminated to avoid the establishment of further uncompetitive products."

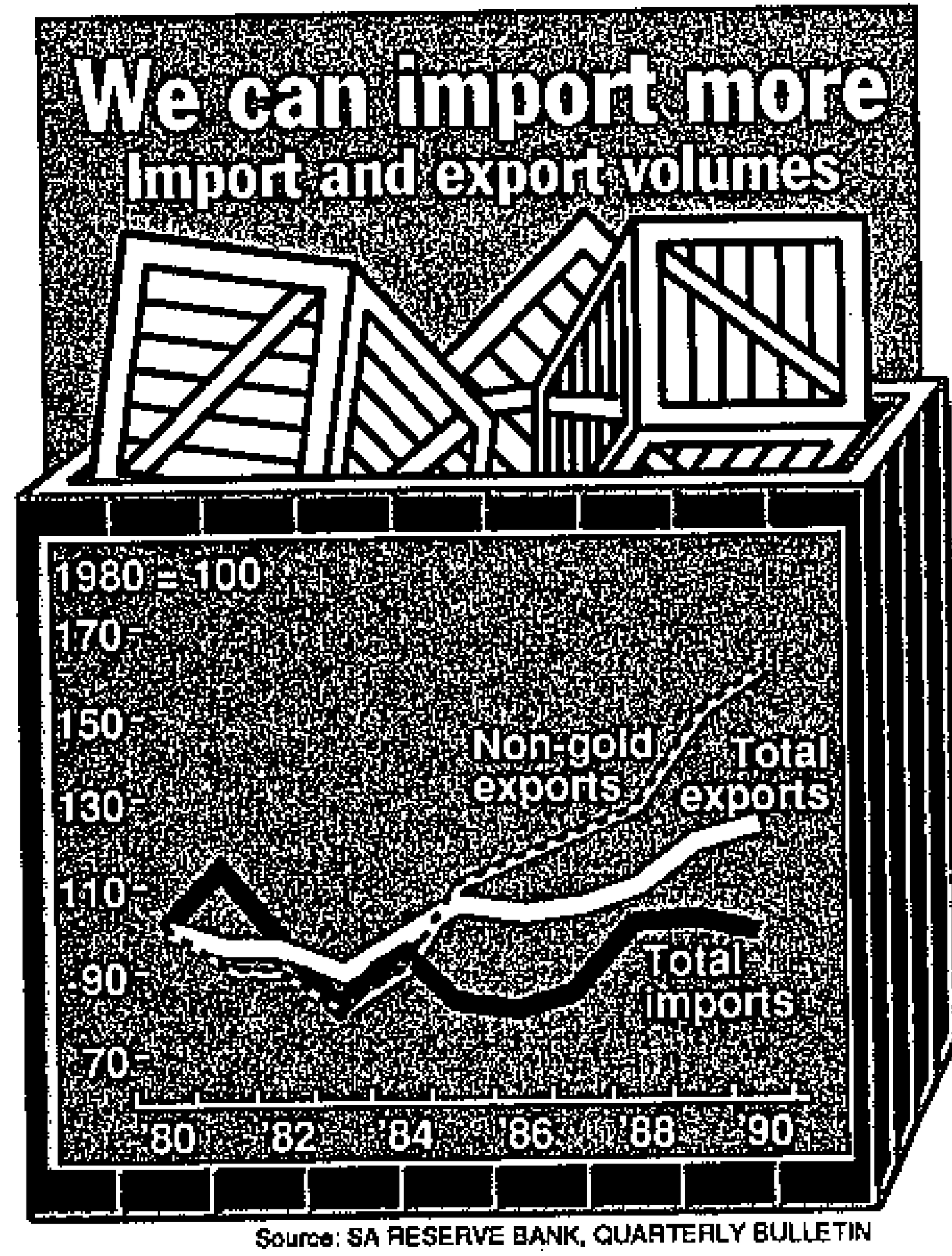
These lofty ideals remain little more than that — almost two years after government received the IDC report. The Board of Trade &

contin →

FM 24/4/92 (74)

Industry's Helgaard Muller says: "The IDC report is with the Minister and no decision has been taken on its implementation."

New Trade & Industry Minister Derek Keys has told the *FM* that while the IDC report is a useful document for policy formation, it won't necessarily form the kernel of that policy. He emphasises that he won't reduce protective barriers without taking industrial interests with him step by step.



Source: SA RESERVE BANK, QUARTERLY BULLETIN

A spokesman for Keys elaborates: "The Minister has asked for a breathing space on the implementation of the IDC report. He supports the careful lowering of tariffs but does not want to do it too quickly if no mechanisms exist to retain employment or to re-employ the unemployed. But SA has made certain tariff review offers to Gatt, which shows we are looking at tariff policy."

Breyl adds: "If (problems at) the Uruguay Round of Gatt are resolved soon, we will start lowering protection on 55% of our tariff headings as from January 1 1993 and over periods of five years and longer in 'sensitive' cases. But our offer to Gatt is a separate issue from the IDC report."

Keys

Slow and prolonged tariff adjustment will affect industrialists, especially those who have made substantial investments on the back of protectionist policies. The adjustment will be painful for them. Trade unions will be dismayed at what they see as the destruction of jobs as protection is lowered and some vulnerable, inefficient undertakings go to the wall.

Those responsible in government must also weigh up the consequences of the denial of growth and rising prosperity that is the long-term consequence of continuing protection. By using protective measures to preserve jobs that would not otherwise exist, they are perpetrating economic fraud which could have profound political consequences.

Those who believe that market forces would not adequately relocate resources released by a policy of tariff reduction, thereby creating other jobs that are more sustainable, have an inadequate understanding of the dynamics of the marketplace. If they are troubled by fears of market failure, they need only look at the inability of the former Soviet empire to provide the basics of life as a result of administrative failure.

SA has never depended so much on sensible economic policies to promote prosperity. It can no longer rely on rising gold or commodity prices to make up for policy inadequacies — as happened conveniently during the apartheid years. Bold leadership should not give way to timidity. ■

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ollowing six to 12 months.

Absa had a well developed etrenchment policy, cleared by ll the unions involved.

Where possible, employees ere put on early retirement.

Aflife lifts dividend

STAR 24/4/92

The African Life Assurance Company Limited, has announced a 22,2 per cent increase in earnings per share to 18,7 cents for the year ended March 31, 1992 against the previous year's 15,3 cents.

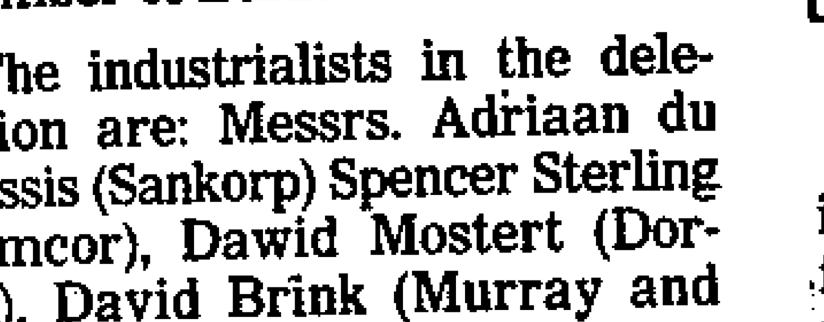
The dividend has been increased by 22,4 percent to 12 cents (9,8 cents) and shareholders will be offered the option of taking additional shares in lieu.

Recurring premium income rose 33,5 percent to R75,5 million (R57,2 million), while total income increased 30 percent to R92,4 million (R71 million).

Total new business increased by 78 percent.— Sapa.

Keys heads trade group to China

STAR 24/4/92 74



Trade and Industry Minister Derek Keys yesterday left with a delegation of businessmen and government officials on a four-day visit to communist China.

In what is widely regarded as one of the most influential trade delegations ever to leave South African shores, Mr Keys slipped out of South Africa shortly after noon accompanied by Dr Stef Naude, Director General of the Department of Trade and Industry, Dr Japie Jacobs, Special Economic Advisor to the Minister of Finance, five top-ranking industrialists and representatives of the Afrikaanse Handelsinstituut as well as the South African Chamber of Business.

The industrialists in the delegation are: Messrs. Adriaan du Plessis (Sankorp) Spencer Sterling (Samcor), Dawid Mostert (Dorbyl), David Brink (Murray and Roberts) and Basil Hersov (Anglovaal).

The delegation will visit Beijing from April 24-28 at the invitation of the Minister of Foreign Economic Relations and Trade of the People's Republic of China.

The main objective of the visit is to conduct top level talks to further normalise trade relations with the People's Republic.

Derek Keys . . . Also visiting Japan.

Although it is not a sales mission, representatives of the private sector will have the opportunity to identify trading opportunities with China.

The delagation will also visit Japan, one of South Africa's major trading partners.

Japan recently lifted sanctions against South Africa and also established full diplomatic relations with the country.

During their visit, scheduled for April 29 to May 2, Mr Keys will conduct talks with his Japanese counterpart as well as Japan's Minister of Finance.

The group will also meet various trade organisations, banks and industrialists. The visit to Japan will serve to add further impetus to trade between the two countries.

Mr Keys will also pay a brief day-long visit to Taiwan on May 2 where he is to meet the Taiwanese Minister of Economic Affairs.

He returns to South Africa on May 3.

Dr Stef Naude will then head the delegation on its visits to South Korea and India.

South Korea lifted its sanctions on South Africa in January 1992 and the delegation will visit various trade and industrial organisations in an effort to expand trade between the two countries.— Sapa.

St... brokers have no option but to

Exporters continue to fatten trade surplus

STAR 24/4/92

By Sven Lünsche

South Africa's exporters continued to perform well in the first quarter of this year despite the sluggish international economic environment.

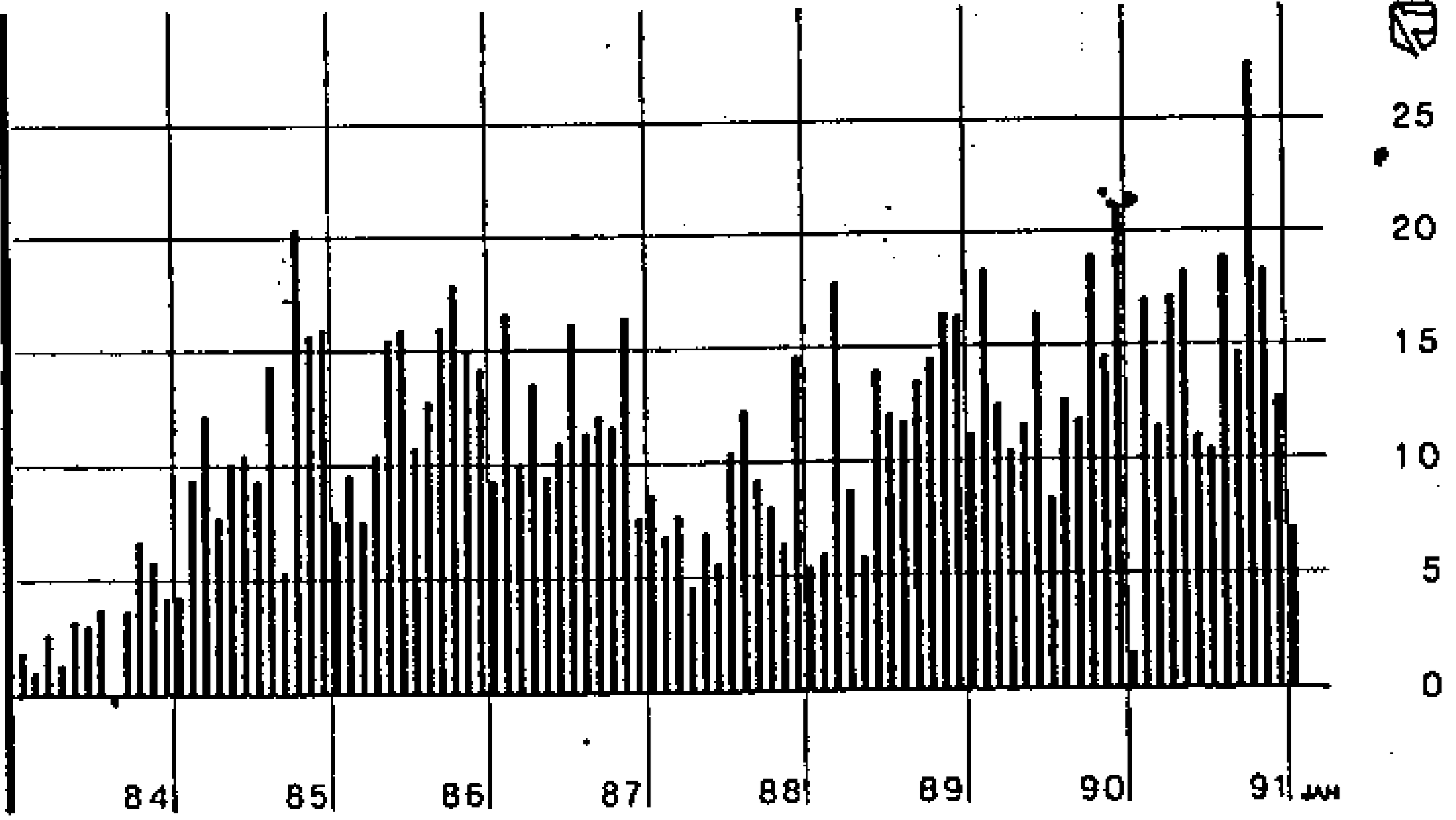
Exports grew by 12 percent in nominal terms to R16,4 billion, compared with R14,6 billion in the first three months last year, which lifted the trade surplus over the period by 38 percent to R4,4 billion (R3,1 billion).

Imports during the quarter rose by only five percent to R12 billion from R11,5 billion last year, which implies a significant decrease in real terms.

However, a statistical anomaly was created by the massive imports of oil at the beginning of last year ahead of the Gulf crisis.

If the unclassified import category (mainly oil) is excluded from the trade figures, imports showed a 10 percent rise in nominal terms during the quarter.

The improvement in exports was achieved despite the poor economic performance of the world's industrialised nations, which has depressed base and precious metal prices, SA's major export commodities.



The country's trade balance, including bullion, month by month in R'00 millions.

This was reflected in the export categories unclassified goods (mainly gold), which were five percent lower at R5,9 billion (R6,2 billion) and base metals, down two percent to R2,1 billion (R2,2 billion).

Main contributor

The biggest contributor to the export growth trend was the jewellery and precious stones category (mainly diamonds), which rose by 79 percet from R1,3 billion to R2,3 billion during the quarter.

Safto economist Bruce Donald suggests that given the poor conditions currently prevailing in the diamond market, the movement was largely attributable to the transfer of stocks from De Beers' diamond mines in Namibia and Botswana to its London-based marketing arm, the Central Selling Organisation.

Manufacturers continued their strong showing of the past two years, with transport equip ment sales heading the list by increasing exports 75 percent to R437 million (R250 million) over the three months.

Other manufactured products also continued their positive trend, notably plastics with 46 percent, chemicals (35 percent) and machinery (26 percent).

Mr Donald says that the sustained growth of these categories may be partly linked to the benefits that manufacturers obtained through the government's General Export Incentive Scheme.

"In the case of the motor industry, Phase VI of the local content programme has undoubtedly contributed to the strong export growth reported by the category.

"This trend is particularly significant insofar as it is assisting in the diversification of South Africa's exports away from their dependance on primary and minimally processed products," Mr Donald adds.

Imports

Turning to imports he says that consistent with the recessionary conditions in the South African economy, imports of industrial materials remained relatively static — imports of chemical goods only increased by five percent and those of base metals by six percent.

Machinery imports, the largest import category, grew by 15 percent to R3,7 billion (R3,25 billion), which Mr Donald suggests indicates replacement rather than expansion of capacity among South African industries.

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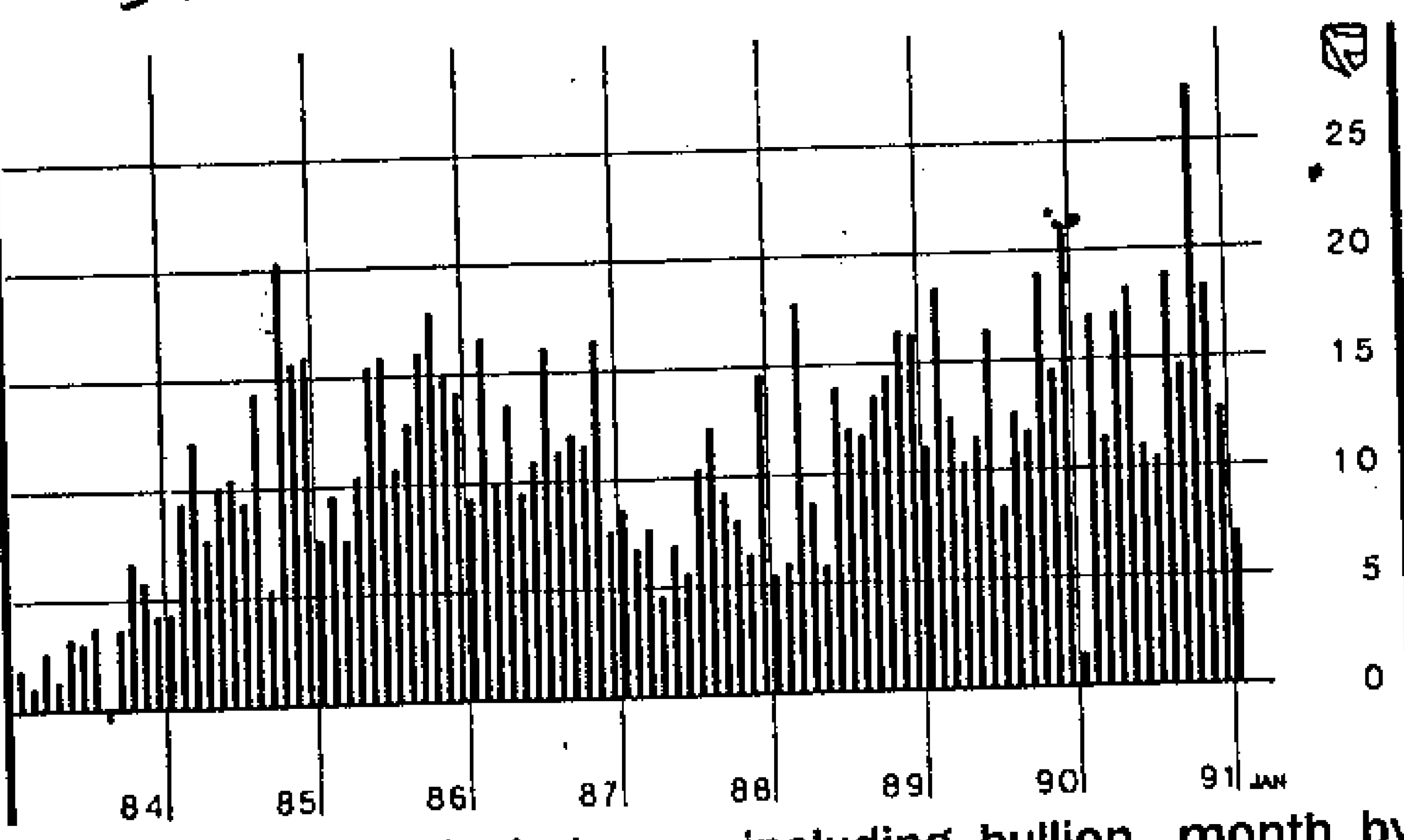

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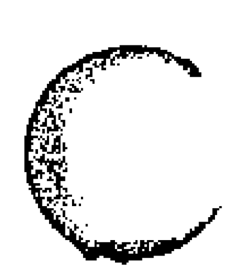


ANC leader hints at necklacings

B/Day 27/4/92

AN ANC regional leader yesterday threatened that Bophuthatswana could be made ungovernable through necklace killings and bombs.

Sapa reports ANC western Transvaal leader George Mathusa told the funeral of former hunger striker Bushy Molefe in Phokeng township near Rustenburg: "In SA we did it through our necklaces and bombs; we can easily repeat it here."

Mathusa's comments were made as reports were received of at least 22 unrest-related deaths on the Reef at the weekend. The ANC also claimed yesterday Bophuthatswana security forces had injured residents in Phokeng in a raid.

Bophuthatswana police spokesman Col Dave George said he had no knowledge of anyone being injured by policemen. He said police had gone into Phokeng on Saturday night to investigate reports that ANC marshalls were "illegally" searching people and vehicles.

The marshalls were also reportedly ordering Phokeng residents to attend Molefe's funeral. Police found no evidence of the reports and nobody was arrested.

Witwatersrand police spokesman Capt Ida van Zweel said one man died in Sebokeng yesterday morning when municipal policemen fired at five gunmen. Also in Sebokeng, police found a bullet-riddled body of a four-year-old child.

Sapa reports police and soldiers yesterday launched a massive search in Meadowlands, where at least two people were killed on Saturday.

Police spokesman Govindsamy Mariemuthoo said several firearms were found.

Three hostel residents were arrested for murder, one was arrested for possessing a homemade firearm and two for possessing ammunition.

Also in Soweto, five people were killed and two seriously injured in a panga attack on Saturday night. Four other bodies were also found.

In Alexandra police found the charred body of an 11-month-old baby among razed shacks. Four other people were also killed in the township on Saturday.

In Katlehong, on the East Rand, one person died and at least 40 were injured on Saturday afternoon in an attack on a group of mourners. Van Zweel said the mourners were travelling in three buses from Vosloorus to Katlehong. Three bodies were found in Vosloorus on Saturday.

Police said yesterday a 33-year-old woman was shot dead in an attack on a house in KwaDabeka near Maritzburg. A 70-year-old woman and a 27-year-old man were injured in a similar attack.

Zambian Tourism Minister Lt-Gen C S Tembo officially opened the SA office of the Zambian National Tourism Board at Bruma Lake, Johannesburg, on Friday. Picture ROBERT BOTHA

Zambia entices SA companies to show

MEREDITH JENSEN

SA companies have been guaranteed $1m in foreign exchange allocations by the Zambian government to encourage participation in the Lusaka Trade Show in late July. B/Day 27/4/92

Zambian Agriculture and Commercial Society chairman George Bender said at the weekend the dedicated foreign exchange allotment of $1m was a guaranteed minimum. (74)

He said the final figure could be considerably more, depending on the number of SA companies which participated.

Among the SA companies already signed up are Afrox, Lasher Tools and BMW.

An exhibition spokesman said Zambians spent more than $1m at last year's show and SA companies continued to receive orders throughout the year.

Swiss interest

SOUTHERN Africa had a tremendous reservoir of resources which the world needed, Swiss-based International Public Affairs Centre president Marc Battaille said yesterday. Foreign businessmen were looking at the region with interest, he said after a meeting between the 33-man delegation and President F W de Klerk.

REPORTS: Business Day Reporters, Sapa, AP-DJ.

BDay 29/4/92

SA a 'godfather' to southern Africa

BDay 29/4/92 (74)

SHARON WOOD

SA HAS a key role to play in regional integration, which is crucial for future economic growth in southern Africa, says Southern African Development Co-ordination Conference (SADCC) regional business council chairman Harry Thomson.

Thomson was speaking at a Safto conference in Johannesburg yesterday, and in an interview afterwards said: "Every regional grouping needs a godfather and I think SA is that for southern Africa."

While a mandate had not been given by the SADCC official institutional mechanism to accept SA, the 10 member countries were all dealing and trading with SA already. He did not believe any SADCC countries were hostile to SA.

The benefits of regional integration would be in providing economies of scale, creating a competitive environment, raising levels of investment, strengthening the bargaining positions of member countries and facilitating the free movement of human resources.

Thomson put forward recommendations for the region's successful integration. Goverments would have to move towards real exchange rates, give more independence to central banks, harmonise monetary regimes and develop private sectors.

The conference drew representatives from countries throughout southern Africa, many of them speaking for the first time in SA.

Preferential Trade Agreement (PTA) secretariat senior trade expert Prega Ramsamy said the PTA was working to increase the low inter-regional PTA trade.

"I have full expectations that a post-apartheid SA will participate in this endeavour."

Inter-regional PTA trade was only 4,6% in 1989, and 90% of PTA trade went to the outside world, he said. The PTA aimed to increase inter-regional trade to 20% of total PTA trade by 2000.

Delivering the keynote address earlier former OAU chairman General Olusegun Obasanjo said SA had the human and matrial resources to overcome political, economic and other challenges, reports Sapa.

He said foreign trade had thrived during the "Cold War" era without much attention being paid to political, social or human rights.

With particular reference to SA, Obasanjo said apartheid had fed on the fear of communism and had thrived as the bastion of defence of Western security and values. But since the end of the Cold War, behaviour and conduct within a civilised order of human society had become a consideration.

Multinationals

He added this trend had become a condition for full and unrestricted participation in world trade and for being accepted "as a decent member of the international community".

He said that once the political situation had been settled, the SA economy would be strengthened through the injection of foreign investment.

Safto international division GM David Graham said a number of multinationals were investigating SA as a base for trade into the rest of Africa, Reuter reports.

"Ultimately, it will become the hub of the south," he said, adding that Safto, a private sector promotion body, had been approached already by multinationals.

The country offered transport links into Africa, communications, infrastructure, industrial capacity, appropriate technology and project management skills. It also offered a disciplined regulatory environment — one that Western companies could relate to — and financial services.

Delegates at the Safto trade conference yesterday, from left: Mauritius Gas Transport director Banymandhhub Sunil, Tanzanian Investment Promotion Centre director-general C George Kahama, OECD Development Centre director Jean-Roger Bonvin and Botswana Selebi-Phikwe Development Project representative Joe Beirne. Pictures: ROBERT BOTHA

Business leaders look at SA trade potential

(74) ARG 29/4/92

Political Staff

A DELEGATION of 32 captains of the business world is in South Africa to meet and exchange views.

They met President De Klerk yesterday and will meet the ANC today, and other political figures.

The visit was organised by the Swiss-based International Public Affairs Centre, to which business people from 79 countries belong. It is the equivalent of the US Business Round Table.

Dr Marc Battaille, a Belgian, addressed a Press conference during a call on the Deputy Minister of Foreign Affairs, Mr Renier Schoeman.

Delegations from the centre travel to three countries a year to look at business opportunities.

Members of the delegation to South Africa come from Belgium, the United States, Russia, Turkey, France, Germany, Hong Kong, Britain, the United Arab Emirates, Slovenia, Finland, Switzerland, the Netherlands and Japan. They are drawn from the industrial sector, banking, computers, trade, manufacturing, machinery, the food sector, pharmaceuticals, insurance, construction, the airline business, packaging and financing.

This is the 42nd trip made by the centre, but the first time members have returned for a second visit. A delegation was here in 1986.

Dr Battaille said this showed "the considerable interest of business in the development of this country".

In my view . . .
A daily commentary on current economic affairs by writers of the Star.

There's no word for 'maybe' in Taiwan

STAR 29/4/92

By Mike Chester

There was a mixture of awe and envy in the mood of businessmen at an export conference run by the SA/Republic of China Chamber of Economic Relations last week when Taiwan trotted out the details of its new six-year development plan.

The awe was caused by the ambitiousness and massive dimensions of the plan, which Taiwan estimates will cost a phenomenal R900 billion.

The envy was stirred by the utter confidence of the high-powered government and private sector experts from Taiwan about the new economic miracles they intend to weave.

No blurred edges. No trace of room for possible amendments to the timetable. No talk of objectives that *may* be met. The various experts spelled out specific targets that *will* be met.

The aim of the exercise was to explain the vast array of opportunities for a dramatic increase in two-way trade and joint business ventures between South Africa and Taiwan as the development plan bounded ahead.

As explained by Chao-Yih Chen, director-general of science and technology at the Ministry of Economic Affairs, the incredible cash reserves amassed by Taiwan in its global export successes made it quite reasonable to fix the development budget as high as $321 billion.

Taiwan had made a formidable mark on the international economic map. Now it planned to move into the next phase — with schemes not only to strengthen its industrial base still more but also launch scores of new projects to allow everyone to enjoy the fruits of their labour.

The economic growth rate would run at 7 percent every year. Average per capita gross national product would reach at least R40 000 a year by 1996. Low inflation would hold down annual consumer price increases below 3,5 percent.

Annual merchandise exports would — not might — be running at R280 billion in 1996 and imports at R270 billion.

The South African businessmen at the conference, taking note of the export opportunities they intended to explore, gulped at the sheer magnitude of the targets.

When it was over, they were left to wring their hands in frustration.

It made them realise that while they had counterparts overseas able to drive ahead at full speed on economic motorways fitted out with all the signposts they needed, they themselves at the moment have to stumble along blindfold.

Where the heck was even the outline of an economic plan for South Africa?

The headlines have been packed with reports about the political goings on at Codesa. From the new Economic Forum that was supposed to be working in a parallel exercise — total silence.

"We're at an absolute standstill," one Economic Forum insider tells me. "We had high ambitions when organised business and organised labour agreed to put the heads together — the SA Chamber of Business, the Afrikaanse Handelsinstituut, Seifsa; and the big trade union bodies like Cosatu.

"But it's all ground to a halt, simply because the vital third voice is missing — the government.

"Business and labour have taken their seats. But the government refuses to sit down with us, just as they have refused to sit down on the Housing Forum, on the excuse they might become trapped in some sort of political hi-jack.

"Common sense dictates there must be three sides to an Economic Forum conference table — business, labour and the government. It's impossible to press ahead when one side is vacant."

The government may be making a dreadful mistake in leaving the forum in limbo and assuming that the politicians alone can put South Africa on a new route.

The new Minister of Finance taking over the reins from Dr Barend du Plessis would do well to underline the Economic Forum when he sorts out the priorities on the portfolio agenda.

STAR, 29/4/92 (74)

World needs region's resources — expert

CAPE TOWN — Southern Africa had a tremendous reservoir of resources which the world needed, Swiss-based International Public Affairs Centre (IPAC) president Dr Marc Battaille told President de Klerk yesterday.

Mr Battaille was attending a meeting at Tuynhuys between the 33-man delegation and the president.

The group, which represents a wide spectrum of economic sectors ranging from finance and banking to construction, machinery and pharmaceuticals, was visiting South Africa to "learn at first hand in order to do our strategic planning".

Possible future investment would be considered.

IPAC, the equivalent of the US Business Round Table, is an independent association of international businessmen who visit various countries to meet political and business leaders and assess investment potential.

During its two-day visit, the group will also meet Deputy Minister of Finance Theo Alant, Minister of Mineral and Energy Affairs George Bartlett, members of the parliamentary standing committee on foreign affairs and ANC representatives. — Sapa.

Africa on course to grow poorer, Safto event told

BDay 30/4/92

THE West had confidence in SA's future despite the volatile situation, OECD Development Centre director Jean Bonvin said yesterday.

Speaking in Johannesburg at the SA Foreign Trade Organisation (Safto) conference on investment in Africa, Bonvin said, however, all economic indicators pointed to Africa slipping deeper into poverty — when most other regions in the developing world were prospering.

More than two thirds of sub-Saharan Africa is classified by the World Bank as low-income — or having a per capita income of below $500 a year.

Bonvin said Africa's main burden of the past was its external debt, but conceded this debt was perhaps not as large as that of Latin America. In 1990 African long-term external debt amounted to $234bn, equal to its GDP — with $141bn for sub-Saharan countries.

Official Development Assistance now exceeded 15% of GDP for more than half these countries with two thirds of imports being financed by aid.

Bonvin said the results of aid had been less satisfactory in Africa than elsewhere. It was clear aid favoured the exaggerated growth of the public sector — without making its expected contribution to growth.

He stressed a complete overhaul of public finance in Africa was essential for any revival of the economy.

Solutions included:

- Liberalising economies and bolstering political stability to attract foreign investment;
- Encouraging local investment by mobilising savings, restructuring the financial system and privatisation; and
- Creating an environment for private enterprise.

But Bonvin said the prospect of direct foreign investment in the Third World appeared uncertain — due to a looming world shortage of capital in the 90s.

He said there was the danger that Africa would become the forgotten continent since capital was being pumped into the restructuring of eastern Europe and the Middle East. "The fundamental problem is that Africa needs to change its image so that the investor sees it as a politically stable region, safe for his capital."

Bonvin gave the assurance that if this was achieved investment capital would flow into Africa under the same yield conditions as in Asia.

Addressing the conference, Zimbabwean businessman Eddie Cross said transport was a vital ingredient in generating economic growth in southern Africa, and more than 90% of regional trade was carried by rail.

Cross, chairman of Cross Holdings and director of the Indian Ocean Export Company, said SA played an important role in the region's transport infrastructure.

"SA has as many as 10 000 wagons and 50 locomotives north of the Limpopo at any one time, and carries 75% of the region's exports and 50% of its imports," he said.

The total rail capacity of the Southern African Development Conference Committee's (SADCC's) member states was half that of SA's, he said.

Angolan ambassador to Namibia Alberto Ribeiro-Kabulu told the conference Angola's infrastructure was in a poor state and there were opportunities for SA businesses to help in Angola's rehabilitation.

Ribeiro-Kabulu outlined transport, energy, telecommunication and urban renewal as the four areas where Angola needed infrastructural aid. — Sapa.

Moves towards regional trading bloc

w/mail 30/4-7/5/92 (74)

Intra-regional trade among southern African countries is a paltry seven percent of the regional trade. A conference this week sought ways to improve the situation.

By **MONDLI MAKHANYA**

MOVES towards the establishment of a southern African trading bloc are gaining momentum.

Spurred by the solidifying regional blocs in other parts of the world — especially western Europe — member nations of the Preferential East African and South African Preferential Trade Area (PTA) agreement and the Southern African Development Co-ordinating Conference (SADCC) are working towards revitalising these bodies.

They hope to increase intra-regional trade, which accounts for only about seven percent of the region's total trade at present. These organisations are also looking to much closer co-operation with the Southern African Customs Union — of which South Africa is the dominant member with Botswana, Swaziland and Namibia as its partners.

But high tariff walls between southern African nations, inefficient communications systems and physical infrastructure, the virtual absence of financial institutions in most southern African countries, foreign exchange problems and high external debt are hampering increased regional trade.

Delegates to this week's Safto conference get down to business Photo: KEVIN CARTER

At a Southern African Foreign Trade Organisation (Safto) "Southern Africa: A New Scenario for Trade and Investment" conference in Johannesburg this week speakers from across the region stressed the need for such a trading bloc. The appallingly low level of intra-regional trade is unlikely to grow much in the short term.

Zambian trade expert Prega Ramsammy told the conference that mere adherence to the trade liberalisation programmes entailing gradual removal of trade tariffs between PTA countries — scheduled to be completed by 2000 — would increase trade among Southern Africa nations to 20 percent of total trade.

But, says SADCC regional business council chairman Harry Thomson, some governments have vested interest in dragging their feet over tariff reform because they use these tariffs to boost state coffers.

Another major problem is "tied-aid" — the insistence by Western donors that goods bought with their donation be sourced in the donor countries.

Thomson emphasised certain prerequisites for the proper functioning of the trade bloc — once it gets off the ground: "We need to have fixed exchange rates between the countries, and it is also essential to have properly co- ordinated monetary and interest rate policies ... Governments must also guarantee the independence of central banks. Both the private sector and the informal sector need to be developed."

Zimbabwe businessman Keith Aitkenson supported this by saying that R100-million worth of trade between South Africa and Zimbabwe was via the informal sector — unregistered traders buying goods in South Africa to sell in Zimbabwe without declaring them at the border.

The region is also plagued by inefficient information systems, which makes it much easier for businessmen to deal with overseas countries than with their own neighbours. Zambia's trade information, for instance, is more than 10 years out of date.

This is further exacerbated by the lack of financial markets: southern Africa has just three stock exchanges — in South Africa, Zimbabwe and Botswana. To illustrate the sorry state of the financial services sector, Aitkenson told the conference about a payment his company was expecting from Mozambique. It took them six months to track the cheque down and it was eventually found in a Chicago bank.

For South Africa such a bloc would be of great benefit. Infrastructural decay and the destruction caused by civil war provide great opportunities for South Africa, the only country in the region with sound infrastructure and advanced technology. Furthermore, says Safto Africa manager Paul Runge, institutions such as CSIR and Eskom have good training programmes which countries busy with reconstruction would find beneficial.

Runge added that if South African companies rid themselves of "Afro-pessimism" and their perception of their region as bankrupt, they would discover there is a great demand there for manufactured products, which bodes well for the local manufacturing sector.

"Of the R9-billion trade with Africa last year a large proportion was composed of cars, chemicals and plastics and other manufactured products. So it should be clear to South African businessmen that there is a great demand for beneficiated products in Africa."

Also, notes Thompson, the country can sell itself as source for international donors looking for supplies to help the million of refugees in the sub-region.

Ban on foreign funding to go

CAPE TOWN — In an effort to level the political playing field before a general election, restrictions on foreign funds for political parties would be lifted, Minister of Justice Kobie Coetsee said yesterday.

Replying to the debate on his budget vote, he said provisions of the Ban on Foreign Financing of Political Parties Act would be lifted until six months after the general election that would be held under the rules of the new constitution. — Sapa.

FM 1/5/92 (74)

GATT FM 1/5/92

Treading water

When the invitations went out, the summit of Trade Ministers at the Japanese mountain resort of Bandai Kogen was intended to be something of a celebration. The successful conclusion of the General Agreement on Tariffs and Trade (Gatt) Uruguay Round was expected, after six years of negotiations. The Ministry of Trade and Industry had envisaged last weekend's gathering as "75% pleasure, 25% work."

It was not much of a party. The deadlock between the US and the European Community (EC) over farm subsidies, which cost the industrialised economies $100bn a year, remains.

Yet another deadline passed when President George Bush, who says the Uruguay Round is at the top of his agenda and the EC leadership failed last week in Washington to achieve the required shift in positions.

Commission president Jacques Delors said the EC had offered "a modest compromise" but "Europe is not prepared to pay any price."

Portugal's Prime Minister Annibal Cavaco Silva, current holder of the revolving EC presidency, was more positive: "It was a meeting among friends . . . very constructive and fruitful."

So the official rhetoric is doggedly optimistic in spite of 400 meetings and the 15 months which have evaporated since the "final" Gatt summit in Brussels in December 1990.

And the stakes are rising: the planned 30% reduction in tariffs would increase world trade by nearly $200bn a year within 10 years, according to the Organisation for Economic Co-operation and Development (OECD).

At Bandai Kogen there was talk of "new ideas" from the EC that might go part of the way towards the 24% cut in the volume of subsidised agricultural exports, which is the Uruguay Round target. But, with Europe's farmers deriving half of their income from the Common Agricultural Policy's (Cap) $46bn budget, the US suspects proposals to compensate them for loss will be open to abuse. Europe, of course, is not alone: subsidies make up 36% of farm incomes in the US and 76% in Japan.

A new intensive series of talks between the EC and the US starts this week and all Uruguay Round negotiators troop back to Geneva in June for yet another "final" meeting. The Group of Seven summit in Munich follows in July.

Whether these will see the runners hit the tape at the end of the "final sprint" which Gatt Director-General Arthur Dunkel started last November remains an open question. In Japan, on Sunday, one EC spokesman said the problems were all at the political level — and much depends on how confident Bush is of re-election in November.

For some cynics, that time horizon puts the Uruguay Round on hold for another 12 months. But there is an attempt to generate some urgency. As the trade ministers left Japan, the EC spokesman said: "If we have not got an agreement by the time of the G7 summit in July, we can forget about an agreement for this year — and perhaps forever."

Indeed, some officials have been saying that just keeping the negotiations alive will be hailed as "a success." ■

SA pavilion is a hit at Expo world fair

By Edward Owen STAR 1/5/92

MADRID — South Africa is finding that her last minute participation at the Expo world fair in Seville, southern Spain, is already paying unexpectedly good dividends.

"It's a Mecca for bilateral relationships," says Dr Johan Stander, the SA commissioner at Expo.

So far the biggest ever Expo has only been open 10 days and visitors have been pouring through South Africa's $1 million pavilion at the rate of up to 600 an hour.

But more important is that amongst them have been ministers and cabinet members from some of the 110 nations exhibiting on the huge 215 hectare site.

And they are not just staring at the diamonds and gold on display. They want to talk about establishing relations with the new South Africa.

East Europe soaks up foreign aid

■ MONEY TALK

Sowetan 3/5/92

AFRICA will slip into deeper poverty while the developing world thrives.

This is according to Jean Bonvin, senior official of the Organisation for Economic Co-operation and Development, which groups top Western nations.

Speaking in Johannesburg at a conference on investment in Africa organised by the SA Foreign Trade Organisation, Bonvin said more than half the countries in Africa rely on foreign aid to finance two-thirds of their imports.

Unfortunately Africa has developed a bad name in the investment world as in the past aid has been used to finance the creation of large bureaucracies which contribute little to economic growth.

Any real revival in Africa depends on a new approach which includes a complete overhaul of public finance.

Bonvin said it would be tough to obtain foreign aid for Africa as capital was being pumped into the restructuring of Eastern Europe and the Soviet Union.

Africa needs to boost investor confidence and provide investors with real value for money.

PREGA RAMSAMY: First official visitor from Preferential Trade Area

Another step on road to acceptance

STimes (Buss) 3/5/92

By ZILLA EFRAT

SAFTO's conference on Southern Africa this week could be followed by a comprehensive Preferential Trade Area (PTA) study on South Africa.

This is the view of PTA expert Prega Ramsamy. He is the first PTA representative to visit SA in an official capacity.

PTA members include Ethiopia, Kenya, Zambia, Zimbabwe and Angola.

Mr Ramsamy says post-apartheid SA will have an important role to play in regional co-operation, but it will have to avoid dominating the others.

The PTA study is another step to SA's becoming an integrated player in Southern Africa as large trade blocs develop in other regions of the world.

The PTA, which has decided to merge with the Southern African Development Co-ordination Conference (SADCC), aims to boost the economic development of its 17 member states.

Representatives from both SADCC and the PTA say SA will be able to join their organisations once it has sorted out its political problems.

Safto international manager David Graham says Safto is considering organising a workshop to enable SA companies to learn more about PTA.

Safto's conference in Johannesburg was attended by people from Africa and Europe. It was so successful that delegates decided another should be held next year.

Markets

The need for the SA financial sector to become more active in Africa was highlighted. Some speakers said SA banks were not active enough in establishing offices in African countries.

SA's capacity to supply large African markets, such as Nigeria with a population of more than 100-million, was also questioned.

Businessmen from Africa expressed their preference for dealing directly with SA producers and not with middlemen who boosted prices and caused delays.

Several speakers said much aid was available for development projects in Southern Africa. But because of failure to identify viable projects, much money was not used.

It emerged that SA could capitalise on available aid in the areas where it had strong expertise. These included mining, rural development and the environment.

Head of Safto's Africa department Paul Runge said many delegates made important personal contacts at the conference which led to a host of initiatives and behind-the-scenes negotiations.

The Tanzanians invited SA companies to visit their country.

Many of the visitors were in SA for the first time.

Mr Graham says many delegates believe SA is finally integrated in Africa.

He says SA delegates showed a new sense of support for regional co-operation and genuine interest in what other African countries are doing.

"In the past, South African companies tended to look only at what they could export to Africa."

The conference was attended by delegates from former boycotting countries like Nigeria and Tanzania. Addresses were also given by representatives of the Organisation for Economic Co-operation and Development, the African Development Bank, the UN Development Programme and the World Bank's private-sector arm, the International Finance Corporation.

In the audience were visitors from Kenya, Zaire, Botswana, Mozambique, Mauritius, Madagascar, Namibia, US, Sweden, Belgium and France.

SUNDAY TIMES, Business

Top mining show draws 22 entries

S Times CBUSS7 3/5/92

By IAN ROBINSON

TWENTY-TWO South African mining equipment manufacturers and their affiliates will take part in South America's largest mining show.

Expomin '92 will be held from May 12 to 16 in Santiago, Chile — the hub of South America's booming mining industry.

The first Expomin — SA also took part — was held in 1990.

In contrast to the rest of the world where the industry is depressed, huge investments will be made in mining and metallurgical projects in South America in the next few years.

In Chile — the world's largest copper producer — scheduled capital expenditure on mining and metallurgical projects is $4-billion.

Major projects will include the $500-million Canadian-controlled Cerro Colorado copper mine and a $1-billion alumininum smelter and power station.

Chief director of the South African Geological Survey Cornelis Frick presented his paper, Business Opportunities in Mining in Southern Africa, at Safto's conference in Johannesburg this week.

He said a survey of multinational mining companies in 1990 rated Latin America the highest investment priority for the present decade.

Six companies in the Boart group will exhibit in the SA pavilion at Expomin. Products on display will include hydraulic drifters, hard-metal wear products, coal-mining products, roofbolts and a jaw crusher.

Boart director Brian Young says: "We have been active in South America for many years and have targeted the continent as a market with major potential for our products.

"Much of our equipment is made to withstand SA's arduous conditions and it is well suited to meeting the demands of South America's difficult mining environment."

Other major SA companies which will be at Expomin include Barlow Equipment Company (load haul dumpers), Dorbyl (heavy engineering equipment), Willard Batteries and Shaft Sinkers.

Limited

A spokesman for the Department of Trade and Industry says that more South African companies would have exhibited had space been available.

SA will take part in another important international mining exhibition later this year at Sudbury in Canada where heavy underground equipment will be on show.

Exhibitors will be limited to a display of brochures. Eight SA companies will be represented.

THE WEEK AHEAD by Simon Willson

Gold hazard for forex reserves

PERSISTENT weakness in the gold price continues to jeopardise further improvement in the gold and foreign exchange reserves. When the April figure is released, probably towards the end of this week, an appreciable increase on the March total may, accordingly, be too much to expect.

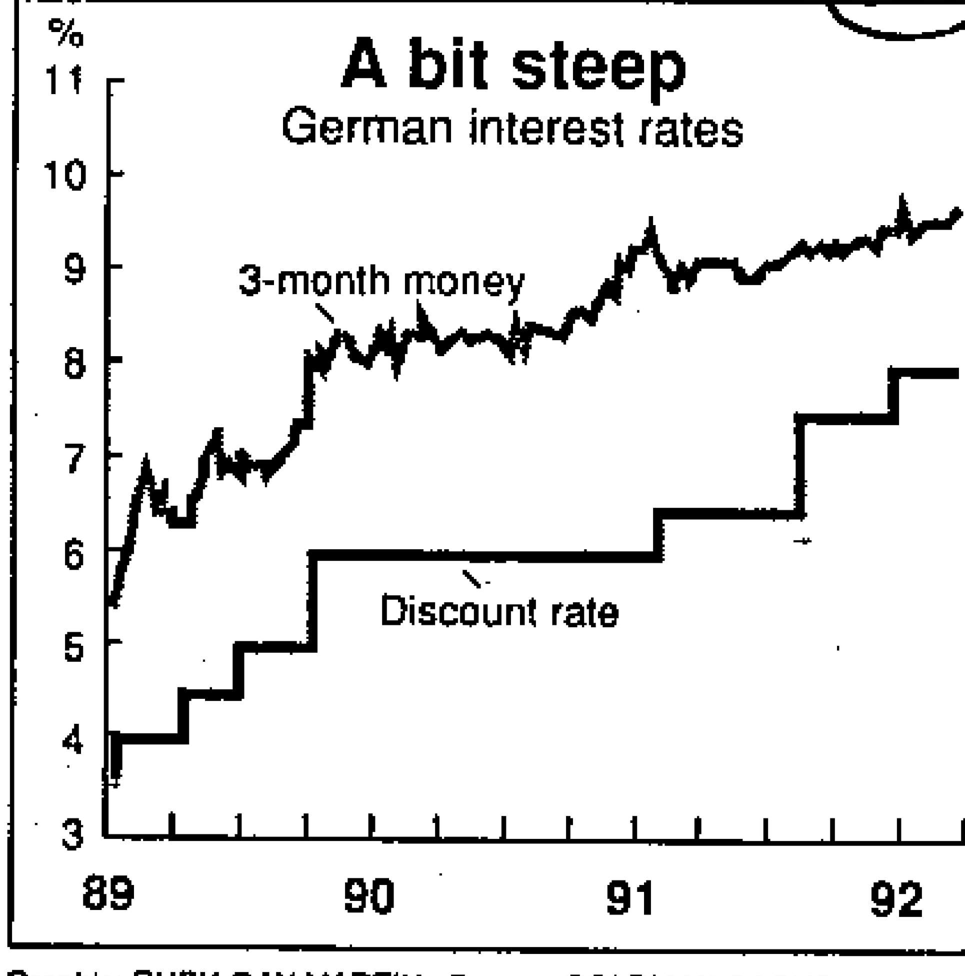
The R500m slide in reserves to R8,96bn in March from February's R9,46bn was accentuated by another fall in the Reserve Bank's gold valuation, which has been on an overall downtrend since June last year. The April valuation is likely to be similarly uninspiring and, like March's, will probably largely neutralise any increase in physical gold holdings.

Towards the end of April, the dollar gold price was languishing at its lowest levels since mid-1986. Gold has been steadily declining since it hit its high for the year to date on the threshold of $360 an ounce in mid-January. April, however, was a very bad month as bullion lost almost $10 over the four weeks.

There was little in the way of commercial rand weakness during April to support the rand gold price. Indeed, the rand was stronger on average last month than in March. March at least saw a couple of traded rand breaks below the R2,90 level to the dollar. In April the rand never broke R2,90, while the gold price just kept falling.

Where the rand did subside in the face of the occasional dollar advance, the Reserve Bank was reportedly active in selling dollars into the market to support the rand. This, together with whatever additional intervention the Bank carried out in the financial rand market, will have represented a drain on the foreign exchange component of the reserves and another drag on any appreciable advance in the April reserves total.

Attaining the R10bn level on total reserves, which government originally expected to occur by end-1991, now looks a stiff task even for end-1992 given a weak gold price, a steady rand and resuscitating domestic demand. The other objective on reserves, that of three months' import cover, only looks reachable over the medium term with the assistance of the multinational lending organisations — when their facilities come on stream.



Graphic: RUBY-GAY MARTIN Source: GOLDMAN SACHS

Internationally, the labour problems in Germany are likely to be the markets' principal preoccupation this week. The policy-making council of the German central bank, the Bundesbank, meets on Thursday — if its members can get to the Bundesbank building through uncollected Frankfurt garbage on streets choked with traffic in the absence of the city's public transport.

As long as government does not give way on the unions' demand for roughly double the 4,8% pay increase on the table, the Bundesbank should stay its hand on another rise in nominal interest rates. But if, as it did in the last big public sector strike in 1974, government gives in and grants a double-digit pay award, the Bundesbank is likely to act.

In 1974 government resisted the chaos of public sector labour strife for only three days before handing over an 11% increase, four points above the prevailing inflation rate.

In the US the key release of the week is the April employment report, due on Friday. The overall unemployment rate was steady at 7,3% in March, and non-agricultural recruitment levels rose. Employment data lag behind the rest of the real economy, but it should not be long before the effects of the US's preliminary, first-quarter GDP growth of 2% — a notable jump from the previous quarter's 0,4% — begin to feed through to the labour market.

Thursday sees the release of Japan's trade surplus for April. The figure comes out at a time of renewed concern about the level of Japan's external surpluses. February's current account surplus was a record $10,8bn which, together with the strong trade surpluses, prompted the country's international trade minister to call in executives from 177 top companies last month to urge them to boost imports.

Japan's March trade surplus widened to $10,99bn from $8,49bn in March 1991, as imports fell for the seventh consecutive month. Japan's current economic slowdown means imports are likely to decline further, unless those 177 companies take advantage of government tax credits available to corporate buyers of foreign goods.

B/Day 4/5/92 (74)

Exchange controls 'must go'

South Africa must make some bold decisions to capitalise on the opportunities created by its new-found international acceptance.

"Becoming a winning nation requires major strategic shifts," says Nick Horspool, World President of the Institute of Chartered Secretaries and Administrators (CIS) who is visiting the Republic.

"The focus needs to be on breaking down the barriers to investment".

The experience of other countries such as Japan and the South East Asian "tigers" shows prerequisites for success. Paramount is the need to be a global player.

"That means scrapping exchange controls which discourage investment and inhibit local companies in establishing bridgeheads overseas.

"Merely relaxing controls will attract only short-term capital looking for a quick profit instead of the long-term funding needed for infrastructural redevelopment," Mr Horspool says.

Political uncertainty is also a deterrent to investor confidence. "As long-term capital needs a stable environment, the power-brokers should seek mutually acceptable bases for sharing power and create an environment where business can flourish".

Low productivity is another disincentive. "It is imperative to empower lower levels of management for them to realise their potential. They need to be properly motivated and equipped with business skills."

Interest rates 'not likely to drop soon'

SHARON WOOD

INTEREST rates would not come down in the next month or two because inflation was still high and government spending was adding liquidity to the markets, Reserve Bank Governor Chris Stals said yesterday.

BDay 4/5/92

"There is not much chance of interest rates coming down in the next few months but the position could change further into the year," he said.

It was impossible to predict the outlook for interest rates during the year because this depended on a number of factors. The Bank would watch developments in the markets and take account of not only inflation but also the money supply, bank credit extensions, gold and forex reserves and exchange rates.

"The Bank is happy with the present rates of change in these economic variables and would like to keep them at these levels. But inflation should still come down further, which we hope it will do."

Government deposits with the Bank were declining, adding liquidity to the system, but this could change as the fiscal year progressed.

Stals told a Sunday newspaper that the Bank was not prepared to lower interest rates artificially.

Japan may host African summit talks

STAR 5/5/92.

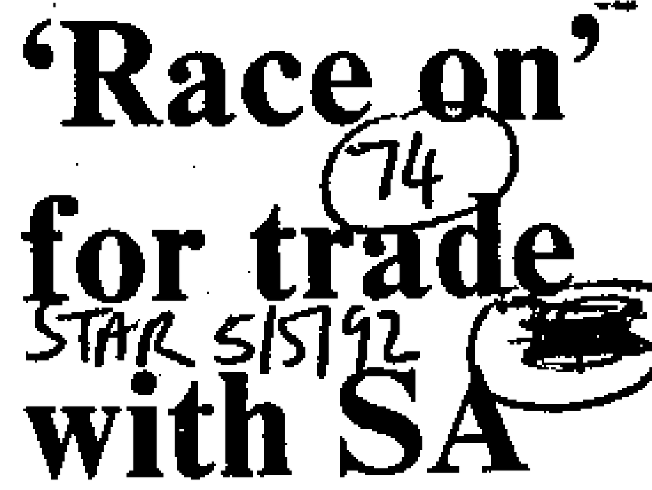
Star Foreign Service

TOKYO — Japanese Prime Minister Kiichi Miyazawa may propose to President de Klerk during his June visit that Tokyo play host next year to a summit meeting of African nations on development.

Government sources in Tokyo said Mr Miyazawa and Mr de Klerk were likely to consider ways to boost bilateral trade and would also discuss opening an air link between the two countries.

Mr de Klerk, who will be accompanied by Foreign Minister Pik Botha, would meet Emperor Akihito during his visit from June 3 to 6.

Japan began to lift its restrictions on trade with Pretoria last June.



'Race on' for trade with SA

STAR 5/5/92

PARIS — "The race is on" in the Indian Ocean region to develop trade links with South Africa, and Reunion was playing a major role, it was reported in Paris today.

"There is a race for Pretoria's favours, in this newly sanction-free economic era for South Africa, regarded as possessing fantastic economic power," said the Paris-based Indian Ocean Newsletter (ION).

French-administered Reunion is in the forefront, and its trade delegation which visited Pretoria recently returned with high hopes. Major contracts include Reunion importing 500 000 tons of SA coal. — Star Foreign Service.

NEWS IN BRIEF

Paraguayans' visit

74

A TRADE and investment mission from Paraguay will visit Johannesburg from June 1-7, the Paraguayan Embassy announced in Pretoria yesterday.

It said the delegation would include representatives of Paraguay's building and export firms, manufacturers and distributors, as well as members of the country's inter-ministerial agency charged with economic development through financial and technological co-operation with foreign countries.

B/Day 5/5/92

No more back-door trading

S Tim 5/5/92

CAPE TOWN — A sad legacy of the sanctions period is that South Africans have become accustomed to trading through the back door, Investec Bank executive chairman Bas Kardol said in Cape Town yesterday.

Addressing the annual congress of chartered accountants, he said many South African companies would have to develop knowledge of rules and standards set for products traded through normal channels.

"South Africans know suprisingly little of the methods of decision-making in the corridors of Brussels and the debating chambers of Strasbourg.

"South African companies should develop lobbying ability or else face the possibility of rules which may hurt their ventures."

(74)

He said South African companies with the desire to expand into Europe should internationalise their management teams as fast as possible.

"In the case of Europe 1992, it will be in our interest to secure as much access as possible to the largest single market on earth." — Sapa.

Oil embargo has cost SA $2bn a year — economist

(74) BDay 6/5/92

DARIUS SANAI

ONLY four sets of sanctions of any significance remain in place against SA, and the most damaging of these — the oil embargo — would be the last to be lifted, according to a senior visiting US economist.

The economist, an expert on southern Africa who wants to remain anonymous, said the UN oil embargo, UN-mandated world financial sanctions, US state and local sanctions and the IMF and World Bank restrictions were the only remaining measures affecting SA's economy.

Most Western economists estimated SA's measures to get around the oil embargo had cost government $2bn a year for the past decade. The recent lifting of the EC oil embargo had little effect on this, and it was ultimately down to the individual governments of oil-exporting Middle Eastern states to decide to lift the sanctions.

Most of these states would be reluctant to do so until a fully democratic government was in place, the economist said.

Iran, the only non-Arab state among Middle Eastern oil exporters, is also the only one to have signalled a willingness to rebuild relations.

It is the second largest oil producer in the region.

Financial sanctions — penalties imposed on banks in various western countries which deal with SA — were losing their bite as the banks became increasingly lax in their application. SA companies were having no difficulties obtaining short-term loans abroad, and the effects of financial sanctions on SA were frequently overstated, the economist said.

US state and city sanctions remained effective, despite the lifting of the Comprehensive Anti-Apartheid Act (CAAA) by Congress last year. It was now down to state legislatures and city councils to lift individual sanctions.

Some US cities like New York and San Francisco have highly developed economies of their own, and their sanctions — which penalise any company trading with or investing in SA — have the effect of similar sanctions imposed by small countries.

The economist said it was unlikely a democratic SA would be left in the same position as Namibia, which still had 25 state and locally imposed sanctions to cope with. Sanctions would be revoked if all Codesa participants requested it, he said.

But the effect of these sanctions could have been dulled recently by the lifting of EC and Japanese trade sanctions. "Firms from other countries are taking their place", the economist said.

The fourth category of sanctions was the restriction imposed by the IMF and World Bank on loans to SA. The Gramm amendment in the US — which is the most powerful voice in the IMF — prohibits the US government from supporting any application for an IMF loan from SA until a democratic government is in power.

But even this did not have a serious effect on the SA economy. "By the time SA really needs an IMF loan to cope with building a new SA, the political situation will mean the loan will be forthcoming," the economist said.

The World Bank's self-imposed restrictions had meant that $1bn worth of loans had been withheld from SA every year, resulting in the loss of 1% worth of potential growth in the SA economy. These loans would also be forthcoming when an interim government was installed, he said.

The UN-imposed arms embargo was also having an effect, with SA forced to manufacture material it would otherwise have imported. This ban would probably only be lifted after a fully democratic government was established.

Which sanctions remain ?

Sanction Type	Imposed by	Estimated effects on SA economy	When likely to lifted
Oil embargo	UN member states in Middle East	Severe, est. $2bn p.a.	After democratic elections
Financial sanctions	UN mandate	Moderate, penalties for financial institutions dealing with SA	With approval of all Codesa participants
US state & local sanctions	135 states & cities in US	Moderate: US firms discouraged from investing, trading	After interim government
IMF, World Bank	Gramm amendment in US (IMF), general policy (World Bank)	Moderate to strong - economic growth hampered	After interim government
Arms embargo	UN	Moderate	After interim government

Graphic: LEE EMERTON

Kenyan Foreign Minister W N Ayah and SA Deputy Foreign Minister Renier Schoeman at Jan Smuts Airport yesterday. Ayah is on a a four-day visit. Picture: BRIAN HENDLER

Italy may use SA as platform

BDay 7/5/92

SHARON WOOD

ITALY will consider SA as an operational platform for its aid, trade and investments into southern Africa, says Association of Italian Chambers of Commerce chairman Piero Bassetti.

Bassetti is on a five-day visit to SA and will meet a wide range of political and business leaders, including new Finance Minister Derek Keys.

"The relationship between our two countries is not new," he said.

Italy has been a major importer of SA gold, coal and raw materials and has exported technological know-how and manufactured goods to SA.

"More than a decade ago we singled out southern Africa as a top priority of our co-operation policy and we are engaged in a variety of contracts within the subcontinent," he said.

Italy's economy to a great extent was based on adding value to imported raw materials which offered great scope for increased trade and commerce between the countries, Bassetti said.

A string of recent events demonstrates Italy's concrete involvement and desire to establish a foothold in the SA market.

These include the extension of a $150m loan by Mediobanco to encourage small- and medium-sized business to invest in SA, the signing of a comprehensive trade agreement between the two countries earlier this year and the recently signed electricity agreement between Eskom and Italy's power utility Enel.

DARIUS SANAI reports Kenyan Foreign Minister W N Ayah and Tourism and Wildlife Minister Noah Ngala arrived in SA yesterday for a four-day visit.

Ayah, who was greeted at Jan Smuts Airport by Deputy Foreign Minister Renier Schoeman, said in a brief statement that he would hold talks with senior SA government ministers during his stay.

Meanwhile the Thai government announced the visit of the first major Thai trade delegation to visit SA. It will arrive in SA on May 21 for a week-long fact-finding mission.

And seven members of the German parliament's committee on labour and social affairs would be visiting SA from May 11 to May 14, an embassy spokesman said.

Accord on matric fees,

FM 8/5/92 (74)

WORLD TRADE

Growth fillip

The world's three largest trading nations reported major changes in last year's current account balances. The latest *IMF Survey*, summarising the Gatt 1991 annual report, says the US's deficit nearly disappeared, Germany moved into deficit for the first time since 1981 and Japan's surplus doubled.

The US surpassed Germany as the world's leading merchandise exporter, boosting the value of exports by 7,5%, five times the world average. "In contrast, US imports droppped 1,5%. In dollar terms, Germany's exports declined by 4,5% while its imports rose 9,5%."

World trade growth slowed in 1991, for the third year in a row. The 3% gain in volumes was the smallest since 1983; and the 1,5% rise in value the smallest since 1985. Preliminary figures for the second half of 1991, however, suggest that "a modest recovery of world trade may be under way with the Gatt report forecasting a 1992 gain in trade volume in the neighbourhood of 4%."

Strongest overall growth in trade, both exports and imports, occurred in Asia. China, Hong Kong, South Korea, Malaysia, Singapore and Taiwan had growth rates of 10%-20% for exports and 8%-30% for imports. The countries of eastern and central Europe and the former USSR had an estimated 20% fall in value of their overall exports and a 25% drop in imports. In the former USSR alone, imports fell by 42%.

Other significant developments in 1991:

☐ Anti-dumping investigations increased from 96 to 175;

☐ The number of anti-dumping laws enacted and implemented in developing countries and in eastern and central Europe increased;

☐ Another 16 countries announced trade liberalisation measures (63 countries have taken such action since the beginning of the Uruguay Round);

☐ Brazil, Peru, Sweden and Yugoslavia removed textile and clothing quota restrictions;

☐ Participation by eastern and central European nations in Gatt increased; and

☐ El Salvador, Guatemala and Macao became members. Eight other countries filed applications to join.

Despite the 1991 slowdown, trade expanded faster than output. And the Gatt annual reports summarised in the *IMF Survey* emphasise that "the increasing contribution of foreign trade to the GDP of countries and regions all over the world makes predictability and security in the international trading environment a critical factor in generating jobs, investment flows and technology transfers and, thus, in increasing economic production and growth."

It adds: "Success in the current round of trade neogitations would make a tangible contribution to an improved outlook for the world economy." ■

Eskom plans second Eurobond issue

74

SHERIDAN CONNOLLY

ELECTRICITY utility Eskom planned to launch a second Eurobond issue in September, treasury risk manager Johan van den Berg said yesterday. BDay 8/5/92

The proposed issue, which would be denominated in dollars, was in the planning stages and no international bank had yet been selected to lead-manage it.

Eskom launched its debut Eurobond on the international capital market in March. The DM300m bond, lead-managed by Germany's Commerzbank, carried a coupon rate of 10% and had an issue price of 101.

Van den Berg said Eskom would launch two domestic bonds on the local capital market at the end of June. Plans for these were first announced in November.

He said there would be a bond with a 14% coupon, maturing in 2020 with an issue size of R20bn. A zero-coupon bond to the tune of R6bn with a maturity date of 2002 would also be launched.

Zero-coupon bonds carry no interest rate and are attractive to investors because they eliminate income and thus no income tax is payable. Issued at a deep discount to their face value, they are effectively profit-guaranteed because the price gradually moves towards the nominal value as the redemption date approaches.

caller and car-phone owner are charged the car-phone rate, making those calls 42 times more expensive than a regular call. ■

AFRICAN ROUND TABLE FM 8/5/92

Some lessons for SA

Members of the influential market-orientated African Business Round Table stopped in SA last week to assess the possibility of holding their next annual meeting in Johannesburg later this year.

cont →

But members did far more than shop around for a suitable venue. Acting on the recommendations of African Development Bank chairman Babacar Ndiaye, who visited SA last month, the group is determined to convince local policymakers that a thriving, deregulated private sector offers the best means of achieving sustainable development and redistributing income.

The Ivory Coast-based group is a sort of roving African ambassador for the free market and SA is its latest mission.

Secretary-general Esom Alintah says: "Our aims are to attract foreign investment to Africa, promote intra-African trade and investment and strengthen Africa's private sector."

Alintah, a director of the Nigerian subsidiary of the US-based Ashland Exploration Co, says SA needs to privatise rapidly to help restore economic prosperity. "Government shouldn't worry about ANC opposition to privatisation — it's the right thing to do. Government has no choice. The sooner it privatises, the better for the country economically." He points out that more than 300 State-run enterprises in Nigeria have been privatised in recent years, in spite of stiff opposition from bureaucrats.

He says: "Privatising these organisations has increased efficiency. Government is not as broke as it used to be, goods are now delivered on time, and prices are competitive. Employees now receive their salaries monthly instead of every few months."

Alintah ... *bringing the market to Africa*

Alintah says nationalisation is simply not a viable choice for SA, adding that many South Africans appear to be confusing redistributing wealth through economic growth with the discredited option of redistributing wealth by "robbing Peter to pay Paul."

Alintah met ANC officials and invited the organisation to outline its economic policies to an international audience in Dakar on May 11.

The Nigerian has some advice on what the ANC should say. He stresses that the ANC needs a deregulated economy with free and fair competition. "Government need only provide the infrastructure. In short, government needs to pursue a policy of free enterprise."

He points out that most African countries are competing with one another to produce alluring investment codes to attract foreign investment. His group, he says, publicises this and other economic reforms. "Our message is that the business environment in Africa is improving dramatically as economic and democratic reforms are implemented throughout the continent."

The group would welcome widespread participation from SA, which is the only African country that is not represented. Says Alintah: "SA has the ability to produce and supply, cheaply, many of the products bought from Europe and the East."

Referring to the Nigerian market, Alintah says SA can export technology and services — financial, agricultural and engineering. "SA can especially export finished products in the petro-chemical area, while Nigeria can supply SA with the raw materials for these products."

Formed in 1987 as an informal advisory body to the African Development Bank, the business round table became an independent, nonprofit association in 1990 and has raised US$250m for private-sector development projects. ■

SA goes for the Gulf

S/Times [Buss] 10/5/92

By ZILLA EFRAT

SOUTH Africa is poised for a major trade breakthrough into the rich Arab markets. After years in the cold, a high-profile SA national exhibition will take place in Dubai in the Persian Gulf in October. The SA party will number more than 70 companies.

The marketing splash, a venture between Safto and the Government, will target the entire Gulf region. Its launch in June will coincide with the first official visit to SA from a government-related Arab organisation — the Dubai Chamber of Commerce and Industry.

Safto international manager David Graham says the exhibition is the first step in a programme to put SA back on the map as sanctions fall away.

A broad range of SA products and services will be promoted, as well as tourism and investment opportunities. Dubai has been chosen because it is the trading centre of the Middle East and a gateway to a market of more than a billion people. It lies at the crossroads of Asia, Europe and Africa.

Safto Middle East manager Gyff Fitchat says the Gulf region is a gold mine of opportunities virtually untapped by SA companies.

Gulf coast countries are large suppliers of oil, but have few other natural resources. Some of these countries import up to 90% of their non-energy requirements. Imports totalled more than $67-billion in 1990.

Mr Fitchat says up to 70% of Dubai's imports are re-exported to surrounding countries.

War

The desert war boosted Dubai's status in the region because it is far from the recognised conflict zones.

The Emirate is an important springboard into Iran, a market of 60-million slowly emerging from its revolutionary era.

Unlike many of SA's other potential markets, Gulf countries have the money to pay for imports.

The four-day national exhibition is being organised by the Department of Trade and Industry (DTI) and Safto, in association with the Department of Foreign Affairs (DFA).

DTI Deputy Director-General Gerrit Breyl says the exhibition, where the SA flag and the origin of the goods will be displayed, will be a major breakthrough.

DFA Director-General Niel Van Heerden says: "We support this initiative because we regard the Gulf as an important objective, particularly for trading.

"We hope this link will lead to closer contact in all fields, promoting better understanding between ourselves and countries in the region."

Package

Safto has organised a tour package for exhibitors at reduced cost. This is because it is making use of DTI export incentives for foreign exhibitions.

The exhibition, titled, A New Link: SA and the Gulf, will be promoted in 12 Middle Eastern countries. They include the Gulf Co-operation Council States, Iran, India, Egypt, Lebanon and Jordan.

The launch of the exhibition will take place in Johannesburg at a conference on Dubai. Hosts will be a delegation from Dubai.

The delegation's objective is to promote Dubai as trading centre and a springboard to Gulf countries.

Two top DTI officials are expected to be part of a Safto mission to the Gulf this week. They will examine opportunities and prepare for the exhibition.

However, Mr Fitchat warns SA exporters that the Gulf is a competitive market, sought by companies all over the world.

"SA companies must be able to compete in terms of price, quality and delivery," he says.

Contact between SA and the Gulf countries has been growing even though Arab League sanctions have not been lifted.

A Southern African Lebanese Chamber of Commerce (SALCC) has been formed to promote trade between SA and the Middle East.

Mr Fitchat says computer blocks which prevented direct dialling to SA from Bahrain and the United Arab Emirates have been removed.

In addition, Unicorn Lines and Afris are set to offer a regular service to the Gulf. Flitestar has also applied for permission to run a scheduled service to the region.

Several SA banks are establishing reciprocal relations in the region.

DAVID GRAHAM: First step in putting SA back on trade map as sanctions go Picture: JIMMY SOULLIER

Stokvel unit trust on the way

S/Times (Buss) 10/5/92

By CIARAN RYAN

THE National Stokvels Association of SA (Nasasa) is to launch a unit trust for stokvels.

Stokvels are savings clubs in the black community. Surveys suggest there are 24 000 stokvels in major metropolitan areas and as many as 800 000 countrywide with a total membership of 10-million.

Their cash flows are estimated at more than R200-million a month, most of which is placed with financial institutions.

A stokvel unit trust could provide a better return on savings and allow members greater access to formal borrowing.

Stokvel members are generally drawn from poorer sectors of the community. They are a poor credit risk in banking terms.

Better

Stokvel members complain that they are denied access to formal borrowing, but their savings are lent to relatively wealthy whites with good credit ratings.

Nasasa spokesman Stephen Japp says: "A unit trust will give stokvel members a better return on their money. They will be able to:

Wheels banks wary of low-deposit deals

S/Times (Buss) 10/5/92

By DON ROBERTSON

THE Government's decision to ease hire-purchase rules in an effort to boost new-car sales has put "wheels" banks in a quandary.

14 000 compared with 17 390 in March.

port the new regulations".

"If it is an old used car, sold by a doubtful dealer, we might ask for the repayment period to be reduced to, say,

TRADE TRENDS

World No 1 in business on mission to SA

S Times (Buss) 10/5/92 (74)

Sunday Times Reporters

MEMBERS of the world's most powerful business organisation — Japan's Keidanren — arrived unofficially in South Africa late yesterday.

The 30-member delegation, headed by Masamichi Fujimori, chairman of Sumitoma Mining and of the Keidanren's committee on Africa, left almost immediately for a week-long visit to Botswana, Zimbabwe and Zambia.

It will return on May 14 to meet SA business and political leaders, including President De Klerk.

The delegation includes representatives of all of Japan's six big trading houses, among them C Itoh, Mitsui, Mitsubishi and Sumitoma.

Japan is interested in buying mining interests and the beneficiation of minerals — long resisted by SA companies.

● ITALY is a country of small businesses and its expertise could be applied to generate employment in SA.

So says the chairman of the Union-Camere (Association of Italian Chambers of Commerce) and major industrialist Piero Bassetti.

He spoke this week at a dinner organised by the Italian-South African Chamber of Commerce.

President of the new Cape Town branch of the Italian-South African Chamber Angelo Marchesini stressed that the main objective was to attract direct Italian investment in joint ventures in the Western Cape.

● THE SA Chamber of Business and Afrikaanse Handelsinstituut have signed a co-operation agreement with the Korean Chamber of Industries.

The signing took place during the visit by Sacob and AHI members to Korea in the company of Trade and Industry Minister Derek Keys and Steph Naude, Director-General of Trade and Industry.

● A CHAMBER of commerce has been formed to promote trade between SA and the Middle East.

It is called the Southern African Lebanese Chamber of Commerce (SALCC). Although founded by the SA Lebanese business community, membership is open to everyone.

SALCC president Tony Farah expects trade between Southern Africa and the Middle East to rise dramatically when sanctions disappear.

He believes the Lebanese community, which is represented in all walks of SA business and professional life, can play an important role.

"Lebanon has traditionally been the trading nation of the Middle East and is an obvious link to the Arab world."

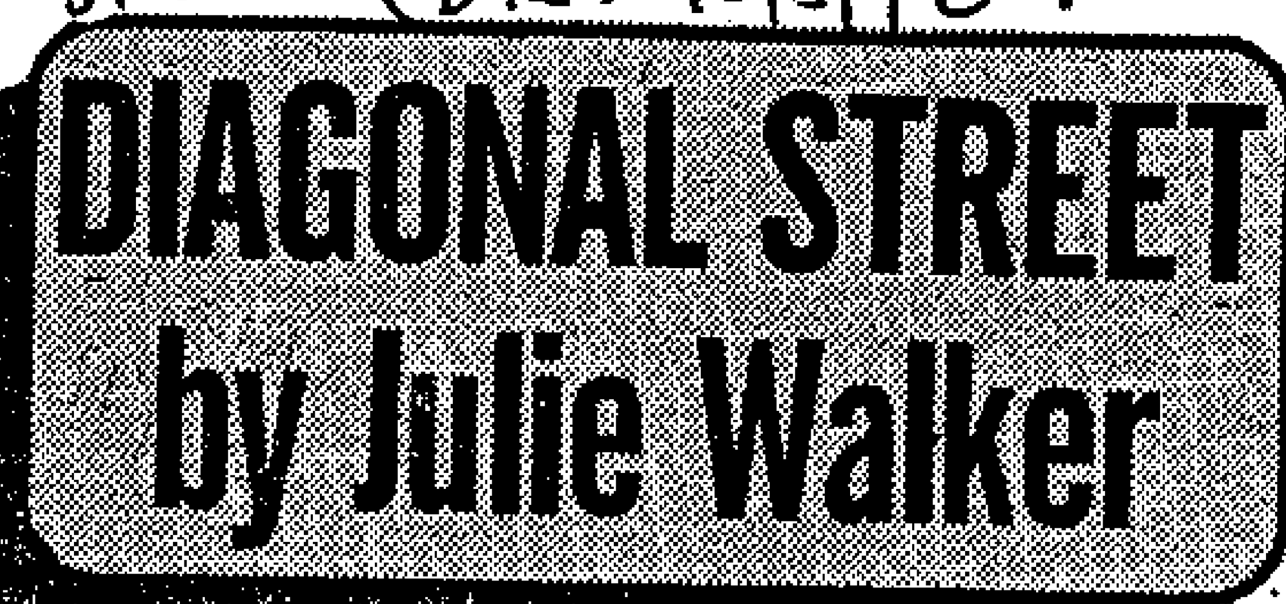
● THE Johannesburg Chamber of Commerce and Industry this week signed a co-operation agreement with the Chamber of Commerce, Industry and Agriculture Belgium-Luxumbourg-Caribbean-Pacific (CBL-ACP).

The Belgian economic mission was led by Roger Urbain, Minister of Trade. It included representatives of the Federation of Belgian Industries, the Belgian-South African Chamber of Commerce and the Brussels Chamber of Commerce and Industry.

Big savings under Unexcor umbrella

74

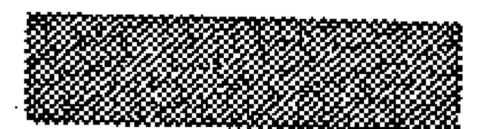
S Times (Buss) 10/5/92



FOREIGN currency would be saved, risk managed better and the cost of services reduced if South Africa's three financial exchanges could be placed under one organisation

Unexcor — Universal Exchange Corporation — was established two years ago by four large banks and the Reserve Bank.

Managing director Bev Jennings, whose previous task was running Saswitch, says Unexcor aims to provide centralised exchange services to financial markets.



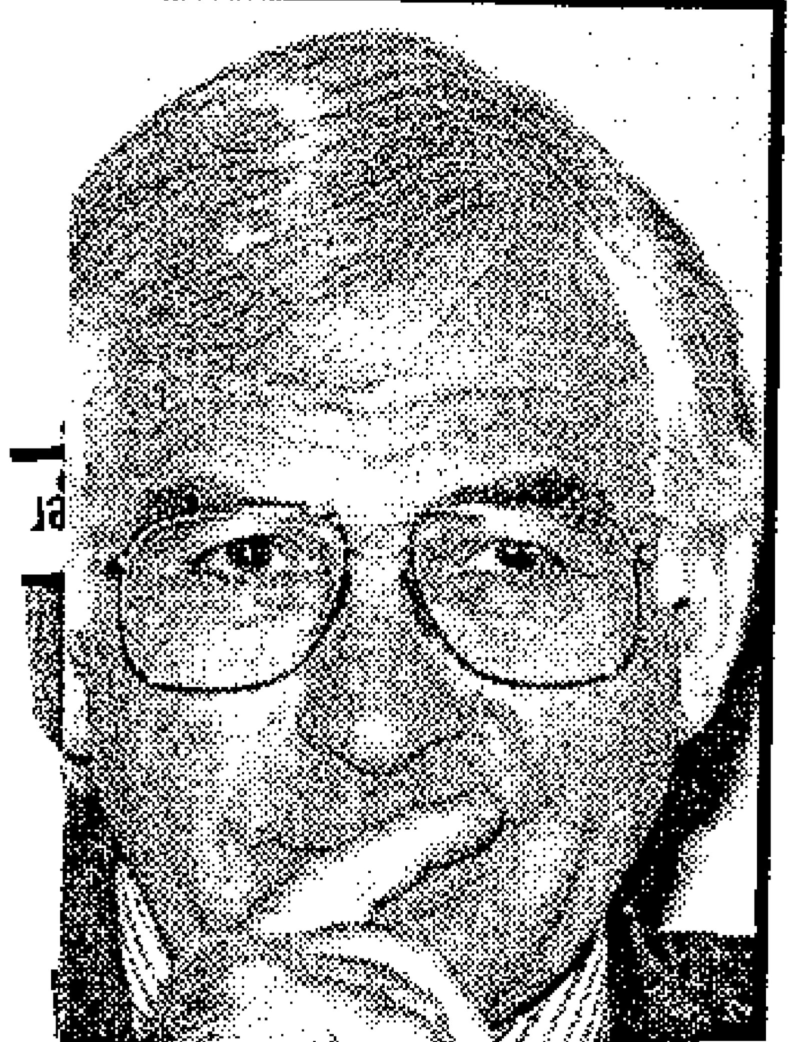
The trigger for the project was the Financial Markets Control Act (FMCA) of 1989. At present, the futures markets is self-regulated. The capital market will be self-regulated under the FMCA. The equity market is subject to the Stock Exchange Control Act.

Unexcor has been appointed the recognised clearing house of the Bond Market Association, whose turnover of R3 000-billion last year far outstrips trade on the JSE. Unexcor's system will get under way later this year.

The JSE was about to come aboard at the end of last year, but ducked out.

Safex, the futures exchange, rejected an approach to use Unexcor on the grounds of its being too costly for the time being. But it is likely to join in time.

Mr Jennings believes that costs can be pared if maximum use is made of existing capacity.

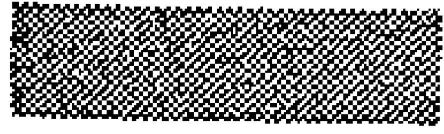


"We don't need every group doing its own thing, reinventing its own wheel. The goal is still for Unexcor to become the common vehicle."

In the past few years the JSE has upgraded its computers to handle enormous volume which occurs once in a blue moon. It developed the BDA (broker-dealer accounting) system, unnecessarily in the opinion of many, at great cost. It requires all its members to use it to apportion the development cost.

The FMCA requires a safe and secure market and that users must be protected.

Obviously, banks are not being philanthropic in forking out upfront for Unexcor. Their intention is to earn fee income through value-added services, such as risk management, settlement and custodian services.



A centralised exchange would allow the total exposure of traders in the three markets to be calculated. In each individual market the risk might be too high, but properly hedged portfolios would collectively reduce the exposure.

Each deal in the bond market is now settled with either the delivery of cash or scrip. Unexcor would provide a net settlement scenario.

Mr Jennings says: "We have one cheque a trade. The new Unexcor system would produce a net settlement position to be met electronically, providing cost advantages.

"The potential for fraud through dud scrip, such as the false Eskom certificates that surfaced last year, would be reduced."

A centralised depositary could accommodate all the scrip, avoiding the need for thousands of messengers. Each delivery probably costs between R80 and R120.

Electronic settlement would also remove the need for guaranteeing cheques for settlement.

The Reserve Bank's interest lies in secure financial markets as well as seeing the cost of services reduced.

A spinoff might arise in the saving of foreign currency paid to overseas electronic services.

Traders now advertise their prices on a screen, typically Reuters, but deals are still executed by telephone, fax and paper. It is a system vulnerable to misdemeanour. The global shift is to electronic trading where deals are executed through the computer. Unexcor would provide the centralised forum and the specifications of the deal. Ideally, prices could be displayed through any service and be traded by every other member.

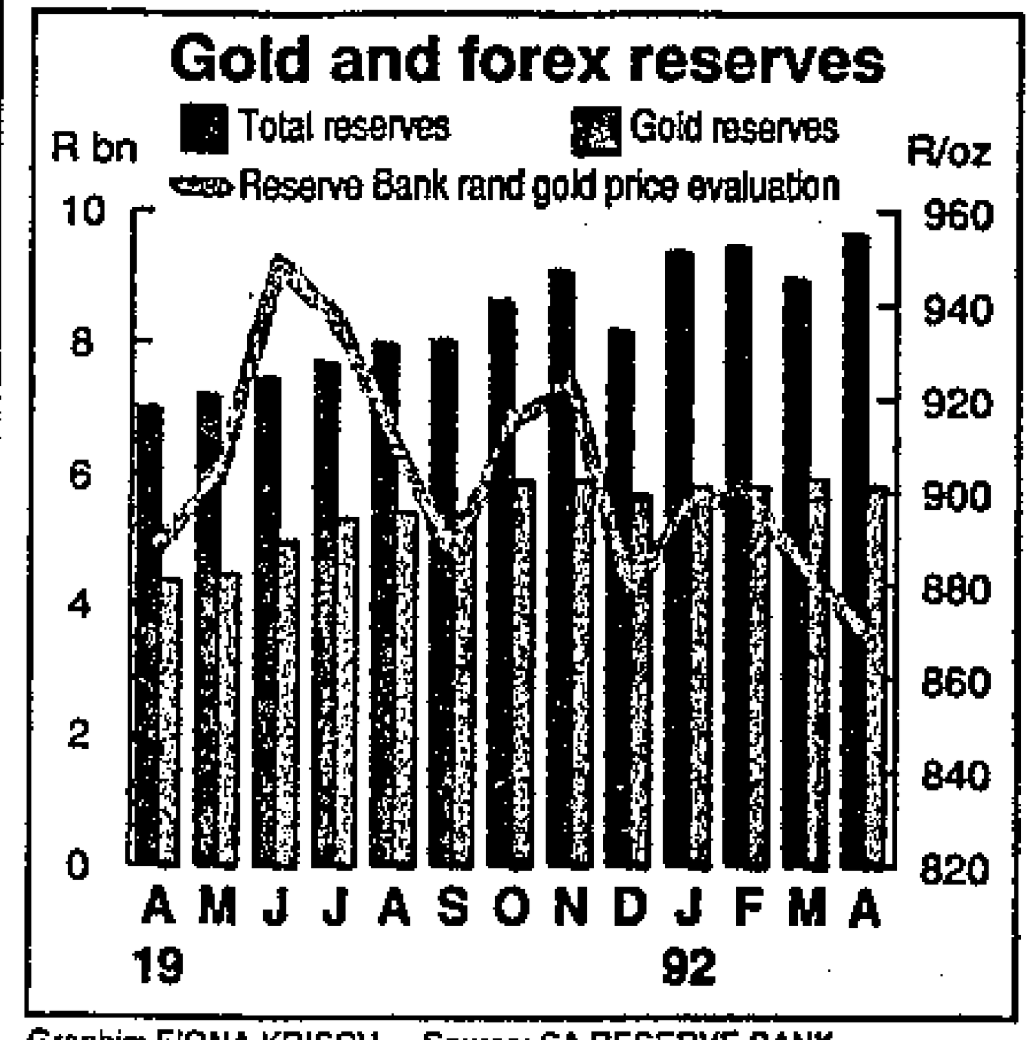
SA competitors such as Genisys and I-Net could then break the near monopoly.

The amount of money legitimately leaving SA through subsidiaries of foreign principals runs to millions of dollars a month. Pricing services would still have to be paid for, even if the distribution network changed. But it would mean less money leaving SA.

Mr Jennings hopes the JSE will outsource its clearing systems to Unexcor.

SA's financial markets are too small to justify higher and higher costs. At the end of the day, the consumer pays for everything in a captive market.

There is little enough choice among growth investments and the players should do what they can to cut costs.



Graphic: FIONA KRISCH Source: SA RESERVE BANK

'Healthy growth' in forex reserves

SHERIDAN CONNOLLY

SA's gold and foreign exchange reserves resumed their upward trend in April despite fears that they would drop as a result of maize imports.

Reserve Bank figures released on Friday showed total reserves increased by R670m to R9,6bn in April from R8,9bn in March. B/Day 11/5/92

The value of the Bank's gold holdings was marginally lower in April at R5,8bn from R5,9bn in March. The quantity of gold held was almost unchanged at 6,67-million ounces in April from 6,69-million in March.

The average price of the metal was slightly lower at R870/oz in April from R883. Foreign assets were up R77m to R3,8bn in April from R3bn in March.

Notes in circulation were marginally lower at R10,71bn in April compared with March's R10,79bn.

Rand Merchant Bank chief economist Rudolf Gouws said the figures were excellent and the renewed uptrend was a healthy sign. He said there had been fears that the slowdown in the international economy would have had a more negative effect on SA's export levels.

Gouws said the figures were particularly good in view of the drought which had resulted in higher import levels. An increase in total reserves showed that the overall level on the balance of payments remained healthy.

Although the upward trend in gold and forex reserves might not be as strong in the next few months, an upward trend should nevertheless be maintained, Gouws said.

Reserves up sharply

By Sven Lünsche (74) (22)

Gold and foreign exchange reserves rose sharply by R870 million to R9,83 billion in April, boosted by a favourable trade surplus and no foreign debt payments during the month. STAR 11/5/92

The sharp improvement was achieved despite a fall in the gold content of the reserves from R5,91 billion to R5,81 billion.

The physical volume of gold holdings showed a slight increase from 6,7 million ounces to 6,97 million, but the rand gold price slipped in April from R883,16 to R870,12 per ounce.

Foreign exchange reserves showed a sharp rise from R3,05 billion to R3,83 billion, despite the steady performance of the rand.

Telkom launches Eurobond issue

B/Day 12/5/92. 74

SHERIDAN CONNOLLY

STATE-controlled post and telecommunications utility Telkom yesterday launched a Eurobond issue on the European capital market.

A Telkom spokesman said the DM120m bond was listed in Frankfurt in denominations of DM1 000 and DM10 000. It carried a coupon rate of 10% and was priced for launch at 99,50%. Germany's Deutsche Bank lead-managed the issue, which matured on May 29 1997, the spokesman said. Funds raised through the Eurobond issue would be used to finance Telkom's current projects.

Addressing a presentation in Frankfurt, Telkom treasury head Stoffel Erasmus said the utility planned to become an annual borrower in the European capital market. Funds raised through borrowing would go towards financing current and new projects.

He said Telkom had estimated capital expenditure for the 1992-93 fiscal year at DM2,14bn compared with DM1,88bn in the 1991-92 fiscal year.

VWD reported that by lunchtime yesterday the bonds were trading "comfortably inside full fees". At mid-session, bidding was around 98,10% and offers at 98,15% in the primary market.

The Telkom issue follows recent Eurobond issues by Eskom, the IDC and the Development Bank of Southern Africa.

The ANC has been critical of recent Eurobond issues, saying such borrowings violated sanctions and UN resolutions.

An ANC spokesman last night declined to comment.

Trade talks open in Lagos

B/Day 13/5/92. 94

LAGOS — SA businessmen seeking joint ventures and other trade deals opened talks in Nigeria yesterday after an ice-breaking visit by President F W de Klerk.

"We are looking basically in exploratory talks at joint ventures in major sectors including industrial chemicals and rural development," Paul Runge, leader of the 14-member private sector delegation, said.

The group, organised by the SA Foreign Trade Organisation (Safto), has members from the banking, chemical, oil, agriculture, engineering, publishing and shipping sectors.

De Klerk's talks in Abuja last month with Nigerian President Ibrahim Babangida, current head of the OAU, paved the way for overt business between sub-Saharan Africa's biggest economies.

But Nigeria has made clear that full diplomatic ties must wait until SA had a transitional government acceptable to its nationals.

"We are optimistic and sooner or later we are going to have acceptance here," Runge said.

Members of the delegation, which includes Standard Merchant Bank and Sasol, are expected to meet Central Bank of Nigeria officials during a one-week visit.

Nigeria, a major oil producer, is interested in selling oil and petroleum products to SA.

A factor likely to hamper large sales of Nigeria's light oil is that SA refineries generally use heavy crude.

Safto officials said SA could help Nigeria with its problematic refineries and discuss joint marketing of oil products.

"A lot of my clients here are looking at opportunities to supply major oil companies in Nigeria," Safto official Andrew Maggs said. "We are also looking at foodstuffs, pharmaceuticals and mining." — Sapa-Reuter.

Rand losing ground to £

(74) STAR 13/5/92

CAROLE on CURRENCIES

By Carole Mason, international economist, Standard Bank

The mundane realities of a dollar still trapped in a range characterised initial rand activity last week.

Ahead of last Thursday's scheduled Bundesbank meeting and Friday's release of key US employment data, it was not generally anticipated that the domestic dealing community would be afforded much scope for establishing new dollar/rand positions and the domestic unit was expected to remain confined to narrow trading ranges.

This in fact proved to be the case and although dollar activity had a weakish undertone, rand appreciation against the dollar was restricted to a fleeting burst above R2,86.

By week's end, the rand had given up those gains, with a stronger dollar leaving many domestic analysts pondering the possibility of an early break out of recent trading ranges.

Having safely hurdled the two obstacles represented by last week's Bundesbank meeting and April's US employment data, a renewed problem of the dollar's upside is now possible.

However in an environment where market participants everywhere have chosen to focus on international central bank policies rather than on the underlying economic background, the dollar remains vulnerable to nagging doubts that US interest rates have not yet bottomed.

Losses

As a consequence, any near-term rand weakness against the dollar should be confined to a move towards the upper end of the rand's recent R2,85-R2,88 trading range against the dollar.

The prospect of a modestly stronger dollar in the days ahead has additional indirect implications for the rand in that dollar strength against the third currencies usually implies rand strength against the third currencies also (but to a lesser degree).

Any evidence of a stronger dollar in the days ahead should therefore enable the rand to claw back some of last week's losses against the other major currencies. These were most obvious against a surging pound which, despite a cut in UK interest rates, strengthened towards R5,16.

However, with the pound an obvious beneficiary of a lack of clear trends in both the dollar and the DM last week, any evidence of modest strength in the US currency should take some of the gloss off the pound, enabling the rand to advance.

As such, near-term performance in the rand (although occasionally disquieting in terms of rand performance against individual currencies) should not give undue cause for concern in terms of the SA Reserve Bank's chosen objective, the rand's trade-weighted value.

Retail sales looking up

STAR 13/5/92

By Sven Lünsche

Retail sales look set to emerge from their two-year slump.

Projected figures released by Central Statistical Services (CSS) this week show that sales in April are expected to reach R7,28 billion — an increase of 18,6 percent on the comparative figure in April last year.

After taking inflation into account, this indicates a real year-on-year increase of 2,6 percent.

A broader indicator also suggests an upturn in spending on retail goods.

According to CSS, projected sales for the three months to April increased by 4,8 percent, compared with the preceding three months — a real rise of 0,8 percent.

This contrasts sharply with the latest actual retail sales figures available, those for February this year.

In February sales rose by a nominal 15,6 percent to R6,35 billion, compared with February 1991, which represents a decline of two percent in real terms.

New SA 'giving Africa hope'

STAR 13/5/92

DAKAR — The African Development Bank is meeting here this week buoyed by hopes that a post-apartheid South Africa will strengthen the continent's economy, but worried that it could take a decade to reverse falls in living standards since 1980.

The Bank is expected at its three-day annual meeting to savour a modest improvement in fortunes in 1991, when economic growth for the continent, excluding South Africa, edged up to 2,5 percent from 2,1 per cent in 1990.

But with a population of 600 million people growing faster than anywhere in the world at 3,1 percent annually, individual incomes fell again.

These shrank by 15 per cent in the 1980s alone, said the Bank in a briefing paper.

"People are, on average, worse off today than they were three decades earlier, with poverty and deprivation threatening to expand," it said.

The Bank estimated it would take seven to 10 years of sustained, real economic growth at four percent annually to recover per capita income losses suffered in the 1980s.

Weak world prices for Africa's mineral and farm output, mounting foreign debt, slack investment, widespread drought and civil strife contributed to the current crisis.

Most of these constraints persist, although total foreign debt eased to $271 billion last year from $286 billion in 1990 thanks to write-offs.

Yet, debt service payments still account on average for three-tenths of export earnings. And, according to United Nations estimates quoted by the Bank, poor commodity prices cost Africa about $50 billion in lost export earnings in the second half of the 1980s.

Bank president Babacar Ndiaye said on Momday a post-apartheid South Africa could play a key role as an engine of growth in Africa, once it shakes off its own recession and gets to grips with daunting housing, education and other socio-economic challenges.— Sapa-Reuter.

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EC 'role vital in two-way trade with SA'

74 CT 13/5/92

By ARI JACOBSON

THE European Community (EC) will be essential to SA providing about 25% of SA's gross domestic product (GDP) through two-way trade, said SA Foreign Trade organisation's (SAFTO) regional manager Francine Beudeker.

Speaking at a conference in Cape Town hosted by accountants Deloitte, Pim Goldby — Beudeker together with Deloitte's manager EC affairs Richard Doherty and manager Eastern Europe affairs Graham Branton — highlighted the prospects for local business in Europe.

Beudeker said that SA was still considered a low economic growth country. "Although apartheid policies had chased away foreign capital from 1985 — the low economic potential locally exacerbated this problem."

In addition she said perceptions of the country was still one of political instability and labour unrest.

"Also while SA is a large exporter of food and primary products these areas of imports are falling in the EC."

"And manufacturing, in which SA has a small share, is rising in importance in the EC."

But from a positive perspective Beudeker said SA had only one market to enter now and so could avoid the costs attached to multiple entry and distributions.

"Further SA has a solid infrastructure, at local ports, that can deal with the large volumes required by the EC."

She talked of the increased demand in the EC for SA's coal and the seasonal advantage's that would place local fruit and clothing products in demand.

Doherty and Branton pointed out that the EC and Eastern Europe would provide for SA "export opportunities, investment options and allow for foreign aid to boost the economy".

They said Europe would promote change in SA through trade and integrate it into the rest of the world.

"But to compete exporters must produce high quality goods that are price competitive."

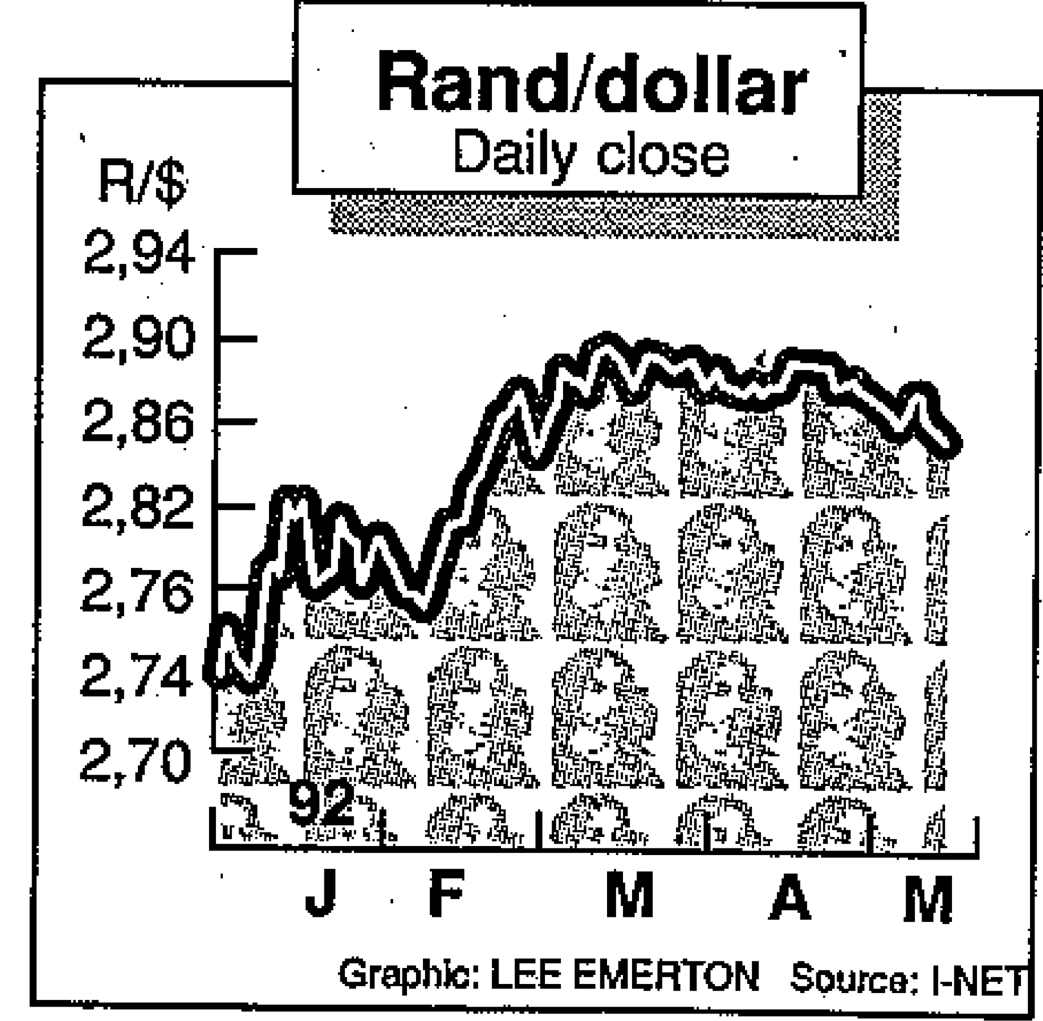
SA, they said could gain a competitive edge with its relatively cheap labour costs, helped on by proper tax planning and by operating efficiently.

They added that Eastern Europe represented major opportunites for local exporters "having adapted suprisingly fast to market economy orientation".

Rand hits high against dollar

B/Day 14/5/92

SHERIDAN CONNOLLY (74)



Graphic: LEE EMERTON Source: I-NET

THE commercial rand climbed to a 10-week high against a weaker US dollar yesterday to end the day at R2,8492 to the dollar from its opening level of R2,8498 and Tuesday's close of R2,8600.

However, sterling's continued strength against most currencies after last month's Conservative victory in Britain forced the rand to a new sterling low.

The rand's dollar strength arose from market expectations of a cut in US interest rates. Dealers said the dollar held its ground in late trade after the release of some positive economic data.

Analysts said although the market was

□ To Page 2

Rand

B/Day 14/5/92 (74)

□ From Page 1

anticipating a US rate cut, yesterday's better than expected inflation and retail sales data showed some signs of recovery in the otherwise moribund US economy. Earlier this week, the dollar plunged sharply against the yen, the Deutschmark and sterling after pressure on forex markets sparked off dollar selling in favour of the yen, they said.

One analyst said the rand's gains were purely a result of a weaker dollar. In the medium to long term, a stronger dollar should emerge and the rand would weaken substantially — falling to as low as R3,15 to the dollar by the first quarter of next year.

Dealers said the rand was weak against the crosses and fell from Tuesday's sterling close of R5,1595 to R5,1727.

The financial rand was thinly traded but marginally firmer against the weaker dollar, closing at R3,41 from Tuesday's R3,42.

SA stands chance of admission to Lome

STAR 14/5/92

(74)

By David Canning

DURBAN — South Africa stands a good chance of winning trade preferences from the European Community, possibly even membership of the Lome Convention.

This is the view of Richard Doherty and Graham Branton, Brussels-based representatives of Deloitte Ross Tohmatsu Europe Services, who addressed businessmen at a seminar here.

Mr Doherty said he had heard the issue of South African membership of the Lome Convention — which allows preferential access to EC markets — being dicussed at top levels in Brussels.

The issue was dificult. South Africa was regarded as a developed country, yet a large part of its population had low income levels.

South Africa should now be preparing the ground to apply for preferential EC treatment — either as a member of Lome or through a bilateral agreement.

While it had a strong argument for Lome membership — as its neighbours already were members — SA might have to drop any tariffs applying to other countries in its region.

It also might need to reduce its export incentive schemes which were not popular in Europe.

The seminar delegates also heard Deputy Minister of Foreign Affairs Renier Schoeman urge the Natal/KwaZulu region to improve its efforts to encourage foreign investment.

He said he believed the region was not yet ready to receive and influence potential investors "on a sufficiently coordinated and effective basis."

It would be a pity if Natal were to lose out on foreign investment because of a fragmented approach lacking the impact which could have been achieved by a coordinated effort to market the region and to draw investment.

"Even within the worthwhile body of the Natal/KwaZulu Joint Executive authority, the differences in powers of the component parts weakened its capacity to play a full role in some areas."

Exim sets strict loan conditions

Bday. 15/5/92

SIMON BARBER

WASHINGTON — SA companies seeking newly available US Export-Import Bank loans to purchase American capital goods are obliged to submit detailed public disclosures to the US State Department of their employment practices and efforts to compensate for the effects of apartheid.

One company, Rockbit, has already done so, but has been asked by the department for clarification, officials said. At least four others have requested the necessary form.

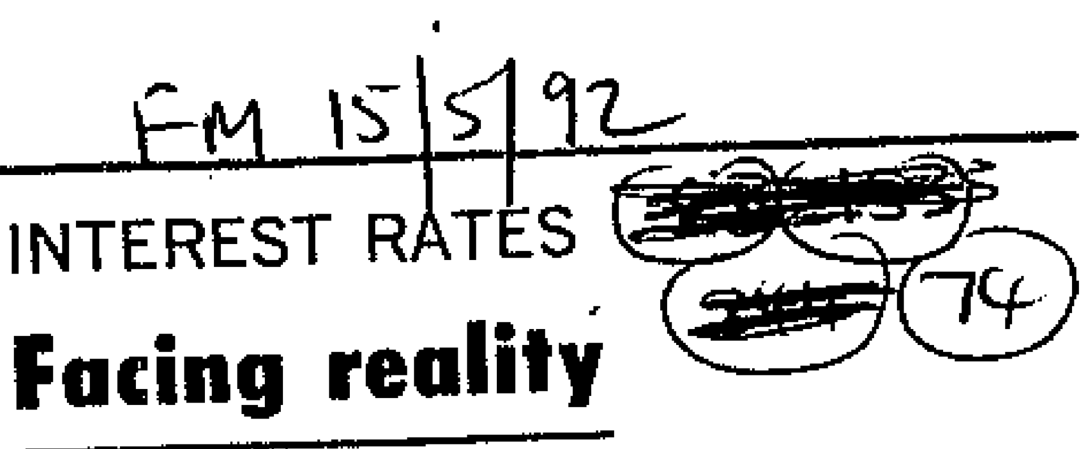
In March, President George Bush waived the 1978 Evans Amendment which barred Exim from financing exports to the SA government. But private companies applying for Exim credit must be certified as having "proceeded toward the implementation of" fair employment standards akin to those required of US firms in SA.

To obtain certification, applicants must complete a 14-page, 33-part questionnaire. It is not sufficient for companies merely to have desegregated workplaces, offer "equal and fair" employment conditions for all employees and provide equal pay for equal work.

Applicants must demonstrate that they have established training programmes to advance blacks, are increasing the numbers of blacks in supervisory and managerial positions, and are willing to engage in collective bargaining. They must also show that they are improving the quality of life for employees.

The questionnaire seeks a detailed profile of the applicant's workforce, including pay scales, size of increases over the previous 12 months and the distribution of employees between various skills and seniority — all broken down by race.

Firms must complete the form annually for as long as they have Exim loans.



INTEREST RATES

Facing reality

The recent easing of interest rates by some of SA's major trading partners can be interpreted as a breathing space for the monetary authorities, allowing them to lower domestic rates. But there are good reasons why SA cannot follow suit.

Firstly, SA's real interest rate, currently at 3,55%, based on the most recent CPI of 15,7% and a prime overdraft rate of 19,25%, remains lower than the rates of our major trading partners, apart from the US (see graph).

Secondly, developed countries with free

ECONOMY & FINANCE

capital flows are better able to respond to interest changes in other developed countries. Thus, says Absa chief economist Hans Falkena, countries such as France and Britain have been able to respond to the recent weakness in the German mark. He adds that most developed countries have managed to curb inflation for some time, giving them room to stimulate their economies now. "France, for instance, has the lowest inflation, at 3,2%, in the European community."

Another restraint in SA, says Falkena, is expansionary fiscal policy. According to Absa's *Economic Spotlight* for May, key problem areas such as government dissaving — borrowing to fund consumption spending — and State expenditure will be inflationary.

The deceleration of the money supply growth, the improvement in the reserves and the low level of PPI — at 6,7% creating a real interest rate for producers of 12,55% — may be cited as reasons for easing rates. But Econometrix's Tony Twine says the Reserve Bank looks at consumer inflation when determining inflation control.

"Our studies show that a PPI significantly lower than CPI is not unusual in many economies," says Twine.

Nedbank chief economist Edward Osborn argues that "high real interest rates may not be relevant at this juncture. High real interest rates are usually used as a tool to reduce

Interest rates comparisons

%
8
7
6
5
4
3
J F M A M J J A S O N D J F M
'91 '92
Source: I-NET

Difference between prime and inflation
UK
Germany
SA
USA

The low end

cont →

ECONOMY & FINANCE

FM 15/5/92

private consumption. In SA, however, consumer and investment demand are low as a result of a combination of recession, retrenchment, high interest rates and low investor confidence. Therefore, a low or even negative real interest rate can, it may be argued, be necessary for recovery."

But, Osborn says, the monetary authorities are restricted by the need to retain the surplus on the balance of payments "to deal with foreign debt obligations. The Bank doesn't want to spur growth in imports, particularly while we have to import large amounts of maize.

"Therefore, a drop in interest rates is only possible once there is a prospect of a certain underpinning of the balance of payments position through international recovery. While inflation is high, the Reserve Bank Governor has reasons to keep rates high. This will naturally fall away as inflation drops in the last quarter of the year, by which time the balance of payments position should look healthier." ■

BUSINESS DAY, Monday, May 18 1992 3

Trade mission to US

SHARON WOOD

SA businesses will visit the US later this year on the first trade mission organised by the American Chamber of Commerce since Washington imposed anti-apartheid sanctions in 1986.

Chamber executive director Michelle Cohen said mission delegates, representing 14 small to medium-sized businesses with products saleable in the US, would be chosen by Amcham trade committees.

They will meet government officials, US industry and the Press.

BDay 18/5/92

"The mission will initiate easier access to what has been seen up to now as a large, amorphous area," Cohen said.

Amcham will also hold investment seminars during the mission to re-educate American businesses on investment and export opportunities available in SA.

The mission will be followed by a business-to-business conference organised in SA by Amcham in May next year which will host about 140 US companies.

Amcham membership in SA is made up of US companies with direct equity and non-equity links with SA, as well as SA companies distributing US goods.

Cohen said Amcham's membership shrank drastically during the sanctions era.

'But there has been a resurgence of American companies looking to join Amcham and also a lot of interest from SA companies," she said.

No magic wands around for that economic miracle

STAR 18/5/92

(74)

THE floodgates to the rest of Africa are opening up rapidly for South Africa. Sanctions are teetering on the brink, and their end is bound to be hastened by the call for their abandonment by the deputy president of the African National Congress, Walter Sisulu.

The visit by President de Klerk to Nigeria has cleared the way for trade and other links between the two African countries with the greatest economic clout. A political seminar held in Cairo, which was attended by South African and Egyptian academics and politicians, also forged new links.

Except for Zimbabwe and, to a lesser extent, Namibia, opportunities for South Africa's trade links now exist with the entire continent.

Apart from the European Community and some of the countries in the Far East, the markets of Africa hold the greatest prospect for South Africa.

However, the great test for Pretoria is likely to be its success in developing economic co-operation within southern Africa.

Superficially seen, an economic grouping would appear to offer great advantages to all 10 countries in the region. But the difficulties of establishing structured institutional relations are formidable.

These difficulties are rigorously examined by the South African economist, Jesmond Blumenfeld, in a study sponsored by the Royal Institute of International Affairs, London.

His central theme is the relationship of dependence and interdependence among countries of greatly varying economic strength and political agendas.

Blumenfeld cites as one reason for caution the, as yet, uncertain future strength and prosperity of the South African economy itself.

A second reason he advances is the uncertain future economic prosperity of the region as a whole, including the scale of cross-border economic relations. These will depend upon the political stability in the region, and upon the domestic economic policies pursued by each of the governments. Future stability remains an open question.

Beyond these reasons, Blumenfeld argues that the conditions for translating the "need" for economic co-operation into effective practice are not matched by evidence of a general desire for reconciliation and rapprochement.

Blumenfeld goes on to say that "effective economic co-operation universally requires politically difficult choices and adjustments, including surrender of some sovereignty.

"The experience of the Southern African Development Co-operation Conference (SADCC) has confirmed that sovereignty is not likely to be surrendered very readily in southern Africa, with or without apartheid.

It would therefore be prudent to discount grandiose ideas about a southern Africa Common Market.

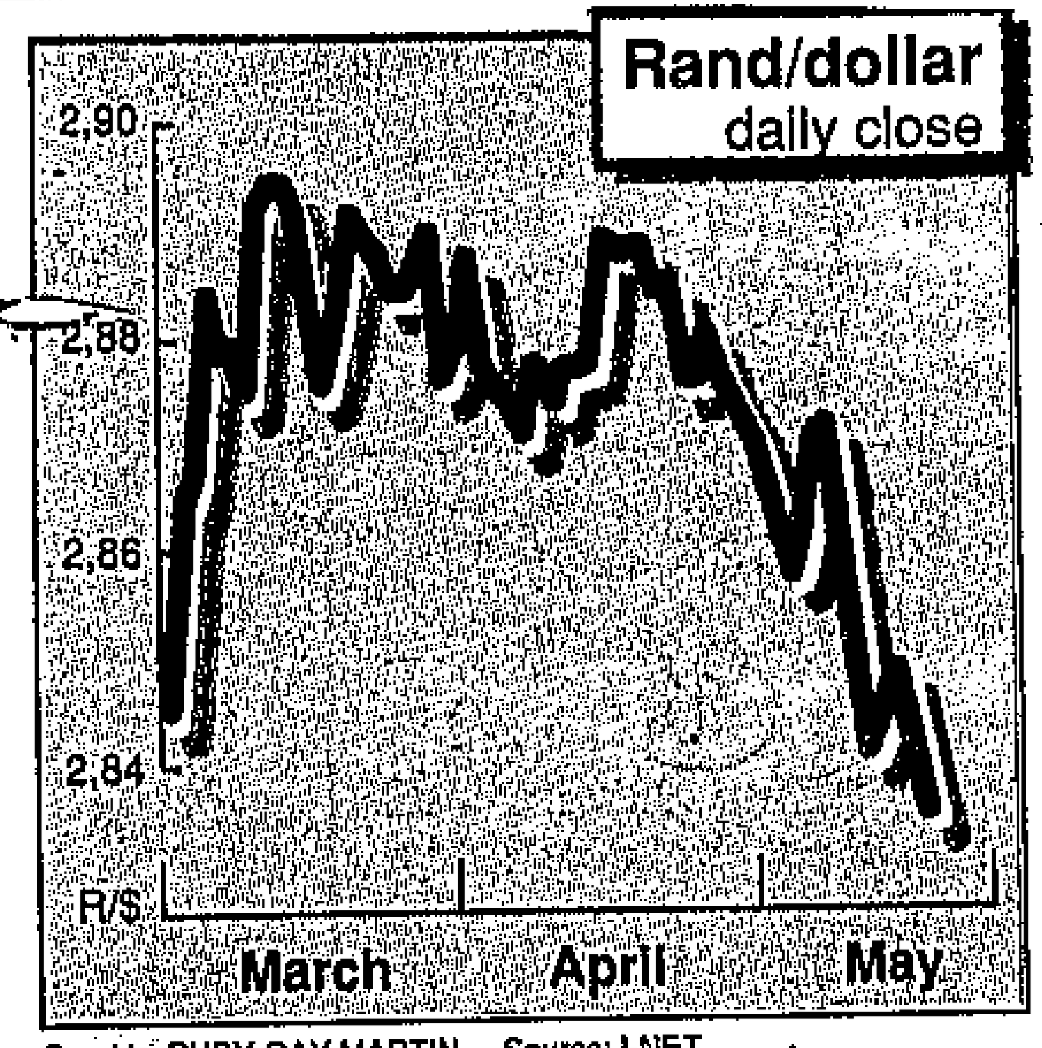
"The belief that in the post-apartheid era, conflict between South Africa, on the one hand, and the neighbouring states, on the other, will evaporate, is too simplistic partly because the nature and duration of the transition to majority rule in South Africa and because the characteristics and strength of the post-apartheid economic system are still too uncertain.

"There is — and will remain — throughout southern Africa a legitimate fear that South Africa, however governed, will always exercise overweening economic power over its neighbours. This fear will need to be addressed before there can be any prospect of creating a prosperous regional order."

Blumenfeld believes that, in practice, the emphasis on regional economic co-operation is likely to remain on more ad hoc and essentially bilateral arrangements.

Blumenfeld discounts the scope for Western policy in the region. His cautious conclusion is that southern Africa may not be capable of the "economic miracles" which Western Europe and the Pacific Rim have achieved.

"There has been too much economic dislocation in southern Africa and there remain too many political imponderables and too many reasons to fear the alternative scenario in which the region would be consigned to increasing despair and decline." □



Graphic: RUBY-GAY MARTIN Source: I-NET

Rand strengthens against the dollar

SHERIDAN CONNOLLY

THE commercial rand strengthened further yesterday to reach an eight-week high against the dollar as the US currency continued to come under pressure against the Deutschmark.

The rand finished at R2,8342 to the dollar from R2,8490 on Friday. Analysts said the dollar dipped to a four-month low against the Deutschmark on the back of expectations of an increasing interest rate differential between Germany and the US.

They said a cut in US rates was expected to be announced by the US Federal Open Market Committee which meets today, and German rates were expected to be lifted by the Bundesbank by the end of the week.

BDay 19/5/92

Money market rates continued falling and the three-month liquid BA rate dropped to its lowest level in more than three years. The BA rate traded in a range of 14,55-14,75% compared with Friday's range of 14,65-14,85%.

Lower money market rates coupled with mortgage rate cuts by the Board of Executors Merchant Bank and the SA Bank of Athens sparked market speculation that the Reserve Bank could lower official interest rates. Analysts said, however, the Reserve Bank would be unlikely to bow to market pressure.

Senior spokesmen from First National Bank, Standard Bank, Nedbank, Absa and NBS said yesterday their respective institutions had no plans to lower mortgage bond rates in the near future.

At a glance, SA shows Africa the way

STAR 19/5/92.

DID YOU know that Soweto has more vehicles than many African countries, South Africa generates half the electricity in the entire continent and Mozambique's foreign debt exceeds its total gross national product (GNP)?

These and other statistics on various aspects of life in Africa are contained in a publication, "Africa at a Glance", which is published by the Africa Institute.

One of the problems facing individuals or businessmen venturing into Africa is the lack of detailed and reliable information about a new market and the economic performance of the various countries.

"*Africa at a Glance*" seeks to satisfy this need for readily accessible, concise and affordable data about the rest of the continent. It contains just about anything a stranger or investor would want to know, including political changes as well as economic and social aspects in all 52 independent countries and island states.

A new statistical measure, the human development index (HDI), which is said to be a more realistic gauge of human development than GNP per capita and the various social indicators, has been used to assess the countries.

The HDI combines GNP per capita and indicators such as life expectancy, adult literacy and average years of schooling to present a composite measure of human progress.

For instance, Libya, which has Africa's highest per capita GNP, drops to fourth place among African countries in the HDI. Tanzania, ranking close to the bottom of the GNP per capita ratings, has a significantly improved rating, and South Africa, with the fourth largest per capita GNP on the continent, takes second place, after Mauritius.

There are all sorts of interesting statistics. But the wealth of information once again emphasises the pre-eminence of South Africa in the continent.

For instance, the country, with 6 percent of sub-Saharan Africa's population, accounted for 35 percent of the sub-Saharan and 80 percent of the 10 southern African countries' GNP in 1989.

South Africa is Africa's leading producer of sugar (26 percent of the total volume/mass in 1989), of maize (32 percent), fish (41 percent), meat (16 percent) and milk (19 percent).

In the southern African context, South Africa produced 62 percent of the sugar, 66 percent of the maize, 67 percent of all cereals, 90 percent of all fish, 70 percent of all kinds of meat, 76 percent of the milk and 69 percent of various kinds of fruit.

Of 20 selected minerals produced in Africa in 1990, SA had the continent's largest reserves of 12 and was the leading African producer of 10.

Zaire was Africa's leading producer of diamonds, cobalt and tin as well as the world's largest producer of cobalt.

Whereas Namibia was the leading African producer of uranium, Nigeria of petroleum and Zimbabwe of asbestos, Niger had the largest reserves of uranium, Libya of petroleum and South Africa of asbestos.

South Africa generates half the electricity in the entire continent, its railways handle 69 percent of the rail freight in Africa and half the tarred roads south of the Sahara and two-thirds of the tarred roads in southern Africa are in SA. — Star Africa Service. □

Deutschmark losing its anchor role

BDay 20/5/92 (74)

SIMON WILLSON

RATHER than dwell on the dismal economic spin-off for the average German from the recent series of inflationary pay deals, parts of the German media have found another diversion.

There is considerable interest, instead, in the carnal habits of the formidable public sector union boss behind the strikes that led to last week's government cave-in on wages. Monika Wulf-Mathies, leader of the Gewerkschaft Offentliche Dienste Transport und Verkehr, has become a media figure — although not quite in the manner she may have preferred.

Far from analysing the likely firm-Deutschmark, high-interest rate, tight-fiscal policy consequences of the strikes and pay deals, sections of the German media are preoccupied with "Monika Wants More", her spiky hairdo and fluorescent pink nail varnish — and her libido.

The swing of popular German attention away from the financial small print of the labour unrest is symptomatic of a more esoteric drift newly detectable in the currency markets: that of the Deutschmark away from its long-held status as anchor of the European exchange rate mechanism (ERM). On Monday — a day rich in irony and weighty with implications for the ERM — first a key German private-sector union followed its public-sector counterpart in wringing an inflationary pay deal out of its employers.

Then Switzerland decided to join the EC.

Simultaneously, therefore, Germany's restive labour unions injected yet more inflationary pressure into the national earnings pipeline and left the German government looking even less like the Spartan anchor of European monetarism; and Europe's only other austere nation effectively offered itself as a replacement in the ERM pole role Germany is busy abdicating.

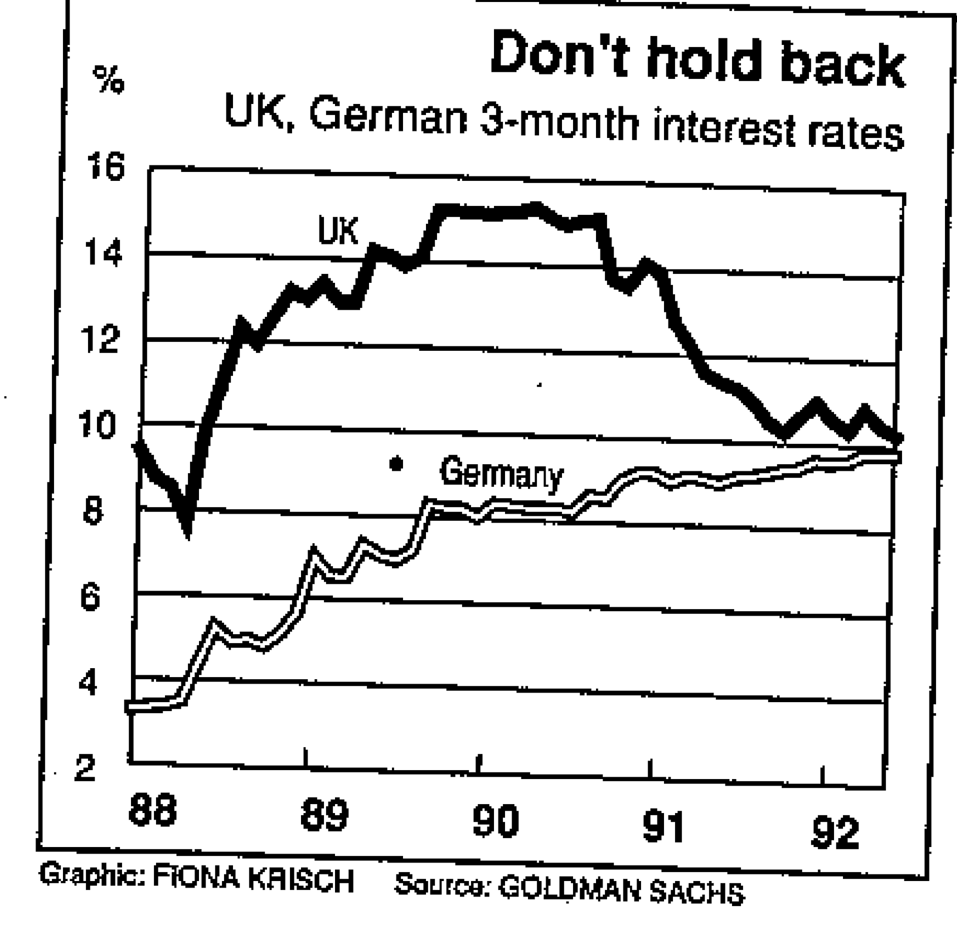
There will be an appreciable lead time before the Swiss ratify their government's proposal to sign the Treaty of Rome and then take the logical next step, which is inserting the Swiss franc into the ERM. But, within the next few months, that series of events will be as good as timetabled and may begin to pull German attention away from its union leaders' personal lives.

In the meantime, until the Swiss franc's ERM entry becomes a scheduled certainty, the Germans' problems with inflation and rising interest rates offer opportunities for other currencies previously restrained by the effects of Germanys' once-legendary abstemiousness.

The British, for instance, now have the chance to cut domestic interest rates in line with the requirements of domestic economic recovery. For the first time since sterling entered the ERM in October 1990, the UK can ease its internal credit conditions without jeopardising sterling's ERM parities.

As the chart shows, the gap between German and UK interest rates has narrowed to the point where it is about to disappear. Sterling, accordingly, has an interest rate premium over what is supposedly the ERM's stablest currency of barely 0,25 of a percentage point. Has this told on sterling's Deutschmark parity? Not at all. Now that the Major government has been re-elected, sterling finds itself in the unfamiliar position of being part of the ERM ballast: one of the stable, strong currencies that the mechanism's more flighty members navigate by.

Given the problem-plagued German scenario, which now features a rickety governing coalition, an indignant central bank, disaffection in organised labour, a bankrupt eastern province and an election in 18 months' time, small wonder sterling looks enticing. Solid, majoritarian government with a mandate until 1997, quiescent unions, an economy on a recovery path, no refugee hordes on the borders ... sterling is an undoubted buy in the ERM.



There are few reasons, therefore, for the UK Treasury to hold back now on additional interest rate cuts to spur recovery. Forecasts are floating around the City of base rates being at 8,5% by the year-end and, if the chart is anything to go by, sterling has nothing to fear from such an erosion of its yield differential.

It is only the probable entry, down the track, of the Swiss franc into the ERM that muddies sterling's outlook. The Swiss have, by means of a restrictive domestic monetary regime, hauled their inflation down from a peak of 6,5% in mid-1991 to 4,8%. While they have some way to go before achieving their 1984-89 inflation average of barely 2%, there is little doubt that last year's inflationary bubble was a one-off.

Before very long the Swiss franc is sure to succeed the Deutschmark as the ERM anchor, and then the British, French and Italians will have a new source of monetary discipline to emulate.

TOYOTA Motor Corporation's T Moki and Japanese ambassador Masatoshi Ohta view the Johannesburg skyline yesterday. Moki is a Japanese trade delegation member visiting SA. Picture: BRIAN HENDLER

PAC's plan to meet FW may lead to participation

B/Day 20/5/92

PATRICK BULGER

THE PAC would shortly announce a meeting with President F W de Klerk that could serve as a prelude to PAC participation in elections for a constitution-making body, PAC deputy president Dikgang Moseneke said yesterday.

He said the meeting would be a follow up to talks held with the OAU and would be an attempt to involve "external interlocutors" in constitutional negotiations.

Moseneke said the PAC's major concern centred on the issue of neutrality during an electoral process. He said he saw a role for the OAU in ensuring neutraility.

The PAC was looking for an agreement on the sort of election that would be held and the functions of a constituent assembly.

"We do not believe that the parties themselves can untangle the logjam," he said.

ANC president Nelson Mandela had already come round to PAC thinking in his call for international monitoring of violence and an international peacekeeping force.

The PAC pulled out of Codesa in the preparatory stage to press home demands for a democratically elected constituent assembly.

The PAC envisages a pre-constituent assembly meeting with government without becoming involved in complicated interim arrangements. Its stance puts it at odds with its patriotic front partner, the ANC. However, an ANC rethink on an elected parliament serving as a constitution-making body, brings it closer to the PAC. This raises the prospect of a revitalised patriotic front pressing government through negotiations and mass action.

Moseneke said Codesa II had delivered no surprises. Government wanted to retain power and the ANC had conceded too much. Codesa had proved itself inefficient and obese and he suggested it shed weight by ridding itself of homeland leaders. Lack of progress at Codesa II had reinforced the PAC's opposition to the institution.

A spokesman for De Klerk's office said yesterday the President did not divulge his meetings schedule. However, he had said he was prepared to meet any parties in an attempt to find solutions, and this included the PAC.

An ANC source said the PAC was desperate to find a way back to the centre stage of negotiations and would probably agree to take part in elections.

Sunday movies likely from the end of June

B/Day 20/5/92

Political Staff

CAPE TOWN — South Africans will be able to see Sunday movies again from the end of next month — if their local authorities give the go-ahead.

A Bill tabled yesterday and scheduled to be passed by Parliament before it rises next month will give local authorities the power to allow the showing of movies on Sundays and certain public holidays.

The Prohibition of the Exhibition of Films on Sundays and Public Holidays Amendment Bill was anticipated after Justice Minister Kobie Coetsee earlier this year gave permission for movies to be shown on Sundays during the Easter holidays.

However, he withdrew this after the holidays so as "not to put pressure" on local authorities deliberating the issue.

The Act in terms of which the showing of movies on Sundays had been banned gave only the Minister of Justice the power to waive the restriction.

This has now been broadened to give this power to local authorities, and it is expected that most of the country's major cities will approve.

Japanese are weighing up SA's potential

74

ADRIAN HADLAND

A MORE regionally based approach to development was needed to make SA part of a viable economic zone attractive to foreign investors, senior Japanese financier Kazuo Nukazawa said in Johannesburg yesterday.

Nukazawa, co-ordinator of a high-powered visiting Japanese trade delegation, said efficient infrastructure and at least 100-million people were needed to make an economic zone viable. Japan had 150-million people. Political stability, improved irrigation, electricity and railway services were essential for future growth. Improvement of the region's infrastructure was of particular interest to the delegation.

Nukazawa, MD of Keidanren, a business chamber representing 99% of companies listed on the Tokyo Stock Exchange, was one of 30 Japanese public and private sector businessmen who attended a reception hosted by Sacob and the Johannesburg Chamber of Commerce and Industry in Johannesburg yesterday.

Trade mission leader and chairman of Japan's Committee on Co-operation with Africa Masamichi Fujimori said: "We have come to see at first hand the actual situation in SA. B/Day 20/5/92

"We are here to study and explore the possibilities of further co-operation with this country."

Japan lifted sanctions against SA in October. It re-established diplomatic ties three months ago and is now SA's second-largest trading partner.

Sapa reports from Cape Town that France's director of foreign economic relations in the ministry of economy and finance, Jacques Desponts, is to visit SA.

The French embassy in Cape Town said Desponts, whose department was the principal instrument for implementing the ministry's policies for helping French companies invest or trade abroad, would visit from May 21 to 25.

He would meet Finance Minister Derek Keys, ANC international affairs director Thabo Mbeki, a representative of the Industrial Development Corporation and SA businessmen brought together by the SA Foreign Trade Organisation. — Sapa.

underperforming operations.
Turnover increased by 15% to R1,4bn

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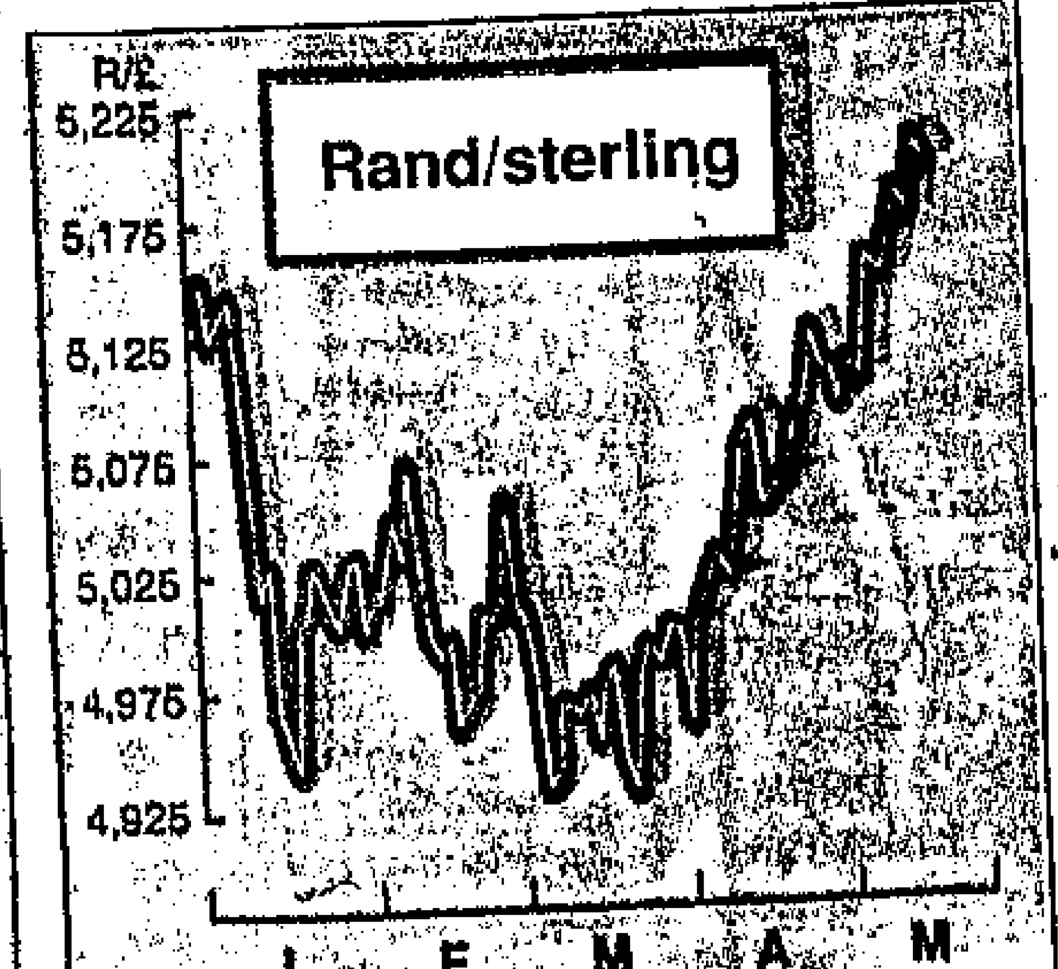
Rand makes gain as dollar stumbles

SHERIDAN CONNOLLY



Graphics: RUBY-GAY MARTIN Source: I-NET

SEESAW trading in frenetic currency markets yesterday saw the commercial rand extend its advance against a US dollar enfeebled by unexpectedly weak data on the US economy.

Dealers said the rand's dollar strength was accentuated by a big exporter selling dollars into the market. They said the Reserve Bank intervened in a smoothing operation to drain surplus dollars.

The biggest fall in US housing starts in eight years knocked the dollar in mid-session. It pushed the dollar to its low for the day to DM1,5860 and prompted the rand to advance to its day's high of R2,8185.

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Rand

☐ From Page 1

Dollar sentiment was further dulled by market speculation that the US Federal Reserve would decide on a further cut in official interest rates later in the day.

The rand was marginally stronger against sterling and firmed to close at R5,1865 after opening at a record low of R5,2083. Dealers said sterling's underlying strength stemmed from its good performance against the weaker dollar and also against European monetary system (EMS) currencies since the Conservative victory in the UK general election.

The commercial rand closed higher on the major crosses following the Reserve Bank's intervention. The rand finished yesterday at DM0,5639, Ff1,8957 and 45,71 yen, compared with respective closes on Monday of DM0,5632, Ff1,8914 and 45,54 yen.

The rand failed to make headway againt the Swiss franc, which soared on speculation that it was about to enter the EMS. The rand closed at Sf0,5179 yesterday from its previous close of Sf0,5189.

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African banker sets sights on Cape-to-Cairo market

STAR 21/5/92

By Rory Channing

DAKAR — Africa's top banker talks openly of what few dared dream until now — a common market stretching from Cape Town to Cairo.

Babacar Ndiaye, president of the African Development Bank, believes the eventual integration of a democratic, non-racial South Africa into the continent's mainstream will bolster its weak economies and give it an effective voice in world affairs.

Once South Africa recovers from sanctions and prolonged recession and tackles substantial housing, education and other backlogs built up under apartheid, it will act as an engine of growth in southern Africa and beyond, he says.

"Then, when Africa takes off, it will have a different voice in international forums — they will listen to us," he told a seminar ahead of the bank's annual meeting here in mid-May.

The African Development Bank, the Organisation of African Unity and the United Nations Economic Commission for Africa, have endorsed proposals for the formation of an African economic community by the year 2025.

Mr Ndiaye says the continent resembles a big tree rooted in the south. "For this tree to be complete, for this organic tree to survive, the roots must become an integral part of Africa."

The ADB is involved in an extensive study on southern African regional integration and two members of the bank have been in South Africa to study the impact of SA's inclusion into regional economic and trade bodies.

Challenges

Mr Ndiaye does not underestimate challenges laying ahead.

He has warned bank members that when South Africa does join its ranks, it will do so initially as a borrower rather than a contributor of resources despite its mineral and other riches.

Elsewhere in Africa, people are now worse off on average than in the early years of independence, the bank says.

The continent has been wrought by severe drought, civil war, weak world prices for its mineral and farm exports, and a $270 billion foreign debt bill. Its population growth of 3,1 percent a year is the world's highest.

The bank estimates Africa will need economic growth of four percent annually over the rest of the decade, almost double that posted in the 1980s, just to restore 1980 living standards.

Mr Ndiaye believes a recharged South African economy, which accounts for 40 percent of sub-Saharan output, will make a difference especially at a time the single European market looms, as do similar blocs in North America and Asia.

"We need South Africa, at that level, in order to fight against marginalisation in Africa," he said.

The bank already is preparing to help South Africa the moment it becomes eligible for membership, which would be when the OAU opens its doors to Pretoria.

Mr Ndiaye has proposed a special fund to provide aid to the Third World sector in that country where the lot of the five-to-one black majority stops far short of that for whites.

The bank, whose foreign shareholders include the industrialised nations, could help not only with direct loans, but by mobilising resources from other institutions, he says. — Sapa-Reuter.

Egypt 'may become gateway for SA'

BDay 21/5/92 (74)

SHERIDAN CONNOLLY

EGYPT could become SA's gateway to the Middle East and eastern Europe, an SA Chamber of Business (Sacob) delegation said during a visit to Egypt this week.

The group, led by Sacob vice-president Cedric Savage, met top government officials including Egypt's deputy prime minister, agriculture minister, industry minister and foreign affairs deputy minister.

In a statement released in Johannesburg Savage said: "We foresee opportunities for two-way trade and exchange of technology, and there is considerable potential for tourism."

The delegation also met a number of leading Egyptian businessmen and held discussions with a cross-section of leading industrial companies.

"A number of Egyptian businessmen are planning to visit SA ... and Sacob will be making arrangements to facilitate a number of two-way business contacts," he said.

A co-operation agreement was signed between Sacob and the Eyptian Businessmen's Association.

Savage said the SA delegation's visit was widely supported. Businessmen and government officials had encouraged contact at all levels.

The delegation travelled to Egypt after visiting Kenya at the weekend.

Sapa reports that Egyptian Foreign Minister Amr Moussa said in Cairo that diplomatic ties between Egypt and SA could be established soon after an OAU summit in July.

Resuming contact with Egypt would open many doors to SA, especially with Arab and African countries, Moussa said.

Possible areas of co-operation between the two countries lay in economic links, technological exchanges, scientific co-operation and cultural interchanges.

Natal puts forward ideas for free ports

B/Day 21/5/92 (74)

EDWARD WEST

NEW proposals for free ports in Natal to boost exports have been sent to government by private sector representatives in the province.

Durban Metropolitan Chamber of Commerce economist Barry Paulson said yesterday the Natal Regional Development Advisory Council had sent proposals to the Department of Trade and Industry, with Chamber of Commerce support, outlining plans for the establishment of free ports, or export processing zones, in Natal.

The idea of free ports was first mooted about two decades ago with the advent of sanctions. Three years ago Cape Town authorities also viewed the concept as a way to boost an export-driven economy.

Trade and Industry director-general Stef Naude said the Industrial Development Corporation (IDC) had, at government's request, been investigating for some months the desirability of export processing zones.

The IDC report was due to be completed in days. Once it was made available for general comment, government would formulate official policy.

Paulson said while export processing zones had proved successful in most countries where they were instituted, productivity would be the key to success in SA.

Industry had suffered from import substitution, protectionist measures, and poor labour productivity. Measures to establish new manufacturing capacity in the proposed free ports would have to entail negotiations with political parties, trade unions and industry representatives, he said.

The free ports would attempt to stimulate foreign investment and new manufacturing capacity by eliminating customs controls and import tariffs and duties. Natal's two main ports, Durban and Richards Bay, could serve as manufacturing bases for products destined for the sub-Saharan region, he said.

Development advisory council chairman Mike Proctor said local demand for goods was not enough to stimulate the economy. Exports, he said, must be promoted with minimal distortion of local product prices.

Import tariffs and duties needed to be phased out to make SA industry internationally competitive, and a means to gradually achieve this would be through the establishment of export processing zones.

Proctor expected government to respond to the proposals in about a month.

Stals's independent stand lays ground for foreign investments

STAR 21/5/92

By Neil Behrmann

LONDON — International bankers are impressed that the South African Reserve Bank is maintaining a relatively independent stance, is intent on reducing inflation and is against rand devaluation.

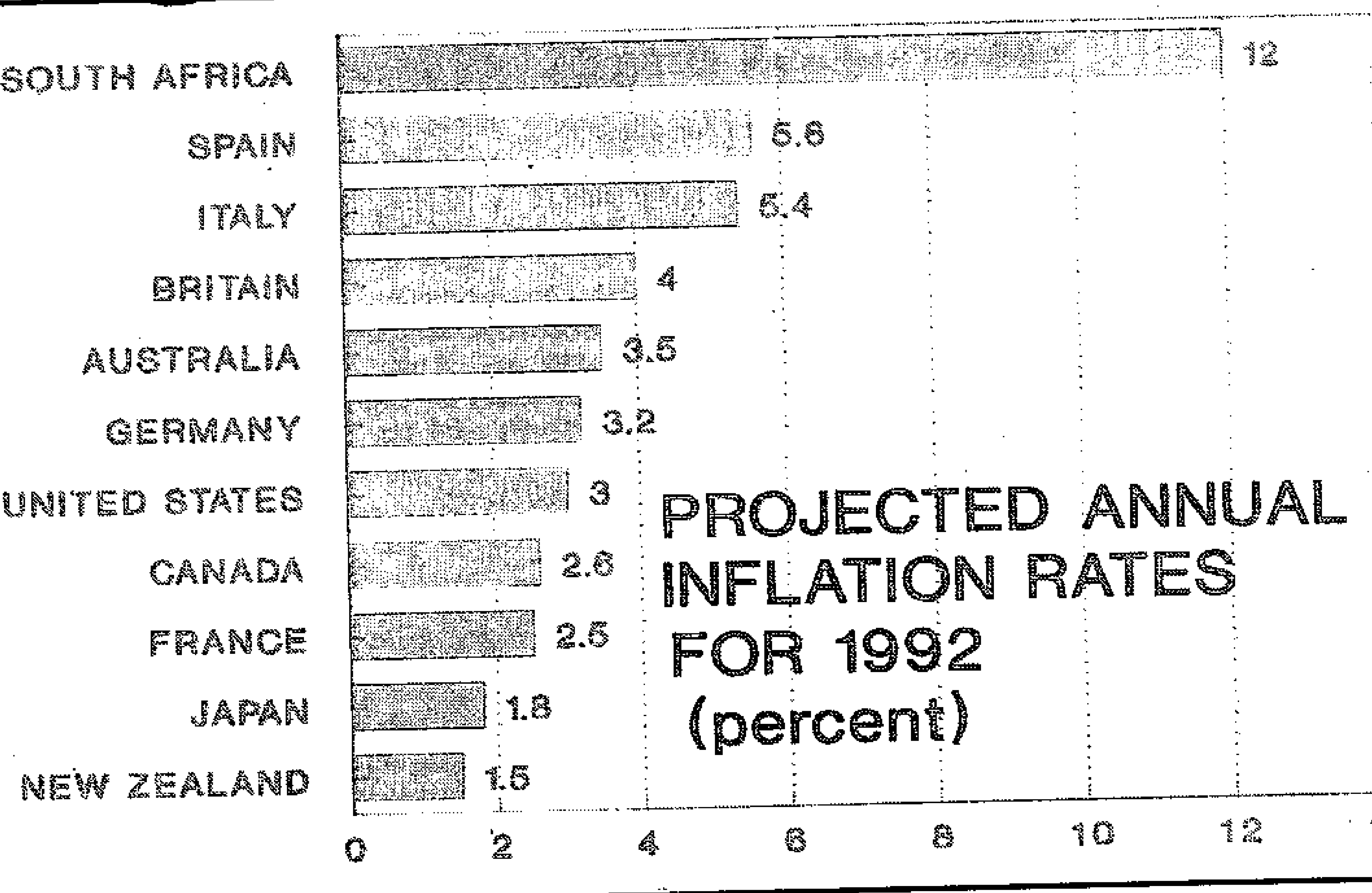
They say that by avoiding the temptation to devalue the currency to improve the revenue of mines, the Reserve Bank's governor Dr Chris Stals is laying the foundation for future foreign investment.

An independent central bank on the lines of Germany's Bundesbank would instill international business confidence in South Africa, particularly during the transition period.

The Bundesbank is intent on preserving the value of the mark, despite the enormous costs of unification.

Politicians who have tried to influence the Bundesbank governors have walked away frustrated.

Reserve Bank independence could lead to an end to exchange control in South Africa, bankers say.



An optimistic forecast puts South Africa's inflation rate for 1992 at 12 percent, compared with its present level of 15,7 percent. But that compares poorly with American Express Bank's projected 1992 inflation for other countries, including SA's main trading partners.

Competition

Once exchange controls are lifted and international corporations are confident that monetary and foreign exchange policy are not influenced by the politicians, they will be encouraged to invest in South Africa.

That investment will increase competition in the domestic economy and help reduce inflation.

Britain and Australia, countries which both had exchange controls, are case studies of what can happen. Once exchange controls were abandoned their economies attracted more foreign investment and competition.

Their currencies, subject to the normal cyclical fluctuations, were firm and inflation decelerated.

International companies will be reluctant to invest in South Africa if they fear that the capital value of their South African projects will depreciate in terms of their own currencies.

Exchange controls are also a major disincentive.

European countries in particular are intent on maintaining stable exchange rates and reducing inflation. Economic con vergence and open economies are the buzz words.

UK, German and other European businessmen are thus not only examining the potential of projects in foreign countries, but are also concerned about the long-term potential of the currency.

A project may well turn out to be profitable in South Africa, but a falling rand may offset any earnings or capital benefits for the investor.

Investors have been burnt badly in South Africa and other weak currency countries.

Multi-national corporations in Japan, the US and Asia take a similar view, although the rand has not fared as badly against their own currencies.

In essence, South African business is now part of a disinflationary world, now that sanctions have been disbanded and the economy is open. To compete for capital the mixture of economic growth, inflation and currency stability must be right.

Inflation is comparatively low in most countries already and continues to decline.

SA inflation, now at 15,7 percent is expected to fall to 12 percent by the end of the year.

But that compares poorly with American Express Bank's projected 1992 inflation for other countries, including South Arfrica's major trading partners.

Moreover, American Express Bank and most other institutions believe that only a strong economic recovery could prevent further declines in the next two years.

Large-scale international debt, weakened banking systems, low confidence and exten sive government borrowing indicate that world economic boom is improbable.

Spur prices

So excessive demand is unlikely to spur prices, says American Express.

"Moreover, international competition continues to intensify and is restraining inflationary pressures."

The prospects are that developed country inflation in the coming economic upswing will average less than the 3,6 percent rate seen in the 1960s.

Central banks, including commodity producers such as New Zealand and Canada, believe inflation should be pushed down to levels of one to two percent.

South Africa would be left way behind and the economy would continue to be caught in a vicious circle of devaluation, high inflation and low investment.

But in the 1950s and '60s, when the gold price was fixed at $35 an ounce, the mining industry was healthy and inflation was at single digits.

So single-digit inflation is not an impossibility. The key to the success is the breakdown in inflationary expectations of both local businessmen and consumers.

It took time in the UK, where inflation was 22 percent in 1979. But the British public is now so price conscious that they expect discounts.

Bank 'could generate foreign interest'

BDay 21/5/92. (74)

SHARON WOOD

THE Reserve Bank's new intervention policy in the financial rand market could generate new foreign interest in SA quoted bonds and equities, said Bank of Lisbon's latest Economic Focus released yesterday.

Recent volatility in the financial rand market, with movements of about 10% in a single day unexceptional, had reduced the interest of some foreigners in SA equities, particularly when combined with the other hassles facing investors using the financial rand mechanism.

The intervention policy would lead also to an appreciation in the financial rand rate and yield foreign exchange profits for the Reserve Bank, Economic Focus said.

The appreciation in the unit could be exploited by foreign investors who could buy SA shares with financial rands and hold them until the discount narrowed materially, thereby reaping capital gains.

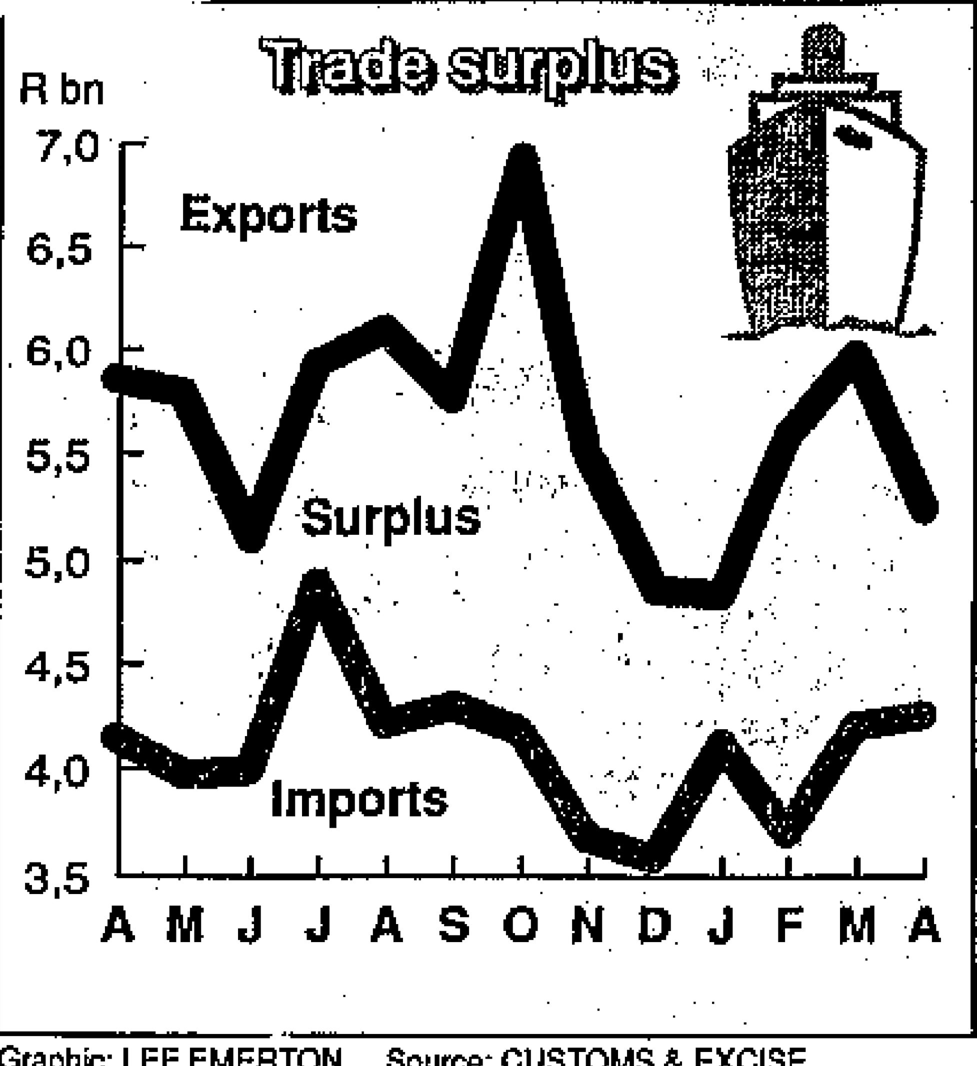
The Reserve Bank's decision pointed to the possible ultimate discarding of this exchange control mechanism and provided the Bank with another monetary policy instrument.

"Such intervention affects domestic liquidity and, therefore, the level of interest rates."

In addition, intervention to narrow the discount would make it easier to discard the debt standstill.

"If the discount narrows, foreign banks with funds inside the net will be given an opportunity to get rid of their standstill loans at a better price." This could facilitate removal of the standstill.

However, Bank of Lisbon warned that this objective might not be fulfilled because the amount of loans converted from the standstill net into financial rands for disinvestment could be limited.



Graphic: LEE EMERTON Source: CUSTOMS & EXCISE

Trade surplus falls as exports decline

BlDay 22/5/92 (74)

SHERIDAN CONNOLLY

AN UNIMPRESSIVE overall export performance saw SA's trade surplus narrow to R984,3m in April from R1,77bn in March, figures released yesterday by the Customs and Excise Directorate showed.

Exports declined to R5,23bn in April compared with R5,97bn in March. Unclassified exports (mainly gold and armaments) were R2,07bn in April (R1,96bn).

Total imports were marginally higher at R4,25bn in April compared with R4,19bn the previous month. Unclassified imports (mainly oil) rose to R646,5m from R644,9m.

SA Foreign Trade Organisation chief economist Bruce Donald said given that gold revenues and production levels reported by the Chamber of Mines were up the first quarter of this year, it was possible the decline in total exports was due to balance of payments adjustments.

Exports grew by only 6% in nominal rand terms to R21,6bn for the January to April period this year, compared with the same period last year. Import growth slowed to 4%, with January-April imports valued at R16,3bn, he said.

Donald said in contrast to the unimpressive overall performance of exports, manufactured and agricultural exports were doing well. The top performers among the manufactured export categories were transport equipment, plastics, chemicals and machinery equipment.

"Most agricultural categories are boom-

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Trade surplus

BlDay 22/5/92 (74)

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ing despite the drought, mainly due to a good season in the western Cape, better prices for SA products as sanctions go and international markets open up, and a wider range of produce available for export as export awareness grows in the agricultural sector," Donald said.

Export sectors which put in a notable performance in April were fats and oils, vegetable products, live animals and animal products, and hides and skins. Although mineral products were resilient in the face of poor conditions in international commodity markets, base metals had showed no growth, Donald said.

He said import growth of only 4% implied that, in real terms, imports were significantly down.

Imports of industrial materials remained relatively static, he said. This was reflected in the performance of chemicals and base metals, which rose 2% and 5% respectively.

Donald said the 12% growth in machinery imports was perhaps indicative of current replacement, as opposed to the expansion of existing capacity.

"It is worth noting the statistical anomaly created by massive imports of oil at the beginning of last year in response to the Gulf crisis. If the unclassified category (mainly oil) is excluded from calculations, nominal import growth doubles to 8% for the period under review," Donald said.

Industry Ministers over the last few years — so Keys is into a learning curve. And he has to face the traditional fear of losing jobs. But history has shown that protectionism aimed at saving jobs does not work — in fact, the opposite results as the economy stagnates.

"For example, in the Eighties we grew manufacturing jobs at a rate of only about 0,2% a year, while the sector's contribution to the economy actually declined. And this was at the height of protectionism."

Goodall sees Keys' two great strengths as his good human relations and a willingness to work with others. But his weakness may be a lack of vision on economic policy. "He mainly sees his role as creating a social contract between business, government and labour," Goodall adds.

But as far as taxation and trade and tariff policy are concerned, Keys must face two critical issues that will not easily go away.

"We will all have to face the fact that there must be some pain in the adjustment process," Goodall says. "Therefore SA needs a specific decision on the details and the period of economic restructuring, including tariff reform. Government must spell out where we are going and how we must reduce our high-cost structures. Without reducing the high-cost element in the economy, we cannot become globally competitive."

And, he adds, the "very good" Industrial Development Corp report on tariff reductions must be implemented. "Unless we take speedy action, SA could become another Brazil — a country with a great future that never arrives. We must lose our fear of making mistakes and follow the successful examples of countries like Malaysia. A country is like a company — success depends on the quality of its management."

Keys took over Trade & Industry four months ago from Org Marais, whose nine months at the post were marked by a focus on tariff reform and deregulation. So, what has Keys achieved since January?

The signs are not very good. A return to increased protectionism, and similar moves away from liberal economic reform, characterise events at his department:

□ New anti-dumping legislation now passing through parliament has created such a broad definition of dumping that almost any import into SA could become subject to anti-dumping actions. Introduced under the guise of tariff "liberalisation," it seems a regressive and protectionist move, aimed at keeping the economy noncompetitive and vested interests happy;

□ The disastrous Hatty Report on the textile and clothing sectors, gazetted retroactively to April 1, looks set to cut a swathe through the low-capital clothing sector, one of SA's most labour-intensive. Keys and his director-general Stef Naudé seem to have decided to sacrifice the clothing sector on the altar of "protecting" the overcapitalised and technologically outdated textile industry;

□ The decision to change yet again the controversial Phase Six of the motor industry's local content programme, flawed as it is, will hardly encourage confidence. It is a sorry tale of economic foolishness and bureaucratic bungling (see *Business*); and

□ In his budget speech last week, Keys hinted that the costly general export incentive scheme might be extended beyond its original five-year period, ending in 1994, to allow industrialists a longer time frame for investment decision-making. This would not only lock future taxpayers into paying costly subsidies to keep noncompetitive exporters (hiding behind tariff walls) smiling, but essential tariff reform would be put off even further.

By promising continuing subsidies to exporters there is no need for them to become more competitive. Simultaneously, reducing SA's excessive 48% company tax rate would be made even more difficult, because taxpayers would be forced to fork out billions more on the export scheme.

According to the department's director of export trade promotion, Gerrie Breyl, total expenditure under the export incentive scheme amounted to R457m in 1991-1992, while a further R1,16bn was budgeted for 1992-1993. And, he adds, the annual amounts for which promissory notes are issued will average about R1,4bn each year from now on. Under the old A & B incentive schemes (now being phased out), an additional R564m was paid out in 1990-1991 and R624m in 1991-1992, while R872m has been budgeted for payment in 1992-1993.

Total export subsidies of R564m, R1,08bn and R2,03bn were therefore debited to taxpayers' accounts during the three tax years in question. In fact, considering the other unquantifiable tax allowances, some economists estimate that export benefits cost taxpayers about R4bn a year.

Nevertheless, the department refuses to disclose who were the beneficiaries of this vast largesse. It says only that category 2, 3 and 4 export incentive payments (which are for semi-processed, processed and manufactured exports) were R66m, R219m and R172m, respectively, in 1991-1992.

"It would jeopardise the interests of exporters if we were to disclose their names," Breyl says. "But the details are available to the auditor-general and to parliament." The department also refuses to disclose a "confidential" report on the administration of the export incentive scheme, recently completed by Deloitte Pim Goldby, on the grounds that "this would jeopardise the further development and adaptation of the export incentive guidelines."

Breyl admits that the department does spot checks to monitor applications. But the disturbing thought arises that non-disclosure has more to do with hiding these vast subsidies from other signatories to the Gatt, than it has with circumventing sanctions.

Goodall says the principle must now be accepted that the use of public funds is a public issue and that the watchdog of taxpayers, parliament, should force a full disclosure.

The sooner trade liberalisation is accepted as public policy and SA gets rid of costly protectionism, the greater the chances of a return to sustainable economic growth. In fact, all that is really asked of Keys is to announce a schedule of trade liberalisation, phasing out tariff protection over a specific period (in terms of the IDC's report of June 1990).

Nobody asks for "overnight" tariff reform — what is needed is an announcement that the reductions will commence and what the duration would be.

But, apart from making some generalised and soothing noises about tariff reform, Keys has shown no commitment to implementing the IDC tariff report. Meanwhile, local consumers bear the brunt of carrying the costly export incentive and tariff protection schemes.

Now, registered category 3 exporters receive a net 6,5% tax-free subsidy; category 4 exporters qualify for a 19% handout, based on the value of proven exports.

Apart from the direct impost on taxpayers, an economist at an employer organisation estimates that the tax cost of the export incentive scheme prevents the reduction of company tax rates by at least 10%.

The supreme contradiction is to believe that the ad hoc use of devices such as tariffs and subsidies, which reduce the general level of economic efficiency, will foster sustainable economic growth. Nor will they encourage a climate of confidence and stability. ■

Rand gives up gains to stronger dollar

SHERIDAN CONNOLLY

DWINDLING expectations for a lowering of official US interest rates buoyed the dollar yesterday and saw the commercial rand give up its recent gains.

The rand closed at R2,8353 compared with Wednesday's close of R2,8227. Earlier this week, the rand reached a four-month high on intra-day trade, touching R2,8180.

Dealers said the dollar's recovery was attributable to a larger than expected trade deficit, which was thought to rule out a cut soon in official interest rates.

Dealers expected the rand to trade within a R2,8200-R2,8440 range until there was further clarification on the likely levels of German and US interest rates.

As a result of the stronger dollar, the rand closed firmer against sterling, finishing at R5,1564 (R5,1865).

The finrand closed yesterday at R3,44 against Wednesday's close of R3,43.

From pillar to post

FM 22/5/92

Confidence may be the aim, but it's not the result

Finance Minister Derek Keys' enigmatic image, formed in just a few months on the job, shows little sign of going away. One challenging — sometimes contradictory — statement on economic policy follows the other. As with the Cheshire cat in *Alice in Wonderland*, it is not clear what substance is behind the smile.

Anyone taking on the daunting task of simultaneously managing the three major economic portfolios deserves sympathy and support. But businessmen as well as taxpayers and consumers can be forgiven for assuming that they are on some economic switchback ride, with sense of direction lost in the exhilaration.

Following in the footsteps of the redoubtable Wim de Villiers at Economic Co-ordination, Org Marais at Trade & Industry and Barend du Plessis at Finance, Keys appears to want to imbue industrialists with confidence (which is understandable). But he contradicts this with policy switches that appear almost calculated to confuse.

These are some of the statements which have created confusion if not despair.

- SA is not a high-tariff country, compared with others;
- Generally the right way to tackle the problem, of the economic cost of protectionism, is not to take off protective tariffs — "though I'm happy to move in a lower tariff direction;"
- What industry in SA would export more if we were to cut tariffs and open the market? (The clothing industry, to name one. The World Bank found in a recent study that the clothing sector could in fact create an additional 170 000 jobs if SA reduced tariff protection on textiles); and
- This country is not really a highly taxed country (with its 48% company tax rate, steep gradient, fiscal drag and many other indirect imposts. Some accountants have calculated that government has claim on up to 80c in the rand).

Keys might tell these things to IMF economists when he attends its annual meeting in September. They don't hold his view. But the *FM* has been unable to establish in what context this last remark about tax was made; perhaps therein lies the answer.

"Derek Keys' past experience has made him into an economic consultant, rather than a hands-on policy manager, like Kent Durr was," says Democratic Party MP Brian Goodall. "We have had four different Trade &

cont →

Industry Ministers over the last few years — so Keys is into a learning curve. And he has to face the traditional fear of losing jobs. But history has shown that protectionism aimed at saving jobs does not work — in fact, the opposite results as the economy stagnates.

"For example, in the Eighties we grew manufacturing jobs at a rate of only about 0,2% a year, while the sector's contribution to the economy actually declined. And this was at the height of protectionism."

Goodall sees Keys' two great strengths as his good human relations and a willingness to work with others. But his weakness may be a lack of vision on economic policy. "He mainly sees his role as creating a social contract between business, government and labour," Goodall adds.

But as far as taxation and trade and tariff policy are concerned, Keys must face two critical issues that will not easily go away.

"We will all have to face the fact that there must be some pain in the adjustment process," Goodall says. "Therefore SA needs a specific decision on the details and the period of economic restructuring, including tariff reform. Government must spell out where we are going and how we must reduce our high-cost structures. Without reducing the high-cost element in the economy, we cannot become globally competitive."

And, he adds, the "very good" Industrial Development Corp report on tariff reductions must be implemented. "Unless we take speedy action, SA could become another Brazil — a country with a great future that never arrives. We must lose our fear of making mistakes and follow the successful examples of countries like Malaysia. A country is like a company — success depends on the quality of its management."

Keys took over Trade & Industry four months ago from Org Marais, whose nine months at the post were marked by a focus on tariff reform and deregulation. So, what has Keys achieved since January?

The signs are not very good. A return to increased protectionism, and similar moves away from liberal economic reform, characterise events at his department:

☐ New anti-dumping legislation now passing through parliament has created such a broad definition of dumping that almost any import into SA could become subject to anti-dumping actions. Introduced under the guise of tariff "liberalisation," it seems a regressive and protectionist move, aimed at keeping the economy noncompetitive and vested interests happy;

☐ The disastrous Hatty Report on the textile and clothing sectors, gazetted retroactively to April 1, looks set to cut a swathe through the low-capital clothing sector, one of SA's most labour-intensive. Keys and his director-general Stef Naudé seem to have decided to sacrifice the clothing sector on the altar of "protecting" the over-capitalised and technologically outdated textile industry;

☐ The decision to change yet again the controversial Phase Six of the motor industry's local content programme, flawed as it is, will hardly encourage confidence. It is a sorry tale of economic foolishness and bureaucratic bungling (see *Business*); and

☐ In his budget speech last week, Keys hinted that the costly general export incentive scheme might be extended beyond its original five-year period, ending in 1994, to allow industrialists a longer time frame for investment decision-making. This would not only lock future taxpayers into paying costly subsidies to keep noncompetitive exporters (hiding behind tariff walls) smiling, but essential tariff reform would be put off even further.

By promising continuing subsidies to exporters there is no need for them to become more competitive. Simultaneously, reducing SA's excessive 48% company tax rate would be made even more difficult, because taxpayers would be forced to fork out billions more on the export scheme.

According to the department's director of export trade promotion, Gerrie Breyl, total expenditure under the export incentive scheme amounted to R457m in 1991-1992, while a further R1,16bn was budgeted for 1992-1993. And, he adds, the annual amounts for which promissory notes are issued will average about R1,4bn each year from now on. Under the old A & B incentive schemes (now being phased out), an additional R564m was paid out in 1990-1991 and R624m in 1991-1992, while R872m has been budgeted for payment in 1992-1993.

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Keys to open Moscow show

S Times (Buss) 24/5/92 (74)

FINANCE Minister Derek Keys has received an official invitation from the Russian delegation which visited South Africa this week to open the Sovex 92 exhibition in Moscow.

SA industry will show its wares from July 13 to 18. The show has been organised by Johannesburg-based Edhill International and about 60 companies will exhibit. This will be the first official exhibition of SA products in Russia.

By IAN ROBINSON

The SA Government is on the verge of granting Russia "most favoured nation" (MFN) status.

A spokesman says the Department of Trade and Industry is "busy with procedures to get the document passed by its legal advisers". The document has been drawn up in English and Russian.

He is unable to say when the document will be signed or whether it will be signed by President De Klerk or one of his ministers on their forthcoming visit to Russia.

A Russian delegation under the leadership of Deputy Minister of External Economic Relations V N Rabotyazhef visited SA this week to negotiate a bilateral trade agreement.

Although Russia is not a member of the General Agreement on Tariffs and Trade (Gatt), MFN status would be granted on the same basis as to a Gatt member. SA granted MFN status to another non-Gatt member — the Republic of China — some years ago.

MFN status has more symbolic than practical significance because few tariffs distinguish between it and others.

There has been speculation that to promote trade SA banks will provide a credit line — up to R100-million — to Russian importers.

A mining symposium involving speakers from SA and Russia will be held on July 14.

Safto senior manager Mike Veysie has identified the mining industry as potentially SA's strongest card in developing trade with Russia.

The mining symposium will be sponsored by the Chamber of Commerce of the Russian Federation. The Chamber of Mines will coordinate the papers presented by SA speakers. They will include a review of gold mining by chamber president Naas Steenkamp and a discussion of heat and pressure problems in deep mines by chamber technical manager Horst Wagner.

After the symposium, the SA delegates will visit important mining areas — the Kola Peninsula, the Ural mountains and the Kulsk magnetic anomaly.

Banker sees SA as Africa's lifeline

CItNEW 24/5/92

AFRICA's top banker talks openly of what few dared dream until now – a common market stretching from Cape Town to Cairo.

African Development Bank president Babacar Ndiaye believes the eventual integration of SA into the continent's mainstream will bolster its weak economies and give it an effective voice in world affairs.

Once SA recovers from sanctions and the prolonged recession, and tackles substantial housing, education and other backlogs built up under apartheid, it will act as an engine of growth in southern Africa and beyond, he says.

"Then, when Africa takes off, it will have a different voice in international forums. They will listen to us," he told a seminar ahead of the bank's annual meeting in Dakar recently.

The African Development Bank, the Organisation of African Unity and the United Nations Economic Commission for Africa have endorsed proposals for the formation of an African economic community by the year 2025.

Ndiaye says the continent resembles a big tree rooted in the south. "For this tree to be complete, for this organic tree to survive . . . the roots must become an integral part of Africa."

Ndiaye does not underestimate the challenges lying ahead.

He warned bank members that when SA joined its ranks, it would do so initially as a borrower rather than a contributor of resources, despite its mineral and other riches.

Elsewhere in Africa, people are now worse off on average than in the early years of independence, the bank says.

The continent has been wrought by severe drought, civil war, weak world prices for its mineral and farm exports, and a R756-billion foreign debt bill. Its population growth of 3,1 percent a year is the world's highest.

The bank estimates Africa will need economic growth of four percent annually over 10 years, almost double that posted in the 1980s, just to restore 1980 living standards.

Ndiaye believes a recharged SA economy, which accounts for 40 percent of sub-Saharan output, will make a difference especially at a time when the single European market looms.

"We need SA, at that (locomotive) level, to fight against marginalisation in Africa," he said.

The bank is preparing to help SA when the OAU opens its doors to Pretoria.

The bank, whose foreign shareholders include the industrialised nations, could help not only with direct loans, but by mobilising resources from other institutions, he says.

Philippe Lietard, of the World Bank's International Finance Corporation's private sector arm, said the size and variety of SA's economy and its creditworthiness, would appeal to firms looking for safe lending opportunities in Africa.

Ndiaye sees SA as a potential buyer for Africa's raw materials, a source of technology, a regional manufacturing base for multinationals and a financial or services hub.

Botswana Finance Minister Ronald Sebego hailed major diamond producer Debswana – which his government owns jointly with the foreign arm of the De Beers group – as a model for co-operation with South African companies or their affiliates.

Some African officials fear economic domination by SA, giving it undue political clout. But ANC president Nelson Mandela insists there is no cause for such concern. – Sapa-Reuter

THE FACE OF AFRICA . . . SA, which accounts for 40 percent of Sub-Saharan economic output, will help fight poverty in Africa.

SA 'has to win world confidence'

BDay 27/5/92

MADDEN COLE
and LINDA ENSOR

THE need to attract foreign investment was vital for economic growth in SA and this made it imperative for the country to generate foreign confidence, Shell SA executive chairman John Kilroe said in the company's annual report yesterday.

Kilroe said violence and the refusal by some political groups to participate in Codesa was cause for "considerable concern".

"It is quite clear that those leaders on both the left and the right who are co-ordinating terror or threatening violence have scant concern for either this country or its people."

He warned that potential investors looking at SA were seeing what they considered a massive gulf between the major arbiters of future economic policy in the country.

Some policymakers advocated the free market system, but others persisted in talking of nationalisation.

"We have no choice as a country but to get the economic fundamentals right, and we must demonstrate our commitment to an economic system which works and is sustainable over the long term."

Kilroe said while talk of nationalisation and the threat to renege on foreign loans undermined local and foreign business confidence, SA should not lose sight of the immense demands being made to eradicate costly socio-economic backlogs.

Kilroe saw education as one of the most pressing social needs, but cautioned that even under a new government, township schools with all their shortcomings would remain a "harsh reality".

It was necessary to establish a culture of learning among adults and children. This should be preceded by the rapid eradication of obstacles to successful education, such as textbook shortages, underqualified teachers and overcrowding. All schools should be opened to all children.

The report said Shell had spent more than R50m on community programmes over the past five years, with about R11,3m spent last year.

The group had also adopted a strategy to achieve a staff profile which better reflected SA society. It said the number of blacks in management positions had significantly improved as a result. Blacks in managerial jobs had increased from 4,9% in 1986 to 16,2% in 1991 while blacks in supervisory positions and above rose from 7% in 1980 to 30% last year.

See Page 10

How to cover yourself in unfamiliar territory

STAR 27/5/92 (74)

CGIC recently increased the insured percentage for political risk cover for exporters to "class one" countries from 80 to 90 percent. Class one countries include the United States, Japan and much of Western Europe.

This means South African exporters insuring with the company will receive greater political risk cover for the same premium.

CGIC senior marketing manager Pierre Matthee says South Africa's improving political relations with the international community have reduced to some extent the political risks for local exporters.

"We have decided to pass the benefit of this on to them, to compensate to a certain extent for the category D export incentives which fell away in March."

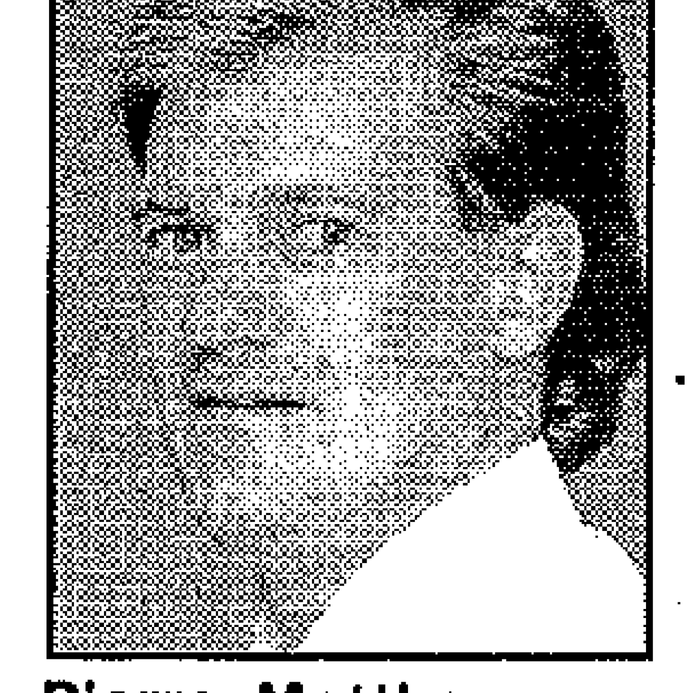
He says CGIC has considered improving the insured percentage for commercial risks as well, but current claim experience does not support such an improvement.

The company has provided the credit risk cover for the supply, delivery and installation of new plant and equipment for the Sugar Corporation of Malawi at a total project value of more than R95 million.

South African content is 85 percent with a value of R83 million. Durban-based Techserve has undertaken the project with finance from the Industrial Development Corporation.

The project extends to the provision of infrastructure surrounding the factory, including an irrigation system, cane transport and agricultural machinery. On completion, set for May next year, the project will provide employment for 1 700 people.

But Mr Matthee warns



Pierre Matthee ... risks reduced to some extent.

that in view of the severe local recession, foreign trade remains fraught with risk.

He says it may seem there are abundant opportunities for exporters but the perception needs to be tempered with an awareness of the many possible pitfalls.

Mr Matthee believes that most local companies planning an export drive should:

- have a long-term commitment to export;
- start any export plan with a zero-base approach. Becoming a world class exporter needs an examination of all aspects of the business from a clean-slate perspective;
- realise that customers are vital. Do your homework, understand what your customer wants and visit markets regularly;
- add value to your product or service. Since customers judge the value of your service, it's vital to know what criteria they use, how your products can be improved and how they rate.

The recession is biting not only in South Africa but in the countries which constitute South Africa's major trading partners.

"Fifty percent more businesses in the US have failed in the first half of this year than in the same period last year, whereas in the UK one in 50 active companies went into liquidation in the year ended June 1991.

"Furthermore, there is very little information on new markets like Eastern Europe, which many South African companies are exploring. And numerous local companies have burned their fingers by trading in Africa.

"This year has seen a high number of export insurance payouts by CGIC to companies which had the foresight to take out export credit insurance before venturing into markets with which they were unfamiliar."

BUSINESS DAY, Wednesday, May 27 1992

Economic instability warning

BDay 27/5/92

VANCOUVER — Failure of the Uruguay round of GATT talks could lead to prolonged instability in the world economy, Canadian International Trade Minister Michael Wilson told a meeting on Monday.

An 18-month delay in concluding the talks, which have been held under the auspices of the General Agreement on Tariffs and Trade, had already weakened global business confidence and exacerbated trade frictions, he said.

"What we are witnessing is a dangerous escalation in the politicisation of trade disputes, making global trade relations more difficult to manage," Wilson said in an address to the annual meeting of the Pacific Basin Economic Council.

Wilson cited an array of recent trade disputes between Canada and the US and increasingly strained trade relations between Japan and the US as evidence of the worsening problem.

Meanwhile, in St Gallen, Switzerland, GATT director-general Arthur Dunkel said the latest deadline to conclude the talks by the end of 1992 was unlikely to be met.

"We are already dangerously close to missing the target of concluding the round by the end of this year, not to speak of the implementation date of January 1, 1993," Dunkel told the annual meeting of the International Management Symposium.

The GATT talks, which began in Uruguay in 1986, were aimed at laying the foundation for world trade into the next century.

The talks were scheduled to finish in December 1990, but instead broke down in a dispute over farm trade issues between the EC and the US. — Sapa-Reuter.

(74)

Feeling a bit nervous about those tempting contracts?

STAR 27/5/92 (74)

YOU feel you cannot afford NOT to seize the trading opportunities that Africa north of the Limpopo now offers, but the risk is inhibiting you from accepting lucrative orders.

If you are not dealing in Africa because you believe slow payments could put your business in jeopardy, perhaps you should be talking to Sasfin?

With years of experience in local and international trade and equipment finance, this company could help you to benefit from the attractive opportunities Africa is now offering. Sasfin services include custom-made finance facilities which allow you to:

● discount your export invoices, letters of credit or export orders — which gives you cash on dispatch or even with order;
● have three to six months to pay for your purchases, local and imports;
● offer your clients better terms, directly or through Sasfin's export shipping facility.

Other facilities Sasfin can offer are confidential invoice discounting and import confirming. Import confirming enables you to import goods and defer payment for up to six months from shipment without opening a letter of credit.

The import service does not affect your bank facilities and your credit line is established through Sasfin's London office. This facility may be funded at lower interest rates by the use of foreign currencies. Forward exchange cover and other related services are offered too.

Sasfin is an international trade and equipment finance company quoted on the Johannesburg Stock Exchange (JSE) with its own offices in Blantyre, Malawi, and London, and correspondents around the world.

Confidential invoice discounting releases cash flow back into your business by paying up to 80 percent of the invoice value immediately and the balance when the account is settled.

The discreet nature of the facility ensures that the valued relationship you have developed with your customer remains intact. And you can use the money tied up in your debtors to make a positive contribution to your cash flow.

Moving into a new world

STAR 27/5/92

HOW do you give long-term credit to what are considered high-risk countries?

In trade with such countries, long-term credit must be secured by a letter of credit or guarantee from a foreign government or international organisation. Where long-term credit relates to the funding of an investment in that country, there are two considerations, says Philip Botha, a partner of legal firm Fluxman Rabinowitz-Raphaely Weiner, (FRRW).

● if the investor is using his own funds, he must make application to the exchange control division of the SA Reserve Bank for permission to make the investment. This can be time-consuming and the investor has to accept the risk factor;
● or funding for the project may come from an organisation such as the World Bank or European Community.

Says Mr Botha: "Government will have to start giving consideration to setting up treaties with high-risk countries, mainly in Africa, to stabilise trading and investment or the risks are too high. This precludes stable trading patterns and relationships and leaves an opening for irregular trading patterns."

What sort of clients are involved in international trading and trade finance? In the past, says Mr Botha, FRRW's clients had to travel a circuitous route to trade or invest abroad.

Now, with sanctions almost a thing of the past, they are structuring direct investments and trade relationships on a much more straightforward basis.

Two additional factors are now coming into play:

● clients who previously restricted their trading activities to South Africa are looking to increase turnover by exporting to new markets;
● foreign companies are looking to South Africa as a base from which to expand their activities into the rest of Africa.

FRRW has maintained its links with the main international markets and is using them more frequently than in the past. With the opening up of Africa, South African attorneys with commercial expertise are well placed to help their clients to structure transactions for investment and trade elsewhere in Africa.

Philip Botha . . . things are more straightforward now.

Says Mr Botha: "In particular, we advise on the movement of goods, investment in the mining and manufacturing sectors and structuring with a view to taking advantage of international preferential treaties. Because of the exposure of South African attorneys to a first world economic system, this expertise is being drawn upon by the rest of Africa to structure transactions.

"Important areas are not only Africa but the Far East and the European Community. Skills needed are those used for the proper structuring for investment, from South Africa into those markets and vice versa, as well as the structuring of trade relationships. From the legal point of view proper consideration has to be given to the structures used in international trade, from the South African side and from foreign countries.

"I would venture a guess that South Africa's re-acceptance by the International Monetary Fund and World Bank is imminent, subject to an interim government being in place, which seems to be the bottom line of the ANC for the total dismantling of sanctions."

For the past two years FRRW's international desk has realised that its worldwide client base would increase as South Africa re-entered the world economy as a fully-fledged member.

It is ready, willing and able to help them to take on a knowledgeable global perspective.

Dealing in LCs helps cash flow and capital pressure

STAR 27/5/92

BUYING and trading letters of credit (LCs) issued by banks in Africa, Latin America, the Far and Near East and Eastern Europe for cash from international exporters — that is the mainstay of former corporate lawyer Stephen Borgwardt, the SA representative of Edinburgh-based Merchant International Limited.

Merchant International trades LCs for any amount, for periods of 360 days and more.

Merchant International is a corporate finance house specialising in the arrangement of finance for complex projects and trade, often in areas regarded by many as high-risk.

According to chairman Nigel Whiteley, most banking institutions tend to avoid high risks, in particular those with which they may be unfamiliar.

Less Developed Countries (LDC) debts, and pressure on the capital base of bank balance sheets, have not helped. In some cases Merchant International is providing clients with a specific service because of its experience and knowledge of the risks it is accepting.

Merchant International's strength, Mr Whiteley believes, lies in knowing how to avoid risks. This boils down to country and/or bank risk.

Some institutions prefer to take state bank risks rather than commercial bank risks in the same country, and vice versa. Non-executive directors on the board of some banks are not native to that particular country and have direct access to the government and/or banks in their countries of origin.

Mr Whiteley emphasises that each transaction is different but that Merchant International offers a rare service that provides value — and cash up front — to certain companies involved in projects or trading in high-risk areas.

Iranian buyers, for example, import on LC terms at present and generally seek extended credit. Imports are denominated in most trading currencies, the most common being the dollar, the German mark, the Swiss franc and the yen.

For more information telephone Mercantile International on (011) 786-8713.

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FRRW has maintained its links with the main international markets and is using them more frequently than in the past. With the opening up of Africa, South African attorneys with commercial expertise are well placed to help their clients to structure transactions for investment and trade elsewhere in Africa.

Philip Botha . . . things are more straightforward now.

Says Mr Botha: "In particular, we advise on the movement of goods, investment in the mining and manufacturing sectors and structuring with a view to taking advantage of international preferential treaties. Because of the exposure of South African attorneys to a first world economic system, this expertise is being drawn upon by the rest of Africa to structure transactions.

"Important areas are not only Africa but the Far East and the European Community. Skills needed are those used for the proper structuring for investment, from South Africa into those markets and vice versa, as well as the structuring of trade relationships. From the legal point of view proper consideration has to be given to the structures used in international trade, from the South African side and from foreign countries.

"I would venture a guess that South Africa's re-acceptance by the International Monetary Fund and World Bank is imminent, subject to an interim government being in place, which seems to be the bottom line of the ANC for the total dismantling of sanctions."

For the past two years FRRW's international desk has realised that its worldwide client base would increase as South Africa re-entered the world economy as a fully-fledged member.

It is ready, willing and able to help them to take on a knowledgeable global perspective.

Dealing in LCs helps cash flow and capital pressure

STAR 27/5/92 (74)

BUYING and trading letters of credit (LCs) issued by banks in Africa, Latin America, the Far and Near East and Eastern Europe for cash from international exporters — that is the mainstay of former corporate lawyer Stephen Borgwardt, the SA representative of Edinburgh-based Merchant International Limited.

Merchant International trades LCs for any amount, for periods of 360 days and more.

Merchant International is a corporate finance house specialising in the arrangement of finance for complex projects and trade, often in areas regarded by many as high-risk.

According to chairman Nigel Whiteley, most banking institutions tend to avoid high risks, in particular those with which they may be unfamiliar.

Less Developed Countries (LDC) debts, and pressure on the capital base of bank balance sheets, have not helped. In some cases Merchant International is providing clients with a specific service because of its experience and knowledge of the risks it is accepting.

Merchant International's strength, Mr Whiteley believes, lies in knowing how to avoid risks. This boils down to country and/or bank risk.

Some institutions prefer to take state bank risks rather than commercial bank risks in the same country, and vice versa. Non-executive directors on the board of some banks are not native to that particular country and have direct access to the government and/or banks in their countries of origin.

Mr Whiteley emphasises that each transaction is different but that Merchant International offers a rare service that provides value — and cash up front — to certain companies involved in projects or trading in high-risk areas.

Iranian buyers, for example, import on LC terms at present and generally seek extended credit. Imports are denominated in most trading currencies, the most common being the dollar, the German mark, the Swiss franc and the yen.

For more information telephone Mercantile International on (011) 786-8713.

On a human level, it's about trust

Star 27/5/92 (74)

PARIAHERA trading practices involved offshore structures, intermediaries and discreetly owned overseas associates. Such mechanisms were costly and cumbersome.

Says Stan Rosen, head of the international desk of business advisor Kessel Feinstein: "Dealing direct with global customers or suppliers prevents delays, saves money and increases opportunities."

But how can you be sure you will receive payment from customers or that goods bought are those you ordered when you start from a zero base? Every customer is new; every supplier an unknown quantity.

The solution for many companies is to tap into existing international relationships, especially when the facilitators have built up substantial trade know-how.

Kessel Feinstein is the southern African member firm of Grant Thornton International, a global accounting and business advisory chain. This association gives Kessel Feinstein instant access to the world's markets.

Says Mr Rosen: "More and more exporters and importers are seeking advice on mode of payment, use of confirming houses, and the structure of the transaction flow.

"We initiate relationships as well as providing advice. We are becoming global matchmakers. Local companies brief us on what they are looking for from customers, suppliers to joint venture partners; whereas similar information from companies abroad is fed to us by our international associates and others.

Stan Rosen . . . "We are global matchmakers."

"Trade finance then becomes a key ingredient in the evolving relationship. On a technical level we have the job of structuring relationships for tax and exchange control purposes. On a human level we find our job is to help build trust."

Modes of payment may include sight draft (payment on sight of documents), normal banker's draft or a confirming house guarantee.

Once trade relations have been set up, Kessel Feinstein's experience is that mode of payment and the terms of trade have to be reviewed constantly. The trend is toward greater flexibility.

Says Mr Rosen: "Initially, perceived risk may make the principals wary. Their trade arrangements tend to reflect this caution.

"It soon becomes apparent they can speed up transactions and increase profit potential by allowing greater give and take'."

He says SA businessmen are now looking beyond traditional markets, and are even considering the formation of "bridgeheads" in what could be regarded as high or medium risk countries.

Again they seek reassurance by tapping into established networks. One such network includes the Pacific Rim.

Kessel Feinstein was recently briefed comprehensively on the opportunities and pitfalls of this region by Stephen Weatherseed, its "man in Hong Kong" and the Grant Thornton International liaison partner for Asia Pacific.

Mr Rosen says trade finance is usually just one aspect of a bigger picture. "We find ourselves briefing local clients on the business culture in various countries.

"In some markets it's impossible for a businessman to make a cold call. You have to be introduced to the right people by the right people.

"At present we tend to facilitate this process for South Africans seeking outside contacts. But we expect to perform a similar function for overseas clients wishing to make the right contacts on the African continent."

We are
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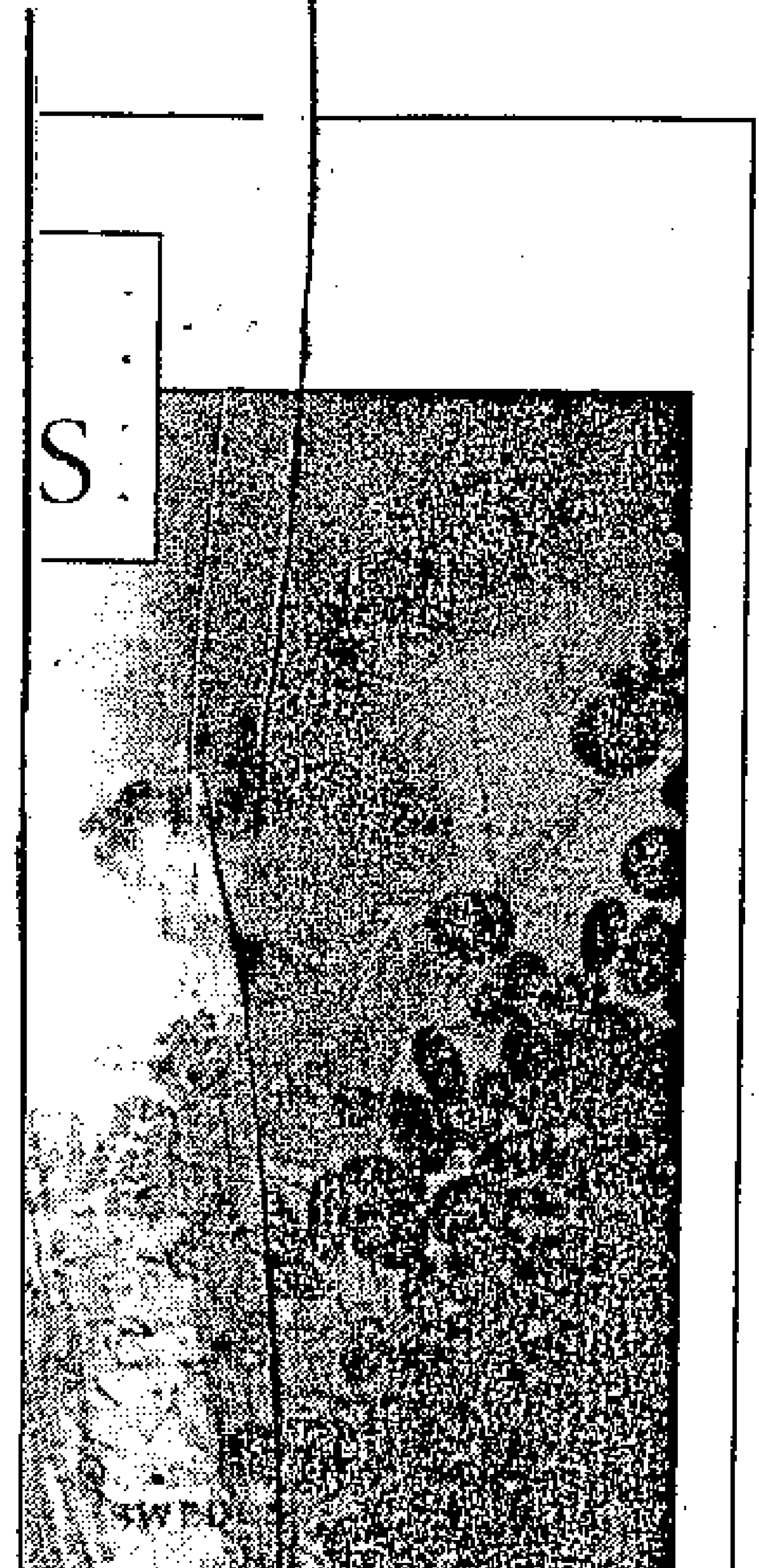
accounting and
- committed to d



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Get off fence first, SA business told

STAR 29/5/92

74

SOUTH Africa has not been backward in telling the international community what it expects of it: trade, investment, aid and all the other things that are needed to reconstruct an afflicted country.

But the international community wants something in return, and at the various discussion groups that one attends here in London its spokesmen, increasingly, are spelling out the response they expect from our businessmen.

As the Gallup Poll commissioned by the London office of the South Africa Foundation in February disclosed, there is a worrying level of indifference among the 25 fund managers, 50 MPs and 25 media figures who were polled. "Not only are levels of ignorance about SA surprising," the Foundation remarked, "but when it comes to matters of trade and investment, it is very clear that SA has not come in from the cold."

The Foundation, more than any other organisation, is trying to dispel the ignorance that exists about South Africa, and the hard core of businessmen, fund managers and others who attend its monthly forums here certainly know what they are talking about.

What they are saying is that SA must fight harder for its international share, harder than it expects.

The Foundation's survey looked mainly at problems that fall within the arena of political negotiations, like the endemic violence, but foreign businessmen are looking pointedly at the SA business community itself and are making some uncomfortable observations. Here, for example, are some of the questions that were put at a Foundation forum last week.

First, a merchant banker suggested, the lead in South Africa's rehabilitation will have to come from within SA, not from outside.

Why was all that money chasing so much scrip around the Johannesburg Stock Exchange? Why was it not being invested, say, in manufacturing industry?

Why were South Africans (with exceptions) investing so little in their own country?

"If South Africans have inadequate confidence in their own country," the banker said, "how can they expect outsiders to have confidence? Surely, if anyone has to get off the fence first, it must be the South Africans themselves.'

Another criticism is that South African businessmen, with exceptions, are just not taking advantage of opportunities that present themselves, and that will fade before long. "They are not moving and shaking," as one regular visitor to SA put it to me.

South Africans, he maintained, on the whole know very little about Africa, although it is on their doorstep. He mentioned Tanzania as a country worth looking at. They are missing all manner of chances, he believes, both on the continent and elsewhere.

At the discussion sessions here, SA businessmen are being urged to take advantage of the interest that still exists in SA before it dissolves. The time to strike, they are told, is now, not at some leasurely time in the future.

Last week's Foundation forum was addressed by Dr Vic Razis, senior lecturer in the Department of Business Science at UCT. Dr Razis, who has the gift of lucidity, catalogued the main elements of the SA economic-political situation. But the tone of the response was that he was being too starry-eyed, particularly about the extent of funds the IMF and World Bank may provide.

Also, another banker suggested, these institutions might attach conditions that SA will find unacceptable — all cautionary advice to the country not to pitch its expectations at an unrealistic level.

As South Africa's internal and international situation normalises, it is becoming clear normal international criteria will apply to trade and investment. The Republic will no longer be in the "special" category.

Overall, the mood among businessmen here (and in official circles) is of impatience. These businessmen are saying, quite bluntly, that SA is just not getting its act together — that in the final reckoning its own behaviour will determine what place it finds for itself in the international queue. — Star Bureau. □

TRADE FM 29/5/92.

Diamonds aren't forever

The category gems & precious stones, which boosted exports in previous months, fell sharply in April. (74)

This contributed to a smaller monthly trade surplus of R984m (compared with R1,8bn in March) as total exports for April fell to R5,2bn from March's R6bn.

Exports in the category, which consists mainly of diamond stock transfers abroad, reached R946m in February and R962m in March but totalled only R157m in April.

There is some speculation that the sudden decline could have resulted from lags in transfers that have showed up in the May figures.

Because of the previous strong performance, the category was up 22%, at R2,5bn, in the first four months of the year. This is measured against the same period the year before.

Total exports in the four months rose only 6% to R21,6bn.

Over this period, the falling gold price played an important role, reducing the value of exports in the unclassified category, mostly gold, by 9% to R8bn.

And, says Tony Twine of Econometrix, the US dollar's recent fall against the rand should reduce the rand value of this category in May.

Paper & pulp products exports dipped 2% to R498m. Textile exports rose only 1% to R605m.

Base metals exports in the first four months, at R2,97bn, were at the same level as in the preceding period.

But strong increases were seen in:

- ☐ Minerals, up 14% to R2,5bn;
- ☐ Chemical products, 42% to R987m;
- ☐ Vegetable products, 39% to R804m, thanks to good crops in the fruit-growing regions of the western Cape;
- ☐ Prepared foods, 27% to R629m;
- ☐ Plastic products, 46% to R220m;
- ☐ Machinery, 21% to R560m; and
- ☐ Vehicles, 57% to R583m, despite a slump in the month to R146m, down from R255m in March.

Imports remained flat.

They were valued at R4,3bn for April, compared with March's R4,2bn, and the cumulative total over the four-month period was R16,3bn. This was up only 4% on the

Cont -->

FM 29/5/92. (74)

same period last year.

Much of the impetus came from machinery. The cumulative figure was R5bn, 12% above the comparable 1991 figure. And unclassified imports, though lower than last year, again climbed in April by R646m to a cumulative R2bn.

There were significant increases in:

- ☐ Optical and precision equipment, up 15% to R721m;
- ☐ Textiles, 12% to R855m; and
- ☐ Vegetable products, 8% to R406m. This figure climbed R185m in April, which is the first sign of the drought affecting imports of food.

There was little growth in the chemical products and vehicles & transport equipment categories, which stayed at their cumulative levels for the comparable period last year of R1,8bn and R2bn. ■

FM 29/5/92 DEREK KEYS

Going for the jugular

There is no ministerial portfolio that enjoys more public scrutiny than Finance. The reason, of course, is that the Minister has the ability above all other Ministers to hit where it really hurts — in the pocket, either through inflation or taxation, or both.

The moribund British Labour Party is learning that both phenomena can lose elections; it lost to Margaret Thatcher over runaway prices and to John Major over taxation. If Labour had been returned to power in the last election and implemented its taxation "reforms", most middle-income families would have seen their taxes rise by close to 60%.

Derek Keys, our new Finance Minister, has enjoyed a largely euphoric reception — apart, perhaps, from our moderate reservations over what we perceived to be the inconsistency of his tariff policy and the outrage of clothing manufacturers who will pay the price of it. The consumer is still mute.

However, in the budget vote of the Department of Trade & Industry last week, Keys dwelt at length on where he stands on the general subject of protective duties. Some will say he has taken his time. His response, we guess, will be dismay at the lack of perception of his critics.

But before reflecting on what he said, it is crucial to understand what he perceives to be his central task in government and the priorities that flow from it. He plans, above all, to reduce government spending to levels more appropriate to the economy's reduced circumstances. That is not an objective with which any sensible man can quarrel.

Government spending has outstripped growth in gross domestic product for some years. It is crowding out the private sector and thus restricting job creation; causing the Reserve Bank increased difficulty in curbing money supply growth in its efforts to stabilise prices; and fostering high nominal interest rates — to the dismay of small businesses and home owners.

Keys's view on tariffs is identical to that of the late Gerhard de Kock of the Reserve Bank — but differs from that of Wim de Villiers, his Cabinet predecessor, who identified tariff regulations as a major source of continuing inflation.

In Keys's and De Kock's view, a new tariff will raise a product's price and alter relative prices — but will not contribute to inflation (an increase in the general level of prices), unless the money supply is allowed to increase to accommodate it. But even then the effect is once-off.

To be sure, existing tariffs weaken the economy and reduce the competitiveness of international trading. But as monetary discipline increases, tariffs become less of a stimulant to inflation — and are, therefore, not as high as fiscal discipline on the new Minister's agenda.

Keys makes the point that there is a rebate system, which is not, in his view, taken adequately into account in the Industrial Development Corp's recommendations on tariff reform. He also notes that an offer has already been made to Gatt to reduce many tariffs by a third, gradually over several years.

But where tariff matters are pressing and urgent decisions are necessary, as they were in the case of the clothing and textile industries, a small task force is used to implement interim measures. Keys emphasises that representations on the outcome were expected and that the official attitude will be generally flexible until a more considered approach is possible.

Keys makes the point, too, that the Department of Trade & Industry is not yet in adequate managerial and administrative shape to be able to handle all of the policy implementation required — especially where policies were formulated by the Board of Trade, which has no role in application and administration. So when the board's structural adjustment programmes — which coupled the right to import to export achievement — backfired, it was the department and not the policymakers that had to put out the fires.

One of these fires was Phase Six of the motor industry's local content programme. While it raised the industry's export consciousness, it reduced local jobs, increased vehicle prices and enabled the dishonest to defraud both government and the manufacturers through false claims.

Keys points out that it is accepted worldwide that any local manufacturing programme will raise costs and thus require a protective tariff of about 40% on built-up vehicles. Here, with duty at 110%, the overprotection is obvious.

The consequences were sufficiently serious for the Board of Trade to be asked to renegotiate the matter with the industry urgently, but within the time needed for model and production changes.

Finally, Keys expresses his belief that capitalism, driven by profit seekers, can achieve larger social aims only if competition plays a central role in its markets. In SA it is essential that competing imports enhance this role and that a moderate decrease in tariffs extends it. But the process will have to be managed, with trust and always in consultation, to mitigate the immediate social and investment consequences.

In Keys's view, as we understand it, the exigencies of overprotection, being relatively benign, must give way to the more fundamental need to cut government spending and thereby stabilise prices, restoring international competitiveness to exports, allowing the private sector room to perform and eventually enabling taxes to be cut to foster growth.

This will be cold comfort to clothing manufacturers and other special pleaders, but the logic of Keys's priorities is difficult to fault. Protection is economically destructive — but if a choice must be made, curbing government profligacy should come first. And Keys's decision to go quickly for the jugular is a sage one. In the end, however, both issuesd need to be addressed. ■

'Don't plunge into African trade pacts'

TWO African Development Bank consultants are in SA to discuss with key political players the country's role in regional integration. But a leading African expert has warned a future SA government to tread warily. BARNEY MTHOMBOTHI of the Africa News Service reports.

STAR 30/5/92 (74)

A FUTURE democratic South Africa has been warned against joining either the Southern African Development Co-ordination Conference (SADCC) or the Preferential Trade Area (PTA) — the two organisations promoting regional development and trade.

Dr Erich Leistner, a senior researcher at the Africa Institute, says that joining the two bodies, which are eagerly awaiting SA's arrival, could carry enormous risks and very little, if any, benefits for this country.

Instead, he says, a new South Africa should insist on a total rethink of the entire institutional framework of regional economic co-operation in southern Africa.

This reassessment, he says, should include the functions, structures and interrelationships of all major regional bodies, including the SADCC, the PTA, the Southern African Customs Union and the Common Monetary Area, in order to arrive at a framework that would suit the region's developmental requirements.

In a highly critical article in the institute's publication, Africa Insight, Leistner dismisses the achievements of the SADCC in particular as modest. Spectacular regional schemes such as the Cahora Bassa and the Kariba hydro-electric projects, he says, predate the SADCC, and trans-border projects such as the Lesotho Highlands Water Scheme are taking place outside its orbit.

He says South Africa has nothing to gain by joining the organisation, but instead could find itself carrying the burdens of the entire region on its shoulders. "South Africa must have no illusions about the environment within which it would have to operate if it were to join the SADCC."

The SADCC's financial position places a question mark over its long-term future, especially as foreign funding is drying up. Both the PTA and SADCC are keenly awaiting the arrival of South Africa, which they hope will help resuscitate the region's ailing economies.

The SADCC has reacted to the changes in South Africa by seeking to transform itself from a body merely co-ordinating development projects in the region into a vehicle for regional integration. It says the "final destination" of this new direction could be a regional government with the power to ove[r]rule national parliaments.

The organisation is attemp[t]ing to deal with flagging Wes[t]ern donors by proposing a regu[]latory framework within whic[h] South Africa could be safely ac[]commodated. This they hop[e] will tame the giant — harness[]ing South Africa's economic re[]sources to develop the regio[n] while making sure it does no[t] dominate its neighbours.

But Leistner, a former director of the institute, says this new approach is ill-advised and, like all previous similar schemes, will fail. "Whereas the SADCC's original basic approach was sound, its current policy proposals are makeshift, not the answer to the region's long-term needs.

"Rather than trying to pursue a policy of economic integration that would inevitably end in the same frustration and failure that has marked integration schemes elsewhere in Africa, the countries of southern Africa should pragmatically build upon the facets of functional co-operation that are already an outstanding feature of the region."

These include transport, power, water, telecommunications, tourism, minerals and agriculture.

There is also a vast scope for expanding bilateral and multilateral trade arrangements.

Leistner says that instead of following the European Community model of integrating economies, southern African countries need a non-ideological, non-interventionist and open-ended consultative body along the lines of the Organisation for Economic Co-operation and Development, which he says has been an outstanding success.

Range of experts in trade mission to South Africa

S Times (Cape Metro) 31/5/92.

A LARGE trade mission from the UK will visit Cape Town from June 10 to 12 after calling at Johannesburg and Durban.

The mission is arranged by the United Kingdom South Africa Business Association (UKSABA) which has resulted from the merger of UKSATA (United Kingdom South Africa Trade Association) with BICSA (British Industry Commiette on South Africa).

The new name reflects the broad commercial and industrial base of the combined membership.

The 27 companies on the mission will represent a variety of business sectors.

Of particular interest to Cape Town industry are:

- The Clothing and Footwear Institute, London. The institute is recognised as the international professional body for all concerned with the production and marketing of clothing and footwear. Its task is to promote education and technology for these two industries worldwide.
- Colin Cross & Co Ltd, Higham Ferrers, Northamptonshire. Leather merchants and selling agents, primarily in the footwear industry.
- AV Seawork Ltd, Fareham, Hampshire. Recruitment and management for complete projects in marine engineering and the petrochemical, oil and gas industries.
- Jepson Bolton & Co Ltd, London. The company provides a purchasing service for most major European branded products in the industrial, chemical, electronic and scientific equipment markets.
- JFA Associates, Kirkby-in-Ashfield, Nottinghamshire. The consultancy specialises in the implementation of teamworking in the British clothing industry.

Teamworking involves a radical change in the production system, from the conventional large production lines of 20 to 30 operators to small groups of three to eight operators who are wholly responsible for production in quicker response to market need.

The consultancy's managing director, Jim Aspinall, will present a seminar on the subject in Cape Town in conjunction with the South African Clothing Industry Training Board. It will be held in the Cape Town Holiday Inn on June 11.

Further details of the trade mission are available from the British Consulate Commercial Section on ☎ (021) 25 3670 or 21 7741.

Japan-style bid to boost exports

ST Times (Buss) 3/5/92

(480) (74) (486)

THE private sector and government have embarked on a Japanese-style offensive to sell South Africa Inc to foreign investors and trading partners.

SA embassies are beefing up their efforts to promote trade and to look for capital projects. High-level trade missions comprising representatives from the government and the private sector are also drumming up support for SA's export and investment drive.

By CIARAN RYAN

The most recent trip — to the Far East — has been hailed as a triumph by deputy director-general of the SA Chamber of Commerce Ron Haywood.

"There was tremendous interest in SA and we received several inquiries for two-way trade. It is now a matter of channelling the inquiries to the appropriate people in South Africa," says Mr Haywood.

A trade mission to Central and Eastern Europe last year has resulted in an increase in trade between SA and host countries Hungary, Czechoslovakia and Russia.

The trip to the Far East is expected to result in a similar improvement in bilateral trade. Heading the mission was the Minister of Finance and Trade and Industry, Derek Keys.

Recovery

He was accompanied by senior public servants, including Stef Naude, Director-General of the Department of Trade and Industry, Japie Jacobs, special economic adviser to Mr Keys and some of SA's top businessmen.

They included Dorbyl chief executive Dawid Mostert, Murray & Roberts managing director David Brink — he is also president of the Steel & Engineering Industrial Federation of SA — Attie du Plessis of the Afrikaanse Handelsintituut (AHI), Samcor chairman Spencer Sterling, Anglovaal chairman Basil Herzov and Mr Haywood.

Mr Keys says SA's economic recovery will be export led. The agreement on an economic forum involving labour, business and the government may pave the way for trade union representation in foreign trade missions.

Dr Naude says: "We are placing official trade representatives in each of the countries we visit. The idea is to stimulate trade — investment will be a bit slower."

SA trade missions are now evaluated in terms of the number of business inquiries handled, says Bert Pienaar, the Department of Trade and Industry's director for export promotion.

Most missions have reported a sharp increase in trade and investment inquiries since President De Klerk initiated political reform.

Mr Pienaar says: "Once we identify a project which we think would suit a SA company, we notify those which are capable of tendering. We apply to have SA specifications written into the tender."

The Department of Trade and Industry was instrumental in securing several foreign contracts for SA companies, including a housing complex in Israel, aircraft hangars in Britain and the sale of rolling stock to Taiwan.

Dorbyl's order for three R100-million ships from Germany was also negotiated.

Mr Mostert says: "The success of Japan and other Pacific Rim countries in promoting exports was made possible by co-operation between their governments and business and financial executives.

"When a cabinet minister goes overseas with industrialists, it makes a much greater impact.

"SA suppliers must co-operate. They must decide who will represent them abroad and go prepared. That also means being able to offer credit."

Dorbyl's export's as a percentage of turnover doubled from last year's 7%. Murray & Roberts has established subsidiaries in Africa and the Far East as part of its geographical diversification.

Closer

Customs and Excise figures show a strong improvement in manufactured exports compared with relatively static earnings from commodities.

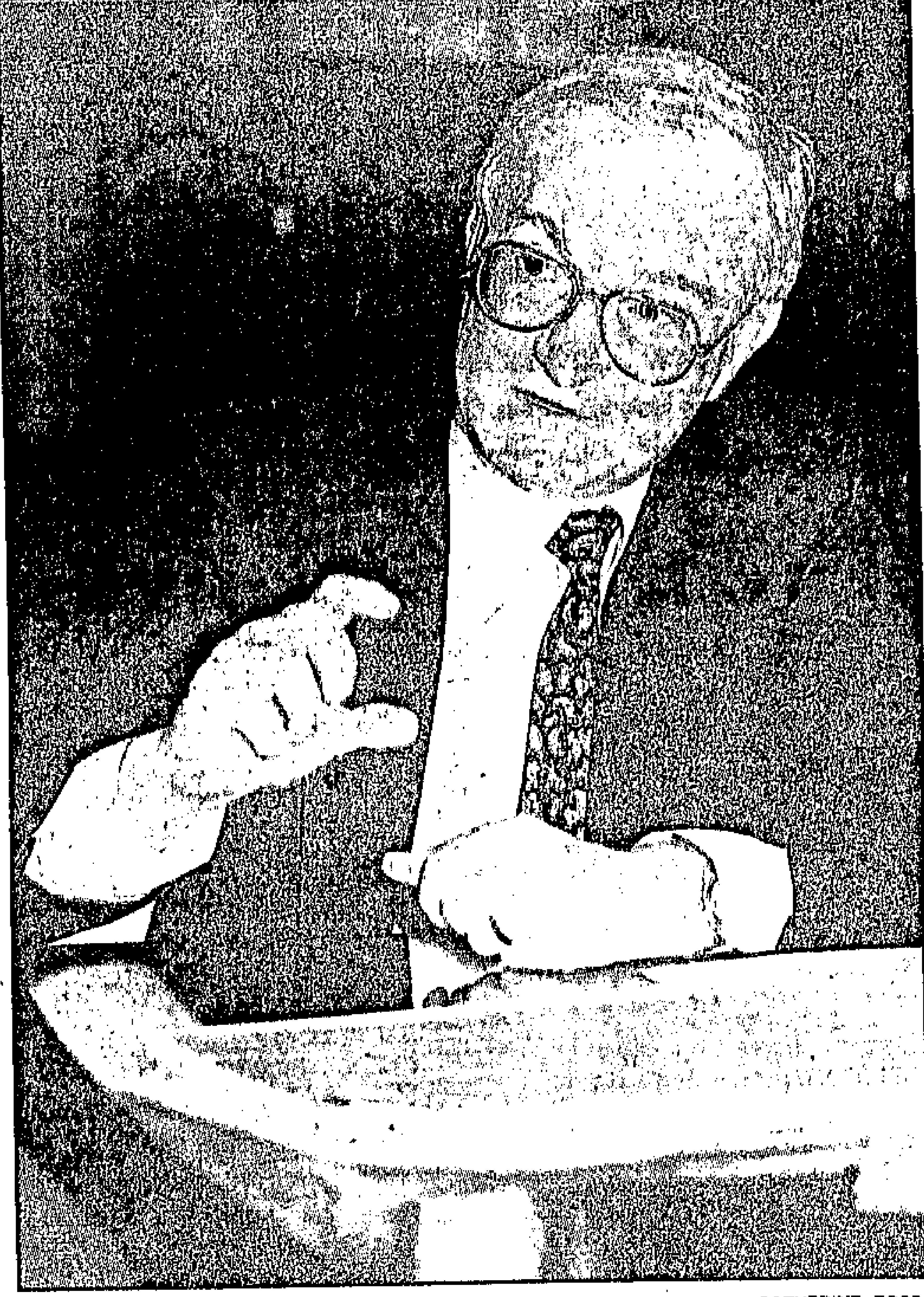
Shipments of manufactured goods have been stimulated by the general export incentive scheme which is due to run out in fewer than four years.

SA Foreign Trade Organisation's general manager Ann Moore says businessmen should not expect to pick up immediate orders abroad.

"The closer relationship between government and business has developed only in the past few years. In Europe and Japan it is common for government officials and the private sector to work as a team in promoting trade.

"Leaders in industry take a long-term view of their companies and are not so interested in signing a deal on the spot."

Large-scale foreign investment in SA remains as elusive as ever because of political uncertainty and strong competition from countries with a more hospitable investment climate.



STEF NAUDE: All-out drive for trade gets under way Picture: CATHERINE ROSS

Gatt

Mrs Moore says: "The return on investment counts. We have to get our economy into line with those of our trading partners and competitors."

Dr Naude says SA will probably become a signatory to the Uruguay Round of the General Agreement on Tariffs and Trade (Gatt).

"Tariffs will have to come down, but in a way that does not disrupt employment. Experience in other countries shows that when tariffs come down, non-tariff forms of protection — such as local content programmes, quality standards or industrial subsidies — take their place. We are not competing on a level playing field."

Arab states open portals to SA traders

STAR 1/6/92 (74)

Arab states have begun lowering commercial barriers, while keeping diplomatic ones in place, in their eagerness to resume trade without waiting for apartheid's last gasp. NEIL MOORHOUSE reports for The Star Africa News Service.

TRADE between the Middle East and South Africa is breaking through the sanctions barrier as countries in the region amend policies and attitudes to join the scramble for what they see as lucrative South African markets.

On the political level, countries in the region are taking the line that diplomatic relations will not be restored until apartheid has been completely dismantled. At the same time, their doors are being opened to trade with South Africa.

A small indication of this is the opening of direct telephone lines to South Africa by Bahrain and Morocco.

Bahrain, the least wealthy of the oil-rich states, has taken the lead in publicising its contacts and trade with South Africa. According to an English-language publication in Kuwait, trade between the two countries had been taking place surreptitiously for years. The announcements initially surprised some of Bahrain's Gulf neighbours, who have been more discreet about broadcasting the recent visits by South African entrepreneurs. The issue is clearly politically sensitive.

The signing last month of an agreement between the South African Foreign Trade Organisation (Safto) and the Dubai World Trade Centre, giving South African food and manufactured goods above-board access to the area, went unreported in local media.

A visit by Safto to Bahrain, the United Arab Emirates and Oman in February was also unpublicised. However, after Bahrain's broadcasting of its own activities, business sources in the UAE say it is likely Dubai authorities will give the green light to free trade with SA.

In north Africa, Egypt is keen to display its diplomatic credibility. After a visit last month to Johannesburg, the first such visit in 31 years, ambassador Said Refaat of the Egyptian African department said Cairo would consider restoring ties only once apartheid had been completely dismantled.

However, Egypt's keenness to see apartheid dismantled can in part be attributed to its own critical need for trade with South Africa. Egyptian authorities are desperate to inject some energy into a crumbling and apathetic economy.

The political bodies of the region are adamant that relations with South Africa will depend wholly on the dismantling of apartheid. Gulf Co-operation Council (GCC) secretary-general Abdullah Bishara said there would be no political overtures until apartheid disappeared.

"So far, there have been no political contacts between the GCC and South Africa, but we follow developments with interest and are watching to see if the changes fulfil our criteria," he said.

"The ban on commercial contacts was due to the policy of apartheid. These restrictions will be affected by recent moves in South Africa," Mr Bishara added.

Diplomats in Saudi Arabia, the most influential member of the six-nation alliance, say Riyadh will want to compare notes with its allies in the group. The Arab League's close links with the Organisation of African Unity might mean that the unconditional lifting of sanctions will be delayed until South African blacks are given full political rights.

Trade, however, looks as if it is going ahead. Officials in Oman have told shopping agents they will now accept South African documentation. Riyadh-based oil executives say a private Saudi oil firm began negotiating with a South African company but the deal fell through for technical reasons.

In October, a Jersey-registered shipping firm, Afris Line, quietly started a direct service linking Durban with the UAE and Saudi Arabia.

According to diplomats in the region, South Africa may well find a keen market for arms exports. Qatar and the UAE last year ordered G5 long-range artillery guns from Armscor. Qatar, however.

For its part, Egypt has encouraged commercial exchanges. Morocco is going one step further than most other countries in the Middle East; according to a recent report, it is ready to establish diplomatic relations with Pretoria.

Beyond the political talk, the Middle East is clearly keen to deal with South Africa. Oman, the UAE, Bahrain, Saudi Arabia, Morocco and Egypt all have their eyes on South Africa and are preparing to facilitate trade. □

In my view . . .

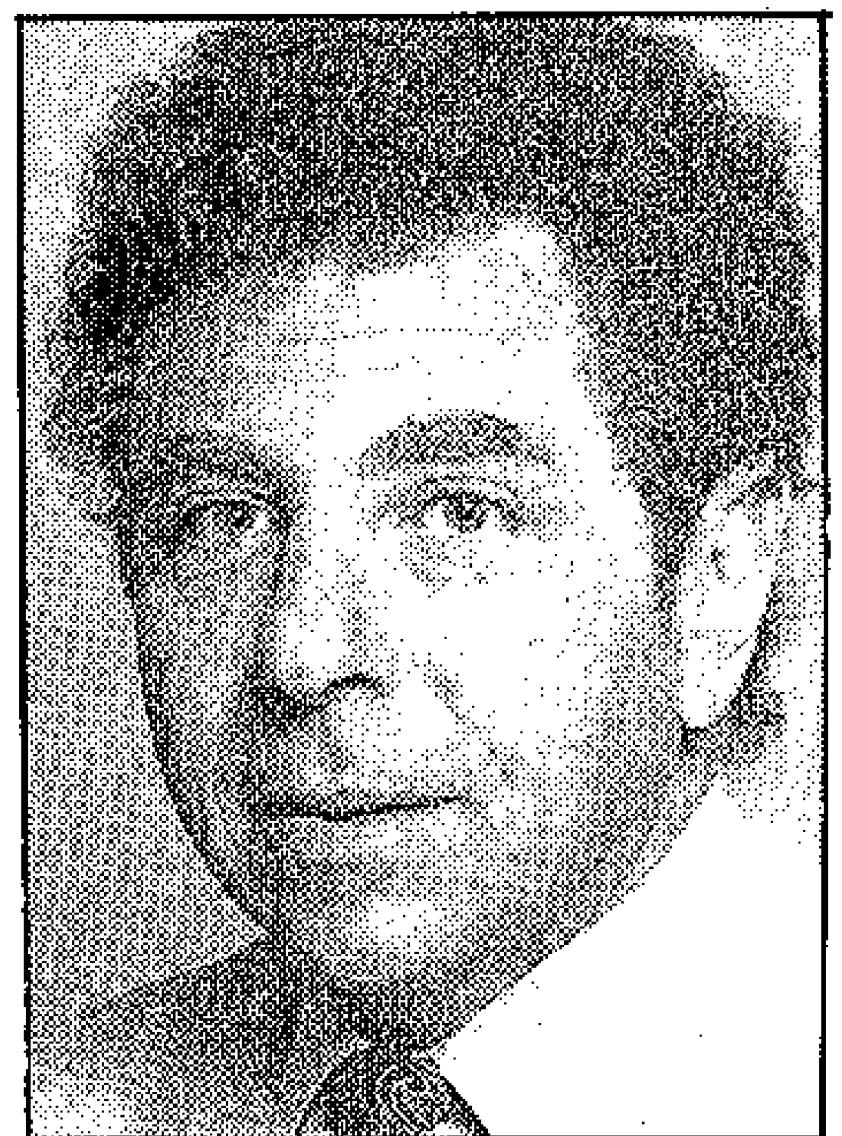
A daily commentary on current economic affairs by writers of the Star.

STAR 1/6/92.

Blessings from abroad

(74)

By John Spira



The prospect of South Africa receiving funds from the World Bank and the IMF is viewed positively by leaders of all politicial persuasions.

Correctly so, since SA needs capital for socially related infrastructural spending. And the money being channelled in this direction would thereby be freed to fill the depleted tank that drives the economic engine.

More importantly, an influx from global institutions would be tantamount to a signal to world bankers and investors that SA can be trusted to use foreign capital to improvė the living standard of all.

However, several criteria must be met before the sought-after dollars reach their destination.

While the politics aren't yet right, at least they seem to be getting there. Equally crucial is the requirement that the World Bank and IMF be satisfied that a firm enough foundation exists for growth to proceed from where it languishes at present.

They will certainly query the inability of the monetary authorities to conquer inflation via the orthodox measures they've pursued for so long.

They'll want to know why the Government hasn't eliminated the monopoly pricing policies of major retailers. They'll ask why the outcome of an official inquiry into the exorbitant margins being reaped by exploitationists in the food sector hasn't yet seen the light of day — weeks after its scheduled release date.

And after the money has landed, they'll want to know how it's being spent and whether or not the economy is being run in such a way that such expenditure reaps the optimum results.

For those many of us seeking an end to corruption and mismanagement, along with all the benefits accruing from an influx of foreign capital, we say roll out the welcome mat.

Ramphele named Anglo director

BIDay 2/6/92

MATTHEW CURTIN

ANGLO American has appointed distinguished academic and community health worker Mamphela Ramphele as a non-executive director of the corporation.

Anglo chairman Julian Ogilvie Thompson said yesterday that he was particularly pleased with Ramphele's appointment because of her important contribution to research work the group was undertaking on the issue of poverty in SA.

Ramphele had taken a leading role in Anglo's efforts to define affordable and effective programmes of poverty alleviation which would be undertaken in SA within a framework of sound macroeconomic policies.

Ogilvie Thompson said the research would form the basis of discussions with political parties as well as make a contribution, through publication, to the wider public debate on these issues.

Ramphele is currently deputy vice-chancellor at UCT, where she completed a PhD in social anthropology last year.

In 1990 she won an Anglo and De Beers Chairman's Fund research grant for adolescent research in the Western Cape.

Picture: BRIAN HENDLER

'Contraventions led to finrand changes'

(74)

BIDay 2/6/92

SUSAN RUSSELL

THE large number of exchange control contraventions uncovered and investigated by the Reserve Bank led to the amendment of many of its policies regarding finrand applications, the Rand Supreme Court heard yesterday.

This was said by Reserve Bank official Charles van Staden during cross-examination.

He was testifying at the trial of former Interboard chairman Ed Dutton who pleaded not guilty to 14 counts of forex and finrand fraud involving about R150m.

The State alleged that Dutton, using forged invoices and contracts, had obtained foreign currency unlawfully by misrepresenting that the funds were required to pay for plant and equipment purchased overseas.

It was alleged that most of the plant was never purchased and that the value of the imported plant was grossly inflated.

Dutton was also alleged to have had ultimate control of the two overseas companies, Partic Industrial Co Ltd and Ligneus Processing and Engineering Co Ltd, which were purported to have supplied the goods.

Dutton denied that he controlled the Mary Gibbs Trust, which was the ultimate holding company for the Dutch- and SA-registered Interboard companies, or that the Trust owned Ligneus and Partic.

Cross-examined by Dutton's counsel Max Hodes SC yesterday, Van Staden told the court that one of the measures, introduced after the Reserve Bank had uncovered and investigated so many exchange control contraventions, was to establish whether there was any relationship between the overseas supplier and the local importer.

This and other amendments to Reserve Bank exchange control policy applied only to finrand applications, Van Staden said.

The witness was also asked by Hodes whether the Reserve Bank was concerned about where the overseas investor who wished to use the finrand mechanism obtained his funds.

Van Staden said the Reserve Bank was not concerned if the funds were obtained from a foreign source, but if funds had been made available by someone with an SA interest, the Reserve Bank would obviously have a different attitude to that particular finrand application.

The case continues today.

Russia offered R140m revolving credit

B/Day 2/6/92

Political Staff

SA IS to offer Russia a R140m revolving credit line to facilitate expanding trade between the two countries.

President F W de Klerk, on a two-day official visit to the Russian Federation, told a news conference in Moscow yesterday that the loan would be formalised soon by an exchange of diplomatic notes.

A formal trade and aviation agreement would also be signed.

It is understood the credit line will be financed by the IDC.

De Klerk said it was just a start, and could be increased as trade expanded.

The president also renewed his invitation to Russian President Boris Yeltsin to visit SA, and Yeltsin had "accepted with gratitude". Appropriate dates would be finalised in due course.

Asked whether SA and Russia had a diamond and gold cartel, De Klerk said the SA government was not involved with diamonds and did not support cartels.

Asked about the effect in SA of his journey, De Klerk said the visit was important as it was proof that communism was dead in Russia, "otherwise I would not have come".

Secondly, Russia had accepted that the process of change in SA was irreversible.

De Klerk said he had discussed SA's readmission to full status at the UN with Yeltsin as this was one outstanding issue as far as SA's full return to the world community was concerned.

Earlier, a communique issued by the two leaders after their talks noted that Russia considered as "well-founded" SA aspirations to renew its full participation in the activities of the UN and other international organisations.

The two leaders said they had taken note of developments in each other's countries.

Yeltsin said Russia attached paramount importance to what was taking place at Codesa.

Loan to Russia 'a small beginning'

B/Day 3/6/92 (74)

SHERIDAN CONNOLLY

THE R100m credit line offered to Russia by SA would not go far in expanding trade between the two countries but, nevertheless, would assist in establishing sound trade relations, a trade analyst said yesterday.

SA Foreign Trade Organisation senior international manager Mike Veysie said SA exporters would benefit from the agreement between President F W de Klerk and Russian President Boris Yeltsin as access to deprived Russian markets opened up. Current levels of trade were not substantial, but there was great demand in Russia for any SA products that could be supplied.

De Klerk announced the offer while in the Russian Federation this week, and said the loan would be formalised with the exchange of diplomatic notes. The loan would be increased as trade expanded.

Reports suggested that the IDC would finance the credit line. However, IDC GM Louis Kingma said yesterday the IDC had not been contacted by government in connection with the credit line.

Veysie said the disposable income of Russian consumers was relatively high despite the fact that average monthly salaries were extremely low — around $8. This was due to the absence of consumer goods in Russian markets in the past.

Veysie said Russia was an extremely wealthy country in terms of natural resources.

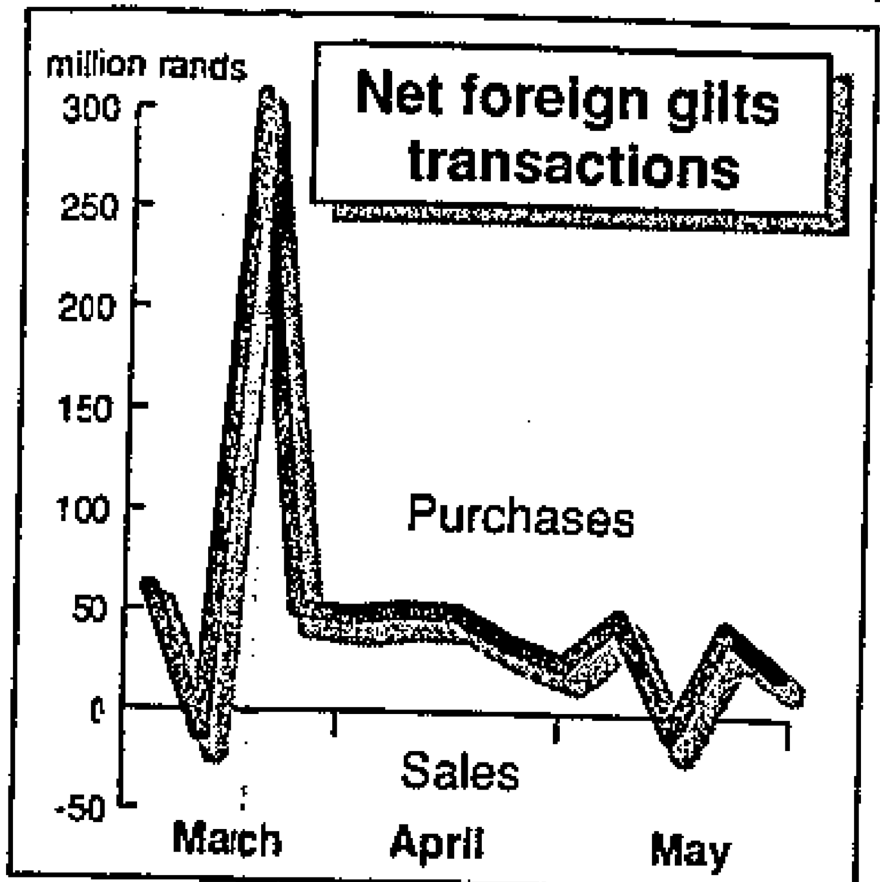
But he warned that it needed to go through a massive reformation process before companies could operate efficiently in a market environment.

As the economy developed, Russia would need to import products such as medical equipment, mining equipment, foodstuffs and clothing.

Jitters, but no big sell-off on ANC stance

SHERIDAN CONNOLLY

NERVOUSNESS in the capital market continued yesterday following the tough line on foreign investment adopted by the ANC this week — but there were no major overseas sell orders, analysts said.



Graphics: RUBY-GAY MARTIN Source: JSE

They said the ANC's rejection of investment incentives or special treatment for foreign investors would not encourage much needed inflows of foreign capital in the short term. In the meantime, foreigners would still benefit from buying SA gilts at a discount via the financial rand while earning interest at the commercial rand exchange rate.

The ANC's foreign investment stance had promoted bearish sentiment in the market and rates were expected to be steady in the next week or so, they added. The yield on the benchmark Eskom 168 climbed another ten points yesterday to finish at 15,92% from its previous level of 15,82% and the RSA 150 closed at 16,15% from 16,02%.

Analysts said although capital market rates were sensitive to foreign sentiment, overseas investors had not reacted as strongly as expected to the ANC's policy announcement.

In a future market environment, the abolition of the financial rand would remove the present investment incentive for foreigners. But, a lower value of a unitary rand might still be cheap enough to attract foreigners to purchase SA gilts, analysts said.

The financial rand at first reacted negatively to the ANC's policy moves. It recovered slightly yesterday and firmed to R3,48 per dollar after dropping to R3,50 on Monday.

11% earnings rise for Specialty

MARCIA KLEIN

RETAIL group Specialty Stores aimed to improve earnings for the eighth consecutive year in financial 1993, joint MDs Stewart Cohen and Laurie Chiappini said in their annual review.

While traditional department stores worldwide had declined, they said international specialty store chains had shown superior growth.

They had the benefit of narrow and deep assortments — which yielded lower purchase costs, shorter lead times, higher sales densities and lower markdowns.

These factors gave management confidence and confirmed that Specialty had strategically positioned itself in "the fastest growing and most profitable sector of retailing internationally," the directors said.

They said the group had an advantage as it could respond quickly to changes in consumer lifestyles.

Specialty, which owns Milady's, The Hub, Mr Price and Footgear, had an 11% earnings rise to 83,5c (75,1c) a share in the year to end-February on a 19% turnover rise to R293,6m.

Cohen and Chiappini said Specialty would continue to focus on maintaining financial strength and improvements in asset management. They said it was comfortable with its 56% gearing as the proportion of cash sales continued to rise and should exceed 30% in the coming year. Margins were also expected to increase.

Milady's had performed exceptionally well after an average first half.

The Hub's sales were lower than budget, but it showed a 17% increase in its profit contribution.

Seven new Mr Price cash stores had opened, but the chain's rapid growth had stretched management and it had showed a profit decline.

The 11-store cash chain Footgear had made "a meaningful increase in its contribution to group profits".

New plan for sale of Qantas

CANBERRA — The Australian government yesterday announced plans for its international airline Qantas to acquire the state-owned domestic carrier Australian Airlines for A$400m and for 100% of the merged company to be sold to investors and other international airlines.

Last weekend Prime Minister Paul Keating proposed a merger of Qantas and Australian Airlines and the sale of a 70% stake in the merged company.

Since then, the government has decided to sell 100% of the merged airline, provided it retains a share that allows it to protect the national interest in the airline. — AP-DJ.

Speculators are the big players now

B/Day 3/6/92 (74)

SIMON WILLSON

BARELY five years ago it was US trade figures that supplied most of the direction to the dollar. Now, the US merchandise trade figures in the third week of each month pass almost unnoticed.

This perverse turnaround in the foreign exchange market's currency perceptions has been helping to deprive rates of any sustained trend recently.

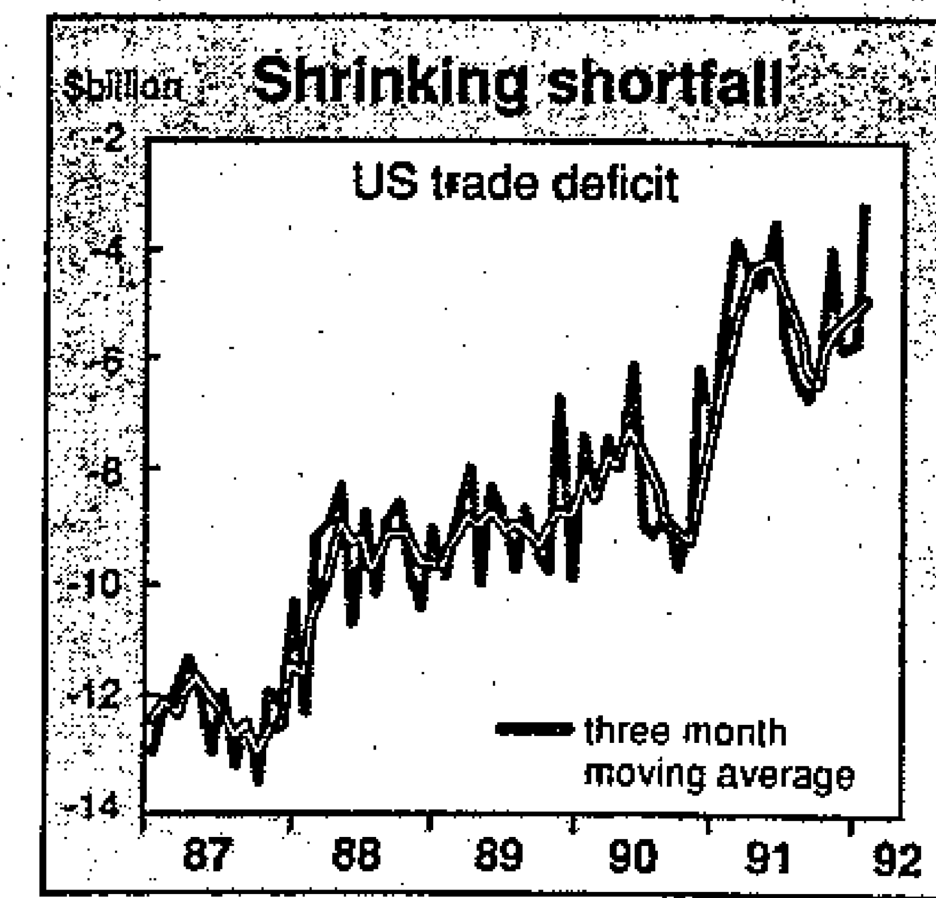
These days, it is mainly the highly variable output and activity statistics detailing the US's on-again, off-again recovery that provide the dollar's increasingly fickle direction. Flow data such as those covering monthly merchandise trade aggregates have lost their allure.

The market's lack of enthusiasm for the implications of current US trade figures is perverse because it is preventing the unwinding of the effect the trade data had on the dollar five years ago.

As the first chart shows, the US monthly trade deficit rose through most of 1987 to hit its record high of $160bn for the calendar year. That period of escalating structural imbalance was accompanied by chronic weakness in the dollar, which slumped 35% in effective terms in the two years to mid-1987 and hit a six-year low in May of that year.

Part of the reason for the dollar's 1985-87 slide was the Plaza Accord of September 1985, in which the G-5 countries agreed the dollar's climb to DM3,47 a few months previously amounted to a serious overvaluation. But the dollar's post-Plaza fall gained momentum and took the currency's value way below the putative ranges.

The dollar fell so steeply and so steadily that a new G-5 gathering — the Louvre Accord — had to be called in February 1987 to neutralise the Plaza effect. Louvre Accord participants agreed the dollar had fallen enough and had to be supported.

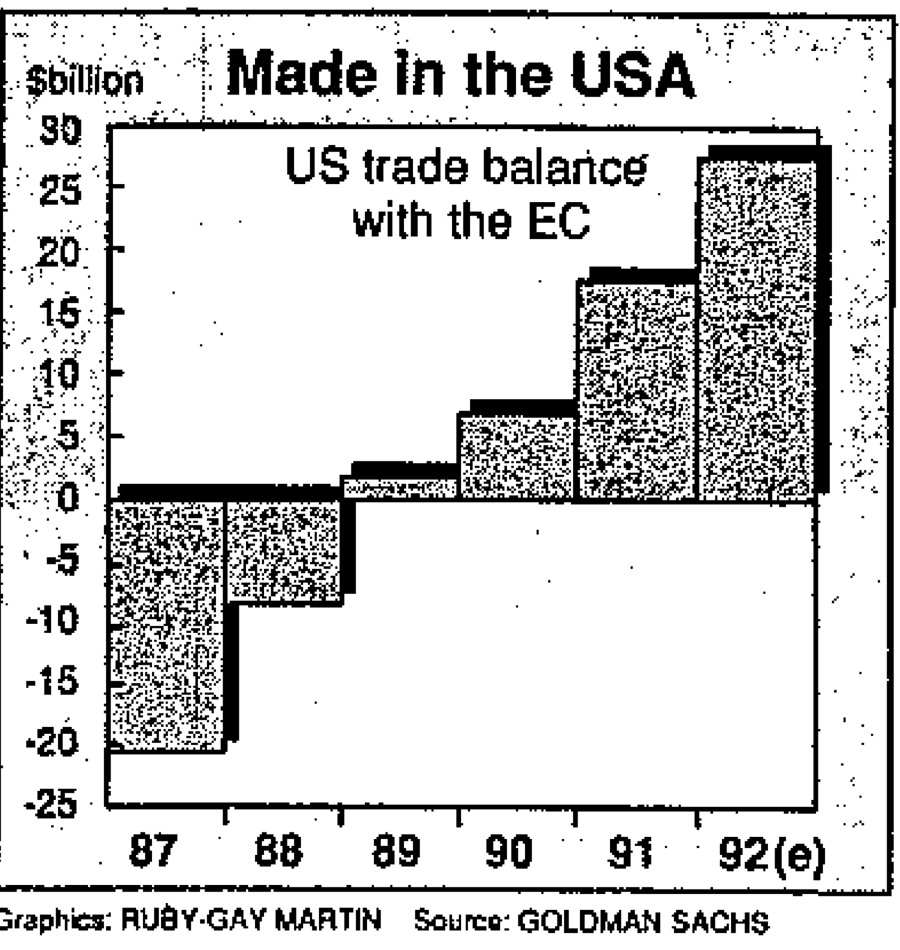


Graphics: RUBY-GAY MARTIN Source: BARCLAYS BANK

Most of the dollar's downward impetus in the latter part of its plunge came from alarm at the mounting US trade deficit. Currency markets took fright at first because many believed the US's twin-deficit problem (the budget deficit was also ballooning) would eventually require emergency deflation of the economy. When emergency deflation began to look less likely, traders still abandoned the dollar on the premise that US authorities would intervene to weaken the currency so the US could export its way more conventionally out of its record trade deficit.

Either way, the dollar was a loser from the record US trade deficit five years ago. On the immutable economic principle that what goes up must come down, the US trade deficit is now shrinking. But those forex traditionalists awaiting even a miserable, partial unwinding of the 1985-87 Plaza plunge are still impatiently tweaking the mice by their dealing screens. It is not happening.

Even though the US is now patently not in need of a lower exchange rate as the trade deficit narrows; even though, as imports bottom out and begin to respond to past monetary easings, additional rate cuts become less likely: no dollar-buying response has yet arrived as the mirror image to the 1985-87 sell-off.



Graphics: RUBY-GAY MARTIN Source: GOLDMAN SACHS

As the second chart shows, there are particularly sound reasons for expecting a stronger dollar against the major European currencies. The firming of the Deutschmark in the late '80s has contributed to a complete about-face in US trade with Europe, to the point where EC importers should be clamouring for cheap dollars to cover looming commitments arising from their widely forecast $25bn deficit with the US for the current year. But there is something less than a mad scramble for dollars on the bemused EC currency exchanges at the moment.

What prospects, then, of an unwinding of the Plaza effect? Not many, and not yet. The US budget deficit is still growing, as is the bilateral US trade deficit with Japan. Besides, the market's general disdain for the US trade figures is based on the co-ordinated preaching of hordes of dealing room analysts asserting the importance of flows of capital and not merchandise in swaying contemporary exchange rates. More exchange controls have been dismantled since Plaza and newly liberated speculators, not merchants, are the big players now.

Trio head for Canada

Sowetan 4/6/92

NATIONAL Peace Committee chairman John Hall, deputy Trade and Industry Minister David Graaff and ANC economic director Trevor Manuel will address a conference in Canada on June 25.

The organisers said in a statement yesterday the envisaged conference would be "the first major business conference on South Africa in North America in nearly a decade".

The Tokyo

De Klerk cracks Japanese barriers

74 STAR 4/6/92

By John MacLennan and Sapa

TOKYO — All barriers to Japanese investment in South Africa were removed after understandings reached between President de Klerk and Prime Minister Kiichi Miyazawa in Tokyo yesterday.

Mr de Klerk said: "It was an extraordinarily constructive conversation. I am convinced that much good for South Africa will flow from it."

Mr de Klerk arrived in Tokyo yesterday morning on a three-day mission to lure Japanese capital to both South Africa and the southern African region.

Japan is already SA's second-largest trading partner.

How about that? . . . President de Klerk tries out Sony's 8 mm video camcorder during his visit to the electronics giant's Media World in central Tokyo yesterday. With him is Sony chairman Akio Moruta. Picture: Associated Press

All now depends on how the traditionally conservative Japanese business community gauges South Africa's political stability and the safety of investment in the country.

Mr Miyazawa questioned Mr de Klerk closely on constitutional developments and praised him for taking a "bold and courageous" step. According to sources who attended the meeting, Mr Miyazawa said all doors had now been fully opened for a completely normalised relationship.

Mr de Klerk said that in addition to money-making possibilities in southern Africa, Japan had a moral duty not to walk away from Africa.

He said South Africa provided a jumping-off point to a potential southern African market of 100 million people. With proper technology and investment, he said, South Africa had the potential of becoming the Japan of the subcontinent.

He cited the example of the Pacific Rim countries which had all become economic successes "following an injection of Japanese capital and know-how."

Sources said that after the talks, which they described as surprisingly warm, "the Japanese are poised for take-off".

They added there had long been a close partnership between the Japanese government and big business. According to the sources, Mr Miyazawa's official approval of the power-sharing vision sketched by Mr de Klerk "means that harmony reached at political level will definitely translate into investment, provided the corporations believe that the conditions are right to put their money down in South Africa".

Sources said Mr Miyazawa was impressed with the belief and conviction with which Mr de Klerk put his case, and said he was sure efforts at power-sharing would succeed. He termed the Codesa talks as nothing less than "miraculous".

The possibility of a direct air link between Jan Smuts and Tokyo's Narita Airport was also raised, but this idea ran into a practical problem.

Tokyo's airport is clogged with traffic and SAA's application is near the bottom of the list of 40 airlines which hope to cash in on the Japanese tourist trade.

Sources made it clear that the lack of progress on the proposed link was not because of political reasons.

Today Mr de Klerk continues with his super-sales job in meetings with politicians and important business groups and leaders.

After addressing a meeting of businessmen yesterday, he was warmly applauded. This was considered most unusual in a country where showing any emotion is almost a sin.

'iremen in planes put | Polls and r

FW de KLERK

FW hopeful over trade

TOKYO - South African President FW de Klerk emerged optimistic from an hour of "extremely constructive" talks on investment with Japanese Prime Minister Kiichi Miyazawa yesterday.

"I am convinced that much good will emerge for South Africa from this discussion," said De Klerk in a statement issued through his Press officer.

De Klerk arrived in Tokyo yesterday morning on a three-day mission to lure Japanese capital to both South Africa and the Southern African region.

Japan is already South Africa's second-largest trading partner. Sowetan 4/6/92.

South African participants in the meeting said Miyazawa had described De Klerk as "bold and courageous" in his moves towards constitutional reform, and had said all obstacles in the way of bilateral relations had been removed.

Now that this stage of political normalisation had been reached, the South Africans said, it was up to individual Japanese companies to decide what their position on investment should be.

"They are poised for takeoff," said one. "What precisely the trigger will be, one can speculate. It will be different things for different companies - their assessment of political stability in the country, the violence factor and all those things.

"The State President pushed hard and consistently for the Japanese now to look at South Africa as an investment area," he said. - *Sapa.*

* See Page 3

FMS/6/92 (74)

Avoiding the Weimar option

Since 1984 SA has ignored the convention that State debt should be incurred only to finance capital expenditure. With the exception of 1990, general government saving has been negative each year and the trend is continuing in the current fiscal year.

This is evident in projected central government spending, as set out in the 1992/1993 Budget. Government dissavings — the difference between capital expenditure and the total Budget deficit — is budgeted at about R7,5bn. Only R6,5bn of the deficit of more than R14bn is earmarked for capital projects.

The effect of this policy has been to boost public debt to a point where government is now borrowing simply to pay the cost of past debt. And, if this were not bad enough, it is now compounding the problem by borrowing more than it needs. The main reason for this, says Nedbank chief economist Edward Osborn, is that open-market operations needed to keep monetary policy in place are channelling an excess of funds into the State Revenue account.

So, not only is fiscal policy trapped by mounting interest payments that contribute substantially to the increasing deficit, government even constructed the trap. It is now paying for the years of slack fiscal and monetary policy.

Osborn deals with these issues in Nedbank's latest *Guide to the Economy*. His analysis of public debt shows that, since 1989, "there has been substantial borrowing in excess of Budget requirements, which had contributed significantly to the steepness in the rise of the interest burden."

He points out that if interest payments were stripped out of the 1992/1993 Budget, the core budget — which is the difference between State revenue and expenditure — would be positive.

Interest payments "have been rising at an exponential rate and grown some six times in the past 10 years." They jumped from R8bn in the fiscal year ending 1989 to nearly R14bn in 1992 and a projected R16bn in the 1992/1993 Budget. This has pushed interest payments from 11,7% of total government expenditure in 1983, to a budgeted 16,4% in 1992/1993.

So State borrowing must be examined carefully. Osborn says it is occurring:

- ☐ To finance the Budget deficit;
- ☐ To redeem past State borrowings;
- ☐ For monetary policy purposes; and
- ☐ To add to foreign exchange reserves.

The first two requiremements must be met. It is the last two factors that need to be explored.

Says Osborn: "Monetary policy is exercised through the Bank rate, which, to be effective, requires a money market shortage. This is achieved through open-market operations, generally in the form of the issue of Treasury bills and the sale of government stock into the market. The proceeds go into the State Revenue Account and account for most of the apparent excess borrowing."

Another source of excess funding is overseas borrrowing. This "has its justification in keeping SA borrowing interest alive in the European capital market," says Osborn. "The proceeds are sold to the Reserve Bank and add to foreign exchange reserves, which, notionally, can be of value in the financing of the lift-off in the SA economy when that occurs. However, the cost to the Exchequer can be substantial in the face of a depreciating currency."

Unfortunately, the surplus funds raised have been treated as funds "available for appropriation for distribution." Since 1982 the following transfers have been made:

- ☐ R3,6bn to the Stabilisation Account (the total balance of which has now been transferred to the forex losses account of the Reserve Bank);
- ☐ R4,7bn to the Forex Loss Account;
- ☐ R783m Special Defence Fund;
- ☐ R2bn Independent Development Trust;
- ☐ R3bn State Pension Fund;
- ☐ R450m Export Credit Reinsurance Fund;
- ☐ R350m Maize and Sorghum Marketing Boards; and
- ☐ R216m Development Bank of SA.

"None of these transfers," says Osborn, "has corresponding income-earning assets and, accordingly, they have imposed an added burden on the State's finances."

This has brought the country to a potentially explosive situation. If borrowing in excess of budgetary requirements is stopped, and expenditure growth kept at the same level as revenue, there is still a huge problem looming on the fiscal horizon:

- ☐ The deficit will reach R31bn in five years;
- ☐ The ratio of public debt to GDP will reach 33%; and
- ☐ The ratio of interest paid to total expenditure will be 17,2%.

Osborn says that should the differential continue in the rates of growth in expenditure and revenue, at 16% and 14%, the core budget surplus will soon be eliminated. Within five years the Budget deficit will be R52bn, the debt ratio 40,6% and the interest ratio 19,2%.

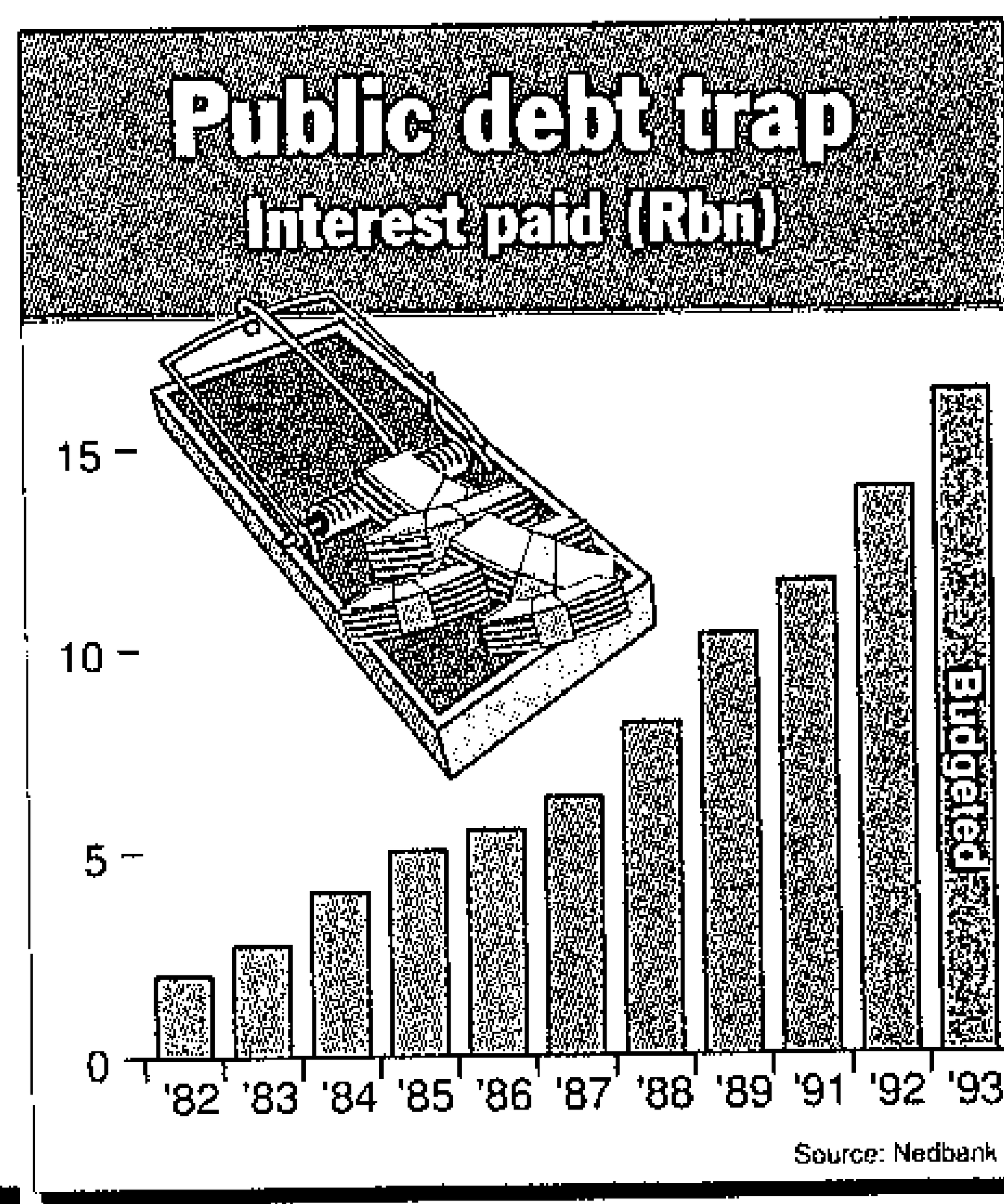
Within 10 years the compounding effect will have pushed the ratio of the deficit to GDP to 10%.

"This cannot be allowed," says Osborn. He argues for keeping expenditure growth below that of revenue in the years ahead, because a positive differential is the only way to avoid the public debt trap.

"With revenue at 15% growth and expenditure other than interest at 14%, the interest ratio within five years would remain almost at its present level, the debt ratio would be 29,5%, the deficit ratio 2,4% and the deficit would amount to R20,5bn. And, in 10 years, the interest ratio would be down to 13,2% and the deficit to R11bn."

He also argues for a halt to unnecessary borrowing abroad and to the practice of treating money borrowed for monetary purposes as available for appropriation. "This should be carried forward for subsequent budgetary funding." If these steps are not taken, SA may be left with the Weimar option.

"The ultimate danger to be averted," says Osborn, "is that of having the State's entire revenues absorbed in servicing public debt, as was the case in the Weimar Republic and France in 1925."



STUART MORRIS (74)

Seducing the hordes

As the new president of the Johannesburg Chamber of Commerce & Industry, Stuart Morris has had to keep his smile in the "on" position and practise saying "welcome to South Africa" over and over as a seemingly never-ending stream of foreign business delegates pass through town these days.

Morris (46), whose full-time job is deputy CE of KPMG Aiken & Peat, calls these the "getting-to-know-you" missions because real trade and investment deals are not being tied down just yet. FM 5/6/92

"There is, understandably, considerable caution. Understandable, because businessmen like to know that there is stability, what the tax position is, if they will be able to repatriate their capital. And they are not absolutely sure about that at the moment. At the end of the day, they are looking for a return." FM 5/6/92 (74)

To this somewhat dark picture he adds the high rate of direct and indirect tax, tariff walls and the relatively limited export incentives — and, of course, the violence. All of which adds up to extremely cautious visitors who want to work out the sums and then wait and see. "But they seem very excited," he adds.

One direct result of these missions has been a "surplus of invitations" for the chamber to send delegates overseas. The chamber is considering sponsoring one visit later this year and the best guess is that it will head for Singapore, Taiwan and perhaps other Far East destinations.

Is the chamber ready for all this new activity? He smiles. "There's a lot for us to do in stepping things up a few gears in this new environment."

On the local level, one of Morris's goals is to help get the Soweto Chamber of Commerce up and running, once and for all. He will also be pushing for "a new era of consultation" with the city and regional governments, which, he points out, get 80% of their funding from business coffers.

A married father of three sons, Morris is a confirmed sportsman with a love of squash, cycling, hockey and golf. Born in Scotland, he came to Johannesburg as a child and matriculated at Highlands North.

He got his BCom at Wits and began working for what was then Aiken & Carter during his university holidays. "And I've been here ever since," he adds. A few years before becoming a partner in 1976, he spent two years in London on the firm's exchange programme. Since 1988, he has represented the SA operation on the 32-person international council of KPMG, which is the largest auditing firm in the world.

"At a relatively young age, he occupies a very senior position at his firm. That tells a story," says Marius de Jager, CE of the chamber. "And like many successful people, he's highly disciplined with himself and his time. He's decisive, but not rash.

"He doesn't get paid for this, but he's absolutely dedicated to the chamber. It's not a little item for his CV." ■

Morris ... *getting past the wait-and-see attitude*

Eurocrats spell out SA options in EC

(74) STAR 5/6/92

By Sven Lünsche

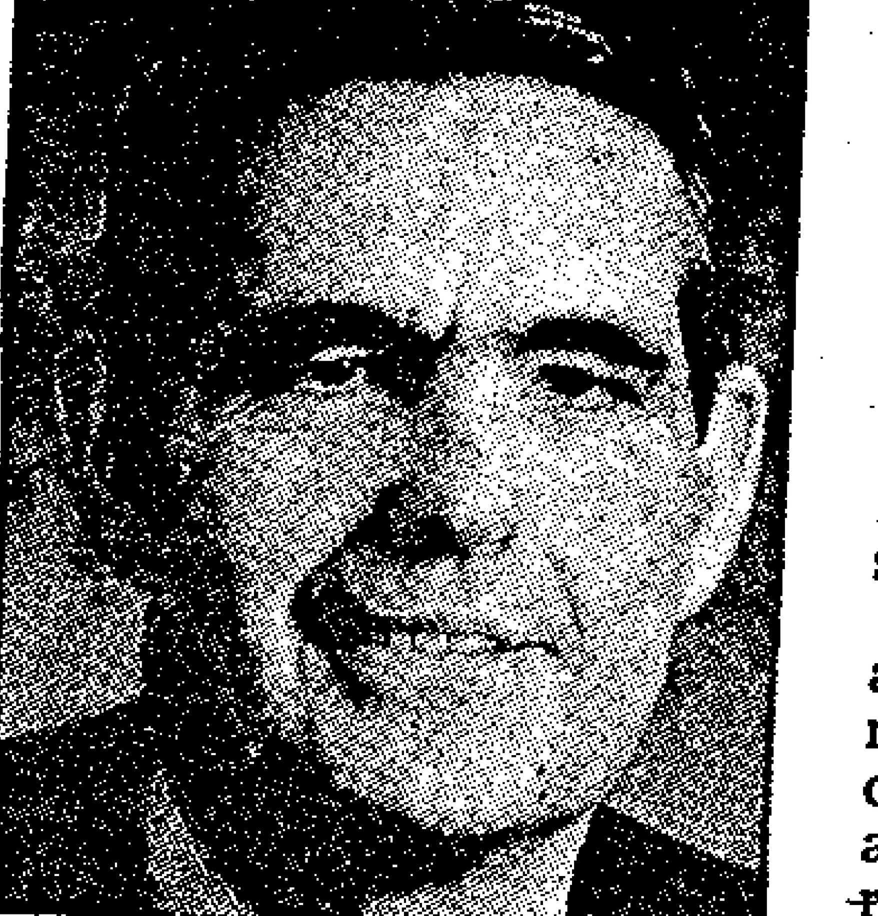
A drastic restructuring of South Africa's elaborate tariff and state subsidy systems is required if the country is to emerge as a major trading partner of the European Community.

This was the key message from a number of leading European trade officials who addressed a conference in Johannesburg on the impact of Europe '92 on SA.

"If SA business is to compete successfully in world trade markets, the principles of the free market and open trade must be carried through in practice," Christopher Roberts, the deputy secretary in the UK Department of Trade and Industry told delegates.

He warned that this would entail a drastic lowering of tariff barriers, getting rid of state subsidies and encouraging foreign investment, for the employment and new technology it brings.

"At present, foreign investors have plenty of choice, and they will go where they are made welcome. Bureaucratic procedures and onerous requirements will only drive them away," Mr Roberts said.



Christopher Roberts ... bureaucratic procedures will drive investors away

Mr Roberts and Lord Henry Plumb, a former president of the European Parliament and a member of its agricultural committee, stressed that a preferential trade agreement between SA and the EC would depend on the way in which the SA economy developed.

The options open for the best trade pact depended to a large extent on whether SA should be classified as a developed or developing nation.

"A range of options exist between SA's current developed country status and its seeking developing country privileges — even to the extent of becoming a full signatory to EC's Lome Convention," Lord Plumb said.

"Access to Lome could have an adverse effect on the business sector in international circles but, conversely, increased aid to the 'new' SA could help to reduce political violence and thus erode one of the major stumbling blocks to foreign investment," Lord Plumb added.

Mr Roberts outlined the main options in formalising trade arrangement between SA and the EC:

Most Favoured Nation Status: MFN treatment means that the customs duties on SA exports to the EC would be no greater than those imposed on the generality of EC imports.

This is very much the situation SA is in at the moment.

Generalised System of Preferences: Under GSP the EC allows imports of industrialised goods from developing countries to enter duty free or at a reduced rate. It is doubtful, however, whether SA can qualify for GSP.

Reciprocal agreement: This would offer SA preferential access to the EC and vice versa and would be of the greatest value to the developed sector of the SA economy, but could be opposed by vested interests worried about competition.

There would also be difficulties in GATT, since developed countries are prevented by GATT rules from exchanging bilateral preferences unless they are setting up free trade areas or customs unions.

The Lome Convention: The Lome Convention provides favourable import terms to the world's 69 poorest developing nations.

Opposition to SA's entry to Lome could come from other developing nations as well as SA's own industrial producers.

Mr Roberts said that EC officials had not yet taken a position on SA's trade status, but he suggested that SA should negotiate a separate agreement, consistent with GATT rules, including some benefits from the Lome Convention and reciprocity for EC exports to SA.

Recovery 'linked to GATT outcome'

GAVIN DU VENAGE 74

THE Uruguay round of the General Agreement on Trade and Tariffs (GATT) would have important consequences for SA, deputy director-general of Trade and Tariffs Gerry Breyl said yesterday.

Speaking in Johannesburg at the Europe '92 Countdown conference, Breyl said a final agreement would have a significant impact on the recovery of SA's economy, which experts agreed would have to be export-led.

He said: "It is ... expected that our exporters will benefit from higher world prices and increased market access resulting form the negotiations. On the other hand we will also have to grant increased opportunties." BDay 5/6/92

SA had to realise the results of the GATT talks had to be accepted as a whole by each participant, or be excluded from GATT altogether, he cautioned.

What's in store for SA trade

ARG 6/6/92 (74)

EC spells out the chances of a pact

SVEN LUNSCH
Business Staff

JOHANNESBURG. — A drastic restructuring of South Africa's elaborate tariff and state subsidy systems is required if the country is to emerge as a major trading partner of the European Community.

This was the key message by a number of leading European trade officials who addressed a conference in Johannesburg on the impact of Europe '92 on South Africa.

Mr Christopher Roberts, the deputy secretary in Britain's Department of Trade and Industry, told delegates: "If South African business is to compete successfully in world markets the principles of the free market and open trade must be carried through in practice."

He warned this would entail a drastic lowering of tariff barriers, getting rid of state subsidies and encouraging foreign investment, for the employment and new technology it brought.

"At present, foreign investors have plenty of choice and they will go where they are made welcome. Bureaucratic procedures and onerous requirements will only drive them away," said Mr Roberts.

He and Lord Henry Plumb, a former president of the European parliament and a member of its agricultural committee, emphasised that a preferential trade agreement between South Africa and the EC would depend on how the South African economy developed.

The options open for the best trade pact depended to a large extent on whether South Africa should be classified as a developed or developing nation.

Lord Plumb said: "A range of options exist between South Africa's current developed country status and its seeking developing country privileges — even to the extent of becoming a full signatory to EC's Lome Convention.

"Access to Lome could have an adverse effect on the business sector in international circles but, conversely, increased aid to the new South Africa could help to reduce political violence and thus erode one of the major stumbling blocks to foreign investment."

Mr Roberts outlined the main options in formalising trade arrangement between South Africa and the EC:

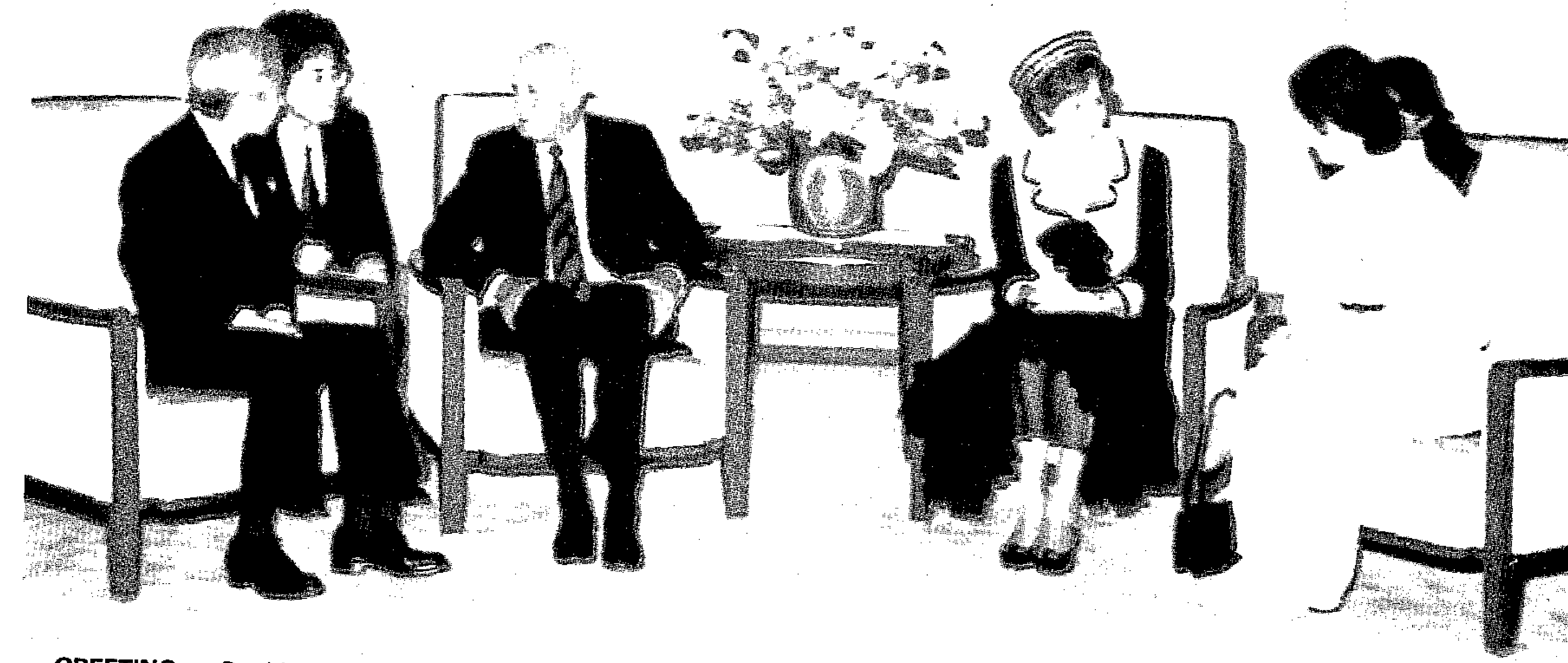
- Most Favoured Nation status: MFN treatment means that the customs duties on South African exports to the EC would be no greater than those imposed on the generality of EC imports;
- Generalised System of Preferences: Under GSP the EC allows imports of industrialised goods from developing countries to enter duty-free or at a reduced rate. It is doubtful, however, whether South Africa can qualify for GSP; and
- Reciprocal agreement: This would offer South Africa preferential access to the EC and vice versa and would be of the greatest value to the developed sector of the South African economy, but could be opposed by vested interests worried about competition.

There also would be difficulties in GATT, since developed countries are prevented by GATT rules from exchanging bilateral preferences unless they are setting up free-trade areas or customs unions.

- The Lome Convention: The Lome Convention provides favourable import terms to the world's 69 poorest developing nations.

Opposition to South Africa's entry to Lome could come from other developing nations as well as South Africa's own industrial producers.

Mr Roberts said EC officials had not taken a position on South Africa's trade status yet, but he suggested Pretoria negotiated a separate agreement, consistent with GATT rules, including some benefits from the Lome Convention and reciprocity for EC exports to South Africa.



GREETING . . . President F W de Klerk registered one more first on his three-nation tour yesterday when he was received by Emperor Akihito of Japan. The emperor, wearing a dark lounge suit with the empress in traditional kimono, met the presidential couple at the entrance to the Imperial Palace some 30 minutes before a state lunch.

Picture: AP

Sony to assemble TVs in SA

74C CT 6/6/92

From PATRICK CULL

TOKYO. — The giant Sony Corporation is to strengthen its economic ties with South Africa.

And in another development yesterday, it was disclosed that South Africa was involved in negotiations for an "interim arrangement" for direct air links between the Republic and Japan.

Sony's decision follows a meeting between its chairman, Mr Akio Morita, and President F W de Klerk on Tuesday, and will see the establishment of an assembly plant for television sets by Tedelex in October.

Sony manager of Corporate Communications Mr Georges Gerard said yesterday that Tedelex would build the sets under licence and the latest technology would be transferred from Japan.

"The sets will have to have the same character and be of the same standard," Mr Gerard said.

He added that Japanese experts would be sent to South Africa to set up the equipment and train personnel.

But, he stressed, it had to be understood that this was not Sony investing directly in South Africa.

Mr De Klerk told a press conference at the end of the third day of his visit to Japan that the two countries were exploring the possibility of an "interim arrangement" until full air links could be established in 1994 when the new airport at Tokyo will be completed.

He declined to give details but it is understood that initially Japan Air Lines (JAL) will fly to South Africa, and that 50% of the flights will be regarded as a joint venture between JAL and South African Airways.

This system is currently operating with Singapore Airlines.

Mr De Klerk also revealed that representatives of the Japanese Import-Export bank were currently in South Africa investigating the possibility of extending a loan to the Development Bank of SA.

He noted that concrete results had been registered in that not only had one major electronics company "surprised" him by indicating that they would be establishing an assembly plant in South Africa, but there had also been a number of visits by Japanese businessmen.

person could not be reached for comment yesterday

Gibraltar seeks deal

S I Times (Buss) 7/6/92

By ZILLA EFRAT

74

GIBRALTAR has targeted South Africa as its major potential market.

It is gearing up to promote itself after a trade delegation to SA.

Trade and Industry Minister Michael Feetham has asked Safto to help prepare a plan of action.

Its Financial Services Commission has approached SA banks to consider involvement in Gibraltar.

Safto international manager David Graham says that until recently, the mainstay of the UK colony has been the British Ministry of Defence. With this reduced, Gibraltar is looking for new sources of income.

Areas for development include tourism, insurance, offshore trading and light manufacturing.

Mr Graham says the colony is well placed for exports to Europe, benefiting from its developing country status.

Using an international firm of consultants, it has revised its investment packages to ensure that they match those offered by the Isle of Man and the Channel Islands.

Incentives to exporting manufacturers include duty-free imports of machinery, equipment and components. Tax on the profits of export businesses is only 2%.

Foreigners buying property in Gibraltar can obtain residence status, ultimately qualifying them for UK and EEC citizenship.

SA traders urged to take their message to Britain

S/Times (BUSS) 7/6/92. (74)

By DON ROBERTSON

THE potential benefits of closer trade links between SA and the UK are being squandered because of an alarming lack of knowledge among British businessmen about opportunities here.

More trade missions from SA should be sent to the UK to deal with the many questions asked there.

Clive McCombie, leader of the latest trade mission to SA under the auspices of the UK SA Business Association (Uksaba), says many British industrialists ask whether SA needs international trade and whether it is safe for investment.

"It is in this area that SA is missing out and more trade missions should be launched, especialy by small to medium companies."

Mr McCombie says that in the first quarter of this year, UK exports to SA grew by 8%, but counter trade between the two fell by 13%.

"Falling commodity prices cannot be blamed — as the surge in sales of SA wines and fruit clearly shows."

Uksaba was formed in April by the merger of the British Industry Committee of SA (Bicsa) and the UK SA Trade Association (Uksata) which operated for 26 years.

This is the seventh time in the past six years that Uksaba has brought a mission to SA and the third to be supported by the British Government.

Job

Two missions last year signed agreements worth £750 000. Additional orders of about £5-million are expected to follow.

While offering only "constructive criticism", Mr McCombie says SA businessmen appear to accept it as a novelty to trade with countries in Eastern Europe and the Middle East where they used to be unwelcome.

But they are "putting trade with tried and trusted countries such as the UK on the back burner. South Africans appear to be their own worst salesmen."

SA has been targeted as a major trading nation. The job of trade missions is to reinforce the goodwill that has existed for many years in spite of economic and political instability, says Mr McCombie.

"We want to co-operate with local industry. Many SA managers have not traded internationally for a long time and they could benefit from our expertise in this area.

"Black advancement is vital in SA, but white managers also need to be encouraged."

SA's new trading links will make it tougher for everyone to compete. But the UK has a "privileged status" in SA and everything will be done to retain it, says Mr McCombie.

The current mission includes representatives from 25 companies, most of which are small to medium in size. They include engineering, clothing, technology, management consultancy, construction, white goods, domestic appliance and pharmaceutical groups.

Arabs open doors

By ZILLA EFRAT

MAJOR barriers to South Africa's access to Arab markets ended this week.

Goods "Made in South Africa" can now land openly in Dubai, part of the United Arab Emirates (UAE).

Dubai is a trading hub in the Middle East, re-exporting up to 70% of its imports. SA products can thus be distributed all over the region, says Safto area manager Gyff Fitchat.

As from this week a SA certificate of origin is accepted in Dubai, says a Dubai Government Chamber of Commerce and Industry (DCCI).

DCCI first vice-president Obaid Al Tayer said in Johannesburg that certificates would have to be certified by a SA chamber of commerce. Dubai usually required that they be certified by an Arab trade office in an export country.

All SA bills of lading would be accepted at Dubai ports and its banks could now open letters of credit directly in favour of SA companies. In addition, visas for Dubai would be available to South Africans.

BIDay 7/6/92.

Step

Mr Al Tayer believed that diplomatic relations between SA and Dubai would come after UN, OAU and Arab League sanctions ended.

"But at this stage we do not want to delay trade relations."

He would not comment on relations between SA and other Gulf Co-operation Council countries, but said: "Whenever we take the first step, others follow."

The Department of Trade and Industry confirms it plans to open an official office in Dubai.

Deputy Minister of Foreign Affairs Renier Schoeman said the nature of this office would have to be examined in the light of SA's specific requirements.

Talks would be held with the UAE about solving visa problems.

"A mutually acceptable reciprocal arrangement must be agreed on as soon as possible."

Koreans seeking SA trade

S/Times (Buss) 7/6/92

By ZILLA EFRAT

OFFICIALS from South Korea's governmental trade arm KOTRA are in South Africa to set up a trade office.

This was confirmed by a Department of Foreign Affairs spokesman.

Korean Foreign Minister Lee Sang Ock said recently that his government envisaged full diplomatic ties once SA had made progress in solving its constitutional problems.

He speculated that this could happen by the end of the year.

It is believed that SA is about to open consulate-general offices in Singapore and Bangkok, Thailand.

Reserves surge to record level

STAR 8/6/92

By Sven Lünsche

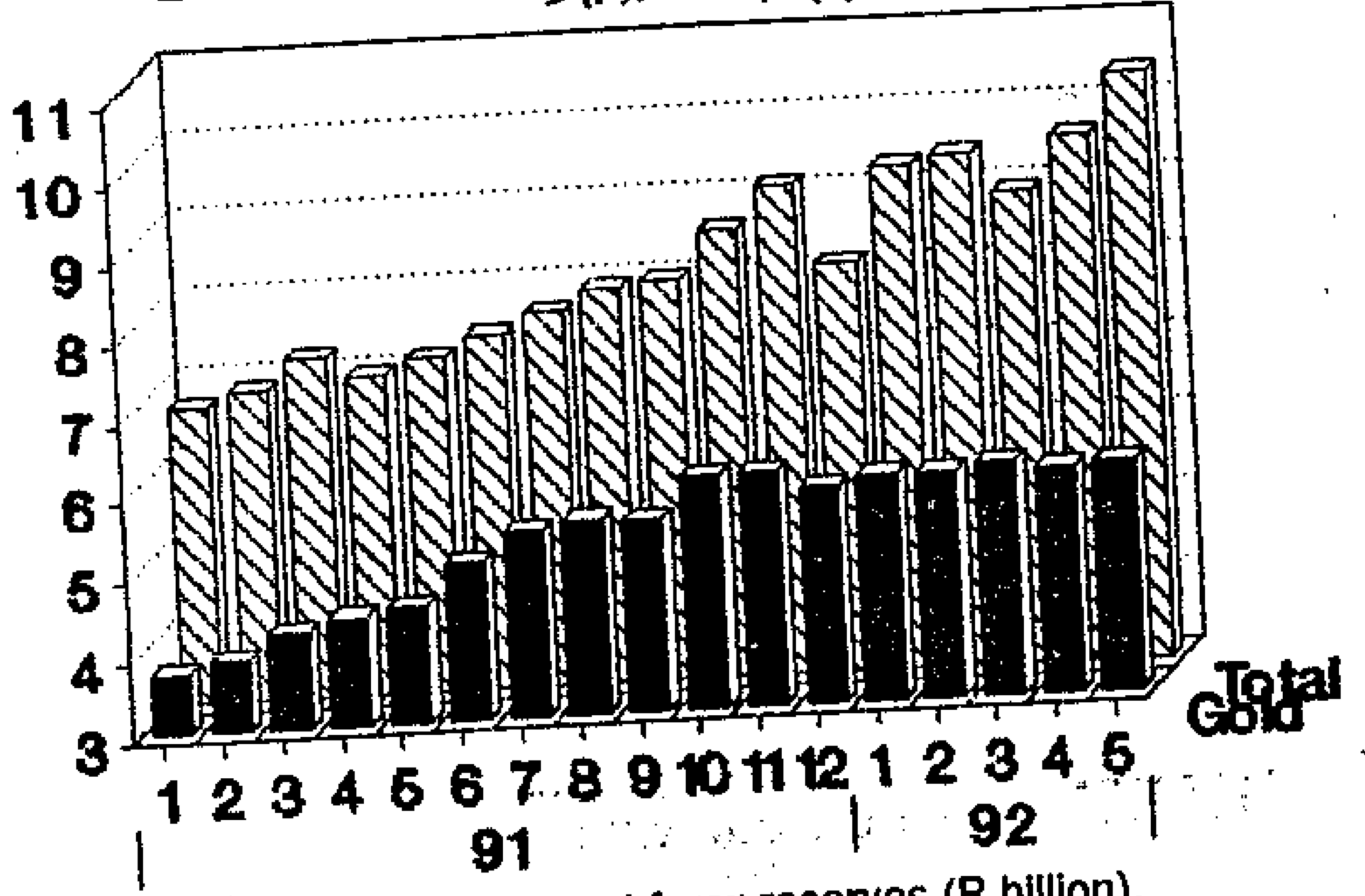
Gold and foreign exchange reserves surged to a record R10,4 billion in May, the first time they have been above the R10 billion level.

The Reserve Bank said on Friday that total reserves rose by almost R800 million last month, rising from R9,63 billion in April to R10,4 billion at the end of May.

The reserves are sufficient to cover just over two and a half months of imported goods and are rapidly approaching the internationally accepted level of three months of import cover.

One of the Bank's preconditions for easing monetary policy is a strong level of forex reserves to avoid pressure on the balance of payments when imports start picking up in the wake of an economic upswing.

So far this year the gold and foreign exchange reserves have increased by R2,5 billion, which also explains the higher level of liquidity in the money markets.



SA's gold and forex reserves (R billion).

The level of the gold reserves at the end of last month was R5,86 billion, a R53 million increase on the previous month, as the Bank increased the volume of gold held from 6,67 million ounces to 6,8 million ounces.

The gold was valued at R870,21 per ounce, compared with R861,22 in April.

The value of foreign assets over the month improved from R3,83 billion to R4,54 billion.

Other figures released show that government deposits with the Bank rose from R7 billion to R10,66 billion.

Reserve Bank tightens its monetary screws

STAR 8/6/92.

By Sven Lünsche

Reserve Bank Governor Dr Chris Stals has again moved to tighten monetary policy by announcing a three-point plan to drain excessive liquidity from the money market.

The plan involves increasing commercial banks' cash requirements, raising the limit of their off-shore foreign exchange holdings and issuing additional Reserve Bank bills.

Economists said over the weekend that by soaking off excess liquidity Dr Stals was intending to put upward pressure on money market interest rates so as to reduce pressure on the Bank to cut its key Bank rate.

"Dr Stals hopes to keep the Bank rate above the inflation rate at all times in his avowed attempt to break the back of inflation, partly by ensuring a firm rand with high interest rates," said Econometrix director Dr Azar Jammine.

"Maintenance of high interest rates is also seen by the Bank as a counter to excessive state spending by serving a warning to the Government of the inflationary and ultimately recessionary consequences of high levels of state expenditure," he added.

Announcing the plan on Friday, Dr Stals said net purchases of gold and foreign exchange to the tune of R2,5 billion in the first five months of this year had significantly raised the level of liquidity in the money market.

The overall market situation was also aggravated by a further decline in the demand for funds from the private sector.

"Projections indicate that there could be a further substantial addition of liquidity to the money market from now until the end of August.

"After that, when government revenue should hopefully catch up again with expenditure, the situation may be reversed," Dr Stals said.

Until then, however, there was a danger that short-term interest rates could fall to levels that would not be sustainable, for example to below the current rate of inflation.

"Banks are at this stage only making limited use of Reserve Bank accommodation, but are seeking additional investment outlets for very short-term surplus cash.

"After consultation with Finance Minister Derek Keys, it was therefore decided to provide additional facilities to financial insitutions for the investment of surplus short-term funds," Dr Stals said.

The three-point plan consists of:

- An offer of special Reserve Bank bills with a maturity of nine months to the market on tender, on the same basis that Treasury bills are now being issued.

The bills will only be rediscountable if they have a remaining outstanding maturity of 91 days or less, but will qualify as liquid assets and will be accepted as collateral for overnight loans extended by the Reserve Bank.

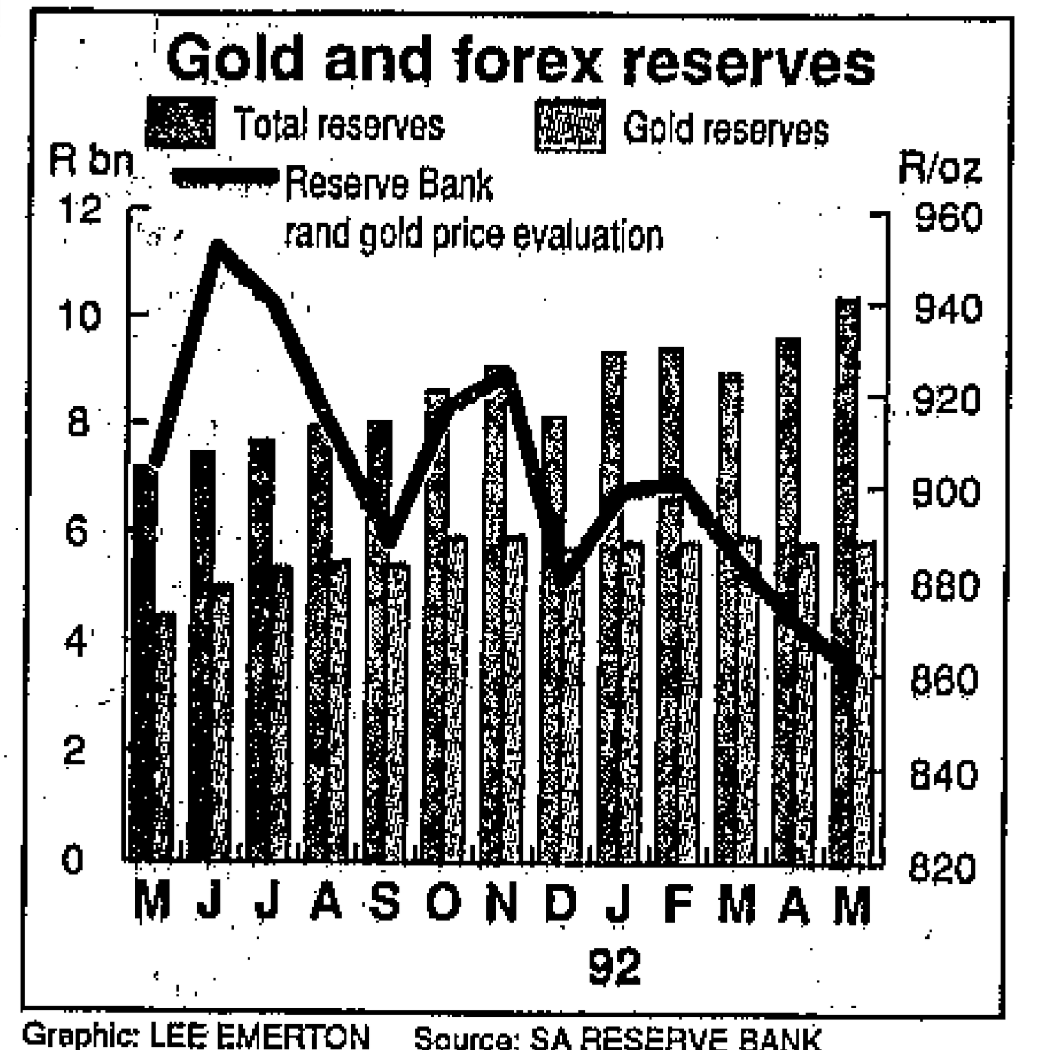
- A doubling of the limit banks are allowed to hold in the form of off-shore foreign exchange holdings to $632 million. The previous limit was fixed in 1983, but recently there has been rising demand by the banks for forward foreign exchange.
- An increase of the banks' compulsory minimum cash reserve from four to five percent of their total short-term liabilities to the public.

The additional one percent will be held in a special deposit account with the Reserve Bank.

Dr Stals also re-affirmed an announcement earlier last week that normal sales of government stock and Treasury bills in the current fiscal year would not be limited to the figure of R18 billion.

"Additional sales over and above this figure will be made as deemed necessary in the light of Treasury needs and general market liquidity conditions," he said.

74



Graphic: LEE EMERTON Source: SA RESERVE BANK

Reserves rise to record R10bn

TIM MARSLAND

SA's gold and foreign exchange reserves rose by R764m in May to top R10bn for the first time, although economists cautioned that a reversal was likely next month.

Reserve Bank figures released on Friday showed total reserves increased to R10,4bn in May from R9,6bn in April. The value of the bank's gold holdings rose to R5,9bn from R5,8bn.

The quantity of gold held increased to 6,804-million ounces in May from 6,672 previously. The metal was valued at an average price of R861,22/oz from R870,21/oz.

Foreign assets rose sharply to R4,5bn in May from R3,8bn in April. May's notes in circulation climbed to R11bn from April's R10,7bn.

Reserve Bank Governor Chris Stals said at the weekend the increase in reserves raised liquidity in the money market.

Nedcor Bank chief economist Edward Osborn said it appeared that in May the entire benefit of the trade surplus — and the current account surplus — had accrued to forex reserves.

Insignificant or nil payments on the capital account were likely to have been made.

It also appeared that payments for May's imports had not started yet.

The figures could also reflect a low level of imports because of the extremely depressed condition of the economy.

He said the figures were in line with the bank's continuing objective of building up reserves to equal three months' import cover.

RX10

FW's Singapore trip 'step to closer ties'

81 Day 8/6/92 (74)

SINGAPORE — An SA delegation headed by President F W de Klerk arrived in Singapore yesterday, hoping to use the island state as a gateway to southeast Asia and learn from its dramatic development.

Sapa-Reuter reports that Foreign Affairs director-general Neil van Heerden said on arrival: "Singapore has a strategic economic interest for SA. We are hoping a foot in the door here will enable us to expand links in the region."

De Klerk, ending an 11-day trip which also took in Russia and Japan, is due to hold talks with Prime Minister Goh Chok Tong and Senior Minister Lee Kuan Yew.

"Singapore is a threshold we have been looking at for some time because of its position in the international trading system and geographic proximity to SA," said Van Heerden.

"We hope this visit will be the first step towards formalising relations with Singapore. We will be setting up a consulate-general here soon. We certainly hope normalisation happens this year."

The two countries have no formal diplomatic relations and annual trade amounts to only about $300m. But ties have improved rapidly since Goh made a surprise visit to SA last October after the Commonwealth summit in Zimbabwe.

During that visit, the first by a foreign

☐ To Page 2

Singapore

81 Day 8/6/92 (74)

☐ From Page 1

head of government in a decade, Goh held talks with De Klerk and met black leaders.

In March Singapore lifted a 27-year ban on SA imports as well as restrictions on oil and petroleum product exports.

"SA can be a source of raw materials for Singapore and Singapore can find an outlet for its consumer goods," Van Heerden said.

Singapore Airlines began flights to SA in March and the two nations signed their first formal agreement in May, an air services pact. The first weekly flight by SAA to Singapore arrived on June 2.

The SA delegation also wants to study the island's housing and social schemes.

"Certainly, there's wide agreement among the parties working to forge a shared government in SA that Singapore can inform us on creating a peaceful, successful democracy."

After talks with Goh at the Commonwealth summit last October, ANC leader Nelson Mandela said: "The experience of Singapore as regards economic questions and nonracial democracy is of direct relevance to us."

PATRICK CULL reports that it was learnt during De Klerk's visit to Japan that the giant Sony Corp intended strengthening economic ties with SA.

Sony corporate communications manager Georges Gerard said last week Tedelex would build TV sets under licence in SA and the latest technology would be transferred from Japan.

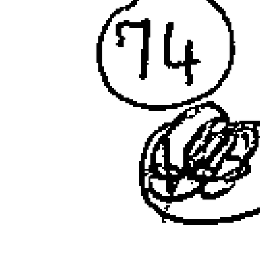
Sony's decision follows a meeting between its chairman Akio Morita and De Klerk on Tuesday, and will see the establishment of an assembly plant by Tedelex in October.

Gerard said Japanese experts would be sent to SA to set up the equipment and train personnel. But he stressed this was not Sony investing directly in SA.

HOUSE OF ASSEMBLY

QUESTIONS

†Indicates translated version.



For written reply:

General Affairs:

Amounts paid in *ad valorem* excise duty

285. Mr M J ELLIS asked the Minister of Finance:

What amounts were paid in each of the latest specified five years for which information is available in *ad valorem* excise duty on (a) locally manufactured and (b) imported (i) cosmetics and (ii) toiletries?

B712E

The MINISTER OF FINANCE:

Ad valorem duty on cosmetics and toiletries

	(a) Locally manufactured goods	*(b) Imported goods*
1986/04/01-1987/03/31 (i) and (ii) Cosmetics and toiletries*	89 114 520	7 750 664
1987/04/01-1988/03/31 (i) and (ii) Cosmetics and toiletries*	105 474 742	12 059 550
1988/04/01-1989/03/31		
(i) Cosmetics	30 418 261	8 647 014
(ii) Toiletries	88 095 154	6 533 740
1989/04/01-1990/03/31		
(i) Cosmetics	43 093 302	3 635 184
(ii) Toiletries	96 797 029	2 734 572
1990/04/01-1991/03/31		
(i) Cosmetics	57 734 932	3 753 803
(ii) Toiletries	59 720 064	1 341 866
1991/04/01-1991/12/31		
(i) Cosmetics	50 278 693	3 194 317
(ii) Toiletries	70 336 606	2 468 605

*For the financial years 86/87 and 87/88 separate figures for cosmetics and toiletries are not available.

Department of Development Aid: officials transferred

288. Mr W U NEL asked the Minister of Regional and Land Affairs:

(1) How many officials of the former Department of Development Aid were transferred to the service of the Natal Provincial Administration subsequent to the announcement of the intended abolition of that Department;

(2) with reference to the persons so transferred, how many had received promotion during the period (a) 1 April to 15 October 1991 and (b) 16 October 1991 to 31 March 1992?

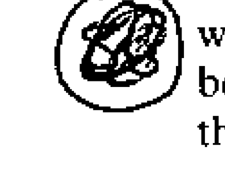
B715E

The MINISTER OF REGIONAL AND LAND AFFAIRS:

(1) 703 officials plus 1 414 workers from the South African Development Trust, in total 2 117.

(2) This information is not readily available as the records concerned are currently in the process of being transferred to the Natal Provincial Administration.

HOUSE OF ASSEMBLY



INTERPELLATION

The sign * indicates a translation. The sign †, used subsequently in the same interpellation, indicates the original language.

General Affairs:

St Lucia/Ramsar Convention: legislation

*1. Mr J CHIOLÉ asked the Minister of Environment Affairs:

Whether he will take steps to initiate legislation in terms of which prospecting and/or mining activities on the eastern shores of St Lucia will be prohibited if the delegation of the Ramsar Convention which recently visited the area finds that mining activities in that area are not desirable, regardless of the possible findings of the environmental impact study being undertaken at present?

B764E.INT

*The MINISTER OF ENVIRONMENT AFFAIRS: Mr Chairman, the hon member for Pretoria West wanted to know whether I would take steps to initiate legislation that would prohibit any prospecting and/or mining activities in the eastern dunes area of St Lucia if the delegation of the Ramsar Convention, that recently visited the area, should find that mining activities are not desirable in that area, regardless of the possible findings of the environmental impact study being undertaken at present.

In terms of section 3.2 of the Ramsar Convention, member countries are expected to notify the Bureau of the Convention if the ecological nature of any registered wetlands may be in danger of being harmed as a result of development or human behaviour. As a result of the proposed mining activities the goverment gave such notification in respect of the St Lucia wetlands, and serious concern was expressed at the triennial Ramsar Convention of 1990 about the possible effect thereof on the wetlands area.

In order to be of assistance to member countries, the Convention created a so-called monitoring mechanism. The delegation to which the hon member referred was invited, in terms of the monitoring procedure, to acquaint itself, on behalf of the Bureau of the Ramsar Convention, with the area as well as the procedures that are being followed at present in order to obtain a thorough environmental impact study.

Hon members will be aware that the Cabinet issued instructions on 13 September 1989 for a comprehensive environmental impact study to be carried out before a final decision was made. The thoroughness of the study is generally and also internationally acknowledged. A draft report should be available later this year.

For the sake of fairness all interested parties should refrain from making statements on whether or not mining activities at St Lucia will be permitted before the results of the environmental study are known.

The same applies to the Ramsar Bureau. Any finding such as the hon member mentioned would be inappropriate, the more so because the Ramsar Bureau or Conference in terms of article 6.2(d) only acts in an advisory capacity and only makes recommendations. It does not have any prescriptive authority.

It goes without saying that the Ramsar monitoring process creates an opportunity to determine international reaction to the mining proposals. The Government will take this into consideration as well when making the final decision.

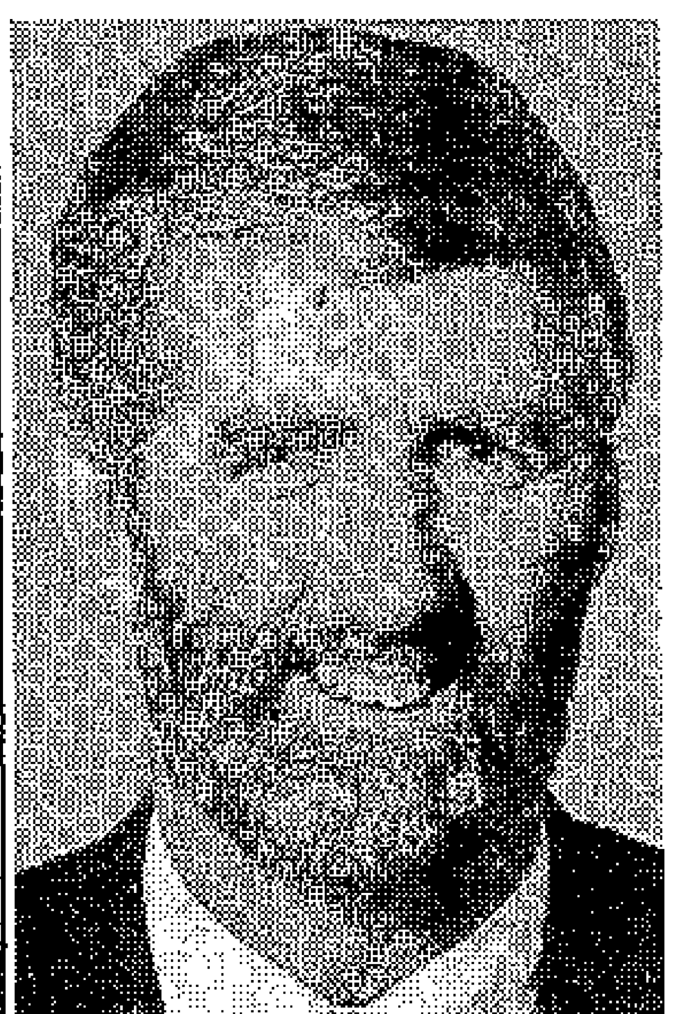
If the environmental impact study should indicate that the proposed mining activities will cause irreparable damage to the ecology of the wetlands, the Department of Environment Affairs and I will do everything in our power to prevent mining being proceeded with.

*Mr J CHIOLÉ: Mr Chairman, the reply of the hon the Minister that anyone should refrain from commenting until the impact study has been completed just does not make sense. Only on Sunday night the hon the Minister said on the TV programme *Agenda* that South Africa was so serious about environment conservation that we were signatories to various international conventions.

If there is one thing that the Government should understand, it is the fact that if a country is a signatory to an international convention, this by its very nature also entails international respon-

cont →

David Rennie has been appointed portfolio manager, investments division at Protea Assurance.



Wynand Theron has been appointed senior manager, group benefits (admin) at Sanlam.

SA's global expansion industry-led

JOHANNESBURG. — SA's industrial sector is the major motor for economic growth and will play the leading role in increasing international trade relations, according to a senior official of the Department of Trade and Industry.

Speaking at a function here yesterday, the director of the Department of Trade and Industry's newly-formed Industrial Development and Investment Centre, Dennis Fulton, said the country was entering an "era of an industry-led globalisation of the SA economy".

Fulton told over 100 foreign and local businessmen the integration of the SA economy with the rest of the world was important to strengthen the move towards international specialisation.

He said the IDIC was in the process of creating an environment that would facilitate industrial development in the country.

The structural approach necessary was "the lowering of the internal cost structure to make industry more productive and more competitive in national and international markets", he said.

Fulton said the process of economic adaptation would require the restructuring of tariff regulations to stimulate greater international competition.

Other steps in this process would include better anti-dumping measures, changes in monetary and fiscal policy to support an industrialised economy, and the further deregulation of the economy where it was appropriate. — Sapa

Finland extends R50m credit to SA

SHARON WOOD

FINLAND has extended a first-time credit line of $50m to SA, giving the domestic pulp and paper industry easy access to a major world supplier of the industry's equipment.

The agreement was concluded between the Industrial Development Corporation's (IDC) wholly owned credit finance subsidiary, Impofin, and Finnish Export Credit Limited, a statement released yesterday said.

Credit facilities would be organised directly between Impofin and the Finnish bank, IDC senior GM Malcolm Macdonald said.

A credit agreement was currently being finalised in Finland between an SA pulp and paper company and a Finnish equipment supplier.

The name of the SA company could not be divulged, Macdonald said.

SA had limited trade relations with Finland in the past because Finland had actively supported the voluntary EC trade ban, said Macdonald. But trade links were now officially established between the two countries.

Finland is a major world supplier of equipment for the paper and pulp industries, a field in which SA is a significant producer.

"Depending on the contract values of the imports, credit terms of up to seven years are available from the IDC at favourable interest rates," Macdonald said.

Business told to buck up for Asian markets

BlDay 9/6/92

SHERIDAN CONNOLLY (74)

SA BUSINESS would have to create new products and improve the quality of existing ones in order to compete successfully for trade in Asia, Safto international division manager Graham Limerick said yesterday.

Limerick told a news conference that a group of SA businessmen, led by Safto, had just returned from a two-week visit to Singapore, Malaysia, and Thailand.

"The people of these countries are eager to do business, interested in SA, and they provide SA with a perfectly sized market — not too big and not too small," he said.

NONRESIDENT INTEREST (74) FM 12/6/92

Reason prevails

Government's recent decision to reverse its policy on the taxation of nonresident interest may be a move towards a more coherent and investment-orientated tax policy. When Revenue reminded investors, in February, that some categories of interest earned on foreign investment were subject to income tax, the finrand took a plunge as investors rushed out even more quickly than they had rushed in, lured by high rates obtainable on finrand-denominated interest-bearing accounts (*Economy* February 20). The move was criticised by the *FM* at the time as damaging to confidence.

Unfortunately a reversal of the decision has not had a symmetrical influence on the finrand. Confidence is easy to damage, difficult to restore, especially as the fortunes of the Codesa negotiations fluctuate. A renewed flow of funds into the finrand wouldn't have any immediate benefit because there would be no effect on reserves. But, as the first move towards abolishing exchange controls on nonresidents and eventually on residents, it would lay the groundwork for eventual benefits to the economy.

Of equal importance is the restoration of coherence to fiscal policy, which means an end to the recent sudden shifts in tax policy, to gain relatively small amounts in revenue. In his parliamentary speech announcing the concession, Finance Minister Derek Keys stressed that the loss of revenue would be modest, especially as many categories of interest derived by persons not ordinarily resident in SA, or to companies not managed or controlled in SA, were already exempt. The same goes for emigrants, to whom the exemption will also apply, provided they don't carry on business in SA.

Keys explained that various exemptions already applied to interest earned by nonresidents. On:

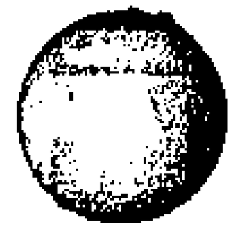
- Funds blocked in terms of the debt standstill;
- Stocks and securities issued by government, local authorities, Eskom and Transnet — a provision widely used by emigrants as an avenue for investment of their blocked funds; and
- Capital which was made available to the borrower outside SA and which, in terms of existing income tax law, is not derived from a source within SA.

Cont →

FM 12/6/92 (74)

Technically, other interest which is derived from a source within SA remains subject to tax, though the yield is low, partly because of the problems encountered by Revenue in obtaining returns and raising assessments on foreign lenders.

Moreover, said Keys, there is now a move in the EC towards taxing interest income only in the country where the recipient is resident. ■



INTEREST RATES

Cresting a liquidity wave

FM 12/6/92

No wonder Reserve Bank Governor Chris Stals fears the effects of liquidity in the money market in the months ahead. Following a rise of R2,5bn in foreign exchange reserves in the first five months of the year, he last week announced measures to counter "a further substantial addition of liquidity to the money market from now until the end of August."

He was referring to government spending and what is bound to be a burgeoning deficit — because this spending will not be adequately offset by tax payments.

An indication of the dimensions of the problem comes in figures for April — the first month of the fiscal year — on receipts into and transfers from the State Revenue Account. Expenditure at R8,9bn was up more than 11% on the previous April. Though this is well below the inflation rate for that month it has to be measured against revenue collected:

- ☐ Inland revenue was up less than 0,1% over the previous April, at R4,646bn;
- ☐ In particular, VAT collections in April amounted to only R1bn, compared with GST collections of R1,6bn a year ago, and compared with an average monthly budgeted estimate of R1,75bn;
- ☐ Income tax receipts in April amounted to R3,3bn, compared with a budgeted monthly estimate of R4,2bn;
- ☐ Collections from Customs & Excise were up by 34% at R1,252bn, largely because of increased fuel levies, but these were dissipated by transfers amounting to R1,203bn, in Customs Union payments, producing a net R49,6m. This is down 59% from the previous April; and
- ☐ The grand total was barely changed at R4,7bn.

When amounts in transit are taken into account, the inflow into the Exchequer Account amounted to R5,3bn. It is the difference between this last figure and expenditure that has boosted market liquidity and softened interest rates.

No wonder Stals felt the need to take further action. He has decided to:

- ☐ Offer special, fully tradeable bills with a maturity of nine months to the market on tender. They will be rediscountable with the Bank only if they have a remaining outstanding maturity of 91 days or less. If not they will qualify as assets and will be accepted as collateral for overnight loans from the Bank;
- ☐ Double the balances which authorised foreign exchange dealers may hold abroad to $632bn; and
- ☐ Increase the level of cash reserves banks must hold against short-term liabilities, from 4% to 5%, by not later than July 21.

The move failed to halt the slide in rates.

Stals ... *battling liquidity*

FNB treasury head Ken Russell reports that the rate on bankers' acceptances was no higher at 14,55%, in the days following a *Business Day* report, on June 3, of a meeting at which Stals told bankers of his intentions. The rate on the RSA 12% declined from 16,17% on June 1 to 15,94% by June 4. And the rate on the Eskom 11% fell from 15,94% to 15,74%.

The outlook for the rest of the year is discouraging for Stals, who is attempting to keep interest rates above the inflation rate. He hopes that, by September, government revenue will catch up with expenditure.

However the April deficit — the difference between expenditure and revenue — is more than R4bn. Obviously this can't simply be extrapolated over the rest of the fiscal year because expenditure and revenue don't flow uniformly. But given that the budgeted deficit for 1992/1993, before capital income transfers, was R15,9bn (4,5% of estimated GDP), the figure is horrendous. It is more than 25% of the total.

Furthermore, only two months after the Budget, Minister of State Expenditure Amie Venter presented parliament with a supplementary budget of R2,8bn. "But, on his own admission, the supplementary budget is likely to be exceeded," says Nedcor chief economist Edward Osborn.

"The worrying aspect about the April revenue figures is that they point to the possibility that the budgetary revenue estimates were overoptimistic and did not take sufficient account of the depths of the recession we are going through (see p34)." He suggests the budget deficit in the fiscal year may be closer to R20bn — a huge 5,7% of GDP. ■

Violence 'a problem' for SA's super salesman

STAR, 13/6/92.

BRENDAN BOYLE

CAPE TOWN — Apartheid reform has enabled President F W de Klerk to talk business in 33 countries since 1990, but violence and stalled democracy negotiations have made it hard for him to deliver any deals.

De Klerk got back on Monday from Russia, Japan and Singapore, his 14th safari to barter political change for a return to the world economy. He told reporters on his return he had no guarantees of new economic ties, but expected an improvement in trade with Japan and Singapore.

"Our goals were not to go back to South Africa with signed agreements of any nature (but) to explore and lay foundations for long-term mutually beneficial agreements. "The continuing violence is a problem."

Western diplomats, speaking on condition of anonymity, said in Cape Town that little had actually happened as a result of De Klerk's travels to boost South Africa's flagging economy. De Klerk has visited countries as diverse as Poland, Taiwan, Ireland and France since South Africa's diplomatic isolation began to ease two years ago.

One European envoy called him a consumate salesman and said his travels since he began to dismantle apartheid in February 1990 had increased the potential for trade. "But if you ask me, has he brought home new deals, new business? Well, I have to say, no, not directly."

The South African economy, skewed by 40 years of apartheid, is battling to break out of its longest post-war recession.

"There is a lot of sniffing around, a lot of research is being done in South Africa, but President de Klerk cannot pretend the violence is subsiding or that agreement on an interim government is near," said one diplomat.

About 1 000 people have been killed this year alone in fighting, mainly between the African National Congress and the Inkatha Freedom Party. One diplomat said Western leaders probably accepted that De Klerk was doing all he could to end the violence, although the ANC accused white-led security forces of fanning the conflict.

Foreign Minister Pik Botha played down the effects of the violence on De Klerk's credibility abroad — and the slow progress in talks on transition to democracy. "There is great admiration for him out there and a firm belief that this Government must not be ousted, that it must be part of the decision-making process."

Pretoria has opened 15 new embassies in the 28 months since De Klerk freed Mandela. But ANC spokesman Saki Macozoma is sceptical about the benefits of the welcome given to De Klerk in world capitals.

"They over-estimate him. The red carpet rolled out for him abroad is likely to be translated into increasing intransigence at the negotiating table."

Deputy Foreign Minister Renier Schoeman concedes that violence and instability are also delaying South Africa's entry to Middle-East markets.

"It is understandable that the often-heated rhetoric of the political debate ... contributes to an atmosphere of uncertainty," he said.

"There are still constraints inhibiting the expansion and consolidation of economic and political relations between South Africa and the Arab world." — Sapa-Reuter.

(74)

Look to the Far East for the future

AN INCREASED number of Far East countries are set to become increasingly significant as South Africa's trade and investment partners, believes Collin Wright, Johannesburg's Director of Commerce and Industry.

Wright, who is charged with developing Johannesburg as the gateway to southern Africa, recently returned from the Far East where he explored opportunities in trade and investment.

He met with key figures in business, banking and industry in Hong Kong, Tokyo, Seoul, Beijing, Taipei and Singapore.

His visit to Beijing has drawn a reciprocal response in the form of a ministerial delegation which Wright will host in Johannesburg later this month.

In Hong Kong, Wright met with some of the city's biggest property owners to discuss future possibilities for property development in Johannesburg.

SA is now considered a prime destination for Hong Kong immigrants, he said.

In a presentation arranged by the Singapore International Chamber of Commerce to more than 120 key Singapore businessmen, Wright detailed investment opportunities in Johannesburg. A personal computer manufacturer had confirmed its intention of opening a factory in Johannesburg soon.

Singapore's Trade Development Board had also confirmed it would be leading its first trade mission to SA next month.

Wright says that many Japanese businesses intent on trading with and investing in SA were waiting for their government to establish formal investment channels. He believes that President FW de Klerk's visit to Tokyo would make a significant contribution in this regard.

In South Korea Wright met the executives of six of the largest diverse corporations which have shown a keen interest in SA. Some of these corporations already had offices in Johannesburg.

Wright said that the Import-Export Bank of the Republic of China in Taipei was offering low-interest rates with special repayment conditions to Taiwanese corporations investing in trade and manufacturing facilities in SA.

Speaking on a Hong Kong radio station, Wright said that SA's existing infrastructure was well-placed to take better advantage of a global economic upswing than other newcomers to the global economy like Eastern Europe and Russia.

Restrictive trade policies 'impede global growth'

BASEL — Industrialised nations needed to do away with restrictive trade policies in order to stimulate global growth, the Bank for International Settlements said in its latest annual report.

The bank was particularly critical of bilateral agreements which lead to "managed trade" in manufactured goods.

"It is difficult to overstate the extent to which such measures undermine the multilateral trading system, distort the allocation of resources, weaken investment and act as a drag on the growth of the world economy," it said.

"Anti-dumping measures often mask attempts to protect domestic producers from more efficient foreign competitors."

These measures restricted consumer choice, inflated costs and raised prices. They weakened a "vital force for greater productivity".

The organisation added that the measures did little to promote domestic output and employment because measures that protected one industry inevitably hurt others, through exchange rate appreciation and by inflating costs.

The bank said the industrialised world should open up further to exports from developing countries, now that many of these nations had freed their trade.

While developing nations had increasingly pursued radical trade liberalisation measures, the industrial world had limited its openness.

Many potential exports from developing countries were goods most protected by industrial countries, such as agricultural products, semi-finished manufactured goods, clothing and textiles, it said.

Other aspects of the move away from free trade by the industrialised nations included the fact that the growing trade in services still remained outside the GATT, that agricultural production and trade had become increasingly separated from comparative advantage and that moves towards liberalisation were negotiated in a regional, rather than global, context, the bank said.

Regional free trade arrangements — such as the EC and the prospective north American free trade area between the US, Canada and Mexico — tended to divert demand from more efficient producers in the wider world unless accompanied by vigorous measures to reduce barriers to trade with third countries.

The bank also said that the EC's move toward European monetary union (emu) faced a difficult road to implementation, and if it succeeded could have some negative consequences for member countries.

Cited benefits of emu, such as exchange rate stability and low inflation, had already been realised or could be achieved without moving to a single currency, the report said. — AP-DJ.

SA debt still trading at attractive levels

STAR 16/6/92. (74)

By Neil Behrmann

LONDON — South African foreign debt frozen under the 1985 debt moratorium, continues to trade at a wide premium over Latin American and other developing countries' restructured loans.

Despite the latest political uncertainty, top quality SA Public Investment Commission (PIC) debt, which is part of the $14 billion frozen under the standstill agreement, is trading around 88 US cents on the dollar.

This compares with Mexico at 66c, Venezuela 61c, Argentina 49,5c and Brazil 39,5c.

Nigerian debt is trading at 40,5c on the dollar and Ivory Coast, a key coffee and cocoa producer at only 8c.

Meanwhile, Polish debt is quoted at 26,5c on international markets, Yugoslavia 22c and Bulgaria 15c. The market in huge amounts of Commonwealth of Independent States debt, is virtually non-existent. The price quote is 30c to 60c, say traders.

Despite the premium over developing country debt, Eskom dollar bank loans that were caught in the moratorium and have been restructured to a redemption period of five to seven years are on yields of 13 percent to 15 percent for investors.

Compared with Latin American dollar debt the Eskom paper is very attractive, says Phillipe Batault, an associate director of Ceres Capital.

Ceres, an active trader in SA moratorium debt, recently bought PIC debt for Hambros to finance investment in Conservation Corporation.

Martin Currie, a leading Edinburgh investment trust company and a group of trusts associated with the American Getty family have joined Hambros in investing £5 million out of £12 million in Conservation, a company involved in tourist development in South Africa.

Disappointing

While SA debt trades at a handsome premium over other developing countries' paper, its performance this year has been disappointing.

At the beginning of December 1991 quality SA PIC foreign debt traded at 94 SA cents to the rand, falling to 86,5c just before the referendum. Since then it has appreciated to only 88c because of the widening rift between the Government and ANC.

Mr Batault blames the poor performance on the financial rand which is languishing at 80,5 US cents to the dollar, a discount of nearly 20 percent to the commercial rand.

Since SA debt is sold to international corporations that take a long term view and finance projects in South Africa, it trades at a premium to the financial rand, say traders.

Top European companies purchase the debt in esoteric financial schemes to finance South African operations and new investments. About $3,5 billion of the moratorium debt has been used for this purpose, estimate traders.

The financial rand, on the other hand, is mainly affected by sentiment relating to short-term flows of funds and purchases and sales of securities.

Nevertheless it affects sentiment in the debt market. SA foreign debt is trading at nearly an eight point premium to the financial rand, whereas previously the gap was much narrower.

Unless the financial rand rate rises, potential corporate investors will be reluctant to chase prices of SA debt.

The financial rand initially surged by two percent to 29,15 US cents following finance minister Derek Keys' announcement that all interest on foreign investment would be exempt from taxes.

But the market then chose to ignore Mr Keys' positive steps to remove foreign tax uncertainties.

Instead, international investors are focusing attention on the threat of mass strike action.

Development Bank seeks Japanese credit

SHARON WOOD

THE Development Bank of Southern Africa has applied for a $300m to $400m credit line from Japan's Export-Import Bank for projects in SA, Zambia, Zimbabwe and Botswana.

Finance Department and Japanese Embassy spokesmen confirmed that discussions about the loan had taken place earlier this month in SA between members of the department, the Development Bank, the ANC and the Export-Import Bank.

"A delegation from the Export-Import Bank did meet Trade and Industry and Finance Minister Derek Keys earlier this month but nothing was concluded," a Finance Department spokesman said.

A Japanese Embassy spokesman said the Export-Import Bank had not decided on whether it would extend the loan.

The Export-Import Bank traditionally provides assistance in two forms; either through export-import credit or soft loans.

It is understood that the Finance Department identified the Development Bank as a candidate for loans from the Japanese bank. The Industrial Development Corporation could also be a beneficiary, a source said.

AP-DJ reported yesterday that private Japanese investors would base their SA plans largely on the bank's decision.

Foreign Minister Pik Botha meets his Moroccan counterpart Abdellatif Filali, left, at Jan Smuts Airport yesterday. Picture: ROBERT BOTHA

Minister on trade visit

MOROCCAN Foreign Minister Abdellatif Filali arrived yesterday on an official visit that would pave the way for a Moroccan trade delegation expected in SA next week.

Filali was one of several senior African representatives who arrived at Jan Smuts Airport yesterday, in transit to other destinations.

Foreign Minister Pik Botha said at the airport that Mozambican President Joachim Chissano, Botswana's President Quett Masire, Swaziland's prime minister and Rwanda's foreign minister had all shown up.

Meanwhile, the Singapore Trade Development Board said yesterday a business delegation would visit SA from June 28 to July 3 to establish contacts and explore trade and investment opportunities.

The delegation will include representatives of food and beverage, leisure, property development, commodity trading, electronics, marine services, telecommunications and packaging companies, the board said. — Sapa-AP.

BDay 16/6/92

US slaps embargo on SA missile project

STAR 17/6/92

By Hugh Robertson
Washington Bureau

WASHINGTON — South Africa's surface-to-surface missile programme has been identified as one of 21 international weapons development projects on which a new United States embargo was enforced yesterday.

The US Commerce Department said the embargo was part of an international effort to prevent the spread of weapons of mass destruction. Details of prohibited goods and services would be published in the Federal Register.

The embargo apparently will prohibit US citizens from being involved in designing, building or testing missiles in South Africa, and will ban the export of a wide range of materials to SA and 20 other countries, including Iraq, China, India and North Korea.

Penalties for US offenders include 10 years' jail and fines of up to $1 million (about R2,8 million).

The new measures follow the failure earlier this year to persuade the South African Government to sign the international protocol on the limitation of weapons of mass destruction — and, specifically, their means of delivery.

DJ Jay 'needs to relax'

Alex Jay, one of South Africa's most popular radio disc jockeys, is in hiding until he is well enough to return to work.

Radio 5 managing director Lance Rothschild said Jay was resting after collapsing from exhaustion and stress. Rumours flying round since Jay took sick leave were unfair because "all Alex needs is relaxation and isolation." — Staff Reporter.

Taking five . . . popular disc jockey Alex Jay is in hiding.

Musician killed, robbed at home

Johannesburg musician William Andrew Schultz (5[illegible]) was stabbed to death in h[is] Brixton home at the weekend. His body was found b[y] his domestic worker on Mo[n]day. Police believe the motive was robbery.

Fined over ivory

A former ANC exile yesterday pleaded guilty to possession of ivory in the Hillbrow Magistrate's Court. Vusumusi Masondo (35), o[f] Soweto was sentenced t[o] R30 000 or three years in jail and an additional fine o[f] R10 000 or one year in jai[l] for the value of the elephant.

Statutory rape case

A university student received a 12-month suspended sentence in the Krugersdorp Regional Court yesterday after being found guilty o[f] statutory rape. Sean O'Sullivan (21), of Plot 13 Sonnedal, Muldersdrift, admitted having sex with a girl, then aged 12, for a period of a year.

Lake project launch

A public participation programme for Pretoria's lake project was launched last night. The city council said it was similar to Cape

Japanese credit could boost liquidity

BDay 17/6/92

SHARON WOOD

MONEY market liquidity could surge if the Development Bank of Southern Africa's application for a $300m to $400m (about R1bn) credit line from Japan's Export-Import Bank was successful, money market analysts said yesterday.

The size of the loan was huge for a market already flush with liquidity, and the Reserve Bank definitely would act to drain the market.

"If the loan is brand new, Reserve Bank Governor Chris Stals will have a problem reducing the liquidity it will create in local money markets.

"If there was no Bank action, the market would get the wrong message and bring the money market rates down again ... but the Bank could neutralise the effect, and I believe it will do so," one analyst said.

He predicted that the loan would bring the money market shortage down to about R300m or R400m, a level the Bank would not be happy with. The money market shortage has ranged between R1bn and R1,8bn during the past week. The Bank would have to resort to dollar swaps and issue more short-dated Treasury bills to reduce market liquidity.

One analyst said the effect on the money market would depend on whether the Development Bank was already borrowing in the local market. If so, the bank could use the offshore credit line to pay off domestic loans, which would increase domestic liquidity levels and soften interest rates.

Development Bank head Andre Le Grange refused to comment yesterday on the credit application.

Viljoen's plea to Europeans

74

BRUSSELS - Pretoria's chief negotiator in talks to end apartheid, Dr Gerrit Viljoen, appealed to the European Parliament here yesterday for foreign aid and investment to South Africa. Sowetan 18/6/92

In an address to the Euro-parliament's foreign affairs commission, he also called for foreign pressure on extremists on the left and right in South Africa to make them join negotiations towards an apartheid-free constitution.

Viljoen, Minister for State Affairs, said a week of mass action by the African National Congress on Tuesday risked degenerating into political intimidation and violence.

The ANC called the protest to pressure the Government into more concessions in constitutional talks, which deadlocked over Pretoria's insistence on safe-guarding minority rights under future black majority rule.

Viljoen said the call by ANC leader Mr Nelson Mandela was "putting the negotiation process under stress and intimidation" but added that talks were continuing behind the scenes.

He pleaded with foreign governments to give development aid to South Africa and encourage private foreign investment while waiting for a new democratically-elected government.

Viljoen added that the scrapping of apartheid had induced "tremendous overheated expectations" among the country's black majority which could turn into violence if frustrated by continuing low economic growth.

Earlier, Viljoen met with Frans Andriessen, vice-president of the European Commission, the European Community's executive arm. - *Sapa-AFP*

Classification the key

Sowetan 18/6/92.

By JOSHUA RABOROKO

(74)

TRADE and aid preferences between the European Communities and a future South Africa will be highly dependent on its international economic classification.

If South Africa were to be granted developing country status with membership to Lome agreements, a strict quota system would operate for the country in a variety of product areas.

In an article published this month in the *South Africa Foundation Review*, Mr Robert Swain, director of Strategy Network International United Kingdom, argues that South Africa should not apply for Lome membership, but continue to promote a case for access to EC development aid funding.

The article says the South African relationship, as "developing" country status, demands a different approach.

Obviously there will be some difficulty in agreeing on the best choice of trade regime for both parties as the special circumstances of South Africa's trade in the past few years do not provide a basis for assessing the pros and cons of future options.

The EC is a major market and the UK and Germany are its most important trade partners. Both these EC countries will therefore encourage the best outcome for South Africa with regard to EC trade preferences as they have more to gain than others.

In addition it will require massive investment in health and education over the next few years to right the wrongs of apartheid and reduce unemployment.

The most useful trade arrangement would be that directed towards its labour-intensive areas - the same areas where neighbouring states enjoy EC assistance.

It has to be said that very few of South Africa's current exports to the EC would benefit from trade preferences. There would be firm objections within the EC to any beneficial arrangement for some of South Africa's existing exports which are EC sensitive, such as coal and steel.

Viljoen calls on Brussels to encourage foreign aid

Bday 18/6/92

BRUSSELS — Pretoria's chief negotiator in talks to end apartheid, Gerrit Viljoen, appealed to the European Parliament in Brussels yesterday to encourage an immediate return of foreign aid and investment to SA.

In an address to the Euro-parliament's foreign affairs commission, he called for foreign pressure to be put on extremists on both sides in SA to join negotiations for a new constitution.

Viljoen, State Affairs Minister, said a week of mass action launched by the ANC on Tuesday risked degenerating into political intimidation and violence.

The ANC called the protest to put pressure on government to make more concessions in constitutional talks deadlocked over Pretoria's insistence on safeguarding minority rights under future black majority rule. Behind-the scenes talks were continuing.

He pleaded with foreign governments to give development aid to SA and to encourage private foreign investment without first waiting for the installation of a new, democratically-elected government.

"The sooner those governments ready to do so help us with development funding and facilitate new investment by the private sector in economically viable projects, the sooner the socio-economic climate will promote the holding of (all-race) elections," he said. — Sapa-AFP.

Keeping the lid on SA embargo-busters

The conviction of an arms-smuggling mastermind has opened a can of worms involving South Africa's ability to bypass global embargoes.

ARTHUR GAVSHON *reports*

THE United States has intensified an international watch on South Africa's aerospace and missile development programmes after US and British investigators discovered firm evidence that embargo-busting has been going on for years. Other countries are also being subjected to closer surveillance.

After last week's conviction of James Guerin (61), who admitted masterminding the smuggling of $50-million worth of weaponry into South Africa, US authorities said they welcomed South Africa's recent accession to the Nuclear Non-Proliferation Treaty, which binds signatories to stay out of the nuclear-weapons league.

But the authorities, speaking privately from Washington, stressed they have become acutely aware of South Africa's capacity to circumvent the mandatory global embargo on armaments trading with the help of other hold-out countries and greedy private corporations. They noted also that successive South African governments have been party to this process.

Guerin was jailed for 15 years by a Philadelphia court after pleading guilty to presiding over evasion of the United Nations arms emargo, laundering nearly $1-billion through Swiss banks from 1983 to 1989, and falsely inflating the price of his company which he sold to British conglomerate Ferranti International.

A Ferranti informant told *The Weekly Mail* that Britian's Serious Fraud Office and the Foreign Office had helped US investigators bring Guerin to justice. But he admitted that although South Africa served as a conduit, the detailed routes used for the delivery and sales of some of the arms still remain a mystery.

Guerin's guilty plea related to two 1990 indictments:

●In the first, his holding company, Paren Industries, was accused of racketeering and fraud. Prosecutors said he also diverted millions of dollars for his own use, including $1-million to pay blackmail money to a corporate lawyer representing his International Signal and Control Corporation.

●In the second indictment, which did not name him, 10 Americans, seven South Africans and three South African companies — including the state-owned Armscor — were accused of supplying arms components to South Africa in breach of embargo rules. Some of this material — specifically 300 000 power supplies — was fitted into 155mm artillery shells bought by Iraq and fired at US forces in the Gulf war. The other defendants still await trial.

During the final stage of Guerin's trial, these additional developments surfaced:

●US attorney Robert Goldman revealed that the South African government, seeking to head off Guerin's prosecution, offered to grant him asylum. Guerin, described by associates as a family man, declined. Other US defendants still awaiting trial were also offered refuge. So far as is known, only one — identified as James Russel — has reportedly picked up the offer, plus an estimated $2-million generated by the arms-smuggling operation.

●A one-time deputy director of the US Central Intelligence Agency certified in a letter to the court that Guerin had links with the CIA at the time he and his firm were smuggling weapons into South Africa. The CIA official was identified as Admiral Bobby Inman.

The US officials who spoke of an intensified international watch on South Africa's arms trading and aerospace activities said this is being mounted by a 20-nation group known as the Missile Technology Control Regime (MTCR). It has the job of countering the spread of missiles through strict national curbs on exports.

They said participating countries — which now include Germany and Switzerland — are regularly revising and updating those curbs. Through their individual and co-ordinated investigations, they will seek to ensure that all missiles able to deliver weapons of mass destruction, including chemical and biological weapons, do not proliferate.

Even non-members of the MTCR group are being urged to abide by agreed export controls. Russia, certain East European states, Israel and China are among them.

The officials said the US is preparing ever-tighter safeguards and is calling on firms and individuals to report any dubious orders, even if the end use may have a civilian connotation. In this context, a 1990 US law already sanctions missile exports to South Africa as well as China, Pakistan, Iran, Iraq and North Korea. This means almost all sources of missile technology to South Africa have legally been banned.

A port of great import

■ Cape Town harbour is constantly adjusting to keep pace with changes in the political, economic and shipping spheres.

IAN SHIFFMAN, Shipping Correspondent

THE port of Cape Town, at the centre of the world's shipping routes, acts as a major maritime centre on busy sea lanes.

Today Cape Town is a highly equipped port offering ship owners all the facilities expected of a modern harbour.

With the recent introduction of high-speed daily container trains between Cape Town and Johannesburg, Transvaal importers are landing their containers in Cape Town instead of Durban, enabling them to arrive at their destination four days sooner than if they had been discharged at Durban.

About 500 containers a month destined for the PWV area are being landed in Cape Town.

Portnet places an important emphasis on its staff, and the development of job skills is receiving attention.

For the financial year 1992/93 R5,2 million has been set aside for capital projects in the port of Cape Town, of which R156 000 will be spent upgrading equipment and facilities.

Some of the allocation will go to the construction of a chemical tank farm in a joint venture between Portnet and Richards Bay Bulk Storage (Pty) Ltd.

About 5,6ha of land is being reclaimed on the southern side of the container basin on which tanks will be erected for the storage of hazardous chemicals.

Initial capacity will be 16 000 tons and when the project is completed the tanks will hold more than 42 000 tons.

In another R20 million partnership venture between Portnet and the cold storage division of Oceana Fishing Group and ICS, the first sashimi cold storage facility outside Japan is nearing completion on the quay side at K Berth.

This modern complex will provide for the offloading of fish directly from fishing vessels into the cold store and directly from the cold store onto fish carrier vessels for transhipment to Japan.

Fresh fruit exports account for more than 60 percent of all Cape Town's exports, exceeding 400 000 tons a year and earning South Africa in excess of R1 billion a year in foreign exchange.

This sector showed a 32 percent growth between 1985 and 1991 and the next five years should see a further increase of about 43 percent.

A R25 million project has been started to include new cold storage areas which will double the capacity to 50 000 tons.

In the past the harbour only exported maize. Now, nearly half a million tons will be imported through the port over the next year. It is destined for Zambia and Zimbabwe.

To facilitate distribution of mainly coastwise cargoes landed from Ro-Ro vessels, a R3 million shed has been erected in the container harbour.

A further important development will be the conversion of A Berth to a passenger terminal.

The Ben Schoeman Dock has four 35 ton gantry cranes and a slightly smaller gantry crane to handle mostly coastwise containers. The container terminal operates non-stop.

The port also operates 24 hours a day and is served by four Voith Schneider tugs, one smaller tug, two launches (mainly to assist fishing vessels and two pilot cutters.

The harbour has a well-established ship repair industry with two fully serviced dry docks. The Sturrock dry dock is the largest in Southern Africa with an overall docking length of 360m and a width of 47m.

Repairs and maintenance are carried out alongside the berths and a variety of underwater services are offered.

A unique facility to passing ships is the helicopter and launch service which rendezvous with vessels as they pass, delivering mail, stores and spare parts.

With the increase in trade, a bright future lies ahead for the harbour.

□ **AERIAL VIEW:** The layout of Cape Town harbour is well depicted in this aerial view above.

□ **FLOATING CRANE:** Cape Town harbour's floating crane Inkunzi, right, holds a luxury catamaran while placing her on board the vessel Sky Bird, which was transporting the 36m cruiser to Monte Carlo.

Why SA is losing out on foreign investment

Many countries offer attractive investment incentives as competition to corner the world's limited capital heats up. But not South Africa. ZILLA EFRAT reports

FOREIGN investors are not waiting for South Africa to get its act together. They are going elsewhere — to countries which offer far more attractive packages.

Experts say SA's investment incentives are unco-ordinated, complex and compare poorly with many countries.

"It is almost a case of too many opportunities chasing too little funds," says Sacob deputy director-general Ron Haywood. "High risk countries are losing out."

Industrialised countries, especially the US, Japan and EC nations, receive the lion's share of world foreign investment.

However, developing countries in South-East Asia, Eastern Europe and Latin America are increasingly attracting this investment. This is despite the slow down, over the last five years, in the growth in worldwide direct foreign investment.

Largest

These countries are scoring from a trend to move manufacturing bases of highly competitive products into regional export markets and countries with lower production costs and export processing zones.

One country that has benefited from this trend is Malaysia. Its annual foreign investment has grown from below M$300-million in the early 70s to M$9,5-billion in 1991.

Chile's foreign investment per capita is the largest in South America. It has grown steadily in recent years, from $137,4-million in 1985 to about $1,2-billion in 1990.

In addition, recent research shows that 22% of the Global 1 000 companies regard Central and Eastern Europe as their top investment priority over the next five years.

Many countries are aggressively marketing their varied investment incentives, even to South African investors.

For example, Gibraltar has targeted SA as its prime market to sell its investment package to.

A recent delegation from Dubai hired a conference room at a Johannesburg hotel to outline Dubai's benefits — and then treated more than 400 guests to lunch.

But investors are coming to SA in dribs and drabs.

Foreign companies gain a foothold in the local market by establishing offices, appointing agents and looking for partners. But they are not yet committing major capital, says Webber Wentzel partner Leora Blumberg.

SA's major plus as a base for investment is its use as a stepping-stone into Africa — particularly southern Africa.

Other advantages include its developed infrastructure, abundant raw materials, low energy costs and its sophisticated financial services sector.

SA's key drawbacks, however, are political instability and violence.

Other negatives are its poor economic growth, high inflation, bureaucratic red tape and a lack of perceptible investment by South Africans themselves.

Observers say SA's corporate tax is high at 48% — compared with a maximum of 40% in most industrialised countries.

SA also lacks both export processing zones and agreements with many major foreign investing countries to avoid double taxation. In addition, it offers no guarantees to potential investors.

Foreign investors can take advantage of SA's Regional Industrial Development Programme (RIDP) and various incentives offered by regional and other development corporations.

The RIDP offers grants over five years for new manufacturing operations. There is also an incentive for relocating to SA, where up to R1-million can be reimbursed.

Export incentives — which include the General Export Incentive Scheme and Export Marketing Assistance schemes — will especially benefit producers of value added products. However, observers say these conflict with GATT principles and could change in the future.

Tax incentives exist for depreciation, lease premiums and research.

Tax experts say the recent exemption of tax on interest accrued by foreign investors with certain exclusions, ha[s] been a positive development adding certainty to invest[]ment conditions in SA.

The use of the finrand however, offers both advan[]tages and disadvantages t[o] foreign investors.

WHAT OTHER COUNTRIES OFFER:

MALAYSIA: Malaysia has abundant natural resources, high economic growth and low inflation. It offers political stability, good infrastructure and inexpensive labour — $1,75/hr on average, compared with $4,75/hr in SA.

The corporate tax rate is 35% and there are tax incentives for investments in the manufacturing, agricultural and tourism sectors.

These include tax holidays, investment allowances, accelerated depreciation allowances and reinvestment allowances.

There are various incentives for exports, R&D and training.

Export benefits include tax allowances, short-term credit at preferential interest rates and help with export credit reinsurance payments.

DUBAI: Dubai has access to more than 1,2-billion consumers. Close to 70% of its imports are re-exported to more than 120 countries.

It has a highly sophisticated and efficient infrastructure to support its growing re-export business.

Dubai's Jebel Ali Free Zone offers full foreign ownership, exemption from import duties, full repatriation of capital and profits, freedom from corporate tax and a 15-year guarantee.

Companies setting up regional head offices pay no tax and are not subject to foreign exchange controls.

Dubai offers inexpensive labour, largely from the Indian sub-continent, cheap energy and is crime free.

CHILE: Chile does not have a special foreign investment package.

According to Chile's economic counsellor to SA, Roberto Aguayo, the major reason for the large growth in foreign investment is Chile's economic and political stability compared with the rest of Latin America.

Import duty is 11% across the board and the maximum corporate tax rate is 35%. There are tax breaks for reinvesting of profits.

HUNGARY: Advantages include geographic position, modest wages, high education standards and new legislation to assist investors.

Full repatriation of profits in the currency of original investment.

The government offers guarantees against nationalisation and expropriation of property.

Foreign companies effectively pay corporate tax of around 28%. The general tax rate is 35% on an initial amount — HUF3-million — and 40% thereafter.

Ventures in specified priority areas — such as electronics, tourism and telecommunications — which have foreign participation of more than 30% enjoy a five-year 100% tax holiday. This is followed by a further five years with a 60% tax holiday.

Companies with foreign participation, and which derive more than 50% of their profits from manufacturing, enjoy 10 years' tax relief — a 60% reduction in the first two years and 40% thereafter.

There are also tax benefits for development in some regions, foreign banks and insurance companies.

In addition, companies with foreign participation may establish their own free trade zones.

Dubai draws SA exporters

EXPORTERS are clamouring to take part in a South African exhibition in Dubai in October. The huge interest has prompted Safto to send its trade fair manager to Dubai with an urgent request for a second exhibition hall and more stand space.

Safto has already received confirmed applications or payments for more than half of the available stands.

The exhibition, organised with the De[]partment of Trade and Industry, was offi[]cially launched at a Johannesburg func[]tion held by the Dubai Chamber o[f] Commerce and Industry earlier th[is] month. The first exhibitor signed up the[re] and then.

Since the launch, Safto has bee[n] swamped by calls from potential exhib[i]tors.

Give your investm[ent]

Time to tap into Africa's tremendous potential

AFRICA is seen as a poverty-stricken, AIDS-ridden and marginalised continent by many.

But astute businessmen, including South Africans, realise they could tap into more than $10bn in development aid allocated to Africa every year, much of it never spent because appropriate projects are not identified.

They also see the enormous potential of the Sub-Saharan market of more than 450-million people with spending power contributing to annual GDP in excess of $220bn.

Changes

They know that SA is believed to have made about R10bn from exports to Africa last year and that trade north of the borders grew 40% in 1989, 20% on top of that in 1990 and a further 22% last year.

Sweeping political changes of the past few years and the growing interest in doing business in Africa has swelled membership of Safto's Africa Business Development Group (ABDG).

Chairman Ian McRae says the group has also been forced to reassess its role and restructure to meet the changed needs and circumstances.

Surprisingly most players say changes started before President F W de Klerk's landmark 1990 speech.

ABDG manager Paul Runge says things really started happening in about 1989, with the Cuban withdrawal from Namibia and its subsequent independence.

"The whole of Africa is a village and things have a ripple effect." Runge believes the last domino to be toppled will be the dropping of trade sanctions by Tanzania and Nigeria.

IAN MCRAE

PAUL RUNGE

Spoornet's Andre Heydenrych says the thawing of east-west conflict made Africa less strategically important and foreign countries are no longer pumping in money.

Foreign donors also became increasingly disillusioned with Africa's continued deterioration and have focused mainly on eastern Europe for development assistance.

Runge says De Klerk added momentum to these developments, opening Africa's doors to SA.

Many SA concerns can now admit that they have been doing business in Africa for years and others are considering joining them.

Checklist

Political stability is first on the checklist when looking at the risk profile of countries in Africa, says Runge.

"Has the country had, or is it planning, multi-party elections."

Next is an agreement with the IMF.

Lack of finance remains a major constraint to trade and other work in Africa and SA's membership of the African Development Bank is seen as essential.

Other important factors to be considered are market size and diversity, colonial heritage and geographical location. Good physical access is important to do successful business, says Runge.

Attitudes

Proximity to SA and things like landing rights, visa arrangements are important.

SA businessmen also need to look at countries' attitudes to SA, language, economy diversity, maritime agreements and inspection services agreements. An SA representative on the ground also helps, he says.

Zimbabwe remains most important for SA, buying a quarter of all SA exports, says Runge.

Zambia is another well-established market.

Recently acquired markets for SA include Kenya, Angola and Madagascar and very new markets are Tanzania and Nigeria.

To do good business, says Runge, countries need good physical access.

Markets to which SA has access but where there is minimal activity include Gabon and Morocco, which Runge belives should be exploited more.

He says SA companies should prioritise their efforts in Africa. "Now that we are no longer desperate for any contact outside SA, we can choose where and which projects and markets to become involved in."

Safto conference a hit

SAFTO's recent two-day conference — on southern African trade and investment was such a success that a follow up is already being planned for next year.

The conference highlighted current trade and investment opportunities in the sub-continent and speakers and delegates came from as far afield as Nigeria, Kenya, Tanzania, the US and Europe.

Organisers of the conference say SA delegates in particular showed a new awareness for the need for regional co-operation. Fruitful contacts were made.

A publication of the conference's speeches and presentations will soon be available from Safto for R150.

its 10 factories.

About 50 brick factories had been closed over the past five years due to

brick and mortar homes to serviced sites using other materials.

Vujovic said that on a regional ba-

ed, homeland government agencies were showing much interest in purchasing bricks, Vujovic said.

Bank examines incentives

GAVIN DU VENAGE

THE World Bank has produced a report which cites unrestricted entry for private investors as an important tool for attracting outside capital, the latest edition of African Business reports. B/Day 22/6/92

The Foreign Investment Advisory Service, a subsidiary of the bank, says countries should reduce the number of areas in which investment was subject to screening.

In a recent economic study the ANC said it intended to introduce measures which ensured foreign private investment fitted in with the national development strategy.

Report co-author Guy Pfeffermann said countries should have a short negative list rather than a longer positive list.

The negatives could relate to highly sensitive industries such as defence. The list should avoid vague and open-ended criteria like activites of strategic importance or small businesses. 74

All industries not on the list should be open for investment without being subject to approval.

Pfeffermann suggested countries defined clearly what investment incentives were available and granted these automatically, as incentives lost their attractiveness if investors had to bargain for them.

Haggling for incentives wasted time, eroded confidence and led to corruption, he said.

Black accountants

GAVIN DU VENAGE

COMPANIES remained reluctant to employ black accountants, Black Accountants of Southern Africa (Basa) president Juneas Lekgetha said last week. B/Day 22/6/92

He called on the private sector and professional bodies to facilitate the training of more black accountants, 52 of whom had qualified this year.

Reluctance to take on blacks had resulted in many candidates not writing their final exams as they had not had the opportunity to complete their articles. Of the 52 who passed the Public Accountants Auditors' Board exams, 12 were African and the rest Indian and coloured, bringing the total number of African accountants to 54 from 42 last year.

SA ranks high in business potential

STAR 23/6/92 (74)

Finance Staff and Sapa-Reuter

South Africa is regarded as one of the few developing countries in which to do business, according to an annual competitiveness survey among leading executives issued in Geneva.

The survey, using hard data and responses to surveys mailed to 18 000 executives around the world, sought to define which "national environments" are most conducive to the domestic or global competitiveness of companies operating there.

It was based on eight factors — domestic economic strength, internationalisation, government, infrastructure, finance, management, science and technology, and people.

The 695-page study reviewed the competitiveness of 22 industrialised countries and 14 leading developing or newly industrialised economies.

It was compiled jointly by the IMD international management school in Lausanne and World Economic Forum, a Geneva body that specialises in business conferences.

For the fourth year, Singapore led the newly industrialised countries, while Taiwan rose to second from fourth place and South Korea dropped to fifth from third.

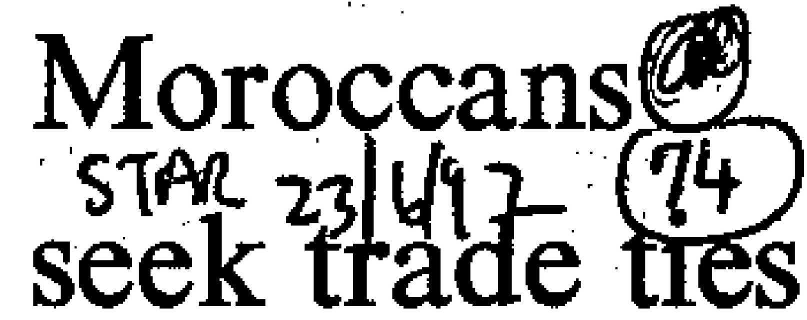
South Africa, which was included in the list for the first time, was ranked eighth, behind Thailand and Mexico, but ahead of countries such as Brazil, Indonesia, Hungary and India.

Germany and Japan led the list of industrialised countries.

The survey found that Japan leads the world in management, research and development, domestic economic strength, education and work force motivation — keeping it in first place even though some doubts began to be expressed about its future standing.

Germany replaced the United States in second place, though the survey found its future standing was also uncertain because of the costs of unification. It said German businesses may find it cheaper to invest in eastern Europe rather than in the former East Germany.

The United States dropped to fifth place behind Switzerland and Denmark. — Sapa-Reuter.



Moroccans seek trade ties

STAR 23/4/92 (74)

By Stephen Cranston

Ray Brown, MD of Langeberg Holdings, SA's largest fruit and vegetable canner, has expressed surprise that a Moroccan delegation is hoping to sell fruit into the local market.

Speaking to The Star from his office in Bellville, Mr Brown said that SA was already a major exporter of quality canned fruit and vegetables.

"Morocco grows certain fruits like dates which are not grown in commercial quantities here," says Mr Brown, "but I am quite confident that there is no market for volume imports of beans, peas and tinned deciduous or citrus fruits."

The Moroccan trade delegation was introduced to the media yesterday and included government representatives as well as representatives of the private sector from the travel agency, canned fish, canned vegetable and shipping industry.

The delegation, which will be in the country for the rest of the week, is headed by Mohammed Mounir Bensaid from the Moroccan Centre of Export Promotion. SA has already opened a trade office in Rabat, the Moroccan capital.

Boipatong troubles hit SA securities on international markets

STAR 23/6/92

(74)

By Neil Behrmann

LONDON — South African securities have slumped on international markets in response to the latest crisis.

The tumble in the value of equities and bonds was mainly the result of the collapse of the financial rand.

Opening at 27,35 US cents (R3,66 to the dollar) on Monday, compared with Friday's close of 27,78c (R3,60), the financial rand swiftly plunged to a low of 25,80c (R3,88) before recovering to 26,07c (R3,84).

The financial rand discount to the commercial rand widened to a remarkable 27 percent from 18 percent on Friday, the widest level since the tense period before the referendum.

Smith New Court and Standard London, leading London dealers in financial rands, said the market was very active.

Equity dealers said that shares were marked down, but James Capel said that there was active selling of rand bonds.

The increase in yields on the domestic market and the slump in the financial rand means that the yield on Eskom bonds for international investors has soared to 21,7 percent.

So far, that high yield has not tempted any brave buyers, so the market on the international front has been mainly one way.

Dealers did not detect any Reserve Bank intervention in the financial rand.

Reserve Bank deputy governor Jaap Meijer said last week, however, that intervention in the past few months was very small. The Reserve Bank was still testing the market, he said.

Dealers expect the Reserve Bank to enter the financial rand market when the rate stabilises. But the volatile investment currency is used to take the strain during times of crisis. The commercial rand rate hardly moved.

Some dealers contend that bond and equity prices will fall further because there are nervous potential sellers who are worried that negotiations between the ANC and government will be postponed indefinitely.

Rebound

On the other hand, if the government and ANC are prepared to talk and tension subsides, there will be a sharp rebound.

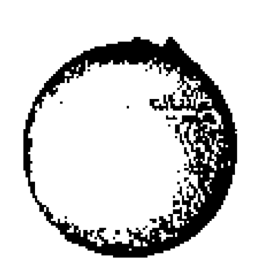
● South African shares quoted on the London and Brussels stock markets fell heavily in response to political tension in South Africa and gold shares were particularly hard hit, Sapa-Reuter-AFP reports.

"The market's looking pretty sick but there's not a lot of selling," a London trader said one trader.

"Prices have been marked down and the rand's value has knocked them quite a bit but that's made stocks look cheap to Europeans and we've had a little bargain-hunting."

International investors have been watching the political and security situation in South Africa closely.

Many analysts hold that if peaceful transition to prosperous political co-operation between races can be achieved, the economic outlook for South Africa is bright, but that if the situation becomes deadlocked or deteriorates, unrest could seriously weaken activity, impeding output particularly in the gold mines.



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Sapa-Reuter-AP- ial Staff and the es.

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SA to tap new markets for loans

STAR 23/6/92 (74)

LONDON — South Africa intends borrowing about R783 million in Deutschemarks to refinance six Dm loans, says Mr Gerhard Croeser, director-general of the Department of Finance.

Addressing around 600 leading international financiers at a high-level international bankers' conference in London, he made it clear that in spite of opposition South Africa would continue to be a limited participant in the international capital markets.

Opposition to South Africa's borrowing policy had come from two fronts: the African National Congress, with its pro-sanctions stance; and some members of the financial community who felt that economic conditions and the country's high rate of interest did not warrant participation in the financial markets.

He said the proposal to refinance the Deutschemark loan was justified as it would promote foreign investment in crucial socio-economic development in South Africa through investment in local institutions such as the Development Bank of Southern Africa and the Independent Development Trust.

In addition, he said, it was necessary to protect the country's foreign exchange reserves, to enhance South Africa's acceptability in international capital markets in order to reduce interest rates, and to normalise foreign financial relations before the current standstill arrangements expired at the end of next year.

Gerhard Croeser ... loans necessary to protect foreign exchange reserves.

Mr Croeser told the forum that insistent demands for socio-economic advancement were leading to a growing convergence of opinion amongst government, political groups, organised labour and business on fundamental economic policies to be pursued.

These included the resolute protection of the rand, lowering inflation with restrictive monetary policies, a firm commitment to reduce the government share in the Gross Domestic Product, and fundamental changes to the structure of the budget to reflect the needs of all South Africans.

There was less need for foreign financing, he said, thanks to South Africa's encouraging foreign exchange position and the problems excess domestic liquidity were creating for monetary policy.

The Department of Finance would continue to manage South Africa's participation in the international capital market via a formal queuing system, since past experience had shown the market for South African issues was too thin to allow competing institutions in the same market at any one time.

It was important, said the director-general, to broaden the demand for South African paper and the country would tap new currencies and markets.

It is understood the department is investigating Euro-Dollars, Swiss and French francs, the Euro-Yen and sterling loans.

In a message to Europeans, he stressed the government would not be prescriptive regarding the composition of the management groups of borrowers, but "advocates a system of bank rotation.

"It is not deemed necessary at this stage to seek an international credit rating but the position is under constant review."

Participation in international capital markets would not be restricted to public sector institutions, although private sector interests would probably remain limited.

The Government would also direct efforts towards reaching more institutional investors, although retail investors would "always be an important target of South African issues". — Sapa.

Finrand tumbles as share prices dip

B/Day 23/6/92 (74)

MERVYN HARRIS
and HILARY GUSH

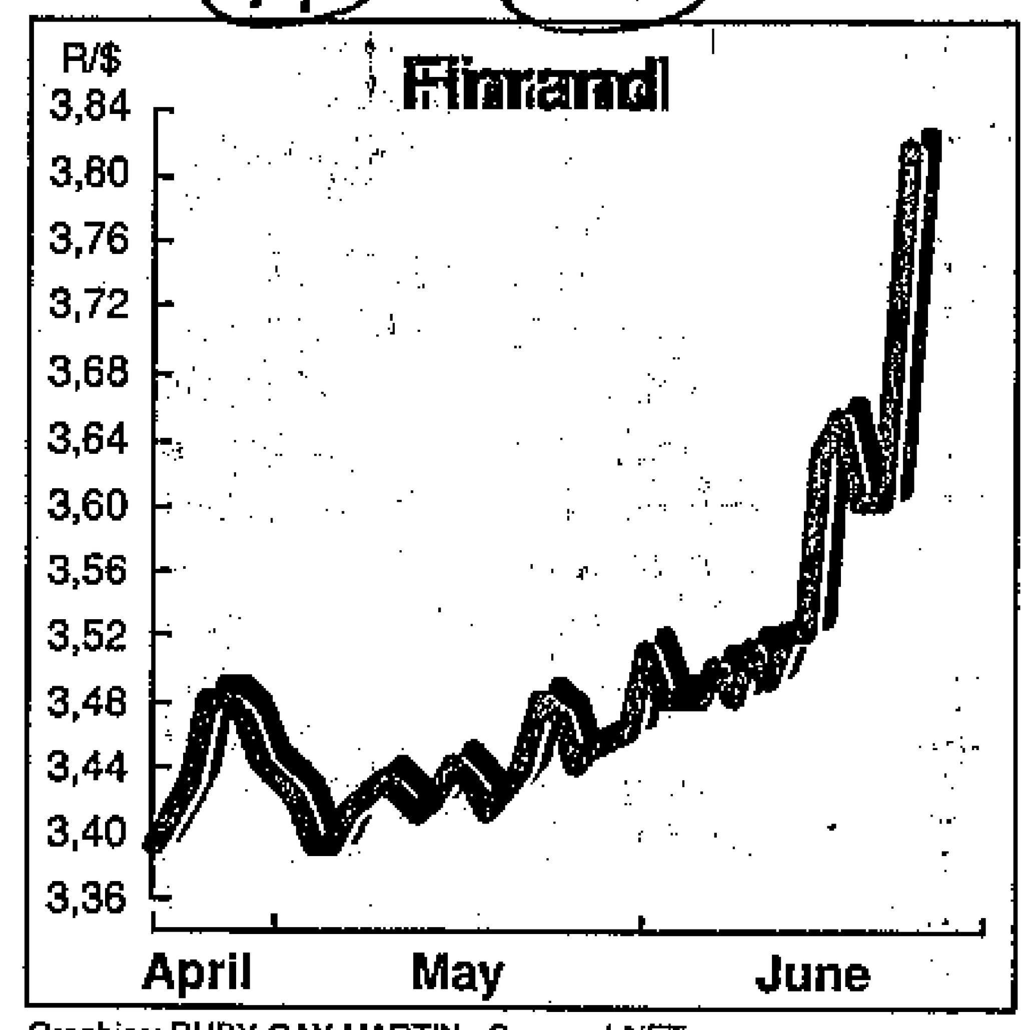
THE financial rand tumbled 6% against the dollar to a three-month low yesterday, and the withdrawal of foreign and local buyers because of the political crisis resulted in a sharp markdown of share prices. Losses on the overall market outpaced gains by 120 to 19.

Capital market rates also fell.

The JSE overall index slid 1,1% or 44 points to 3 637 as the lack of buyers left prices largely unaffected in rand terms in spite of a sharp drop in the finrand investment unit, which usually tends to support rand hedge shares. A dealer said: "While we did not see much selling from overseas, there was minimal buying. This indicates that the events of the past week will delay potential foreign investment."

The industrial index declined 1,1% or 52 points to 4 470 as a 3,6% fall of the Tokyo Nikkei index to below 16 000, a tumbling London FTSE and sharply lower Wall Street also weighed on the market. But the Dow Jones industrial index rose last night to close just 4,5 points down at 3 280,80.

The JSE all gold index slipped 15 points to 1 143 as precious metals held steady, with attention focused on the start of the World Gold Conference in Montreux.



Graphics: RUBY-GAY MARTIN Source: I-NET

London bullion traders said reaction to escalating violence in SA would be seen first in platinum, as supplies from SA would be affected more quickly than gold.

Gold recouped early losses to trade between $342,50 and $343 for most of the day in London, while platinum was fixed at $363,80 at both London fixing sessions. In New York gold ended up $2,75 at $343,45. Platinum rose $2,50, trading late at $366,50.

The finrand ended at R3,83 from Fri-

☐ To Page 2

Finrand

B/Day 23/6/92 (74)

☐ From Page 1

day's R3,61, after touching a low of R3,89. Dealers said Frankfurt and Hong Kong had been active sellers from the local opening, with light buying coming from Germany around the R3,85 level later in the day.

Dealers expressed disappointment that the Reserve Bank had not taken a more visible stance in the market, but speculated it had provided support around the R3,85 level. The Bank refused to comment.

Dealers said "gapping" — which occurred when there was no physical dealing between the quoted closing and opening rates — had taken place. "This adds to the nervousness in the finrand market," one dealer said.

The unit gained support at R3,85, and was expected to firm to a range of R3,70-R3,57 after the ANC had clarified its position on negotiations.

Dealers said the financial to commercial rand discount widened to 27% yesterday. Analysts usually expect the Bank to intervene when the discount exceeds 20%.

Reserve Bank Governor Chris Stals announced in March that the Bank would, at its discretion, intervene directly in the financial rand market to try to reduce the unit's volatility. Market players warned yesterday if the Bank did not intervene and support the currency, foreigners would unwind their positions and sell off finrands. Confidence would fall and investment plummet, traders predicted.

The benchmark Eskom 168 traded at 15,84% yesterday afternoon after reaching a mid-morning high of 15,87%. Foreign selling was seen in the capital market.

Government R150 stock traded at 16,09% after reaching highs of 16,14%.

SA BUSINESSMEN ARE SCARED OFF BY SHORTAGE OF FUNDING

AFRICA's lack of money is the major limit to business, says Absa International assistant divisional manager Pieter Louw.

His view is supported by every ABDG member interviewed.

Scarce funds are the most important element, detering SA and other businessmen from grabbing a wealth of opportunities, ranging from trade in almost anything to technological and management transfer, restructuring roads, ports and banking institutions to setting up wealth-creating projects in agriculture, mining and tourism, says Louw.

One way to overcome the money problem is to use aid or development funds. SA's membership of the African Development Bank will be an important breakthrough in this regard and Louw is optimistic it will happen soon, provided SA's political process keeps going.

But relying on aid money is essentially a short-term, project-based approach rather than a solution for ongoing business in Africa, he says.

Louw believes the true key to doing successful business in Africa is to invest in the development of countries' resources.

SA companies need to put money into grassroots development projects which will ultimately facilitate exports, he says.

The pay off for SA businessmen is that in the longer run countries will be able to use their export proceeds to pay for SA goods and services.

Serious

"South Africans serious about long-term prospects in Africa have a major role to play by investing now," says Louw.

Unfortunately, there are too few SA companies which are committed enough to exports and a long-term presence in Africa, he says.

SA's banking sector has an opportunity to help establish financial intermediaries in most countries to the north.

Credible financial institutions, supported by sound government economic policies, are a precondition to trade.

Reliable financial institutions would also encourage the wealthy sectors in these countries to put their money into the formal economy rather than operate in the informal parallel markets which thrive almost everywhere in Africa, he says.

SA's banking system can not be imposed anywhere but local banks can provide manpower and technical support.

Absa International helps establish payment mechanisms for companies trading in Africa.

Louw believes that political issues in Africa are important, but that they short-term obstacles.

Countries' current political structures should be evaluated and weighed up against resources and political and economic policies.

Business Day SURVEY

Sweeping political changes of the past few years has swelled membership of Safto's African Business Development Group. And astute businessmen are realising they can tap into more than $10bn in development aid allocated to Africa every year but mostly never spent because appropriate projects were not identified. ***TANIA LEVY*** *reports.*

Africa is keen to see what SA has to offer

BDay 23/6/92 (74)

SA WILL be present for the first time at the OAU All-Africa Trade Fair after being invited to exhibit at the Zimbabwe International Trade Fair, which runs concurrently.

SA's virtual inclusion in the OAU fair, one of the largest trade events on the continent, is a sign that it is on the brink of full re-acceptance by Africa.

"It is an absolute coup," says Safto's international trade fairs marketing executive Ann Matthews. "It shows the OAU's obvious desire to include SA and proves that trade overcomes political boundaries."

Before last August's Nairobi show, SA had not taken part in an African trade fair. Since then it has been included in the Angolan Building Fair in April and the Zimbabwe National Trade Fair last month, which led to the invitation to the Zimbabwe Regional Export Fair.

It will take place in Bulawayo from September 2 to 4, in conjunction with the sixth OAU fair, which takes place every four years at a different venue in Africa.

It is attended by African and international visitors and usually includes exhibitors from most of the 51 OAU member states.

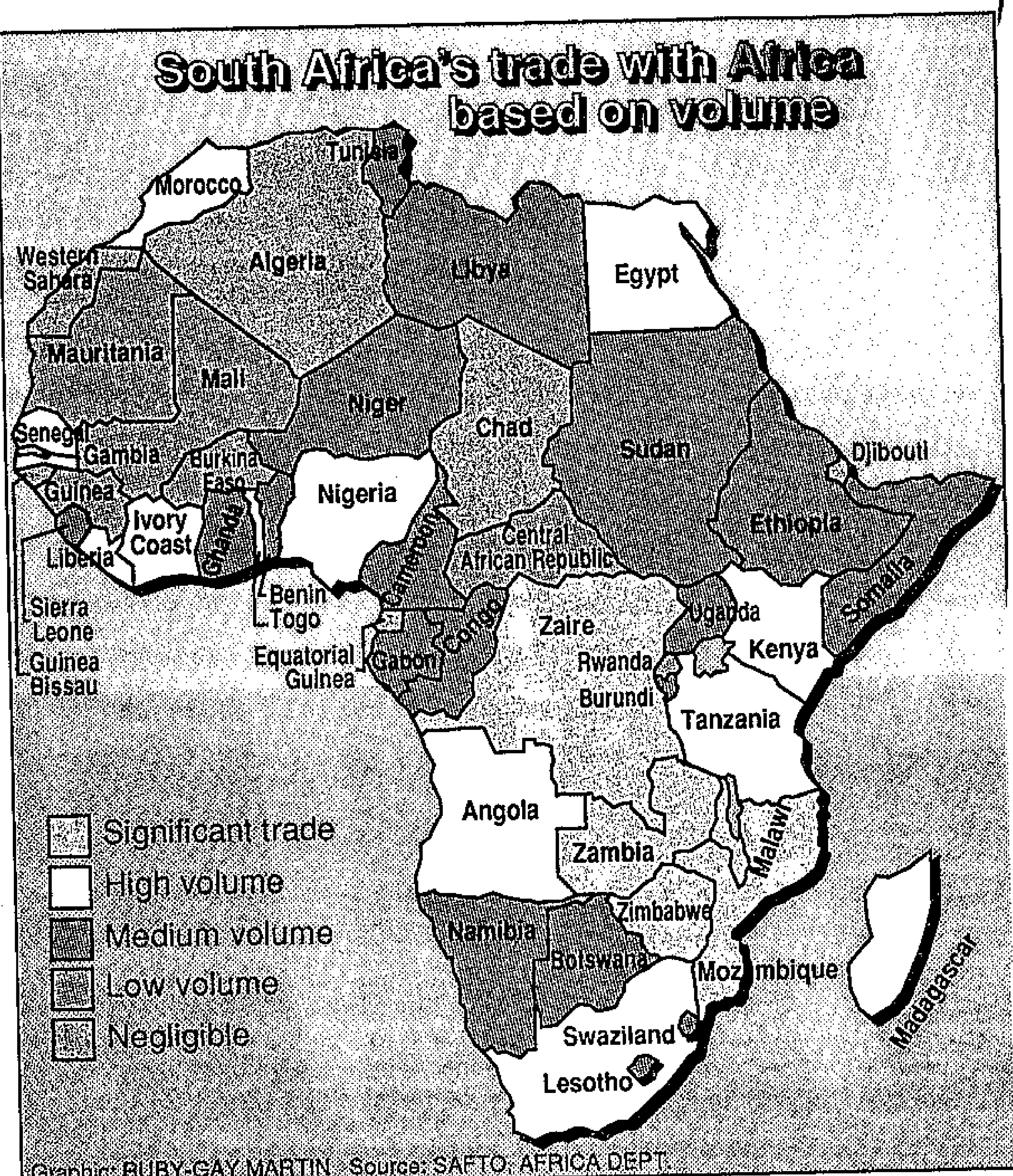
Booked

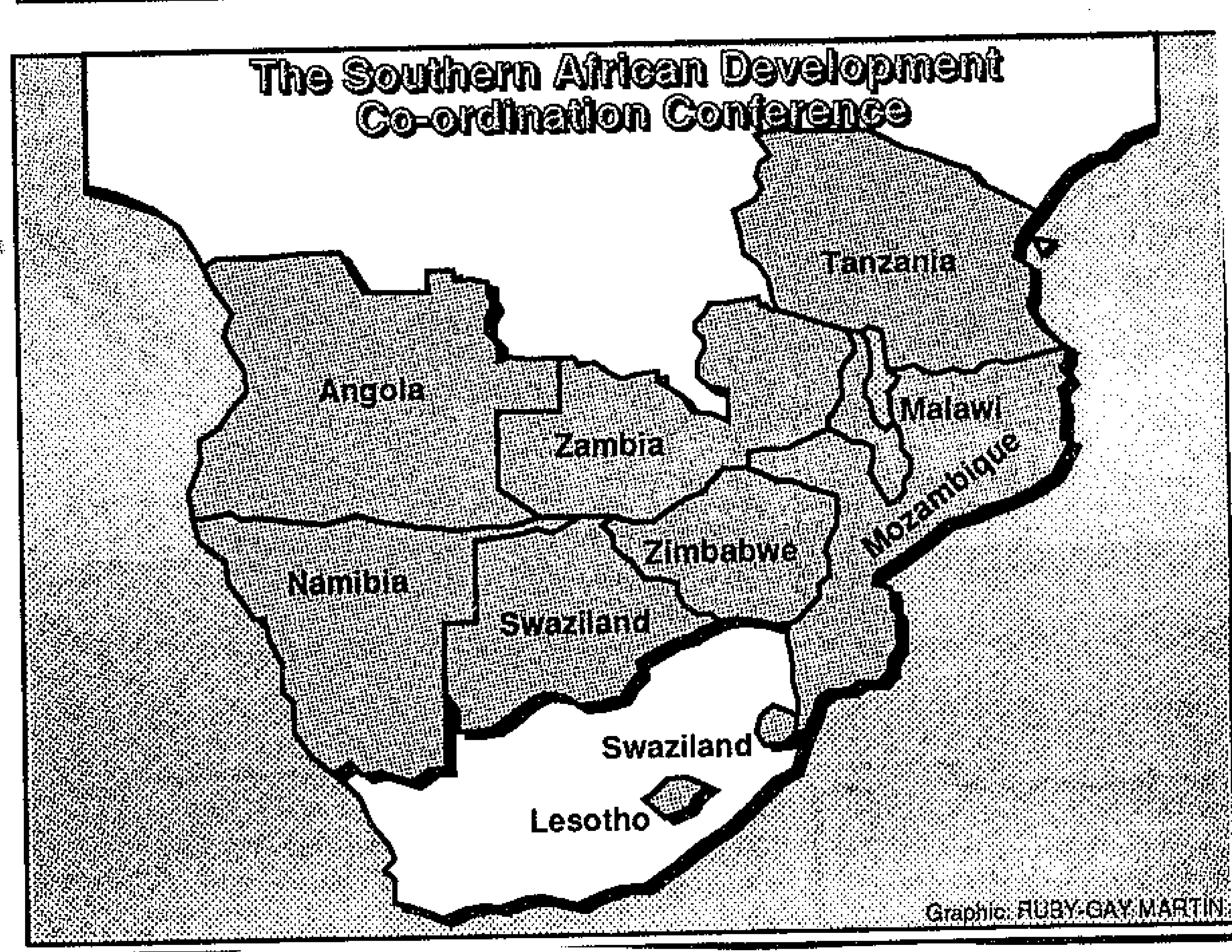
Safto has already booked space for 29 exhibitors and companies already committed are from light industry, mass feeding products, agriculture and mining.

Matthews says there has been a huge surge in invitations to SA to participate in trade fairs, particularly in Africa.

South Africans know little about most potential markets after years of sanctions and foreigners are also curious to see what SA really has to offer.

She believes the invitations will continue to flow in for the next year or two.





SA entry into ADB eagerly awaited

SA MEMBERSHIP of the African Development Bank (ADB) is eagerly awaited as possibly the most important development still to happen for SA business in Africa. B/Day

Earlier this year the bank's president Bababcar Ndiaye visited SA and said he was confident it would become a member in the next two years. 23/6/92

SA was officiallly represented for the first time at the bank's annual meeting in Dakar this year and in May two bank consultants were in SA to assess its possible role in southern African regional integration.

Denied

However, SA will be denied membership, and therefore access to billions of dollars of ADB loans until it is included in the Organisation for African Unity (OAU).

Last month an OAU delegation came to SA to monitor violence and attended Codesa 2 as observers.

The delegation leader, Nigeria's OAU ambassador Olusegan Olusola, is on record as saying the OAU was diappointed with the stalemate reached in negotiations but satisfied that progress was nevertheless being made.

He made it clear that the precondition for SA's OAU memebrship was the "establishment of an elected interim government and an elected constituent assembly which will be responsible for drawing up a new constitution."

Finance chief outlines strategy to broaden foreign investor base

LINDA ENSOR

CAPE TOWN — SA had embarked on a strategy to tap new sources of funds and currencies to broaden the international demand for SA paper, Finance director-general Gerhard Croeser told an international forum of bankers and investors in London yesterday.

SA's participation in the conference, opened by Bank of England Governor Robin Leigh-Pemberton, signalled the adoption of a more active marketing approach to broaden the international investor base, Croeser said.

He said efforts would be directed towards reaching international institutional investors, though retail investors would remain an important target of SA issues.

Croeser and a team from nine SA corporations addressed an audience of about 500, including frontline bankers from Europe, institutional fund managers and private investors at the three-day Euromoney Global Borrowers' and Issuers' Forum.

The SA delegations were led by Genbel chairman Tom de Beer, Development Bank of SA CE André le Grange, Eskom finance and services executive director Mick Davis, Transnet chairman Marius de Waal and CE Anton Moolman, Telkom senior finance GM Christoffel Erasmus, AECI finance director Neil Axelson, SA Breweries finance director Selwyn MacFarlane, Standard Bank MD Mike Vosloo, and Industrial Development Corp senior GM Malcolm MacDonald.

Each team presented its view on the SA economy. The total time allotted for the SA presentation was about 90 minutes.

In his introductory speech, a copy of which was released in Cape Town yesterday, Croeser said the Finance Department was managing the 1992 programme of SA capital market borrowers and was seeking to refinance the six maturing Deutschmark issues, valued at DM670m, with new and larger issues, as well as a few additional ones.

The encouraging position of SA's foreign exchange reserves, coupled with the policy of mopping up excess domestic liquidity to maintain a tight monetary policy, implied a smaller international loan requirement.

The limited market for SA paper did not permit simultaneous competition on the international capital market by different institutions so the department regulated participation via a formal queue system.

Croeser said the department could not be prescriptive as far as the composition of the management groups of parastatal issues was concerned, but it favoured a system of bank rotation. Ratios, as well as the bunching of maturing issues, were being watched carefully.

Resort to international capital markets would be based on the principle of protecting the country's foreign exchange re-

□ To Page 2

Foreign investors

□ From Page 1

serves, reducing the premium at which SA institutions borrowed, securing a final arrangement with overseas creditors when the debt standstill expired and facilitating foreign investment.

Croeser said that with a ratio of debt to export earnings of 64,9%, or debt to GDP of 16,9%, SA was not an overborrowed country. It had also scrupulously complied with its commitments under the debt standstill.

He said the "hiccup" at Codesa was not surprising given the deep-seated differences between the parties. But he was confident negotiations would remain on track, although "the final outcome will be determined largely by the economy".

Croeser said the economic advisers of the extra-parliamentary movements were coming to see that experimenting with "ossified ideas of socialism and redistribution" would harm the very people whose welfare they sought.

He said signs of a turnaround were slowly emerging as the economy moved away from its former state of siege and restructuring measures began to bear fruit.

□ The Finance Department was one of the co-sponsors of the conference, but syndicated its share of the costs.

BDay 23/6/92

Railways hold the key to region's economic health

B/Day 23/6/92

A HEALTHY transport system is a sine qua non for southern Africa's economic revival, says Spoornet international traffic manager Andre Heydenrych.

The railway network is vital for international trade, development work or investment.

It the backbone of the economy, he says.

Already about 60% of trade in the region involves rail transport, with the rest using roads.

A serious drawback is the minimal rail interconnection between neighbouring states in the region, says Heydenrych.

Only about 7% of trade in southern Africa is internal. Most takes place with overseas countries, so rail routes have traditionally been export-orientated, linking towns with ports, rather than with other towns.

Colonies

Zimbabwe, SA, Botswana and Zambia are linked only because they are all former English colonies.

Heydenrych says the last major road project in the area was the line between Gaborone and Walvis Bay. Nowadays there is no money to finance major new routes. Rather, existing ones will have to be rehabilitated and expanded if possible.

Heydenrych says Zimbabwe has always been SA's main area of operation. About 40% of SA's imports from Africa come from Zimbabwe.

Asked about Zimbabwe's clamp on trade with SA, Heydenrych says Spoornet has continued dealing with other African countries for more than 30 years, despite politics. The main difference was that this co-operation could not take place openly.

Heydenrych says he would like to see all 10 railways in the southern African region incorporated into a single organisation and to work as an integrated system with no changeovers at the borders.

Streamlined

This would enhance rail's competitive edge over road, offering clients a streamlined and co-ordinated service and a single body to deal with.

But other railways in the region fear Spoornet's strength, believing it would take over their operations, he says.

This could be avoided by giving each railway an equal ownership in the joint corporation.

"We have no desire to dominate but would rather lead from the centre. We are part of the continent and realise we need to all work together."

He believes that with time distrust of SA will break down. But he admits the idea of a regional railway is "very much a dream".

Even if agreement were to be reached, it would probably take up to 20 years to become a working reality.

The practicalities of making it happen would be very difficult given the disrepair and destruction of lines over the years.

Heydenrych says Zaire, Malawi and Angola's rail lines are in the worst state.

The Benguela line, between Zaire and Angola, alone would need hundreds of millions of dollars to rehabilitate.

The line between Mozambique and Malawi is out of commission.

The Maputo-Zimbabwe link is being rehabilitated but this work and running of trains is seriously hampered by Renamo activities, he says.

While the north-south route is in reasonably good condition, there are areas of disrepair such as the Victoria Falls bridge.

Drought: Spoornet rolls to the rescue

B/Day 23/6/92

SPOORNET will spend more than R20m to move the millions of tons of maize which will flow into drought-stricken southern Africa in what has been called the biggest ever food and aid relief transportation exercise.

But Spoornet international traffic manager Andre Heydenrych worries that funding will run out by year-end and leave SA in debt.

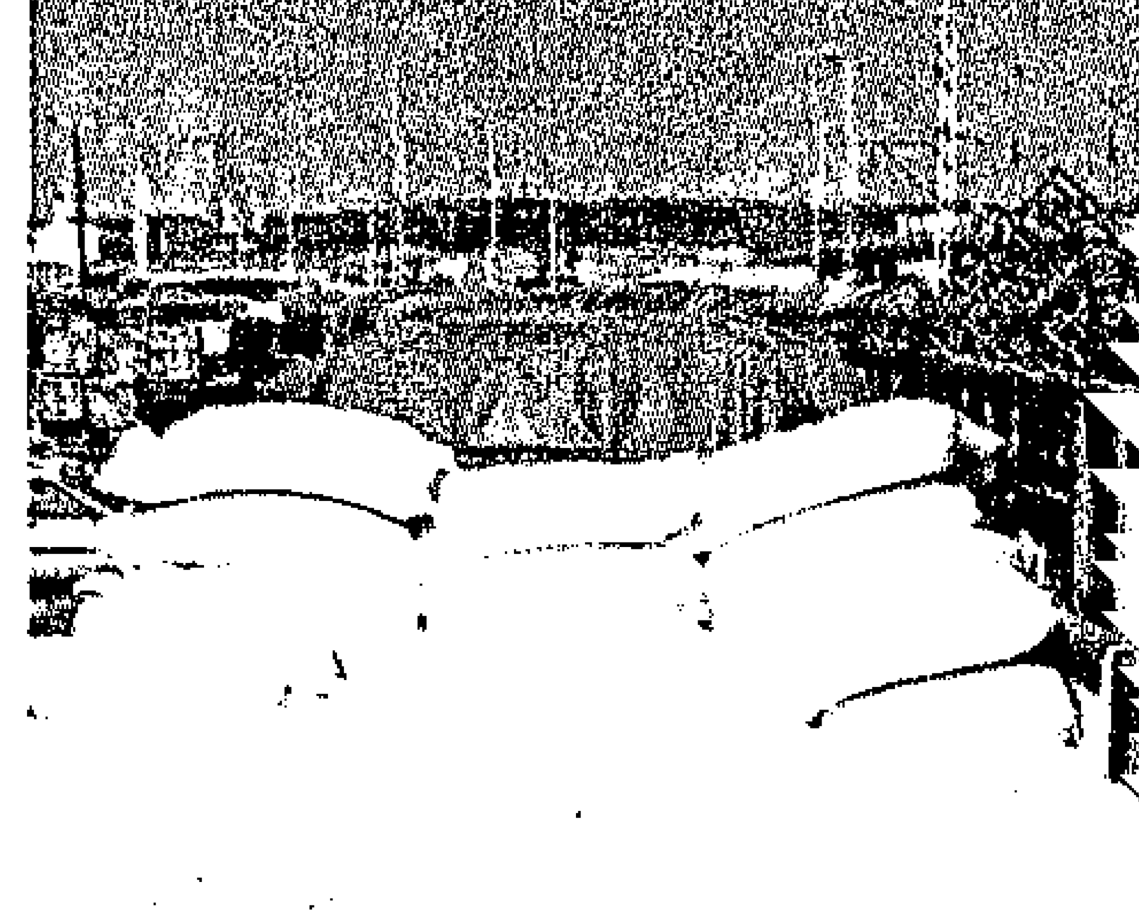
"Spoornet is spending millions in good faith but it is a risk," he says.

Spoornet can only hope the international donor community will realise the large investment being made by companies like Spoornet and sister companies ning up to six trains a day across Beit Bridge to distribute maize to Zimbabwe. Heydenrych says this is the first time SA trains have been able to go straight into Zimbabwe and turn around there rather than at the border.

About 2-million tons of maize is expected to go to Zimbabwe and about 800 000 tons to Malawi.

Zambia will receive 900 000 tons and SA is expected to buy 4,5-million tons of maize and import at least R50m of wheat.

All maize destined for Malawi will be taken to Zimbabwe, bagged and then taken by road.



Transport systems will be stretched to capacity to distribute the millions of tons of maize relief.

Opening trade doors forces Safto to rethink

SAFTO's Africa Business Development Group (ABDG) has been forced to take a critical look at itself as more and more trade opportunities open up in Africa.

With more than 80 members, including SA's top companies, the ABDG acts as a facilitator, helping SA business and industry establish links in Africa.

It also acts as a conduit for African countries seeking to make contacts in SA and is increasingly the voice dealing with government on African issues.

ABDG chairman, Eskom CE Ian McRae, says the ABDG has had to take a hard look at whether it is meeting members' requirements regarding Africa.

"The ABDG must change," he says. While the changes in SA and Africa's political arena and resulting trade opportunites mean a greater role for the ABDG, McRae believes it needs to be restructured.

"We have already started breaking into smaller groups to better meet the differing needs of member companies."

Categories

McRae says there are two broad categories of ABDG members: those involved in construction-related projects and those involved in buying and selling-type trade.

While he believes there is still scope for a broad umbrella body to co-ordinate activities and plenary sessions where all members come together, these should be less frequent than the smaller group sessions.

Rennies business development manager Craig Lee says he would like to see the ABDG become more proactive and dynamic. It should strive to develop clout so that it is recognised as the main trade body to deal with in the region.

He would like the ABDG to go beyond its role as information provider and contact facilitator. It should get out into Africa, and pull members with it, he says.

IMS Holdings group export consultant Jean Labesse says that since about 1988 the ABDG had been aware that isolation was thawing and SA would be increasingly re-accepted into Africa.

He agrees that its role needs re-assessing and says this is taking place.

"Before it was the key to opening doors, now that they are open the ABDG needs to play a more in-depth and focussed role, helping members successfully enter markets and identify the best projects."

Unanimous

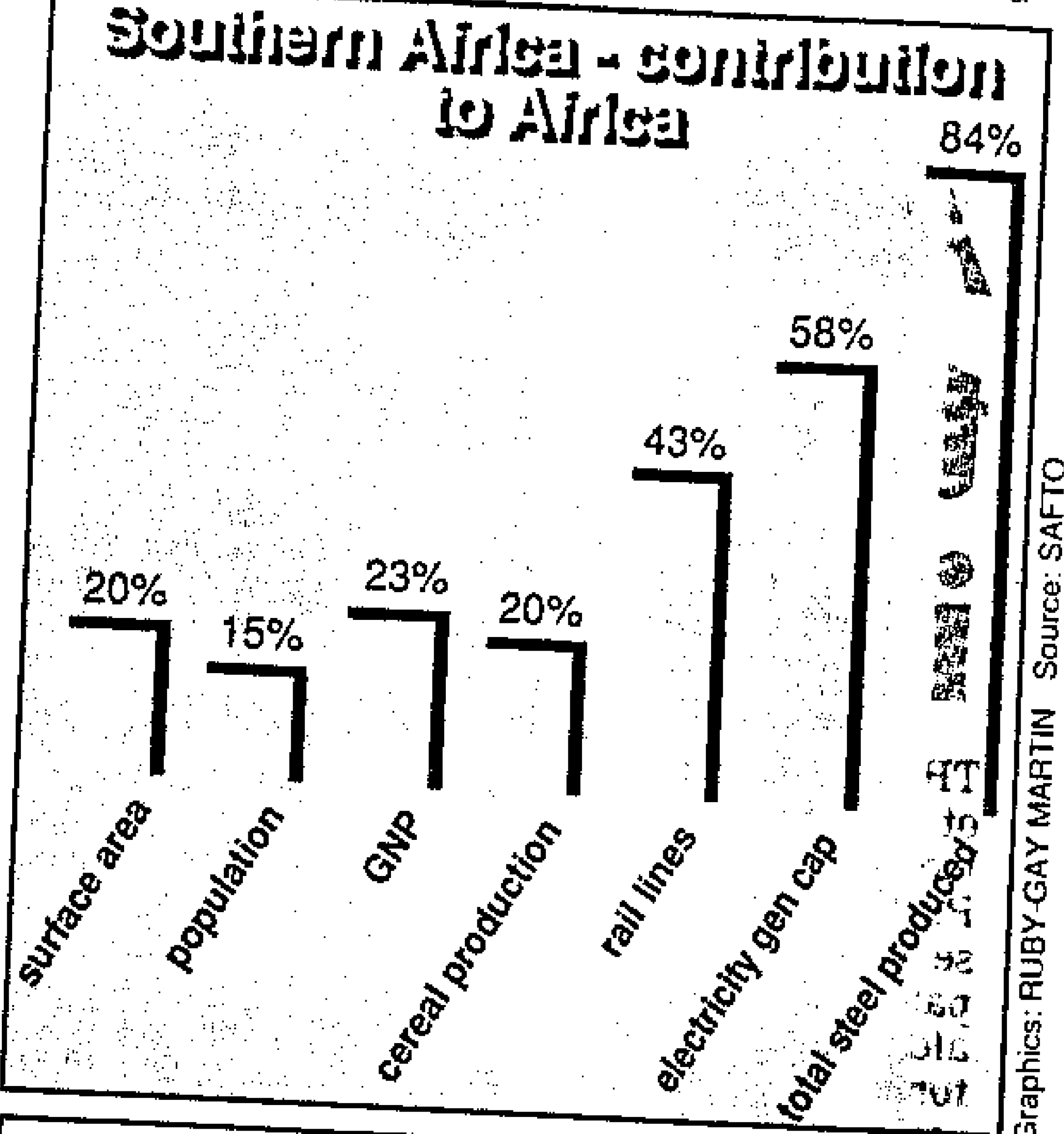
ABDG members are unanimous on the indispensable role it plays in communication.

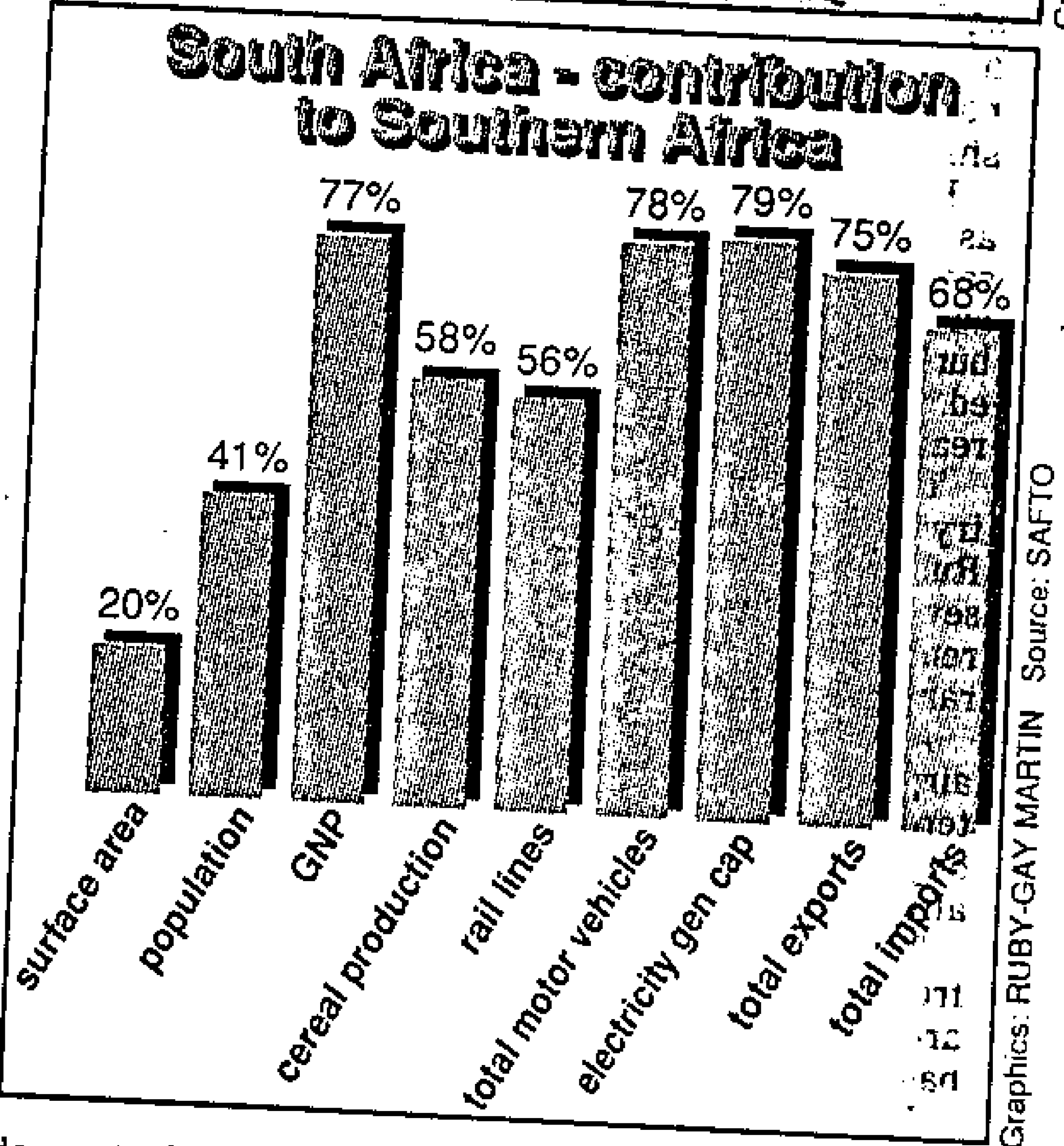
Noristan export development manager Darryl Moss says the ABDG plays an important role as an information clearing house.

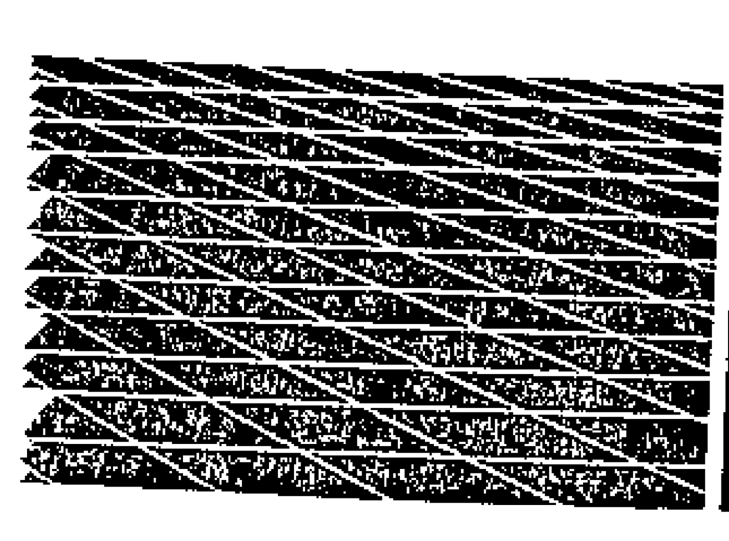
It is virtually impossible to get market information out of Africa, he says.

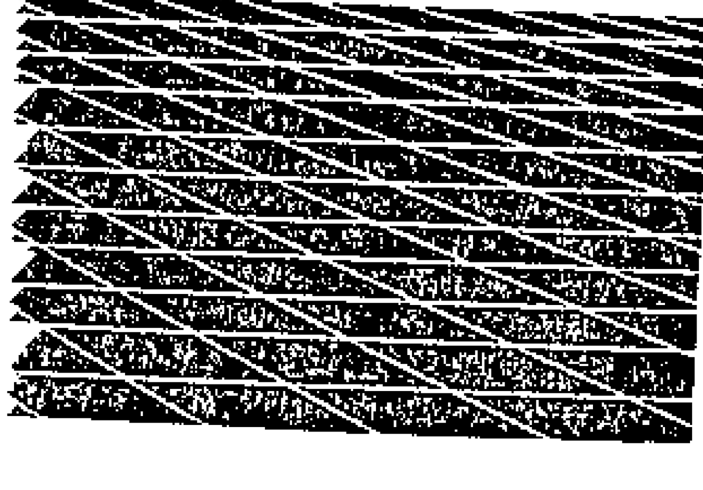
Most African countries do not have up-to-date trade publications.

McRae is adamant that members should not expect the ABDG to do their groundwork for them. If companies want opportunities they need to look for themselves, get out there and sell themselves. The ABDG cannot do their marketing for them.









Burundi is eager for trade benefits from the new SA

BUJUMBURA — "SA whites have had blondes for years," the Burundi's Prime Minister Adrien Sibomana told his guest.

"But with majority rule coming, I think they may have to get used to browns," he added, with a twinkle in his eye.

Sibomana was making a play on words which had nothing to do with the hair tint of SA women and everything to do with the prospect of a majority-ruled SA's entry into African economics.

He hopes that when trade ties with SA are formalised his tiny central African state will be able to export to the south its dark beers, whose brewing it learned from its former colonial master, Belgium.

All over East and central Africa governments which publicly shunned SA because of apartheid are preparing for the day when it shakes off the shackles of 30 years of economic sanctions and begins to use its untapped economic power.

SA businessmen, whose trade links hitherto have been confined to nearby states such as Zambia and Zimbabwe or carried out secretly because of sanctions, are mounting trade fairs in Kenya and Tanzania to put their wares on display.

Countries dependent on former colonial masters in Europe for imports are now looking to see what they can get from a major economy which, if not on their doorstep, is just at the end of the garden path.

"We could save 8-billion Burundi francs (about $40m) in importing from SA," Sibomana said. Burundi's import bill was about $120m in 1990.

"And we could save time, too. It takes up to three months to get things from Europe. But if the stuff came from SA, it could take as little as two weeks.

"Even if we sold the South Africans nothing, we would be saving money," he said. "But we must export there to balance the exchange. I think there are lots of possibilities."

Burundi is an economic dwarf. "We have coffee and tea and that's it," said a young businessman. "That doesn't give us much chance for expansion."

Western diplomats and economists say Burundi has, however, managed scant resources carefully and avoided many of the pitfalls of waste which have befallen better-endowed neighbours such as Tanzania, Uganda and Zaire.

Its currency has been set loose and the fact that it commands a black market premium of only 15% over official rates is a sign that the economy is responding well to "the surgeons from Washington" (the IMF and World Bank), diplomats say.

Compared with many African capitals Bujumbura is a village — but one where the telephones work, government officials are at their desks and answer calls and IMF and World Bank remedies have been carried out vigorously without public outcry.

"We have followed the reform programme with discipline and we have explained it to the people. That has allowed us to make considerable progress," Sibomana said.

Economic growth was a modest 1,5% in 1989 but has averaged 3,5% in the past two years. Inflation has been brought down from 8% in 1990 to around 5% this year, according to Western estimates.

Some 25 firms are to be privatised out of a total of 84 state companies, including parts of the vital coffee monopoly and the tea industry.

Coffee production in 1991/92 was 33 747 tons, according to the Burundi Coffee Company, and is expected to be 35 000 tons in the coming year.

Half the production is sold to private exporters under privatisation plans, putting the nation's biggest foreign exchange earner partly in the hands of the free market. — Sapa-Reuter.

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Bordeaux offers port as gateway to Europe

B/Day 23/6/92

GAVIN DU VENAGE

A DELEGATION from the Bordeaux Chamber of Commerce and Industry arrived in SA at the weekend to promote its harbour as a gateway to Europe.

Chamber spokesman Robert Beynat said yesterday the city had a long history of trading with the rest of the world and had a well-developed communications network with which to assist foreign traders looking at Europe.

He said Bordeaux also had substantial investments in Africa, and SA businessmen could benefit through joint ventures with chamber members.

He said vast amounts of aid were flowing into Africa. To date SA had been excluded from taking advantage of these, but by setting up joint ventures with the French could make use of international funds to expand into Francophone countries.

Beynat said Bordeaux was also a gateway to Spain and Portugal, while UK ports offered access only to northern Europe.

Meanwhile, a Moroccan trade delegation signed a mutual co-operation agreement with Safto yesterday.

Safto international division GM David Graham said the agreement would be significant for SA trade opportunities in Africa.

"This is the first formal commercial link between two private sector trade bodies and represents a gateway into an important north African country," he said.

In 1989 Morocco had a GNP of $53bn. Graham said Morocco would also provide access to the Magreb, consisting of Algeria, Mauritania, Tunisa and Morocco. He pointed out that Algeria had the largest economy in Africa after SA.

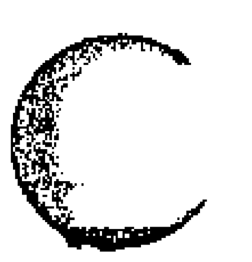
Delegation head Mohammed Mounir Bensaid said the two countries could benefit from co-operation, especially in penetrating European niche markets. He said SA and Morocco both exported citrus fruits, but at different seasons, and should work together rather than compete.

Morocco already had a signifant presence in Europe but the growing sophistication of the market demanded better planning. SA could participate in transport, agriculture and mining, he said.

Bensaid said Morocco provided easy access to capital and companies engaging in exports operated tax-free.

At present Morocco has only an "office of interest" in SA.

Only mixed maize products 'for now'



PRETORIA — Pure white maize products were no longer available on shop shelves, Maize Board GM Peter Cownie said yesterday. B/Day 23/6/92

He said the mixing in of at least 70% yellow maize with white maize for the production of maize products was inevitable because of the drought.

It was not possible to obtain sufficient quantities of quality white maize elsewhere in the world to supplement SA's supplies, he said.

Yellow maize, which was mainly imported from the US and Argentina, was the best quality available.

Cownie said although there was a difference in colour, the mixed maize product was as nutritious as that produced from standard white maize.

Meanwhile, the Foreign Affairs Department said many trainloads of grain had been despatched to neighbouring countries ravaged by the drought.

It said the first meeting of the Strategic Group for the Southern Corridor would be held in Johannesburg today. The group co-ordinates imports for southern Africa.

From April 7 to June 21, 40 vessels had unloaded more than a million tons of grain at SA ports.

During this period, 187 trains had been despatched with grain to Zimbabwe, 16 to Zambia, 23 to Malawi, eight to Botswana, two to Swaziland and 14 to Lesotho.

The department said SA would have to import 5-million tons of maize and 1-million tons of wheat to meet local demand. — Sapa-Reuter.

Trade surplus shrinks as exports slow up

74

STAR 24/6/92

By Sven Lünsche

South Africa could face unexpected pressures on the current account of the balance of payments this year as precious metals exports continue to slide.

The Department of Customs and Excise reported yesterday that exports for the first five months of the year at R27,26 billion were three percent below the R28 billion exported in the January to May period last year.

With imports over the same period rising by three percent to R20,14 billion (January to May 1991: R19,54 billion), the cumulative trade surplus for the first five months of the year is 16 percent lower at R7,1 billion.

The fall in the trade surplus could leave the current account of the balance of payments below the level of about R4 billion targeted by the Reserve Bank this year.

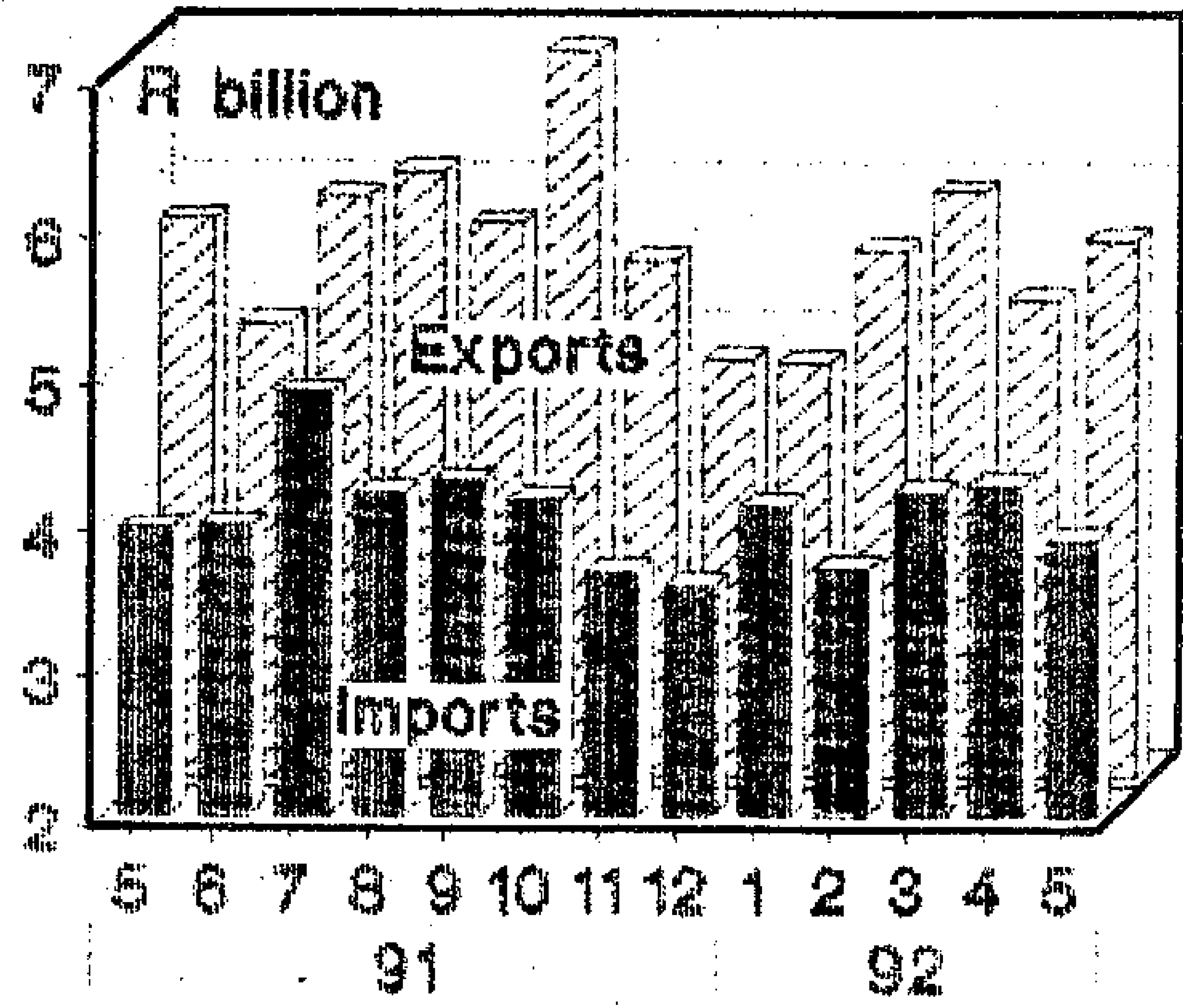
Allowing for net service payments it is estimated that the current account yielded only a small surplus in April and May this year, bringing the surplus for the first five months to about R2 billion.

The recent sharp rise in the foreign exchange reserves to levels equivalent to over two-and-a-half months worth of imports, could also slow down unless the trade surplus improves sharply.

This will to a large extent depend on the performance of South Africa's major trading partners, whose economies have shown poor growth rates over the past few months.

The Bureau for Economic Research recently forecast that SA's merchandise exports could grow by 6,7 percent during 1992, while merchandise imports are expected to surge by 10,4 percent in the wake of an anticipated upturn in the local economy towards the end of the year.

Whether SA can produce a sufficiently large trade surplus will therefore depend on the performance of precious metals exports (gold, platinum and uranium).



Import, export figures for the past 17 months.

So far this year the value of these exports, which fall under the category "unclassified goods and balance of payments adjustments", has dropped by 24 percent to R9,7 billion (R12,8 billion).

The poor performance of international metal markets coupled with a steady rand exchange rate has left the prices of precious metals markedly lower — the rand gold price over the past year has dropped by about R100 per ounce.

However, Safto economist Bruce Donald says that the extent of the decline suggests that some balance of payments adjustments have taken place.

In contrast to the poor overall performance of exports, most manufactured and agricultural exports did extremely well during the first five months of the year.

Top performers

According to Mr Donald top performers were transport equipment (a 53 percent annual rise in value), plastics and chemicals (48 percent each) and machinery (26 percent).

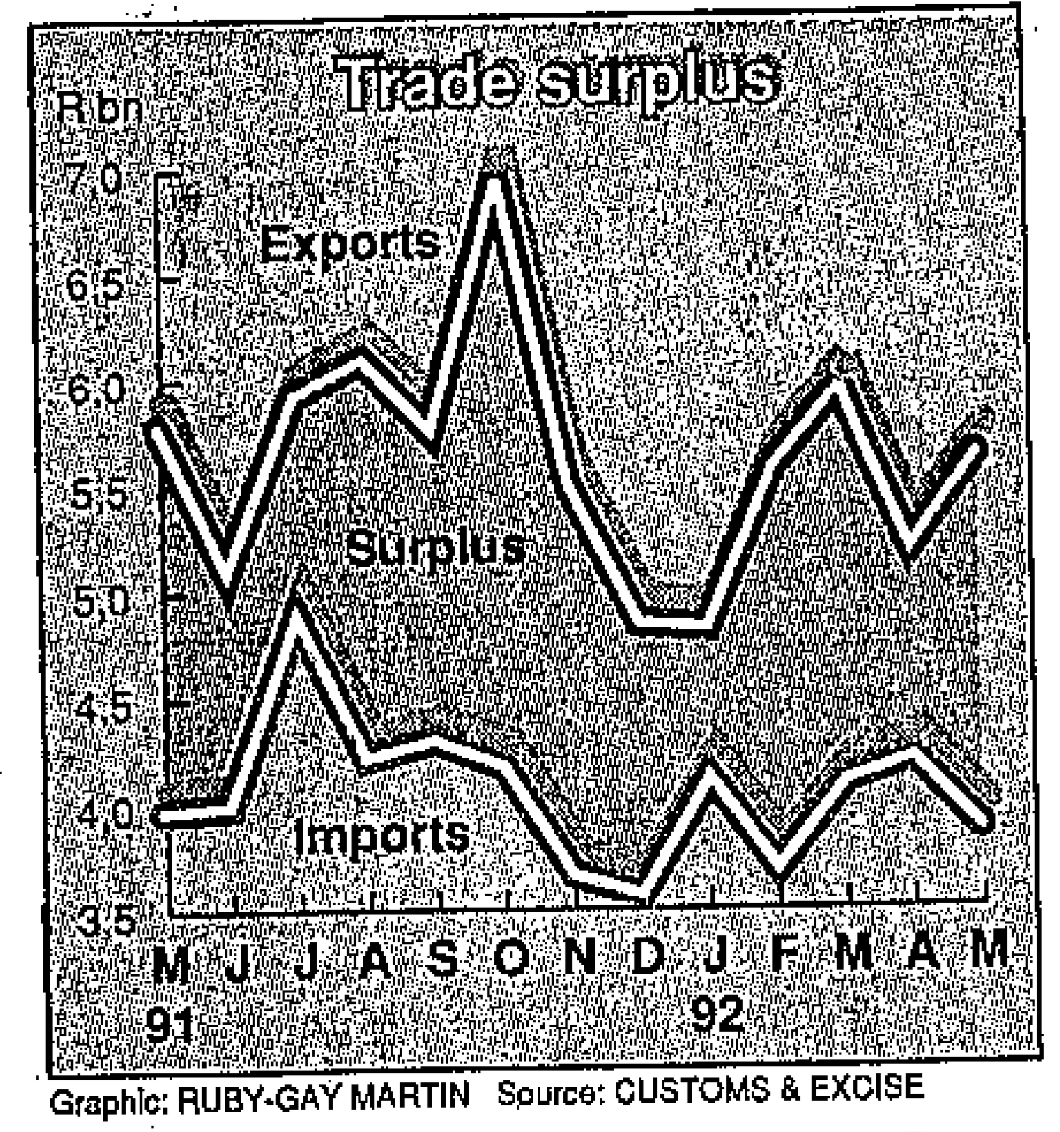
Despite the drought agricultural exports also fared well due to a good Western Cape season and better prices for SA products. Exports of vegetable products were up by 26 percent and those of fats and oils by 39 percent.

On a monthly basis total exports held up well and May's figure of R5,64 billion is in line with the average of the previous four months of the year.

The recession continues to curtail imports which fell from R4,26 billion in April to R3,88 billion last month.

Imports of industrial products were hardest hit. So far this year imports of chemicals have fall by one percent, while plastics and base metals have shown modest growth of one and five percent respectively.

Mr Donald says machinery imports grew by eight percent, perhaps indicating current replacement as opposed to expansion of existing capacity in local industry.



Graphic: RUBY-GAY MARTIN Source: CUSTOMS & EXCISE

Dip in exports lifts trade surplus

(74) B/Day 24/6/92

HILARY GUSH

A DROP in imports helped to boost the trade surplus to R1,762bn in May from R984,3m in April, Customs and Excise figures released yesterday showed.

Imports fell to R3,9bn in May from R4,3bn in April which, analysts said, reflected sluggish domestic demand.

May exports edged up to R5,6m, bolstered by mineral products earnings which, at R3,3bn, were 20% higher last month than in May 1991.

SA Foreign Trade Organisation economist Bruce Donald said the decline in exports was mainly due to "a significant dip" in the unclassified category, where earnings fell by nearly a quarter from May last year.

Although the poor performance of the gold and platinum group metals markets could explain some of the weakness of this

☐ To Page 2

Trade surplus

(74) B/Day 24/6/92

☐ From Page 1

category, the extent of the decline suggested it was a result of a balance of payments adjustment.

The 1991 January to May trade surplus was R8,45m, while the surplus for the first five months of this year was 16% lower at R7,12m.

Cumulative January to May exports totalled R27,26m compared to the R27,99m posted for the same period last year. This represented a 3% drop in nominal rand terms.

While the overall performance of exports was unimpressive, Donald said manufactured and agricultural products were doing well. The transport equipment, plastics, chemicals and machinery categories fared particularly well, recording respective increases of 53%, 48%, 48% and 26% over a year earlier.

"Most agricultural categories are booming despite the drought, due to a good season in the western Cape, better prices for South African products as sanctions go and international markets open up, and a wider range of produce available for export as export awareness grows in the agricultural sector," Donald said.

Mineral products recorded remarkable growth of 20%, Donald said, while base metals showed a 1% growth.

Financial rand starting to lose its importance

By Derek Tommey (74)

The First World/Third World dichotomy in the South African scene was fully in evidence yesteday when the politically linked financial rand eased fractionally, while the commercial rand firmed fractionally.

After its sharp drop on Monday, the financial rand which serves as a buffer against selling of South African assets by foreign investors, was much steadier yesterday and closed at R3,84 to the dollar, against R3,83 on Monday.

The financial rand discount to the commercial rand, now at a nine-month high, widened fractionally from 26,7 percent to 27 percent.

In contrast, the commercial rand, which reflects the strength of SA's trading position, firmed slightly from R2,80825 to R2,80175 to the dollar.

STAR 24/6/92

While attention in the markets has been centred on the financial rand, analysts say that these days it no longer has the importance it had in the late 1980s.

Today South Africa's financial position is vastly different. The country has a healthy foreign trade position, the foreign exchange reserves exceed R10 billion, foreign financial markets have been reopened and the foreign debt "caught in the net" by the standstill agreement has been dramatically reduced.

As a result, the need for the financial rand has been lessened.

The sharp fluctuations in the currency are, in a way, an indication of its reduced importance because these price movements are basically the result of an extremely thin market.

This was highlighted on Monday when the financial rand dropped six percent on what, according to market statistics, was really a minimal number of shares traded.

In fact, given a slightly better political situation, the analysts say they would not be surprised if the financial rand were to be abolished completely.

SA stages business fair in Kenya

BDay 24/6/92.

MICHAEL ACOTT

FOUR hundred SA businessmen gather in Nairobi at the weekend in preparation for the largest SA business exhibition held on foreign soil.

Organisers and exhibitors hope the Business to Business exhibition will spark much increased trade between SA, Kenya and other African countries. It will not only be Kenyans seeing what SA business has to offer as sanctions recede. Visitors to the exhibition are expected from Rwanda, Burundi, Ethiopia, Uganda, Tanzania, Somalia and Sudan.

SA companies, from conglomerates to smaller businesses, have taken most of the 150 stands. Kenyan exhibitors are mainly from service industries such as banks, hotels and safari groups.

SA exhibitors include BMW (SA), Dorbyl, the FSI group, Murray & Roberts Plastics, Nampak, SAA, SAB and Venter trailers. The Kenyan and SA governments have stands.

The conference has been organised by Contact Kenya, a company set up to promote trade between the two countries. MD David Altman said yesterday that although 151 SA companies were listed as exhibitors, the 420 SA businessmen would represent more than 400 organisations.

Altman said there had been great interest among the Kenyan business community.

SA's trade with Africa is worth R10bn-R12bn a year, of which only about R45m is with Kenya. And foreign exchange restrictions in Kenya might prevent that figure increasing too rapidly, said Andrew Maggs, manager of the Africa trade intelligence unit at the SA Foreign Trade Organisation (Safto).

He advised exhibitors to take "note books, not order books", because the shortage of foreign exchange hindered the ability of Kenyans to buy SA goods.

Maggs expected an improvement once Kenya had held promised elections.

He said Kenya's traditonal suppliers were in Europe, particularly the UK. "We should, theoretically, be able to beat them on price, helped by the weak rand, and on lead times."

The exhibition will be opened on Monday by deputy Foreign Minister Renier Schoeman.

A week dollar bulls will want to forget

SIMON WILLSON

DEALING rooms throughout foreign exchangedom this week probably resigned themselves to two inevitable events over the next fortnight: the first grunt fault in the history of tennis, and DM1,55 before DM1,60 (although not necessarily in that order).

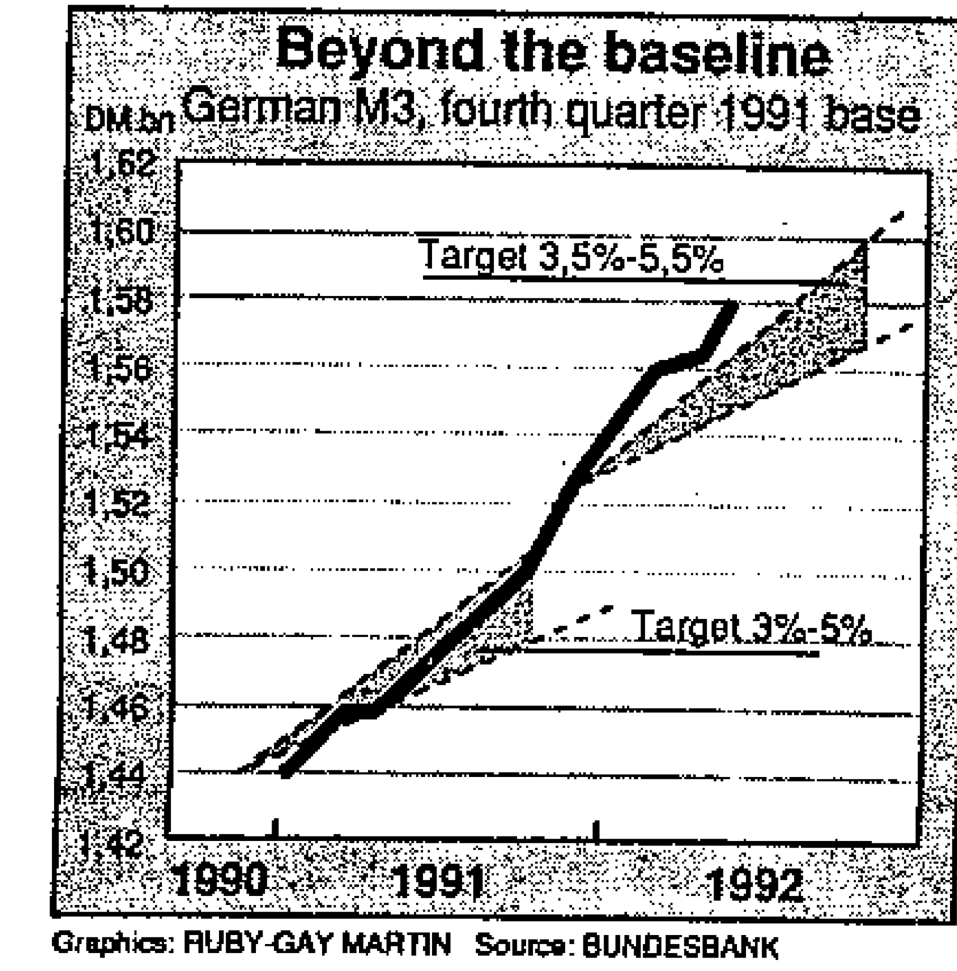
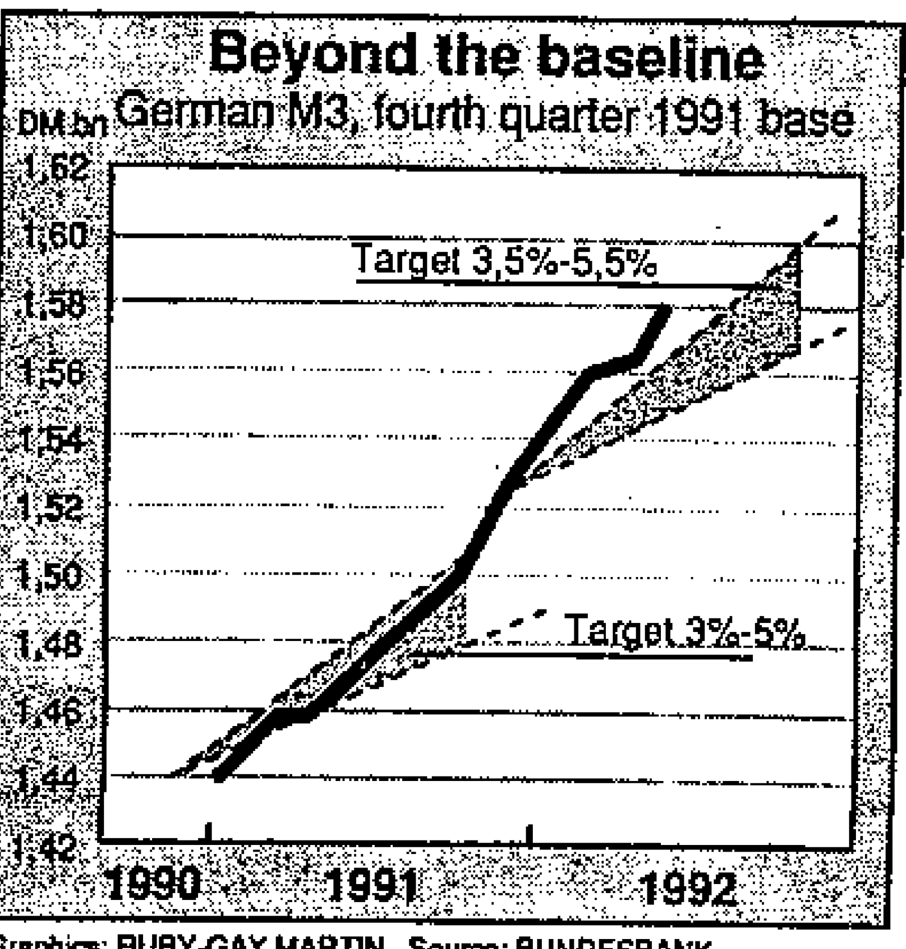
Before it is even half-traversed, the week is already one that dollar bulls will want to forget. It is sufficiently barren of US statistics for the grunting of the Wimbledon women's No 1 seed to make it onto the dealing screens, while the week's only European figures of any significance could scarcely have been worse for the dollar.

For anyone still long on dollars after this sequence of gloomy releases, screens bearing the tennis will be considerably more attractive the next few days than screens quoting prices.

Recent US statistics have been too ambivalent to offer prospects of near-term economic recovery. But it is only economic recovery that can justify dollar buying on the basis that US interest rates have bottomed. No figures are due this week that could underwrite any such belief.

Alternatively, dollars could be bought on the rationale that European — and particularly German — interest rates were about to decline. Already, however, events this week have effectively ruled that out, too.

There have been positive readouts from the US economy recently. Last week's generally favourable US figures were, however, obscured by continuing Deutschmark-positive fallout from Denmark's rejection of the Maastricht treaty on European monetary union and from the anxious build-up to the Irish referendum on the same subject. The positive vote in the Irish poll has now helped to reinforce some of Maastricht's crumbling foundations and has thus reduced the role that concern about Euro-union was playing in propping up the Deutschmark.

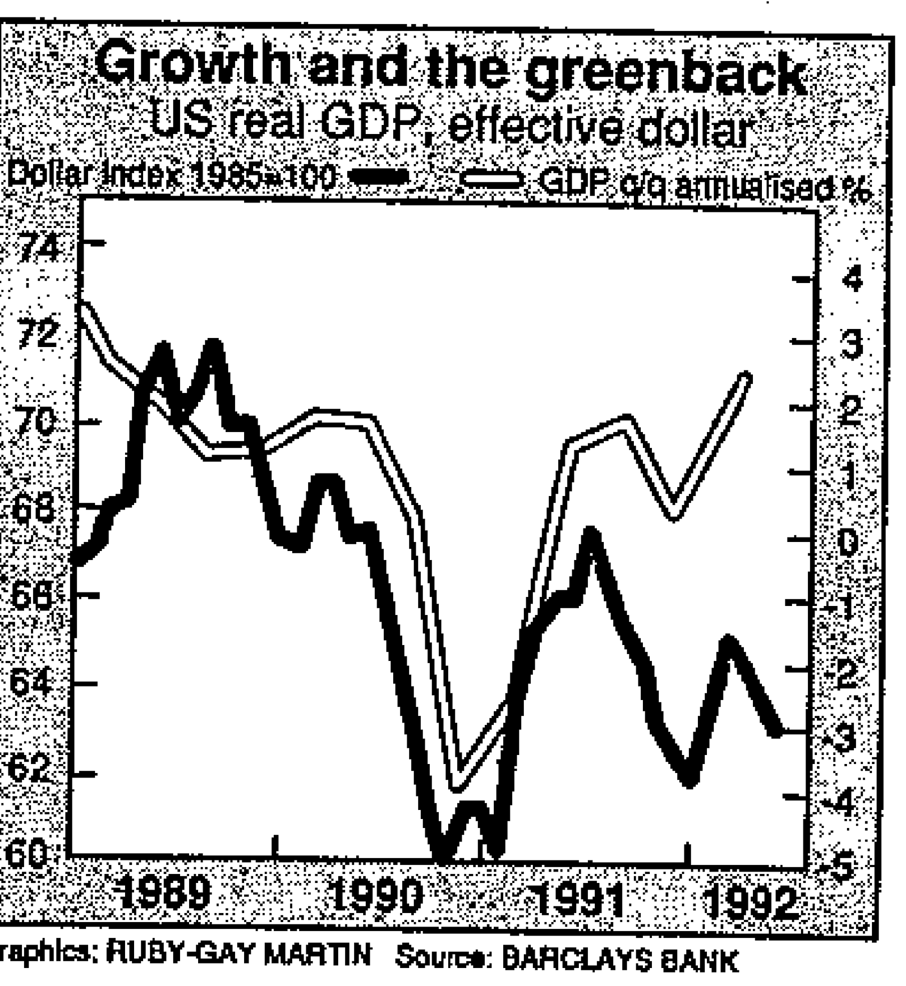
Beyond the baseline
German M3, fourth quarter 1991 base

Graphics: RUBY-GAY MARTIN Source: BUNDESBANK

But instead of being positioned to take advantage of this erosion of one source of Deutschmark support, the dollar has retreated. A short series of nondescript trading days for US data has coincided with another remarkable financial release from Germany — its May money supply figures, released yesterday. The German central bank, the Bundesbank, targets the broad-money M3 aggregate, and the first chart sets May German M3 in the context of its 1992 target range. As the chart shows, German M3 has overshot its baseline like a mis-hit Becker backhand.

Worse, as far as the dollar is concerned, is the composition of the M3 overshoot. Yesterday's aggregates showed a bulge in credit extension, indicating that credit extended to business and to consumers has been growing at about 12% (seasonally adjusted annualised rate) over the past six months.

An immediate sagging on the German capital market showed that the financial implications of this sank home quickly. The Bundesbank will have to keep a firm monetary stance not only to haul current M3 back into line but also to restrain the future inflation consequences of swollen credit extension. Judging by the reaction of German bond prices to the M3 data yesterday, hardly anybody expects the Bundesbank to ease rates before the end of the year at the earliest.



Growth and the greenback
US real GDP, effective dollar

Graphics: RUBY-GAY MARTIN Source: BARCLAYS BANK

With that avenue of appreciation shut, the dollar's sole hope of surviving the week intact was an extra dose of optimistic US data. The only figures on offer this week that could sweeten dollar sentiment are May durable goods, due today, and the final revision to first-quarter GDP, out tomorrow. But durable goods have too good an act to follow — successive previous rises of 2,3% and 1,4% — to make much of an impact.

That leaves the GDP revision. As the second chart shows, the effective dollar has tracked GDP quite closely through the US recession and stop-start recovery. Indeed, the effective dollar is due an upward correction to maintain the chart's symmetry. But neither this week nor next is likely to bring that correction. First-quarter GDP has already been revised up once, from 2% to 2,4%, and final revisions are seldom sizeable. So the dollar can expect no help from this quarter, either.

That must be why dollar-mark traders are suddenly so keen on grunt-counting.

REVIEW

BUSINESS

Free the markets, urges BTT

w/mail 19/6 - 25/6/92.

Agricultural control boards are not the only villains of the food price spiral. Deregulation and breaking down of concentrations are needed, the recent government report found. By **REG RUMNEY**

THE long-awaited government study of food prices comes down heavily in favour of deregulation. Its stance is strongly against intervention, such as control boards represent, and in favour of free market solutions.

The Board on Tariffs and Trade (BTT), which undertook the study, issued a preliminary report last week.

As reasons for persistent food price inflation above the rate of general inflation the board rounded up some of the usual suspects.

It mentions wage increases which outpaced productivity improvements, hijackings, removal of subsidies, indirect taxes like Value-Added Tax on food, regulation and marketing board-administered schemes to drain off excess food production.

The board found it impossible to identify specific culprits abusing special privileges. But it did find concentration at agricultural board and processing levels.

"The fact that cost increases can be readily passed on to the consumer seems to indicate a lack of effective competition in certain areas."

The report clears farmers themselves, and it does not make any arguments for breaking up as being at the root of the concentration. "It is at the intermediate levels of crop purchase and storage, primary processing and wholesale distribution that concentration tends to be greatest.

"Significantly, it is also at this level that intervention is most common. In the BTT's opinion this intervention increases concentration more often that it disperses it."

The BTT goes on to say that *concentration stemming from control boards contributed to further upstream concentration.*

In the course of its investigation the board has taken a close look at profit margins and returns in various parts of the food chain. But it urges circumspection about this statistical evidence, arguing that conclusions on efficiency, exploitation, or fairness cannot be arrived at by studying statistics alone.

This could be aimed at among others arguments put forward by the big retailers that their low margins showed they were not exploiting the consumer.

The board notes elsewhere the declining productivity of workers in food retailing, compared to wage rises. It also notes: "The co-operatives do virtually all the wheat storage. Only two companies distribute refined sugar. Seventy percent of maize milling is done by six major companies. About 85 percent of all dairy processing is done by seven major players. Approximately 63 percent of all fresh vegetables are sold on the 15 national markets."

The report does not single out the retail chains or the processors. It merely advocates removing barriers to competition,and identifies a wide variety of such barriers for consideration.

The board believes import tariffs should replace quotas to allow competition from food imports, and that eventually tariffs should only be used against dumping.

It recommends replacing minimum standards with a clear marking of quality and grade.

It urges that the scope of the Competition Board be broadened to that of an "ombudsman" to which anyone could appeal to remove competition-inhibiting laws, including health regulations.

Several issues are not fully dealt with, such as the effect of VAT and whether the official food price inflation figure correctly reflects what is happening to food prices, but the board promises to look at these as well.

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Anti-apartheid lobby ready to flex muscles

(74) STAR 25/6/92

By Garner Thomson
Star Bureau

LONDON — As South Africa rakes over the coals of Boipatong, the international anti-apartheid machine is getting ready to roll again.

MPs, politicians, European Community leaders, civil rights campaigners and veteran political opponents, whose long-running campaigns were mothballed following the release of Nelson Mandela, are already marshalling their forces.

Their action could all too easily end in renewed sanctions on South Africa.

Even trusted and tried allies such as Britain's Conservative government are seeking to steer a more neutral course.

At the same time, though, British ministers are conducting urgent private talks with the Government and ANC in a bid to avert what looks like a suicidal plunge into bloodshed and chaos.

British Prime Minister John Major's message of encouragement to President de Klerk earlier this week was warm and cordial enough.

But senior Whitehall sources say he is becoming increasingly perturbed at what is seen as Pretoria's refusal to control security forces and move swiftly towards a democratic solution.

Already embarrassed by Britain's role in pressing the EC to lift economic and oil sanctions, Mr Major now lacks the passionate pro-South Africanism of his predecessor Margaret Thatcher, and is unlikely to want to be seen to be piloting South Africa to a new, more refined state of white elitism.

Overseas Development Minister Baroness Lynda Chalker's recent offer of British assistance in "reintegrating" South Africa's police and military is a direct hint that even the Tory government believes that South Africa's forces must be swiftly purged.

And there can be no doubt as to where the blame is being laid for the troubles.

Where Mr de Klerk was regarded just a few months ago as a man of courage, determination and insight, he is now widely seen as manoeuvring to divide and defuse black resistance, placate international opinion and preserve white power.

Pretoria's approach to negotiation is now seen in many quarters as a thinly disguised bid to secure white interests at the cost of basic freedoms for blacks. Southern Africa expert Professor V L Allen says: "Negotiation is all about meeting white demands."

Meanwhile, as Pretoria strives to contain the damage in the face of growing internal disorder, plunging share prices, the threat of renewed political isolation and the shying away of serious foreign investors, elements ranging from the centre to the Left of European politics are starting to gather to discuss what action to take.

EC ministers will meet in Lisbon at the weekend, and the issue of sanctions will not be far from their concerns. The opinion that Mr de Klerk must be told to hold full and free elections within six months, otherwise sanctions would be reimposed, is now being held in all but the most right-wing quarters.

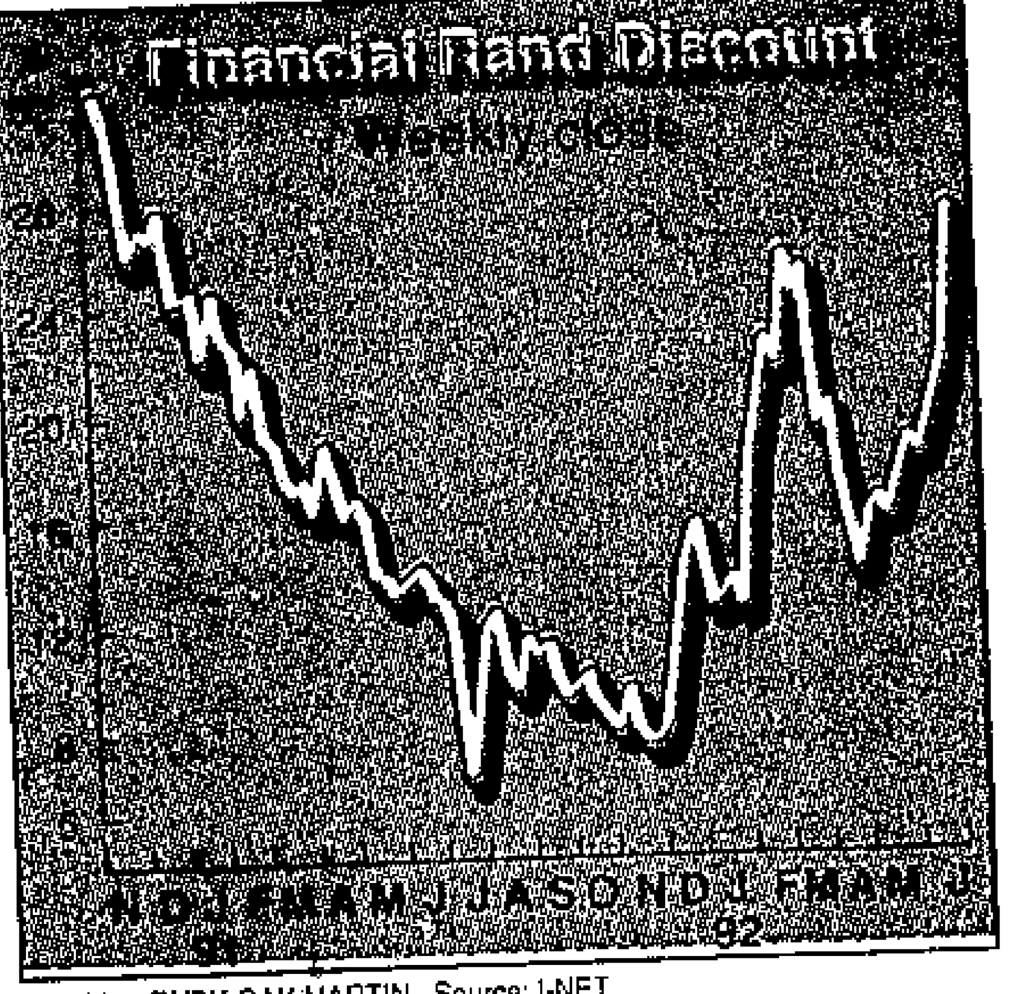
And, while Australia and New Zealand have insisted publicly that the violence does not affect their South African tours, there is the barely concealed caveat "for the time being, anyway".

Sport, as Labour MP Peter Hain knows, remains South Africa's Achilles heel, and most efforts are likely to be focused on South Africa's expulsion from the Olympics. Mr Hain has already called for an international campaign to force South Africa out.

The Anti-Apartheid Movement, which a few months ago discussed what amounted to its dissolution, has moved quickly to mount a campaign in response to the crisis in South Africa.

This includes delivering to Mr Major a series of suggestions for action the British government could take, a national "call to action" over Boipatong, an emergency protest march and a mass picket of South Africa House in London.

Like blacks in South Africa, enemies and allies alike are waiting for a single sign that Mr de Klerk is indeed committed to positive change — and is prepared to act against even those closest to him who threaten to disrupt it.



Graphics: RUBY-GAY MARTIN Source: I-NET

Finrand discount at 18-month high

HILARY GUSH (74)

THE financial to commercial rand discount yesterday widened to an 18-month high of 27% from 22% on Friday.

Analysts attributed the higher discount to a strengthening of the commercial rand on the back of a weaker dollar rather than solely to a drop in the finrand.

Following the ANC's decision on Sunday to withdraw from talks with government, the finrand fell 7% on Monday to reach a three-month low of R3,89 to the dollar. A previous low of R4,08 was recorded on March 16 as investors unwound their positions and sold off the currency unit before the referendum. BDay 25/6/92

A depreciation in the dollar value of the investment currency is generally seen as an indication of decreased confidence among non-resident investors in SA assets.

As trading volumes in the finrand are thin compared with those of the commer-

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Finrand

BDay 25/6/92 (74)

☐ From Page 1

cial rand, small-scale buying and selling caused significant fluctuations in the discount, analysts said.

Capital market rates fell yesterday, with the benchmark Eskom 168 trading at 15,810% by late afternoon, after previously being quoted at 15,845%. Despite political uncertainties the market was steady, dealers said.

Little active selling both locally and offshore had taken place and traders claimed rates on long-term stock should have moved higher in view of the market's uncertain political background.

One dealer believed a reasonably sized correction was needed to firm rates. Yields on RSA 150 stock were down on Tuesday's 16,115% and traded at 16,09% towards the close yesterday.

Scrapping controls 'is risky'

SHARON WOOD

THE events of the past week had highlighted the risk of scrapping exchange controls, Japie Jacobs, special economic adviser to the Finance Minister, said yesterday.

Speaking at an Islamic Bank function in Johannesburg, Jacobs said: "We would have seen a large increase in the outflow of capital that would have made great inroads into our scarce foreign exchange resources, and would have imposed even a harsher limit on the growth performance of our economy."

He warned that using the economy as a battlefield for settling political differences could only serve to deepen people's misery.

He said the ANC favoured even more restrictive exchange controls and was suspicious that SA companies were disinvesting in order to acquire foreign assets.

"They (the ANC) castigate so-called SA monopolies, threaten them with dismemberment and possible nationalisation, yet begrudge them the right to invest outside the country."

SA corporations could not invest overseas without the approval of Exchange Control. "It is clear that the critics of such investment do not grasp the essential elements of the rand financial system."

On the broader policy side, he said SA did not have much scope in policy options to reinvigorate economic growth.

Populist policies, such as those followed in the past, would be unable to lift economic growth beyond about 1% a year.

Jacobs said a rate of growth of 4% a year would be achievable only if SA restricted the rise in the public sector's consumption expenditure, arrested the out-

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Controls

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flow of capital, attracted direct foreign investment and increased capital and labour productivity.

"We must realise that a country cannot successfully embark on a road of growth if the population has neither the desire to follow nor the notion that such a road exists."

This could be addressed only during consultation which could eventually culminate in an economic forum, he added.

"An exercise of this nature can only be productive if the parties involved realise that as a Third World country, SA's economic options are restricted, that we will have to lower our expectations to the limits of affordability and not in terms of needs, that our policies must be soundly based and aimed at promoting sustainable economic growth and that we need to compromise in the national interest."

However, budgets did provide scope for a distribution of income and a reduction in socio-economic backlogs. "But an expanding instead of a contracting economy will considerably facilitate this process."

Government appreciated the need to re-establish fiscal or budgetary discipline and this would be pursued vigorously.

"The final answer to our economic malaise is, however, in the hands of various political players and the way they guide their constituencies."

UPWARD ADJUSTMENT

74

FM 26/6/92

A major adjustment seems to have been made to last year's trade figures relating to the first five months of the year. According to figures released by Customs & Excise last year, unclassified exports for the year were at R11,1bn. However, figures released this week put the figure at R12,8bn.

Figures for the year to May 1992 show a decrease in imports and an increase in exports pushed SA's surplus for May to R1,76bn. Exports in May rose 8% to R5,6bn while imports fell 9% to R3,88bn. But the surplus for the year was down 15,8% on the similar period last year, to R7,1bn.

Important moves on the export side were mineral products, 14,7% higher in May than in April, at R794m, and cumulatively 20% higher than over the similar period in 1991, at R3,3bn; gems and precious metals, at R630m up on April's R157m, and R3,1bn over the year (14% higher than for the similar period last year).

But exports of unclassified items, which include gold, were stung by poor world prices, slipping to R1,7bn, 19% below April's figure. The cumulative figure was 24% lower than for the comparable period last year, at R2,4bn.

The decline in imports in the month can be attributed to the following categories:

- ☐ Chemical products (-4% at R462m);
- ☐ Machinery (-10% at R1,1bn); and
- ☐ Unclassified imports (-47% R345m).

Imports of vehicles and transport equipment, however, were up 9,5% in May. ■

INTERNATIONAL BANKING FM 26/6/92

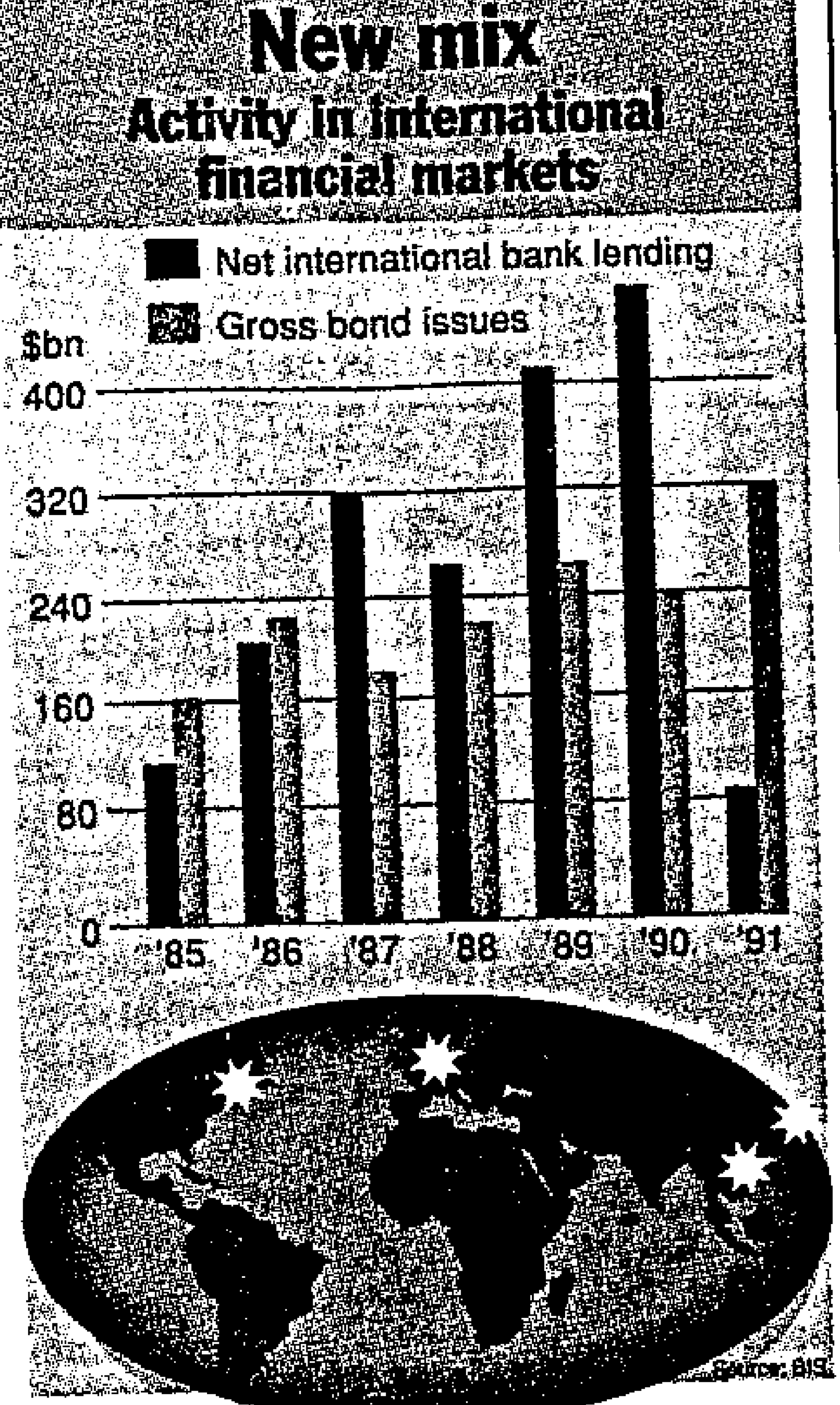
Treading warily (74)

Last year saw the first ever contraction in international banking aggregates, says the Bank for International Settlements' annual report released this month.

"The outstanding total of crossborder and local foreign currency claims of the BIS reporting banks — which had grown at rates in excess of 10% in each of the previous six years — decreased by $102bn or 1%.

"There was a pronounced slowdown in final lending to residents within the BIS reporting area who had been major borrowers from international banks in previous years. New lending to outside-area countries, which were less affected by the recession in the industrial countries, recovered somewhat."

The BIS attributes the contraction to heightened perceptions of credit risk, a general restructuring of financial markets, the economic cycle and banks' concerns about their capital adequacy.



The area which saw the greatest shrinkage was interbank lending. "Banks increasingly perceived interbank activity as yielding low returns while entailing potentially high counterparty risks."

The general caution was reflected in higher spreads and shorter maturities for new internationally syndicated credits.

Banks compensated by increasing their use of derivative instruments "which can substitute for on-balance-sheet operations but involve less credit risk." The identified, outstanding, notional value, of derivative contracts on interest rates and currencies, is estimated to have risen from 75% of international assets, of BIS reporting banks at the end of 1990, to nearly 100% a year later.

Banks are the main intermediaries in over-the-counter markets, says the BIS, though precise data is not available on their direct involvement in derivatives.

As bank lending fell, bond market activity increased. Borrowers were attracted by the decline in long-term interest rates. Investors were attracted by expectations of further falls in interest rates. "The volume of completed new international bond issues soared to $319bn, one-third more than in 1990 and well above the previous peak. Activity was particularly buoyant in the first half of the year, when a number of large issues were made by sovereign entities."

Events in Japan were already adversely influencing international financial markets in 1991. The decline in domestic property prices there reduced demand for credit from Japanese residents. And the depressed state of the stock market in the second half limited issuing of equity-related bonds. Japanese banks pared their low-return interbank positions to improve their profitability and meet Basle's capital adequacy guidelines.

"The decline in the gross international banking aggregates last year was fully accounted for by a 9% contraction in Japanese banks' balance sheets." ■

FOREIGN DEBT (74) FM 26/6/92

Bond dilemma

The Development Bank of SA is reluctant to discuss a reported application for a credit line from Japan's Export-Import bank, worth about US$300m-$400m (R800m-R1,1bn). The DBSA says it hosted a delegation from Exim Bank early in June but that it was "too early to speculate about any involvement which may be forthcoming."

If the credit line materialises, it will contribute to the large amounts already raised by SA borrowers on overseas markets. Since September, when SA first floated a bond issue in Europe, the public sector has raised a total of R2,6bn on foreign capital markets in foreign currency. The original issue of RSA stock brought in DM400m, followed by Ecu250m in January. Subsequent issues

were made by parastatals:

☐ DM200m in February for the Development Bank;
☐ DM300m in March for Eskom; and
☐ DM120m in May for Telkom.

Not that SA needs the money right away. UAL economist Dennis Dykes says the problem in the SA economy is a lack of investment opportunities. "Because of political and economic uncertainty, investors tend to put their money in blue-chip shares rather than new long-term development projects." But funding may be needed further down the line, says Dykes, so establishing contact with large foreign investors may be relevant. "The ability to borrow large amounts is important for any developing economy, provided these are used on productive expenditure and not on current expenditure," he says.

There is a view, says Dykes, that such issues are important in establishing SA's debt-worthiness abroad. "Large foreign lenders tend to lend to countries that already have a presence in capital markets, so it may be important to gain familiarity with lenders for future requirements."

According to a research paper brought out by Jonathan Garner and Jonathan Leape of the LSE Centre for the Study of the South African Economy and International Finance, virtually all foreign debt issues placed by SA issuers from the time of the debt standstill until August 1991 (the date of the research paper) were with small, specialised investors, notably wealthy individuals and trusts. Little headway was made among mainstream financial institutions. So there may be good reason for wooing these investors.

Bond issues may also be important in building up foreign exchange reserves.

Nedcor chief economist Edward Osborn says there are two fundamental difficulties with securing borrowings abroad: "Firstly there is the public debt problem — foreign funding is not required to finance budgetary expenditure, but contributes to future fiscal burdens. Secondly these borrowings expose SA to the risk of currency depreciation, making borrowing more expensive."

Osborn draws attention to the "imminent dangers of a public debt trap arising from government taking on functions beyond the straightforward one of financing the State budget. One of these is raising money abroad for balance of payments requirements and developing capital market relationships abroad: important, no doubt, but a heavy price to be watched."

Osborn says the problem is compounded by bodies such as the DBSA and the Independent Development Trust (IDT) also seeking finance abroad, when funding can be raised locally without the currency risk. "There seems to be a mistaken view that foreign money is intrinsically better than local money."

Osborn says the notion that SA is "underborrowed" doesn't hold much water: "It is a meaningless, self-justifying word. Current overseas borrowings may not be anywhere near the levels of the early Seventies or early Eighties, but those periods saw to an enormous run-up of long-term borrowings and an acute exposure to short-term liabilities." ■

Financial rand goes for a burton

W Mail 26/6 - 2/7/92

(74)

By REG RUMNEY

THE African National Congress' withdrawal from negotiations after the Boipatong massacre was reflected immediately in the key indicator of overseas political and economic confidence — the financial rand discount.

The discount is the gap between the amount of ordinary or "commercial rand" a dollar can buy, and the amount of cheaper financial rand it can buy.

Stripped of its complexities, the financial rand discount shows the desire of non-residents to disinvest from South Africa.

The commercial rand rate midweek was around $1 = R2,80. The financial rand rate midweek was $1 = R3,82. This is a discount of around 27 percent. The discount at the close of trading on Wednesday, before the Boipatong massacre hit the headlines, was 22 percent.

It had dwindled to an average 8,6 percent for November 1991 after hitting a high of 52 percent over the month of January 1987.

The JSE overall index was 3638,0 midweek, only 1,6 percent down on the figure recorded a week ago. The index of gold shares was 1121, just 2,7 pecent down. The index of industrial shares was 4 474, hardly changed from 4 545 a week ago.

Indicative of a lack of consumer confidence is the sudden quiet in the residential property market. Coming on top of the already depressed economy, the political uncertainty seems to have knocked the breath out of it.

Aida Holdings managing director Aida Geffen remarks that a surge of activity after the referendum meant May sales doubled Aida's turnover.

June, even before the Boipatong massacre, saw the property market slump, says Geffen. "Our computer listing of buyers has halved," she notes, and only desperate sellers are putting their houses on the market.

Threats of sanctions will also have an effect on business and consumer confidence. So far, however, sanctions threats have been confined to a delay in lifting trade sanctions still in place, such as those imposed by Sweden and major US cities.

"I don't see the European Community and the US going back to sanctions," says South African Foreign Trade Organisation economist Bruce Donald. "These are the primary areas of concern."

Aside from dealing a further blow to business and consumer confidence, a political impasse will hurt growth prospects — if not this year, then next.

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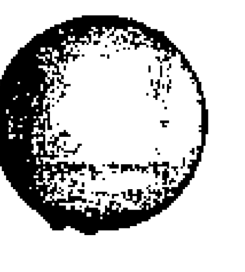


SA's debt 34% down since '85

B/Day 26/6/92

HILARY GUSH

SA's current account surplus narrowed sharply in the first quarter of the year, but capital outflows also declined to a "negligible" level in the March quarter, the Reserve Bank's latest quarterly bulletin says.

SA's foreign debt declined from $19,4bn at the end of 1990 to $18,1bn at the end of last year, completing a 34% reduction in outstanding foreign debt from 1985 levels.

In the three months to March the current account surplus fell to an annualised R4,5bn from R12,3bn in the fourth quarter of last year. The fall stemmed from an increase in goods imports and in service and transfer payments to nonresidents.

Net gold exports fell although there was a slim improvement in goods exports.

Capital outflows totalling R4,7bn in the fourth quarter of last year declined to R21m in the first quarter of this year.

Successful first-quarter bond issues in European capital markets produced a net long-term capital inflow of R1bn for the public sector.

However, the inflow was offset by repayment of $200m in debt inside the standstill net in February this year. A net inflow of short-term capital in the March quarter consisted mainly of trade finance associated with the higher value of imports.

At August 1985 exchange rates SA's foreign debt totalled R15,6bn at the end of last year, compared with the R23,7bn foreign debt total at the beginning of the debt standstill on August 31 1985.

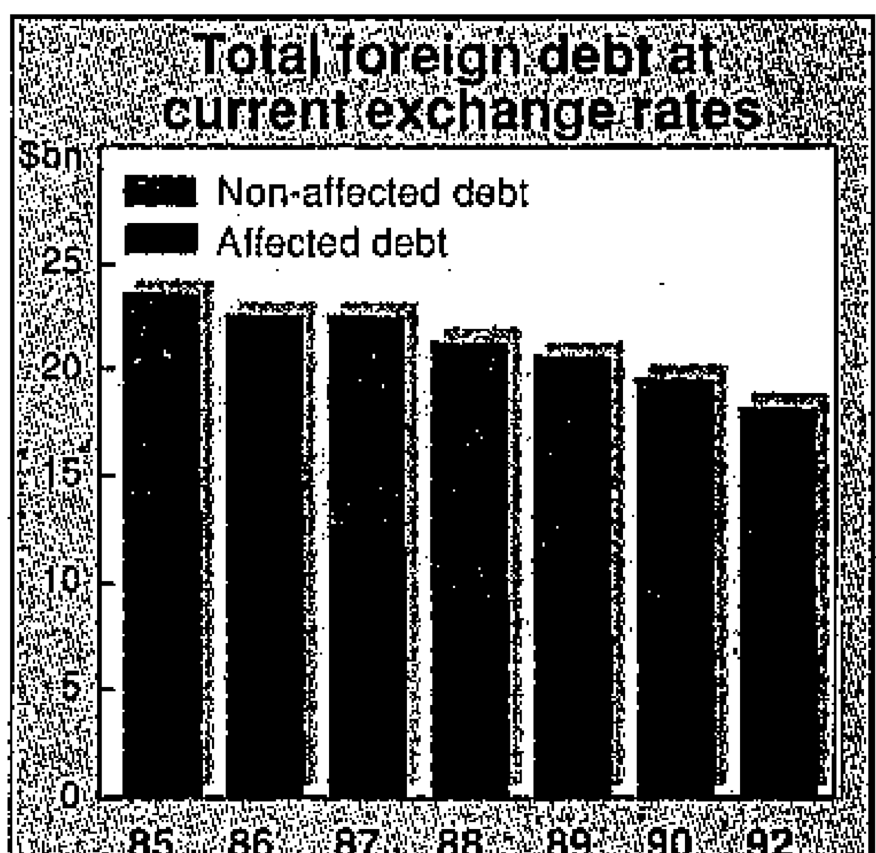
This implied that, valued at August 1985 exchange rates, the outstanding debt was reduced by $8,1bn, or 34%.

No less than $3,2bn had been repaid on affected debt — inside the standstill net — and a further reduction, attributed to conversions into longer-term loans outside the net and debt-equity swaps, had occurred.

The Bank believed the foreign debt repayments should help to further improve SA's credit rating.

As a percentage of goods and services exports, the debt total had decreased to 65% in 1991 from 128% in 1985; the corresponding ratio in Western developing countries was 250%.

SA's debt expressed as a ratio of GDP fell to 17% at the end of last year from 43% in 1985.



Graphics: RUBY-GAY MARTIN Source: RESERVE BANK

BUSINESS BAROMETER

WMail 26/6-2/7/92

Keys meets food mandarins

IN the wake of last week's Board of Tariffs and Trade (BTT) report into food price inflation, Finance Minister Derek Keys met food manufacturers, retailers and the Vat Co-ordinating Committee.

The retailers spoke of a 10-point plan to bring down food prices. Paramount in this plan would be re-adjustment to the import tariffs on food, fertilisers and farming equipment.

In line with the BTT recommendations, the abolition of food boards would also be looked at.

SA seeks R700m

FINANCE director general Gerhard Croeser told an international financiers conference in London that South Africa would shortly be borrowing about R700-million on international markets.

The tapping of new foreign markets, Croeser said, would help boost investment in socio-economic development in South Africa via institutions such as the Independent Development Trust and Development Bank of Southern Africa. WMail 26/6-2/7/92

Both these institutions have recently tried to raise loans on foreign markets — much to the annoyance of the African National Congress, which threatened not to repay the loans once in power.

Getting foreign loans would also be important to protect the country's foreign reserves, Croeser stressed.

Plate Glass cracks

SOUTH African Breweries' newest acquisition, Plate Glass Shatterproof Industries, fell victim to the worldwide recession with attributable earnings falling by R50-million in the past year. The group, which has, since early this year, been 67 percent owned by SAB, suffered losses both in South Africa and in the United States as a result of poor conditions in the automotive, building and furniture industries which the company services. WMail 26/6-2/7/92

Local content scam probed

A R600-million fraud which used the government's complex Phase 6 local content scheme is being investigated by the Office for Serious Economic Offences. At the centre of the investigation is Randburg exporter CET Trading, provisionally wound up in March. The scam was to get export incentive rebates from the Department of Trade and Industry by submitting inflated invoices on goods, supposedly locally produced motor vehicle components, exported from South Africa.

WMail 26/6-2/7/92

Big trade hunt in Africa

C/Press 28/6/92

ECONOMIC prospects for Africa depend increasingly on the fortunes of two dominant states in the region – SA and Nigeria.

Their leaders share the analysis that Africa's economic development revolves around four growth poles – SA, Nigeria, Kenya and Egypt. Of the four poles, Nigeria and SA are the most significant for Africa in terms of economic muscle and population. Although Egypt is a major recipient of Western aid its predominant orientation to the Middle East has reduced its importance as an actor in Africa.

For foreign commercial interests it is Nigeria and SA, within and beyond their respective sub-regions, that have the most potential to develop as platforms from which to export to other countries in the region. While SA's potential as a harbinger of economic development under current conditions is seriously overstated in Africa, it is a market which constitutes about one percent of global business and one that few multinational companies can afford to ignore.

Shattering myths

Some of the most extreme illusions about SA's economic role in Africa are likely to be shattered in the next few years.

Industrial structures are likely to be further rationalised with much African business moving to SA as the logical regional industrial hub. While SA does not have a competitive advantage internationally in manufacturing, it does have a marked comparative advantage in Africa where manufacture makes up more than 30 percent of its exports. SAWith South African exports to Africa of some R6-billion (US$2-billion) and imports from Africa of just R1,5-billionin 1990, the trade relationship is very one-sided. Commodities are SA's main buying interest in Africa: Nigerian and Angolan oil, cocoa from the Ivory Coast and Ghana, Kenyan and Ugandan coffee, Zambian copper and Zimbabwean tobacco.

Coping with SA's domination in the African economic context will be a key problem for policy-makers in post-apartheid Africa; the only possible counterbalance is Nigeria. Success or dislocation in one of the "pole economies" will quickly affect the other countries in the region.

■ A difficult transition to democratic rule:

Moving from apartheid in SA's case – and military rule in Nigeria's case – to democracy is a critical process for both countries. A central issue in both countries is how far federalism can contain ethnic rivalries. Current developments suggest both countries will face a protracted period of authoritarian rule in this decade.

■ Dependence on commodity production:

Despite its relative sophistication in the African context, SA is still predominantly a primary commodity producer. Mineral exports alone made up 46 percent of SA's merchandise exports in 1991 and in non-drought years it grows the equivalent of a third of Africa's maize requirements; crude oil makes up 95 percent of Nigeria's exports.

■ Gross inequalities of wealth:

Inequalities in Nigeria have been worsened by recession, particularly in urban centres, over the past decade. While the overall GNP per capita in SA was $US2 460 (R6 888) in 1990, for whites it was $US6 530 (R18 284) and for blacks $US670 (R1 876), according to the World Bank.

■ Growing unemployment:

Estimates of unemployment in SA vary from the government's 18 percent to unofficial estimates as high as 40 percent; all are agreed it will rise further. In Nigeria, few accept the government's unemployment figure of 11 percent, while some economists claim it is higher than 25 percent.

■ Hectic rate of urbanisation:

Both countries are among the fastest urbanising societies in the world.

Johannesburg's crime rate is soaring as it replaces Detroit and Rio de Janeiro as the murder capital of the world.

■ Overblown and unproductive sectors:

The army of Afrikaner clerks who people SA's 15 racially based departments will be weeded out, but any restructuring of the civil service is unlikely to cut total numbers as social spending on blacks rises. Privatisation, however, has cut down some traditional government fiefdoms. Since 1986, the Nigerian government has cut the civil service payroll and started an ambitious privatisation programme. Both strategies have stalled and are unlikely to be resuscitated before a change in government. The efficiency of both civil services has been hampered by growing corruption.

■ Oversized military and security establishment:

This year, half SA's total defence budget of R4 380-billion was allocated to special projects or "dirty tricks". Until January next year at least, Nigeria's military will directly control the national budget.

Both countries see their military prowess (questionable in both cases) as integral to their standing in Africa and an important component of a possible peace-keeping force launched by the Organisation of African Unity, which they would hope to dominate between them.

■ Capital flight:

Both countries have suffered inordinately from capital flight and disinvestment.

■ Chronic lack of investment in education and training:

Apartheid's worst legacy to the economy is the lack of skilled South African workers. In Nigeria's education system, where spending on each pupil was cut by more than half in the 1980s, the effects have been similar.

■ Poor export performance:

With rich natural resources and long-established markets for its primary commodities, neither economy has developed the necessary marketing skills to export its processed and manufactured goods.

However, SA, with its GDP more than double Nigeria's, will remain and probably reinforce its position as the dominant economy in the region.

Africa as a bloc was virtually invisible in the negotiations for the General Agreement on Tariffs and Trade; a constructive Lagos-Pretoria axis could help change this. – Africa Confidential

No easy gateway to Africa for SA

(74) C/Press 28/6/92

■ MONEY TALK

GLIB talk by local and overseas politicians that South Africa is to become the economic engine which will pull Africa out of its present economic depression, is gradually being tested in the real world of business.

The results are disheartening.

Political turmoil, a lack of infrastructure and systems – ranging from government departments to road and railway systems that simply don't work – are frustrating efforts by SA businessmen to increase trade in Africa.

Nonetheless trade with the rest of Africa has risen by 150% since 1987.

Top company Premier Group – South Africa's second largest food group with substantial pharmaceutical interests – says it is experiencing great difficulties in doing business with Africa now that sanctions are disappearing.

Political unrest, in many instances caused by efforts to get rid of dictators, are causing instability which often makes economic growth impossible.

Premier deputy chief executive Gordon Utian says that the whole industrial cycle in Africa is not working. "One has got to be very, very careful about us being the engine of Africa. Africa needs investment more than trade."

Premier has suffered massive losses in central Africa in recent times as a result of political disturbances. In Malawi 15 wholesale stores owned by Premier were looted of about R1,5-million in goods stolen recently, while in Zaire its large wholesale cash-and-carry operation in the capital Kinshasa was razed to the ground after being looted. In Lubumbashi Premier's retail network was looted during an uprising against the Mobutu government.

In Mozambique difficulties occurred after a reshuffle of government officials. Preferential tariffs which were negotiated between Premier and the previous officials were simply scrapped by the newcomers.

Utian said in Angola serious problems were encountered because of a "lack of infrastructure, of an ability to get something done, people on the ground, systems and operations that work – it's just not there".

An "enormous amount of bribery" added to the difficulties.

Utian hoped that future aid from donor countries and the World Bank would be channelled through South Africa. An investment chain could then be started up into Africa.

"We are going to have to invest in Africa if Africa is to return to normality," he claims.

Singaporian trade mission leader and Scots Holdings chairman A R Jumabhoy, left, with Neptune Orient Lines projects director Soon Bee Wan yesterday. Picture: ROBERT BOTHA

Singapore delegation visiting SA

174

Bday 29/6/92

SHARON WOOD and GAVIN DU VENAGE

SINGAPORE and SA shared unique positions in their respective economic locations, the leader of Singapore's first trade mission to visit SA, A R Jumabhoy, said on arrival yesterday.

The 13-man delegation is in SA for a week-long fact finding visit, and will meet SA's largest banking groups and corporations, and the Trade and Industry Department. Jumabhoy said Singapore was the gateway to the trillion-dollar Pacific Rim economy, and that SA had the potential to become the entry point to the African economy.

He said Singapore would initially want a trading relationship, with the potential for later large-scale investment. The mission welcomed contact with any local businessmen.

Jumabhoy said he hoped a solution would be found to SA's political impasse.

Its visit was jointly arranged by the Singapore Trade Development Board and the Singapore Manufacturer's Association and is being hosted by Sacob.

MONEY MARKETS by Hilary Gush

Capital rates damaged by political turmoil

CAPITAL market rates plunged last week in the face of continuing political upheaval, while money market rates remained steady.

A record 2 045 trades in government stock representing R6,1bn was reported by gilt broking firms on the JSE floor last Thursday, while banks proclaimed trading to be "hectic".

Capital market rates plummeted on Thursday with the E168 dropping from Wednesday's 15,78% to 15,61%, and rates on government's R150 stock falling 20 points to 15,84% from 16,06% on Wednesday. Yields on medium-dated R144 stocks slumped 50 points to 14,26% on Thursday, after closing at 14,79% on Tuesday. Thursday's volume was reported to have reached R717m, compared to R365m on Tuesday. Some correction took place on Friday and the stock last traded at 14,39%.

Traders attributed capital market hardening to the Reserve Bank's planned changes to commercial banks' liquid asset requirements and an expected increase in demand for short- and medium-dated government bonds. A dealer said the capital market overreacted to the announcement, and he expected a technical pickup soon.

Political uncertainties at the beginning of the week influenced capital market rates, with the Eskom 168 trading at 15,84% on Monday after closing at 15,73% the previous Friday. On Wednesday, however, the market was unperturbed and had largely discounted the ANC's decision to pull out of Codesa. Rates eased, with the Eskom stock trading at 15,78%.

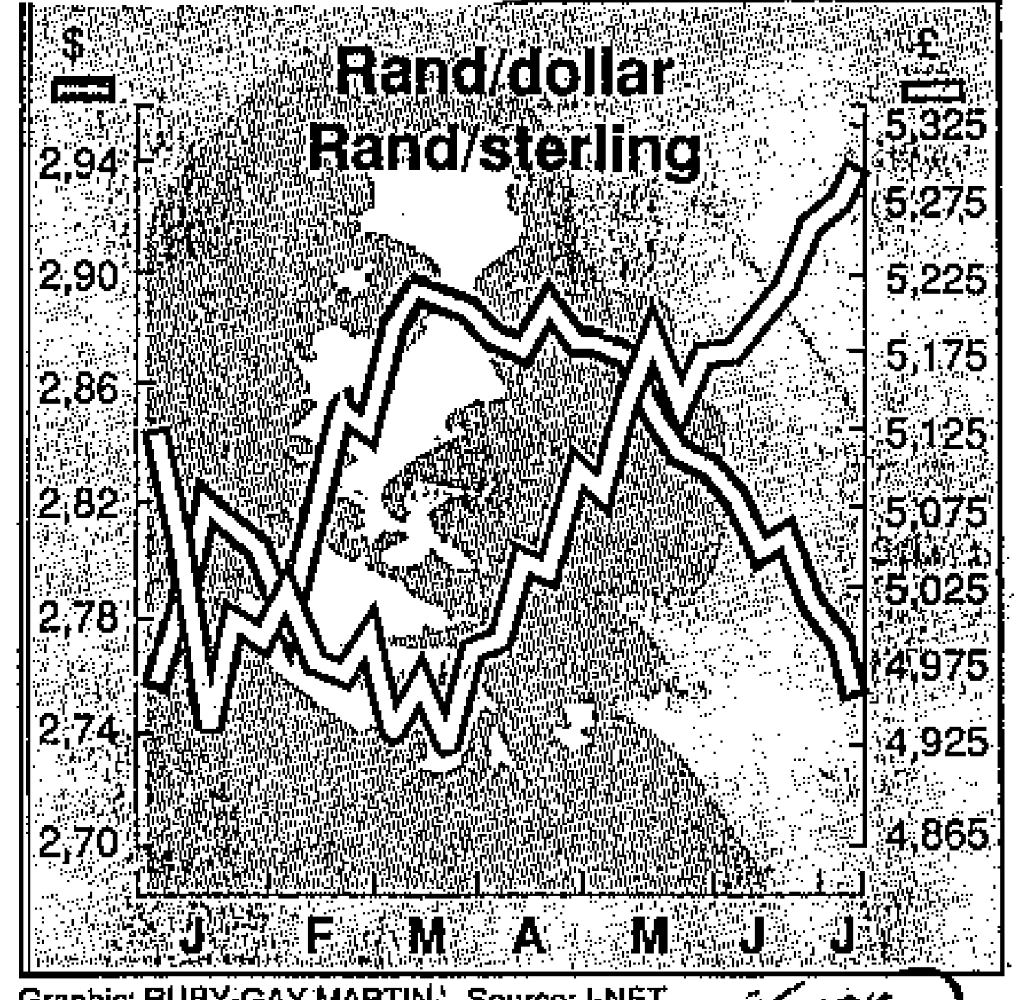
Meanwhile Eskom is to go ahead with a zero-coupon bond issue despite government's poor showing in bringing its RSA issue to the market on June 16. The issue will be launched on Wednesday and no minimum price will be set. The bonds mature in 2002. Further details will be announced by Eskom's treasury manager Willem Kok later this afternoon.

Money market rates remained steady last week amid continued high liquidity. The market shortage yo-yoed from R1,49bn on Monday to R1,05bn on Wednesday and R1,676bn on Thursday. The 90-day liquid BA rate remained unchanged from last week's levels and traded in a range of 14,30% to 14,55% during the week.

Applications for the weekly three-month Treasury bill (TB) tender saw the Bank receive R269m in bids for the R150m on offer, at an average rate of 14,07% against the previous week's 14,03%.

The Bank attracted bids of R655m for the R150m offered in six-month TBs. The rate on these was 13,52%, compared to 13,61% the week before.

Threats of mass action and stayaways will, no doubt, take their toll on the equity market. One dealer claimed that facing this, real value could only be found in the capital market, and added a continuing stagnation of the economy would positively affect trade in fixed interest securities.



Graphic: RUBY-GAY MARTIN Source: I-NET

Rand hits a low against the pound

BDay 2/7/92

HILARY GUSH

THE commercial rand hit a record low against sterling yesterday but traded at a six-month high against the dollar amid bearish sentiment about the US economy.

A weaker dollar saw the commercial rand reach an intra-day peak of R2,7575, its best dollar level since early January. By the close it was at R2,7588.

Dealers believed the Reserve Bank came into the market at around R2,75 to restrain the rand. They speculated that the Bank judged the trade-weighted rand too strong against the basket of currencies.

Analysts attributed the weaker dollar to growing market realisation that US economic recovery was not as strong as expected; US consumer confidence was low while slow money supply growth reflected sluggish demand for credit.

Meanwhile the rand fell to a record sterling low of R5,2868 in afternoon trade as major third currencies made their own gains against the dollar. Two weeks ago the rand stood at R5,21 to the pound.

The financial rand weakened to R3,84 yesterday from Tuesday's R3,79 close. Dealers said the market was nervous on foreign selling of the investment currency on news of a proposed general strike planned for August.

Foreign exchange brake on SA-Kenya trade

BDay 2/7/92

(74)

MICHAEL ACOTT
in Nairobi

AFTER the first hectic day when the doors of the SA Trade Exhibition had to be closed against thousands of curious Kenyans, SA businessmen sat down yesterday to examine prospects of trade with East Africa.

The Contact Kenya Exhibition is now open only to businessmen until the final day on Saturday when the public will be readmitted. So yesterday it was businessmen who queued to register for the exhibition which has taken Nairobi by storm.

Entrances at the Kenyatta International Conference Centre were closed for more than two hours after the exhibition opened on Tuesday because of the crush of people who jammed the halls and thronged each one of the 160 stands. Organisers estimated that about 7 000 people attended on opening day.

Exhibitors found that while most inquiries came from Kenyans, there were also Ugandans, Tanzanians and other businessmen at the show.

The SA delegates, who now number about 500, have long lists of contacts and inquiries but are unsure of how much business will eventuate. Whether they are looking to appoint local distribution agents or to set up joint ventures for local assembly or manufacture, they keep coming up against two problems: an acute shortage of foreign exchange and import tariffs which range from 50% to more than 100%.

Truworths advertised that they were looking for a joint venture with a local franchisee and have had numerous inquiries.

"If we could get around the prohibitive import duties we could be extremely competitive with current imports from Britain and Europe," said Truworths logistics and franchise manager Derek Kohler.

"We have not come here to write orders but to see whether there is a market for us. The market is here and if we can reduce the blockages the potential is tremendous."

All of the appliance and consumer electronic exhibitors have been deluged with inquiries and could have sold every display item 100 times over. Now they are waiting to see how much of the enthusiasm transpires into business.

Ellies national sales manager Marlon Nathan is confident he will appoint a local agent this week for his range of TV aerials and accessories. "Our products were tested here and found to be 50% better than what is available and at about a third of the price."

That price, like everyone else's here, is fob Durban because the problem of import duties still has to be addressed.

Export director of Nampak subsidiary Printpak, Tom Wiggett, is among the many cautious SA exhibitors. "We have had very positive inquiries that we still have to translate into orders. People might want the products badly, but whether they will have foreign exchange to pay for them remains to be seen."

Equally cautious is Tom Ryan, GM of Dorbyl subsidiary Pipe Couplings. The Dorbyl stand is divided between automotive products and waterpumps, valves and irrigation equipment.

Wiggett believes the exhibition will prove to be worthwhile but that the Kenyan foreign exchange problem will delay business prospects temporarily. "It will come right, but until Kenya starts getting hard currency donations it won't be able to spend a lot."

Lasher Tools is one of several manufacturers exhibiting hardware such as hammers, scythes, saws and shovels, and all have had non-stop inqiries. Exhibitor Judy Richards said the SA products would slot into the Kenyan market between the British and German inputs and the cheaper Indian goods. "We are already talking to hardware outlets and the co-operatives," she said.

Venter Trailer marketing manager Rob Stewart is delighted with the response, already has some orders and is looking to set up a local assembly plant for imported kits. Stewart, however, faced an unusual problem: he wants to sell trailers in a country without tow hitches.

Venter's major SA suppliers did not join the trailer manufacturer at the exhibition and the shortage of tow hitches could present a major difficulty.

Contact Kenya MD David Altman is delighted with the response so far and dismisses ANC criticism that the exhibitors are for white SA only.

"It is not true. We went to a great deal of trouble to contact black business organisations such as Fabcos and Nafcoc when we were setting up the exhibition and we have at least 10 black exhibitors.

"A lot of trade has taken place and deals have been concluded or are in the pipeline.

"Foreign exchange is a concern and, like SA, Kenya needs to address the problem of import tariffs.

"If they intend stimulating investment in this country they need to stimulate trade first.

"We are achieving our purpose of putting East African businessmen in contact with the SA business community," Altman said.

"I believe the short-term prospects for trade look good but the longer term outlook is definitely where the money is."

LETTERS

FM 3/7/92

SA-MIDDLE EAST TRADE

FM 3/7/92

Storming the desert

Barriers to trade between SA and the Middle East continue to crumble. Formal sanctions imposed by the Arab League and Organisation of African Unity continue to bar official contact but substantial gains have been made in recent months by several business delegations that have travelled between the two regions.

A visiting Dubai Chamber of Commerce & Industry delegation announced last month that SA products would be accepted in Dubai without restriction and letters of credit would be extended directly to SA banks — a move that could significantly undermine Arab League sanctions because Dubai is the gateway to trade with the rest of the region.

It was the first public visit to SA of a government-related Arab organisation. In August Middle Eastern representatives attended a closed-door symposium in Pretoria. Earlier this year a delegation led by the Bahrain Chamber of Commerce & Industry stressed that Bahrain was willing to act as a distribution centre for SA products.

Bahrain, widely regarded as the Middle East's offshore banking centre, offers a market for a wide range of SA goods, ranging from heavy equipment and technology to consumer items. Like Dubai, Bahrain is well-placed to distribute goods to more politically hardline countries such as Iran and Saudi Arabia.

Safto Gulf manager Gyff Fitchat says: "The Gulf region is a gold mine of opportunities, virtually untapped by SA companies. While Gulf countries are large suppliers of oil, few have other natural resources and some import up to 90% of their non-energy requirements." The region's imports are said to have totalled more than US$67bn in 1990.

The Arabs' invitation to do business has been well received. Safto and the departments of Trade & Industry and Foreign Affairs are mounting a high-profile SA trade fair in Dubai at the beginning of October. More than 70 SA companies are expected to promote a broad range of products and services as well as tourism and investment opportunities.

Organising the Lebanese

Formal relations are in place. The Southern African Lebanese Chamber of Commerce was established in Johannesburg this year to foster commercial, economic and political links between the two regions.

Absa foresees rapid growth in its commercial trade activities in the region and other SA banks are said to be establishing reciprocal relations. Shipping lines are to offer regular services to the Gulf and Flitestar has the go-ahead to transport passengers and cargo to Bahrain.

But securing a foothold in the Middle East market will take time and hard work. "The Gulf markets are the trading battlegrounds for Americans, Europeans, Chinese and Japanese," says Tony Manachi, MD of Proplace, an international trading consultancy. "SA products would have to be superior in quality and cheaper."

There are clearly many obstacles to be overcome. Manachi points out that India, Pakistan and the Philippines, for instance, have an edge with their cheaper labour. South Africans doing business in the Gulf will also face an alien legal system that favours its citizens. Ownership of land is usually restricted to locals and business ventures often have to be 51% locally owned. In Dubai, strict agency laws restrict entry of goods and services without the sponsorship of a local representative.

But the incentives to do business in the Gulf are attractive. Take for instance Dubai, which has easy access to a market of more than 1bn consumers in the Middle East and Asia. The Jebel Ali free-trade zone offers entrepreneurs 100% foreign ownership, 100% repatriation of capital and profits, no currency restrictions, no corporate taxes for 15 years (renewable for a further 15 years) and no personal taxes. Dubai also boasts a sophisticated infrastructure of ports, airports, roads and telecommunications.

By comparison, SA has little with which to lure the Arabs. Says Manachi: "For investors and traders accustomed to no tax and no duties, the SA tax system does not facilitate competition for investment funds and trade. Tax holidays, lower taxes, double taxation agreements and preferential trade agreements (exempting partners from import duties and levies) would certainly help to attract more business."

Political stability will also be attractive. Says Fitchat: "Everyone wants to do business with SA, but while violence remains, investors will continue to bypass us." ■

Brighter future for sub-Saharan Africa predicted

(74) GAVIN DU VENAGE

ECONOMIC prospects for sub-Saharan Africa were looking brighter despite a past dismal performance, New Products Library (NPL) said in its survey of export and investment oportunities in the region. B/DAY 3/7/92

NPL CEO Tony van der Schyff said in the report that political and economic reform, absence of superpower rivalry, privatisation, deregulation and increased tourism had improved the outlook.

Most countries will become more dependent on imports, although the nature of these is likely to change as the demand for more sophisticated products and services increases.

Growth will accelerate from 1% per annum during the past decade to 4% during the '90s, as policy reforms and substantial aid create trade opportunities.

In spite of severe foreign exchange constraints, sub-Saharan Africa had somehow been able to pay for imports, sustained at levels of $35bn per annum throughout the '80s, and IMF and World Bank figures say this will almost double.

Investment will go mostly to reconstruction of war-damaged and run-down infrastructure, human resources, small business, tourism and energy.

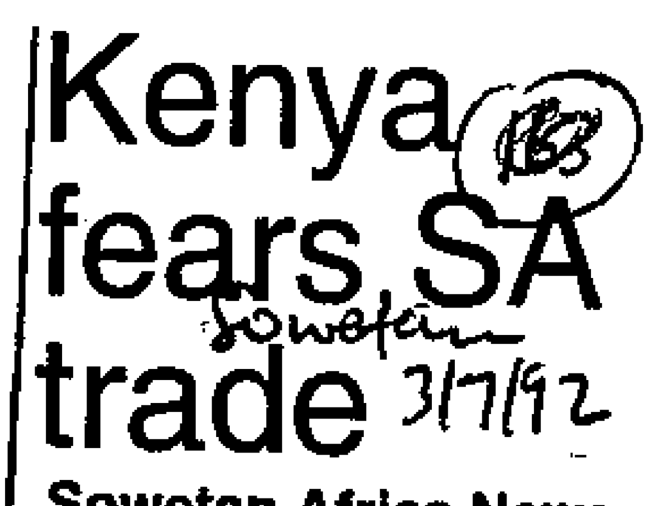
Tourism in particular is expected to become a significant source of foreign exchange, and already governments are formulating policies to encourage foreign visitors.

This will be hampered by the perception of Africa as being riddled with AIDS, but a side benefit of this will be a large increase in health care spending.

Branded products and foodstuffs will make up the bulk of imports, while demand for luxury goods declines.

NPL says World Bank estimates show that sub-Saharan Africa's import ratio will increase 70% by 2000.

Although most countries' individual economies are too small to compete effectively in world markets, the area, with SA as the leading force, will constitute a subregional market worth $200bn by 2000.



Kenya fears SA trade

Sowetan Africa News Service

NAIROBI - The Contact Kenya Exhibition in which 150 South African companies with about 500 delegates are participating has drawn thousands of interested Kenyans.

An editorial in Kenya's second largest daily, *The Standard,* described the exhibition as offering the best opportunity for businessmen in the region to sample South African goods and to establish business links, but warned against dumping in Kenya.

GAVIN MAASDORP

Debating how best to be neighbours

Professor Gavin Maasdorp is the director of the Economic Research Unit at the University of Natal, Durban. He is also a co-ordinator in a project on economic co-operation undertaken by the Southern Africa Foundation for Economic Research.

As SA is brought back into the fold of Africa, the future of regional economic co-operation in southern Africa is being debated at conferences and studied by international agencies. One of these studies — by the Southern Africa Foundation for Economic Research in Harare — is examining the four main regional bodies: the Southern African Customs Union, the Common Monetary Area, the Southern African Development Co-ordination Conference (SADCC) and the Preferential Trade Area for Eastern and Southern African States (PTA).

The SADCC promotes co-operation on various projects. The customs union, the PTA and, perhaps less directly, the monetary area are concerned with trade integration. The customs union is the only arrangement in the region that provides for true economic integration, but the PTA aspires to the same goal and the SADCC is now also examining trade integration.

The issue is whether southern Africa is ready for economic integration, given the enormous imbalance in economic size between SA and the rest of the region. If it is ready, can the customs union and the monetary area be widened to include other countries, or should the PTA or SADCC be the basis of an expanded group that would include SA? If the region is not ready for integration beyond the existing customs union, then which of the PTA and SADCC models would be better to build on?

Discussions with government officials, aid agencies and business in southern Africa yield widely divergent views on each of the four bodies. Clearly, all have their weaknesses and the benefits from membership are not uniform among countries or firms. There is agreement with the objectives of the SADCC and PTA, but there scepticism about their efficacy and relevance.

The SADCC is widely regarded as fighting for its survival, trying to find a new role in a changing region and, in practice, as having been a mere conduit for aid funds. The PTA is known for establishing institutions — the Clearing House and the Trade and Development Bank — and mechanisms such as trade fairs for stimulating regional trade. Yet the inability of several PTA members to participate effectively is a problem.

The political commitment of member countries to both these organisations is often questioned: support is token, subscriptions are not paid and some governments prefer one to the other. The interest of donors in both bodies is waning after a discernible shift towards the PTA a year ago.

It is not cost-effective to have two organisations. Perhaps the region could be split into southern and eastern blocs, with the SADCC operating in the southern region, which is generally regarded as being more coherent, and the PTA in the east.

The customs union is viewed with mixed feelings in its four countries outside SA — Botswana, Lesotho, Swaziland and Namibia. They say it makes it difficult for them to industrialise and that SA does not consult them enough. The general view, however, is that the union is beneficial and that is why the four countries have remained members.

The benefits of a free flow of goods cannot be exaggerated — goods are available promptly at the quality and specifications required and at competitive prices. The four economies have been linked so closely to SA for so long — nearly 100 years — that despite criticism, no-one wants to be the first to leave the fold and face the great unknown.

The monetary area is viewed in a similar light, an important benefit being that it provides ready access to foreign exchange. Indeed, outside of the customs union and monetary area, the region is characterised bv goods and foreign-exchange shortages.

The mood increasingly in southern Africa is to move away from grandiose plans to pragmatic, achievable arrangements. Successful trade integration requires a convergence of economic policies and monetary management as well as currency convertibility. Though there is greater agreement now on economic policies, some economies are in such poor shape that they will take years to turn around. Thus trade patterns will not change quickly — the main markets will remain in the hard-currency countries.

What can be done then?

First, bilateral and multilateral agreements on energy, water and transport services would reduce revenue-flow imbalances and increase interdependence between SA and its neighbours. Second, if there is any merit in greater integration, perhaps it should proceed not on a grand geographic scale but among economies that are ready.

The customs union and the monetary area could be the core. Together, they are already very close to a common market but they would need a secretariat and some renegotiation. An association agreement with other countries could then be devised, with individual countries joining the core group when they are ready, as with the EC.

In the end, SA should try to mitigate the unpopularity that is usually faced by regional hegemonic powers.

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ducts SA can buy are coffee, tea, cashew nuts, curios, sisal, soda ash, salt, fruit, cut flowers and soya beans.

Kenyan import duties range from 5% to 70%, but are about 35% on average, says a customs and excise official.

VAT of 18% is applied on imports, but it is zero rated or exempt in some cases.

Importers require licences to bring in goods. The allocation of licences is divided into orders of priority.

There is some concern among SA exhibitors about festival will attract further trade and tourism interest in Kenya among SA businessmen," she says.

The festival aims to make a statement about modern Kenya and show the rich variety of art and culture in its mixed society.

The project is expected to cost about $500 000. Lady Wood leaves this weekend for London and New York to raise funds. She will speak to the Rockefeller and Ford foundations. She is also looking for SA sponsors.

US Expo for Johannesburg

S Times (BUSS) 5/7/92

By ZILLA EFRAT (74)

A MADE in the USA exhibition will be held in Johannesburg in May.

About 200 American companies are expected to take part. Show organiser David Altman says it will be the largest US Expo in Africa.

It is expected to attract businessmen from SA and other Southern African countries, including Kenya and Tanzania. It will be marketed to more than 35 000 companies in the US, says Mr Altman.

Mr Altman has already received more than 100 serious inquiries from US companies.

He says the exhibition at the World Trade Centre has the backing of Amcham (US Chamber of Commerce).

Mr Altman, who put together this week's Contact Kenya show, is also organising a SA pavilion at the biggest exhibition in Africa, the Cairo International Fair in April next year.

He expects about 100 SA companies to take part in the two-week fair, which is usually visited by a million people, mostly from the Middle East and North Africa.

The fair is expected to have about 1 700 companies exhibiting and there will be 31 national pavilions.

Mr Altman says the show will be launched to SA businessmen in September. The SA Government has indicated support.

In other developments, Mr Altman says he has been officially approached by officials from China to mount an exhibition in Beijing or Shanghai.

He is also involved in discussions with the governments of two East African nations and an Indian Ocean island to help them market their countries to SA.

Better deal in pensions, but . . .

S Times (BUSS) 5/7/92

By JULIE WALKER

A SPELL of high investment returns has allowed pension funds to increase benefits to members, says Sanlam's biennial survery on retirement.

But, says actuary Chris Bosenberg, employers are shifting away from having an open-ended liability in the three-legged equation determining final benefits. This means final pensions are not defined years in advance.

Pension on retirement is mostly based on a formula. The pension relates to the number of years' membership of the fund, multiplied by a salary figure.

Abuses

The norm used to be the average salary over the last three years, but this has been improved to two years or shorter in two-thirds of the funds surveyed. Only 2% of funds base the formula on the average of the last five years' service.

Mr Bosenberg says 11% of funds indicated they were considering changing from a defined benefit system to one of defined contribution. This would limit employers' liabilities to the pension funds and is seen as a reflection of their concern about future economic risks.

About half of the 756 invited funds responded to the survey, resulting in a 330-strong pension fund sample. A total of 99 provident funds replied.

The survey's objective is to allow employers and trustees to compare their benefits with those of other funds.

The survey observed certain trends when compared with the previous one in late 1989.

There has been a swing to providing the same benefits for both males and females. A smaller reduction factor is applied when early retirement is taken in good health.

Spouses' pensions have generally improved, as have disablility income benefits. They are more widely based on a percentage of salary rather than past or potential service.

Fringe benefits are being increasingly incorporated in pensionable remuneration. Companies are also adopting policies on AIDS.

Funds provide for greater future increases in pensions in the course of payment. Finally, there is a strong move to enhanced withdrawal benefits — previously the last in line.

Mr Bosenberg describes as near criminal a company that retrenches employees and does not pay its contributions to the fund to the departing worker.

Mr Bosenberg lists some abuses in the past — and no doubt now. New York's municipal employees boosted their pensions, which were based on the final year's salary including overtime, by fictional overtime entries. The increased pension liability almost bankrupted the city.

In SA, government employees' pensions were based on the last month's salary in addition to the lucrative buy-back scheme. In some cases, people were promoted to absurd positions and salaries before retiring.

CHRIS BOSENBERG: Companies worried about the future

SA prefabs for export

S Times (BUSS) 5/7/92

By DON ROBERTSON

ENTERPRISING businessman David Poole plans to export SA-made prefabricated houses to Europe and the US.

Using an A-frame design developed by his company, PMM Holdings, Mr Poole plans to market the houses in Britain for £65 000 a single unit and £100 000 a double unit.

Mr Poole says this is about half the price of a modest brick house. The price includes shipment from SA.

Ahead of an international marketing programme, orders for two houses have been received from the UK and eight from Los Angeles.

The Country Lodge houses consist of a lounge, bedroom, shower, kitchen and upstairs recreation room. By adding a second A-frame module with connecting walkway, a four-bedroomed house can be built.

The prefabricated houses will be delivered to the site and put up by an SA team on a concrete slab in about three weeks. The houses are equipped with all electrical appliances, made in SA, and the windows have double glazing.

Underfloor heating is provided by solar panels. There is generous cupboard space and each house has a hi-fi system.

Local content is about 95%.

Thatch is protected by a fire-proof coating material, developed by the company. The walls consist of plywood, polyurethane and gypsum board.

The design and specifications comply with UK building regulations and qualify for bond financing and insurance.

Mr Poole has received help from the Department of Trade and Industry. It will help him to take part in international exhibitions.

A plot has been acquired in the UK on which a permanent show house will be built.

Kitchen to cost R18m

AIR Caterers, a joint venture between the Fedics group and Swissair, is to build an R18-million kitchen at Jan Smuts airport to cater for the expected increase in tourism.

COMPANY ROUND-UP

PRELIMS	Turnover (Rm)	% change	Profit before tax (Rm)	% change	Earnings a share (c)	% change	Div a share (c)	% change

SA shows trade flag in Kenya

S1 Times (BUSS) 5/7/92

74

ZILLA EFRAT reports on Contact Kenya, South Africa's largest-ever exhibition which opened in Nairobi this week.

THE South Africans are coming, said the large posters — and arrive they did.

Representatives of nearly 500 SA companies streamed into Nairobi this week for Contact Kenya.

Their products ranged from footwear, wines and chocolates to luxury cars, chemicals and electronic products.

Some say the show was one of the major topics of conversation in Nairobi. About 700 people were expected to attend the opening on Monday night — 1 400 arrived.

The show also drew business delegations from Ethiopia, Uganda, Tanzania and Burundi.

Indeed, a Burundi-based company was formed on Wednesday to facilitate trade among Burundi, Ruwanda and Zaire.

Called Bursa, it has been given the blessing of Safto and SA's Department of Trade and Industry.

The reports from standholders were mixed. The first day was characterised by a rush of visitors, many offering dollars for goods at the stands. But more serious buyers arrived later and exhibitors said they had made some important contacts.

Deputy Foreign Minister Renier Schoeman says trade between SA and Kenya is estimated to be running at between R25-million to R35-million and could rise by as much as 500% in the next year or so.

Mr Schoeman says Kenyans received the South Africans with open arms.

To improve business contacts between the two countries, the Kenyan Government this week waived visa requirements for SA passport holders visiting SA representative in Nairobi Dries Venter.

Mr Venter says SA offers goods and services for between 15% and 30% cheaper than Kenya's industrialised trading partners. Its major trade is with the EEC. SA's proximity to Kenya reduces delivery lead times.

Mr Venter says SA has developed technology suited to African conditions.

Kenyan Government officials say major imports from SA could include fertiliser, farming machinery, household appliances, high-quality clothing and textiles, wines and spirits, catering equipment and surgical and hospital goods.

Among the Kenyan products SA can buy are coffee, tea, cashew nuts, curios, sisal, soda ash, salt, fruit, cut flowers and soya beans.

Kenyan import duties range from 5% to 70%, but are about 35% on average, says a customs and excise official.

VAT of 18% is applied on imports, but it is zero rated or exempt in some cases.

Importers require licences to bring in goods. The allocation of licences is divided into orders of priority.

There is some concern among SA exhibitors about whether they will be paid for their goods.

Kenya's foreign-currency earnings have been hit by low commodity prices. Foreign currency has also been limited by the suspension of donor aid since November last year, a move designed to force the government to introduce multiparty rule.

* * *

A FESTIVAL of Kenya culture and art is planned for Johannesburg in March.

Chairman of the festival committeee Lady Wood says it could spearhead the opening of more communication and trade between SA and Kenya.

Kenya's Festival of Africa will include a costume pageant, modern Kenyan music and exhibitions of art, photography and jewellery. The programme will also include nightly discos featuring Kenyan bands and a street market.

Lady Wood says one focus of the festival, expected to be held at the Market Theatre Complex, will be the export of handicrafts to SA.

"It is also hoped that the festival will attract further trade and tourism interest in Kenya among SA businessmen," she says.

The festival aims to make a statement about modern Kenya and show the rich variety of art and culture in its mixed society.

The project is expected to cost about $500 000. Lady Wood leaves this weekend for London and New York to raise funds. She will speak to the Rockefeller and Ford foundations. She is also looking for SA sponsors.

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SUNDAY TIMES

Running out of steam?

S1Times 5/7/92 (74) (16)

Concern for world economy at G7 talks

From
Anne Segall
in London

GROWING unease at the weakness of the world economy was expressed in London this weekend on the eve of the Group of Seven economic summit.

The three-day event, which starts in Munich tomorrow, is expected to focus on the risk of a further slide in world activity amid signs that the American economy could be running out of steam.

The summit, which will bring together heads of state, finance ministers and foreign ministers from the big seven industrial nations could see the launch of a new American offensive to persuade other countries to lower their interest rates.

In London, the Bank of England caused a stir when it shaved its intervention rates, a move which was interpreted in the City as a sign of the government's desire to see rates come down.

British officials said they did not think any decisions on interest rates would be made during the summit meetings, but indicated that the issue of what should be done to drag the world out of recession would be high on the agenda. In sharp contrast to previous gatherings, when discussion about the world economy has tended to be couched in general terms, the question of lower interest rates will be discussed.

"People recognise that we want to get to the position of lower interest rates but they will not sign up there and then," a senior official said.

There are signs that economic pressures could drive a wedge between Germany and its European summit partners. Britain is suffering more than other European countries, but both France and Italy are also struggling with the problems of sluggish economic growth.

Tough

British officials made their concerns unusually clear. Noting that recovery in America and elsewhere has been "very weak", they claimed that further action would be needed to prevent the world economy running out of steam.

Thursday's news of a sharp rise in unemployment in America after several months of decline provided a shock reminder of the risks facing the world economy. It suggested that the world's largest economy, accounting for a third of all output, could be losing momentum and heading for a "triple dip" recession.

In response, the Americans moved swiftly to cut their discount rate from 3½ percent to 3 percent, its lowest level for almost 30 years.

Britain's scope for interest rate cuts is constrained by its membership of the exchange rate mechanism. The dominance of the German mark within the system means that British rates cannot fall below German rates without risking pressure on sterling.

A senior government source was unusually outspoken yesterday about the growing rift in Europe over interest rates.

"There is a wish on the part of Germany's partners for lower interest rates," he said, adding that the "imbalance" in German policy was the result of unification pressures and the consequent rise in the public sector deficit.

The impasse on German interest rates could be broken following the adoption earlier in the week of an "austerity budget" which could persuade the Bundesbank — which is independent of the government — to reconsider its tough line on rates. At the very least, British sources hope that the Bundesbank will not feel justified in raising rates.

Decisions on interest rates are unlikely during the summit itself as central bank governors do not attend. However, analysts believe that the Bank of England could be preparing the market for a post-summit surprise.

The importance of the American market has grown as European growth prospects have weakened in the face of high interest rates. The Organisation for Economic Co-operation and Development recently warned that Europe could expect a second year of sluggish growth in 1992.

The weakness of the dollar is a reflection of the growing gap between American and European interest rates, which has encouraged international investors to switch their currency holdings, as well as of political worries associated with the weak American economy. But, for Britain, it is a matter of having the worst of all worlds — high interest rates at home and an overvalued currency abroad. —

© *The Telegraph London*

Europe opens door, but entry difficult

Europe may be South Africa's oldest and largest trading market, but it should not be taken for granted. ZILLA EFRAT reports.

A TRADE war is brewing as Europe prepares for a single market next year.

Sacob deputy director general Ron Haywood expects the international trading arena to be the battlefield of the 1990s.

Most countries have realised that the key to economic growth is to add value to their products and increase exports, says Mr Haywood.

A prime target will be the European Economic Community, due to become the world's largest trading bloc.

Door

John Mogg, the EEC director general for international markets and industrial affairs, says: "The door to Europe will be open, but we will not just let you walk in."

SA has long had its foot in this door. More than half of its total trade is with Europe and seven of SA's top 10 trading partners are European.

Europe accounts for about 50% of foreign investment in SA and more than 60% of SA's technology agreements.

SA was forced by sanctions to lower its profile in Europe. Its image in this market was also dented by bad publicity.

Mr Haywood says that to succeed in Europe, SA will have to re-sell itself. Companies will also have to view it as a new market with new challenges and opportunities.

"With all the excitement of the many new markets opening up to SA, exporters must not forget to increase old ones like Europe."

Many SA companies, especially large ones, have been active ahead of expected growth in the EEC market. They have set up operations in Europe and are complying with its standards and specifications.

Already a market of more than 320-million people, the EEC could expand to between 400-million and 500-million. Trade barriers against the seven European Free Trade Association (Efta) countries will be lifted next year.

In addition, several Efta nations have applied to join the EEC. There is talk of admitting Poland, Czechoslovakia and Hungary by the year 2000.

The removal of trade barriers between EEC members next year should improve economies of scale and increase competition among producers.

Growth

Over time, the single market is expected to result in a 4,5% growth in EEC gross domestic product, 1,8-million new jobs and a 6% fall in prices.

SA Ambassador to the UK Kent Durr says trade and aid relationships with the EEC may largely hinge on SA's classification in the common market.

SA is classified as an industrialised country — along with the US, Canada and Japan.

Mr Durr says this is something to be looked at because some nations with higher per capita incomes than SA qualify as developing countries and receive privileged access to the EEC.

He says co-operation and trade will probably have to be formalised in a bilateral trade agreement.

The single market will mean a common tariff on imports to the EEC and a freer flow of goods across member states' borders.

Webber Wentzel trade partner Leora Blumberg says there is a fear that the EEC could become more protectionist. Signs of this have appeared in General Agreement on Tariffs and Trade negotiations.

Areas of concern include stringent environmental controls and health, safety and packaging requirements.

Miss Blumberg says that implementation of anti-dumping legislation and public procurement legislation favouring EEC producers are potential barriers.

Mr Haywood warns that Europe can become a "fortress" against SA manufacturers which do not meet its standards and specifications. But once a product is in Europe it will have to comply with only one standard and not 12 — the number of EEC nations.

RON HAYWOOD: Battles ahead

He says the easiest way into Europe is through joint ventures or takeovers. That will allow advantage to be taken of a ready-made springboard in the EEC.

Small and medium companies are advised to link up with partners and find the "right" distribution network.

Gateway

Because of the size of the EEC market, SA exporters are better off looking for niche ones.

Mr Durr believes London is the most convenient gateway to the EEC for SA companies. It is the financial capital of Europe and has been SA's major business partner for most of the century.

There is a surge of UK interest in SA. No fewer than 16 sponsored trade missions and delegations from the UK plan to visit SA in the next year.

Miss Blumberg says: "If the challenges are met and possible dangers are recognised, SA stands to benefit a great deal from the opportunities offered by the single EEC market."

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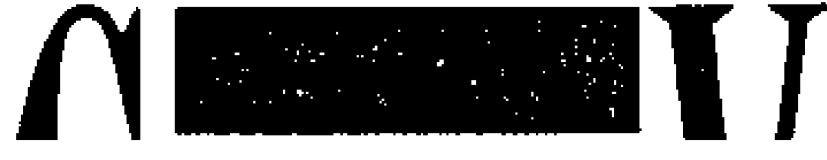

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Medium-term outlook for rand is brighter

(74)

STAR 6/7/92

By Neil Behrmann

LONDON — The commercial and financial rand tumbled against European currencies during the past month, but there are hopes for medium-term recovery.

While the commercial rand has risen against a sliding dollar, its appreciation has not matched the surge of European currencies against the US unit.

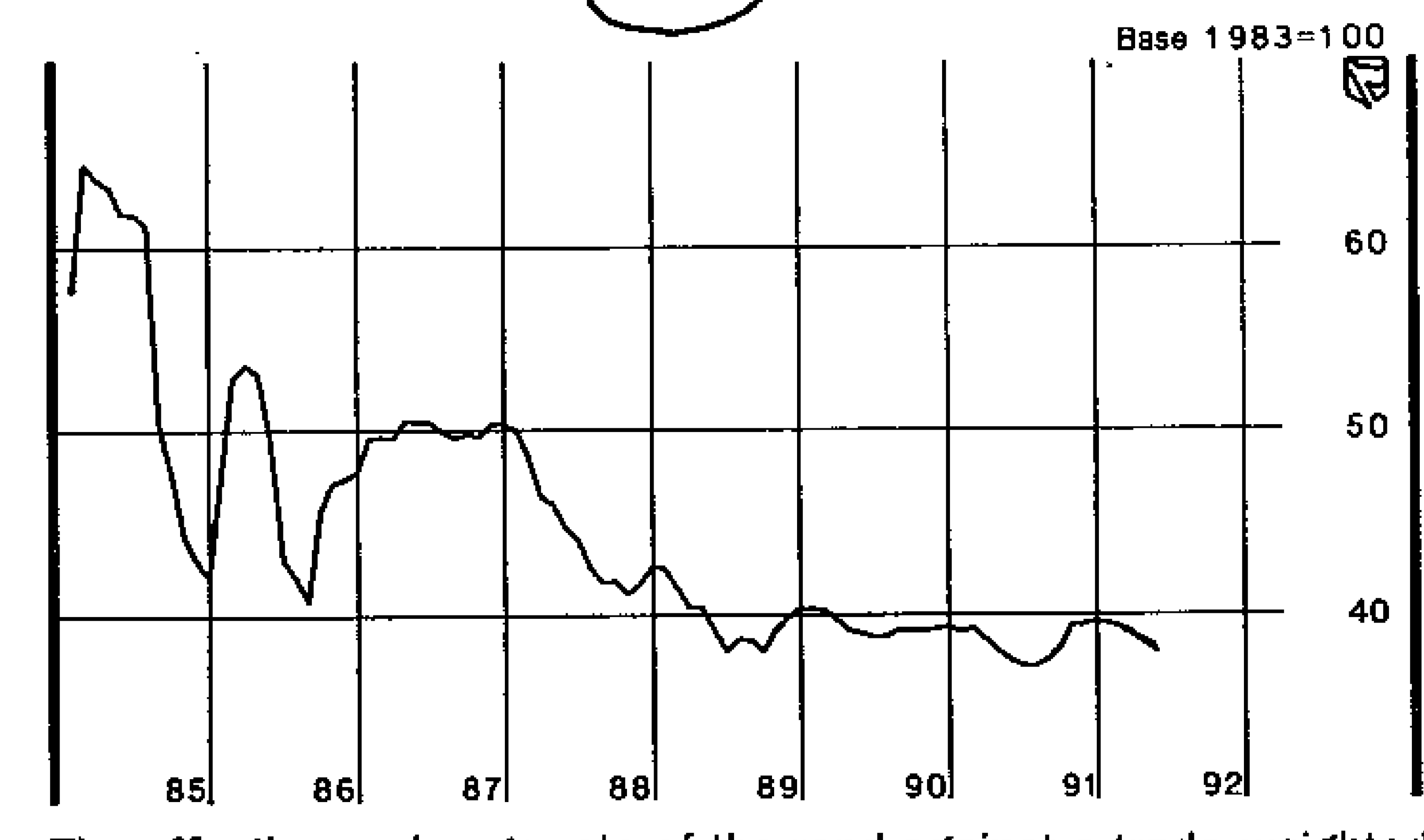
As a result, the commercial rand fell to an all-time low of R5,30 to sterling at one stage before reviving slightly.

The financial rand, which has plunged in dollar terms, is currently trading at around R7,35 to the pound, a collapse of 18 percent in less than two months.

Bankers and traders in London say that the finrand will recover smartly once international intermediaries encourage the Government and ANC to go back to the negotiating table.

But the volatile currency, which apparently has not attracted Reserve Bank intervention since its slump, may remain depressed at least until the August strike is out of the way.

The commercial rand's performance, on the other hand, is vitally dependent on the dollar. When the US currency rises, the commercial rand tends to rally against European and Japanese currencies.



The effective exchange rate of the rand against a trade-weighted currency basket.

The dollar rebounded slightly from last week's nadir after the US Federal Reserve Board (central bank) pushed down interest rates to three percent — their lowest level since 1963.

The big question, however, is whether, the US currency will in the weeks ahead test the Deutschemark 1,50 level and slide towards its February 1991 low of Dm1,45.

Most foreign exchange dealers expect another dollar downwave.

Yet forecasters recall that previous US interest rate cuts were soon followed by a dollar rally on hopes that they would eventually spur economic recovery.

To be sure, the dollar is oversold. In only five weeks it has slumped by 10 percent against the Swiss franc, eight percent on the Deutschemark, six percent against the pound and five percent on the yen.

Dealers are wary of this week's Group of Seven economic summit.

Proposals to revive the lethargic global economy are likely to include co-ordinated interest rate cuts by Europe and Japan.

The German Bundesbank is unlikely to agree, but a cut by Japan is highly likely, while Britain, France and Italy are desperate to follow suit.

Any hint of cuts may underpin the dollar.

Some dealers fear intervention by central banks. Yet they are only likely to support the dollar, say analysts, if it slumps in an unruly market.

There are also worries about the US economy and political uncertainty ahead of the elections.

Although it is presently in the doghouse, the dollar is terribly undervalued on a purchasing power parity basis.

Since the Plâza Accord in September 1985, when Group of Seven (G7) nations manifestly agreed on dollar depreciation, it has fallen by 48 percent against the Deutschemark and yen and by 30 percent against the pound. This is a massive devaluation by any standards.

The average three-month forecast of dealers is a dollar vs yen rate of 127, Dm1,54, sterling 1,88 and Swiss francs 1,39.

They caution, however, that there may be a dip in coming weeks, and they are concerned that Ross Perot's challenge will spoil the electoral chances of US President George Bush.

Even so, most of this uncertainty has already been discounted by the market.

So far, the market has ignored the deep-set economic problems of Europe, particularly the UK.

A rapid economic slowdown in Germany may well end the market's love affair with European currencies. A devaluation of the Italian lira, for example, is already looming.

THE WEEK AHEAD by Simon Willson

Bright spots may shore up falling business confidence

BDay 6/7/92 (74)

AN EARLY casualty of any sudden deterioration in the economic or political outlook is the economy's intangible but influential underpinning: business confidence. Its fragility may be apparent tomorrow when Sacob releases its business confidence index for June.

A two-month upturn in the index came to an end in May, when the index dipped to 90,7 from 92,4 in April. That fall was before the June 16 stayaway, before Boipatong and before the stall in constitutional talks, and factored in a 1992 economic growth projection of zero.

Since then the political outlook has darkened, and economic prospects have also taken a turn for the worse. The Reserve Bank and an increasing number of private-sector forecasters now predict a fall in national output this year. Even world economic trends have turned down, a trend exemplified by the weekend's further cut in US interest rates.

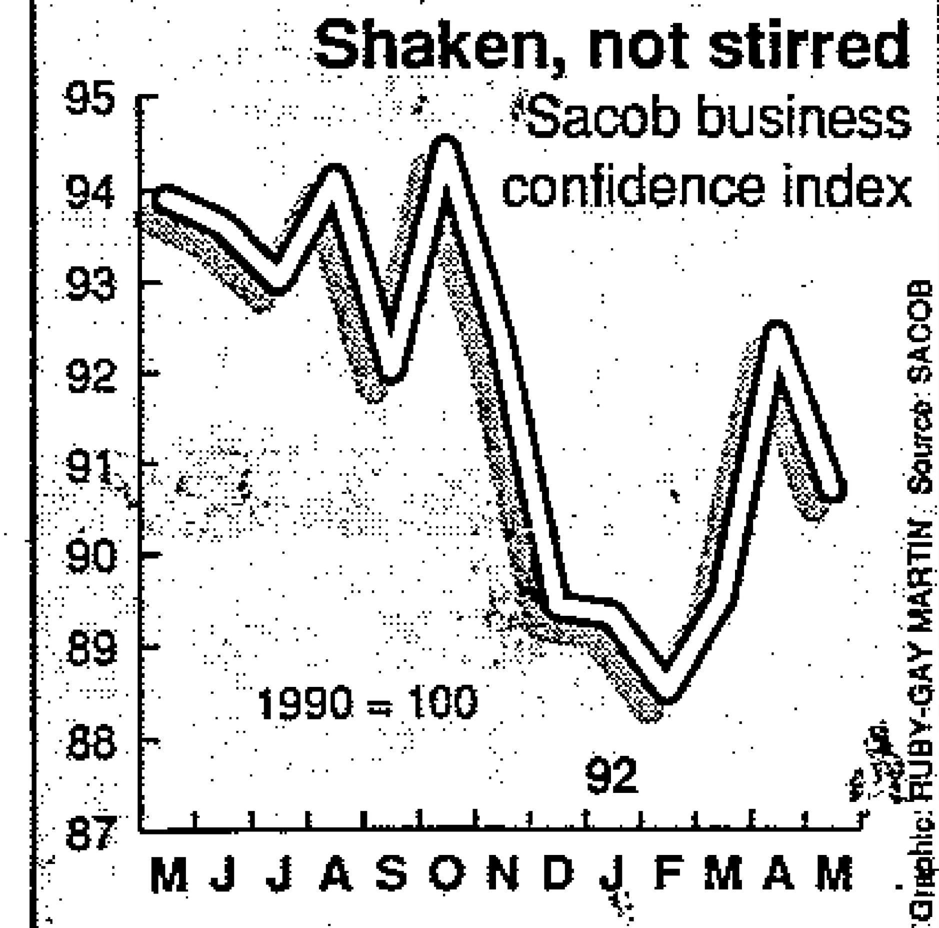
A look down the 13 sub-indices that comprise the Sacob index does, however, show a few bright spots in this gathering gloom.

These positive components may have done enough over the past few weeks to restrain any overall fall in confidence to relatively small proportions.

The commercial rand has strengthened to six-month dollar highs; inflation has dipped to a 13-month low; interest rates have come down; gold and other precious metals prices are up sharply. However pronounced the anecdotal evidence of falling confidence might be, in statistical terms any decline looks far less clear cut.

Also due early this week is the level of gold and foreign exchange reserves for June. The gold price's recovery to around $345 has, as often happens, been accompanied by a rally in the commercial rand to about R2,75 to the dollar. This may effectively stall the rand gold price and leave physical holdings as the key variable on the bullion side.

Meanwhile, the Reserve Bank has apparently been a modest dollar buyer in the foreign exchange market since the commercial rand bounded through the R2,80 level against the dollar. The intention seems to have been to maintain a steady trade-weighted rand, but the intervention also indicates a probable net contribution to forex reserves.



Emulation of May's monster R764m jump in total reserves may be almost out of the question, since there are all these agricultural imports to be financed. But the R10bn level has been reached and will not now be easily relinquished.

Internationally, the main event of the week is the annual economic summit, which starts today in Munich and ends with a communique on Wednesday. The long weekend caused by the July 4 Independence Day holiday in the US, combined with further reluctance to take positions ahead of the summit communiqué, probably means a quiet start to the week on international foreign exchange markets.

But on Wednesday one of the key issues at the summit, the increasing size of Japan's external surpluses, will be brought into sharp focus by publication of the Japanese current account balance for May only hours ahead of the communiqué. The markets are braced for another big surplus of at least $8bn after April's revised $9,3bn. A figure in this ballpark will add to the impetus of existing moves to strengthen the yen, and thereby head off growth in the surpluses and the protectionist pressure from the US that generally follows.

The week's other significant data release is Friday's publication of the UK's June inflation rate. The rate was unchanged at 4,3% in the year to May but that very figure showed that underlying inflationary pressures in Britain are again abating.

Inflation ticked up to 4,3% in April from March's 4% mainly because of excise duty increases in the March UK budget. It was feared that the rate would rise again in May as mortgage rate cuts a year earlier dropped out of the retail price index, but slowing price rises elsewhere offset this technical effect.

British producer inflation was running at only 3,6% in May — a five-year low — and, together with a similar slackening in core inflation (excluding mortgage interest payment) to a four-year trough of 5,3% in May, points to a further dip in headline inflation in June to perhaps 4%.

The US Federal Reserve's confidence at the weekend that another cut in official interest rates held no inflationary dangers is partly based on the relatively low rate of US inflation. Consumer prices are rising at about 3% a year and the rate of producer inflation was consistently below 1% in the eight months to April. It perked up to 1,1% in May, and June's figure is out on Friday.

SA set for Cairo after successful Kenya show

B/Day 6/7/92 (74)

MICHAEL ACOTT

THE successful SA trade exhibition in Nairobi last week will have a sequel next year when an SA pavilion goes up at Africa's biggest trade show, the Cairo International Fair.

Contact Kenya MD David Altman has also concluded a deal which will bring 200 American companies to a "Made in the USA" exhibition in Johannesburg next May. That, he hopes, will provide a springboard not just for US trade with SA, but for US investment here as well.

Altman plans to take about 100 SA companies to the Cairo fair from April 10 to 24 next year.

"Cairo has the largest trade fair in Africa, with exhibitors from about 1 700 companies," he said.

SA exhibitors in Nairobi packed up their stands yesterday, well satisfied with the results. While the real fruits of the week-long business contact will not be known for months to come, all indications are that Kenya and East Africa represent a potentially huge export opportunity for SA manufacturers.

Kenyans were astonished by the range and quality of goods on show at the 160 stands, and at the prices, which would undercut Kenya's current imports from Europe and possibly the Far East.

Every South African exhibitor at the Contact Kenya exhibition had a constant stream of local businessmen making serious inquiries about prices, quantities and delivery times.

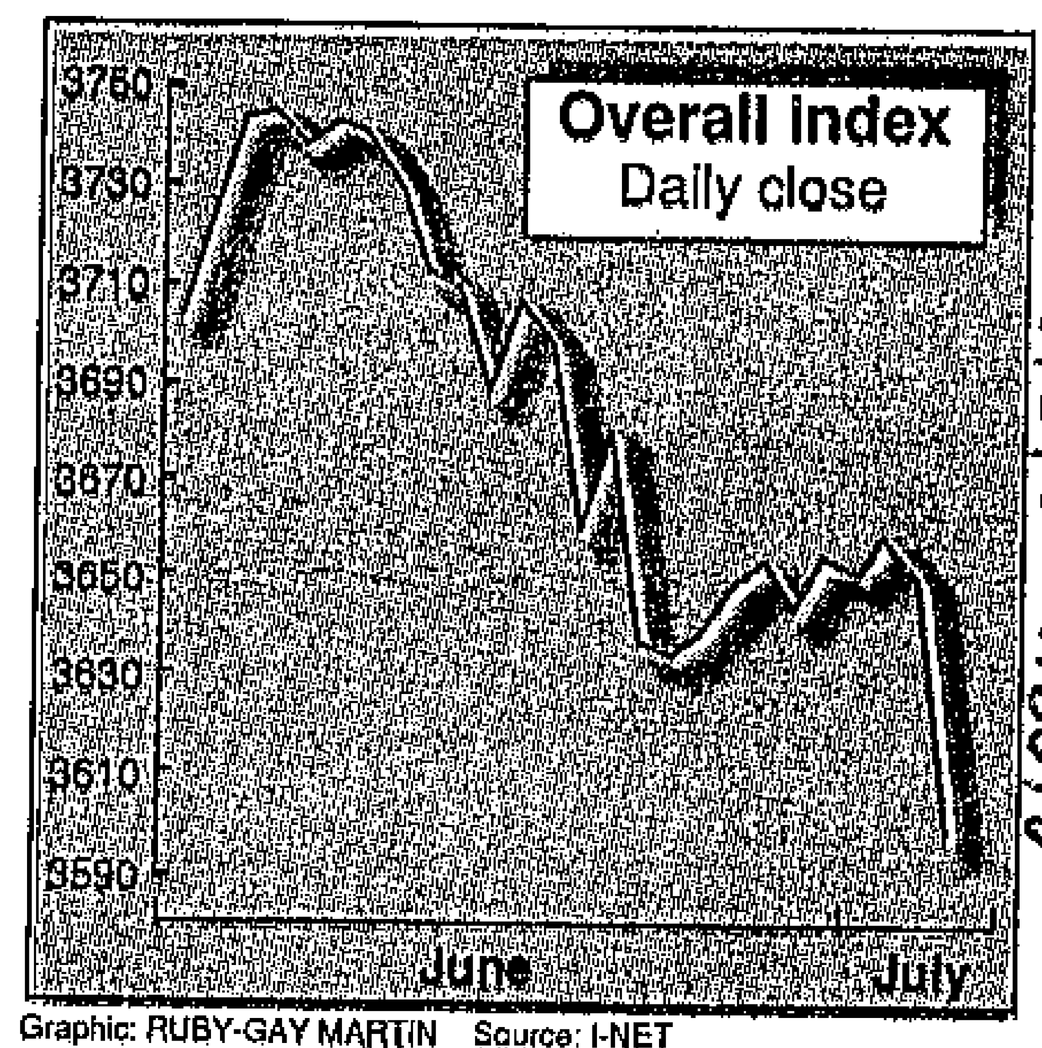
Many exhibitors hope to have agency and distribution agreements concluded soon, but suspect that the future of trade with Kenya will really depend on political factors in both countries.

Kenya's foreign-exchange crisis is caused by Western donor nations witholding funds to pressure the Kenyan government into faster moves towards a democratic system.

Its one-party clause has been removed from the Kenyan constitution and elections are now due before next March. No date has been set.

Another complication is high import tariffs on goods coming into Kenya. However, a Kenyan government official said privately that this should not be seen as an obstacle to trade. High tariffs could be lowered, he said.

Crisis pulls share prices sharply lower



Graphic: RUBY-GAY MARTIN Source: I-NET

MERVYN HARRIS

FADING sentiment in the wake of the political crisis pulled share prices sharply lower on a depressed and nervous Diagonal Street yesterday.

"The market is in limbo and things are looking terrible," a dealer said as share price losses outnumbered gains by 98 to 18.

The 64-point decline in the JSE industrial index to 4 435 took its fall to 5,5% from its month-ago peak, while the overall index shed 51 points to 3 599.

Currency dealers reported an increase in finrand volumes. After falling from R3,86 to the dollar to an intra-day low of R3,96, it rebounded to R3,83 on news that the Goldstone commission exonerated government from the violence sweeping SA.

Déjà vu for dollar-watchers

SIMON WILLSON

WHEN, 19 months ago, the dollar fell through DM1,50 for the first time, the world was a very different place.

A Patriot was a New England gridiron footballer and a scud was what clouds did and stealth was something used when leaving a whorehouse. The Desert Storm campaign changed all that. It also changed — temporarily — the way the foreign exchange market looked at the world's key reserve currency.

The dollar's renewed subsidence in the past few days seems to indicate that the Desert Storm effect merely interrupted and did not reverse last year's historic dollar lows. If that is the case, the market is in for a dose of déjà vu.

The dollar's famous first sortie below DM1,50 was relatively brief, but was quickly followed by another deeper plunge as the US recession's first dip coincided with the start of the war. The dollar's current all-time Deutschmark low of DM1,4430 was set in that second sub-DM1,50 droop in February last year.

But then came victory in the desert, followed by a matching jump in US fundamentals plus a dollar rally, and that, it seemed, was that. By July last year the dollar had reclaimed the DM1,80 level. Good riddance, apparently, to DM1,50.

The double dip in US growth at the end of last year was no more than a disconcerting blip on the route to recovery. And so it proved; the indicators ratcheted up and still "DM1,50 revisited" was a remote possibility — until last Thursday.

The fresh surge in US unemployment to 7,8% has been the most persuasive signal yet that the market has some unfinished business at DM1,4430. The jobless bulge has taken on the form of urgent semaphore that the Gulf war success produced a mirage recovery that was not underpinned by the real economy.

Lower rates, longer queues
US unemployment, discount rate

% 7,5 7 6,5 6 5,5 5 4,5 — Discount rate — Unemployment — % 8 7 6 5 4 3 — 90 91 92

Graphic: LEE EMERTON Source: BARCLAYS BANK, GOLDMAN SACHS

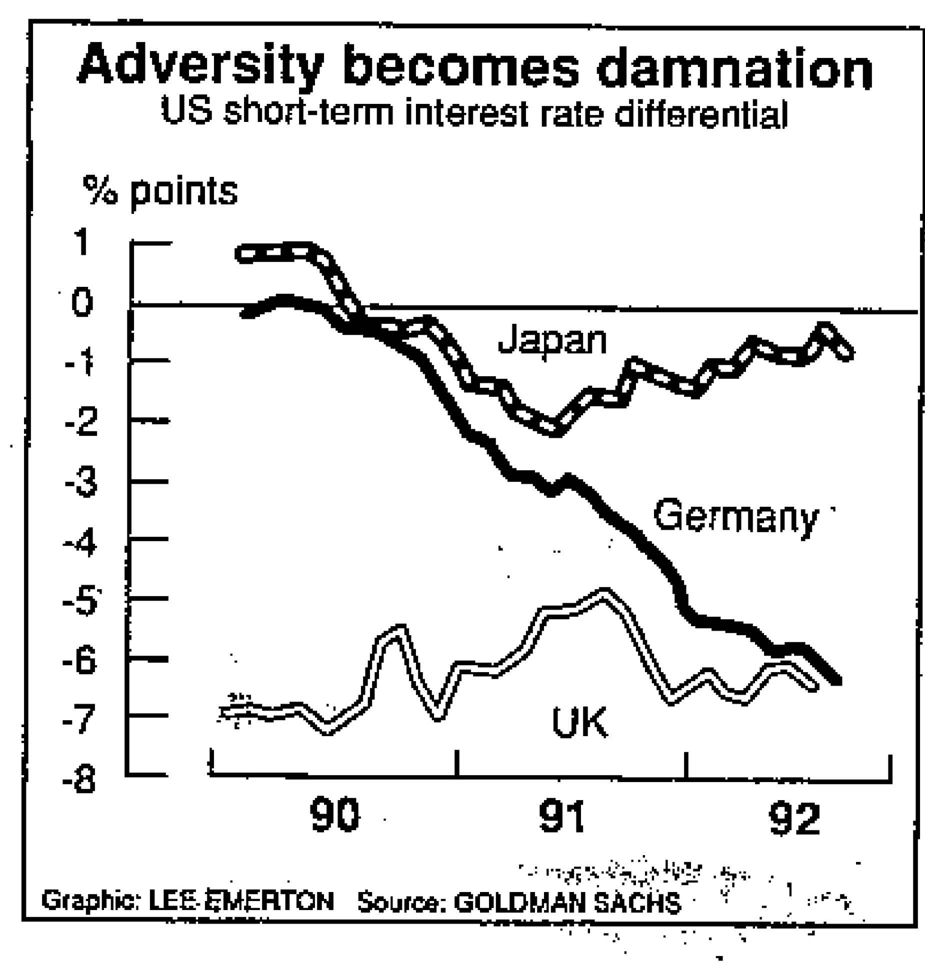
The US export boom is petering out before it feeds through to swell order books and consumers plus corporations still have to reduce their gearing before taking on new debt at these lower US interest rates.

As the first chart shows, the US authorities have hardly been slow to respond to the escalation in unemployment. A jump in US jobless has generally been the spur for successive cuts in discount rate by the Federal Reserve, most recently last Thursday. The Fed cut discount rate to a 29-year low of 3% soon after publication of the dismal jobs data.

But the chart also shows that the unemployment rate has not been very responsive to the halving of discount rate since the dollar's last all-time Deutschmark low. Irrespective of the Desert Storm distortion, the underlying US economy has not yet finished its shake-out.

What's more, a lower dollar suits everybody: the US wants it to boost exports and help recovery, Japan wants it to firm the yen and cut its external surpluses and Germany wants it to provide a strong Deutschmark which will bear down on inflation. There is likely to be little succour for the greenback, therefore, in this afternoon's closing communiqué from the Munich economic summit.

The second chart shows what is really chilling the market's dollar-watchers — the trend in the US currency's interest rate differentials with other major reserve currencies.



From being merely adverse at the time of the dollar's last record Deutschmark low in the first quarter of last year, the dollar's Deutschmark differential is now damning.

Differential-wise, the dollar is also worse off against sterling than in February 1991, and is only slightly improved in yen terms. What the damning differential cannot do in respect of the yen will, however, be accomplished by central bank support for the Japanese unit.

The earliest point at which the Germans can cut rates and narrow that 620-basis-point chasm in the second chart is at the Bundesbank council meeting a week tomorrow — but how likely is that when German M3 is overshooting its target range?

All told, the dollar faces a little interlude, not so much of difficulty, but of desolation in the short term. But, with the rand trading at less than a big figure from its 1992 dollar high yesterday, there will be few long faces in local dealing rooms — or at the Reserve Bank — in contemplating such an outlook. Only those dwindling rand devaluationists (Absa, the Economic Advisory Council) will have sour looks today.

Reserves maintain high level

STAR 8/7/92

By Sven Lünsche (74)(3)

The Reserve Bank's gold and foreign exchange reserves maintained a level of more than R10 billion last month despite seasonal interest and dividend payments to non-residents.

The bank reports its total gross gold and foreign assets fell slightly by R208 million to R10,19 billion in June from its record level of R10,4 billion in May.

June and December are traditionally months during which South Africa remits large amounts in dividends and interest payments to foreign investors.

Economists believe, however, that these foreign exchange transactions last month were partly offset by limited outflows on the capital account as no debts were due in terms of the debt standstill agreement.

Gold content

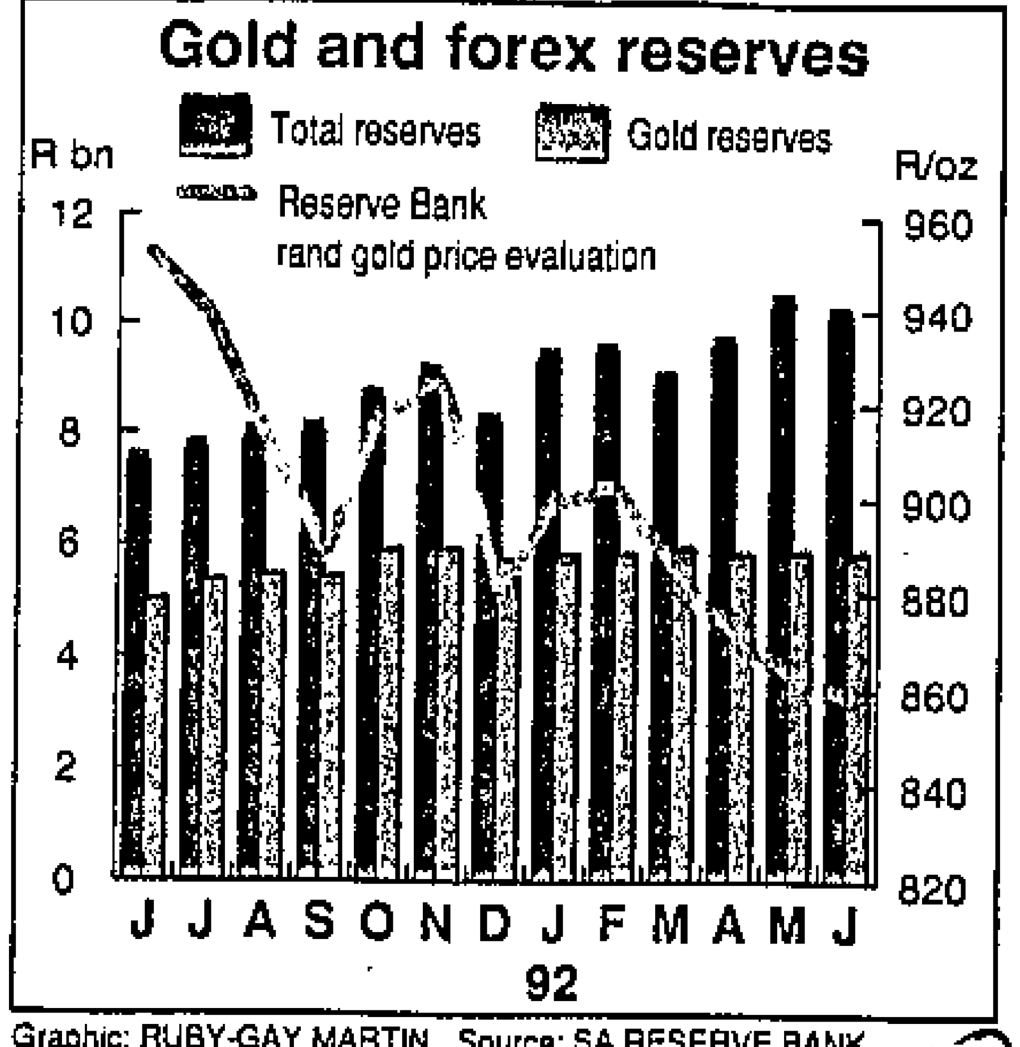
The gold content of the reserves was steady in June at R5,85 billion (May: R5,86 billion) as the bank maintained its gold holdings at just over 6,8 million ounces.

The rand value placed on the gold reserves, however, declined by R5,09 to R856,13 an ounce.

Foreign assets fell by R193,3 million to R4,34 billion during the month.

The small outflow of capital, coupled with the surplus on the current account of the balance of payments, lifted net gold and foreign exchange reserves by R2 billion in the first quarter.

In the December quarter net reserves fell R1,6 billion.



Graphic: RUBY-GAY MARTIN Source: SA RESERVE BANK

'Typical' drop in SA's reserves

BDay 8/7/92 HILARY GUSH

END-quarter interest and dividend payments nudged gold and foreign exchange reserves R200m lower in June to R10,2bn from May's R10,4bn, Reserve Bank figures released yesterday showed.

Total reserves fell on the back of a R193m drop in foreign assets to R4,3bn while gold holdings were steady at 6,8-million ounces. A lower gold valuation, at R856/oz from May's R861, lowered the value of gold holdings to R5,84bn from the previous R5,86bn.

AHI chief economist-designate Nick Barnardt said the slight fall in total reserves at the end of a quarter was typical, due to increased foreign exchange transactions including interest and dividend remittances abroad.

Nedcor Bank chief economist Edward Osborn considered the figures to be satisfactory as they held above the R10bn mark, suggesting little capital outflow and debt repayment. There were no debt transactions in terms of affected debt, he said, while some debt repayment outside the net had probably occurred.

The Bank said in its latest quarterly bulletin that at the end of the March quarter SA's total gross foreign reserves exceeded the value of two months' goods and services imports for the first time since the first quarter of 1988.

However, the current net reserve position was much healthier than in 1988 when the Bank had borrowed extensively to support the level of foreign exchange holdings.

G7 to help clean up reactors

(74) 9/7/92 STAR

MUNICH — The Group of Seven industrial states agreed to a compromise programme yesterday to help make Soviet-style nuclear reactors safe, a challenge Russian leader Boris Yeltsin said would cost $40 billion (about R112 billion).

The G7 states, split after the United States and Japan opposed a major multilateral safety drive, promised at their Munich summit to boost bilateral efforts to help avoid another Chernobyl-style nuclear disaster in the former Soviet bloc.

But they made a multinational atomic safety fund championed by the Europeans optional and failed to agree on the $700 million (R2 billion) target that experts had set for urgent initial measures.

Mr Yeltsin was in Munich to meet G7 leaders to discuss economic aid.

German Chancellor Helmut Kohl, whose voters are deeply worried about the new nuclear threat from the East, had canvassed his G7 partners to launch a broad-based safety programme aimed at a long-term shift towards safer energy production in the old communist world.

"All we can do now is start dealing with this," he said in resignation when asked why Bonn did not push for a $15 billion (R42 million) plan right away.

However, Mr Yeltsin found sympathy over his debts and received $1 billion (R2,8 billion) in ready cash to boost the Russian economy.

But the message as he sat down for the talks was that there are limits on how far the West can help the Russians and others to dig out from under the debris of the Soviet empire.

"I don't know there's enough money in the world to instantly solve the problem of the Russian economy," US President George Bush told a news conference.

The G7 leaders met Mr Yeltsin for lunch and formal discussions after the close of their 18th annual summit.

This was marked by failure to break a deadlock in General Agreement on Tariffs and Trade world free trade negotiations, though they said one was expected by year's end, or to come up with other fresh ideas to promote expansion in the weak capitalist economies. Their problems paled, however, beside those of Russia with inflation at 15 to 20 percent each month.

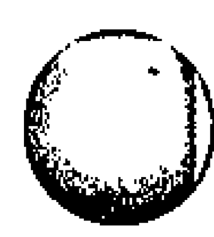
It emerged that various measures to assist Mr Yeltsin were agreed to or under discussion, including:

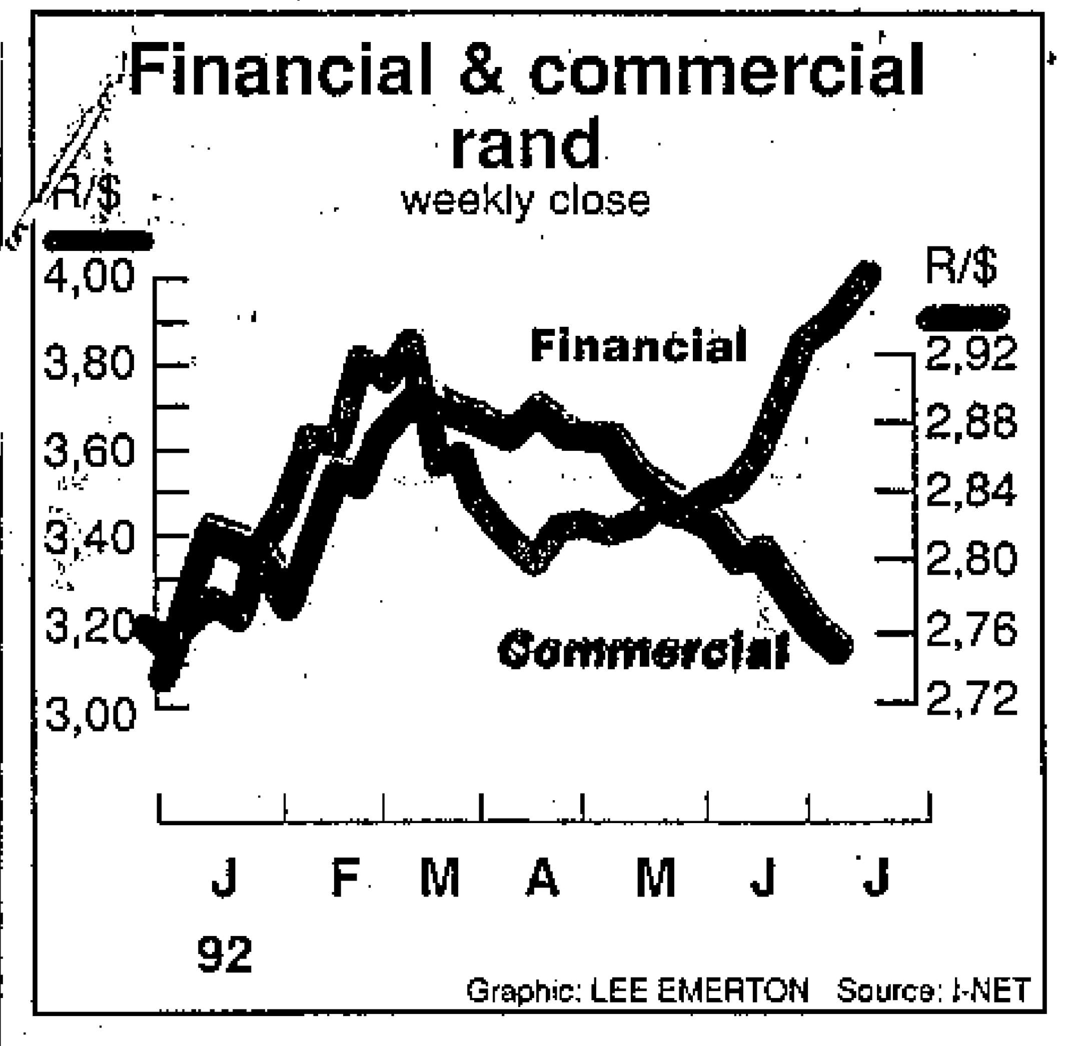
- A G7 communique endorsed an immediate $1 billion International Monetary Fund credit for urgent stabilisation measures in Russia and said it would pave the way for a full $24 billion (R67 billion) already promised. But R4,5 billion (R12,5 billion) in US credit is at present blocked in Congress.
- Mr Yeltsin and Mr Kohl, the G7 host, agreed that Moscow would seek a moratorium in servicing debts of about $70 billion (some R200 billion), left by the Soviet Union, in negotiations with the Paris Club of government creditors.

"I am very satisfied," a beaming Mr Yeltsin told reporters after separate breakfast talks with Mr Kohl. — Sapa-Reuter.

● **Beggars will be choosers — Page 12**

Stars and Stripes ... Charles Kane, who tried to force President Bush into a showdown at the news conference after the Munich summit. Picture: AP





Graphic: LEE EMERTON Source: I-NET

Finrand slumps to two-year low

HILARY GUSH

THE financial rand hit a two-year low yesterday, while the financial-to-commercial rand discount widened to a 20-month high of 32,5%.

The foreign investment unit — an indicator of investor confidence — slumped from Tuesday's R3,92 close to an intra-day low of R4,11 against the dollar before recovering to R4,05 at its close. A previous R4,10 low was recorded in July 1990.

More than R100m in local gilt sales prompted large offshore selling, dealers said. They believed that the Reserve Bank had not intervened in the market to prevent it falling further.

Meanwhile, see-saw trading in currency markets saw the commercial rand end little changed from Tuesday's close after initially strengthening to a new six-month dollar high in morning trade.

The rand opened a cent higher at R2,7380 against the US currency yesterday after closing at R2,7480 on Tuesday. It reached an intra-day high of R2,7320 earlier in the session before falling to close at R2,7475.

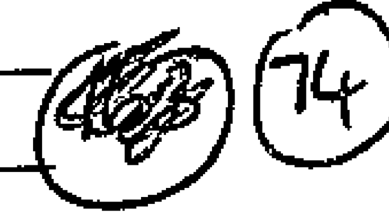
Dealers said the rand's early dollar strength was accentuated by exporters selling dollars into the market. They said recent dollar shortages in the market resulted in afternoon buying of the currency, bouncing the rand back to previous levels.

Cape to Cairo trade route is on

Sowetan 10/7/92

■ **Once sanctions end business opportunities will become a reality:**

By Joshua Raboroko



THE African dream of creating trade from Cape to Cairo is becoming a reality.

The largest business-to-business exhibition held by South Africans outside this country - Contact Kenya - has been an overwhelming success.

The organiser and managing director of Contact Kenya, Mr David Altman, said the exhibition achieved its main objective of introducing business communities of South Africa and East Africa to one another.

Representatives of about 500 South African companies flocked into Kenya this week for the exhibition held in Nairobi.

It is understood that their products ranged from footwear, wines and chocolates to luxury cars, chemicals and electronic products.

The show also drew business delegations from Ethiopia, Uganda, Tanzania, Burundi, Zaire, Rwanda and other parts of Africa.

The fair has been seen as an indication that once sanctions are gone, business opportunities from Cape to Cairo will become a reality.

Sources say that trade between South Africa and Kenya is estimated to be running at between R25 million to R38 million and could risesoon rise to 500 percent.

FM 10/7/92 (14)

KENYA (74)

The C-solution

FM 10/7/92

The greatest obstacle to SA-Kenya trade could be Kenya's lack of forex. The 150 SA exhibitors at the Contact Kenya exhibition in Nairobi last week found interest exceeded expectations but the next few weeks will determine whether orders will come in with confirmed forex payments.

Before November Kenya relied on aid to support its balance of payments deficit. Then foreign donors suspended aid until the one-party state moves to a multiparty democracy. A general election will be held before March.

Tourism, Kenya's chief source of forex, has also dwindled in the face of tribal violence and the worldwide recession; the prices of major commodity exports, such as coffee and tea, have fallen; and a drought has caused shortages of maize and other crops.

Even earlier a black market developed in which Kenyan shillings are exchanged for forex at a premium of around 30%. To formalise forex dealings the Central Bank of Kenya in October introduced an instrument called the Convertible Foreign Exchange Bearer Certificate (Forex-C). It is similar to the financial rand but can be used by nonresidents and residents. Holders of forex outside the banking system are allowed to buy Forex-Cs without documentation.

The Forex-C, a bearer instrument, is issued by the central bank in exchange for forex in denominations of US$500, $1 000, $5 000 and $10 000. Certificates guarantee that the central bank will buy them back at face value, plus a premium calculated on the Eurodollar bid rate, after three months or more. The Forex-C can also be used as an inward investment instrument.

Forex from the sale of Forex-Cs is placed in an account separate to the regular forex account so there should always be sufficient forex to repay holders of Forex-Cs.

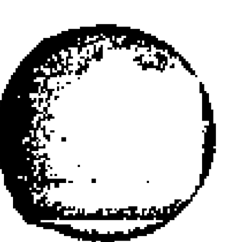
They can also be used to ensure immediate repatriation of capital or remittances of dividends. Kenya guarantees capital and dividends on disinvestment through an Act of parliament but this can take two years or more depending on forex availability.

A secondary market has evolved around Forex-Cs. Banks and individuals now trade them freely. Two auctions are held weekly in Mombasa and Nairobi. The purpose is to bring together buyers and sellers of Forex-Cs outside the ambit of the central bank.

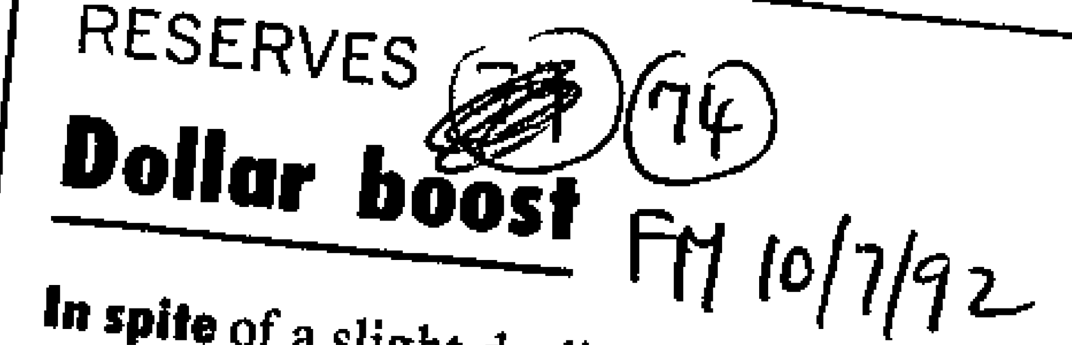
Import permits, which depend on the availability of forex, are allocated according to priorities — importers of raw materials, machinery, industrial spares, crude oil, pharmaceuticals, agricultural products and vehicle parts for local assembly plants get first option. Permits have been granted freely until now but the forex shortage is likely to make them more difficult to obtain.

Investec Bank international treasurer Steve Elliott, in Nairobi for the exhibition, says South Africans have various options. They can try to receive cash upfront. Letters of credit are also acceptable though confirmation of a European or SA bank is preferable to that of a Kenyan bank. Barter is another option but difficult unless, for example, the products being traded have a reference price on the commodity exchange. Another method is for the Kenyan buyer to hold Forex-Cs in an account until the shipment is made. However, some Kenyan importers enjoy generous credit facilities from suppliers.

With trade between Kenya and SA increasing, there have been discussions about the convertibility of the Kenyan shilling and the rand. The go-ahead is expected to be a formality. SA/Kenya traders now have to go through a third currency. Once the two currencies are linked, exchange will be cheaper because the cost of changing three currencies will be alleviated and risks relating to third currency fluctuations won't exist. ■



RESERVES



Dollar boost

FM 10/7/92

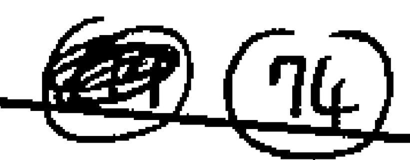
In spite of a slight decline in gold and foreign exchange reserves in rand terms in June, the value of total reserves rose in US dollar terms.

This was largely because of an appreciation of the rand against the US currency from $/R2,831 at the end of May to $/R2,771 at end-June.

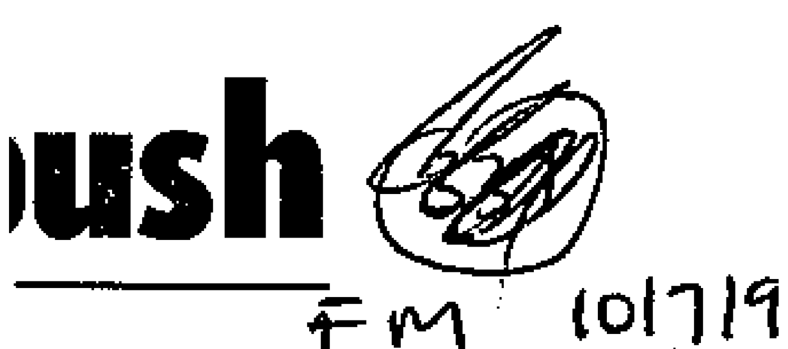
Gold holdings rose to 6,83m oz in June from 6,8m oz at the end of May. However, because of a drop in the valuation of gold holdings to R856,13/oz from R861,22/oz, the value of gold reserves declined to R5,85bn from R5,86bn.

In dollar terms it rose to $2,11bn from $2,07bn in May.

Foreign exchange reserves decreased to

FM 10/7/92 

R4,34bn ($1,57bn) from R4,54bn ($1,6bn) in May. Total reserves were at R10,19bn ($3,68bn) from R10,4bn ($3,67bn) in May. ■



FM 10/7/92.

lem is that they are all preceded by the phrase "if we get a pickup in US demand." Economic indicators in the US are wobbly. And with no new messages of cheer expected from the G-7 summit, where Yugoslavia and the stalled Uruguay Round of Gatt held centre stage as the *FM* went to press, uncertainty dominates sentiment about the US economy.

It will be an anxious 18 weeks for Bush as he waits to see whether the Fed's 23rd cut in interest rates since mid-1989 produces the goods or turns out to be yet another futile push on a piece of string.

John Cavill

THE RAND FM 10/7/92

In good measure

The falling US dollar sent the exchange rate of the rand to $/R2,7512 by Tuesday morning. This was well up on the $/R2,8905 on March 20 when the dollar peaked at Y134,25 and DM1,6765.

However, the Reserve Bank's policy of keeping the rand relatively stable against a trade-weighted basket of currencies ensured a fall against other currencies in the period. The exchange rate declined from:

- ☐ R/Y46,53 to R/Y45,43;
- ☐ £/R4,9110 to £/R5,2468;
- ☐ R/DM0,5824 to DM0,5509.

If the gold price were to rise to significantly higher levels, and if those levels were maintained for any period, the rand could rise against a basket of trade-weighted currencies. In those circumstances, the central bank may not wish to keep the currency at its present level, nor would it be able to without unleashing serious inflationary pressures.

Already, the Bank's policy of allowing a

Tracking the rand

Changes in value

Indices: 1979=100

120, 110, 100, 90, 80, 70, 60, 50, 40, 30, 20

Real trade-weighted rand

Purchasing power parity

Nominal trade-weighted rand

79 80 81 82 83 84 85 86 87 88 89 90 91 92

Source: UAL

FM 10/7/92

gradual decline in the nominal exchange rate has had a cost. Governor Chris Stals told the Afrikaanse Sakekamer last week (*Economy* July 3) that R2,5bn had been spent in the first four months of 1992 buying dollars to prevent the rand from appreciating and pointed out that this created a wider window for money creation, allowing commercial banks to put an additional R25bn into the market.

The gold price is not likely to reach significantly higher levels and the outlook for the rand in the longer term thus remains much the same as in the past.

But the policy of keeping it stable in real terms (which means a depreciation in nominal terms) may be reviewed in the light of a new approach to tariffs. Stals told his audience that, on the assumption that import tariffs would gradually fall, he had favoured a weaker rand. But if tariffs were not reduced, there would be no need to depress the rand.

The implication is that he may, in future, allow the currency to rise against the basket. In the same week, the Economic Advisory Council published its revised long-term economic strategy document mooting a depreciation of the rand — but only "to tide the manufacturing sector over the lifting of import protection." So its recommendation does not necessarily conflict with Stals's approach.

The rate at which the rand is bought and sold on currency markets is primarily determined by the forces of supply and demand. And changes in this rate reflect the relative strength of inflows and outflows relating to trade transactions, service payments or earnings, and capital movements. But, within limits, central banks can manage currencies up or down.

There are costs to both routes. A cheaper rand makes exports more competitive and boosts the rand value of forex earnings — but it pushes up the cost of imports. A more expensive rand reduces imported inflation but makes exports less competitive.

The exchange rate set in the market can be compared with two other measures (see graph). Says UAL economist Dennis Dykes: "The graph shows how the nominal exchange rate remains below its purchasing power parity value (base 1979 equals 100). This is principally because of the massive depreciation in 1984-1985 when SA experienced serious balance of payments difficulties. The same message is reflected by the real exchange rate which is still below its value in 1979 (of 100), implying that the rand has fallen faster than the inflation differential between SA and its major trading partners.

Cont →

FM 10/7/92 (74)

"However the real rate has been on a rising trend since at least 1989, indicating that exporters over this period have become less competitive."

☐ In last week's report a comma was incorrectly inserted in R25bn, converting it to R2,5bn. ■

Australians call off mission to SA due to 'uncertainty'

BDAY 10/7/92 (74)

SYDNEY — Australia's first trade mission to SA since the easing of sanctions was called off yesterday amid uncertainty over the country's political and business future.

The mission, first announced in April this year, was to have been represented by diverse interests such as mining, the food industry, the legal profession, manufacturers and others.

But the Australia Southern African Business Council said the mission's success was dependent on favourable economical and political circumstances.

"The bottom line is there's just too much uncertainty," mission leader Ivan Chait said. "Basically, it was all those mixed reactions coming from (President F) de Klerk and the ANC and the possible mass action from August."

The mission was based upon expectations that a transitional government would begin running SA this month. "We remain enthusiastic about trade and investment opportunities between Australia and SA in the medium to long term," mission chairman Mike Jones said.

Meanwhile, Sacob is to sign an "agreement of co-operation" during discussions with an 18-member trade mission from South Korea on Monday.

In a statement yesterday, it said the agreement would be between the chamber and the Federation of Korean Industries, which had organised the mission.

And in Russia next week, 28 SA companies will be looking for business opportunities when they exhibit their goods at the Sovex '92 exibition in Moscow.

The exhibition would be opened by SA Deputy Trade and Industry Minister David Graaff.

Among the SA companies participating in the show were Outspan, Dorbyl, Tosa, Monatic, Haggie Rand, Hendler, Hart, Burhose and Conshu.

Representatives of the SA mining industry would also attend a joint mining seminar in Moscow next week.

In a different development, the Lesotho National Development Corporation reported yesterday that a record R158,4m worth of goods was exported from Lesotho in 1991.

Manufactured goods accounted for 74% of this, a significant increase over the 31% worth R18m which were exported in 1986.

The corporation attributed this growth mainly to Lesotho's unimpeded access to US and EC markets. — Sapa-AFP.

Merger on cards for two African trading blocs

BDay 10/7/92 (74)

MICHAEL HARTNACK

HARARE — In a move which would affect members of the Southern African Customs Union such as Botswana, southern and east African Preferential Trade Area (PTA) states are seeking the organisation's integration with the Southern African Development Co-ordination Conference (SADCC).

This was disclosed on Wednesday by PTA secretary-general Bingu wa Mutharika, in an interview with Zimbabwe's media.

"The decision to merge the two has been agreed in principle by PTA members. What remains is whether SADCC members would be equally agreeable," said Mutharika.

Economists in Zimbabwe see the only resolution of the issue in eventual full-scale talks between the 23 members of the PTA and a post-apartheid SA on a merger with the Southern African Customs Union.

Three of the 10 nations in the SADCC — Botswana, Swaziland and Lesotho — are not members of the 23 nation PTA because of their link to the customs union.

During its decade in existence, the PTA has experienced major difficulties translating high-sounding rhetoric on inter-African co-operation into practice. Many PTA member states continue to penalise each other's transport operators, demand settlement in Western "hard" currencies, and strangle fledgeling trade with bureaucratic red tape.

Definitive figures for inter-PTA trade remain vague. Zimbabweans have had difficulties having the community's agreed unit of account, the uapta, accepted in countries such as Kenya.

However, Mutharika predicted a current PTA trade fair in Dar es Salaam would generate US$200m in deals.

The PTA has evolved a schedule listing 690 products eligible for customs rebates.

In contrast to the PTA, the SADCC is oriented towards economic development (especially co-operation promoting independence of SA), and survives in spite of repeated friction between two key states, Botswana and Zimbabwe, over their conflicting trade policies.

"Unity is strength. By combining resources and experience, we will end up providing better service within the region," Mutharika said.

SADCC secretary-general Simbi Makoni has recently spoken far more positively about future co-operation with Pretoria, but to date no one has mooted integration of the PTA with the Southern African Customs Union.

Industrial leaders bear brunt of global downturn

BIDAY 10/7/92 374

NEW YORK — When the sky falls, the giants get hit first.

The world's biggest industrial companies learned that proverb in 1991, with profits tumbling 28,2%, sales gains lagging inflation and the number of money losers more than doubling from a year earlier, Fortune magazine reports.

"It was a bad year everywhere," Fortune said in its third annual Global 500 tally. "The pain was global in 1991."

A worldwide economic downturn, punctuated by losses and layoffs at some of the biggest and best known businesses around the world, was the underlying reason behind the weakness.

Fortune's number-crunching showed the wounds were felt most deeply in the US and Europe, while they were just beginning towards the year's end in Japan.

"Want some good news? The US is coming out of recession even as Japan goes in," the magazine said. With the US remaining home to the largest number of biggies anywhere, with 157, it said, "the US giants should give the whole list — and indeed the whole world — quite a lift next year".

Still, Fortune's assertion appeared to predate the latest news of economic weakness and corporate cutbacks in the US, which has aroused fears that another downturn is looming.

The Fortune list also showed America's lead as home to the biggies dwindled from 164 spots in 1990, while Japan strengthened its No 2 position with 119 compared to 111 a year earlier. Britain was No 3 with 43.

The rankings also showed the US was home to the biggest money bleeders of 1991, led by General Motors with a loss of $4,5bn, the biggest of any company in history. IBM was the world's No 2 money loser last year, with a $2,8bn deficit, while Ford was No 3, losing $2,3bn.

BP, the biggest British entry on the list, slipped in size from eighth to ninth.

In Australia, the once mighty Bond Corp Holdings careened into bankruptcy.

The Global 500's total sales rose only 2,6% in 1991 to $5,2-trillion. A year earlier, sales had risen 10,2%. Global 500 profits dropped 28,2% to $128,5bn after rising 16,7% a year earlier.

Seventy-three companies lost money, compared with 34 losers in 1990.

There were some exceptions to the pain many behemoths felt. Exxon, the biggest US oil company, earned the most of any company, $5,6bn. Royal Dutch-Shell Group, the Anglo-Dutch oil firm, was No 2 with $4,2bn, while Japan's Toyota ranked No 3 with $3,1bn.

US companies led in profit increases over the year earlier. Campbell Soup Co was No 1, earning $401,5m, up more than 9 000% from its anaemic performance in 1990. — Sapa-AP.

BUSINESS BAROMETER

W/Mail 10/7-16/7/92

Financial rand dives

THE key indicator of foreign investor confidence in South Africa, the financial rand discount, plunged further yesterday in response to the continued collision course between government and the African National Congress. Midweek the finrand discount — the gap between the financial and commercial rand — rose to 32,5 percent as the finrand hit a two-year low at R1 = US0,2469c.

Shares come under pressure

W/Mail 10/7-16/7/92

LOCAL investors's fears about South Africa's future were reflected in falling share prices on the Johannesburg Stock Exchange. The JSE overall index closed midweek at 3 514,0 down 3,7 percent on the week. Industrial shares midweek at 4 304 were more than four percent down in a week.

Business indicators point downwards...

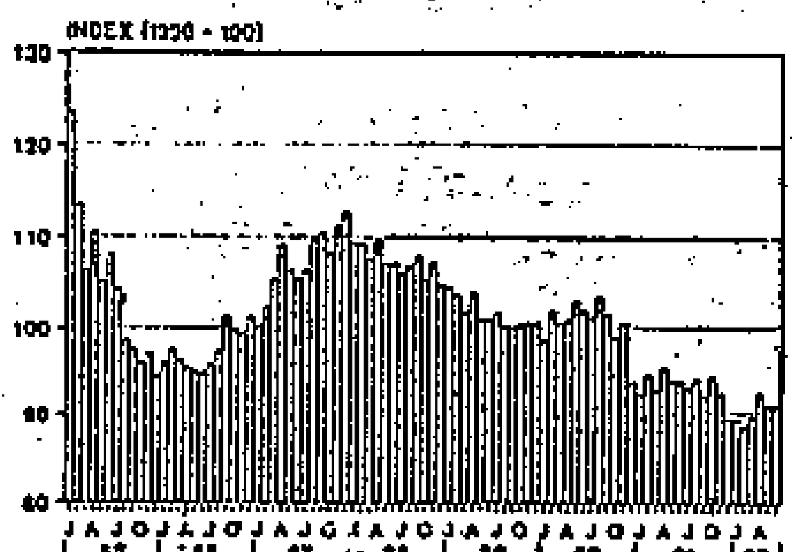
THE South African Chamber of Business (Sacob) Manufacturing Survey for June showed how badly business confidence has been affected by mass action threats, violence and the political impasse.

W/Mail 10/7-16/7/92

The Survey of Confidence Levels in its Manufacturing Survey shows an industrialist expect conditions to worsen in the short and medium term.

Sacob's Business Confidence Index, a composite of leading indicators also dropped, but only slightly, showing that aside from the political factor, recent economic improvements have laid a good foundation for an upturn — and that the BCI is lagging the gloomy political events that have hit business confidence.

BUSINESS CONFIDENCE INDEX



... and car sales outlook still bleak

W/Mail 10/7-16/7/92

AN important economic indicator on their own, passenger car sales increased 12,7 percent in June as against May. Despite higher June sales the overall market is still down by 13,2 percent for the year to date compared to 1991. June's sales are 14 percent down on the same month last year. On the basis of the first six month sales, Toyota SA has forecast sales for the year around 187 000 but says the market could dip as low as 180 000 units this year.

Setting sights on the north

C/Press 12/7/92

(74)

MONEY TALK

THE highly successful trade fair held in Nairobi by SA business has certainly whet the appetites of the commercial communities of east Africa and our own to do business.

A common reaction by visitors, including a number from neighbouring states such as Tanzania, was to express surprise at the range and quality of South African-made products.

Yet it is not all plain sailing. Our businesspeople have discovered there are many obstacles when doing deals in Africa, the main one being a tremendous scarcity of foreign exchange. In other words, a key question that must be answered – and this is not always easy given the continent's lack of sophisticated financial systems – is: How will goods be paid for?

Certainly the buyers are eager, but in many instances their purchasing ability is dependent on the flow of aid.

This aid is often linked to conditions that any purchases should be made in the donor countries. So even if a customer wishes to buy from a South African business, he cannot do so, unless the business is prepared to take a chance with credit.

No doubt the exhibition in Nairobi has proved there is potential to greatly increase trade with Africa. But it has also shown that many of our export companies will have to build infrastructure to handle complications such as government regulations on licences, duties and the efficient transfer of payment to SA.

One has to bear in mind that not a single country in Africa has a truly convertible currency. Business must be done through a third currency, mainly the US dollar.

There is great potential in barter trade. But here the crux is whether the customer country produces goods SA needs.

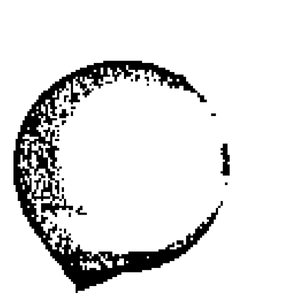
Barter is an exciting but extremely complicated minefield. Yet one can be sure that it will gradually expand as we and the rest of Africa start to better understand each others' ways of doing things.

Another important development, now that the doors to trade groups in Africa are gradually opening, is access to markets in the Southern African Development Co-ordination Conference (SADCC) and the Preferential Trade Area (PTA).

Finance from sources such as the African Development Bank can smooth the way to entry into these markets.

A lot of homework will have to be done by SA businessmen to develop trade with our neighbours to the north. Making contact such as the fair in Nairobi and hopefully at the OAU fair in Bulawayo in September, is just the beginning.

Egypt is a huge but competitive market and it will be interesting to see if we can succeed so far north.



SA drive for East Europe trade

S Times (BUSS) 12/7/92 (74)

Export opportunities in Eastern Europe are numerous, as are the pitfalls when dealing in this market. ZILLA EFRAT reports.

EASTERN Europe came under the spotlight this week.

Safto launched its Europe business development programme for the region.

In addition, 28 South Africans are in Moscow setting up stands for this week's Sovex '92 exhibition.

This all-SA trade show will be visited by a Safto mining delegation which left on Thursday. It will attend a mining seminar in Moscow and visit Russian mines.

There have also been a host of business missions to Eastern Europe in the past few months and trade delegations from these countries to SA. The Eastern Europeans are considering SA involvement in projects from road making to building.

Safto business development executive Pam Murray says Eastern European countries seem to have a special rapport with SA. They were the first to open relations with SA after political change got under way.

Trade with Poland, for example, jumped from R30-million in 1990 to about R150-million in 1991. It has reached close to R250-million this year.

SA has signed agreements with four Eastern European countries and several of them have opened diplomatic offices here.

Mrs Murray says one reason for the good relations is that Eastern Europeans understand the changes SA is going through because of the reform processes in their own countries.

Safto International division manager David Graham says that before the overthrow of communism, the economies of Eastern European were centrally planned, as were their foreign trade dealings.

Most external trade was done through the Comecon trading bloc which co-ordinated what each country would produce and sell to the other. Often one country was the sole supplier of a product for the rest of the bloc.

As a result, communist countries became highly dependent on each other and did not earn hard currency.

Huge shortages in many products have arisen and Eastern European countries are eager to diversify their trading partners.

The road to reform has not been easy for them. It has led to economic decline, large-scale unemployment and soaring inflation, as well as high alcoholism and suicide rates.

Decades of central rule have left a legacy of outdated plant and equipment and serious environmental problems.

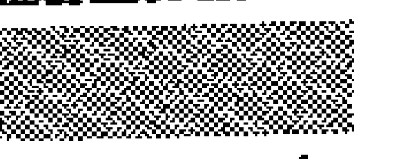
In addition, infrastructure is in dire need of modernisation and the policy of full employment in the days of communism has rendered Eastern European enterprises overstaffed, inefficient and unproductive.

The emphasis of the past on heavy industries and arms has left few consumer goods areas well served.

In the former Soviet Union, only 0,1% of investment went into the production of consumer goods. This has resulted in huge pent-up demand for consumer goods in a market of 124-million people.

The modernisation process has opened opportunities for second-hand SA machinery and equipment and for technology.

Potential SA exports include raw materials, minerals, fruit, vegetables, canned foods and medical equipment. There are considerable opportunities for co-operation in the engineering, mining, food processing, chemicals, telecommunications, banking and insurance fields.



SA companies will also be able to benefit from moves to upgrade infrastructure and the forecast growth in tourism.

Advantages for SA exporters are that brand names are not strongly established and some of Europe's more sophisticated products may be too advanced for this market.

Eastern Europe is also a stepping stone to the European Economic Community which has granted Poland, Czechoslovakia and Hungary associate membership.

In the past, huge centralised bureaucratic State corporations handled each country's foreign trade.

Many State trading companies are still in place, but entrepreneurs are emerging as foreign trade becomes decentralised.

Mr Graham says some entrepreneurs may have been linked to the State corporations in the past. It is, however, difficult to check their records because of the poor standard of information available — a factor which inhibits thorough market research in Eastern Europe.

Eastern Europe governments should not be overlooked as buyers. Although there are strong moves to privatisation, it will not happen overnight. For example, only 50% of Polish companies will be privatised by 1995.

Hindrances to trade with the region include bureaucratic decision making and differences in language, business and culture.

Management, sales and marketing skills are poor and there is a lack of historical commercial statistics.

Mr Graham says SA companies will need legal representation in the market.

"The key is to find the right entrepreneur. When you do find him, do not rush in and sign an agreement. Let him prove himself first."

Mr Graham says the market requires perseverance with frequent trips and attention paid to personal contact.

Of particular concern to SA exporters has been the issue of payment.

However, Absa Bank senior manager Johan Stander says payment can be secured through a confirmed irrevocable letter of credit through a reputable European bank. Several SA banks will add confirmation.

Unlike Africa, Eastern European countries have the potential to earn foreign currency.

Mr Stander says not one Eastern European country has defaulted by a day on any letters of credit for SA business.

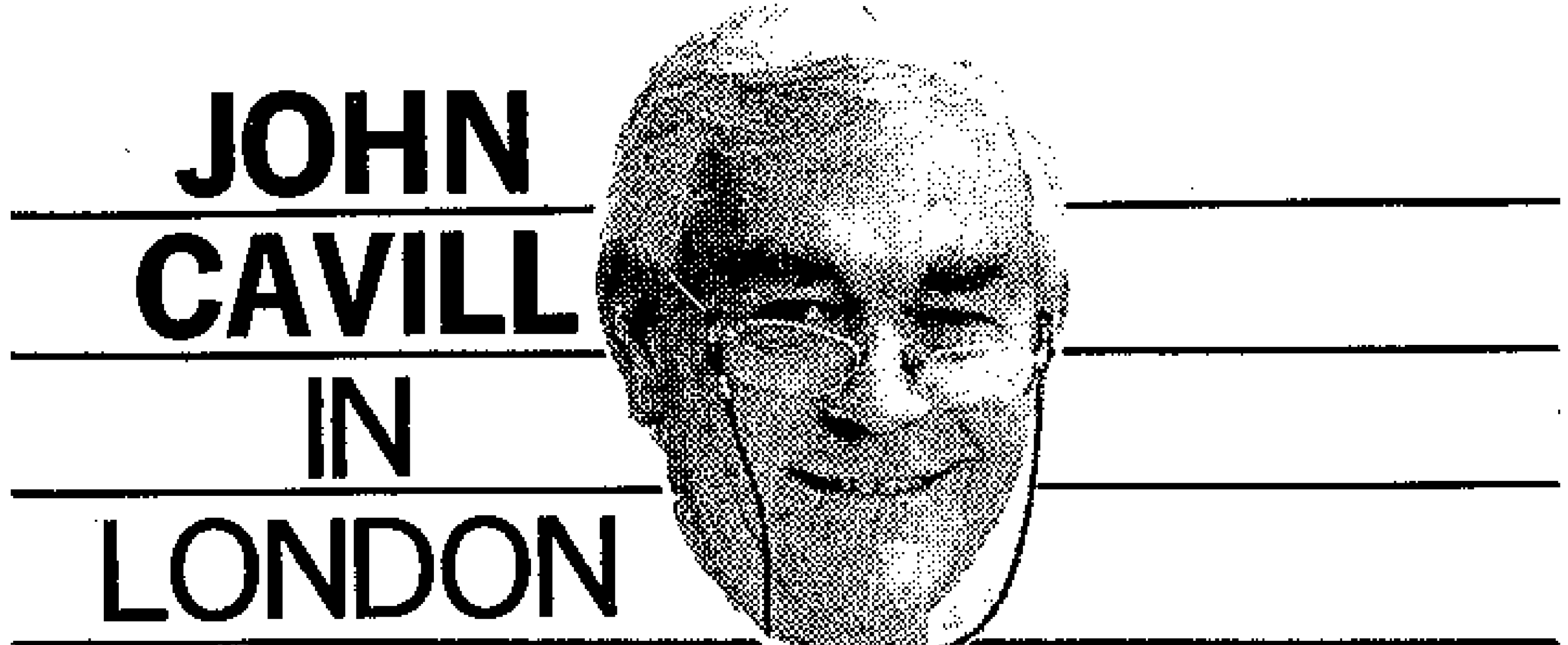
The major markets with forex potential are Poland, Czechoslovakia, Hungary, Romania and Russia.

Mr Stander says SA exporters could gain a comparative advantage by offering Eastern European customers 180-day financing.

Uncle's towering faith

STimes (Buss) 12/7/92. (74)

This week's Munich summit steered clear of the world's most important economic goal — the liberalisation of trade.



IF there were a Nobel Prize for dogged optimism and untiring effort, Arthur Dunkel the avuncular Swiss director-general of the General Agreement on Tariffs and Trade (Gatt) would surely be a leading candidate.

It is 18 months since the first deadline passed for the conclusion of the Uruguay Round of negotiations among nearly 120 Gatt nations to liberalise trade — adding $195-billion annually to the world's business and 0,5% to its growth.

The "final sprint" of talks was launched last October. That came to a halt before Christmas, mired in the long-running dispute, chiefly between the United States and Europe, about agricultural subsidies which cost the rich nations of the world $180-billion a year.

Another effort was launched. Two months ago a breakthrough was claimed when the European Economic Community agreed to reform the common agricultural policy (CAP), its most sacred cow, by cutting farm subsidies which have made internal food prices artificially high and caused vast export surpluses which depressed the earnings of other producers.

A flurry of shuttling by the leaders of the main world economies ensued. For a few weeks there seemed real hope that the Munich summit of the Group of Seven would be the setting for an announcement that the process started six years ago was almost over.

UK Premier John Major made a mighty effort to focus the summit on the Uruguay Round, but failed. Politics simply forbade it.

President George Bush, wilting in the US opinion polls, with 10-million Americans on the dole and his bid for re-election 17 weeks away, was unable to make any compromise which would alienate the farm vote.

France's President Francois Mitterrand was equally strapped into a political straitjacket. His country was at a standstill as angry farmers rebelling over CAP reform were joined by truck drivers protesting at new penalties for road offences.

Ahead of Mr Mitterrand lies the campaign to persuade France to vote for the Maastricht Treaty — or what is left of it. His domestic popularity is in tatters in spite of his grandstand flight to relieve the siege of Sarajevo.

HE could not afford to inflame tempers even further by bowing to US demands, especially as Washington had threatened to impose "prohibitive" levies on $1-billion worth of imports from the EEC unless American soya-bean producers were given a bigger share of the European market.

France would not consider any moves on the Uruguay Round until after the referendum on the Maastricht Treaty in September.

So the 18th G-7 summit largely avoided what is regarded as the single most important gobal economic goal for the last decade and concentrated on matters like the horror of Bosnia, how to make former Soviet nuclear reactors safe and how to keep Russia afloat.

In a statement which contained more hope than action, the leaders agreed they were disappointed at the stalemate over agriculture, but said they were "convinced a balanced agreement is within reach". Yet another deadline has been set with no guarantees it will not suffer the fate of its predecessors.

Arthur Dunkel is undeterred. Surveying the unhappy record of the Uruguay Round, which is his swansong after 12 years at the head of Gatt, Dunkel told the Financial Times: "I still have great confidence in the wisdom of nations.

"What we are doing is like climbing the last few metres of Everest without oxygen ... when people are convinced it is the 11th hour there will be a settlement."

That is the kind of faith which moves mountains.

THE hurricane which has blown through the Tokyo stock market has proved something of a fair wind for South Africa's corporate giants in moving four of them up the league table of the world's 1 000 most valuable companies.

The annual survey published this week by International BusinessWeek shows some hefty advances by SA groups — measured by their market valuations on May 29. The Global 1 000 list is headed by Royal Dutch-Shell, capitalised at $78-billion..

De Beers Centenary, worth $10-billion, climbs 30 places to No 152 — although its net profits of $1,2-billion rank it 36th in the billionaire earnings league.

Anglo American, at $8,2-billion, is at 207 (from 228) and $5,1-billion Gencor climbed 83 notches to 384.

But the fastest mover was the Anglo-De Beers stablemate JCI. Its value of nearly $2,5-billion catapulted JCI 130 places up the table to No 797.

Losers were the more heavily gold-based stocks. Driefontein, $2,3-billion, dropped back 34 to 847th and GFSA on $2-billion lost 56 to be placed at 959.

There were omissions, however. The Rupert family have cause to feel miffed at the absence of their Swiss conglomerate Richemont.

At $4,7-billion (this week) it deserves to be placed 431st, below Thyssen the German industrial group. Richemont's chief asset, the 63%-owned Rothmans International tobacco and luxury goods giant, has hurdled from 390 to 301 on its $6,4-billion market cap.

Minorco, the Anglo-De Beers Luxembourg-registered international arm, is also conspicuous by its non-appearance. Capitalised at $2,2-billion Minorco should be challenging Groupe Schneider of France for 890th position.

Foreign holders of SA bonds take battering

By Neil Behrmann STAR 13/7/92

(74)

LONDON — International holders of SA bonds and equities have been battered by the financial rand slump.

London dealers are complaining about the volatility of the currency and fear that the slump during the past month will dampen foreign investment.

The financial rand weakened sharply against the dollar last week, closing on Friday at R3,90 after falling to R4,06.

But the commercial rand appreciated against the dollar and fell only marginally against European currencies.

Dealers said at the weekend there were sales by Far Eastern and European rand bond holders. Once the bonds were sold, SA banks had to offload financial rands.

One bank in particular is rumoured to have been amateurish in its dealings, said traders in London.

It kept offering the market a rumoured R50 million and as the rands were passed in the illiquid market the currency collapsed quickly.

London dealers said the Reserve Bank had intervened in previous days, but was out of the market on Wednesday. They wondered why there was no support to smooth out the volatility.

The Reserve Bank has not made any statement to allay market fears.

Foreign investors are jittery about the volatile South African political situation.

But the financial rand slump of 17 percent since the end of April and its 32 percent discount to the commercial rand is out of all proportion to present problems.

The market has retrogressed to the post-debt-standstill period when South Africa was a pariah.

Last April the financial rand was firm because there was a surge in foreign bond orders in the heady days after the referendum.

Domestic rand bond prices have appreciated since the end of April, but currency losses for the foreign investor have been considerable.

European investors have taken a further beating because the financial rand is linked to the sliding dollar.

Most SA bond holders are German and Swiss. They have seen the capital value of their investment tumble by 22 percent in a little over two months.

The yield on SA bonds for the international investor is now as high as 23,6 percent, compared with 18 to 19 percent before the political crisis.

This slump and its impact on foreign investment has considerable implications for the SA capital market.

About 40 percent of Eskom paper is held abroad and if foreigners are frightened of SA bonds, the long-term interest rate may well rise and place a further burden on the economy.

Zimbabwe warned of 'SA' trade war'

CT 13/7/92 (14)

HARARE. — A South African economist has warned Zimbabwe that Pretoria plans to punish it through trade isolation for criticising President F W de Klerk's government and has urged it to improve economic ties with SA.

The Zimbabwe news agency Ziana quoted Eugene Nyathi as telling the Confederation of Zimbabwe Industries late on Friday that Pretoria recently established preferential trade ties with some neighbouring states as part of its trade war against Harare.

"They (South Africa) have managed to enter into all kinds of crafty arrangements behind your back."

● Meanwhile the devaluation of the Zimbabwe dollar and increased demand for the Minerals Marketing Corporation's (MMCZ) major products enabled the corporation to realise a record turnover of Z$1,322bn for the year ended June 30, 1991.

This represented an 11% increase from the previous year's sales of Z$1,189bn, Ziana reports.

Finrand umbrella still important, says Stals

STAR 13/7/92

By David Canning (74)

Last week's pressure on the financial rand shows how important it still is to have "an umbrella for unforeseen political developments" in the dual exchange rate system, says Reserve Bank Governor Dr Chris Stals.

He said in an interview in Pretoria at the weekend it was too early to forecast either a removal of the financial rand system or the scrapping of the Debt Standstill arrangements which come up for consideration next year.

"We hope that when we come to make a decision, some time next year, there will be more clarity on the political situation."

Dr Stals said access to foreign finance, whether in the form of World Bank loans or foreign investment, remained very important.

"Any such finance would supplement domestic savings which at best can only sustain growth of two percent.

"Foreign funding for social development programmes, for example, would enable SA to use more of its own savings for other areas — industrial development, for example.

"The more finance you can get from foreign sources, the more flexibility you have to use your own resources for other purposes."

He said it was no secret that the World Bank was active in SA once again after many years of absence.

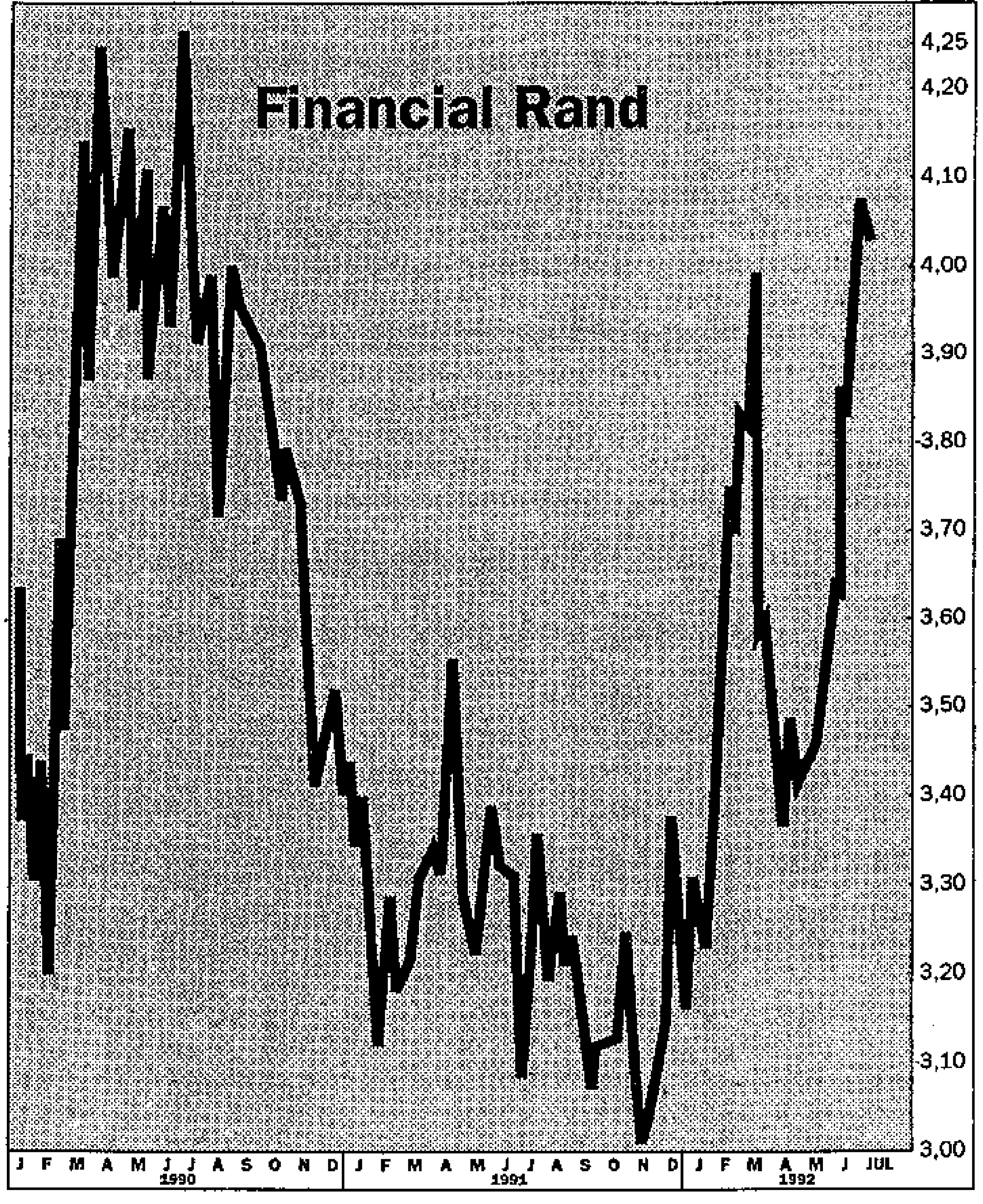
It was doing feasibility studies on social programmes such as urbanisation, education and agricultural development. It also was looking at the macro-economic picture.

The studies were necessary because the organisation had been absent from SA for a long time and needed to build up its data banks.

In his personal opinion, the bank might well want to see more evidence of political stability in SA before making any final decisions.

However, he did not think the World Bank was committed to US legislation barring loans to SA.

There was no doubt that SA theoretically did qualify for loans from the World Bank. However, SA had not put forward specific financing projects to the World Bank.



The financial rand recovered to R3,90 on Friday after the R4,06 seen earlier in the week

Turning to reasons for his recent calls for economic restructuring in SA, Dr Stals said the Reserve Bank had a sophisticated economic department and an econometric model.

"We certainly feel SA needs an economic restructuring programme. We cannot take responsibility for it. We can only give advice and stimulate the debate and are very keen to do so."

The new Minister of Finance (Derek Keys) had indicated that the Reserve Bank could help in this process.

Any kind of economic restructuring programme had to be comprehensive, taking in social needs, etc.

"We also, somewhere downstream, must have the support of all the major political parties, otherwise it will be impossible."

Dr Stals confirmed that his views on restructuring conformed broadly with the International Monetary Fund's (IMF) approach, contained in the IMF's recent "Occasional Paper 91" which set out scenarios for SA.

One of the key issues was that growth should occur by fostering efficient markets.

However, Dr Stals said, SA's economic restructuring programme should be geared to its own special conditions.

Most of the IMF's Economic Structural Adjustment Programmes (ESAPs) for other countries were geared to improving their balance of payments positions.

"SA's main objective in economic restructuring should not be to help the balance of payments but to solve the unemployment problem," he said.

Crowds flock to see SA pavilion

TIM COHEN (74)

MORE THAN 1-million people had visited the SA pavilion at Expo '92 in Seville, Spain so far, Foreign Affairs said at the weekend.

More than 100 countries are taking part in the expo, which is intended to be more than a commercial, industrial or cultural forum. The expo is intended to showcase man's knowledge and achievements in all their facets.

The SA pavilion, built at a cost of R5m, received an extremely positive rating from visitors, the department said. BDAY 13/7/92.

The department was pleased with the pavilion particularly as SA was only invited to take part at a very late stage and other countries had spent up to three years building their pavilions. Some countries spent as much as R100m on their pavilions.

The SA pavilion concentrates on SA as the "cradle of all mankind" with a focus on paleo-anthropological discoveries in the country.

It also focuses on SA art and culture, conservation efforts, mineral discoveries, technological achievements and its tourist attractions.

According to Spain's largest newspaper, El Pais, SA's pavilion received the same rating as those of Germany, Egypt, Portugal and the UK in terms of visitor appeal.

The pavilion was rated better than those of Argentina, Brazil, Israel, Malaysia, Ireland, Switzerland, Russia and the EC, the department said.

"SA's presence in Seville will not only be a visible, concrete symbol of its return as a fully fledged member of the international community, but it will also offer a unique opportunity to present SA and its potential to a worldwide audience," Foreign Affairs said.

MONEY MARKETS by Simon Willson

Buying rush pushes rates down

BDAY 13/7/92 (74)

A BIG punter — some say the Public Investment Commissioner, others one of the Far East's central banks — turned capital market sentiment right around at the end of last week. The big buyer's aggressive bargain-hunting at the long end of the market on Friday triggered a rush of buying which pushed rates down to 15-month lows.

From a Thursday close at 15,56%, the yield on the benchmark Eskom 168 semi-gilt was hauled down to an intraday trough of 15,32% by the sudden buying interest, before ending the session off the bottom at 15,36%. Similarly, the RSA 150 gilt yield dived to an intraday 15,43% on Friday from its Thursday close at 15,79%, before settling at a final 15,68%. It was an abrupt reversal of the substantial foreign selling of gilts that characterised the early part of the week.

Parts of the market are concerned that the big punter and his local acolytes, having moved the market, may be tempted to take profit quickly early this week.

But another view is that investors have little confidence in property, short-term paper or equities in the current socio-political climate, and are left with long-dated instruments by a process of elimination.

Meanwhile, in the money market, the Reserve Bank's mid-week measures to alleviate the first R5bn shortage in more than two years had only temporary effect. Following the Bank's offer to buy back R500m in gilts, semi-gilts and public sector bills, the shortage dipped briefly below R4bn on Wednesday, when it stood at R3,68bn.

Even though the Bank rolled the facility, extending it to seven days from an initial three, the shortage jacked up again to R4,58bn on Thursday — probably on a new issue of government stock.

The Bank's rolled gilts buy-back matures today but the feeling in the market is that it will be rolled again until mid-week, when the shortage should ease substantially. On Wednesday R1,8bn in maturing RSA stock and the normal mid-month government spending flows are due to hit the market almost simultaneously, which should see an appreciable dip in the shortage.

Low pay cited in Customs frauds

CT 14/7/92 (74)

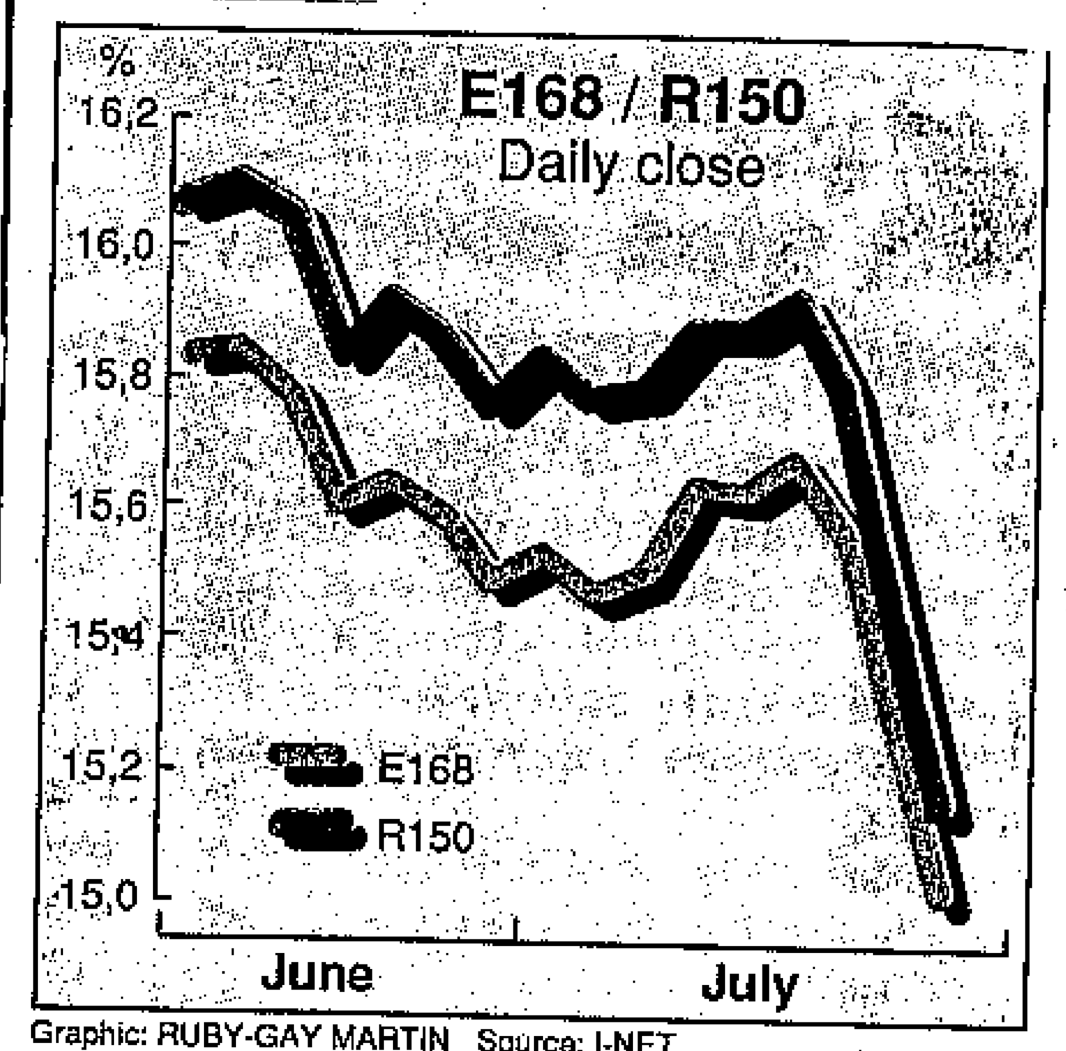
SALARIES offered by the Department of Customs and Excise had resulted in a shortage of skilled staff and were a major factor in the spate of import/export-related frauds under investigation, the Commissioner of Customs and Excise, Mr Daan Colesky, said yesterday.

At least 13 cases involving millions and relating to the falsification of customs declarations are currently under investigation. Sixteen customs officials have already been prosecuted for complicity.

R600m scam

The biggest export scam detected to date involved the dumping of containers full of scrap metal into the sea. The "goods" had been billed as motor spare parts and R600 million was milked from the government by way of a 50% export incentive subsidy.

The problem, he said, was low salaries. The department was not able to retain its experienced staff members who were necessary in monitoring import and export dealings for possible fraud.



Graphic: RUBY-GAY MARTIN Source: I-NET

Bulls gore rates on capital market

HILARY GUSH 74

BULLISH sentiment in the capital market yesterday saw rates on the Eskom 168 and government R150 bonds fall to two-and-a-half-year lows. BDAY 14/7/92

The yield on the bellwether E168 opened at 15,32% and hit an intra-day low of 14,97% before closing at 15,04%.

The yield on government R150 stock, the benchmark gilt, dropped to a 15,02% low in morning trade before bouncing up 20 points within an hour in the afternoon, and closing at 15,17%.

Rates on long-term bonds last slumped to similar lows in January 1990.

Dealers were puzzled by the mass buying, attributing it simply to a bearish equity market. "Bonds are seen as the only asset that will perform in the prevailing political climate," one dealer said.

Trading was believed to be local but there were rumours of foreign buying. Players felt the Public Investment Commissioner had "set the buying-ball rolling".

Some believed trading had been option-driven with option writers buying stock to hedge their positions.

This, one dealer said, was particularly true for Umgeni bonds with the stock's rate falling almost 50 points from yesterday's 14,08% opening to an intra-day low of 13,61%. The stock closed at 13,77%.

Traders considered the market over-extended and expected a correction of about 25 points in the next few days.

Yesterday's further softening in rates follows a rush of buying on Friday which, dealers said, generated its own momentum by pushing yields down through option strike levels.

advertising with other channels. Whether there would be a bond boycott Mofokeng said.

Development funds slashed

BIDAY 15/7/92

DUMA GQUBULE

DEVELOPMENT Bank loans to support social and economic upliftment were reduced by nearly 25% last year because underdeveloped communities did not have the skills and structures to handle the funds allocated.

The lower level of funding comes at a time of increased pressure on the bank to provide funds for projects throughout the country.

In its 1991/92 annual report, the bank said loan disbursements fell to R760m (R988m), but interest income on development loans increased by 50% to nearly R200m.

The bank said the underdeveloped communities did not have the capacity, in terms of institutions and skills, to handle the funds. Project work had also been affected by "changes and constraints in the socio-political environment".

But ANC development official Shaheed Raji said the bank's problem was that it was continuing to support illegitimate homeland governments and local authorities, while many communities in the rest of the country were crying out for funds.

Bank vice-chairman Prof Wiseman Nkuhlu said the capacity constraints had been caused by the fact that the bank was bound by its articles to provide funds only through homelands and local governments.

The situation had worsened over the past two years as the legitimacy of the homeland governments had come under even more stress.

Nkuhlu said it was only this year that the bank had realised the need to change its focus and steps had been taken to include non-governmental and other community organisations in the provision of funds.

Tax conscience money

STEPHANE BOTHMA

CONSCIENCE-stricken tax dodgers have anonymously sent the Receiver of Revenue a total of R16 115,18, a spokesman for his office said yesterday.

During the past three years alone, amounts ranging from as high as R3 000 to as little as R5,07, have been paid. Some of the payments were accompanied by notes stating the purpose, such as "underpayment of income tax years ago", "sales tax on vehicle", "unpaid tax — will send installments", or "repayment for petrol stolen from a government vehicle", but often no explanation accompanied the money, he said.

In March this year, three payments of R1 000 each were received. In April, two payments of R1 000 each and a third payment of R3 000 were received, followed in May by R2 500. All are believed to be from the same anonymous person.

Payments often included carefully calculated interest, he said. BIDAY 15/7/92

"We believe most of the payments are for taxes outstanding for several years and paid to ease the citizens' conscience." To date, nobody caught for tax evasion had used such an anonymous payment as a defence.

Staff shortage blamed for customs fraud

BIDAY 15/7/92

CAPE TOWN — Low salaries offered by the Customs and Excise Department resulted in a shortage of skilled staff and were a contributing factor in the spate of import/export-related frauds currently under investigation.

This was claimed on Monday by Customs and Excise Commissioner Daan Colesky, who said his department did not have the human resources necessary to properly monitor all import and export dealings. "We have no problem recruiting, but we have a problem retaining staff once they have been trained."

At least 13 cases involving millions of rands and relating to the falsification of customs declarations are under investigation. Sixteen customs officials have been prosecuted for complicity.

The biggest export scam detected to date involved the dumping of containers full of scrap metal into the sea. The "goods" had been billed as motor spare parts and an amount of R600m was milked from the government by way of a 50% export incentive subsidy. — Sapa.

PHILIPS
PABX

Bullion pierces key level of $350

BDAY 15/7/92 (74) (@1)

DUMA GQUBULE

WORLD bullion prices broke through the key $350 psychological resistance level yesterday on the back of fears of possible supply disruptions during Cosatu's planned general strike next month.

Gold rose $1,75 to close at $350,70 in London yesterday and went on to trade above $350 in New York.

Platinum prices, more sensitive to possible SA supply disruptions, went above $390, their highest level in 14 months.

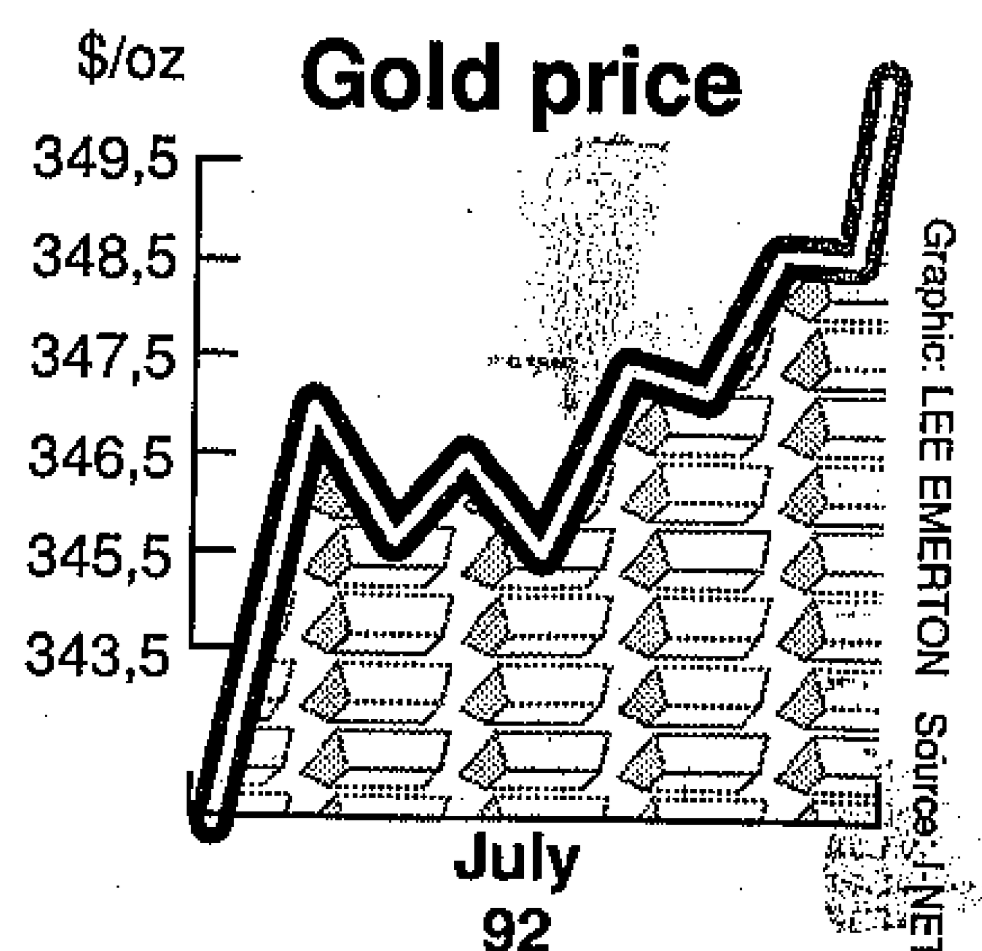
Shearson Lehman Bros gold analyst George Milling-Stanley said the speculative interest in platinum had spilled into the gold market.

Analysts said the gold market appeared to be comfortable at its new levels. A feature of the market over the past few weeks had been a drying up of forward sales from North American and Australian producers because of interest rate cuts.

Milling-Stanley said another reason for optimism on gold was the fact that the market had absorbed large amounts of bullion during the first half of the year.

Another analyst said it was encouraging that the market could absorb a few hundred tons of gold and show resilience. In the absence of more sales, the price could move into a higher range, she said.

James Capel analyst Jon Bergtheil said the market had also taken comfort in a statement from Russian gold industry head Valery Rudakov two days ago. He resigned saying the industry had become "unmanageable" and forecast a sharp fall in Russian gold production.



Despite the encouraging signs, analysts agreed that the gold price would be locked into a narrow, but slightly firmer, trading range for the rest of the year.

Milling-Stanley said he was concerned about how long it would be before forward sellers returned to the market and put a cap on the price. He said news of a possible deal between Cosatu and employer organisations to limit the planned mass action campaign's effect on the economy, could take some of the speculative froth out of the platinum and gold markets.

B/DAY 17/7/92

Interest from India

INQUIRIES from Indian businessmen wanting to trade with SA had been flooding into the JCCI, trade promotions assistant manager Tish Schutte said yesterday.

She said "hundreds of inquiries" had been sent to JCCI's Business Opportunities Bulletin. The interest appeared to be in anticipation of India's lifting of sanctions within the next few months.

74

SA businesmen given Africa rip-off red light

(74) ARG 18/7/92

■ Foreign trade statistics are no longer a secret — but with the world opening up to them, South African businessmen must keep their wits about them, says an expert.

JEAN LE MAY
Weekend Argus Reporter

THE blanket of secrecy over countries which trade with South Africa will soon be lifted following the dropping of most sanctions and trade boycotts.

For the first time since 1986, when the ban on trade statistics was imposed, complete trading figures from the beginning of 1992 would be published by the Department of Customs and Excise, said a spokesman.

However details of the sanctions years between 1986 and 1991 will remain a closed book, he said.

Trade with other African countries was a particularly delicate issue but was known to have amounted to about R8 billion-a-year over the last few years, said Mrs Ann Moore, general manager of the South African Foreign Trade Organisation (Safto).

Meanwhile South African businessmen, having explored the possibilities of trade with Kenya in the Contact Kenya exhibition in Nairobi earlier this month, are now moving as far afield as Nigeria.

However export facilitator Mr John Doherty, who has offices in Johannesburg and Lagos and is arranging a South African trade mission to Nigeria next month, had a special warning for South Africans.

Nigeria was "a highly competitive market which must be approached aggressively," he told Weekend Argus.

Possible imports from Nigeria included crude oil, rubber, textiles, leather and leather goods, he said.

"Nigeria is a huge potential market for South African manufactures. Its imports run to about R21 billion a year and this will rise to about R43 billion by 1995."

But there was a need for caution. South African businessmen were receiving letters offering "unbelievable opportunities" for trade with Nigeria, he added.

"It is only too easy to be taken in by some of them, as happened with the Department of Foreign Affairs which was taken for R1,5-million. I could have warned them — there are several organisations to provide data bases and credit ratings for Nigerian enterprises.

"You can't be too careful.

"It has happened that lavish offices, which are fairly cheap in Lagos, have been hired and clients met at the airport with limousines and outriders, only to find themselves victims of scams and R30 000 the poorer."

JSE's non-resident gilt sales rocket

HILARY GUSH

NON-RESIDENT gilt sales executed through the JSE last week were more than six times the previous week's figure amid continued political uncertainty.

Substantial foreign selling of government bonds characterised the early part of the week with JSE gilt sales from abroad reaching R276,3m compared with R45,6m recorded the week before.

Foreign gilt purchases were also down on the previous week to R70,3m from R84,9m.

In the week ended July 10, non-resident transactions netted R206m in sales against the previous week's net gilt purchases of R38,9m.

These figures are not comprehensive as they represent only those transactions by foreigners which are executed through the JSE.

Meanwhile the capital market remained steady with quiet trade on Friday.

The yield on the benchmark R150 stock was little changed at the session's close at 15,29% from its opening of 15,3%.

Similarly the yield on the Eskom 168 — the bellwether semi-gilt — remained stable through the day from an opening of 15,175% to a 15,18% close.

BDAY 20/7/92 (74)

Markets in turmoil but gold still shines

BDAY 21/7/92 (74)

MERVYN HARRIS
and HILARY GUSH

GLOBAL financial markets were in turmoil yesterday as stockmarkets tumbled and the US dollar tested new lows against major currencies before central bank intervention injected some stability to stop the rot.

The dollar came within a whisker of its historical low of DM1,44430 before the intervention lifted it back to DM1,4848 in Europe.

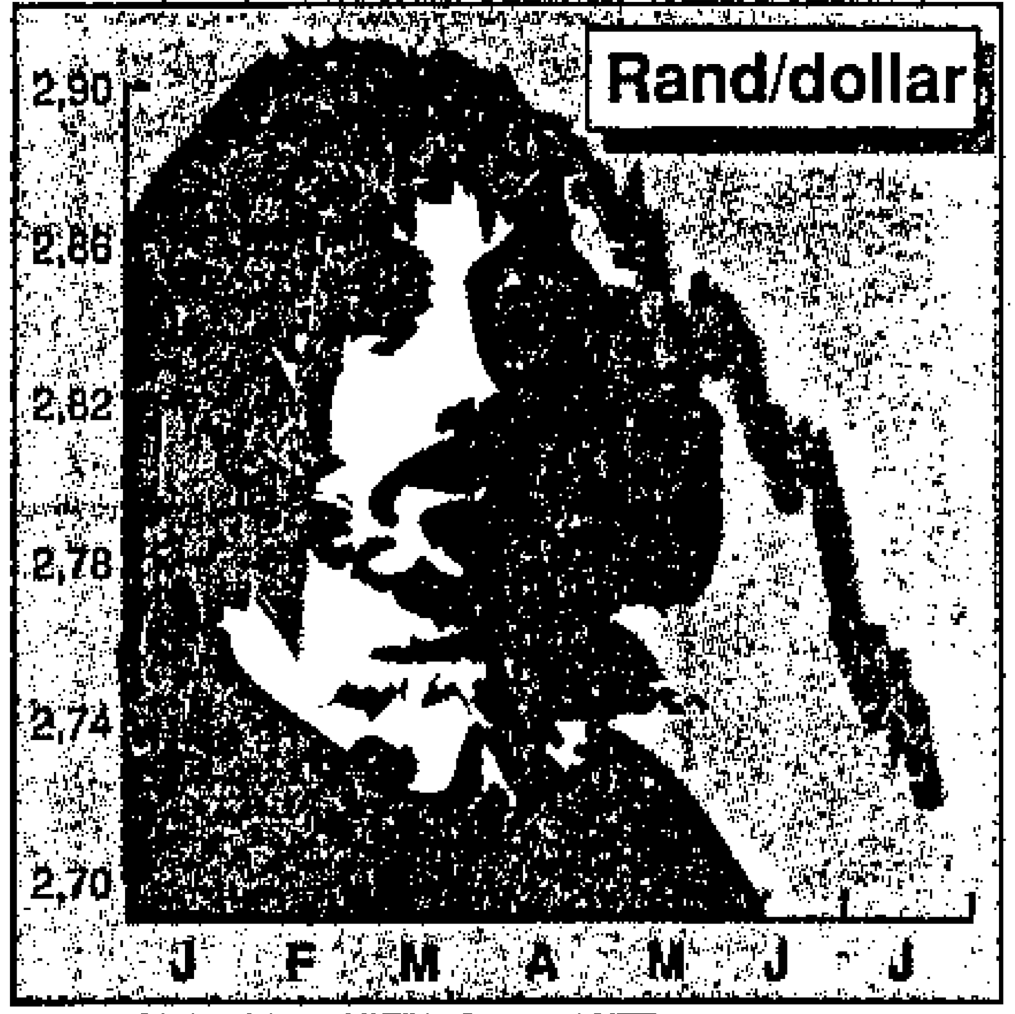
Dollar support helped equities in London and New York claw back part of sharp losses on deepening pessimism over a world economic recovery.

The heavy falls on the Tokyo, London and Wall Street stock markets spilled over to the JSE, where only gold shares defied the softer trend on the back of a rising gold price.

A switch to gold as a safe haven by some fund managers lifted the metal to a seven-month high of $360,15 before easing back slightly on the dollar intervention. Gold closed $1,60 higher in London at $358,30.

The JSE all gold index rose 1,6% to 1 149 as the overall index fell 1,7% to 3 437 with the industrial index sliding 1,7% to 4 214 and bellwether De Beers slumping 4,5% to R78,25 on concern over diamond sales.

Reuters reports that dealers pointed out that gold had not rallied in non-dollar



Graphic: RUBY-GAY MARTIN Source: I-NET

terms as the US currency declined. This was buoying underlying physical demand.

Dealers said the rise in gold shares was overshadowed by the downturn on the rest of the market. While most blue chips were marked down in nervous trading, there was sufficient selling for prices to end sharply lower, they added.

The commercial rand hit a record low against the Deutschmark but traded at a 15-month high against the dollar before the US currency recovered its losses in late afternoon trade.

The commercial rand recorded an all-

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Markets

BDAY 21/7/92 (74)

☐ From Page 1

time low against the mark, closing the session at DM0,5329. A weaker dollar saw the rand reach an intra-day peak of R2,7100, its best dollar level since April 1991. By the close it was at R2,7227.

Dealers said the dollar had initially weakened on rumour that a large Far Eastern institution had to unwind a long dollar/Swiss franc position of about $5bn yesterday morning.

Early in the session dealers predicted a further strengthening of the rand over the week — to at least R2,70 — as the dollar was expected to continue to weaken on international currency markets.

Traders said there was no fundamental reason for the dollar to firm. Bearish sentiment on the US economy and the political uncertainty surrounding the lead-up to the presidential election did not bode well for the currency either, they said.

However in late afternoon trade the dollar showed some recovery as central banks intervened and bought the currency. Traders labelled the move as a "smoothing operation" which would not change the dollar's downward trend.

World markets slump as central banks intervene to support dollar (74)

STAR 21/7/92

LONDON — The dollar rebounded to end sharply higher against the mark in Europe yesterday after central banks launched two rounds of concerted intervention in support of the US currency.

It had earlier tumbled to a low of Dm1,4463 — only just above its record low of Dm1,4430 reached on February 11, 1991 – before climbing above Dm1,48 marks in frantic trading after the central bank action.

But the intervention came too late to give much help to European share markets, where prices slumped due to the weak dollar and worries that high German interest rates would stifle economic recovery across Europe.

US stocks also fell in early trading in New York. The Dow Jones industrial average was down 39,98 points at 3291,66 before noon.

The dollar had been under pressure all day after last Thursday's rise in the German discount rate to 8,75 percent from eight percent focused attention on the interest rate gap between Germany and the United States.

US rates are now at their lowest for 30 years while German interest rates are at their highest since World War Two.

But central banks, intervening in support of the dollar for the first time since February 1991, sowed panic in the market with large scale dollar-buying.

"We were caught long and wrong," said one US bank trader. Traders had earlier dismissed rumours that central banks might intervene to rescue the dollar.

Dealers said the German central bank, the Bundesbank, had bought dollars at Dm1,4550, while US dealers said the Federal Reserve had bought at Dm1,4525-35.

A host of other central banks joined the action, and many followed the Bundesbank and Federal Reserve into the second round of dollar-buying.

In London, the Financial Times-Stock Exchange index closed down 28,2 points, at 2403,7, although it recovered some of the day's losses after the central bank intervention boosted sentiment and dollar-related shares.

The Frankfurt market closed before the intervention and the 30-share DAX index ended 52,99 points down, at 1649,67.

Tokyo's 225-share Nikkei average earlier dropped 663,59 points to close at 15 884,48.

The Australian sharemarket dipped by 1,5 per cent in its biggest one day fall in more than three months, as weakness in overseas markets tapped a deep vein of pessimism about the local economic recovery.

Gold ended steady at $358,30 an ounce after an early $359,10 and a close in London on Friday of $358,55.

The All Ordinaries fell 24.6 points to a twelve-week low of 1,604.9.— Sapa-Reuter.

Jewellery complex may earn extra R3,6bn in forex

BIDAY 22/7/92 (74)

JONO WATERS

A NEW multimillion-rand jewellery fabrication complex with a planned annual production of 100 tons of gold jewellery would bring in another R3,6bn on top of the gold value in foreign exchange, Mineral and Energy Affairs Minister George Bartlett said yesterday.

Speaking at the Mintek presentation for the planned jewellery manufacturers' complex — Jewelpark — Bartlett said the industry was capable of "creating employment and generating wealth through adding value to SA's mineral resources".

Bartlett said that a number of factors had to be addressed for success to be achieved on a competitive basis for a major export drive, including:

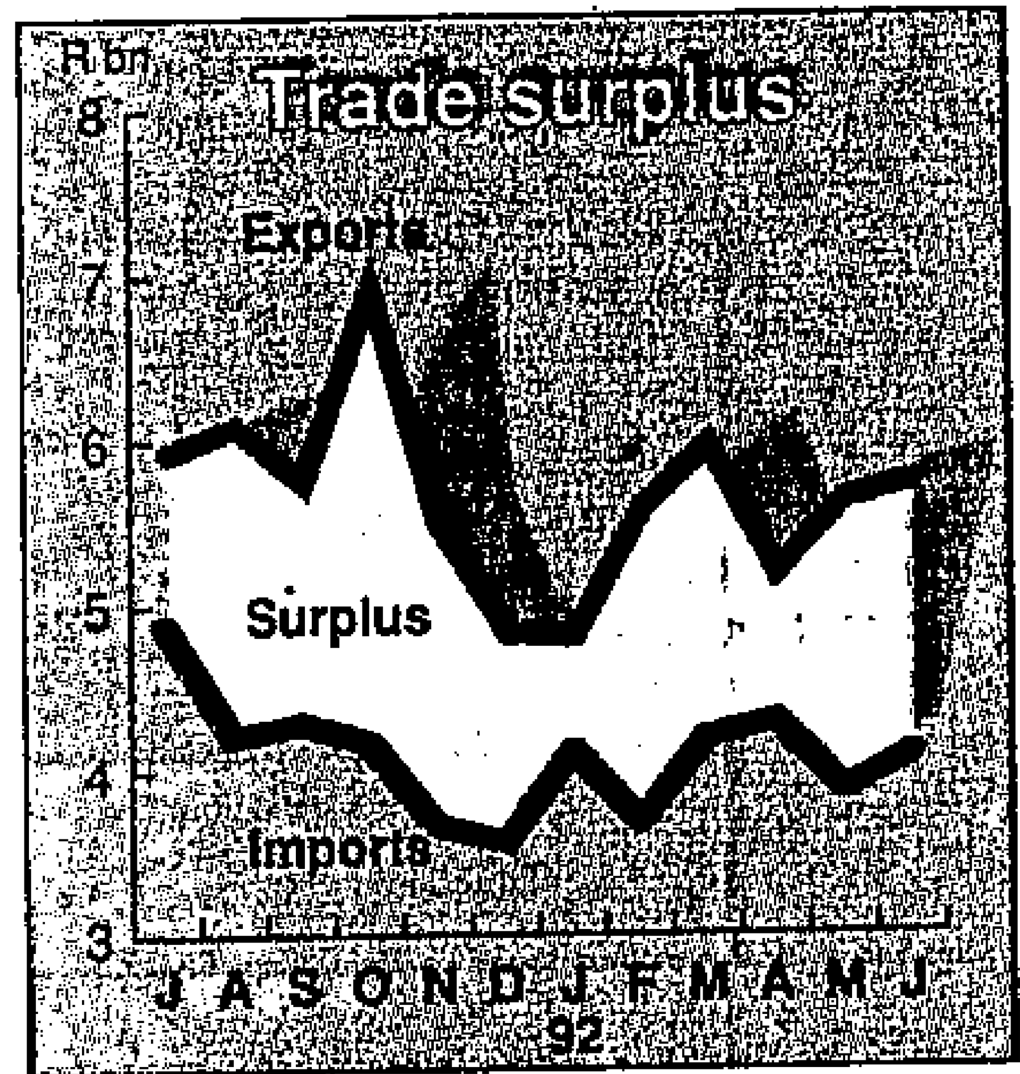
- Dropping interest on gold loans to manufacturers from the current 4,5% to a figure lower than the world average of between 2,5% and 3,5%;
- The development of a "SA jewellery style";
- A talented and highly trained workforce and,
- The technological backup of research and development organisations such as Mintek and the CSIR to assist in competing in world markets.

The project was planned by Mintek, the Jewellery Council of SA and the IDC.

Mintek vice-president Henry James said there was nothing in principal to stop existing producers or Jewelpark from applying for incentives under Section 37E of the Income Tax Act.

An arch supporter of value-added gold products, Anglo American gold and uranium division chairman Clem Sunter, said last night it was an interesting development and he looked forward to learning more of the details in due course.

Jewelpark is expected to cost about R35m, employ over 600 people when completed and have the facilities to train about 300 apprentices.



Graphic: LEE EMERTON Source: CUSTOMS & EXCISE

Trade surplus falls on higher imports

HILARY GUSH

AN INCREASE in imports saw the trade surplus narrow slightly in June to R1,66bn from R1,762bn in May, Customs and Excise figures released yesterday showed.

June exports edged up to R5,75bn from R5,6bn in May, bolstered by mineral product earnings which, at R4,1bn, were 25% higher in the six months to June than over the same period last year.

Imports rose 5% month-on-month to R4,09bn from R3,9bn in May.

SA Foreign Trade Organisation economist Bruce Donald said exports were "back on track" in June after a disappointing showing in May.

Manufactured exports, in particular transport equipment, plastics, chemicals and machinery, fared well in June, recording respective increases of 60%, 52%, 49% and 28% over the previous year.

"The strong performance of most export categories can probably be attributed to the partial removal of sanctions; to the weak domestic market, which leads to an increase in the amount of production available for export; and, in respect of manufactured exports, to the impact of the general export incentive scheme and other incentives programmes."

Cumulative January to June exports totalled R33bn compared to the R31,5bn posted for the same period last year. This represented a 5% rise in nominal rand terms.

Excluding the unclassified category,

☐ To Page 2

Trade surplus

☐ From Page 1

which showed a 14% decrease in the first half of 1992, exports were up 18% over the same period last year.

Vegetable product imports climbed 34% in the six months to June, which, analysts said, probably reflected the effects of the drought. A 23% rise in prepared foodstuffs imports was also recorded.

Nominal imports were 3% higher in the first half of the year compared with the same period last year.

In real terms imports were significantly down on last year, which, Donald said, reflected the depth of the current domestic recession.

This year's cumulative first-half trade surplus was R8,7bn, 9% higher than the comparable period last year.

● Comment: Page 6

Exports lift Lenco from SA doldrums

CT 23/7/92

(74)

Business Editor

EXPORTS are helping Lenco Holdings to achieve good results in the current year, in spite of the state of the domestic economy, executive chairman Doug de Jager told shareholders at the agm yesterday.

"Results for the first quarter of the current financial year are ahead of last year's and ahead of the business plan.

"We have experienced a squeeze on margins in some divisions but over-all we expect a reasonable year. Obviously, we have a bag of products that seem to be complementary — some do better in bad times, others in good times."

De Jager stressed that:"We are not interested in chasing turnover but rather in creating free cash flows."

In answer to questions from the Chairman of the Shareholders Association of SA, Issy Goldberg, De Jager said the bulk of Lenco's revenue came from packaging and not from clothing and footwear. "Our re-investment programme will focus on packaging."

But the group's menswear firm, Monatic, was "an efficient machine." It was working at full capacity because it had consistently produced good quality.

De Jager said that "in contrast to the rest of the industry we have not retrenched at Monatic."

The company had longterm export orders to the UK. The decline of the rand against the pound helped to keep it competitive in that market in spite of high SA inflation.

Lenco had been managing Hendler &1Hart since the beginning of the year and had a pre-emptive right to acquire 50% of it at the end of the two-year management period.

SA ranked fourth

CANADIAN business ranks SA fourth among regions it is eyeing for trade and investment, a survey by Canadian law firm Goodman & Goodman has found.

The 1992 Goodman & Goodman Competitiveness Survey shows SA behind the US, Western Europe and Pacific Rim countries (other than Japan) as markets Canadian businesses are studying for expansion in the next two to three years.

BIDA-1 23/7/92

EXCHEQUER ACCOUNT

Sliding into the red

FM 24/7/92

The exchequer deficit for the first quarter of the fiscal year amounted to R9,2bn. This is over half the loan requirement for the year of R18bn, of which some R13bn has already been raised.

However, both the Minister of Finance and the Reserve Bank have noted that "the normal issues of government stock and exchequer bills would not necessarily be limited to the budgeted gross amount of R18bn in the current fiscal year."

The low growth in exchequer receipts — R15,9bn (a 10% increase over the corresponding period last year) — is a direct result of the economic recession which the Department of Finance says is more serious than originally foreseen. Consequently, the budgeted annual revenue figure of R84,7bn now appears somewhat optimistic.

The exchequer account shows Inland Revenue was particularly hard hit over the first quarter. At R13,4bn receipts were only 5% up on the previous year. However, receipts from Customs & Excise were up 51% (at R2,5bn) with R1,3bn coming through in June alone. The growth was largely the result of increases late last year and in April, in excise duties and the fuel levy. Arrears payments were also made to Namibia in the first three months of the fiscal year 1991/1992, which diminished the net figure for that year.

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Issues for the first quarter amounted to R25,1bn, up 19% on the previous year. This is 25% of the total estimated figure for the year of R100,7bn. The largest proportion of this — 23% — comes from the vote on Regional & Land Affairs. R5,8bn out of a total budgeted allocation of R20,3bn was issued in the quarter. An increase in black pensions in May has been given as a reason for the large issue (*Economy* June 26).

R3bn was issued for Administration: House of Assembly, out of a total budgeted for the year of R9,1bn. R2,8bn (net of RSA stock discount) was issued under the statutory amount for Finance (Budget amount R16,3bn), a 21% increase over the corresponding period last year. This amount includes government debt-servicing costs.

A functional classification of expenditure for the year shows that since 1990/1991, protection services have been reduced from 21,8% of the total Budget to 19,3%, with Defence falling from 13,7% to 9,8%. Economic services are also reduced, from 13,6%

cont →

ECONOMY & FINANCE

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to 13,4%, though the allocation for Agriculture, Forestry & Fishing rises from 2,3% to 3%, reflecting "the cost implications of the prevailing drought." An overlap of the phasing out of the old and the phasing in of the new export promotion schemes sees the allocation to export trade promotion rise from 1,1% to 2,4%.

Social Services rose from 41,3% of the total to 44,3%. But there is also an increase in the interest payable on government debt, from 14,8% to 15,2% of estimated Budget expenditure. ■

'Dramatic' rise in trade with Africa

LINDA ENSOR

CAPE TOWN — SA's two-way trade with Africa, taking in the Southern African Customs Union, had increased dramatically over the past three years to R12bn, Department of Foreign Affairs director for Africa Justus de Goede said yesterday.

Speaking at a UCT Graduate School of Business Association function, De Goede said that in 1991 two-way trade increased by 20% to R6,6bn excluding the Customs Union following a 20% rise the previous year. These figures, he said, belied the view that the lack of finance in Africa inhibited trade.

The largest increase in trade had been with Senegal, Egypt and Cameroon, where "enormous jumps" had been achieved albeit off a low base.

A drawback was the fact that trade was skewed in favour of SA exports. Whereas the ratio was R4 of exports to R1 of imports in 1989, this had increased to R7 to R1 in 1991.

At present Zimbabwe was SA's biggest trading partner in Africa, followed by Mozambique, Malawi, Zambia, Mauritius and Zaire.

De Goede expected barter trade to be a significant portion of trade in future, with an exchange for oil being particularly important.

He said African businessman were keen to trade with SA, and 60 trade and business missions from African countries were coming to SA a year. His department was also promoting trade and business with 41 African countries.

Foreign capital 'waiting for political settlement'

BDay 24/7/92

ANDREW KRUMM

LARGE inflows of foreign capital — desperately needed to develop major projects and create jobs — would wait for a political settlement, said Investors Mutual Fund chairman HL Shill.

Reviewing unit trusts Sage Fund's and Sage Resources' results for the year ended March 1992, Shill said a political settlement would halt violence and strikes, and promote productivity and foreign interest.

"As we progress politically, the lifting of the last sanctions and the opening of additional markets for export should result. SA's access to World Bank and IMF finance should emerge and promote easier monetary policy as the need for a large current account surplus is diminished."

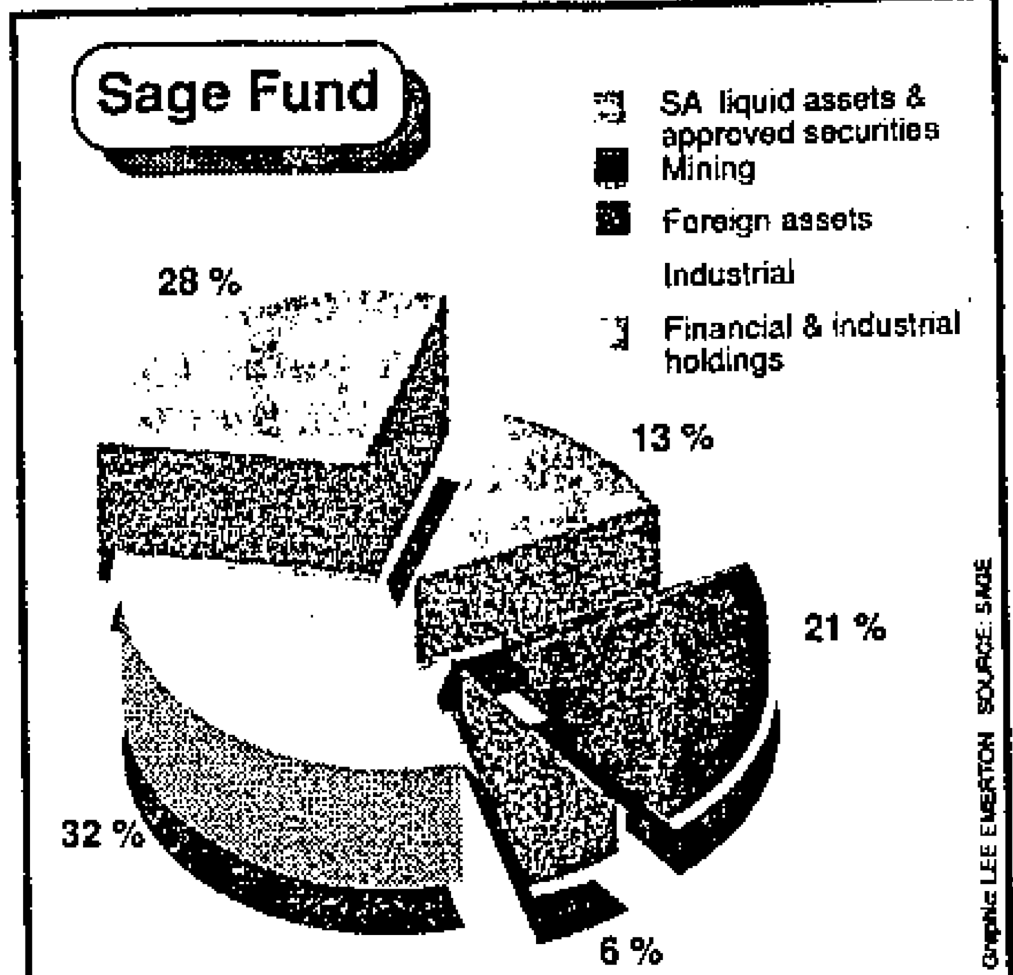
The outlook for the domestic economy was also dependent on political progress and a mild international recovery in 1992.

The domestic upswing would be delayed due to the effect of drought on agriculture.

"The R16bn budget deficit — at 4,5% of GDP — combined with the relaxation of HP restrictions and the lowering of bank rate shows governments attempt to stimulate the economy."

Meanwhile high levels of social expenditure would boost building and construction, while accelerated depreciation allowances to export industries should assist major capital projects.

Shill said the unit trust industry had continued to expand during the year. "Total industry assets rose by nearly 46% to pass the R12bn mark, while the number of unitholders' accounts increased 33% to exceed 1-million for the first time. The net inflow to the industry, which increased 39%, was a record R1,5bn."



Shill said Sage Fund posted a 29% return for the twelve months ended March 1992 and unitholders received 98,7c a unit. The Fund's total assets increased to a year-end record of R989,7m, while unit sales hit their highest ever at R101,5m. However, net inflow at R17,8m was substantially down from R58,7m in the preceding 15 months. "This was due to one institutional holder distorting repurchases with a large redemption."

Specialist unit trust Sage Resources — which focused exclusively on natural resources — only recorded a marginal net inflow. However, Sage Resources posted a return of 14,4% this year, substantially up from the -12,8% in 1991, reflecting the improved performance of the mining and resources sector, Shill said.

FM 24/7/92 (74)

Can SA become an international hub?

David Graham is the SA Foreign Trade Organisation's GM for international operations.

President F W de Klerk complimented Singapore, during his visit last month, on becoming "the Switzerland of the south-east Asian region." The question is: what can be learnt from the Singapore model to turn SA into a major international hub along the same lines.

There are a number of international hubs that operate like Singapore — Hong Kong, Dubai, Miami and Vienna, for example. An international hub is a centre that serves as a link to other countries which may be close geographically but quite different in terms of culture, religion, language, development, wealth and political philosophy. International hubs tend to have an excellent transport infrastructure, a high level of trading and distribution expertise, and sophisticated financial services and tourism facilities.

Singapore is a premier international hub for several reasons. It has:

- A long trading tradition and links many south-east Asian nations with suppliers and markets in the West;
- Outstanding port and airport facilities, coupled with one of the most dynamic airlines in the world. Changi is consistently ranked one of the top airports.
- A highly sophisticated international telecommunications network;
- A small but vibrant and technically advanced manufacturing base;
- A dynamic international banking sector free of exchange controls; and
- A remarkably successful tourism industry, with the emphasis on incentive travel, conferences, exhibitions and shopping.

None of this would have been possible without a pragmatic political relationship between Singapore and its neighbours, an effort by government in conjunction with the private sector to promote Singapore, an investment in infrastructure, and the creation of the legal environment necessary to enable Singapore to flourish.

The benefits are self-evident. The country grew at 7% a year in the Eighties and has a *per capita* income five times larger than any of its neighbours. It has been able to provide its population with employment, quality housing, medical services, public transport and education. It has also spurred growth in neighbouring countries.

Can SA follow this example? A hub does not necessarily have to be a city state. It could be a country such as Austria, which played a major role in linking West and East during the Cold War.

South Africans have long regarded themselves as being isolated at the bottom of a continent that is far from major markets in Europe, North America and Japan. This perception was intensified during the concerted international effort to isolate SA further during the sanctions years.

But with sanctions being lifted and isolation easing, SA now has the opportunity to join the select league of international hubs — if, at last, it can see itself as part of the broad international community and not just as a remote appendage of the West in the deep south of Africa. SA is the only country that can link the rest of the world with much of Africa, and the only country centrally placed between South America, Asia, the Middle East and Africa that can operate as the international hub of the South. In fact, Johannesburg is the most direct airline link between Singapore and Rio de Janeiro.

SA already has several key ingredients to become an international hub:

- It has a good transport infrastructure, as shown by the efficiency of ports such as Richards Bay and by the role that the railway network is playing in drought relief in southern Africa. Air transport is being liberalised, and, together with the lifting of sanctions, about a dozen more airlines are now flying into Jan Smuts. But if SA is to become an international air transport hub, Jan Smuts and the country's other main airports must be upgraded to the highest world standards. The half-hearted revamp now taking place at Jan Smuts will not do the job;
- It has a vibrant trading infrastructure, with about 30% of the foreign trade handled by trading companies. Many small- and medium-sized SA trading houses are well entrenched in markets elsewhere in Africa and are playing a significant role in developing two-way trade with SA's neighbours;
- It has a good manufacturing base, which plays a particularly important role in trade with the rest of Africa. But this area must be further emphasised;
- It has a good services sector, including forwarding and courier companies, travel organisations and a well-established insurance industry. SA also has a strong banking network, with substantial international representation. But the country's exchange control policy is probably one of the biggest factors inhibiting its development as an international hub; and
- It has excellent tourism potential and an adequate tourist infrastructure. SA is starting to attract international conferences and events, and local exhibitions are drawing international exhibitors and visitors.

So clearly the potential is there, but obviously two key missing ingredients are political stability and a long-term view of the country's future. If this vision is to become a reality, it should be adopted by a future government as the cornerstone of the country's international philosophy. It cannot succeed if it is not supported by both government and the private sector. And it will require a determination that individual policy decisions — such as on airports, tax laws, exchange control and visa requirements — should be made with reference to the broad objective of making SA the international hub of the South.

Of course, to put its economy on the right track, SA should follow all of these policy prescriptions — investing in infrastructure, reducing and simplifying taxes, eliminating exchange control, cutting tariffs and promoting exports to boost trade — regardless of whether there's a goal of becoming a hub. Hong Kong and other places did these things without any thought of becoming a hub; that was the happy result, not the goal. But goals help to concentrate the mind and making SA a hub is certainly a worthy goal.

WORLD MARKETS

Time for steady nerves

Massive intervention by 11 central banks this week propped up the dollar, reined in gold's gallop and brought some calm to the turmoil in world markets after the three-quarter-point hoist in the German discount rate to 8,75% — the highest level in 60 years.

As the *FM* went to press, gold was trading at US$357,40/oz in London, just off the $359,30 Monday afternoon fixing after hectic trading on New York's Commodity Exchange (Comex). US commodity funds, which had been nibbling speculatively at gold futures last week, charged in after the Bundesbank move rocked foreign exchanges and equity markets.

From an average daily turnover of 26 000 contracts (100 oz each), Comex trading leapt to nearly 67 000 on Friday and an estimated 55 000 on Monday when the central banks, led by the US Federal Reserve, stepped in to reverse the dollar's dive towards DM1,45.

The open interest in gold futures climbed another 5 566 contracts to 116 846, up about 30% since the end of June. But traders remain wary of producer selling into the rally — as the narrow contango (forward premium) indicates. The August 1993 contract at $371,10 on Comex was only 3,3% above the spot for the month.

Though penetration of the 200-day moving average makes gold stronger technically than at any time since the Gulf War, the lack of physical offtake — the price declined in terms of Deutschemarks, Swiss francs and sterling, though appreciating fractionally in yen — leaves it vulnerable to a selloff by funds holding long positions in futures.

However, the dollar's situation is far from secure. The Bundesbank was at pains to point out that the discount rate increase had not been matched by any change in the Lombard rate — which it charges banks for loans up to three months against collateral of bills and bonds to ease liquidity shortages — that has a more direct impact on the money market.

Indeed, Bundesbank director Otmar Issing insisted that a rise in the Lombard rate was "not implied." What, however, was implied was the Bundesbank's warning that it intends to keep a tight grip on inflation.

Thus, while the Lombard omission meant that, Italy apart, Germany's partners in the European Monetary System did not have to raise their rates, the chances of early reductions looked distinctly remote. Despite Issing's assurances, though, the markets are looking anxiously ahead to August 8 when the Bundesbank board will meet again.

It leaves equity and currency markets churning uneasily after a blood-letting two days. They produced near panic in Tokyo where the Nikkei Dow slumped by 7% before a tiny technical rally, while on Wall Street the Dow Jones industrial average lost 1,3%.

European markets were universally flattened. Led by London and Frankfurt, both off by 3%, the *FT* Eurotrack 100 slumped by 5%. Overall, the *FT*-Actuaries world equity index was 3% down after the worst run for markets since the August 1991 attempted coup against Mikhail Gorbachev in the Soviet Union.

On foreign exchanges, where the dollar dipped to DM1,455 (a 3% drop which threatened the post-war low of DM1,44 set last year), intervention brought a breathing space. The dollar was restored to DM1,49 and sterling eased from $2,95 to $2,91.

But, at Swfr1,31, the dollar showed barely any recovery from the 2% decline below Swfr1,34.

Even though US interest rates are believed to be as low as they can go, while those in Germany can only go lower, the anxieties and uncertainties which followed the American discount rate cut to 3% (*FM* July 10) remain as strong as before. ■

WITHHOLDING TAXES

Treaty troubles

The latest Income Tax Amendment Act enables some foreign companies to claim a refund of nonresident shareholder's tax (NRST) deducted from dividends paid by SA companies. An important section of the Act deals effectively with a contradiction between the previous basis of charging NRST to foreign companies and various double tax treaties. These treaties bind SA for tax purposes to — among others — Germany, Switzerland and The Netherlands.

Previously, a company registered in SA had to charge NRST on dividends payable to a company holding its shares and incorporated outside SA. This requirement effectively based the obligation to pay NRST on the nationality of the company in question. However, the double tax treaties in operation prohibit discrimination on this ground.

Notwithstanding, the deduction of NRST in these circumstances remained unchal-

Gold looks positive as markets stabilise

BDAY 24/7/92 (74)

MERVYN HARRIS

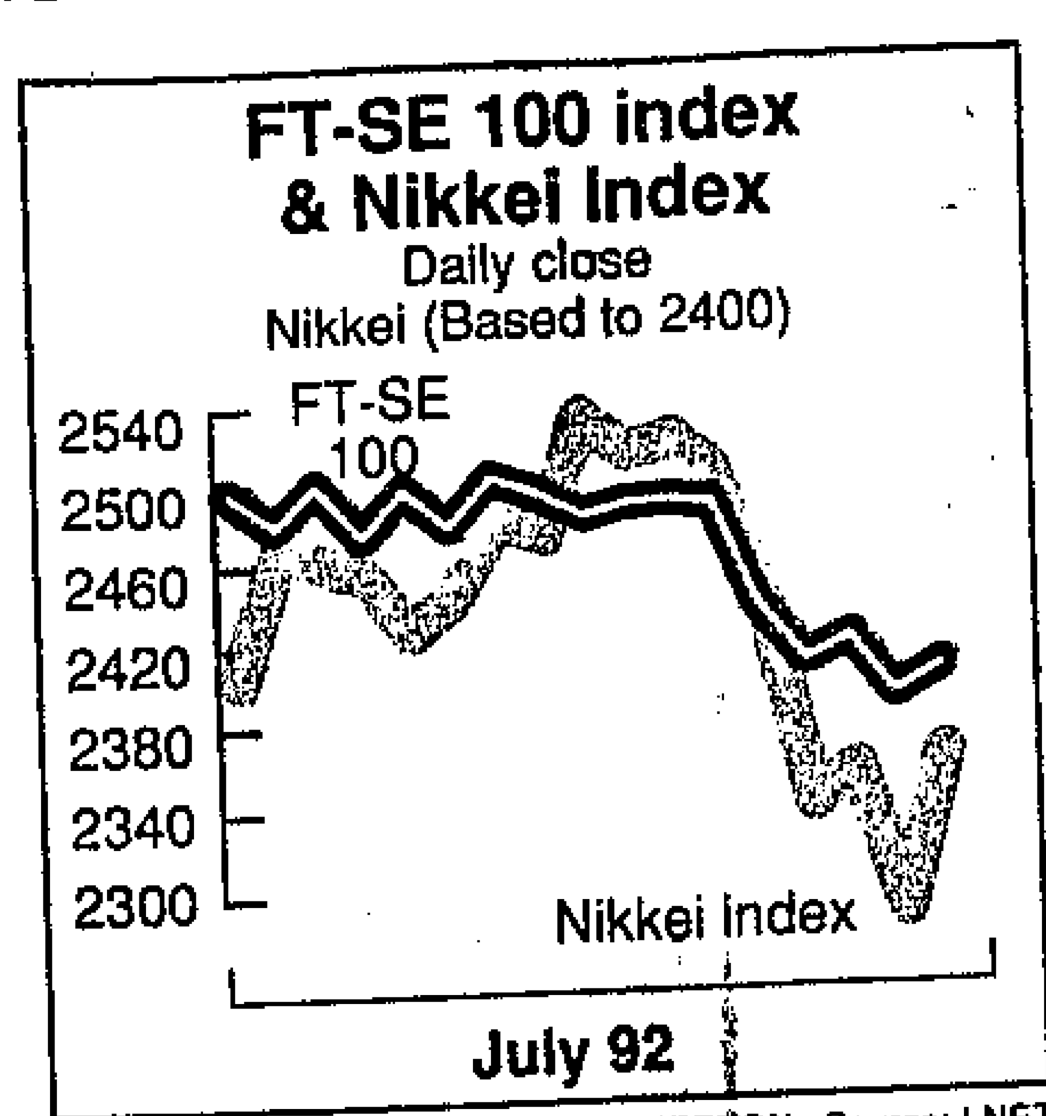
OVERSEAS share markets stabilised yesterday as buyers sought scrip at their lower levels after recent sharp losses, but the uncertain global financial situation supported precious metals.

Although gold came off a high of $361,10 in London to close 50c lower at $358,50, analysts said the outlook for the metal remained positive on the back of the weak dollar, falling stock markets, Gulf tensions and the likelihood of a general strike in SA.

The firm gold price overshadowed negative concern over the strike on the JSE yesterday but trading was thin as nervous investors adopted a cautious stance.

"The market was looking for a reason to go better after this week's shakeout and gold's rise in the morning made it a day that belonged to gold shares," a dealer said. The JSE all gold index rose 2,5% to 1 139 to help lift the overall index 19 points to 3 404.

Currency-linked shares were supported by a sharply weaker finrand which shed more than 1% to R3,94 to the dollar on news that talks between labour and business to avert the general strike had failed.



Graphic: LEE EMERTON Source: I-NET

The news helped lift platinum $6,50 to a London afternoon fix of $383,40 while palladium rose to its highest level in more than a year on Nymex to $90,75/oz.

The JSE industrial index firmed four points to 4 160 as the market took its cue from gold, a sharp rebound on Tokyo's Nikkei index and London's FTSE index clawing back to the 2 400 level.

Finrand to remain for a long time

S Times (BUSS) 26/7/92

By CIARAN RYAN

THE financial rand will carry on for the foreseeable future, says the Reserve Bank.

Its widening discount to the commercial rand — caused by violence and political factors — puts paid to hopes that the finrand will be abolished soon. The finrand discount narrowed to 8% earlier in the year, reflecting growing investor confidence in SA, but widened to 30% this week in relatively thin trade.

The finrand was knocked when Inland Revenue took steps to recover tax on interest earned by foreigners in February. It fell further after the Boipatong deaths.

Reserve Bank Deputy Governor Pierre Groenewald says: "We cannot consider abolishing the finrand until we have negotiated the next debt standstill agreement. The present agreement expires at the end of 1993.

"But even if we are in a position to do away with it, it is unlikely that we will."

Mike Brown, economist with Frankel Max Pollak Vinderine, estimates the size of the finrand market in liquid assets, such as money market instruments, at between R4-billion and R5-billion.

In addition, about 15% of all JSE mining shares, with a value of about R6-billion, and about half of Eskom stock are foreign-owned.

Direct foreign holdings in SA were estimated in the latest Reserve Bank Quarterly Report to have been worth $12-billion in 1986. They could be converted into finrands.

Mr Brown says: "As long as there is uncertainty about our debt, the finrand will stay. There was hope that SA's foreign debt in terms of the standstill could be reclassified as normal. But the chances of this have receded.

Maturity

"In terms of the third interim agreement, 20% of the capital must be repaid by the end of 1993. Debt falling outside the standstill agreement is paid on maturity."

At the end of 1991, debt in the standstill net was about $6-billion out of a foreign total of $18-billion.

There are fears that abolition of the finrand would expose the commercial rand, which is used for normal trading transactions, to volatile swings with each new political crisis. The finrand cushions the commercial rand from collapse brought on by waning investor confidence.

When the finrand discount narrowed to under 10% earlier in the year, the Reserve Bank indicated that it was reviewing its future.

The finrand is an investment currency used by non-residents. For every investor taking money out of SA, there must be another bringing money in.

The currency was reintroduced in 1985 after a three-year break to halt the flight of capital after PW Botha's disastrous Rubicon speech.

At a conference in Johannesburg this week, Trevor Manuel of the ANC indicated that his organisation favoured the retention of exchange control. This is an apparent about-turn after indications by the ANC that it favoured abolishing exchange control.

Some economists see this as a signal that the finrand will be retained indefinitely.

Pool

Nedbank chief economist Edward Osborn says there may be an alternative to the finrand: "We used to have a blocked rand mechanism which prevented anyone from disinvesting. Eventually the pool became quite large. The finrand allows non-residents to take their money out, but at a disadvantageous price.

"Nobody likes the finrand, especially the Reserve Bank. But we cannot think of removing it until the political situation is stabilised and there is a clear indication of foreign confidence in SA."

Net capital of about R30-billion has left SA since the mid-1980s, mainly to repay debt. Without the finrand the figure would have been much greater.

'Tariff restructuring is needed'

B/DAY 27/7/92

GAVIN DU VENAGE

A GRADUAL lowering of tariff protection would improve SA's competitiveness, Board of Trade and Industry policy director-general Johann Reinhardt said on Friday.

An Industrial Development Corporation (IDC) report on the need to increase competition constituted an important input to the process of tariff protection formulation, he said.

The report has yet to be released.

To promote economic growth SA had to be able to compete effectively in the export of value-added products on the world market, he said.

Tariff restructuring would be accompanied by incentives for investment, upgrading of machinery, innovation, training and retraining.

However, the process would be subject to SA's obligations under GATT. (74)

International tariff agreements would give countries the chance to capitalise on their particular competitive strengths, he said.

GATT would remain the driving force behind SA's tariff policy, especially in view of the requirements after the Uruguay round.

Restructuring would also be subject to a range of conditions, including the threat of job losses and the need for upgrading skills and anti-dumping measures.

He said the DTI would work in close consultation with interested parties, and would be managed partly by the IDC, the Board of Trade and Tariffs and the Department of Manpower.

Australian official moots aid programme for SA

TREVOR BISSEKER

CANBERRA — World governments, the IMF and World Bank should do something positive to help SA when financial sanctions were finally lifted, a top Australian official said at the weekend.

Treasury Secretary Tony Cole, who chaired a committee in 1988 which devised the basis for the British Commonwealth's financial sanctions package, said it was difficult to see SA's political transition going "entirely smoothly".

"The need for capital will be immense," he said. "Official flows will be needed for comfort programmes like education, and these should point the way for unofficial finance to be used for development."

Australia still imposes trade and financial sanctions, in line with the Commonwealth's official standpoint taken at the organisation's Harare summit.

Trade and investment will be permitted when there is agreement in SA on transitional arrangements, and financial barriers will go when a democratic constitution is drawn up.

"At this stage, the Australian government says 'OK' to notebooks, but not to cheque books," a department of trade official said.

Asked about the role Australia could play when financial sanctions were removed, Cole said his country could work through the boards of the IMF and World Bank. It could lobby "to get them to do something for SA".

It could also establish a "facility capacity" at its embassy for potential traders.

Cole expected Australian companies to be anxious to establish a presence in SA. Mining companies would be looking for business and wine companies might also be interested.

It would be natural for Australia and SA to renew their old ties. "We would not have felt so strongly about events in SA if it had not been for the kinship," said Cole.

The trade department in Canberra receives about 10 calls a day about possible trade with SA. However, the Australia-Southern African Business Council expected 100 people at a recent meeting here, but only 30 turned up.

Record number for exhibition

GAVIN DU VENAGE

A RECORD number of foreign exhibitors will be at the SA International Trade Exhibition (Saitex) in October next year.

More than 40 countries were expected to participate and 24 had already booked space, said Saitex marketing manager Pep Joubert last week.

Countries which still enforced trade sanctions against SA had signed up in anticipation of restrictions being lifted within the next year. Companies would be looking for local agencies and joint ventures, and a few would be seeking investment opportunities.

US anti-trust expert calls for war on monopolies' barriers

BDAY 27/7/92 (74)

TIM COHEN

PRETORIA — SA ought to "declare war" on the many barriers which still restrict businessmen from entering various markets, US anti-trust legislation expert Thomas Krattenmakker said at the weekend.

In a discussion with representatives from a broad variety of SA organisations conducted by satellite link-up, Krattenmakker said the necessity for anti-trust legislation could be minimised by scrapping legislation restricting entry into the market.

Krattenmakker, a professor of law at Georgetown University, said during the discussion sponsored by the US Information Service that anti-trust legislation should be aimed at achieving specific ends, and not used in a "scatttershot" way to achieve political or social policy ends.

However, anti-trust legislation could well have positive spin-offs.

For example, if it was decided that a preponderance of large companies increased the risk of discrimination in the workplace because fewer discriminatory practices would involve more people, then legislation specifically addressing this problem should be introduced.

Anti-trust legislation might well reduce the size of companies, but its primary aim should be to allow the consumer, rather than the producer, dominance in the market.

He said the necessity for anti-trust legislation would also be reduced by allowing foreign competitors to enter the market.

The SA government should also adopt a firm commitment to not allow mergers to take place which would give companies undue market dominance.

Regarding the definition of monopolies, he said a company's market share was an inappropriate method of determining whether it was a monopoly. A company with 90% of the market could conceivably not be a monopoly, while a company with 30% of the market could be one.

On the question of tacit collusion between companies — a feature of SA's small economy often dominated by only a few companies in a particular sector — Krattenmakker said there were ways of detecting and combating this problem.

'Africa must not block imports'

BIDAY 28/7/92

MICHAEL HARTNACK

HARARE — For the sake of a better future, African economic groups must look outwards and not block imports, Zimbabwe's leading economist Prof Tony Hawkins said here yesterday.

The head of business studies at the University of Zimbabwe said it was impossible to talk of all sub-Saharan Africa as a single unit, but it was conceivable that West Africa, southern Africa and East Africa might separately group together around Nigeria, SA and Kenya.

"Bear in mind that the critical thing is to make it outward-looking, rather than inward looking — trying to keep out imports," he said.

Hawkins said for real regional co-operation to develop, governments had to relinquish power and autonomy, which they were most reluctant to do.

"You have to have a cultural change," he said, noting Africa's record of creating inefficient parastatal monopolies behind tariff barriers, which can act as vehicles for politicians to create "patronage" jobs.

Hawkins said fear of post-apartheid SA dominating a regional grouping seemed more prevalent the closer countries lay to Pretoria.

SA and Kenya welcomed the prospect of co-operation, but neighbouring Zimbabwe feared for its manufacturing industries, noting SA's major advantages of scale and technology.

Experience suggested the sub-Saharan problem lay with weak, inefficient implementation of reforms, he said.

He attacked dependence on commodity exports, noting that as the developed world's high-technology industries became more efficient, they required less and less raw materials, meaning depressed prices.

Obstacles remain to economic integration

BIDAY 28/7/92

HILARY GUSH

ALTHOUGH ample opportunity had arisen from the end of political constraints on SA trade, there were still many obstacles to SA's reintegration into the world economy, a visiting UK academic said yesterday.

Jesmond Blumenfeld, of Brunel University in West London, is a Bradlow fellow of the SA Institute of International Affairs and is in SA to finalise a paper on incorporating the domestic economy into the international arena.

"SA has a long history of state intervention in resource allocation. Shedding this history will be very difficult regardless of who is in power or what government the new SA has," he said.

Industrialisation had always been subject to political manipulation and the attainment of international competitiveness was a complex task. Manufacturers still imported an overwhelming majority of their capital goods, intermediate goods and spare parts, he said.

Although a stable political settlement was needed to attract foreign investment he cautioned against the belief that this was all SA needed to regain its position in the world economy. Structural problems also plagued the domestic economy.

A highly competitive international capital market made it difficult to attract investment. This constituted a chicken-and-egg situation: foreign capital would not flow back into SA until political and economic stability was guaranteed. This, however, could not be achieved until there was investment.

Blumenfeld said there was a conflict between job creation and the kind of goods SA could produce competitively for export.

The manufacturing industry was traditionally capital intensive: the price of capital relative to labour was still cheap and it would be difficult to reverse this trend and generate labour-intensive practices.

"The cliche that SA is the gateway to southern and central Africa is certainly true and the contribution of export earnings from the regional market should not be knocked.

"On the whole central and southern African countries are poor and thus SA's reliance on the regional market for salvation is dubious," he said.

Blumenfeld was sceptical of the success a regional common market would have; trade relations with African countries would continue on a bilateral basis.

He hoped SA's neighbours would become exporters of commodities besides migrant labour, water, live animals and electricity. Financial sanctions which had prevented SA's return to international capital markets were still in place.

This was clear from the inability of the World Bank and IMF to lend to the SA government.

Blumenfeld cautioned that an end to financial sanctions would not lead to a huge inflow of capital, although funds for infrastructural projects and technical assistance would become available.

He suggested that export incentives should be moved avay from those set out in GEIS and towards supply-side measures. Rebates on training programmes and substantial investment in human capital were examples.

Past atrocities are haunting Mugabe

MICHAEL HARTNACK

HARARE — Escalating fury over the discovery of bodies in disused mineshafts threatens to undo all President Robert Mugabe's recent efforts to revive political support in Matabeleland for his government. BIDAY

The controversy over the bodies — believed to be opposition supporters killed by government troops — has overshadowed Mugabe's recent tour of Zimbabwe's western provinces — once the stronghold of former Zapu leader, vice-president Joshua Nkomo.

Mugabe travelled around promising land to drought-stricken peasants, but the tour was plagued by the revival of memories of the 1981-87 Matabeleland unrest when thousands were killed.

Churchmen have appealed to SA's Archbishop Desmond Tutu to join them in a march to Antelope mine in memory of all opposition supporters allegedly killed by Mugabe's security forces. Most atrocities were blamed by Amnesty International on his North Korean-trained Fifth Brigade. 28/7/92

Churches have demanded an apology to the people of Matabeleland for the victimisation of civilians during the violence that preceded Mugabe's 1987 unity pact with Nkomo, payment of damages for burned homes and businesses, and support for orphans.

They also want publication of a report on the atrocities — kept secret by Mugabe for the past seven years — prepared by former chief justice Enoch Dumbutshena. BIDAY 28/7/92

The Zimbabwe Human Rights Association at the weekend called for a new inquiry into all cases of those who died in mysterious circumstances.

Board preaches competitiveness

(374) BDay 28/7/92

EDWARD WEST

THE Board of Trade and Industry (BTI), now the Board of Tariffs and Trade, would like to see import tariffs simplified and lowered, no formula duties, the phasing out of rebates and less freqent tariff changes, former chairman Lawrence McCrytal said in his 1991 annual review.

The board's last annual report under the BTI name continued to propogate its view that SA's manufacturing sector should become more internationally competitive.

An effective anti-dumping mechanism should also be put in place.

Opposition could be expected at the implementation stage of such a strategy, but the board was convinced this was the course SA would have to follow if it was to survive as a reasonably stable economic entity.

He slated industrial protectionist policies by saying "even in recent years the general view has been that import replacement should continue to be promoted simultaneously with a more outward orientated policy, despite the fact that these are conflicting policy objectives".

SA's customs tariffs were not unduly high compared with many other developing countries. However, certain tariff peaks were excessively high while the tariff structure was far too complicated, he said.

SA's manufacturing sector contracted by 2,7% in real terms last year.

Manifest

Merchandise export volumes, excluding gold, grew by 4,4% in 1991, but the volume of manufactured goods grew by only 2,2%. Manufactured goods represented 28% of exports. Merchandise import volumes rose by 5,2%.

A trend towards a more rapid growth in exports of manufactured goods started to manifest itself.

The average effective exchange rate of the rand fell by 6,3% in 1991. Because the rate of increase in SA's consumer and producer prices far exceeded those of its trading partners, the competitive position of SA producers deteriorated.

☐ Our Cape Town correspondent reports nearly 70% of manufacturers in the western Cape expected no improvement in the economy for at least a year, according to a survey carried out by the Cape Chamber of Industries (CCI).

This has shown that 38% expect an improvement in 12 months' time, 30% think it will take 18 months and 20% expect it to take even longer.

Political uncertainty and the threat of mass action emerge as the main reasons for this gloomy outlook, together with the fact that so many firms have gone to the wall during the prolonged recession.

CCI deputy director Colin Boyes commented yesterday: "The situation has definitely deteriorated further, with talk of a recession being replaced with talk of a depression and the most severe economic crisis since the Second World War."

The survey showed that only 5% of respondents were finding business good at present, compared with 45% who found it fair and 50% poor.

Rich pickings expected from Russian trade exhibition

Finance Staff 74

SA's debut trade exhibition in Russia, which took place in Moscow earlier this month, could result in firm export orders worth R30 million.

Edward Pinshow, whose company Edhill International organised the exhibition, Sovex '92, says SA companies received inquiries for equipment worth up to R100 million.

"In addition to inquiries and orders, at least nine of the 38 SA exhibitors are looking at entering joint ventures with Russian enterprises." STAR 29/7/92

The exhibitors drewing the most interest were those in the food, consumer goods, packaging and capital goods industries.

"We never realised just how big the potential market is in Russia and the CIS for a wide variety of SA goods and services," Mr Pinshow says, adding that two-way trade between SA and the CIS could become quite substantial over the next few years.

Next year's Sovex exhibition will probably be held in Moscow for three days and then in Kiev or St Petersburg for a similar period.

Call to exclude excise duties from customs agreement

BDAY 30/7/92 (74)

TIM COHEN

PRETORIA — The SA Customs Union agreement, which makes significant contributions to the budgets of some of SA's neighbours, needs to be fundamentally renegotiated, says Stellenbosch University academic Prof Colin McCarthy.

McCarthy told participants in a workshop on economic integration this week that excise duties should not form part of the SA Customs Union agreement.

He also said the agreement needed to be more flexible and that the union needed a permanent secretariat.

The agreement, one of the oldest operating customs unions in the world, pools and distributes, according to a complex formula, the collective tariff and excise income from SA and the BLSN countries (Botswana, Lesotho, Swaziland and Namibia).

The formula is weighted in favour of the BLSN countries which, in addition to other benefits, get 42% more than their proportional contributions.

In 1992/93 the four countries received a total of about R3bn against R2bn two years earlier.

McCarthy said the BLSN countries were sufficiently heterogeneous to justify different treatment within the union. For example, Botswana, which had reduced its dependence on union revenue to less than 15% of current revenue during the 1980s, was clearly in a different position to Lesotho, which still received about 60% of its current revenue from the union.

The inclusion of excise duties in the revenue pool was "incongruous", he said.

"The fiscal problems of the new SA, in the face of the need to address the expectations of the poor majority, will leave the democratic government with little option but to use fiscal resources to their fullest, especially a progressive indirect tax such as excise."

With close economic co-operation facilitated by a permanent customs secretariat, the harmonisation of macro-economic and industrial development policies could become a distinguishing feature of the customs union, he said.

Economic integration worked only if all participants benefited, although SA in particular would have to accept that equality in the distribution of benefits was unlikely and its benefits were likely to develop only in the longer run.

SA in minor league

STAR 3/7/92. (74)

A new global survey has allowed South Africa to compare itself with world rivals in terms of economic competitiveness. South African businessmen have already experienced a number of rude shocks. But a team of experts has formed a new think-tank to search for solutions, reports MICHAEL CHESTER.

THE INITIAL reaction of South African businessmen to the removal of the sanctions blockade and an end to political isolation was a wave of euphoria. But the return to the international economic mainstream has also exposed them to a number of rude shocks.

Shocks have come in an avalanche in a new global survey that measures the economic competitive muscle of all the main players in world trade.

The survey is the latest in an annual series compiled by the International Management Institute (IMD), based in Switzerland, and the World Economic Forum. South Africa, shunned until now, has been included for the first time — and the no-nonsense analysis has made South Africans squirm.

Rules the roost

At least South Africa has been saved the embarrassment of direct comparison with 22 advanced industrial nations in the big league of the Organisation for Economic Co-operation and Development, where Japan rules the roost in competitiveness, followed by Germany.

Instead, more appropriate to its economic size, South Africa has been listed among 14 entries listed as newly industrialised countries alongside nations like Taiwan and Mexico.

Even here, though, it has been shuttled into the bottom half of the table.

South Africa trails way behind rivals such as Singapore, Taiwan, Hong Kong, Malaysia and South Korea in ranking averages. It also trails behind Thailand and Mexico.

"It may sound a little better if you leave SA in the bracket of 14 countries below the list of 22 front-runners," says Dr Paul Strebel of the IMD.

"However, SA's position as a contender in international competition looks a lot sadder when it turns out as low as 29th in an overall list of 36 rivals in the battle for status."

The low ranking has caused shudders to run down the spine of business leaders who realise the urgency of South African needs to face the blunt facts about its economic performance and somehow carve a bigger niche in world trade.

Fortunately, once it is remembered that South Africa is classified among the truncated list of 14 smaller competitors, the country does not fare all that badly in all aspects.

For example, it comes out a respectable fourth among the 14 countries for its talents in running financial services. Also, it makes fifth place for its prowess in science and technology — earned by its advances in areas such as deep-level mining, transport, electricity generation and oil-from-coal processes.

In addition, South Africa reaches seventh place in comparisons of management talents and the level of infrastructure and natural resources.

What drags it down in the rankings is the poor performance of the Government, whose economic policies up to now, according to the analysts, have been counter-productive when it should have been playing a crucial role in providing an environment in which the economy could flourish.

Next, SA tumbles to 10th position in what the survey calls internationalisation — global economic and investment links and a sense of being a global player in the world arena.

It sinks to 12th slot in the measurement of its basic domestic economic strength — the vital factor in growth prospects, job creation, social welfare and export muscle.

But South Africa hits rock bottom, with the worst score of all, when it comes to what the survey calls the "people factor" — which means the mobilisation of human resources.

Among the first findings is that South Africa ranks lowest of all among the 14 countries in expenditure on education and "least meets the needs of a competitive economy". Adult illiteracy is worse only in India, Pakistan and Indonesia.

SA was found to be shortest of all countries in the supply of skilled labour to its workforce. Only Thailand and Indonesia were turning out fewer qualified engineers. Only Indonesia was creating fewer competent new senior managers.

South Africa has also been badly stung by disclosures that it ranks at the absolute bottom of the table when it comes to equal opportunity in jobs.

"Race and family background are seen as posing immense employment handicaps in our society," says Barlow Rand group human resources executive Alan Tonkin. "Only Mexico, Korea and Pakistan provide fewer career opportunities for women."

Mr Tonkin has also found that South Africa ranks lowest in worker motivation — in sharp contrast to the dynamism shown by rivals like Singapore and Taiwan.

South Africa has also been given the sad distinction of sharing a slot with Brazil among the countries with the biggest gaps of all in the disparity between high and low-income earners.

"Our apartheid policies have given birth not only to an income gap but a mighty social chasm between sections of our population," says Mr Tonkin.

Concerned about finding solutions, rather than sinking its head in the sand and wishing all the problems would vanish, the Barlow Rand industrial empire has taken the lead in bringing together a team of experts in a think-tank prepared to confront the headache and start the search for remedies.

They have been joined by equally concerned executives from such huge enterprises as Transnet and Eskom, plus experts from the Council for Scientific and Industrial Research and the Nedbank/Old Mutual research unit. They also hope to bring in representatives from the trade unions to find as wide a discussion base as possible.

The whole team has trekked off to the eastern Transvaal to hold a bush indaba that they hope will create the framework of a brand new action programme to push the economy into higher gear.

Strengths

"South Africa clearly has many weaknesses, but also many potential strengths that should be exploited" says Professor Alden Lank of the IMD research team.

"One of the first priorities should be attention to the 'people factor'. Western Europe, with too many different languages and too many different cultures to count, is creating one of the biggest single economic units on Earth with unification inside the EC.

"Why can't South Africa see similar benefits in blending all the best features from each segment into a widely diversified collection of cultures and talents? Instead of talking about divisions, South Africa could become the crucible to use the diversity of its society to create an economic model that could be the envy of the whole world," the professor says. □

How SA shapes up to world competitiveness

Newly industrialised economies

1 Singapore
2 Taiwan
3 Hong Kong
4 Malaysia
5 Korea
6 Thailand
7 Mexico
8 SOUTH AFRICA
9 Venezuela
10 Indonesia
11 Brazil
12 India
13 Hungary
14 Pakistan

SA's overall ranking

Finance 4
Science & Technology 5
Infrastructure 7
Management 7
Government 10
International 10
Domestic Economy 12
People 14

World's top 22

1 Japan
2 Germany
3 Switzerland
4 Denmark
5 USA
6 Netherlands
7 Austria
8 Sweden
9 Ireland
10 Finland
11 Canada
12 Belgium/Lux
13 United Kingdom
14 France
15 New Zealand
16 Australia
17 Norway
18 Spain
19 Italy
20 Portugal
21 Turkey
22 Greece

Graphic by Liz Warder

US puts SA's economic aid on hold

SIMON BARBER

WASHINGTON — The Bush administration has decided to defer any economic assistance for SA — beyond the $80m-a-year package already in place — pending the installation of an interim government.

In particular, the White House is holding back on its promise to endorse SA's access to IMF balance-of-payment support. It says it will wait "until the political-transition process in SA permits".

The administration is also suspending efforts to persuade state and local authorities to repeal penalties on firms that do business with SA until an interim government is in place. BIDAY 31/7/92

This is the thrust of a July 18 letter sent by US President George Bush's national security adviser Brent Scowcroft to former House Africa subcommittee chairman Howard Wolpe. Scowcroft was replying to a letter sent to Bush and co-signed by Wolpe and 174 colleagues asking the administration to put pressure on Pretoria to meet the ANC's demands on violence and constitutional voting majorities.

The shift is designed not only to head off any new sanctions drive by Wolpe, but to increase the leverage of those who desire a speedy resumption of talks on transferring power to an interim goverment.

The letter outlines economic carrots

☐ To Page 2

(74)

Aid deferred

BIDAY 31/7/92 (74)

☐ From Page 1

which Scowcroft says "could serve as a further incentive to move quickly to implement nonracial democracy".

The only new item on the list is a proposal to augment the US Agency for International Development's existing five-year, $30m black housing programme with official loan guarantees to encourage US private lending for low-income home construction at competitive interest rates.

A similar guarantee programme to reduce the risk of lending to black-owned businesses is also under consideration.

In neither case has the amount of the guarantees been decided.

Once an interim government is in place, the US government will take the following steps, many of which Bush announced as a "done deal" at the time of the white referendum last March.

The Treasury Department will be notified that SA no longer "practises apartheid" so that the US representative on the IMF's board will no longer be bound by the 1983 Gramm Amendment to veto SA borrowings from the fund automatically.

Likewise, the US will actively encourage the World Bank to "increase its involvement" in SA and "assume the lead in coordinating an international effort to provide assistance to the country".

The US Overseas Private Investment Corporation will enter negotiations on a bilateral agreement with the new government to enable the corporation to provide insurance cover for US investors against expropration and related losses.

Although SA firms may already seek loans from the US Export-Import Bank to purchase US capital goods, a number of restrictions still apply to SA borrowers. These may be eased.

US officials are at pains to stress that, in real terms, the assistance will be relatively limited and that the US will not be significantly expanding the budgeted $80m.

"It's very dangerous for any party in SA to assume that the world is going to come swooping in and take care of their material needs. Their best hope is still the private sector," a White House official said.

Our Political Staff reports from Cape Town that the ANC has given qualified approval to the announcement that the US plans initiatives to support an interim government in SA. While ANC information and publicity spokesman Carl Niehaus said the ANC would study the proposals before responding, he added anything that would bring government to realise full democracy was needed would be welcomed.

WORLD ECONOMY FM 31/7/92.

Sins of the past

Past experience offers few guidelines for patchy global growth

The world economy has a distinctly liverish look. Few reactions could have been more jaundiced than that of the Tokyo equity market to the Bank of Japan's widely flagged half-point discount rate reduction to 3,25% on Monday.

The fifth cut in a little over a year from 6% — almost tracking the US Federal Reserve's path — comes in tandem with US$88bn in advanced fiscal spending. Officially, it is designed to help Japan meet its 3,5% growth forecast for the year to the end of March 1993 and appease US protectionist grumblings. Few think it has much chance of bettering 2% and the OECD projection for calendar 1992 is only 1,8%.

The secondary objective, though denied by the Bank of Japan, was to stop the equity rot which, combined with slumping property values, is wreaking havoc with bank balance sheets and the banks' capacity to lend. At the time of writing, Japan's move had failed on this count. The Nikkei Dow index rallied by more than 400 points but then collapsed — ending Monday a net 125 points off at 15 373, another six-year low.

It was a performance which underlined the irony of the world economy as things stand in the second half of 1992.

The slowdown was unlike its predecessors of 1974-1975 and 1980-1982 which had a common cause — soaring inflation inflicted by the first and second oil price shocks. It was relatively gentle and confined largely to the "Anglo-Saxon" economies of the US, UK, Canada, Australia and New Zealand.

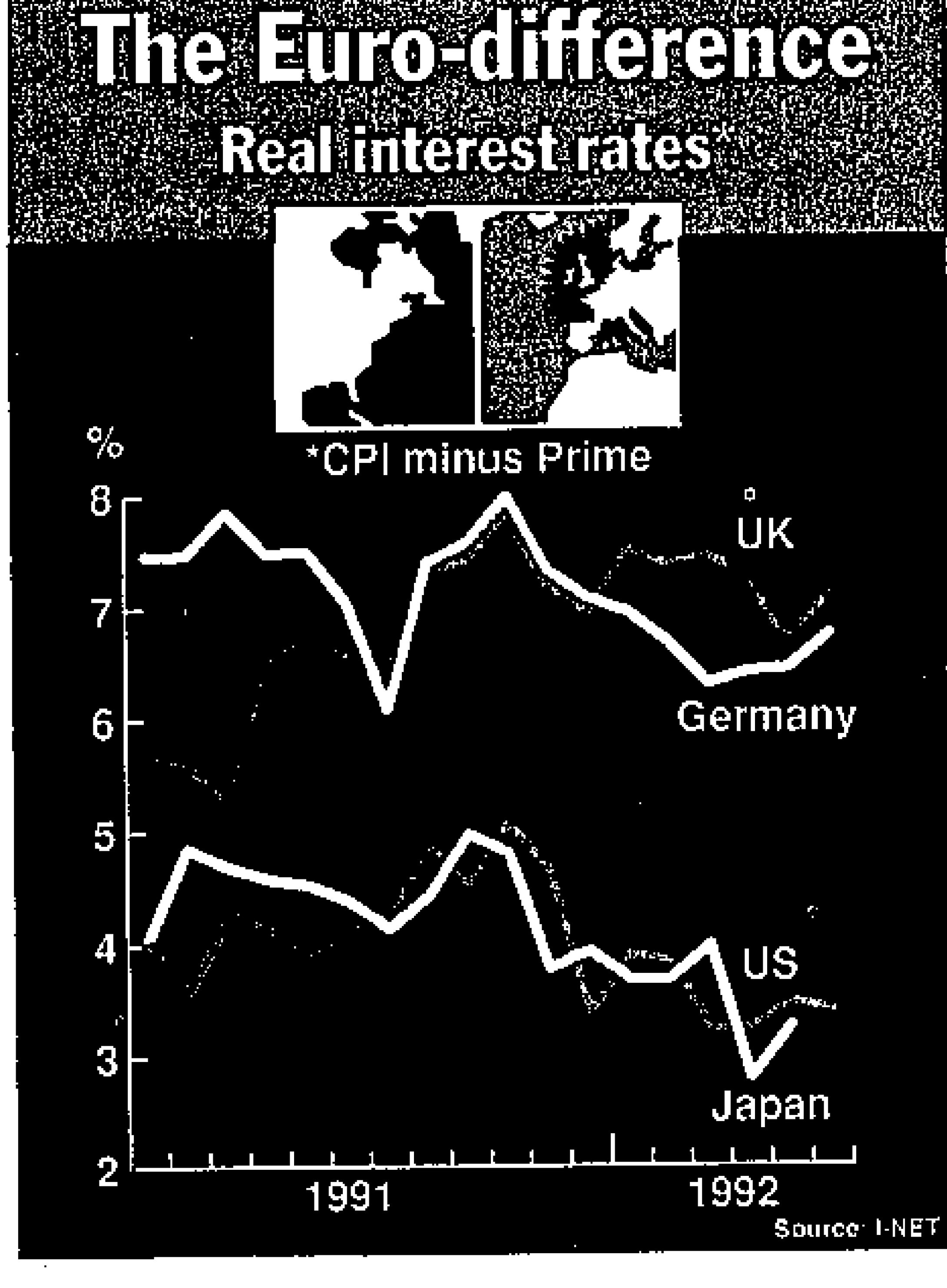
In 1975, the Group of Seven economies registered zero growth in real gross domestic product and in 1982, the aggregate contracted. Last year, the G-7 achieved a rise of 1% — as did the total of the OECD's 24 member nations.

It is the projections for recovery which highlight the real differences. After several downward revisions, the OECD is projecting 1,8% growth this year followed by 3% in 1993. But the last 18 months of prognosis versus events have not been reassuring. Independent economists are looking for up to half a point less during both periods.

The conditions and ailments of the patients vary — and the global problem is that they are out of synchronisation. North America, Britain and the Antipodean economies went down first but their attempts to revive are hobbled.

Germany's re-unification hangover and the determination of the Bundesbank to halve inflation to somewhere near 2% is imposing high real interest rates on the whole of Europe through the exchange rate mechanism of the European Monetary System (EMS).

Japan is weak. Industrial production was 9% down in May — the eighth successive month of decline — and the build-up of inventories continued as the Bank of Japan "Tankan" survey showed business confidence to be at a five-year low.



At the edges, the dynamic economies of the Pacific Rim remain relatively buoyant. Even though they have slowed slightly, Korea, Taiwan, Thailand, Malaysia and Singapore will keep the Asia-Pacific group clipping along at around 5% this year and next.

And the main Latin American economies, led by Mexico, are forecast to sustain growth close to 3% and improve on that in the next calendar year.

However, in global terms, this will be offset by the drag of the ex-communists of Europe and the Commonwealth of Independent States. Poland, Hungary and Czechoslovakia, which are leading the transition race, are starting to achieve positive growth, but their contribution will be wiped out by a 17,5% drop in output of the CIS, according to IMF estimates, which has suffered a cumulative slump of 33% since 1989.

It is the limp-wristed nature of America's rebound which is causing most concern. But it was no surprise to the OECD's half-yearly assessment, which noted: "From the outset, the US economy was not expected to exhibit a sharp recovery, given the shallowness of the recession, the limited scope for short-term fiscal support in view of the Federal budget deficit ($350bn) and high indebtedness of the business and household sectors."

There are bright spots. With fixed rate 30-year mortgages down to 8,4%, housing starts are expected to resume the sharp pick-up they showed in the first quarter. Car and truck sales are 21% up on last year with buyers increasingly turning to leasing instead of instalment credit — which helps to explain the slow growth of broad monetary aggregates. Sales of white goods are also up.

Exports, helped by the drooping dollar, remain a source of strength but growth is flattening in line with the deceleration in Europe and Japan.

The black spots are employment, defence spending (down by 8%) and the collapse of commercial construction where surplus space has seen activity almost halved in two years with little hope of early improvement.

Employment provides the most anxiety. At this stage of the cycle, American nonfarm payrolls usually rise by more than 200 000 a month. But, after the spurt of the first quarter, when GNP ticked up by an annualised 2,7%, employment has been waning and the June shock of a fall of 117 000, lifting the jobless rate to 7,8%, brought the rapid response of the Fed's discount rate cut.

Job insecurity is the factor identified as the main cause of feebleness.

Another complaint is the record gap between interest rates. While the banks are borrowing at 3% (for certificates of deposit), hitting savers' incomes, prime rate is 6%. And Treasury long bonds remain stubbornly high at 7,6% with corporates at 8,3%.

The result is that banks have stepped up purchases of Treasury bonds — secure assets which do not require 8% capital backing. Since the beginning of 1991, banks' holdings of Treasury stock have risen 50% to $599bn, almost equal to their industrial and commercial loans of $602bn which are down by $42bn.

This has helped to restore banking margins and has less effect on large corporations which have used the strong stock market of the last 18 months to refinance balance sheets: net equity issues have amounted to over $75bn and low rate convertibles have been popular. But smaller, high-growth firms are impaired.

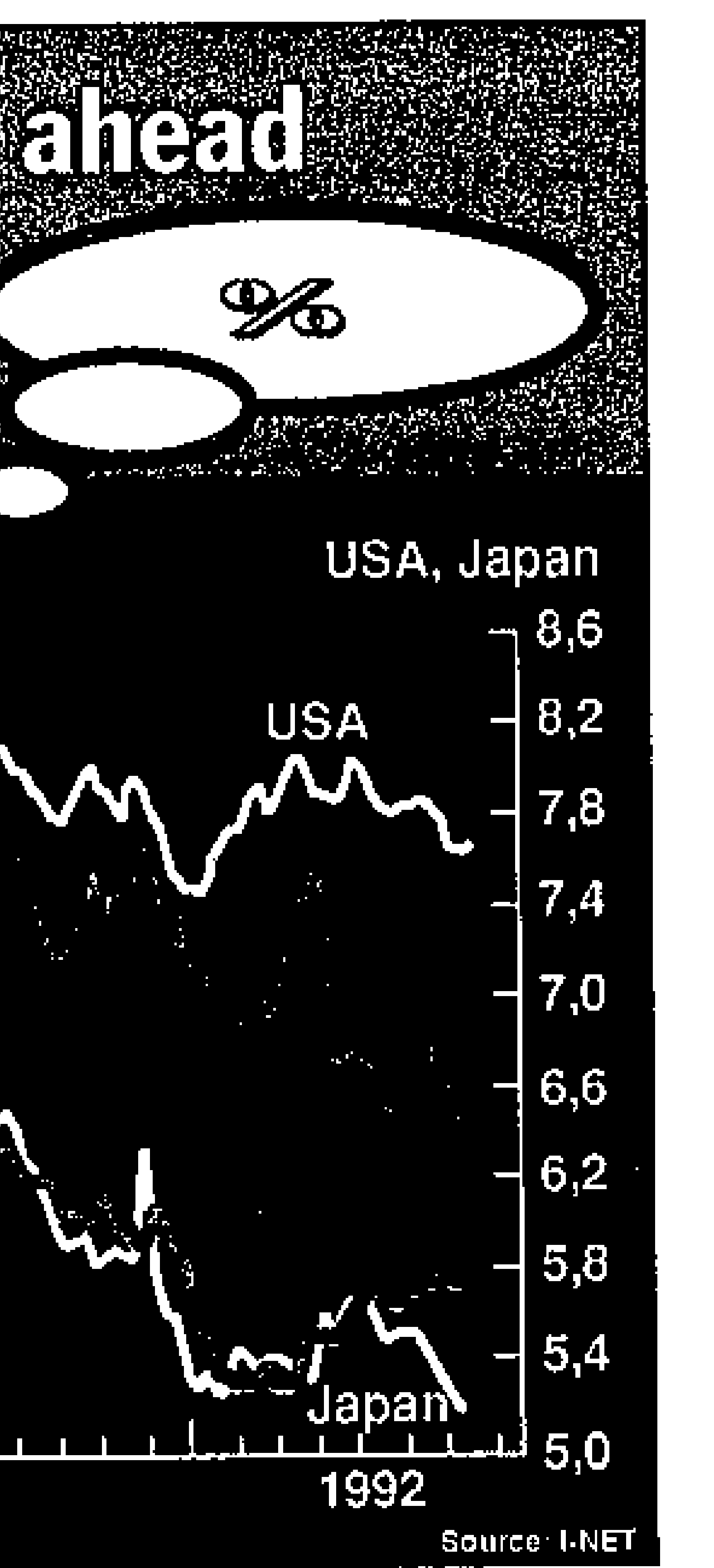
One reason for the wide gap between short and long rates — apart from the relentless need of the Federal deficit — derives from the troubles of the Japanese banks. Half of their capital base (the so-called Tier 2 level) has been horribly eroded by the Nikkei

continue

Dow's 61% drop over the last 31 months.

With the index below 16 000 — and non-performing loans secured by property estimated at a minimum of $60bn — the Japanese banks are retrenching to meet the Bank for International Settlements' capital:asset ratio requirement of 8%. That has seen their overseas assets fall by $190bn last year — after increasing by $150bn in 1990 — and they have sold a net $30bn worth of US Treasury bonds.

The fragility of Japan's banks is possibly the biggest angst factor affecting the economy, which explains why the government is so anxious about the Nikkei Dow. With corporate profits falling for the second year, capital investment, which more than halved to 6% last year, is showing negative growth of nearly 2% in 1992. It is the biggest depressant on the economy.



Europe's current and fairly mild woes are partly of German origin. While the Bundesbank left alone the market-sensitive Lombard rate and enabled the EMS currencies to hold their interest rates, it put a floor under money costs and a ceiling on growth aspirations. This is especially true of Britain, the European Community's weakest partner, struggling to emerge from the deepest, and largely self-inflicted, decline since the Thirties.

After last year's 2,2% contraction, the UK has parallel problems to those of America: high and rising unemployment, a depressed property market (domestic down by 25%, commercial by 40% since the end of the boom), banks riddled with bad property debt and a government paralysed by a public sector borrowing requirement which has risen by a factor of seven to nearly 5% of GDP.

And even though inflation is on course to fall to 3,5%, Britain's monetary hands are tied to interest rates of around 10% so long as it sticks to the existing parity of sterling within the EMS. Instead, the UK will have to sweat out a third grim year in succession with the official estimate of 1,5% GNP growth abandoned and the likely outcome between zero and 0,5%. Given the long lag between an upturn in job creation and the bottom of recession, unemployment may be more than 10% next year. One recent survey showed that 26% of all UK firms are at risk.

Even if the OECD growth projection of 2,6% is achieved in 1993, a continuing high Budget deficit will impose tight fiscal requirements on government.

By comparison, other European leaders endured a soft landing last year and are pulling up steadily. France is on course to follow last year's 1,3% GNP growth with 2% this year and 2,6% to come. Italy, after stagnating as it wrestles with its chronically high budget deficit (11% of GDP), is projected to improve from 1,5% to 2,1%. Spain has lost some of its developmental pace and is having to rein in after the Olympics-Expo '92 spending spree but, even so, above-average expansion of 2,6% followed by 3,2% is predicted for it.

The hinge remains Germany, as Europe moves towards the single market next year. The Bundesbank's discount rate increase was aimed primarily at excessive growth in monetary aggregates — nearly 9% against the 3,5%-5,5% target — and bank credit which is running at 11%.

There is an argument that because the D-mark has become almost a second currency in its neighbouring ex-socialist States, the Bundesbank is being unduly inflexible. However, its policy has an unmatched track record and even though inflation is expected to slip back to 3,5% soon as year-on-year changes (such as higher indirect taxes on energy) fall out of the consumer price index in the second half, the Bundesbank remains wary of money supply and wage increases averaging close to 6%.

Consumer spending will be boosted in the second half with the end of the "unification" tax surcharge on incomes while the 1% increase in value-added tax will raise inflation by half a point from January. And rapid growth in the eastern States means that while the prosperous West is feeling the pressure of interest rates, the all-German economy is proceeding at a respectable pace. It adds a good half a point to the headline figure for western Germany, putting growth at 1,8% this year and nearly 3% in 1993.

This assumes the Bundesbank's next move will lower interest rates. The discount rate increase was imposed in the face of protests from the rest of the EC and the Bonn government. Certainly it has done no good for the cause of European monetary and economic unity. But these are political matters and the Bundesbank's constitutionally enshrined diktat puts it above such things.

On balance, the international economy's climb out of the trough may be slow but does not seem to warrant the kind of doom-laden breast-beating in evidence chiefly in the US. The asset shrinkage is largely confined to economies which unleashed the credit binge of the late Eighties — the US, Japan and Britain — and they lack the feel-good factor despite the benefits of disinflation.

That is a political problem for George Bush, whose electoral priorities prohibit any progress in the stalled Uruguay Round of the General Agreement on Tariffs and Trade — the single most positive avenue open to the world's economic policymakers. ■

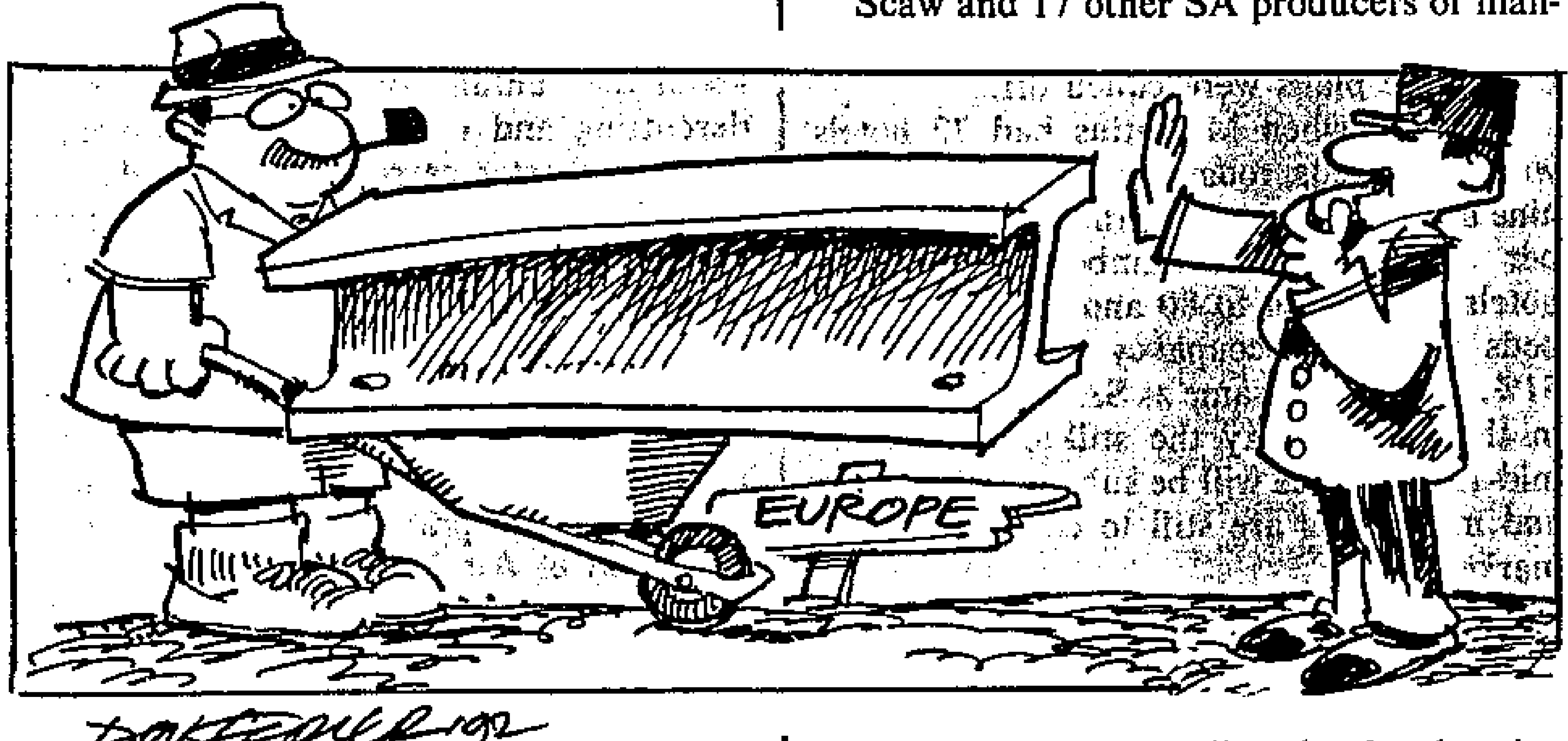
DUMPING

FM 31/7/92

A dose of their own medicine

The anti-dumping investigation launched this week by the EC against imported SA manganese-steel wearparts — together with several other anti-dumping moves against SA over the past year — could be the beginning of the end for a number of SA's cherished industrial practices.

For years, local companies have enjoyed two-tier pricing — charging high prices to captive domestic consumers and low prices on exports. But this, together with cash incentives and tax breaks for exports and discounted electricity from State-owned power companies, usually signals that a country is dumping its goods, under rules set by Gatt and tougher regulations adopted by the US and the EC.



For years, SA claimed it could not follow international rules because sanctions hurt its ability to export. But with the worldwide recession putting pressure on manufacturers everywhere, the country's trading partners are no longer buying this excuse and are apparently starting to crack down. SA is especially vulnerable because its own anti-dumping laws, approved in May, are among the most restrictive in the world.

Robin Bosomworth, chairman of the Cape Town-based Independent Wire Converters' Association, says: "With SA's draconian anti-dumping legislation, coupled with our high tariffs and export subsidies, it is not surprising that the rest of the world is starting to take action against our exports. We are more protected than the rest of the industrialised world, yet we are not yet seen as a developing country."

Basic-material suppliers, such as Iscor, say they need the high level of import protection because SA needs basic industries. But Bosomworth discounts this: "It's ridiculous to protect dinosaurs in a greenhouse when, globally, steel giants like US Steel, British Steel and Krupp in Germany have been forced to adapt or die. This they did successfully — by shedding uneconomic operations and becoming lean-and-mean global operators."

Scaw Metals MD Tony Harris, however, says, this week's EC action largely reflects the recession in the EC rather than a response to SA protectionism. "While SA exporters have maintained their export activity, this has been at the expense of EC producers. Our assessment is that we have about 30% of the EC market, against competition from mainland China and India. The anti-dumping investigation will have to determine if this is taking place. It's not at all certain that SA producers are dumping."

Scaw and 17 other SA producers of manganese-steel parts are alleged to be charging less for their products in Europe than they do here. Next month the producers will probably get questionnaires asking for information on prices, costs, turnover and other items. They will probably have 30 days to fill out the forms and an EC investigator may visit SA.

This investigation follows an announcement earlier this month that the EC is examining Samancor and Highveld Steel for alleged ferro-silicon dumping, a probe that is also based on charges of two-tier pricing. And, for the past six months, Japan has been probing the alleged dumping of silicon-manganese by Samancor.

Meanwhile, with the recession and the coming presidential election, the US has toughened its anti-dumping enforcement. Local companies have mostly steered clear of the dragnet so far but US trade officials have expressed reservations about SA's introduction last year of the 37E tax incentives to encourage beneficiated exports.

"The US is becoming far more sensitive to cases of alleged dumping or subsidised exports," says SA Department of Trade & Industry official Rob Louw.

"Our general export incentive scheme (Geis), Industrial Development Corp loans, export marketing assistance and subsidised electricity tariffs may also lead to countervailing duties. But this mainly applies to high-volume, high-value exports of raw materials or ferro-alloys."

The Geis scheme has been criticised for costing taxpayers more than R1bn a year. And a recent department report confirmed that unscrupulous exporters can easily defraud the scheme by lodging false claims. Now, Geis might encourage foreign governments to retaliate against SA exporters.

When SA stops worrying about other countries' dumping rules, it can start worrying about its own. They set a double standard and not only are they — like all trade restrictions — self-defeating, but they may also be beyond SA's ability to enforce. Webber Wentzel attorney Leora Blumberg says "anti-dumping actions worldwide are complicated and require sophisticated legal, accounting and financial expertise," skills that SA may not have. "Currently, there is great confusion and little consistency in SA's own anti-dumping policy. Businessmen would prefer sharper definitions, closer to the Gatt norms, than our current legislation contains."

Government naiveté over the complexities involved in rejoining the world seems to underlie the continuing confusion in trade and industrial policies. Maybe a few more anti-dumping actions aimed at SA exports will clear up that confusion. ■

MAURITIAN TOURISM

Off the boil

FM 31/7/92

Looking for a cheap hotel? Try Mauritius. The expected boom in tourism has not materialised, leaving developers who responded to the government's call to build more hotels eager to get rid of their semi-completed shells or hotels operating at 30% occupancy or less.

The government has put a moratorium on the construction of any other hotels but, at the last count, about 15 were up for grabs, including the semi-completed Capricorn, designed to have 1 800 rooms.

Though the Gulf War cut deeply into tourism, members of the tourist business blame Air Mauritius, which is 51%-controlled by the government, for making the problem worse. Charter flights are not allowed to compete with the national carrier and its artificially high tariffs. Airline and government officals say they want to keep numbers down to protect the environment and to keep up the image of Mauritius as an exclusive destination.

continued

FOREIGN TRADE — GENERAL

1992

AUG. — DEC.

THE WEEK AHEAD by Simon Willson

Better gold valuations should bolster reserves

BIDAY 3/8/92

NOW THAT the end of the second quarter is past, gold and foreign exchange reserves should look a little healthier when the July level is released at the end of the week.

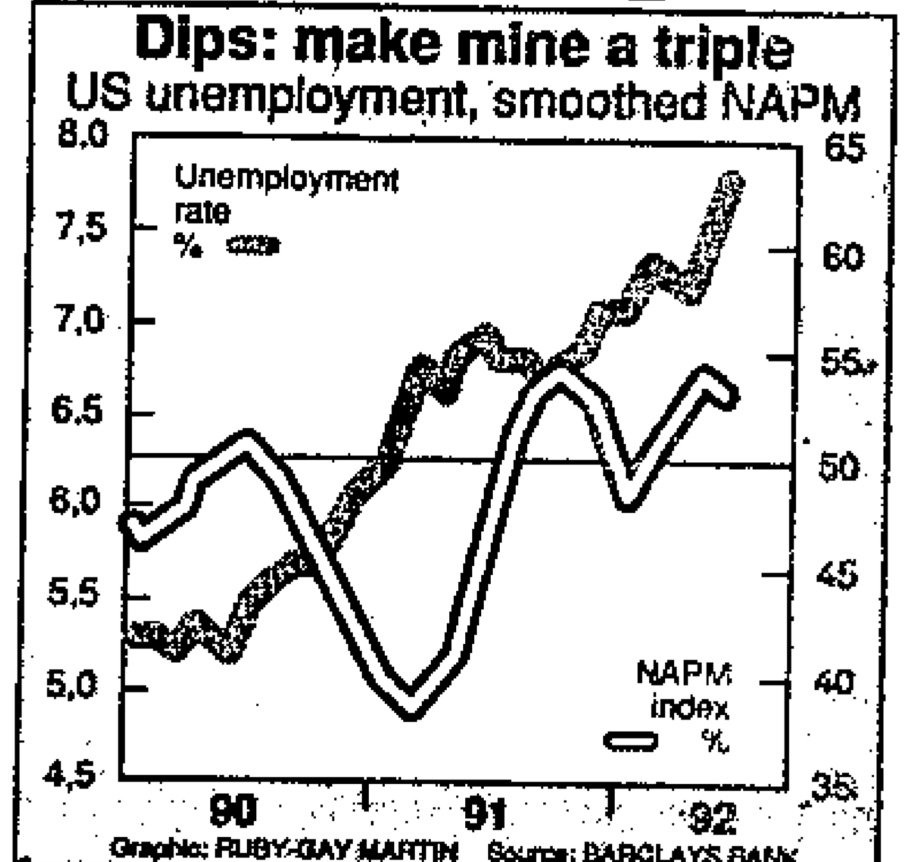
Reserves took a knock in June, when they dropped R200m, but the total stayed above the psychological R10bn mark at R10,2bn against May's R10,4bn. End-quarter interest and dividend remittances were probably responsible for the dip, extending a pattern that also saw matching falls in total reserves at the end of the December and March quarters.

July reserves could also be supported by a rise in the rand gold price valuation, which has fallen consistently for the past four months.

Concerted central bank dollar-buying in the third week of July dragged the commercial rand back from fresh 1992 dollar highs around R2,72 to its current R2,75-R2,77 range.

But, at the same time, bullion continued to test $360, and this combination of a weaker rand and steady bullion should haul the Reserve Bank's gold price valuation for July back from the R856 low in June.

Internationally, Western central banks' itchy trigger fingers could be tested again this week with the next spate of US economic indicators.



There are several that could still depict weak US growth, increasing downward pressure on the dollar and probing the central banks' resolve to defend the DM1,45 level again.

As the chart shows, the fear now is that US economic activity — represented here by the National Association of Purchasing Management (NAPM) survey — is about to make a third dip.

The July NAPM is out later today, and is poised to trace a third dip to follow in sequence after the 1990-91 and 1991-92 slides on the chart.

The NAPM survey, which measures activities such as orders, employment, production and deliveries in the manufacturing sector, is one of several US indicators that has begun to etch a triple dip recession.

The NAPM line's "U" on the chart has become a "W" and threatens to become an "UM" as each rally stalls. The index ducked to 52,8% in June from 56,3% in May.

Tomorrow, the index of US leading indicators for June is released. Its 0,6% uptick in May was a fifth consecutive monthly rise, but the index is thought to lead the real economy by about nine months.

On Friday the July US employment report is published. US discount rate was cut after the poor June report showed the jump in unemployment, shown on the chart, to 7,8%. While the overall rate may be steady for July, there may be a turnaround in the 117 000 drop in non-farm recruitment for the month.

The Bundesbank council meets again on Thursday after its summer break, but bank spokesmen have already ruled out any easing in credit conditions despite the fall in German inflation announced last week.

MONEY MARKETS by Hilary Gush

Equities slump helps ease rates

BIDAY 3/8/92

ALTHOUGH the capital market has been the main beneficiary of the recent slump in equities, it has not been the sole heir to institutional funds looking for rosier returns. Money market instruments have also found favour with organisations — resulting in a gradual decline in rates.

The 90-day liquid BA rate continued to ease last week falling slightly to trade at 13,5% from 13,6% and 13,8% respectively at the end of the previous two weeks.

A softening of rates usually indicates an expected improvement in market liquidity.

The money market shortage see-sawed to reach R4,319bn on Wednesday, prompting the Reserve Bank's Corporation for Public Deposits to offer twice to buy back R500m worth of gilts and semi-gilts.

Liquidity should pick up this week as the month's government spending reaches the market.

The Treasury's decision not to roll over R3,5bn in RSA loans maturing at mid-month should also ease tight liquidity.

Profit-taking by institutions and foreign gilt-selling saw rates on the capital market edge up over the week.

On Friday the yield on the bellwether Eskom 168 bond was up slightly at 14,70% from 14,59% at the of the week.

The yield on government R150 stock followed a similar pattern, hardening to 14,83% towards the weekend after trading 10 points lower at 14,73% on Monday.

Medium-dated gilts remained strong and rates stable, however, as few sellers came into the market.

The move out of equities and into gilts which started in the first quarter has maintained its momentum despite a small recovery in the stock market last week.

Planned mass action this week is likely to boost the capital market further.

An expected easing of consumer inflation also bodes well for gilts, but yields on capital market instruments should stay around their current levels this week before resuming a downward trend.

Ban on gold exports lifted

BIDAY 3/8/92

TAIPEI — Taiwan has lifted a 44-year-old ban on the export of gold in line with the end of the period of communist rebellion or state of emergency.

Deputy Finance Minister Lee Chung-ying said the legal force of the period of communist rebellion ended on Friday. During the period, Taiwan allowed the import of gold but forbade its export.

Under the long-awaited liberalisation move, Taiwan banks could be allowed to operate private gold accounts for individuals seeking gold investment. The move is expected to help the island become one of financial hubs in the Asian Pacific region, boost the gold market and pave the way for the futures market. — Sapa-AFP.

Global trade insurance 'a risky business'

BTDAY 4/8/92

ANDREW KRUMM

SA companies unaware of international trade insurance could sail into high risk weather as the world opens up to SA.

Risk Broking Services (RBS) director Gerald Ryan said yesterday: "Nothing is more designed to sour an international association between two companies than an insurance claim on an export deal not adequately risk covered."

Ryan said the first rule for new entrants to international markets was to abide by the International Chamber of Commerce's guidelines, which clearly defined the risks and obligations of buyers and sellers.

"Another ground rule is to deal with brokers, and through them, underwriters, who are fully *au fait* with the international insurance market."

(74)

Dollar forecast to strengthen as US economy outpaces competitors

STAR 4/8/92

By Neil Behrmann (74)

LONDON — The foreign exchange market is expected to focus its attention on depressed European economies after the summer holidays.

For the present it is mesmerised by the slack recovery of the US and the depressed dollar.

Deutschemarks, sterling, French and Swiss francs are being bought because interest rates are way above the miserly returns of the dollar.

Nevertheless, a panel of foreign exchange analysts and traders contends that the trend of the market will change by the end of the year.

After central bank action a few weeks ago, the dollar is bottoming out, they say.

The process might take some months with dollar weakness until the US presidential election. But in the coming 12 months, say the panelists, the US economy will outperform its European and Japanese counterparts.

The average prediction of our eight-man currency panel from Barclays, Deutsche Bank, Chase, Hongkong Bank, Mitusbishi, Standard Chartered, Union Bank of Switzerland and Investment Research of Cambridge is as follows:

The dollar will rise to Dm1,53 in three months, 1,61 in six months and 1,68 in 12 months.

The yen will range between 127 and 130 and sterling will fall to 1,87 in three months, 1,77 in six months and 1,69 in a year.

Biggest moves

The biggest moves will be seen in 1993, and two panelists expect a D-mark rate of 1,80 to the dollar.

If these predictions prove to be correct, both the commercial and financial rands will revive against European currencies.

Rand depreciation against the dollar will be smaller than the declines of European currencies.

Growing numbers of economists are worried about the straitjacket of the European Exchange Rate Mechanism (ERM) and the impact of a strong Deutschemark and high interest rates on surrounding economies.

The British and Italian economies are under considerable pressure from punitive interest rates and overvaluation, particularly against dollar bloc currencies.

Investment Research of Cambridge's technical analysis shows that sterling is way above its four-year mean rate against the Hong Kong dollar. Yet the UK economy is in a slump while Hong Kong is growing rapidly.

On a purchasing power parity basis, the pound is more than 20 percent overvalued against the Hong Kong dollar.

This illustrates the threat of highly competitive Asian, Japanese, North and South American goods in Europe.

Equally, a sterling-rand exchange rate of R5,32 is clearly ludicrous on a purchasing power parity basis and South African manufactured goods are extremely competitive.

Meanwhile European exports are bound to suffer.

Hardly surprising, Sir Denys Henderson, chairman of ICI, Britain's biggest company, joined a surging throng of businessmen and bankers who bitterly oppose Government policy of high interest charges and an overvalued pound.

Standard Chartered strategists expect obdurate European governments to buckle and agree on an alignment of the European Exchang Rate Mechanism by the first quarter of next year.

That would involve an upward revaluation of the mark and downward adjustment of the pound, lira, Spanish peseta and possibly others.

Long odds

Brendan Brown of Mitsubishi Finance goes one step further and expects the pound to float free of the ERM. There are long odds on that view.

To be correct there would have to be a putsch in the Conservative Party. Prime Minister John Major and Chancellor Norman Lamont have staked their political lives on the European Exchange Rate Mechanism.

Pound bears believe the rate will tumble to the $1,44 to $1,57 range. If they are correct, the pound will fall well under R5.

The most bullish 12-month forecast for the pound is $1,84, equal to a rand rate of around R5,15, if the SA currency depreciates to some extent against the dollar.

Other analysts expect ERM parities to hold.

They are banking on a revival of the dollar, against the mark and a fall in German interest rates.

In those circumstances, other European currencies will rally against a sliding D-mark, they say. Europeans will then be free to slash interest rates to boost economies.

"So far the market is underestimating potential weakness of the German economy,'" says our UBS forex analyst. The buzzword is "lean production," he says.

Growing unemployment will dampen consumer spending in Germany and by the fourth quarter interest rates will fall.

Deutsche Bank believes the German economy contracted by 1,2 percent in the second quarter from growth of 1,8 percent in the first.

The economy will then stagnate around 0,7 percent growth in the next three quarters.

Other telltale signs that Germany can no longer rely on the construction boom in the East are a staggering 12 percent decline in engineering orders, a 15 percent rise in corporate failures, a 17 percent fall in June car orders and a 2 percent dcline in retail sales in the first half of the year.

Exports are also sliding.

Trade opportunities open in Mid-East

SHARON WOOD

THE lifting of Middle Eastern sanctions imposed on SA had created opportunities for medium and smaller sized businesses to trade in the region, Safto spokesman Geoff Fitchatt said yesterday.

He noted keen interest in the upcoming Dubai trade fair, and that its 76 stalls had been 40% oversubscribed.

Trade between SA and the Middle East has grown steadily during the past decade but data on the full volume of trade was discrete due to sanctions, he said.

"Now markets for a broad range of manufactured goods and services are open to SA business. Price levels and joint trading associations point to significant increases in trade volumes in both directions," he said.

SA's investment opportunities will be scrutinised by two correspondents from Egypt's leading newspaper, Al-Ahram, during the next two weeks.

Abdel Mohamed and Samir Abdel Atty Mohamed arrived last weekend and will interview political, industrial and commercial leaders.

Their report will appear in a special Al-Ahram supplement on SA in mid-September, ahead of an SA trade exhibition in Dubai in October.

(74) BDAY 5/8/92

Optimism bolsters finrand

BIDAY 7/8/92 (74)

HILARY GUSH and
MERVYN HARRIS

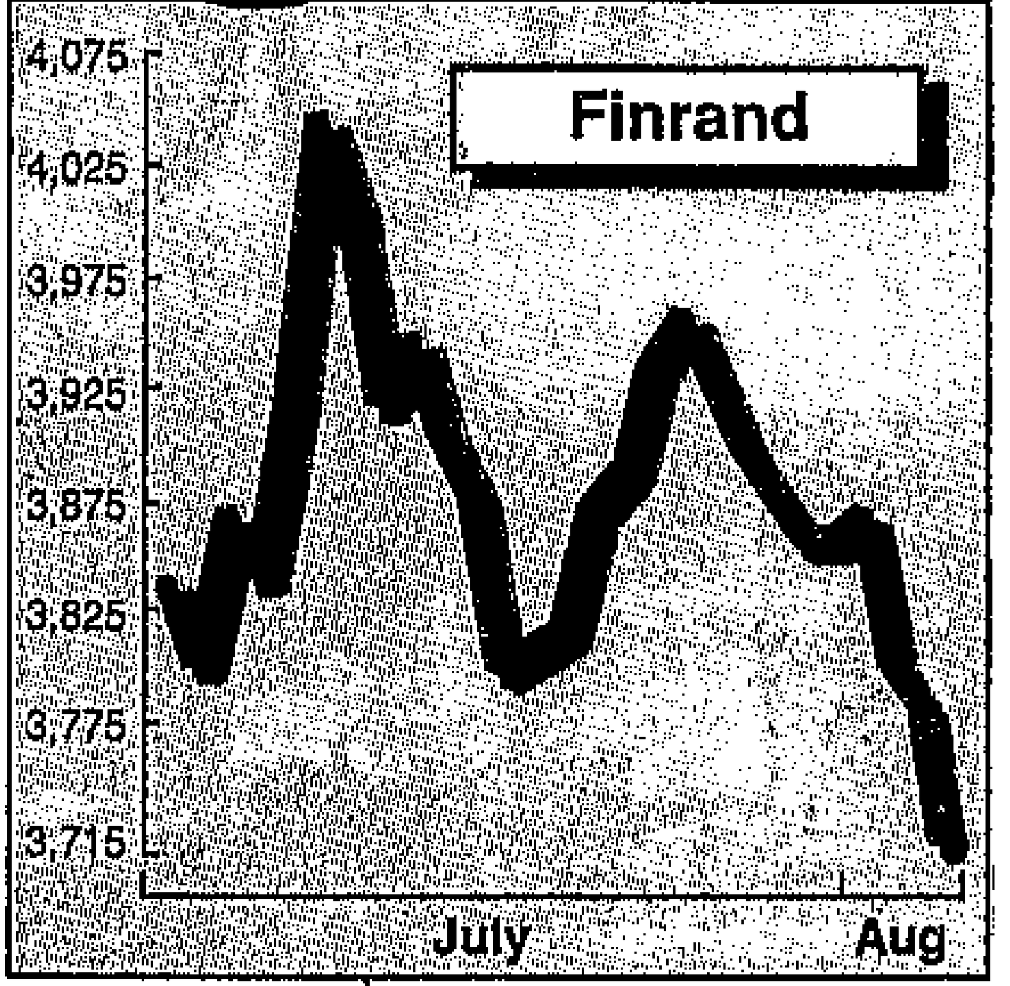
EXPECTATIONS of a quick return to negotiations saw the financial rand strengthen further against the dollar yesterday.

And continued bullish sentiment on the capital market saw rates on gilts come down to new eight-year lows.

Gold eased $1,90 to go below the psychological $350 level and close in London at $348,90 as players tested the market's downside support after Wednesday's heavy sell-off.

The metal's decline started earlier in the week as mass action passed off peacefully with no disruption to supplies and tensions over Iraq eased. Reuter reports that US funds appeared to have largely liquidated

☐ To Page 2



Graphic: RUBY-GAY MARTIN Source: I-NET

Finrand

BIDAY 7/8/92 (74)

☐ From Page 1

their positions, leaving them neutral as a market factor.

Analysts were encouraged that the metal was holding above key support at $348. They added that if this level was not pierced, gold should maintain its uptrend.

Platinum eased in sympathy with gold and was fixed at $374 at the London afternoon setting, a decline of $1,85 on the day.

After hitting an intra-day high of R3,69 against the dollar the finrand ended the session 4c up at R3,72 from a R3,76 opening and a close of R3,78 on Wednesday.

Good offshore demand in early morning trade saw the foreign investment unit firm before a small bout of selling later in the day. Dealers said a large local bank had been looking to buy finrands early in the session for an overseas client.

Small investors abroad had, however, sold the currency towards late afternoon to reduce losses and take profits.

One dealer said movements in the market could best be explained by the motto: "Buy on rumour — sell on fact."

Although a small correction was expected today traders predicted the unit would trade in a R3,74-R3,64 range.

Expectations of a prime rate cut in September buoyed bullish sentiment in the capital market.

The yield on Eskom 168 stock ended at 14,4% from 14,5% at the session's opening, after falling to a 14,35% low. The yield on government R150 — the benchmark gilt — closed 17 points lower at 14,55% from 14,72%. Traders had seen buyers for E168 stock at levels above 14,5%, while there had been sellers at rates below 14,45%.

As the critical 14,5% level on the E168 bond had been broken, dealers forecast a new resistance level at 14,24%. Traders expected rates to fall further.

Meetings held last month in Lusaka and Maputo explored the possibility of the Southern African Development Coordination Conference (SADCC) and the Preferential Trade Area (PTA) merging. **Sipho Shabalala** looks at the implications:

Sowetan 7/8/92.

74

Territorial trade treaties

PTA member states:
1 Botswana,
2 Lesotho,
3 Malawi,
4 Swaziland,
5 Tanzania,
6 Zambia,
7 Zimbabwe, 8 Burundi,
9 Comores, 10 Djibouti, 11 Ethopia, 12 Kenya,
13 Mauritius, 14 Rwanda, 15 Seycheles,
16 Somalia and 17 Uganda.

SADCC member states:
1 Angola,
2 Botswana,
3 Lesotho,
4 Malawi,
5 Mozambique,
6 Swaziland,
7 Zambia and 8 Zimbabwe.

THE SADCC AND PTA have similar objectives and were established to promote regional economic co-operation among the African member states. Membership of these organisations overlap - with nine of the 17 SADCC member states belonging to PTA.

The SADCC was launched in 1980 with two major objectives: to reduce the dependence of the Southern African states on the South African economy and to increase economic co-operation among these states in the areas of industrialisation, manpower development, food security, transport, agricultural development, mining and other developments.

According to the PTA Treaty, it is "... the aim of the preferential Trade Area to promote co-operation and development in all fields of economic activity particularly in the field of trade, customs, industry, transport, communications, agriculture, natural resources and monetary affairs with the aim of raising the standard of living of its peoples, of fostering closer relations among its member states and to contribute to the progress and development of the African continent".

Objective to eliminate barriers

The critical initial objective was to eliminate tariff barriers and non-tariff barriers in trade, remove restrictions on services such as insurance, and dispose of foreign exchange constraints in inter-regional trade.

It is quite obvious that there is a lot of duplication between the two regional economic units, leading to less efficiency and effectiveness.

In 1982, for instance, one study showed that "only five percent of the total exports of SADCC countries, and 4,4 percent of their total imports" came from regional trade. Zimbabwe dominated the area with almost half of regional trade originating from her.

South Africa accounted for seven percent of SADCC exports and 30 percent of their imports. This picture has not changed. The SADCC Industry Report presented in the recent 1992 summit conference in Mozambique stated that "Inter regional SADCC trade still remains low, and has not exceeded five percent of the regions' total trade". The economic conditions and progress within the majority of the SADCC states are distressful, to say the least.

The same story has been apologetically and with a feeling of shame repeatedly been told in the PTA summit conferences.

As is evident, and a result of their histories, these countries have more trade with Europe, the Far East and the Americas than they have with each other — as happened in Europe before the launch of the European Economic Community. Until recently, when the last barriers were removed, a truck took three days to carry goods from western Europe to the farthest state in eastern Europe as it had to pass through several border gates and checks, with differing requirements to enter countries. European countries are now buying from each other, leading to better economic growth in these country and lesser transportation costs.

The benefit of integration

The integration of the SADCC and PTA will benefit southern Africa along these lines, in addition to eliminating duplication of activities. At the moment there is very little inter-regional trade with customs and trade barriers affecting the passage of goods between the north and south and from east to west.

Regional co-operation will thus:

- eliminate duplication of activities;
- promote efficiency and effectiveness; and
- expand regional trade.

More importantly, the SADCC and PTA states must put their houses in order to strengthen themselves for the arrival of a new potential member: the new African state after the demise of the existing settler colonial state geographically called South Africa.

It is evident that South Africa will dominate the region and be a Big Brother. Secondly, resources and investments from the world will flow to South Africa first because she is the most industrially advanced in the region, and African states will have to make do with what remains, or what South Africa does in their countries. The power will shift from Zimbabwe to South Africa, a prospect Zimbabwe does not relish.

The merger of PTA and SADCC is thus necessary but, it is not sufficient to achieve regional co-operation. There is, firstly, a potential for political and bureaucratic conflict as the two organisations merge.

The merger proposed should preferably be a Regional Economic Authority (RECA) with two main aims: the first dealing with trade and associated infrastructural and services requirements; and the second focussing on industrialisation and technological development programmes.

R10bn booster for forex from six projects

S/Times (Buss) 9/8/92

By ZILLA EFRAT

SOUTH Africa could boost foreign-currency earnings by more than R10-billion when six industrial projects come on stream in the next five years.

They are under scrutiny by the Industrial Development Corporation (IDC) which will partly finance the R29-billion cost of the projects.

Their potential foreign earnings are equivalent to 50% of SA's gold production and they will have a knock-on effect for the economy.

The projects are largely export-oriented and are aimed at adding value to SA's natural resources.

They focus on the production of steel, stainless steel, aluminium, minerals and petro-chemicals. One aims to boost eco-tourism.

IDC senior general manager Malcolm Macdonald says the size of the projects makes it difficult for individual companies to undertake them without help.

They will receive help in the form of an IDC equity stake or loan finance. To fund them, the IDC will have to realise some of its investments in mature projects.

Until final decisions are made, Mr Macdonald is reluctant to detail how this will be done.

He is optimistic that most of the projects will get off the ground — good news at a time when industrialists say SA's foreign investment prospects look bleak.

Construction of some could start this year.

Smelter

The projects are:

- The Columbus Stainless Steel venture between Highveld Steel and Samancor — expected to be the first to be given the green light.

It will expand a stainless-steel mill at Middelburg into a world-scale plant with a capacity of 300 000 tons a year.

It could cost well over R2,5-billion and be completed by 1996.

- Increasing capacity at Alusaf's Richards Bay smelter from 170 000 tons a year to 600 000. The project is backed by Gencor, the IDC and Eskom.

It is expected to cost R5,6-billion and generate exports of R2,8-billion annually.

- The Flogopite project at Phalaborwa, based on a process developed by the IDC to recover alumina, magnesia and potash out of waste ore from Foskor's mining of phosphate rock.

A demonstration plant is being built at a cost of more than R100-million.

If it is successful, a R4-billion plant will be built to make SA self-sufficient in these minerals and a large exporter of magnesia and later of magnesium metal.

The venture could come on stream in 1997 and boost SA's foreign trade account by R1,5-billion a year.

- A R600-million IDC loan to expand the infrastructure and accommodation in and around SA's national parks.

The IDC's investment is expected to be at least doubled by that of the private sector and parks boards.

Corex

The IDC has received 11 applications for R167-million and inquiries involving R356-million. A total of R25-million has been approved.

- A project which could make SA one of the world's lowest-cost steel producers.

It is based on the new Corex iron-making process developed by Iscor in partnership with Voest Alpine of Austria.

It will enable low-cost iron ore to be economically converted to steel. The mill will cost R3-billion and the venture could generate exports of R1-billion a year.

A feasibility study is expected to be completed by the first quarter of next year.

- A petro-chemical complex based on down-stream processing of gas from Mossgas.

A preliminary feasibility study has been completed and studies are being done by Sentrachem and the IDC. A detailed proposal could become final by the middle of next year.

Cost could be about R11-billion. Most of the output would be used for further processing domestically, with 30% being exported initially. Improvement of SA's foreign trade balance is estimated at R2,4-billion a year.

The IDC is also investigating a host of smaller mineral beneficiation projects. Some could involve foreign licence agreements.

Mr Macdonald says the IDC is spending R16-million on its investigation of these projects this year.

Its aim is to assist projects which can stimulate the economy in the long term, provide jobs and earn money for social spending.

S/Times (Bus) 9/8/92

Reserves up

THE Reserve Bank's holding of gold and foreign-exchange reserves rose by R1,099-million in July to R11,287-billion. The value of gold holdings rose to R5,983-billion from R5,845-billion in June — although the amount held fell to 6,707-million ounces from 6,827-million. The currency component rose to R5,302-billion from R4,342-billion.

(74)

Gold, forex reserves at record level

By Derek Tommey

Threats of mass action failed to deplete gold and foreign exchange reserves last month, which surprisingly jumped R1,1 billion to a record R11,3 billion, Reserve Bank figures show.

This followed a R208 million dip in the reserves in June when they are normally under pressure as quarterly and year-end payments are made abroad.

Gold holdings, valued at R892,07 an ounce (R856,13 an ounce in June) rose R138,4 mil lion to R5,98 billion, while foreign assets rose by R960,4 million to R5,3 billion.

The steep increase in reserves should do much to boost business morale.

The net inflow of more than R1 billion in foreign currency, though unexplained, should boost the economy. It should also help the rand remain firm.

The Reserve Bank still has a tight grip on money supply.

Temporary

Its call at the beginning of the month for a one percent increase in the cash that deposit-taking institutions have to keep with it resulted in deposits rising by R900,7 million during the month to R1,96 billion.

This was a temporary expedient to drain cash from the market and stop money accumulated for tax payments later this month artificially depressing interest rates.

The banks making these deposits will receive interest on their money and presumably will be repaid later this month.

Paralleling the increase in the deposits was an R854,6 million increase in the Reserve Bank's holdings of government stock to R1,17 billion.

No explanation for this was obtainable at the weekend, but speculation is that deposit-taking institutions may have been able to meet the one percent call with government stock.

MONEY MARKETS by Hilary Gush

Rates dip boosts capital market

THERE was more activity on the streets and rugby fields last week than in the dealing rooms as major players stayed on the sidelines and took a "wait-and-see attitude" to the two-day general strike.

On Wednesday distracted dealers changed the focus of their attention from mass rallies to rugby while rates on the money market took a back seat.

The capital market was, however, more capitivating. By mid-week bullish sentiment had driven rates down to eight-year lows. Expectations of falling inflation and an upturn in economic activity further fuelled gilts buying.

The yield on Eskom's bellwether E168 bond plummeted to 14,34% towards the weekend from 14,72% on Monday. The yield on government R150 followed a similar trend, falling 43 points over the week from 14,87% to 14,44%.

Buoyed by positive political perceptions the bull run is expected to continue.

Feeling in the market is that the yield differential on R150 and E168 stock will narrow substantially over the year, with yields possibly converging.

While the Eskom bond used to be the benchmark stock — the most traded semi-gilt — the government R150 has, since the beginning of the year, taken the lead in terms of tradeability. The E168, however, remains the bellwether bond.

The reason for the initially lower tradeability of RSA 150s was that the Reserve Bank was not involved in the secondary market. This has since changed and an option market in government stock has developed.

August government spending saw liquidity in the money market pick up towards the end of the week with the shortage at R2,77bn from more than R5bn last month.

Speculation of a further Bank rate cut in September eased money market rates. By Friday the 90-day liquid BA rate was down at 13,4% from 13,5% the week before.

Bolstered by expectations of a Bank rate cut money market rates are expected to fall by at least one percentage point in the next few months.

The average rate on the Bank's weekly tender for three-month Treasury bills was down 13 points to 13,21% from the previous week's 13,34%. Demand for the short-term paper was good due to improved liquidity in the market. The Bank attracted bids of R960m for the R150m offered in six-month TBs, with the rate on these also down from 12,55% to 12,43%.

Lobby EC for trade gaps, Greek academic urges SA

B DAY 12/8/92 (74)

LINDA ENSOR

CAPE TOWN — SA businessmen needed to conduct an active marketing campaign in the EC to promote trade, Athens-based Business Development Centre MD Emmanuel Kondylis said in an interview yesterday.

Kondylis is on a visit to SA at the invitation of the SA Forum and has been meeting government authorities, industrialists, bankers and businessmen. He is an associate professor in business administration at the University of Piraeus.

He believed there were many trade possibilities between SA and Greece, Cyprus and the Balkan states, particularly in food, beverages and citrus fruits.

"There is a great opportunity for SA to break into new markets in Eastern Europe which are opening up free market economies," Kondylis said, stressing that it was important for SA to become as export-orientated as possible.

He said the success of the SA economy would depend on how well it competed on world markets. If SA could not compete, the poor would suffer.

Time was not on SA's side and it would have to grab all the opportunities it could to communicate the realities of a free market system.

"If SA does not prepare the groundwork for a successful transitional government, history will not give it a second chance. Businessmen have to go out of their way to assist the government and the ANC to reach an agreement based on economic and financial realities."

EC businessmen had adopted a wait and see attitude and were awaiting the first signs of agreement before moving ahead. The EC was overwhelmed with the problems of the eastern bloc countries and SA needed to lobby to get itself into the EC focus, Kondylis said.

A ritual rejection of CFA franc's devaluation

SIMON WILLSON

WINTER brings ritual to Africa, it seems. Here on the southern tip, many locals spend July and August hurling naartjies at touch judges. In west Africa at this time of year, it is the season for rejecting devaluation of the CFA franc.

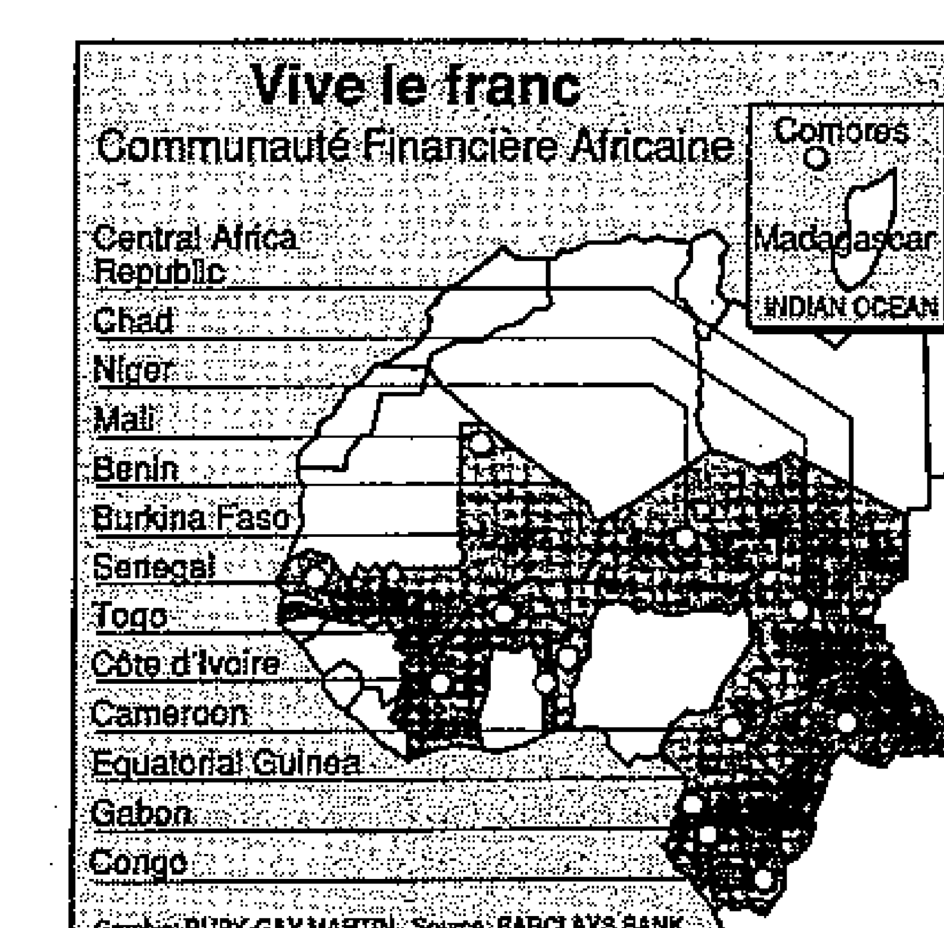
At the beginning of the month the 14 members of the Communauté Financière Africaine (CFA), whose common currency is the eponymous CFA franc, had to perform their now traditional, mid-year reassertion that the currency's fixed exchange rate against the French franc would remain at CFAf50.

That done, representatives of Africa's franc zone went home after their annual get-together in Dakar, Senegal. The CFA franc is safely pegged at CFAf50 to the French franc for another year, with all the attendant net benefits to CFA members.

As the first chart shows, the CFA is concentrated in west Africa among states that used to be French colonial territories. The countries are no longer ruled from Paris. But there are Club Méditerranee resorts dotted around the zone, and the occasional garrison of French troops, and regular airfreighting of French lettuce to these equatorial outposts, all of which preserve a reassuring neo-colonialist stability.

The CFA franc's free convertibility into French francs at a fixed exchange rate makes it one of Africa's few genuinely hard currencies. The fixed French franc rate has been unchanged since the establishment of the CFA in 1948, which must make it the world's longest-lasting fixed-rate currency. It has sat out the dollar's de-linking from gold, the oil price shock, the creation of the European monetary system and the Third World debt crisis without budging.

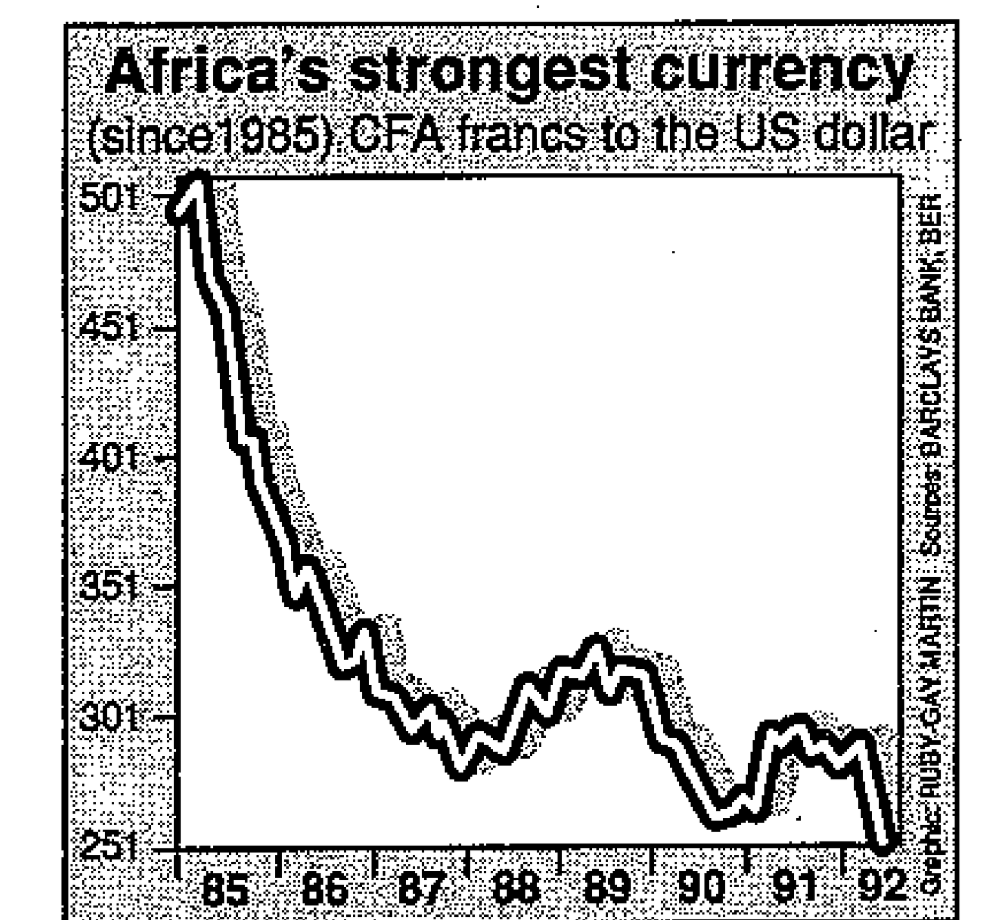
A fixed exchange rate through these turbulent times did much — together with the French garrisons — to shore up long-serving governments in the region. Leaders like Ivory Coast president Félix Houphouët-Boigny, in power since 1960, were able to keep the prices of Western consumer imports down with a strong currency. Firm commodity prices, at least until the mid-'80s, offset the strong currency's drag on exports, while the guarantee of French franc convertibility made international borrowing for grandiose domestic projects relatively easy.



It was a good arrangement for France, too. CFA members had to keep two-thirds of their reserves in French francs, to do all their forex transactions in the Paris market. French contractors could effectively dismiss exchange risk when quoting for prjects in the territories, and French commodity trading houses had a built-in advantage in marketing the states' formidable resources.

But the second chart shows why the CFA franc has begun to irk both sides in this once cosy set-up. It is all very well to be pegged to a hard currency which floats against the dollar, but when the fixed rate brings this kind of volatility in such a short period of time, the defaults of the system come under strain.

Commodity prices have been on a downtrend since the mid-'80s while, simultaneously, the dollar has been falling from its 1985 record Deutschmark high. The CFA franc, therefore, has been strengthening at a time when it should have weakened to reflect the lower export earnings that came with the slump in commodity prices.



This has obliged CFA countries to preserve export competitiveness by deflating. Inflation in the CFA is outrageously low by developing-country standards: Ivory Coast inflation was -1,5% last year and is heading for -1% this year.

But local leaders can no longer buy off their constituencies with high domestic living standards.

The US and IMF are thought to want a devalued CFA franc so that CFA members can start to pay off their rapidly accumulating foreign debt with higher growth and more exports. The French Treasury is believed to be feeling the pinch of running large overdrafts for CFA states.

Once the EC moves closer to full monetary union in the mid-'90s, the CFA franc is unlikely to be able to sustain a CFAf50 peg to its French counterpart, which will by then be administered by the Bundesbank. European monetary union will, at least, provide a fig leaf for the devaluation decision when it comes. Until then, the CFA states might as well make full use of their smoke-and-mirrors exchange rate and thumb their noses at the international institutions while they can.

Gold plummets by $8,55 in New York

LONDON — Gold plunged on world markets yesterday, falling $8,55 to close at $339,25 in New York last night after ending $3,25 down at $345,80 in London.

The falling gold price pulled New York's comex gold down sharply in late trade, following slumping silver and platinum.

Nymex platinum plummeted more than $12 as frenzied selling and liquidation triggered stop-loss orders. A sharp fall in the Nikkei share index has raised fears that demand could slacken from Japan, the world's biggest platinum importer.

"There is no reason to own any of these metals at recent levels — either technically or fundamentally. Reality is catching up with these markets," a floor analyst said.

Gold's decline was halted temporarily yesterday morning when unconfirmed reports emerged that Iraq was gathering troops at the Kuwaiti border.

An Iraqi opposition group said Iraq had mobilised forces along the Kuwaiti border. However, a Kuwaiti official said no movement of Iraqi troops had been observed.

□ In a report released in London yesterday, Metals and Minerals Research Services said European and North American investors had reduced their gold holdings by 300 tons in the first half of the year.

The amount sold from investment was equal to six months' output by SA. The sales were important in preventing the price from rising as supply fell sharply and industrial demand ran at a record high.

Supplies from the West were expected to fall by a "substantial" 7% to 2 470 tons this year. — Reuter, Sapa-AFP, AP-DJ.

(74)

8/04/92 12/8/92

OAU welcomes SA as exhibitor at fair

BIDAY 13/8/92 (74)

PETER DELMAR

THE Organisation of African Unity (OAU) leadership has approved for the first time SA participation in an African trade fair next month alongside 31 of its member states.

Safto marketing executive Ann Matthews said yesterday the OAU secretariat had agreed to let SA exhibitors take part in the Regional Export Fair in Bulawayo next month. About 31 of the OAU's 50 member states would exhibit next door at the four-yearly All Africa Fair. Only SA and Zimbabwean exhibitors will take part in the export fair.

Matthews described the SA participation as a major breakthrough, saying it had important implications for future trade with Africa.

She said she raised the question of SA taking part with an OAU representative at the Zimbabwe International Trade Fair, which was also held in Bulawayo.

Her inquiry was then referred to the OAU secretariat, which replied that SA would be welcome.

Fifteen SA companies had signed up for next month's fair, while other applications had to be declined because of lack of space.

Matthews said that unlike other trade shows in Africa, the Bulawayo fair included SA companies which had the capacity to do business with virtually the whole of the continent.

Participants included Transnet's international trading division Transtrade and the Council for Scientific and Industrial Research.

Other SA industries which would be represented included manufacturing, food, engineering and the construction sector.

Matthews said it was particularly fortunate that approval for SA's participation had been secured because this year's fair was being held in neighbouring Zimbabwe, a fact which made it logistically easier for SA companies to take part.

Other attractions were Zimbabwe's relatively good infrastructure and the fact that English was an official language.

"If we had not got the green light in time, we would have had to wait another four years to take part. By being there, exhibitors will be able to hit 31 birds with one stone," Matthews said.

Eskom 'not swayed' by campaign

ANC in new drive to block foreign loans

B/Day 14/8/92 (74)

ALAN FINE

THE ANC early this month circulated to dozens of major financial institutions in Europe and the Far East an appeal that they keep in place financial sanctions on SA and, in particular, refuse to participate in the $150m-$200m bond issue planned by Eskom for next month.

ANC NEC member and chief representative in London, Mendi Msimang, said yesterday he believed the letter, dated August 4, contributed to persuading Eskom to shelve the plan.

His initiative was accompanied by representatations to Eskom in Johannesburg and London by the ANC and the End Loans to SA (Eltsa) organisation, and an Eltsa demonstration outside Eskom's London office last Friday.

But an Eskom spokesman denied yesterday that the decision, announced this week, to postpone the bond issue was influenced by these factors.

Msimang, who wrote the letter, said it had been sent to all major financial institutions in Germany, the UK, Switzerland, Austria, Ireland, Belgium, France, Italy and South Korea.

It said new loans to SA before the establishment of an interim government "make neither political nor commercial sense". It added that ANC president Nelson Mandela had indicated in February that "the repayment of foreign debts incurred by the present regime in the normal course of administration before financial sanctions were imposed... may have to be renegotiated to ensure a democratic government is not unduly burdened by such debts".

Elaborating yesterday, Msimang said the ANC accepted that a future government had to take over the debts of previous governments and was bound to repay loans. However, an ANC government would attempt to renegotiate those loans to enable it to concentrate its limited resources on the alleviation of poverty.

In the letter, Msimang argued that the negotiating process was attributable to "a climate of (NP) complacency to which international banks have contributed by their premature actions" of violating financial sanctions.

He added that a comprehensive foreign loan strategy had to be devised by an interim government. If groups like Eskom went to the market unilaterally, this would be a fragmented effort.

An Eskom spokesman said the decision to postpone the bond issue preceded the ANC and Eltsa initiatives. The decision had not come about "through persuasion by any group, including the ANC. Eskom's business decisions and actions are well considered in terms of present and future circumstances."

Eskom was "in communication with the ANC international affairs department" about recent ANC and Eltsa statements.

"Eskom's integrity as an apolitical utility serving all South Africans is beyond question," he said.

ANC international affairs spokesman Aziz Pahad said Msimang's initiative was in line with ANC policy.

JSE falls further as gold slides

PETER GALLI and HILARY GUSH

PLUNGING precious metal prices took their toll on JSE gold and platinum counters as the all gold index tripled its Wednesday losses, falling 43 points to close at 937 points. B/DAY 14/8/92

While other counters continued to reflect heavy losses yesterday, these were not as severe as Wednesday's.

A dealer said that after pushing the market lower by "panic selling", institutional and private buyers were now placing buy orders at these levels. (74)

The overall index continued its downward spiral, closing 54 points lower at 3 155 with the industrial index following closely, losing 52 points to 3 997.

A market commentator said attention had moved away from De Beers to other blue chip industrials as some investors continued to panic and lightened their portfolios. "However, in late trade yesterday we saw a number of buying orders that had been cancelled on Wednesday renewed as some buyers were nibbling at blue chips at these levels," he said.

Bearish market sentiment and falling precious metal prices assisted the mining financials' 75-point drop to 3 455.

"The market has been really tough lately and while it appears to have steadied at these lower levels, major political or economic news is needed to stimulate it."

In London, gold closed at $338,40, $7,40

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JSE

B/DAY 14/8/92. (74)

☐ From Page 1

down on Wednesday's close.

The platinum index lost 30 points to 4 305 on the back of a $16 fall in the platinum price to $351,75 at the afternoon fix.

On the SA Futures Exchange, volume yesterday more than doubled from Wednesday's 9 513 to 20 000 contracts "due to the phenomenal volatility in the marketplace", MD Stuart Rees said.

An institution-led bull run on the capital market yesterday brought rates down to lows last seen in March 1984.

The yield on the bellwether Eskom 168 bond slipped to finish at 14,13% yesterday from Wednesday's 14,30% close. The yield on government R150 stock — the benchmark gilt — ebbed 21 points to end the session at 14,23% from a previous 14,44%.

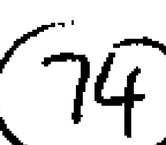
Dealers said as the performance of equities was poor, institutions were "piling into gilts" and that market was bearing the fruits of the equity market's demise.

Active trade in Transnet Elfi stock saw the TB12 bond gain 11% in five trading days. From R89,75 a week ago, it closed yesterday at R99,75. Over the same period the all-share index fell 6,5%.

● See Page 7

RESERVES FM 14/8/92

Flush with forex



In rand terms, foreign exchange reserves rose 22,1%, to R5,3bn, in July. In US dollars the move was similar, 22,4% to US$1,9bn. This was because the rand remained stable against the US currency, closing the month at $/R2,7652 from an end-June $/R2,7717.

Against other currencies rand performance was also stable. It:

- Weakened against the D-mark, R/DM0,5492 to R/DM0,5353;
- Strengthened against the yen, R/Y45,35 to R/Y46; and
- Weakened against sterling, £/R5,2734 to £/R5,3078.

The trade-weighted rand declined 0,367% in the month.

UAL economist Dennis Dykes says that in the absence of major currency changes the large increase in foreign exchange reserves reflects the underlying balance of payments position: "Weak demand for imports is keeping up the trade surplus while capital outflows have been low."

Dykes adds that the position may change this month with a debt repayment due under the third interim arrangement. "And food imports resulting from the drought have not been reflected yet."

An increase in the gold valuation, from R856,13/oz to R892,07/oz, pushed up gold reserves 2,4% to R5,98bn, or 2,6% to $2,2bn — despite a decrease in physical gold holdings, from 6,8m oz to 6,7m oz.

Total reserves rose 10,8% to R11,3bn (11% to $4,1bn). ■

Govt set to unveil policy on tariffs

BDAY 14/8/92. (74)

PETER DELMAR

GOVERNMENT will unveil within weeks its final policies on tariff reform, technology and investment, and new guidelines for the general export incentive scheme (GEIS).

The reports will be released with Finance and Trade and Industry Minister Derek Keys's economic restructuring programme, which he has indicated will be released before the month-end.

Japie Jacobs, Keys's special adviser and head of the task force devising the policy, yesterday said it was envisaged that the proposed economic forum would debate the new programme.

Trade and Industry director-general Stef Naudé said the new industrial policies would dovetail with Keys's broader macro-economic plan.

"The technology policy, which has been the subject of extensive discussion over the past two years, is also being finalised in conjunction with the CSIR and the Industrial Development Corporation (IDC). The question of funding will determine the extent of policy's implementation.

"An investment policy, with specific reference to investment incentives is also on the drawing board, while new guidelines for GEIS have just been completed and are virtually ready for publication," Naudé said.

He said a final policy on tariff reform, which is being drawn up in co-operation with the IDC and the Board on Tariffs and Trade was in its final stages.

Government's tariff reform process was launched recently, taking as its cue SA's undertaking to GATT to reduce a range of tariffs and focusing on clothing and textiles and Phase VI of the motor industry's local content programme.

Jacobs said the task force, which was making good progress, had used as a frame of reference the Economic Advisory Council's long-term economic strategy, which was released in July.

"The task force is testing various economic alternatives and quantifying available resources to determine the possible rates of growth which can be generated in future.

"The objective is to ensure that available resources are employed in the most productive way in order to meet burgeoning needs in SA. Our strategy aims to meet this challenge.

"We are studying all the factors which affect economic growth and are concentrating on ways of increasing the productive capacity of the economy."

Stals happy with debt obligations

S/Times (Buss) 16/8/92

(74)

By CIARAN RYAN

THERE is no need to negotiate an early end to the debt standstill, says Reserve Bank Governor Chris Stals.

"The country can comfortably meet its foreign debt obligations because our gold and foreign currency reserves are healthy.

"The affected amount in terms of the third interim arrangement forms a relatively small part of our total foreign debt."

Discretion

Nedbank senior economist, Edward Osborn estimates that SA must repay a total of $1,2-billion to foreign creditors this year, of which $365-million — 30% — falls under the standstill. This is well covered by gold and foreign-currency reserves of more than R10-billion.

A large part of the debt not affected by the standstill will be rolled over by foreign creditors as it matures. By renegotiation, foreign creditors will have the discretion to roll over the standstill debt too, thereby easing pressure on SA's balance of payments. It would also allow foreign creditors to sell the debt on the secondary market.

After the Government's referendum victory in March approaches were made to foreign creditors to renegotiate the third interim arrangement under which SA must repay 3% of the R6-billion every six months.

Dr Stals says: "Our foreign creditors agreed that we should wait until 1993 when the third interim arrangement expires."

Standard Bank says in its economic review that preconditions for normalising SA financial relations with the rest of the world include a return to political negotiations and the presentation of a structural adjustment programme (SAP) which has broad support.

"South Africa would benefit tremendously if it could terminate this agreement and thus end the debt standstill through a normalisation of its relationship with foreign financial markets," says Standard Bank.

The SAP is necessary for the restoration of full International Monetary Fund (IMF) facilities, which would be essential for ending the debt standstill.

Dr Stals says renegotiating the debt standstill may be easier with the SAP in place, but is not essential.

"It depends on the conditions imposed by the IMF. In SA's case, the IMF might not impose the comprehensive conditions they demand of countries with serious balance of payments problems."

SA's total foreign debt is $18-billion, of which $12-billion is not affected by the standstill. The standstill was imposed in 1985 after former President Botha's Rubicon speech.

Pool

Mr Osborn says foreign creditors are happy to roll over non-affected debt because SA borrowers pay a premium for loans from abroad.

"We have been successful in rolling over our non-affected debt in the past and I imagine this will continue to be the case."

Dr Stals says that the phased removal of the financial rand is preferable to abolishing it overnight. SA can only contemplate removing the finrand when political stability is restored and the discount to the commercial rand is maintained at a low level for a reasonable time.

"The finrand could be phased out by restricting it to, say, JSE-listed equities. Non-residents could then start using commercial rands for all other types of investment.

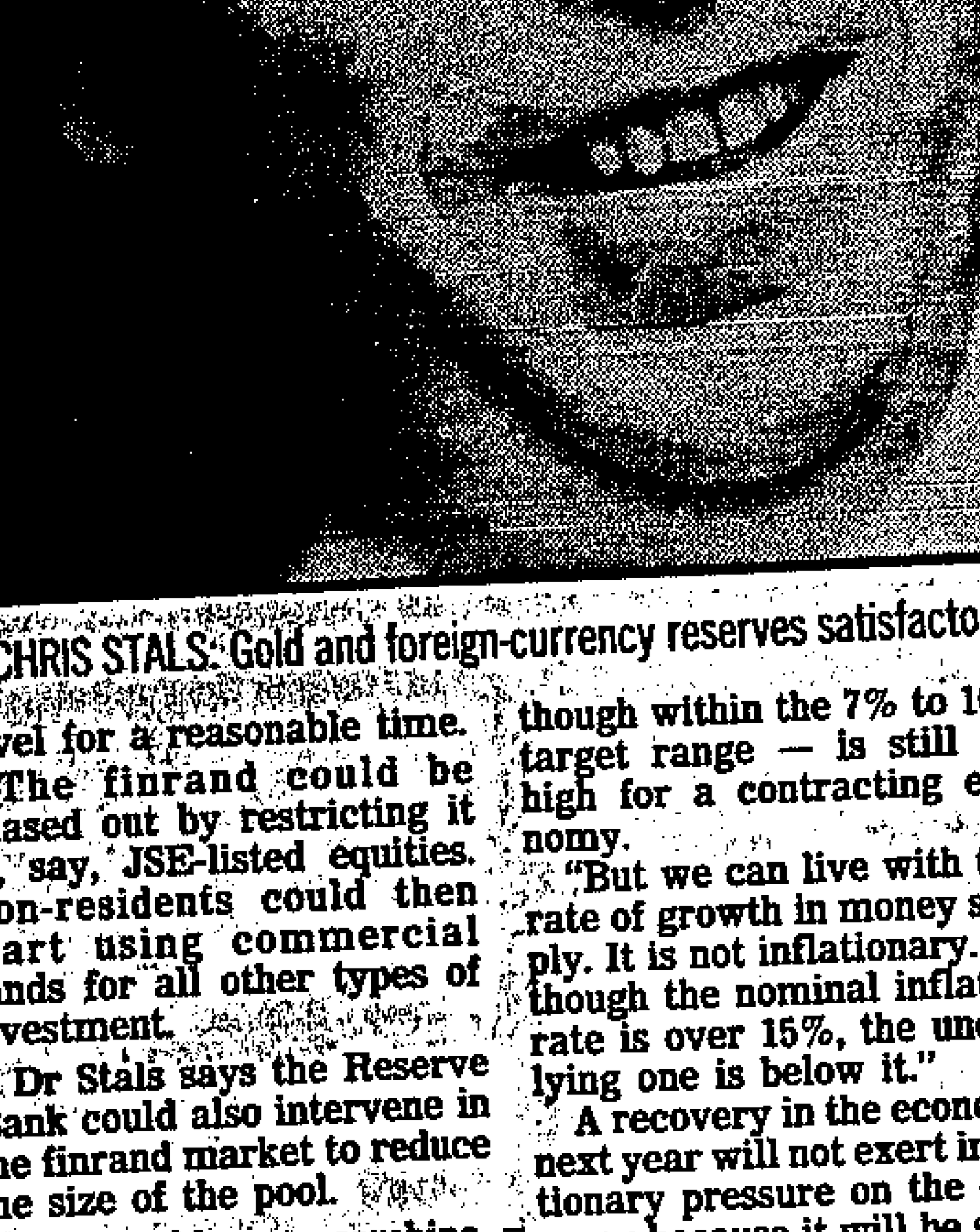
Dr Stals says the Reserve Bank could also intervene in the finrand market to reduce the size of the pool.

"We could use a combination of these two methods. But by phasing it out rather than abolishing it, we can retain some form of protection in case things go wrong and capital starts to leave in a big way."

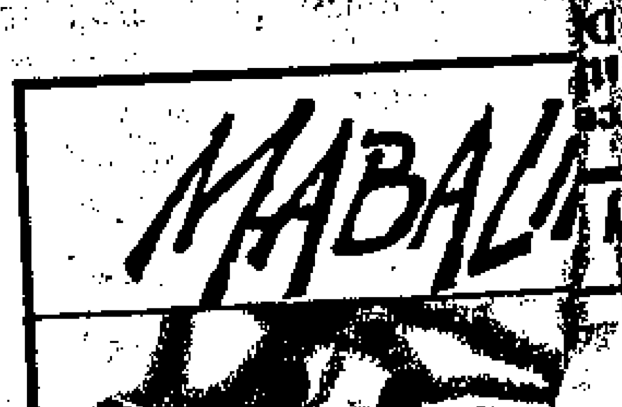
Dr Stals says the 9,05% growth in M3 money supply in June compared with the fourth quarter of 1991 — although within the 7% to 10% target range — is still too high for a contracting economy.

"But we can live with this rate of growth in money supply. It is not inflationary. Although the nominal inflation rate is over 15%, the underlying one is below it."

A recovery in the economy next year will not exert inflationary pressure on the economy because it will be slow and there is much spare capacity in industry.



CHRIS STALS: Gold and foreign-currency reserves satisfactory



SA 'will not lead regional forum'

BDay 17/8/92. 74

SHARON WOOD

WINDHOEK — A new regional economic body is to be formed today, with SA being warned that when it eventually joins it will have to "know its place" among its 10 neighbours.

The Southern African Development Community (SADC) will be established by a treaty signed by leaders of the current Southern African Development Co-ordination Conference (SADCC).

SA would not be the locomotive of the region's economy and such a notion would be shot down if it was brought to the SADC SADCC executive secretary Simba Maconi said at the weekend.

Maconi added that once there was democracy in SA it would be welcome to join the SADC.

The SA Customs Union (SACU) would have a place in the development of the SADC. Maconi said it would be a potential subset of the SADC. "It is much easier to build a fuller customs union based on the SACU."

He said it was the only functional customs union on the continent, and although it was imperfect and inequitable, it could be amended and strengthened.

An SADC would be implemented formally and practically before the African economic community was developed, a process expected to be completed within 34 years.

Maconi said the process of integration would take place by protocols in the various sectors. He hoped a timetable for the integration process would be decided on and presented at the organisation's annual donors conference in January next year.

"We are articulating a vision at best, and nothing is fine-tuned."

A spokesman for SADC's food security sector said over 2-million tons of food aid were still required because of the drought, but SADC would try to raise the funds within the region because it could not always look to the international community for money.

He hoped a food reserve project would be implemented within the next six to eight months, which would help countries in the region pay for food.

Levett wants devaluation of rand

DUMA GQUBULE

THE Reserve Bank's policy of maintaining a strong rand was questioned yesterday by Old Mutual chairman Mike Levett, who called for a devaluation of the currency to stimulate exports. BDAY 19/8/92

Presenting the assurance group's results, Levett said it was worrying that the currency's value was not reflecting differences between world and domestic inflation rates. Such a situation could easily result in a non-competitive currency in a high inflation country in a very short time.

The group reported a 22,6% increase in total income to R14,9bn for the year to end-June. Total managed assets grew by 21% to R87,3bn.

Forecasting an economic growth rate of "less than 2% for 1993", Levett said the country's significant upturns had always been led by exports and the performance of world economies. Stimulating the economy through exports was, therefore, preferable to using lower interest rates, which were already on the low side. He suggested pegging the rand to the weakest of a basket of currencies rather than the average, as the Bank was doing.

A weaker rand would result in better rand revenues for commodity prices and affect job creation by, for example, making marginal gold mines less marginal.

Levett said no country had experienced a successful change to a stable democracy without a sound economic performance before, during and after transition.

What was needed, he said, was a significant reduction in the level of uncertainty. This could happen only when realistic rules for the economic game were established and adhered to.

● See Page 13

Mutinous noises on board the good ship EMS

B/DAY 19/8/92 (74)

SIMON WILLSON

CONTINGENCY plans for a mutiny could be in the early stages of preparation below decks in the ungainly brigantine that sails as the European monetary system (EMS). Parts of the crew are restive, but whether they have the nerve to see through a putsch on the bridge is another question. By tomorrow afternoon they could be mightily provoked.

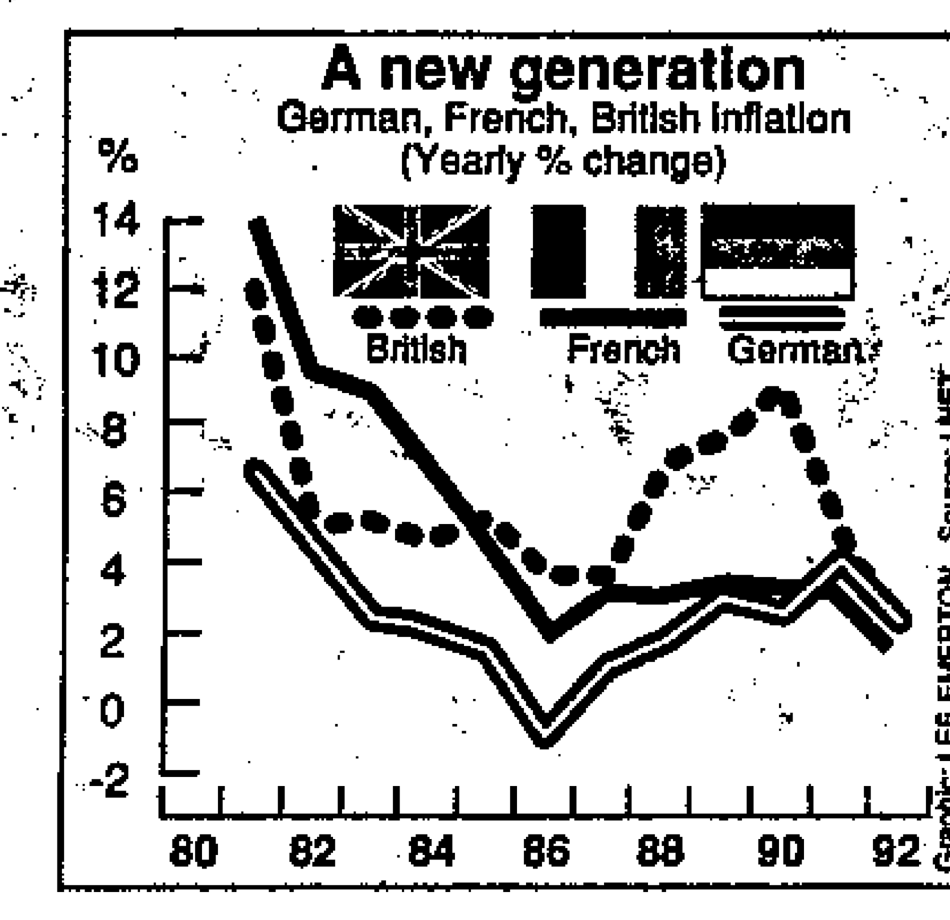
The British and the French are the chief agitators. Emboldened by their sparkling domestic inflation figures, they are itching to make their German commanders walk the plank.

Last Friday, UK inflation figures for July showed that prices had fallen 0,4% during the month — the biggest monthly fall in 25 years. At an annual 3,7%, UK inflation is at its lowest in four-and-a-half years.

Figures released on Monday showed French inflation edged up 0,3% in July to post an annual rate of 2,9% — the fourth time it dipped below 3% in the past 10 months. Inflation in each country is, for now, whipped: a perfect cue for a much-needed cut in interest rates.

Both economies need a relaxation in credit conditions. Britain's economic recovery, as UK second-quarter GDP figures due tomorrow are likely to show, has stalled. Unemployment is rising, but more slowly than a year ago. France has avoided a full-blown recession, but at a greater cost in unemployment. French June jobless totalled a record 2,92-million, or 10% of the workforce, with no slackening in the pace of redundancies.

As the first chart shows, both British and French inflation rates have dipped below Germany's for the first time in almost a generation. But there, paradoxically, lies the cause of the continuing credit squeeze in Britain and France. German inflation is likely to return to around 4% later this year once the technical twitch that produced July's one-point dip to 3,3% subsides. To counter this relatively high inflation rate, the Bundesbank is keeping German interest rates at record levels.

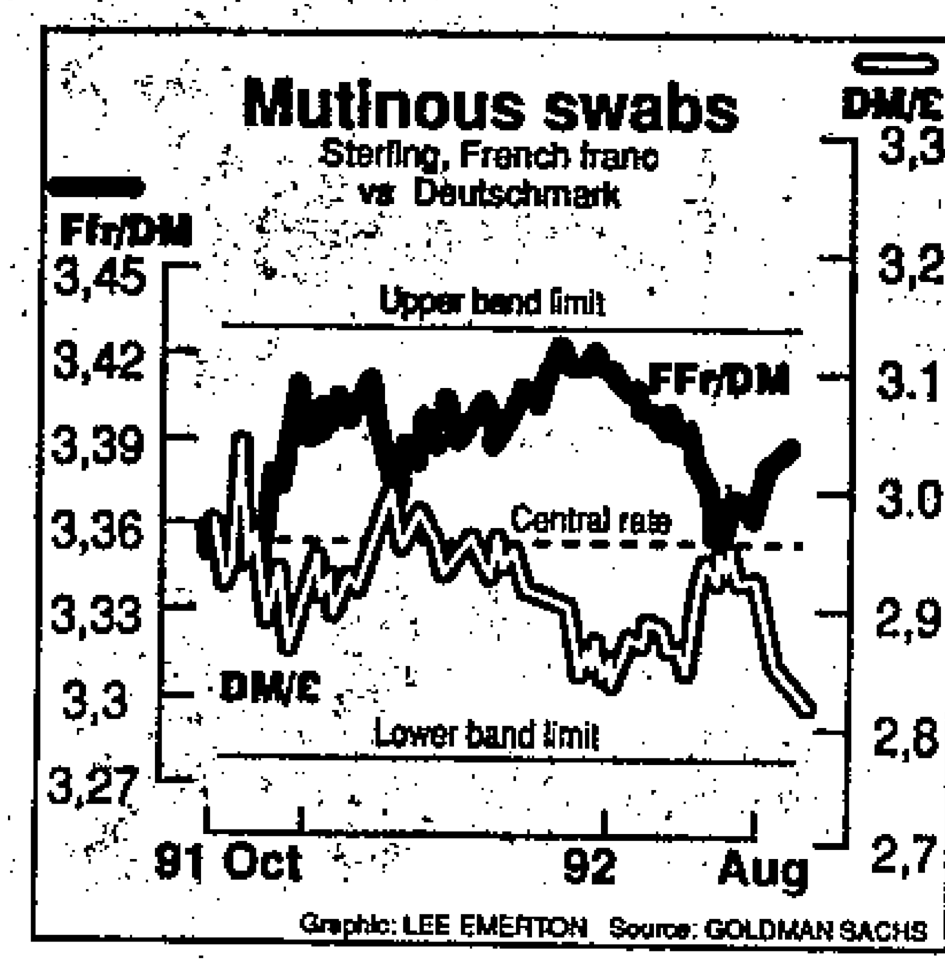


The obstacle to Britain and France trimming interest rates is shown in the second chart. High German interest rates are shoring up the Deutschmark to the point at which other exchange rate mechanism (ERM) currencies with lower rates fall close to the bottom of their permitted ranges. This appears effectively to rule out unilateral rate cuts by either Britain or France to appease their protesting economies.

Not so fanciful, however, is the notion of a joint British-French rate cut, using the combined weights of sterling and the franc in the ERM to take on the Deutschmark. This is the nature of the mutiny being plotted among the hammocks of the flagship so sternly commanded by Frankfurt.

Murmurings three months ago about a revolt have turned into fairly open hints that one is under consideration. London analysts originally speculated that a cut in sterling rates to below German levels might initially lead to a fall in the pound to the bottom of its 6% band either side of DM2,95. But the possibility that sterling, on economic recovery following the rate cut, might recoup 12% by going back to the top of the range might not look too outlandish.

The Bank of England surprisingly joined the seditious talk a month later when its deputy governor and chief economist separately and publicly speculated that other ERM rates could undercut Germany's. Then some influential UK industrialists began to coalesce around the idea of a franc-pound merger in the ERM, in which the combined weighting of the British and French currencies would exceed the Deutschmark's. The *fround*, set at Ffr10:£1, would offer a soundly based alternative to the high-inflation, unification-destabilised German currency. A well supported *fround* could have lower rates than the Deutschmark and not worry about its ERM bands.



What could spur the mutinous swabs to seize their cutlasses and storm the poop deck to enact their plans? Simple. Another German rate hike. Coincidentally, the Bundesbank meets tomorrow to review German rates in a week in which call money has regularly topped the supposedly penal 9,75% Lombard rate. German banks have been eagerly borrowing from the Bundesbank at this penal rate rather than at call. Will the Bundesbank just stand back and watch this bypassing of its credit restraints? We — and the potential mutineers — will know at about two o'clock tomorrow afternoon.

LETTERS

Stop the roller coaster — we want to get off

W.Mail 14/8-20/8/92. (74)

Investors are in a tizz over this week's market fall. Is the roller-coaster ride at an end, or is there worse to come?

REG RUMNEY *reports*

RIPPLES from the worldwide recession flowed through an already nervous Johannesburg Stock Exchange this week — turning into a flood of selling.

Investors were asking themselves whether the market had come to the end of the roller-coaster ride which started with the breakdown of negotiations at Codesa and the mass action campaign, or whether there was still worse to come.

On Thursday morning the market, as measured by the JSE's overall index, had fallen around two percent, after falling about three percent on Wednesday. Buyers were to be found at the new lower levels to which share prices had dropped, and there was some hope the market would return to some sort of health.

Before the fall, the market had started to recover in line with hopes for a return to negotiations.

Triggered by a pessimistic forecast about second-half results from diamond giant De Beers, the sell-off looked likely to be exacerbated further by a fall in platinum and gold prices.

What must be remembered is that such falls are driven by sentiment. So what would drive the market up again? Perhaps better news on a political settlement — though in times of market nervousness, bad news is received more enthusiastically than good and the long view is forsaken as investors bolt for cover.

The background to the fall is that while Wall Street remains resilient, the London Stock Exchange isn't doing well and Tokyo, whose sudden fall triggered the 1987 crash, is still in free fall. The major economies in the West are still in recession, or emerging rather shakily from it. Hence the demand for diamonds — a luxury purchase — has fallen, along with the outlook for De Beers.

De Beers, whose market capitalisation accounts for between eight and nine percent of the value of the shares on the JSE, is a bellwether stock in South Africa. Its fall must mean a knock to the JSE.

It wasn't just that De Beers' profits were far below some expectations, but that De Beers itself appeared to have misread the market.

De Beers' bottomline profits fell 26 percent in the six months to end June. Combined attributable earnings fell to $0,87 per De Beers/Centenary linked unit from $1,17 in the six months to end June 1991. On top of this, directors warned the poor results meant the final dividend could be cut. This was too much for overseas analysts, who felt a De Beers roadshow in Europe in June had pulled the wool over their eyes about De Beers' prospects for the second half of the year.

The share price drop of three percent on Wednesday was the largest one-day fall since October 1987. It wiped R1-billion off share values and raised fears of a repeat of the October 1987 crash.

The fall was not as large as the first big one-day drop of the 1987 crash, which was around a 12 percent drop, but it came at the end of a steady decline in share prices.

According to Frankel Kruger Vinderine economist Mike Brown, by mid-week the market had declined around 15 percent since the end of May.

Gold and platinum also fell this week. The price of an ounce of platinum on the New York Metals Exchange (Nymex) for October delivery fell to $354,30 from $367,70.

Following platinum, the price of an ounce of gold fell to $348,15 at the afternoon fix in London on Wednesday, compared to $350,35 at the previous afternoon fix. And on Thursday morning, gold fell further to be fixed at $339,25 an ounce.

'Corporate SA should be unbundled'

JOHN CAVILL

LONDON — Corporate SA should be unbundled to open up the economy, make it more efficient and competitive and create a new generation of multiracial entrepreneurs, say two of Lady Thatcher's former advisers in yesterday's Financial Times.

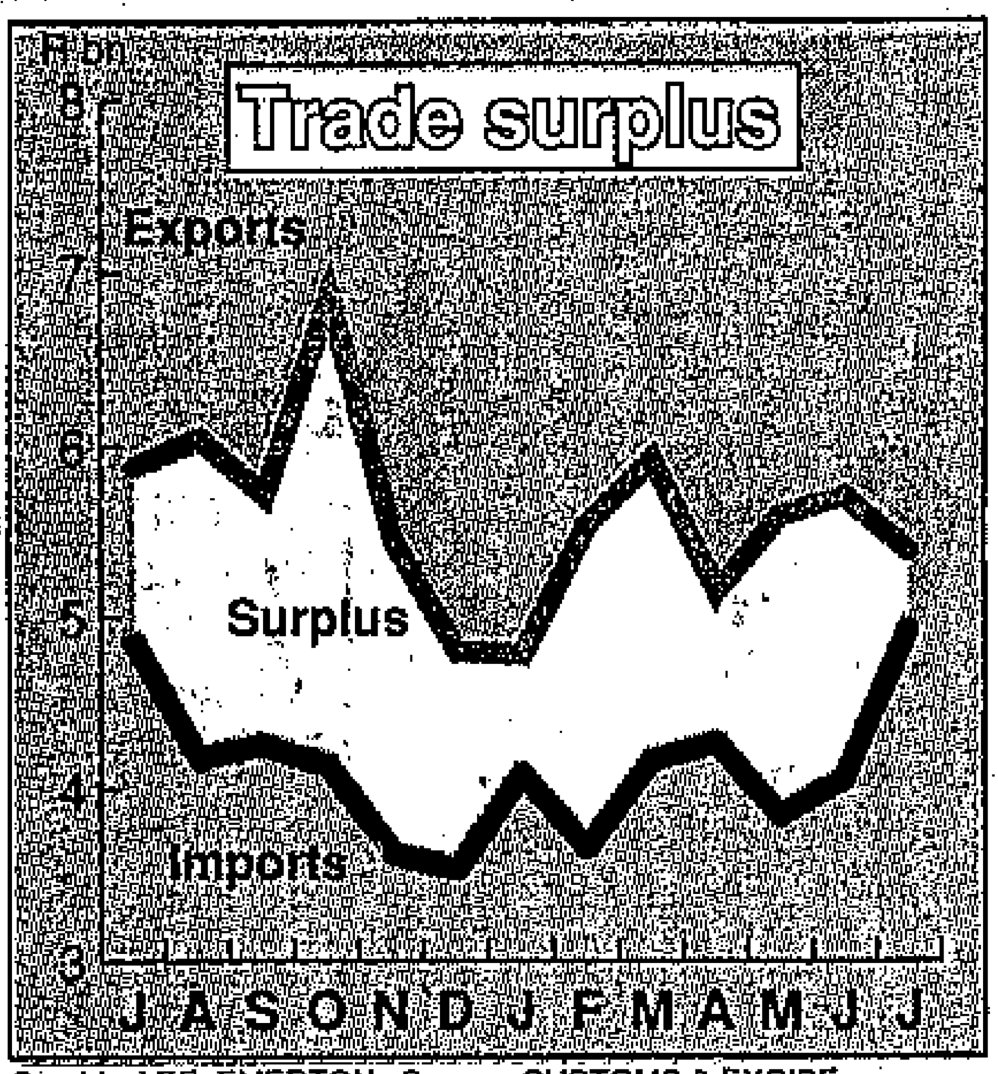
They are Sir Alan Walters, the former British prime minister's chief personal monetarist economics guru, and George Guise, former director of Consolidated Gold Fields who served in the powerful Policy Unit at 10 Downing Street for four years. Both influenced her drive against trade sanctions.

Walters and Guise say the "entrenched management cliques" of SA's dominant conglomerates are protected by pyramidal, interlocking interests. This means they are not truly accountable to shareholders and shielded from takeovers.

"As is well documented, conglomeration, especially with monopoly power and protection against intruders, leads to much inefficiency," they say. And it is reflected in the discount of the share prices of the big groups to the value of underlying assets.

With cost reductions "of 50% or more", SA manufacturers would become more competitive.

● See Page 8



Graphic: LEE EMERTON Source: CUSTOMS & EXCISE

Trade surplus dips to 16-month low

HILARY GUSH (74)

SLOWING mineral exports and a larger import bill saw the July trade surplus slump to a 16-month low of R457,9m from June's R1,66bn. BDAY 20/8/92

The surplus last recorded a low of under R500m in January 1991 when it plummeted to R144,5m following a surge in "unclassified" imports — largely crude oil.

July exports dipped to R5,43bn from R5,75bn in June on the back of a 14,5% drop in unclassified exports — mainly gold, platinum group metals and armaments.

Imports rose 21,5% month on month to R4,97bn in July from R4,09bn in June. Food imports led the rise in total imports, with prepared foodstuffs, beverages and tobacco up 78% on a year ago.

SA Foreign Trade Organisation economist Bruce Donald said SA's export growth had, in nominal rand terms, slipped back 3% in the first seven months of the year, compared with the same period a year ago.

"SA's exports are suffering the adverse effects of the general weakness of gold and platinum group metals prices over the past year. They are also being knocked by the global recession, which is placing downward pressure on other export prices and volumes, especially in the commodity categories."

☐ To Page 2

Trade surplus

BDAY 20/8/92 (74)

☐ From Page 1

He said although there had been a 15% increase in mineral product exports for the first seven months of 1992, the category's export growth showed a "significant loss of momentum in July".

Base metals had followed the same trend, falling back by 3%.

He said not all the signs were discouraging, and manufactured exports of transport equipment, chemicals, plastics and machinery showed strong growth.

Despite the drought, most agricultural exports had picked up in the first seven months of the year. However, in July the growth momentum slowed — a trend Donald expected to continue as the impact of the drought took hold.

Reflecting the depth of the current domestic recession, import growth in real terms was also down this year. In line with declining domestic production, imports of major industrial materials had fallen.

SA's trade surplus slides as imports rise

(74)

CT 20/8/92

By ARI JACOBSON

RISING imports and falling exports pushed SA's trade surplus down for the second consecutive month to R458m in July from R1,6bn in June.

Exports dipped to R5,4bn from R5,7bn in June and R5,9bn in July last year.

Imports were R4,97bn against R4bn in June and R4,88bn in July last year.

The unclassified sector, which includes oil, rose to take up about 60% of the total import bill for the month.

But SA's trade, on average, for the seven months to July still boasts a satisfactory R1,3bn surplus.

Economists described last month's performance as extremely worrying considering the influence of an agricultural import bill, which had largely still to impact on the trade figures.

"Very weak figures," commented Sanlam's chief economist Johan Louw yesterday.

Louw pointed out that the shortage of maize as a result of the drought would have a further negative impact on the trade bill in the coming months.

Economist Ursula Maritz said: "We have already started to see the impact of maize imports on the trade surplus — but it has been balanced somewhat by high fruit exports".

Louw continued that foreign exchange reserves, at R1,1bn in July, signalled positive inflows from the capital account.

Exports continued to move sideways as the overseas economies, slow to turn, failed to impact on stagnant commodity prices.

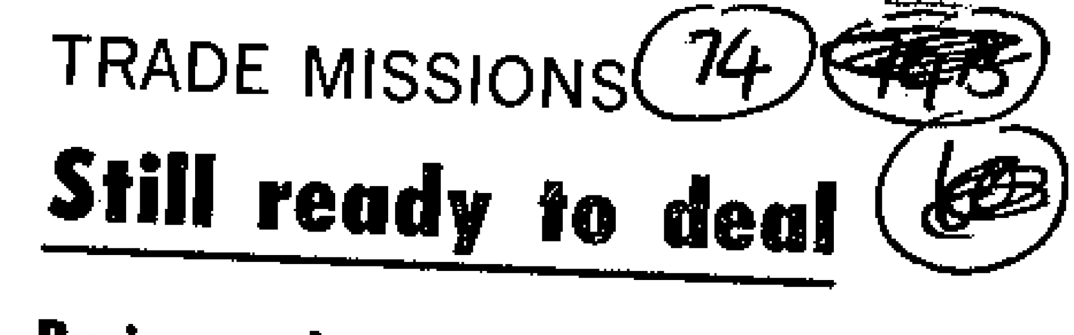
SA's mineral imports and base metals were down substantially, but surprisingly precious stones (mostly diamonds) were up fairly sharply.

The surplus for the first seven months of 1992 improved by more than R1bn to R38,4bn compared to the previous period last year.

For the seven months, manufactured exports performed well as did and transport, and its associated equipment sector up 63% from the previous year.

Plastic exports totalled R420,6m or 43% up from last year and chemicals (44%) and machinery exports (28%) remained strong.

Base metal exports decreased by 3% compared to last year, reflecting the poor commodity prices in world markets. But mineral products remained fairly buoyant.



TRADE MISSIONS

Still ready to deal

Businesses know that few foreigners intend investing here now. With political unrest, and a big question mark over future economic policies, putting money into SA is far too risky. Trade is another thing. So, with sanctions largely lifted, trade missions continue to land at Jan Smuts, as well as Louis Botha and D F Malan airports. FM 21/8/92

"The number of missions that have arrived in Johannesburg since the beginning of the year is in the mid-30s, compared with 44 in all of last year," says Marius de Jager, CE of the Johannesburg Chamber of Commerce & Industry. "They've come from places ranging from the US to China. This month a group of trade officials and business people from Czechoslovakia exhibited at Nasrec."

But political uncertainty has affected at least one mission. The Western Sweden Chamber of Commerce, which planned to send a delegation next month, has told the Johannesburg chamber that it was postponing its visit "owing to recent events culminating in the strike."

De Jager says: "Clearly, political events are having a dampening impact. Nevertheless, I doubt that many missions will be cancelled." He adds that the number dropped slightly in July and this month but attributes this to seasonal fluctuations — the European summer holiday — rather than waning interest.

Trade-group members do ask about the violence and the negotiations, but they're more concerned about mundane matters such as how promptly will goods be delivered and when they will be paid for products exported here. FM 21/8/92

The SA Chamber of Business's Ron Haywood says international traders are pragmatic about the situation. They know that, in spite of the media coverage, the country is not going up in flames and they recognise it as a key player in Africa, he says.

He adds that well-organised missions take a long time to put together and a decision to cancel one is not taken lightly. He also stresses that the visits are important because they allow businesses with mutual interests to meet face to face. "It is, of course, another matter with foreign investment. Would-be investors are more cautious than people looking for a product market or source."

Reserve Bank Governor Chris Stals agrees. "Uncertainties about the future, what kind of government we'll have, and what economic policies it will follow make it extremely difficult for businessmen here and abroad to commit themselves to long-term development projects," he said in a speech in Durban last month.

Though foreign investment might represent the gold medal, stronger trade would qualify for the silver. Indeed, some trade missions pave the way for a larger commitment. Last month, Russia opened a permanent mission in the Chamber of Business building in Johannesburg. South Korea will do the same. By expanding ties, trading partners eventually spot investment opportunities. And sometimes the trading volumes become so great that it makes sense to invest in a plant abroad instead of exporting. ■

Financial rand makes stirring recovery

SIMON WILLSON

REVIVED European interest and suspected Reserve Bank support boosted the financial rand to R3,71 against the dollar at the end of trading yesterday, from its close at R3,76 on Wednesday.

The finrand's rally completes a stirring recovery from Monday's finish at R3,84, when heavy offshore selling pressure, on anxiety about the prospects for resumed ANC-government talks, prompted European traders to ditch the unit.

"We saw a couple of London brokers back on the bid and sniffing around early in the session," a dealer said. Traders doubted that offshore interest alone could have accounted for the finrand's advance.

"I suspect there has been a bit of buying out of the big black tower," another dealer said, using trading room vernacular for the Reserve Bank. Since March the Bank has been intervening in the finrand market, accepting that this may reduce supply and narrow the finrand's discount.

"If the Bank wants to narrow the discount, its chances are better in supporting the finrand than in tossing another \$30m into the commercial rand market and watching it being swallowed up if and when the central banks come in to support the dollar," the dealer said.

(94)

25/6/92

Rand under pressure

STAR 24/8/92.

By Derek Tommey

A number of businessmen, seeking ways to "kick-start" the economy, which is now entering its fourth year of stagnation, have been calling for the devaluation of the rand against all the major currencies.

But they have not been doing their homework.

The devaluation they are calling for has already happened — and some of the expected benefits, such as increased exports and, if foreigners can be assured that it is safe to come here, a big jump in tourism should soon be upon us.

The fact is that in the past 12 months the rand has been heavily devalued against many of the world's most important currencies — and by an amount equal to the inflation rate.

Since last August the rand has dropped by 12 to 14 percent against the Belgian, Danish, German, French, Italian, Dutch, Austrian, and Swedish currencies.

It has fallen more than 11 percent against the Norwegian, Spanish and Swiss currencies, by 9,8 percent against the British pound, and by 4,2 percent against the Japanese yen.

But there have been some gains.

It has risen 3,7 percent against the US dollar, 8,9 percent against the Canadian dollar and 12,3 percent against the Australian dollar.

However, these gains are probably only temporary.

A win by President George Bush in the November election could see the US and Canadian dollars rise sharply.

Any gains made by the rand against these currencies could be wiped out overnight.

A recovery in the world economy would help the Asutralian dollar.

Admittedly, depending on the political situation in SA, it could also help the rand.

But then the economy should again be moving and perhaps South Africa could be able to live with a firmer currency.

Dollar slips to all-time low

NEW YORK — The dollar fell to an all-time low on Friday against the German mark, despite repeated attempts by the Federal Reserve Board and central banks of other nations to prop it up. STAR

The dollar's plunge hurt stock prices. The Dow Jones industrial average plummeted 50,79 points to 3 254,10. 24/8/92.

The dollar has been sliding for months over concern about the direction of the US economy and the higher interest rates available on investments abroad.

Higher rates abroad mean investments denominated in dollars, such as Treasury bonds or certificates of deposit, earn less than if investors put their money in similar securities in Germany, for example. (74)

Analysts and currency traders said the dollar's fall to a historic low was not prompted by any particular event.

Rather, it was a continuation of a trend fed by the interest rate differentials, the sluggish US economy and uncertainty about the presidential race.

President George Bush's acceptance speech on Thursday at the Republican national convention should have boosted the dollar, one trader said, because he talked about plans to stimulate the economy through tax cuts. But the speech had little impact. — Sapa-AP.

No ground made on sagging dollar

Rand plunges despite strong Bank support

BDAY 25/8/92 74

SIMON WILLSON and GRETA STEYN

THE commercial rand sank to new lows against sterling and the Deutschmark yesterday, despite repeated Reserve Bank attempts to support it.

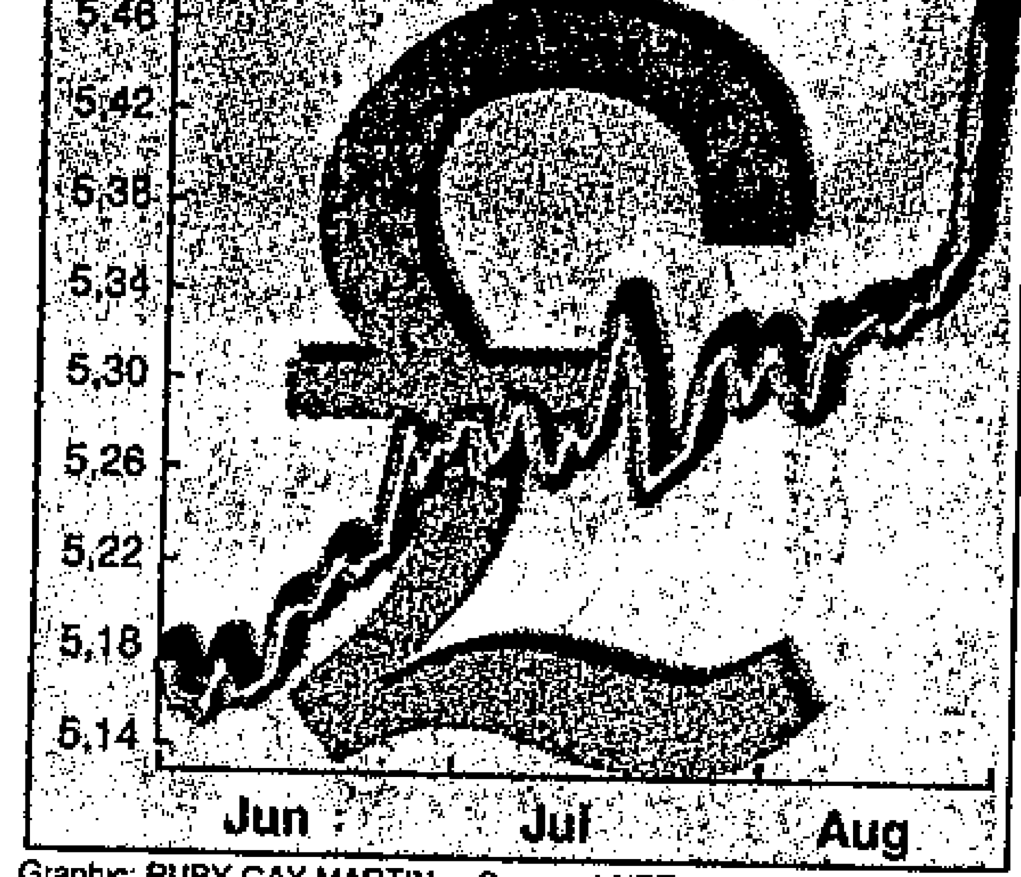
By the close of a turbulent session on the foreign exchanges, the rand had dropped to R5,4720 against the pound, and bought only DM0,5115. A week ago the rand stood at R5,3320 and DM0,5290.

In a clear rebuttal of recent calls for the rand to be allowed to depreciate, the Bank has, over the past two weeks, frequently entered the market to defend it and did so again yesterday. Dealers said Bank intervention to support the rand was almost continuous.

The Bank, almost alone in selling dollars while other Western central banks were buying them in concerted action to support the US currency, made little headway. The rand ended the day at R2,7608 — nearly a cent adrift of its opening dollar level of R2,7518.

On a day when the dollar lost two pfennigs against the Deutschmark in afternoon trading, the rand should have posted appreciable dollar gains as the US unit dived to new Deutschmark lows. Instead, the rand hovered in the mid-R2,75s before easing against the dollar late in the day.

"We should have had the rand at R2,72 as the dollar dropped to DM1,40. Instead, we would have seen R2,78 without the intervention," a dealer said.



Graphic: RUBY-GAY MARTIN Source: I-NET

By not making any ground on the sagging dollar, the rand was trampled on the cross-rates against major third currencies which made dollar gains all day long.

"It was incredible. We saw the dollar drop 200 ticks in two hours while the rand basically stood still and did nothing. It really took a bath on those crosses," a trader said. "The big black tower (dealing room argot for the Reserve Bank) put dollars in all day and got nowhere."

One analyst reckoned the rand lost around 2% of its trade-weighted value against a basket of trading partners' currencies in yesterday's eight-hour trading session alone.

Dealers believe a few large import or-

□ To Page 2

Rand dives

BDAY 25/8/92 74

□ From Page 1

ders for dollars are passing though the market in tranches. The dollar orders are thought to be unfinished, with the buyers poised to bid for anything up to another $200m today while the dollar continues to test record lows on world markets.

Further pressure on the rand cross-rates is therefore expected to develop soon after the market opens this morning. Traders are convinced the Bank will again defy the calls for a weaker rand and enter the market to defend the rand if its trade-weighted value is again threatened.

The Reserve Bank will provide the market with more signals on exchange rate and monetary policy at its AGM today. Its policy on keeping the rand firm and maintaining high real interest rates has come under fire as SA fails to emerge from the second longest recession this century.

The Bank's note of caution on monetary policy at the weekend failed to dampen bullish sentiment in the money market, with interest rates signalling a two percentage point cut in Bank rate in the next few months.

The key 90-day liquid BA rate softened further to its lowest level in more than four years at 12,4% from Friday's 12,55%. The bullish sentiment was also reflected in the sharp drop in the Treasury bill rate to below 12%.

Dealers said the wide margin between the BA rate and Bank rate (15%) showed the market had already discounted a cut of about two percentage points in Bank rate, the rate at which the Reserve Bank lends to the banks. Rates are out of line with Bank rate as demand and supply conditions in the market continue to push them lower. The demand for credit has failed to revive as the recession continues to bite.

Bullish sentiment was further fuelled by expectations that inflation would fall to 12% by the year-end, dealers said. Economists said July's inflation rate, due for release this week, could be as low as 14,3%. Capital market rates bucked the trend by hardening slightly but dealers said this reflected profit-taking rather than a reversal from the recent bull run.

Offshore purchasing adds to gilts boom

HILARY GUSH

SHARPLY increased government stock sales by the Reserve Bank were matched by steadily rising foreign purchases of public sector bonds in the first half of 1992, said the Bank's annual economic report.

The report, published on Monday, said net sales of government stock had reached R10,3bn in the first four months of this financial year compared to R7,7bn and R12,2bn recorded in financial years 1990/91 and 1991/92.

Softening interest rates and an expected decline in long-term fixed interest stock yields saw trading activity in public sector stock pick up in the second quarter of this year to R112,3bn.

This was sharply higher than the R89,5bn recorded in the first quarter, and 1991's average quarterly trading level of R62,3bn.

Foreign investors had been active in the local capital market in the first quarter when net non-resident purchases of public-sector stock amounted to R1,1bn, compared with 1991's total of R2bn. The Bank attributed the markedly higher overseas gilts trade to the "favourable returns offered on fixed interest securities purchased with financial rand".

An end to the EC's financial sanctions had enabled SA institutions to roll over maturing loans or successfully float large stock issues in European financial centres. The report said since the public sector's first stock issue in September 1991 it had raised R2,7bn on foreign capital markets.

In line with the goal of financial market development, total Reserve Bank transactions in government stock increased from a monthly average of R3,9bn in 1991 to R10,4bn in the six months to June 1992.

Government stock option trading by the Bank also ticked up — from 1991's monthly average of R2bn to R4,6bn in the first six months of this year.

'All-at-sea' Chinese attend course at Wits

(285) (74) KATHRYN STRACHAN (584)

A LARGE contingent of businessmen from mainland China, seeking to invest and trade in SA, arrived in the country last week to attend a business course at the Wits University Law School. BDAY

When China and SA established trade and diplomatic links recently, Chinese businessmen found themselves all at sea with the ways of their potential new business partner. The 30 Shanghai and Beijing businessmen will be attending a specially designed four-week course to inform them on the local legal and business environment. 26/8/92

The course — designed by Wits international trade lecturer Leora Blumberg — will cover topics such as the investment environment, taxation, industrial relations, political changes, and problems facing foreign investors.

It was designed after the China Consulting Centre approached Wits Law School.

Blumberg said it was the first time the university had been approached by potential foreign investors. It was unusual for foreign investors to commit so much time and money to finding out about SA.

Wits law professor Michael Larkin said if the course proved to be successful, the law school would look at further programmes which would be broadened to include all foreigners.

Rand likely to drop to 6 to the pound

STAR 26/8/92 (74)

Finance Staff

Bankers are expecting the rand to slump to R6 to the British pound soon if, as expected, Britain raises interest rates and gives a further boost to already strong sterling.

The rand plunged to a record low of R5,53 to the pound yesterday, cheering exporters to Britain, but depressing importers and South African tourists.

The commercial rand has been dragged down by the headlong fall of the American dollar.

It worsened yesterday from its R5,41 level at the weekend, and from R5,33 only a week ago.

The rand is also worth little more than half a German mark, falling to its lowest level of DM0,51 on Monday, a level it maintained yesterday. The rand, however, held steady against the US currency at a level of R3,73 to the dollar.

Exports of fruit, wines and other goods could bring in record earnings this year, as Britain and Germany are among SA's biggest markets.

But goods imported from Europe could cost much more, pushing up local prices and inflation.

The rand faced fresh danger as the US and its rich allies were losing the battle to stop the dollar's plunge, and economists said a full-blown currency crisis could erupt.

The dollar's value has dropped amid concern about the US economy and the higher interest rates offered on investments in other countries.

In spite of the fall in the rand's value, holiday traffic to Britain remains heavy, according to a travel agent.

"Few South Africans can afford to stay in British hotels, and most either stay with relatives or go for bed-and-breakfast accommodation," he said.

Devaluation of the rand is ruled out

SIMON WILLSON (74)

RESERVE Bank Governor Chris Stals yesterday ruled out any relaxation in monetary policy or devaluation of the rand to ease the effects of the recession.

Speaking at the Bank's annual meeting in Pretoria, he said the reduction of inflation remained a policy priority, even if it involved painful and unpopular measures.

Stals acknowledged that pressure had been growing for a relaxation in monetary policy to stimulate the ailing economy. But monetary stimulation and rand depreciation merely provided veils to conceal weakness and inefficiency.

"Attempts to stimulate the economy at this juncture by the injection of more money will again stimulate inflation and eventually erode the growth potential of the economy even further, giving rise to even more unemployment," Stals said.

"We cannot rely continually on a depreciation of the exchange rate of the rand to provide protection against inherent weaknesses in the local production structure, just as we cannot look to a large-scale injection of new money to stimulate growth."

BDAY 26/8/92

Stals said the Bank's exchange rate policy supported the notion that SA producers had to remain competitive in international markets, both as exporters and as suppliers of the domestic market.

In the interest of economic development, SA should be open to foreign competition. SA producers had to be exposed to international pressures for improved productivity, greater efficiency and a higher quality of products which would be to the benefit of the SA consumer.

"In the short term a depreciation of the internal or the external value of the currency conceals under a veil of rising prices the shortcomings of the system; in the long term it erodes the capacity of the economy to meet the needs of the community."

Efforts to cure the fundamental deficiencies of the economy through monetary stimulation would only conceal inherent weaknesses under a veil of monetary expansion. "Such a course will stimulate in-

☐ To Page 2

The rand

BDAY 26/8/92 (74)

☐ From Page 1

flation and eventually require an even more painful adjustment," Stals said.

In keeping with the objectives of official policy, the real effective exchange rate of the commercial rand had shown a modest appreciation of 1,6% between December 1990 and July 1992. However, the Bank had not achieved its financial rand goals.

After announcing earlier this year its intention to intervene in the finrand market, the Bank had made net purchases totalling R229m in the four months to July. The finrand had, however, depreciated over this period from R3,36 to the dollar in April to R3,87 at the end of July.

Stals said events in the political arena "have proved that the Reserve Bank is not yet in a position to stabilise the financial rand exchange rate through its intervention operations".

It was disappointing that consumer inflation remained stubbornly high despite the significant progress made in reducing monetary support for rising prices. There were unavoidable and relatively long time lags between the application of monetary instruments and their effect on inflation.

In addition, there were certain "once-only" factors that had affected the inflation rate over the past year, including VAT, the change in the consumer basket used to measure price changes, and the drought. These factors were either non-recurring or reversible, and meant the consumer price index did not truly reflect the progress made over the past year in reducing underlying inflationary pressure.

"An economy that is beset by inflation and fear of future inflation cannot and will not function well. This has been the experience of countries all over the world, and it applies equally to SA.

"The Reserve Bank therefore believes that it is in the interest of all South Africans to persist in the fight against inflation, even if this does require the retention of currently painful and unpopular measures. The reduction of the inflation rate must remain a policy priority, even in the present subdued economy."

The Bank was convinced that its policy of aiming at a low rate of money supply growth, positive real interest rates and a relatively stable exchange rate was in the best interests of the SA economy.

"The Bank therefore remains committed to pursuing its mission of protecting the internal and external values of the rand."

● Comment: Page 6

Gilt millionaires

By JULIE WALKER

THE JSE WEEK

GLOOM on the equity floor could hardly contrast more starkly with the carnival atmosphere on the gilt market.

Several millionaires have been made over the past few weeks as rates gave up almost 100 points to well under 15%. Holders of call options only weeks ago have made plenty of money and expect more.

Their impoverished partners on the equity floor saw their worth decline even more this week. The market overall has shed 10% since the early June peak and the industrial index is down by 12%.

The cash-rich institutions have switched attention from private equity to public-sector debt.

At the start of June everyone on the JSE expected a correction of up to 20%, but halfway through, the mood is one of despair. World economics, domestic politics, strikes and joblessness are getting to the JSE at last.

Not even gold's encouraging advance to $360 could stimulate buying of all but the best golds — Freegold, Vaal Reefs, Driefontein.

Rembrandt companies have been hard hit. From above R29 in early June, Remgro has lost almost 20% to R23,65 and SA Breweries has given up 15% to R51,75.

Tongaat shed 325c to R16 in a single deal of barely 1 000 shares on Friday, but was bid higher at the close.

TRADE— 2

Surplus pressures

The trade surplus of R457m in July was the lowest since the R151m recorded in January 1991.

And the surplus for the first seven months of the year — at R9,2bn — was only 2,6% higher than the surplus in the same period last year.

Imports in the month amounted to R5bn, bringing the cumulative figure for the year to R29,2bn (2,9% up on the same period last year). Exports of R5,4bn brought the total for the first seven months to R38,4bn (2,8% up).

A breakdown of imports shows:

☐ The category *unclassified*, which includes oil and balance of payments adjustments, amounted to R811m — well up on the R285m in July.

The total for the year of R3,5bn, however, is 9,9% lower than in the same period last year;

☐ Vegetable products, a category which includes maize, was R264m (R241m in June) pushing the cumulative figure for the first seven months to R1,1bn (up 52,8% on the first seven months of 1991);

☐ Chemical products, R569m (R463m) to R3,3bn (up 4,1%);

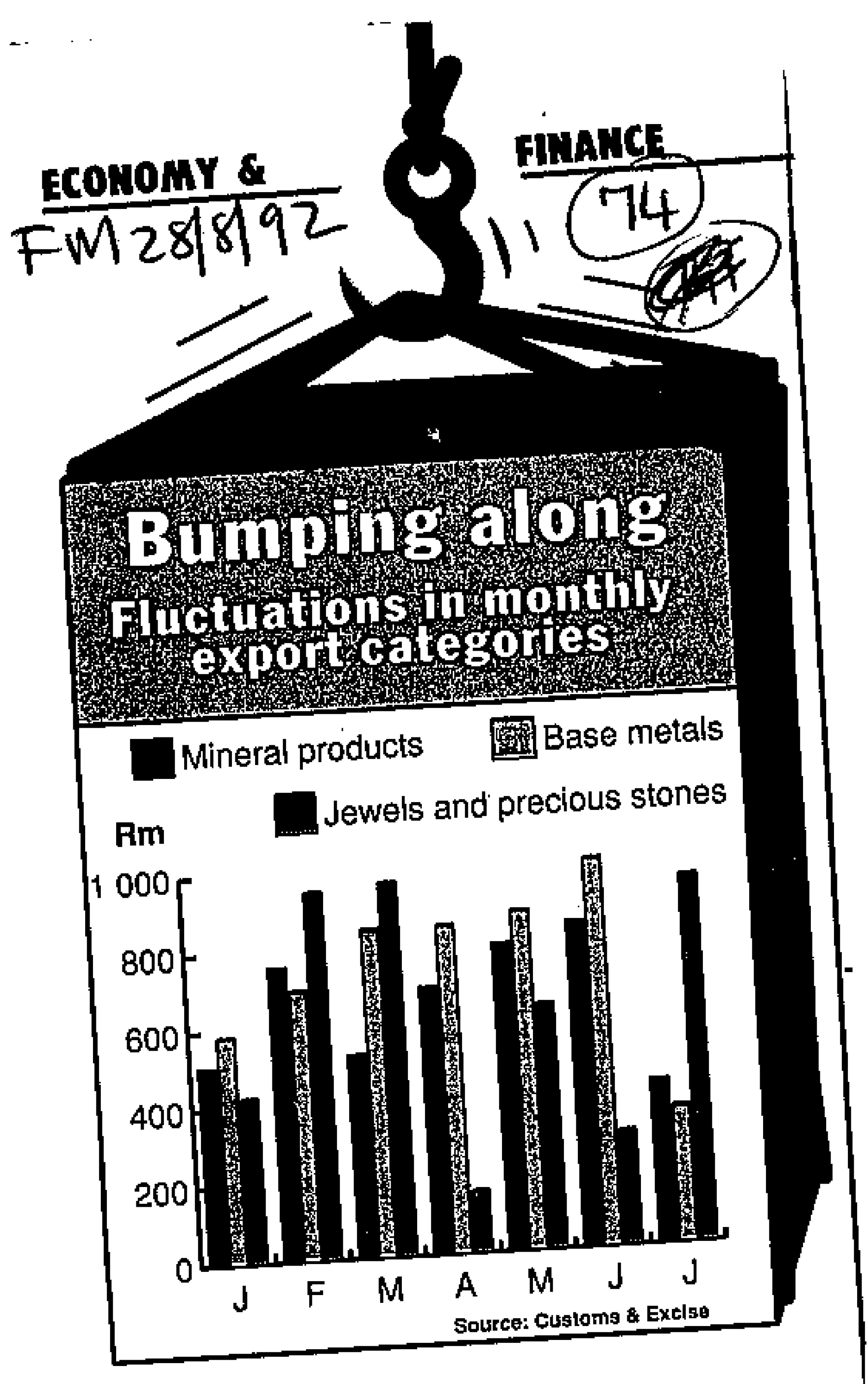
☐ Machinery R1,3bn (R1,2bn) to R8,7bn, (up 8,8%); and

☐ Vehicles & transport equipment R579m (R493m) to R3,5bn (down 12,1%).

The performance of major categories of exports was uneven:

☐ Minerals R422m (R841m in June) to a cumulative R4,5bn (up 13% on the same period of the previous year);

☐ Base metals R349m (R997m) to R5,2bn



(down 3,1%); and

☐ Jewels and precious stones R943m (R291m) to R4,4bn (up 29,5%). ■

R6-bn spent stabilising the rand

STAR 28/8/92 (74)

By Sven Lünsche

The Reserve Bank has spent more than R6 billion in the past 18 months to prevent the effective exchange rate of the rand from appreciating, the Bank's governor Dr Chris Stals said yesterday.

He told a breakfast meeting of the Johannesburg Chamber of Commerce and Industry that the Bank would not artificially devalue the rand to boost exports.

The authorities aimed at a stable exchange rate which reflected the producer price inflation differential between South Africa and its major trading partners.

Since this margin had narrowed signficantly in line with the fall in the PPI, the relatively small 1,6 percent fall in the effective exchange rate of the rand in the first seven months of the year was sufficient to maintain a stable exchange rate.

The sharp rise in the country's gold and foreign exchange reserves in the past 18 months had led to surplus demand for rands and made it necessary to intervene to keep the rand moving in line with these inflation differentials.

SA's reserves had risen from R400 000 in June 1989 to R11,36 billion at the end of July and a further increase was achieved in August.

The Bank had bought R230 million of financial rands between April and July "mainly as a supplementary instrument for liquidity management."

Africa ignored despite its many opportunities

ST Times (BUSS) 30/8/92

(74)

By CIARAN RYAN

ALBERT Nelissen, who opened more doors in Africa than the Department of Foreign Affairs, retires this week with a hint of disappointment about the world's growing lack of interest in the continent.

The outgoing chairman of Premier International finds SA's phlegmatic commitment to investment in Africa particularly irksome.

Mr Nelissen, 58, says: "After 12 years of flying around Africa I am exhausted and a bit disappointed. There are boundless opportunities in Africa.

"SA companies look all over the world for opportunities. Apart from one or two exceptions, they ignore Africa when it is throwing its arms open to us. Premier International demonstrated that trade with Africa was possible — and profitable."

Tone

While SA companies were abandoning their African interests, Mr Nelissen was in Lusaka to open trade avenues for Premier. On his second visit, he met former President Kenneth Kaunda, whom Mr Nelissen still counts as one of his closest friends.

Dr Kaunda introduced the affable Belgian to the ANC's Oliver Tambo and Thabo Mbeki in the early 1980s when such contacts were viewed by the PW Botha Government as subversive, if not treasonous.

The temperate and conciliatory tone of the ANC leadership at that meeting conflicted sharply with National Party propaganda.

Mr Nelissen says: "I never discussed politics with anyone. My purpose was to establish friendships, build trust and open up communication.

"Oliver Tambo particularly impressed me. Were it not for his poor health, I think he would have a vital role in SA's future."

Dr Kaunda introduced Mr Nelissen to a host of African luminaries.

The art of doing trade with Africa is to hedge against coups and political insurrection by garnering support among existing and potential leaders.

Mr Nelissen established a working relationship with Dr Kaunda's successor, Frederick Chiluba, while remaining friendly with the former president.

He was a frequent house guest of Zaire's President Mobutu Sese Seko, but maintained a healthy dialogue with his rival and newly appointed Prime Minister Etienne Tshisekedi.

Denial

Mr Nelissen says Mr Mobutu has been unfairly maligned by the world press. It is claimed he has a personal fortune equal to the country's national debt of $8-billion.

"I asked him if this was true and he emphatically denied it. He certainly has many assets, but insists he does not even have the cash to pay staff at his Monaco property."

When called on to send food to drought-ravaged central Africa, Mr Nelissen happily obliged, dispensing with the usual trade formalities.

In the past decade Premier built a trading empire in Africa worth an estimated R400-million a year. It pioneered the concept of bonded warehouses, a type of supermarket where purchases are settled in foreign currency and declared to customs officials at the check-out counter.

Mr Nelissen concedes that trading in Africa is a fickle business. Contacts with Zaire have all but ceased in the wake of last year's riots.

Mozambique closed foreign-currency supermarkets on the instructions of the International Monetary Fund (IMF) which has taken virtual control of the economy.

"The IMF is responsible for a lot of suffering in Africa. It insists that governments do away with food subsidies when people have less money. It's not that easy. The result is food riots, undermining political leadership."

Golf

As chairman of Premier International, Mr Nelissen was almost impossible to track down: one day in Cairo, Maputo the next and the rest of the week in some dusty outpost looking for business opportunities. In 12 years he visited 43 countries.

"I haven't had time for a normal family life. I want to spend a few months in Europe, catch up with my reading ... and learn to play golf."

Already the job offers are rolling in from those seeking to tap his network of political and business contacts in Africa.

His advice to those who would follow in his footsteps? "Build long-term relationships, get to know the politicians, establish trust and discard the common notion that you have to bribe your way through Africa — corruption is on the decline."

Standard discourages devaluation of rand

BDAY 1/9/92

SHARON WOOD

A RAND devaluation was not necessary, given SA's current account surplus and comfortable debt management position, Standard Bank said in the latest issue of its Economic Review.

The bank was responding to the furious debate which has emerged in recent months about whether the Reserve Bank was following an appropriate exchange rate policy.

"Taking into account SA's generally improved export performance ... and exemplary foreign debt management, it is hard to concur with the view that the trade-weighted value of the rand ought to be made to depreciate as a matter of policy," it said.

A realistic exchange rate policy was a key starting point for structural adjustment of the economy.

There were two exchange rate policy options available to the Reserve Bank.

The first was to facilitate export price competitiveness, with the nominal effective exchange rate depreciating by the full inflation differential between SA and its trading partner.

The second was exchange rate management aimed at containing inflation.

The Standard Bank argued the Reserve Bank had generally been able to achieve a balance between the two.

"Devaluation is a policy instrument used by seriously distorted developing economies to enhance export competitiveness and to ration imports, often drastically, because they cannot service or repay foreign debt obligations."

In addition, the bank said, if SA exporters felt short-changed by a strong-rand policy, they chose to ignore that this had been partly compensated, at the taxpayers' expense, through the general export incentive scheme (GEIS) and VAT exemptions on exports.

"Moreover, the policy was precisely designed to force exporters to become more efficient by improving their labour and capital productivity," it added.

Standard Bank set out two other key requirements to begin a structural adjustment programme.

These were monetary and fiscal restraint and the political will to undertake significant economic reform.

Challenge

Monetary restraint had been a success but fiscal policy remained too expansionary and was at odds with macroeconomic balance, it said.

Political consensus was necessary for the successful implementation of structural adjustment, it added. "The tepid support given by the government to economic reform and the ambivalent attitude of important political players — notably the ANC — to markets underscores the policy challenge facing the economy."

Standard Bank believed the Economic Forum could be a useful instrument for discussing and "marketing" policy recommendations.

The Star Tuesday September 1 1992 19

Clewlow sees a new SA as the Japan of Africa

STAR 1/9/92 (74)

South Africa is the gateway to Southern Africa and a time must come according to Barlow Rand chairman, Warren Clewlow, when the country will start to play the role of "the Japan of the African continent".

In notes prepared for delivery at the annual National Productivity Institute's awards last night Mr Clewlow said that South Africa was in a sombre mood with economic and political issues in the forefront.

He said people were living in difficult times where inflation seemed to go on and regular price increases becoming a way of life.

This along with increased retrenchments by businesses to survive was compounded by the violence and uncertainty that went with political change.

Mr Clewlow stressed that for South Africa to be more successful in the future it would have to change from a mining dominated to a more manufacturing orientated economy.

He pointed to the fact that while manfacturing in major world economies had grown over the years by some five per cent, South Africa, as a supplier of raw materials, was supplying a market which had declined by 3,5 percent.

Mr Clewlow also questioned the economic cost of politics and policy saying it was unhealthy to use the large base of unskilled labour as "a pawn in the political power play" which was weakening the economy "at the worst possible time for the country."

Mr Clewlow said South Africa was starting to see the effect of a new direction in channelling the unproductive element of expenditure into more cost effective and appropriate areas.

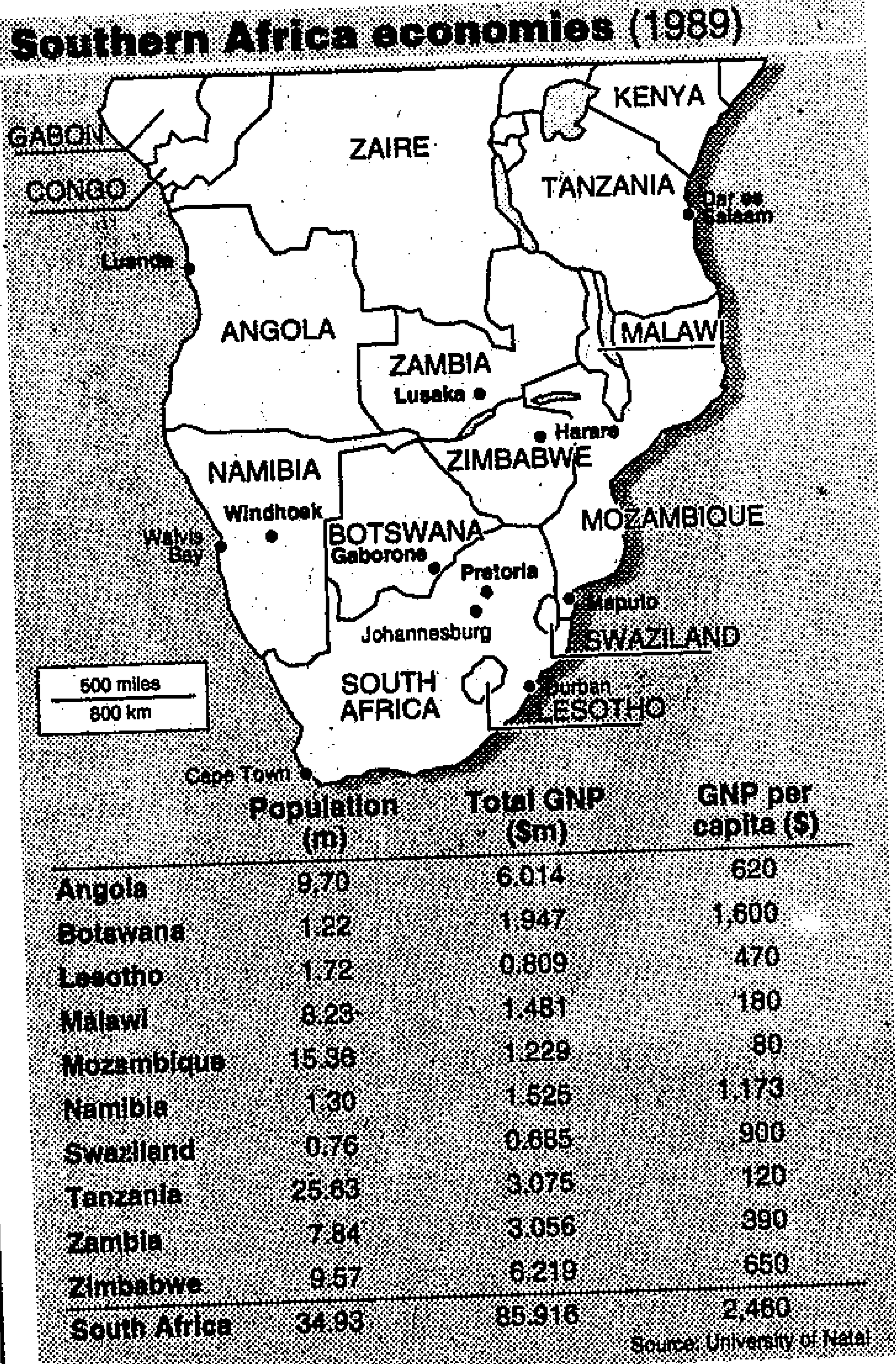
But, this he said would take time to be effective and in the meantime the economy would have to carry the heavy burden.

Mr Clewlow highlighted the advantages favouring South Africa as the powerhouse of Sub-Saharan Africa.

These included the country's infrastructure, market economy, sophisticated formal business sector, good agricultural sector, the international success of some South African companies and competent economic policy makers.

SA cannot flourish in isolation

Star 1/9/92 (74)



Southern Africa economies (1989)

	Population (m)	Total GNP ($m)	GNP per capita ($)
Angola	9.70	6.014	620
Botswana	1.22	1.947	1,600
Lesotho	1.72	0.809	470
Malawi	8.23	1.481	180
Mozambique	15.36	1.229	80
Namibia	1.30	1.525	1,173
Swaziland	0.76	0.685	900
Tanzania	25.63	3.075	120
Zambia	7.84	3.056	390
Zimbabwe	9.57	6.219	650
South Africa	34.93	85.916	2,460

Source: University of Natal

Economic need has concentrated political minds in southern Africa where seven countries are co-operating in the handling of 8,2 million tons of maize imported into the region, which has been devastated by one of the worst droughts this century.

At the heart of the scheme is Spoornet, the state-run South African rail company, enjoying a level of regional co-operation which would have been unthinkable during the apartheid years.

Although co-operation over the shipments was prompted by fears in some areas of possible starvation, it is also a sign of it being more acceptable for South Africa's neighbours — Lesotho, Swaziland, Zimbabwe, Botswana, Zambia and Malawi — to be seen doing business with it now that a transition to democracy is under way.

This raises the question of what steps South Africa should take to integrate itself formally into the region and what sort of economic assistance the international community can offer.

At the heart of these issues lies one broad plank of consensus: The southern African region will prosper or perish as a unit.

Although differences in wealth and resources between countries mean that there will not be an even rate of progress or failure, it is inconceivable that South Africa will flourish in splendid isolation or that its neighbours will progress without it.

South Africa is well aware, in the phrase of Dr Anton Rupert, the famous tobacco entrepreneur: If your neighbour doesn't eat, you don't sleep peacefully.

Already there are 27 000 Mozambican refugees living in the eastern Transvaal, victims of drought and civil war. Refugees are also filtering into the northern Transvaal from Zimbabwe.

Not only does this sort of inflow strain limited resources, but the economic fragility of South Africa's neighbours also limits what ought to be important markets.

Capital scarcity

According to a study by the London-based Overseas Development Institute (ODI), Africa accounts for only 7 percent of South Africa's exports, with a quarter of this going to Zimbabwe.

Aside from trade and humanitarian concerns, regional politicians are also aware that, in an era of capital scarcity, they have a lot of work to do if they are to garner even a fraction of international capital flows, very little of which currently come to Africa.

The main obstacles to foreign investment in the region are problems of political instability, economic decay and a dilapidated infrastructure.

Peace, however, is only the first step. The extent to which governments will subsequently be able to forge a framework of economic co-operation remains to be seen.

The potential for regional integration is also complicated by South Africa's dominant position whereby its gross national product exceeds the combined GNP of the 20 member countries of the two regional trade groupings — the Preferential Trade Area (PTA) and the Southern African Development Community (SADC), the new version of SADCC — By about 40 percent.

Conventional wisdom suggests that greater economic convergence is necessary for successful integration.

In their more sanguine moments, South Africa's neighbours look on it as a market for their goods, and a source of funds for projects which other international investors or governments won't fund. Underlying that, however, is an anxiety that normalisation of South Africa's political situation may be to their disadvantage.

Thus the ODI special report, which investigates the possibility of granting financial and trade privileges to South Africa, found that the most common reaction outside South Africa when the possibility of European Community preferences was raised was incredulity.

The report finds, however, that the gains from preferential trade regimes with the EC would be small because the bulk of South Africa's exports are metals and minerals, which face low barriers. — Financial Times.

Currency chaos is an escape valve — not cause for alarm

BDAY 1/9/92, (74)

JOHN PLENDER

TURMOIL on the foreign exchanges, wild gyrations in the capital markets, riots in Germany, French doubts about Maastricht — this is no mere silly season crisis. Yet, after a week in which sterling wavered, currency realignments were rumoured and calm temporarily reasserted itself, financial experts seem curiously divided about what is going on.

According to one line of thought, it is the collapse of the US currency that is chiefly responsible for chaos in the markets. Yet few in the US seem aware of it, least of all the country's financial establishment.

Others take the view that the strength of the Deutschmark is the problem. The French electorate, if the opinion polls are to be believed, appears to be developing a wholly different agenda for the EC than the one cooked up by the French political establishment.

The British, meanwhile, are threatened by a rise in interest rates to prevent sterling from falling through its ERM floor. Yet sterling is strong against everything that matters apart from the Deutschmark, while the economy remains flat on its back. Increasingly the decision by Prime Minister John Major to take Britain into the ERM is being compared with Winston Churchill's catastrophic return of sterling to the gold standard in 1925.

In the face of this seemingly paradoxical set of circumstances, the layman, conscious of uncomfortable echoes of the '30s, might ask the significance of last week's battle royal on the exchanges. Is it a harbinger of nastier political and economic trouble to come?

The worries are arguably overdone. For reasons that will become clear, currency fluctuations are best regarded as part of the solution, not the problem. They are no more than a symptom of large countries pursuing mutually inconsistent economic policies and of past failures of international monetary co-ordination.

The story really starts in the '80s with Reaganomics, that euphoric economic upheaval which combined loose fiscal policy with tight money, together with a plethora of financial and tax reforms. The internal consequences for the US economy included a decline in savings and a huge accumulation of debt. The chief external results of US overspending were an overvalued dollar and a huge BoP deficit. This was sustainable just as long as other countries were prepared to mop up the dollars that Americans were pumping on to international markets. And for most of the '80s, Japan and Germany were happy to do that.

The Japanese did the lion's share of the work, buying a growing share of US Treasury bonds. They also bought a significant slice of the Californian banking and film industries, together with great chunks of real estate. The appetite for foreign assets spilled over into other countries.

While it lasted, this flow of capital meant that debtor countries enjoyed lower interest rates, cheaper mortgages and ready access to high-quality Japanese consumer durables and German capital goods. Creditor countries were thereby spared from the contractionary impact of excessive savings on their domestic economies.

But the party went on too long. From the mid-'80s, the dollar fell relentlessly, leaving foreign investors with huge currency losses. At the Louvre Accord in 1987 the central bankers agreed to put a floor under the dollar to prevent a free fall. For the Japanese, who led the supporters' club, the consequences were catastrophic.

Just as the 1927 US decision to reduce interest rates partly in response to Europe's monetary problems helped fuel the stock market boom that ended in the 1929 crash, so Japan's recent decision to keep yen interest rates low to support the dollar fuelled a domestic stock market and property bubble, followed by a Tokyo crash to rival 1929 on Wall Street.

Currency fluctuations in the '90s are largely to do with the hangover after this American-Japanese binge, together with the economic shock arising from Germany's unification.

In response to a sluggish US economy, the Federal Reserve has repeatedly cut the discount rate, which now stands at 3%, a 29-year low. Yet the economy has failed to respond more than fitfully, chiefly because of the reluctance of a shell-shocked banking system to lend. Keynes, in the '30s, described attempts to revive the economy through stimulatory monetary policy as "pushing on a piece of string". That would serve equally well today.

With a system of deposit insurance in place, there is no banking panic to compare with the aftermath of 1929. But with short-term interest rates low and government bond yields high, US banks have invested more than half their assets in US government bonds, leaving the small business sector, the chief generator of employment, high and dry.

Germany, meanwhile, has gone from a current account surplus of 4,8% in 1989 to a deficit of 1,3% last year, as it switches resources into the former East Germany. And it is conducting its own version of Reaganomics in which the government puts its foot on the fiscal accelerator — to bribe the inhabitants of the former GDR to stay in the east — while the Bundesbank keeps all four feet on the monetary brake to dampen the inflationary consequences.

The result is high interest rates, rising unemployment and a huge inflow of foreign capital. With money market rates in New York at around 3,5% and comparable rates in Frankfurt at nearly 10%, the temptation for speculators to hold dollars for the short term is minimal.

But neither the Americans nor Germans are unduly worried about the resulting flight of capital. The inflationary impact of the collapsing dollar does not scare the US financal establishment because US imports are less than 10% of GNP and the economy benefits from the boost to exports. And the Bundesbank welcomes the appreciation of the Deutschmark because it puts an additional brake on inflation.

In short, currency fluctuations can be an escape valve and an adjustment mechanism. And there lies the conundrum for sterling and other weaker ERM currencies. By tying themselves to the strong Deutschmark, they ensure that the burden of adjustment falls not on the exchange rate but on domestic demand.

Instead of sterling collapsing like the dollar, and monetary policy continuing to loosen in response to the huge debt left from the late '80s boom, the squeeze is felt in the real economy as real interest rates rise and inflation falls.

The drama within the ERM does indeed bear striking similarities to the '30s. Then, France was the lynchpin of the gold bloc. The French paid a high price, in deflation and constantly changing governments, for their politicians' commitment to gold, until the Tripartite Monetary Agreement of 1936 took the franc off the hook. In contrast, the British enjoyed one of their highest growth rates of the century after Britain went off the gold standard in 1931.

Today, the French are again spearheading plans for a monetary union. Currency considerations have been less important than political imperatives: worries about how to manage relations with an enlarged and more confident Germany.

Much of Europe is importing deflation from Germany as the Deutschmark — a modern equivalent of the gold standard — rockets upwards. And a British chancellor finds himself in the extraordinary position of confronting a sterling crisis in which the troubled currency walks tall at nearly \$2 to £1. The question is whether there will be a similar resolution to the '30s, with sterling and the lira pursuing a different path from the franc.

Signals from the French polls could turn out to be of greater long-term importance than the currency fluctuations. For if the French offer at best a lukewarm endorsement of the Maastricht treaty, following the Danish "no", the European political establishment may be forced to acknowledge an inadequate mandate to pursue its ambitious plans for political and monetary union. ERM turmoil will increase. And some form of realignment, perhaps even the fragmentation of the ERM, might follow, with Italy precipitating the rot. — Financial Times.

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BDAY 1/9/92. JOHN PLENDER (74)

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doubt feeling the economic pinch

Africa beckons as a major trade market

BDAY 1/9/92

GERALD REILLY

PRETORIA — SA companies were well positioned to win capital projects in Africa including World Bank project tenders, Department of Trade deputy director-general Gerrie Breyl said yesterday.

He said Africa offered vast untapped opportunities for SA products.

In 1991 only 11%, amounting to R5,1bn, of SA's total exports went to Africa. Yet in 1989 the figure had been R3,4bn and the increase was likely to quicken significantly, Breyl said.

Imports from Africa amounted to a mere 2% of total imports in 1991.

Prospects for expanded trade were particularly favourable in Kenya, Madagascar, Togo, Malawi and Angola, which had generous mining concessions.

"Trade with Africa has taken off to a point where we have trade ties with most countries on the continent and we hope to build further on what has been achieved so far," Breyl said.

On government trade representation abroad, Breyl said there were 65 economic representatives stationed in 41 foreign offices attached to embassies and consulates in 31 countries.

Five were stationed in African countries — Zimbabwe, Namibia Mozambique, Malawi and Kenya. Another would soon be based in Mauritius to develop trade ties with Indian Ocean islands.

During the past two years, offices were opened in Czechoslovakia, Poland, Hungary, Turkey and Russia.

The department's representative in Moscow was working on ties with states within the Russian federation as well as with former Soviet satellite countries.

An economic office was also to be established in Finland to promote trade with Scandinavian countries.

Breyl said countries in Europe and the Far East had shown a keen interest in partnerships with SA companies to undertake joint ventures in Africa.

He said that during the current financial year, 320 SA companies would exhibit their products at international trade fairs.

Between April and August, 275 companies had made use of the individual assistance scheme to display products abroad.

Bryel said a total of R6,4m had been allocated to fund the exhibition schemes.

Trade with Germany suffers decline of 5%

BDay 2/9/92 74

SHARON WOOD

ADVERSE economic conditions saw SA trade volumes with Germany decline by 5,1% to R6,4bn (R6,8bn) during the first half of 1992.

However, SA-German Chamber of Commerce and Industry CE Klaus Volker said the level of trade showed the two countries' good relations.

A positive development was the shrinking SA trade deficit with Germany, which fell by 21,4% to R1,1bn from R1,4bn in last year's first half.

Exports to Germany increased by 10,4% to R2,86bn from R2,59bn last year, and imports from Germany came to R3,96bn.

SA exports were dominated by traditional products, such as coal and gold, with coal exports valued at R385m arriving in Germany in the first half of this year and gold exports valued at R173,8m.

The bulk of SA imports were motor vehicle parts, electrotechnical products and vehicle tools. Imports of motor vehicle parts were down 16,4% and machine tool imports declined by 16,3%. Electrotechnical equipment imports increased slightly by 1,7%.

Schuurman said the decrease in imports of machine tools and other manufacturing equipment showed the deep recession in SA. On the other hand, the increase in SA exports of finished products was an encouraging sign for the local export-orientated industry, he added.

An average exchange rate of DM0,61 during the first six months of last year was used to calculate the rand equivalent, and one of DM0,55 was used for the first six months of this year.

DEPARTEMENT VAN FINANSIES

No. 2474 **4 September 1992**

Staat van buitelandse valuta-verpligtings ten opsigte van waarborge, vrywarings of sekuriteite deur die Republiek van Suid-Afrika, ingevolge artikel 35 (2) van die Skatkiswet, 1975 (Wet No. 66 van 1975), verstrek, gepubliseer soos vereis deur artikel 13 (6) van die vermelde Wet.

DEPARTMENT OF FINANCE

No. 2474 (74) **4 September 1992**

Statement of foreign currency commitments in respect of guarantees, indemnities or securities furnished by the Republic of South Africa in terms of section 35 (2) of the Exchequer Act, 1975 (Act No. 66 of 1975), published in accordance with the requirements of article 13 (6) of the mentioned Act.

	$	D.M.	S.F.	F.F.	P/Sterling	Jap/Yen	BFR	ECU
	'000	'000	'000	'000	'000	'000	'000	'000
Totale kapitaal terugbetalings/Total capital repayments:								
1992:								
II	54 773	57 109	30 019	235 057	1 866	3 383 204	0	0
III	130 451	146 932	5 487	8 967	2 690	767 846	11 824	0
IV	55 149	107 111	1 556	235 057	1 871	3 383 201	0	0
1992 (Totale—3 kwartale)/(Totals—3 quarters)	**240 373**	**311 152**	**37 062**	**479 081**	**6 427**	**7 534 251**	**11 824**	**0**
1993:								
I	40 613	326 467	5 329	8 967	2 663	767 844	11 470	0
II	97 713	207 111	6 380	218 083	1 871	3 383 201	0	0
III	62 286	229 210	26 010	6 622	6 739	767 844	11 125	0
IV	186 259	135 313	167 733	218 083	27 686	1 304 473	359 705	0
1993 (Totaal/Total)	**386 871**	**898 101**	**205 452**	**451 755**	**38 959**	**6 223 362**	**382 300**	**0**
1994	569 525	410 853	14 889	419 754	18 553	2 935 541	0	0
1995	362 949	338 844	13 299	184 798	18 490	8 319 500	0	23 149
1996	342 126	79 355	38 299	13 244	20 288	534 250	0	0
1997	294 024	26 737	13 115	6 623	18 057	0	0	0
1998	192 982	255 862	1 031	0	10 312	0	0	0
1999	114 798	171 066	99	0	5 278	0	0	10 065
2000	60 448	48 137	0	0	3 278	0	0	0
2001	48 036	66	0	0	1 342	0	0	0
2002	2 421	26	0	0	0	0	0	0
2003	0	0	0	0	0	0	0	0
2004	0	0	0	0	0	0	0	0
Bedrag uitstaande soos op 1992-03-31/Amount outstanding as at 1992-03-31	**2 614 553**	**2 540 199**	**323 246**	**1 555 255**	**140 984**	**25 546 904**	**394 124**	**33 214**

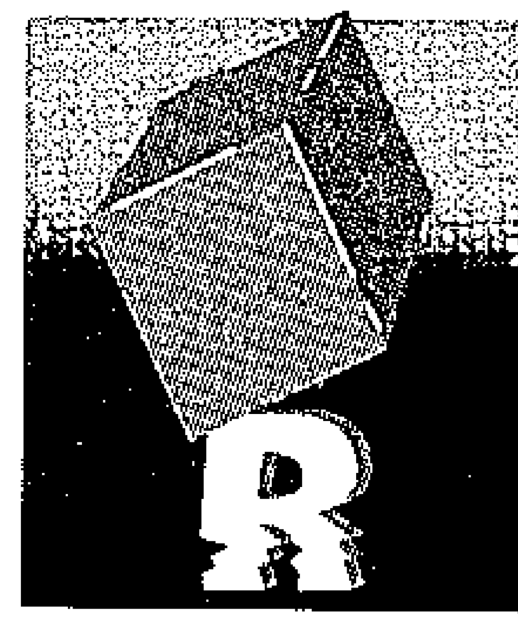
74

	$	D.M.	S.F.	F.F.	P/Sterling	Jap/Yen	BFR	ECU
	'000	'000	'000	'000	'000	'000	'000	'000
Totale rentebetalings/Total interest payments:								
1992:								
II	52 259	37 878	8 022	57 172	2 493	1 219 914	0	0
III	33 812	72 639	10 647	3 582	4 394	170 267	21 924	0
IV	49 948	17 922	233	48 640	1 522	438 070	0	0
1992 (Totale—3 kwartale)/(Totals—3 quarters)	**136 019**	**128 439**	**18 902**	**109 394**	**8 409**	**1 828 251**	**21 924**	**0**
1993:								
I	38 248	103 128	9 542	3 055	3 777	- 142 894	21 266	2 604
II	49 617	31 376	6 339	38 836	1 432	915 874	0	0
III	44 286	59 643	11 156	2 620	3 721	116 014	20 628	0
IV	54 124	35 775	6 264	30 969	2 528	139 054	14 982	1 088
1993 (Totaal/Total)	**186 275**	**229 922**	**33 301**	**75 480**	**11 458**	**1 313 836**	**56 876**	**3 692**
1994	125 187	83 259	6 291	40 797	9 522	878 479	0	2 390
1995	97 509	77 213	4 853	12 594	7 721	712 505	0	2 390
1996	74 299	51 125	3 532	1 491	5 845	25 301	0	1 088
1997	46 151	44 255	1 068	0	3 779	0	0	1 088
1998	26 717	38 835	62	0	1 979	0	0	1 088
1999	15 285	13 166	4	0	1 114	0	0	1 088
2000	7 728	5 594	0	0	511	0	0	0
2001	2 520	6	0	0	92	0	0	0
2002	156	1	0	0	0	0	0	0
2003	0	0	0	0	0	0	0	0
2004	0	0	0	0	0	0	0	0
Bedrag uitstaande soos op 1992-03-31/Amount outstanding as at 1992-03-31	**717 846**	**671 815**	**68 013**	**239 756**	**50 430**	**4 758 372**	**78 800**	**12 824**
Totale verpligtings/Total commitments:								
1992:								
II	107 032	94 987	38 041	292 229	4 359	4 603 118	0	0
III	164 263	219 571	16 134	12 549	7 084	938 113	33 748	0
IV	105 097	125 033	1 789	283 697	3 393	3 821 271	0	0
1992 (Totale—3 kwartale)/(Totals—3 quarters)	**376 392**	**439 591**	**55 964**	**588 475**	**14 836**	**9 362 502**	**33 748**	**0**

THE RAND FM 4/9/92 (74)

Caught in the cross currents

The rand's value depends largely on world events — but what is it really worth?



The value of a currency is ultimately determined in the world's foreign exchange markets. However, central banks may take a hand in this process and, given enough resources, at least temporarily influence a unit's exchange rate.

The Reserve Bank's policy of keeping the rand relatively stable against a basket of currencies has come under fire. Last month, Old Mutual chairman Mike Levett suggested the domestic currency may be overvalued. Now Genbel MD Anton Botha argues that the policy of measuring the rand against a basket "is not helpful to commodity producers" in a world of dollar-denominated commodity trade.

Based on inflation differentials between the US and SA — since commodity prices started to fall in 1988 — he calculates the rand should now be worth about US31c. Yet it is trading at about US36c.

Botha does have one important reservation: "Devaluation is not desirable unless it goes with a full economic restructuring programme as mooted by Reserve Bank Governor Chris Stals." And as calls for devaluation at present smack, in any case, of familiar old-style lobbying, one has to ask: who benefits?

There are, of course, many ways of calculating the rand's real value. The economic unit of Amalgamated Banks of SA (Absa) recently studied changes in purchasing power using two different bases: 1980 and the average of the years 1980-1992. The first calculation showed the rand should be over US40c and the second that it should be about US34c.

The second base is more realistic. But the exchange rate calculated is not out of line with the Bank's policy. That it is less favourable than the actual exchange rate is probably because Absa was looking at consumer prices, while the Bank uses producer prices when calculating the inflation differential between SA and its trading partners.

The relevance of this is that it is the Bank's policy to keep the currency stable in real terms against the basket. This entails a depreciation in nominal terms to take into account the inflation differential. Given the much slower rise in producer prices recently, there will be a smaller producer than consumer inflation differential.

And the slowing in producer price rises was mirrored in a slower fall in the nominal effective exchange rate of the rand — from 6,3% in 1991 to 1,6% in the first seven months of 1992 — "the smallest change over a seven-month period since the introduction of managed floating exchange rates in 1979," says the Bank's annual report.

There are sound arguments for using producer prices for the calculation. And there are good reasons for not accelerating the currency's fall in value. While a lower rand may make SA's exports more competitive and increase the rand value of its foreign earnings, it generates imported inflation. The answer to the question posed above — who would benefit from devaluation — is evident. It is illustrated in statistics relating to periods when SA enjoyed an exports boom.

The trade-off was demonstrated in the second half of the Eighties. A fall in the value of the rand from about US90c in 1984 to as low as US36c towards the end of 1985, a level it maintained for most of the intervening years, proved a boon to exporters. Between 1984 and 1990 — years in which trade sanctions were in place — the value of merchandise exports rose at an average annual rate of 22,5%.

The cost was counted in inflation which rose to 20,7% in January 1986. That inflationary shock and the expectations it generated have not yet worked their way out of the system, despite rigorous monetary policy applied since October 1989. The result is that interest rates have been kept high in nominal terms for an unusually long period.

But policy is not the only consideration. An exchange rate is an effect as well as a cause and, as such, is dependent on factors beyond the control of policymakers.

In recent weeks, the rand has lost considerable value — but largely against the cross currencies. Its performance is closely linked to the fall in the dollar, from nearly DM1,7 on March 20 to about DM1,4 on Monday, says UAL's Dennis Dykes. The Reserve Bank's policy of keeping the rand stable against a basket of currencies means strength against the dollar must be offset by a decline against the other currencies.

At the same time, the Bank contained the dollar's fall against the domestic currency, allowing an appreciation from about $/R2,9 to about $/R2,8. So, while the Deutschemark gained by more than 21% against the dollar, the rand rose only 4%.

Failing any unexpected domestic developments, the rand's fortunes will continue to be determined by events in Europe and the US over the next few months. Predictions are subject to a fair number of imponderables.

A major factor in the dollar's decline has been an interest rate differential, on three-month money invested in DM and in US dollars, of more than six percentage points. The differential is unlikely to change in the near future, says Standard Bank's economic unit. "The economic recovery in the US is on track but sluggish, which will keep rates at low levels. In Germany, though economic activity is slowing down and unemployment rose from 6,3% in June to 6,7% in July, the Bundesbank is being influenced by other factors. Money supply growth is rising and the inflation rate rose from 3,3% in July to 3,5% in August."

Central banks' attempts over the past seven weeks to intervene in the market have been only minimally successful. Dealers in international currency markets suggest the reason may have been a lack of co-ordination by G7 members — and a lack of enthusiasm from the Bundesbank.

Last week's G7 meeting injected a note of caution, as has one scheduled for mid-September. But even if the central banks act in concert, they will be moving against the trend imposed by the interest rate differential. Intervention can only "hamper overdone speculation," says a German government economic adviser.

Standard Bank suggests the relative strengths of the dollar and DM may now depend on the results of the French referendum on the Maastricht Treaty this month and the US election in November.

The Danish no-vote on Maastricht, in June, undermined the cause of European union and sent capital fleeing into the EC's anchor currency — the DM. This reinforced the effect of an increase in the German discount rate from 8% to 8,75% in July. A similar verdict in France would boost the DM further while a yes-vote would defuse upward pressure.

Recent polls in France have shown an erosion of support for Maastricht — the

Slow slide

Nominal trade-weighted rand vs PPP* and real trade-weighted rand*

Indices
120
110
100
90
80
70
60
50
40
30
20
Real trade-weighted rand
PPP
Trade-weighted rand
'79 '80 '81 '82 '83 '84 '85 '86 '87 '88 '89 '90 '91 '92

PPP = Purchasing power parity
*Based on CPI inflation differentials
Source: UAL

FM 4/9/92

FM BOARD OF ECONOMISTS

Where do we go from here?

The annual address of the governor of the Reserve Bank is always a key guide to official policy and the immediate economic outlook. Regulars Louis Geldenhuys (of stockbroker Senekal, Mouton & Kitshoff), Ronnie Bethlehem (JCI) and Aubrey Dickman are joined by Tito Mboweni in an assessment of Dr Stals's 1992 speech; the chairman, as always, is Sacob's Rayond Parsons.

***Parsons:* What was the main message of the governor's address?**

Bethlehem: That the value of the rand won't be compromised to ease the position of exporters and the economy in general.

Mboweni: The big thing for me was his attempt to begin to outline some of the key components of a possible restructuring programme. He also focused on what is beginning to emerge as an obvious clash between fiscal and monetary policy. He's worried about the Budget deficit.

Dickman: Another important message is that we are no different from any other country when it comes to the fight against inflation and the use of money to stimulate the economy. Internationally, the preoccupation with short-term stimulation is out; medium-term objectives are in. When George Bush talks about tax cuts, he talks about spending cuts at the same time. Crude Keynesianism is out. The fight against inflation is the most important thing.

Geldenhuys: He strongly confirmed his stance that his job is to curtail inflation.

How bad is the recession? Is the economy in a downward spiral or has it simply gone into hibernation?

Dickman: Clearly the recession is bad, but I think there are elements which will prevent a downward spiral, though exports have levelled off because of the world situation.

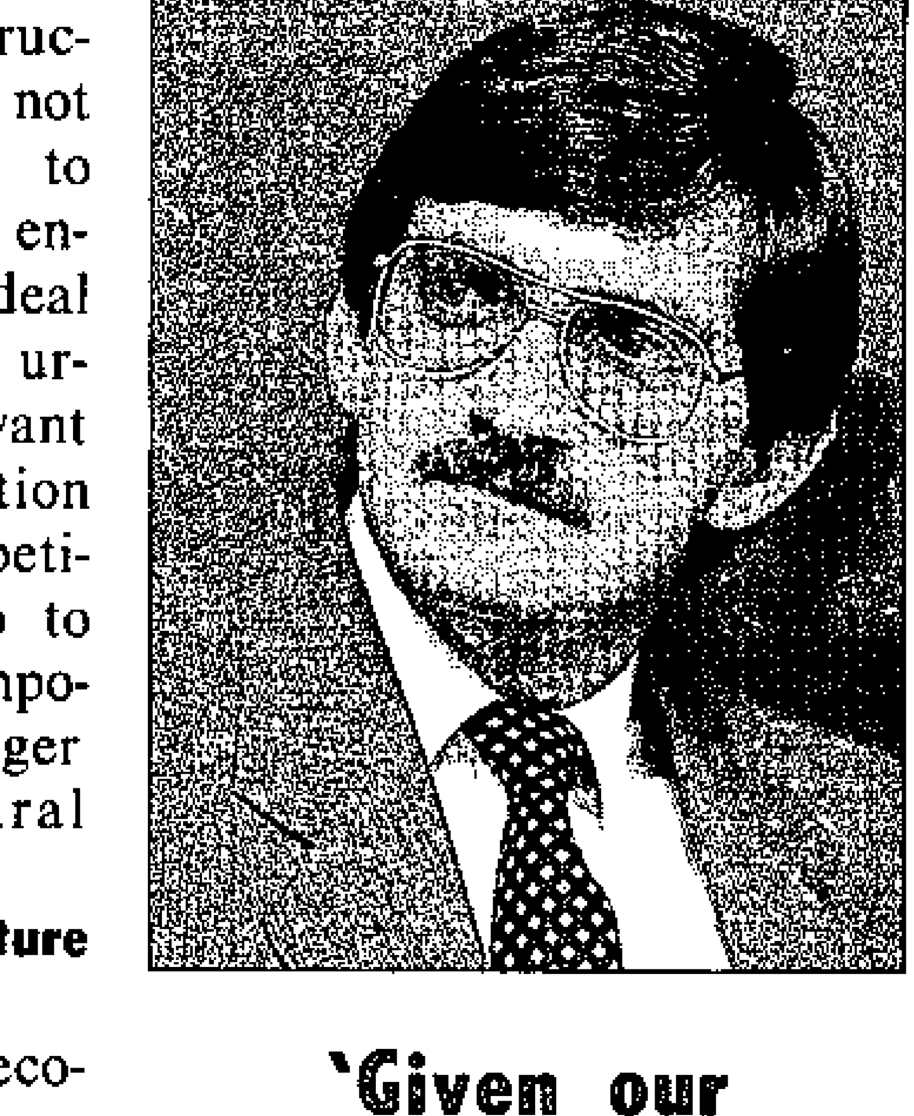
Geldenhuys: I'm worried that we seem to see the solution in reducing the size of the economy, disciplining it further and further.

Bethlehem: The seriousness of this recession and what may unfold can't be separated from the global economy and its prospects.

Mboweni: One reason the recession is so bad, is structural problems. We have not worked out a strategy to bring on board the black entrepreneurial class or deal with some questions of urban planning. If we want manufacturing production to improve and be competitive, what must we do to some of its critical components? There is a danger that a downward spiral could develop.

How does the world picture affect us?

Mboweni: The global economy has been sluggish for a couple of years, but is beginning to pick up. But even if the world economy booms it won't greatly benefit SA in the short run unless, by that time, we have sorted out our structural questions to be able to take advantage. At the moment available international capital flows are not going in the direction of Africa or SA or any developing countries. They are concentrated in the Triad. We need to strengthen our manufactured exports. That will only be possible if we sort out the structural questions.



'Given our circumstances, I think interest rates are too high'
GELDENHUYS

Bethlehem: It was always the case that protracted global recession in the Nineties would threaten SA more than sanctions or anything else. We have a small open economy. We need a bit of help from the global economy to do the things we want to do here. When I look at the global economy I am worried. Germany is the central problem.

Dickman: I share those concerns. And weak global growth won't help because of the nature of our exports. We need to pass a certain threshold of growth before we see higher demand for many of our exports. We are way below that. Also, we peaked before the global economy, so we were sustained for a while by good exports.

To survive we have to increase our market share. That means being more efficient and working harder. It's not going to be easy to replace our traditional exports and it has all sorts of implications for the flexibility and productivity of our labour force, our wage setting process and foreign capital. Foreign capital is not staying away just because it is going somewhere else; it's not coming in because of the tremendous political and economic uncertainty. So we are really cutting ourselves out of the chance to survive in a very difficult environment which may become even more difficult in the short term.

FM deputy editor Michael Coulson and editor Nigel Bruce flank the panel ... *(left to right) Dickman, Geldenhuys, Parsons, Mboweni, Bethlehem*

Geldenhuys: I'm not that negative about the world economy. The West is on the way up and we're over-emphasising the impact of asset deflation. This is not an income deflation. Adjustment, in fact, is taking place pretty smoothly. Reports six months ago said that the Japanese banking system would go bang if the Nikkei index fell below 25 000. Well, it hit 14 000 and the world is still going on. But it'll be a slow world economic recovery. It'll be hard to gain market share; in the short term we'll need lower labour costs — from either lower real wages or improved productivity — to compete effectively.

Are interest rates at the "right" level?

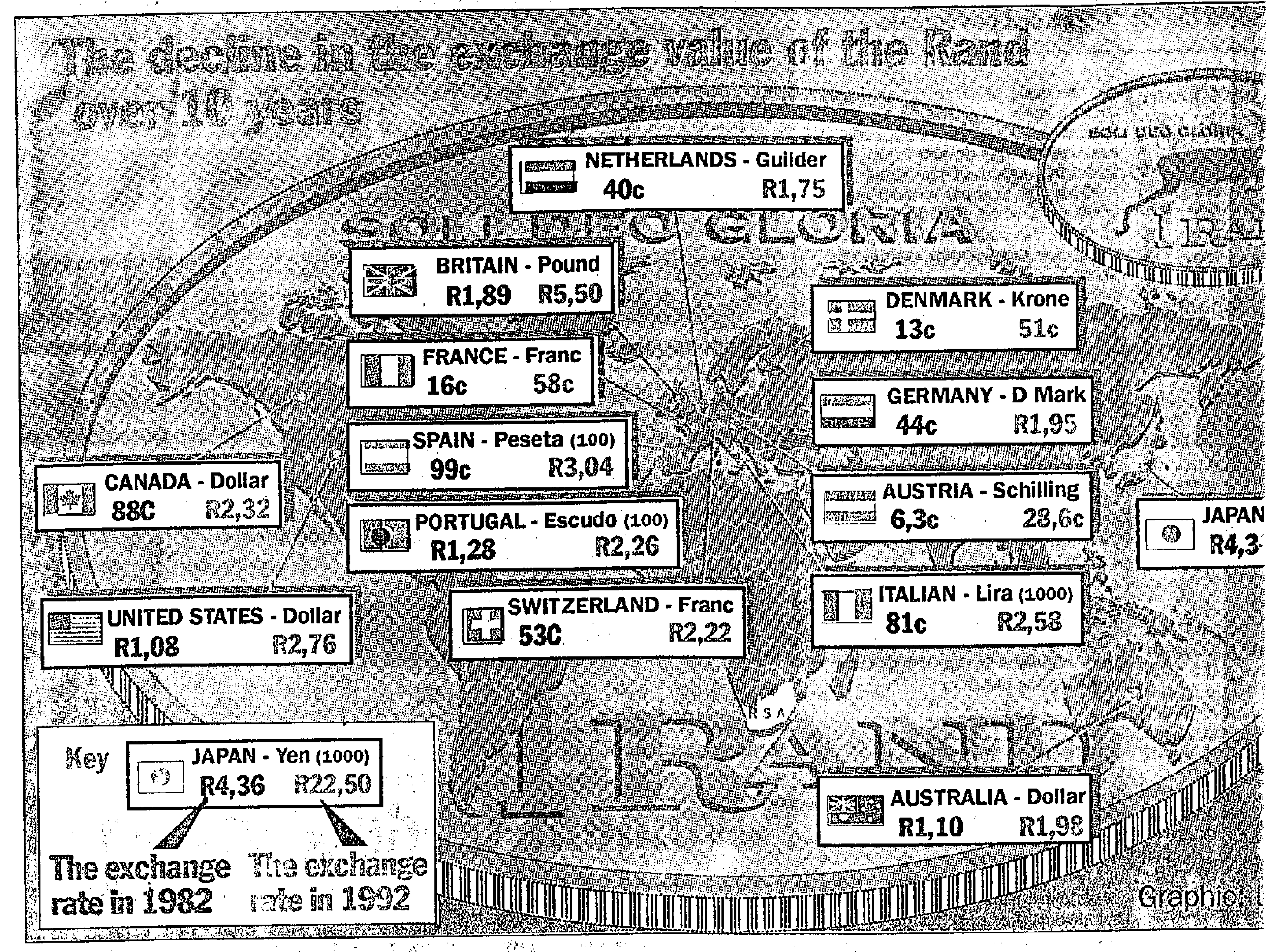
Dickman: One could argue that there's room for a small fall in short-term rates — maybe 1%. But this is marginal. Generally, when you look at world yield curves, our real long-term rates are pretty low.

Geldenhuys: Given our circumstances, I think interest rates are too high. What are the aims of monetary policy? To ensure that the economy lives within its means and that money supply is curtailed. On both criteria, we could have somewhat lower rates without creating the risk that inflation would start exploding again in the near future.

Bethlehem: What *is* the right level of interest rates? We have a policy commitment to positive real interest rates. Medium-term rates are lower than short-term rates and this suggests that the monetary authorities are trying to prevent short-term rates from falling to the extent the market wants. But if the recession deepens, we may find ourselves willy-nilly into negative real interest rates.

Dickman: Remember, the governor also said that some of his monetary policy was not quite what he would have wanted, but was needed by exchange rate considerations.

Has the governor got exchange rate policy right? Is he aiming at stable real rates, stable nominal rates or something in between? What are the implications for business?



Buying power just keeps on taking a pounding

Star 5/9/92 (74)

MICHAEL CHESTER

THE first priority for most South Africans arriving back from holidays overseas is to start repairing the huge new dents in their bank balances. Horror stories abound about how many rands it costs to buy a burger in Disneyland, a pint of draught in a Cotswold pub or a gondola ride in Venice.

The rand exchange rate versus the US dollar is the most popular yardstick. In the early '80s, a rand note was worth more than a greenback, and hotel and restaurant prices even in New York and California didn't seem to hurt the wallet that much.

That was when South Africa rode the crest of the gold boom and world gold prices scaled new peaks at $850 an ounce. Ironically, income from bullion sales then was actually less than it is today when counted in rands.

At $850, gold was bringing in little more than R800. Now, even down in the dumps at around $340, gold brings in nearly R1 000 an ounce — a sad commentary on the extent to which the rand has shrunk in international terms.

But the slide of the rand has been even more severe when measured against other currencies over the past 10 years. For example, the cost of buying a British pound note — itself now reduced to coin status — has soared from under R1,90 to no less than R5,50. Still worse, German marks, which used to equal a paltry 44c, now cost R1,96. Buying a bundle of 1 000 Japanese yen used to cost R4,36. It will now set travellers back about R22,50.

One suspects it is also the new mini-status of the rand that throws a spanner in the works when families think about emigration to escape the recession in South Africa and all the political unrest and uncertainties.

The Omnichek division of Research Surveys, for instance, found in a recent poll that no fewer than one in every three English-speaking households have at least given thought to the notion of emigration. But the number of families that went so far as to making firm plans about emigration slithered all the way down to only 3 percent. In contrast, 90 percent of Afrikaners intended to stay put.

The shrinkage of the buying power of the rand on foreign exchange markets shows little sign of a reversal.

On average, counting all the major overseas currencies, the rand shrank another 7,9 percent between the start of 1991 and the end of July this year. It lost 7,2 percent in dollars, 7,5 percent in pounds, 8,5 percent in marks and a stunning 12,6 percent in yen.

The mandarins at Central Statistical Services in Pretoria, who monitor the impact of inflation on the buying power of the rand, admit in their most recent count that the R1 note that had the full value of a purchasing power of 100c back in 1980 was worth only 25c at the start of the Nineties — and is still shrinking.

New twist in our isolation

74

The country's top foreign policy experts met this week to chart South Africa's future path. BRIAN POTTINGER reports

THE new world order has become a new world disorder. In that chaos, both promising and frightening, South African foreign policy experts met this week to plot a new policy for the country.

Hosted by the SA Institute of International Relations and the Centre for Southern African Studies at the University of Western Cape the seminar was a domestic affair which brought together Department of Foreign Affairs officials, members of the resistance groups and academics.

"There were no ideological differences to be seen," marvelled Professor Mervyn Frost of Natal University during the report-back session.

Perhaps not, but it soon became clear why the country's foreign policy community was so united: there is a real fear that South Africa — indeed, the region — might slip unnoticed off the edge of the world as the industrial nations battle with their own problems.

The profound changes abroad have had a salutary effect on South Africans. It has knocked sobriety into our view of where we stand in the global pecking order.

"South Africa will be," said Frost with no hint of irony, "the strongest weak state in the region." It is a wise modesty.

Professor Jack Spence, a former South African now at Chatham House in Britain, observed an old truism. That South Africa's foreign policy is determined most immediately by its domestic policies.

There is, however, a new twist. Whereas before it was the racist policies of the white regime that kept us at arms length, it is now the inability of the internal parties to impose domestic tranquillity that encourages international isolation and, equally painfully, indifference.

In many ways it is a clash of triumphalisms. The National Party government believes it has won the war against "communism" in the region, and the ANC that it has forced a peace upon apartheid.

Either way, it does not matter much. Unless South Africans got their act together, warned Spence, the world would increasingly adopt a "band aid" attitude to the country — just like the rest of the continent.

It is with that background that a great deal of common grounds between the Department of Foreign Affairs and representatives of the ANC's Department of International Affairs emerged.

There appeared, for example, common agreement that with the demise of the old power blocs it was pointless for either side to engage in the old manipulative games of playing one power group off against another.

Again, there was consensus that foreign aid is a double-edged sword: it could assist with economic recovery, but the country should not become so indebted that its internal policies could be dictated from outside.

How, then, should South Africa respond to the challenges?

The one option canvassed was that South Africa lapse into victim-mode — rely on largesse from the developed world. This, thankfully, was universally rejected. The alternative was that South Africa embark on an aggressive and coherent foreign policy tying together diplomatic and economic initiatives.

To do so, however, South Africa will have to remain non-aligned, in its purest and best form. It called, said Frost, for South Africa to enter the era of "chameleon politics", by which he meant the country matched its policies to its own best interests.

A more problematic issue was that of the so-called "ANC dividend".

The ANC were optimistic that a sort of moral contract with Western supporters would ensure continuing "special status" for South Africa that might even survive a North American free trade agreement. Others were more cynical. Zimbabwe, for example, was also born out of a certain "virtue", but the indulgence of Western countries hardly lasted the first year.

There were also differences, polite yet real, about where the new government should direct its foreign policy emphasis.

The Department of Foreign Affairs believes links, particularly economic, with the Triad of North America, Europe and Pacific Rim were more important, the ANC spoke in romantic terms of a moral obligation to invest heavily in African diplomacy. Yet few people believe that South Africa's road back to the world lies through Africa.

Bismarck once observed that great powers are caught by streams of time which they neither create not direct. It is the same, clearly, for strong weak states.

First step to restructure tariffs

3/OA4 7/9/92

PETER DELMAR (74)

GOVERNMENT has signalled its intention to restructure and simplify tariffs for a number of industries by announcing a new system of straight ad valorem duties for a wide range of pulp and paper products.

The new duties, published in Friday's Government Gazette, range from 10% to 25% and apply to more than 100 product categories. Industry sources did not wish to comment, saying the duties were still being studied. But one said some printing papers not previously subject to tariffs now carried 10% duties.

Board on Tariffs and Trade vice-chairman Helgaard Muller said the pulp and paper industry was the first to be affected by the new simplified structure which would be extended to other industries.

It replaced the previously complex system of formula duties for the pulp and paper industry and would enable duties to be adjusted more easily and quickly.

In many cases the tariff levels — as a result of formula duties — had been subject to criticism for being set at unrealistic or unnecessarily high levels.

The introduction of the new structure was also in line with government's commitment to a phased reduction of tariff levels, Muller said.

The extension of the new system to other industries is expected to be subject to progress with government's new economic model, which includes trade and industry policy proposals. These are expected to be released later this year.

THE WEEK AHEAD by Simon Willson

Bearish factors cloud reserves

BDAY 7/9/92 (74)

RESERVES had a debt repayment and a drooping rand gold price to contend with last month, and the combination of these two bearish influences overshadows the August gold and foreign reserves total due early this week.

Reserves are therefore unlikely to match their R1,1bn surge in July, when the total leapt to a record R11,3bn.

The July figure was helped by the first upward valuation to gold reserves in four months as the rand gold price soared towards R1 000 an ounce in mid-month.

The gold factor is likely to weigh against the August reserves readout.

The dollar gold price sagged from testing $360 in late July to struggling to stay in touch with $340 be the end of August, while the rand surged against the beleaguered dollar.

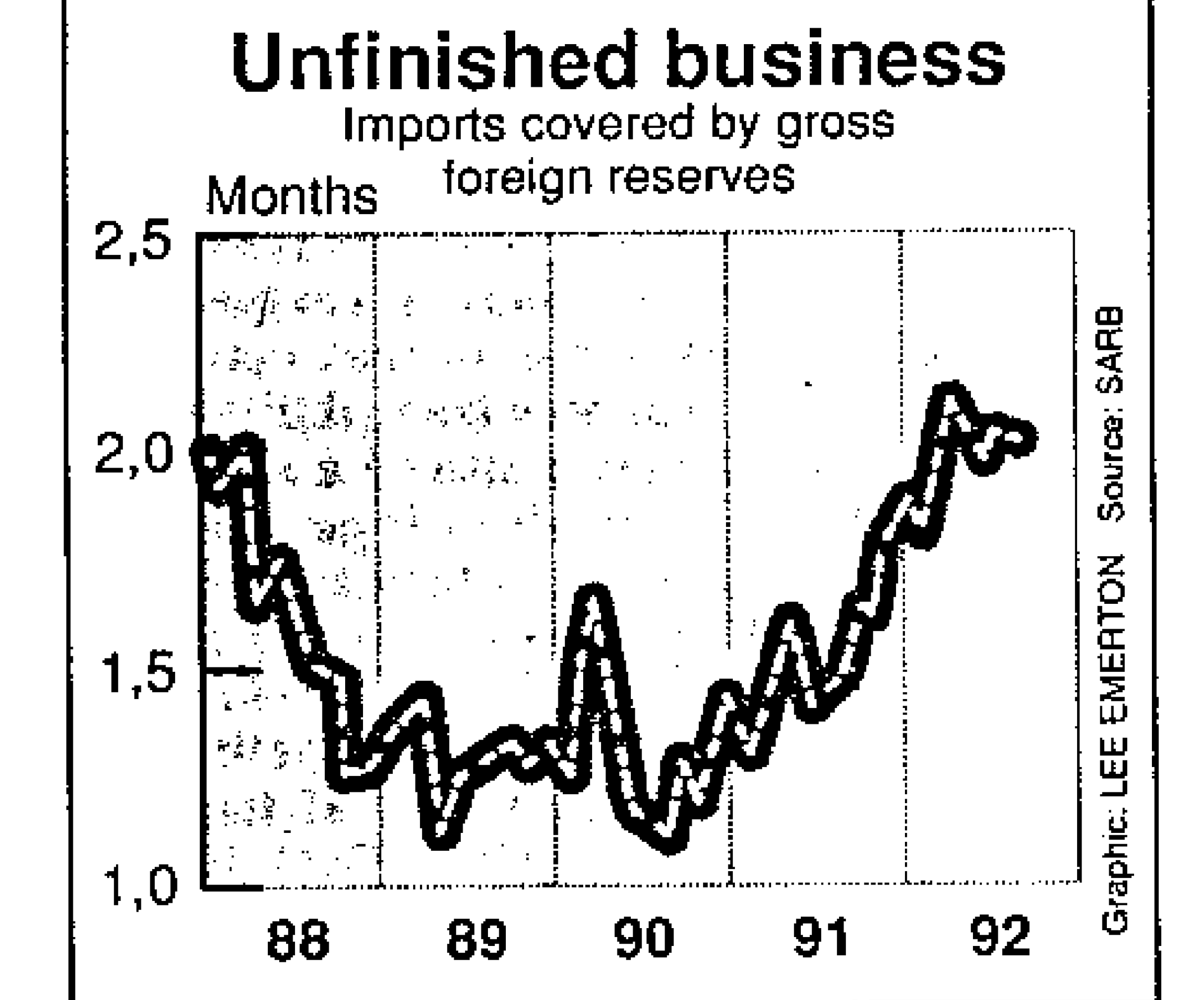
This cut the rand gold price from more than R990 towards the end of July to less than R935 by the same stage in August, making a lower gold valuation likely in this week's figures.

In addition, the second and final instalment of this year's total repayment of around R365m of foreign debt within the standstill net was paid in August.

The first tranche, of about $160m, was paid in February, leaving the balance to have been settled last month.

The overall reserves position was bolstered earlier this year when the Reserve Bank repaid the last of its foreign loans raised to support the balance of payments.

This means no part of the gross reserves is spoken for by obligations elsewhere, and that gross reserves equal net reserves.



Nevertheless, Reserve Bank Governor Chris Stals reiterated at the Bank's annual meeting last month that his goal for the reserves remained a total sufficient to cover three months' imports.

As the chart shows, the total is still some way short of this prudential requirement level, which, on 1991 figures, is around R17bn.

The other key domestic statistic due for release this week is the SA Chamber of Business's business confidence index.

The index dropped for the third consecutive month in July, easing to 90,1 from 90,8 in June.

Political events were cited as the main bearish factors behind the index's continued decline, and developments in the month since the July outturn are unlikely to have altered respondents' general outlook.

Internationally, the week gets off to a tranquil start with today's Labour Day holiday in the US, which will cut trading volumes in the financial markets.

Key figures are bunched at the end of the week, with the UK's August inflation rate a highlight on Friday.

UK consumer inflation dipped to 3,7% in the year to July from June's 3,9%, matching the low set last October.

Although it is mired in recession and unable to use monetary stimulus on the economy for fear of weakening sterling, the British progress against inflation stretches across a wide front.

UK producer inflation sank to 3,4% in the year to July, the lowest since 1968.

Wage inflation, as indicated by the change in average weekly earnings, slid to 6% in the year to June, a 25-year low.

A partial unwinding of July's unusually favourable mix of a fall in seasonal food prices, summer retail discounting and lower mortgage rates is to be expected.

But any slight uptick in the headline inflation rate still looks certain to be wiped out in the months ahead.

Similarly good inflation figures are due from the US, also on Friday, when the August producer inflation rate is published.

Although the year-on-year rate is set to stay below 2% after July's rise to 1,7% from 1,5% in June, early signs of inflationary inputs from the weak dollar could be emerging.

US producer inflation was negative at -0,5% in January, and has risen in five of the six outturns since.

Brave finrand raft riders get a sinking feeling

BDAY 9/9/92

SIMON WILLSON in London

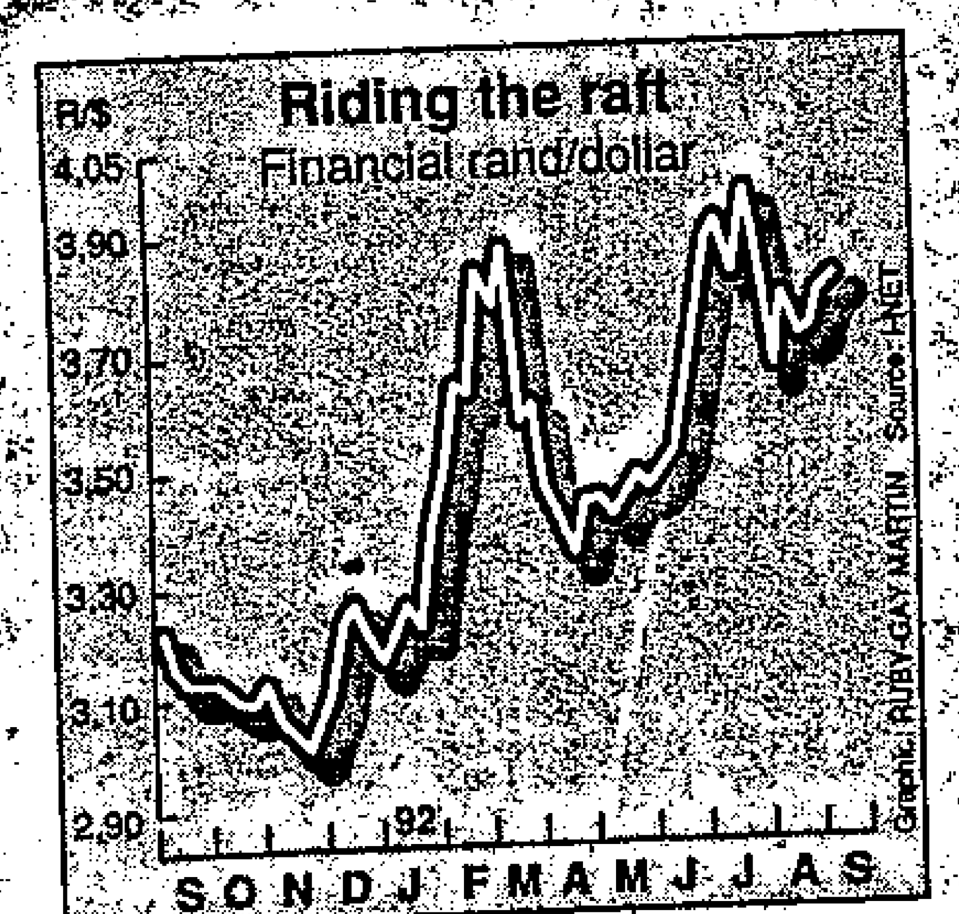
AN EXASPERATED dealer once grumbled through tightly clenched teeth that to trade the financial rand was to go white-water rafting through the foreign exchange market's most treacherous rapids. London's foolhardy finrand raft riders have been at it again over the past few days, and may be losing the sense of adventure and the amusement at pain that sets them apart from the rest of the market.

The normal hazards of foreign exchange trading appear not to be enough for finrand dealers. The capricious data, cut-throat competition and fickle central banks that are features of conventional currency trading are doubled up in finrand trading by unique extra obstacles — chronic illiquidity, an incestuous market and bizarre regulations.

These additional dangers help to explain why London dealing rooms categorise the finrand rather ignominiously among the "exotic" currencies — with the Gambian dalasi, the Macao pataca and the Vietnamese dong, as currencies traded when necessary to please the odd client but more often avoided.

Reggie trades exotics for a major UK commercial bank in one of London's biggest currency dealing rooms. He fell off the finrand raft again last week, but clung onto the proverbial trailing rope and hauled himself back aboard. The occasion of Reggie's latest finrand ducking was last week's meeting of the ANC national executive committee on whether to re-enter constitutional negotiations with government.

The lead-up to the meeting had been conspicuously optimistic. Reggie had been running a small long position for a couple of weeks in anticipation of some better political news emerging. He had bought R3m in finrands in anticipation of being able to sell them at a higher price, and government's discernible confidence that Codesa was about to get back on track gave him every reason to hold on to his position, or even to double up. It is just as well he held back.



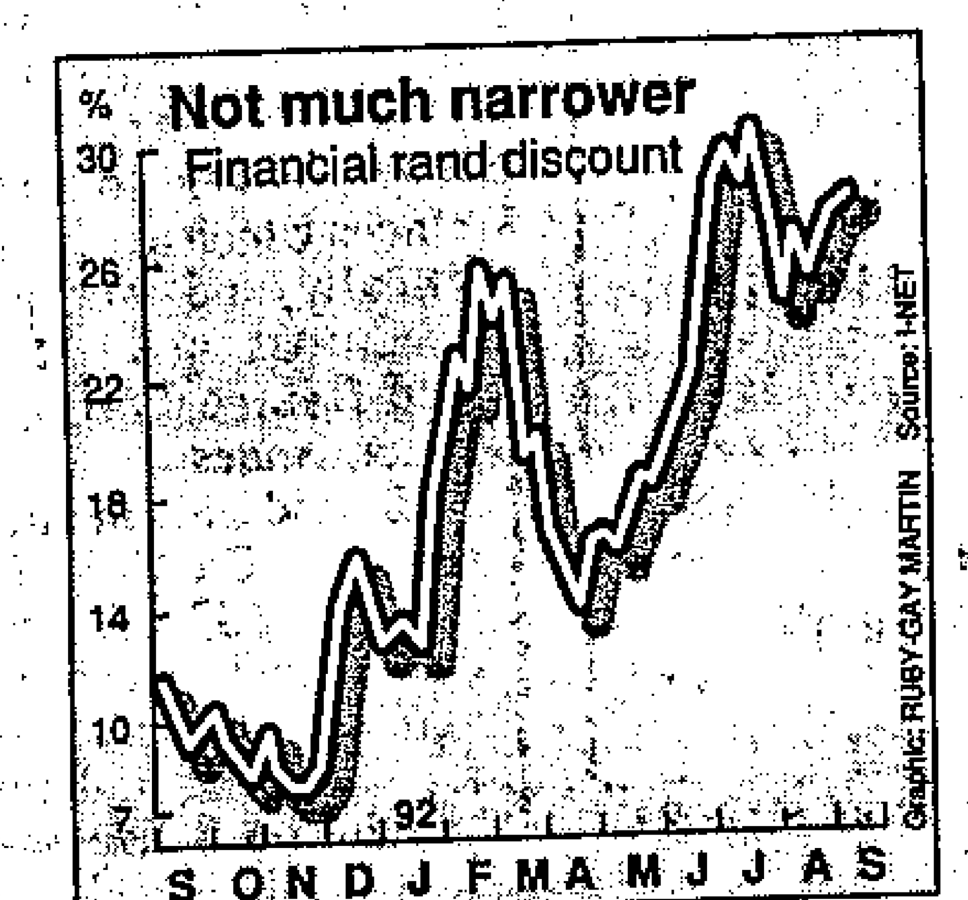
Suddenly, everything that could go wrong did go wrong. Against expectations, the ANC decided against rejoining constitutional negotiations. Reggie, R3m long in a currency that was tumbling, frantically tried to cut his position. But the finrand market's first two extra obstacles immediately blocked his way: players in the finrand's thin and incestuous London market were all positioned the same way — long, and expecting positive news. So no bids.

Plan B for Reggie was to call the Johannesburg market to look for a bid. But he was thwarted by the third of the finrand market's special hazards, its bizarre regulations. SA banks are not allowed to hold overnight finrand positions. The ANC decision was announced when Johannesburg dealers were squaring off, so no players in the SA market could deal. Still no bids.

Just as Reggie was wondering whether the drop from nearby Tower Bridge would be long enough to do the trick, he gave a City broker one last call and found, to his relief, that a bid he could live with came on the dealing screen. He bailed out of his position, taking a knock that could have been a lot harder.

But the disagreeable combination of extra dangers in finrand trading had, yet again, given a trader some grief he could have done without. The unit's image as a haphazard exotic had been further reinforced.

A year ago, City traders were regularly running R10m-R15m financial rand positions, helping to boost the market's liquidity and making the unit more tradeable. But, as the first chart shows, that was when the political news from SA was mostly favourable and the finrand was generally strengthening. Now, dealers are reluctant to hold short positions because of the Reserve Bank's announced intention to intervene as a net buyer, and are unlikely to hold appreciable long positions to avoid the perils that dumped Reggie in the drink.



The regulatory limits on the finrand's tradeability do little to help narrow its discount to the commercial rand, shown in the second chart. And yet a narrower discount must be the Bank's goal as it sets about reducing the overall supply of finrands by buying them in the market. Governor Chris Stals told the Bank's AGM last month that the Bank's net finrand purchases amounted to R229m in the first four months of official intervention. He effectively conceded, though, that the Bank may have overestimated its ability to underpin the unit, since the finrand had remained weak over the period.

For Reggie and his counterparts in the London market, the finrand remains a conundrum. Disillusioned, for the time being, about the market's illiquidity and cramped by its restrictions, City dealers look set to keep their positions small — aggravating the market's problems by doing so. But there are other exotics to deal. Traders are getting tired of being tossed off the raft.

LETTERS

August reserves show R263m rise

BDay 9/9/92.

HILARY GUSH

GOLD and foreign exchange reserves — expected to fall following foreign debt repayments — rose by R263m in August to R11,5bn from July's R11,2bn.

Reserve Bank figures released yesterday showed the increase was due to a rise in the foreign exchange component of the reserves rather than gold. Foreign exchange holdings rose by R591m to R5,9bn from R5,3bn in July, while gold holdings were slightly higher at 6,74-million from 6,7-million ounces in July.

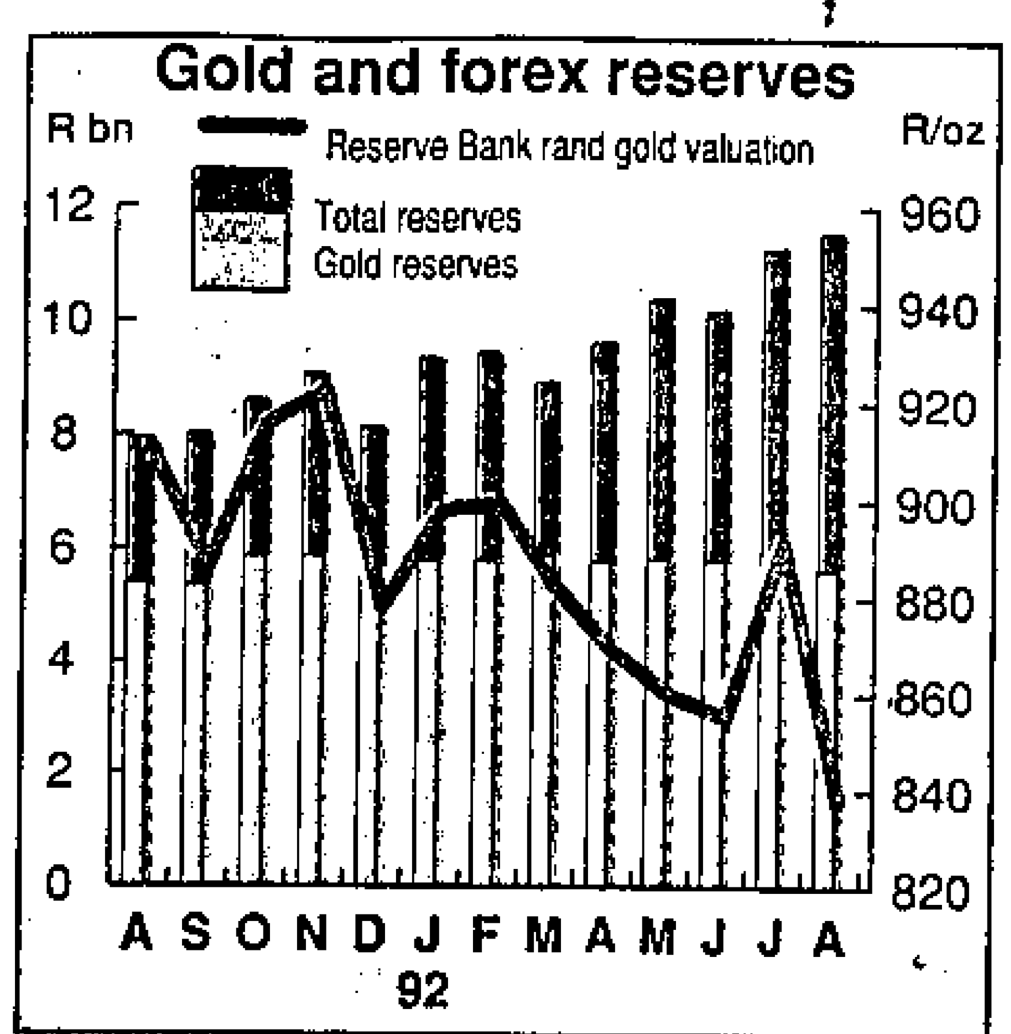
A lower gold valuation at R838/oz from July's R892 reduced the value of gold holdings to R5,66bn from R5,98bn.

AHI chief economist Nick Barnardt said the figures were surprising considering debt repayments in August, and the expected increase in food imports which required foreign exchange payments.

"In the face of the agricultural imports and the weakness of the world economy the higher reserves come as good news. However, the data might indicate further deepening of the recession in the third quarter and the impact of lower normal imports — apart from agricultural imports. In that case it is not unqualified good news.

"If reserves continue to rise at this rate, with credit demand so weak, and the inflation rate set to fall further in the next few months, we can expect a cut in official interest rates in the next month," he said.

Sanlam chief economist Johan Louw said considering the large debt repayments in August the higher reserves were satisfying. "If SA maintains this tendency of higher reserves the balance of payments will not be a problem in the future".



Graphic: LEE EMERTON Source: SA RESERVE BANK

Anglo American economic consultant Jim Buys said there had been a general expectation that gold and foreign exchange reserves would come down in August following large mid-month debt repayments in terms of the debt standstill.

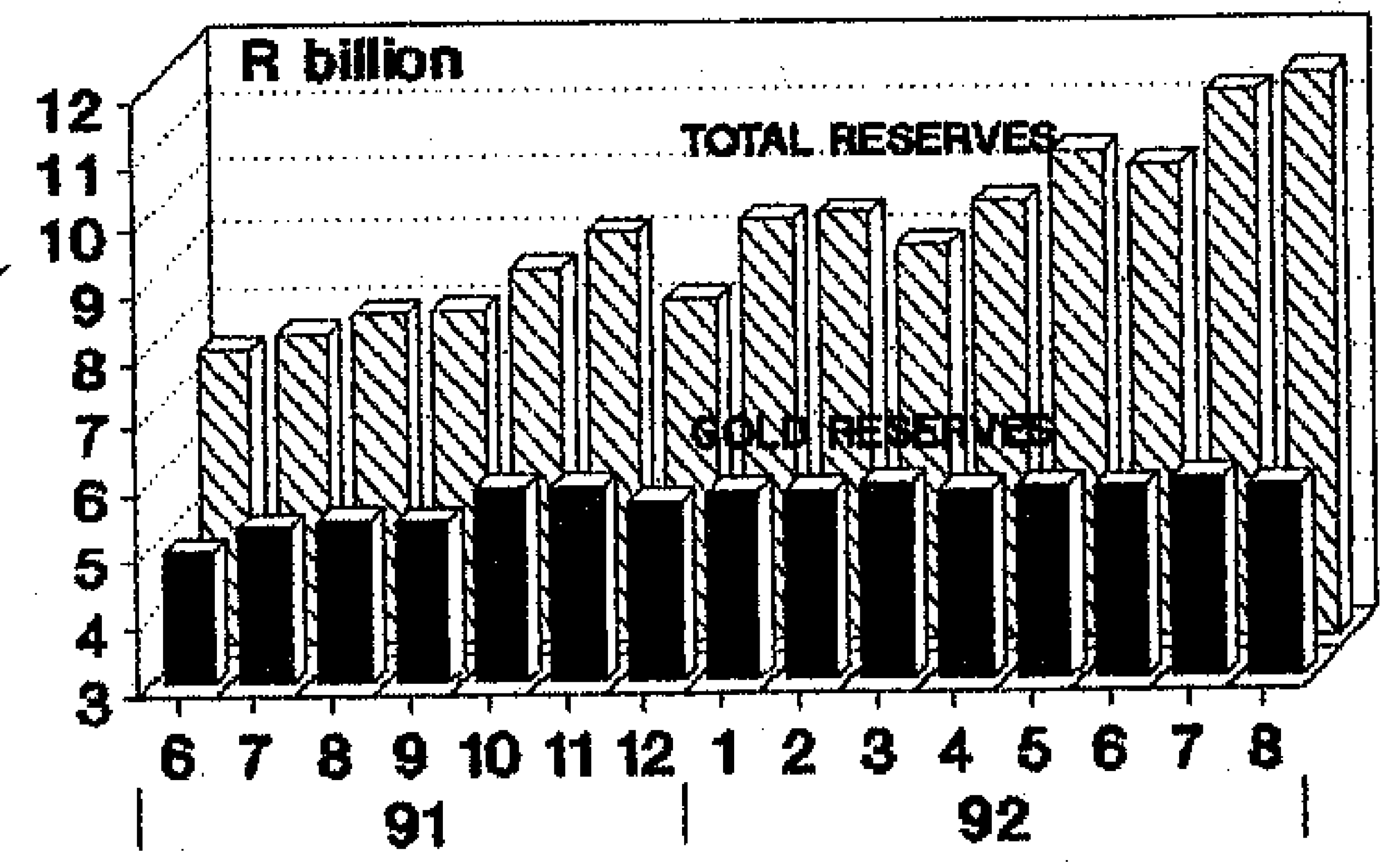
"The overall outcome on the balance of payments must have been favourable to result in a rise in reserves despite repayment of debt which fell due in mid-August," he said.

A statement released with the figures disclosed that government had reduced some of its debt to the Reserve Bank on forward cover. A payment of R3,8bn was made, as provided for in the Budget.

Gold and forex reserves at record level

(74) STAR 9/9/92

By Sven Lünsche



South Africa continued to build up its total gold and foreign reserves in August, boosting them from R11,29 billion in July to a record level of R11,55 billion.

The rise is remarkable, given that SA repaid the second tranche of this year's foreign debt and that the gold reserves were again devalued after the fall in the gold price during the month.

The foreign exchange content of the reserves increased by R590,3 million to R5,89 billion in August, more than offsetting a slight fall in the gold reserves from R5,98 billion to R5,86 billion.

While the physical volumes of gold holdings increased by 35 957 ounces to 6,743 million ounces, the rand value per ounce was sharply lower at R838,69 (July: R892,07).

The steady rise in the reserves over the past few years has been one of the few positive developments in the economy.

However, the Reserve Bank has indicated that it is aiming at a level of reserves able to cover three months of imports.

At present, the reserves would pay for just over two months of imports. A further R6 billion needs to be added to achieve the desired level.

Part of the reason for the steady rise in the foreign exchange component has been the relative decline of interest and dividend repayments on foreign loan and equity capital.

This is mainly due to the reduction in foreign debt, a sharp decline in foreign equity investment and the poor corporate results by SA companies with foreign shareholdings.

According to the Reserve Bank's Economic Report, total interest and dividend payments to non-residents as a percentage of export proceeds contracted from a peak of 14,5 percent in 1986 to nine percent in the first half of this year.

The Bank's total assets and liabilities decreased by R5,36 billion to R28,31 billion in August, which was mainly due to offsetting about R3,8 billion between the stabilisation account and the gold and foreign exchange contingency reserve account, as provided for in the March Budget.

Unrest putting paid to trade missions

By Frank Jeans STAR 9/9/92 (74)

Visits by at least eight trade missions which were due in South Africa soon have been postponed because of increasing political tension.

The continuing unrest is badly affecting the renewal of trade ties with the rest of the world — a situation the events in Bisho must surely have aggravated.

According to Johannesburg Chamber of Commerce and Industry (JCCI) sources, the countries which should have been represented in delegations, but have now called off visits are: Israel, Sweden, Mauritius, New Zealand, Australian, Denmark and Malaysia.

Thailand is understood to have postponed its mission until November.

The Swedes, who have postponed a visit until early next year, probably expressed the feelings of foreign interests in a fax to the JCCI:

"Owing to the latest events in South Africa, most of the participants (in the delegation) do not find it advisable to visit South Africa (this month).

"There is still a key interest in the South African market from our trading and industrial side, but the uncertainty about when to start is a very disturbing factor for the time being.

"Sweden has not yet lifted sanctions against South Africa and the fear is that the Swedish government will be pursuing a wait-and-see policy."

South Africa's traditional trading partner, Britain, however, remains committed to fact-finding visits, with the latest mission from Manchester now in this country.

Alfie Kane, leader of the Manchester Chamber of Commerce and Industry representatives, says: "We are here to get a better picture and we are optimistic rather than pessimistic."

Asked about the general business mood in Britain towards SA, Mr Kane said the perception was that there had to be a way forward and that with the impediments diminishing, significant change must follow.

COMPANIES

Reserves rise unexpectedly

HILARY GUSH

FOREIGN debt repayments of between $200m and $250m had been paid in August, Reserve Bank gold and foreign exchange GM James Cross said yesterday.

However, this had not had a marked effect on the reserves which rose by R591m to R5,3bn. BIDAY 10/9/92

Although it was difficult to establish the precise reason for the unexpected rise in reserves in August, the increase could be a result of a weaker dollar which led to forex inflows as forward cover on long-term positions was rolled over, said Cross.

"The technicalities of the foreign exchange market are such that third currency forward cover contracts tend to generate positive cashflows with a weakening dollar. As the dollar strengthens the situation is reversed."

The higher figure was current-account related but as trade data for August had not yet been released, it was difficult to pinpoint the cause of the larger reserves.

When asked about the effect of payments for agricultural imports on forex reserves, Cross said there had been a steady payment for maize imports over the last few months as opposed to a buildup of debt. (74)

Nedcor chief economist Edward Osborn said, however, the bulk of maize imports to date had been "in-and-out for the benefit of the neighbouring territories".

"It is likely that the whole system of maize importation has been entirely devoted to the movement of maize for Zimbabwe and Mozambique."

Osborn said it could be a couple of months before a large payment for maize imports for SA's own account was made.

Govt's local borrowing a hot potato for ANC

BDAY 10/9/92

TIM MARSLAND

THE ANC has caused periodic storms through its pronouncements on foreign loans raised by the SA government and parastatal institutions. But it has maintained a discreet silence on what attitude it would take, as a future government, towards loans raised locally which have also arguably served to buttress the "undemocratic regime".

This discretion has extended to declining to comment at all on the matter when approached recently by Business Day.

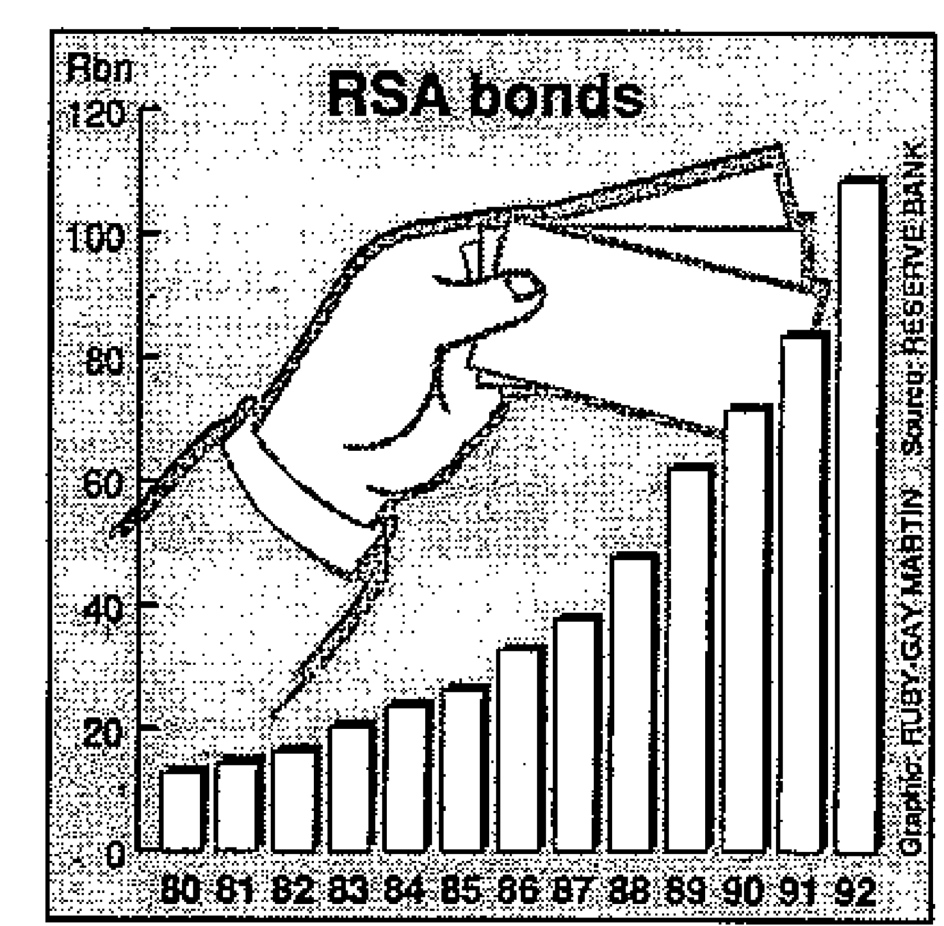
The ANC obviously sees the issue as a political hot potato. Senior government officials, too, have been at pains to ignore the matter in the hope that it will go away.

Government currently owes R108,6bn raised on the capital market through RSA loan stocks with maturity dates up until 2015. A payment of R18bn — the R144 stock — falls due in 1996. Reserve Bank figures for the first quarter of the 1992/93 financial year show government raised R12bn in RSA stock. Government budgeted R16,3bn for interest payments on the loans.

The ANC has been outspoken on foreign loans. It has written to foreign bankers asking them not to grant new loans to SA.

Initial statements that an ANC government would not repay foreign loans granted before an interim government was in place have been watered down somewhat to a suggestion that the organisation would seek to renegotiate the terms of such loans. Either way, the ANC's stance is seen more as a political gesture than as one based on economic considerations.

The organisation's policy on the local RSA loan stocks is less clear.



Either it has no policy or it fears the political and/or economic consequences of stating it.

The number two man in the ANC's economic planning department, Tito Mboweni, twice refused to comment.

However, an ANC source says there is debate as to whether a future government should be honour-bound to repay apartheid's debts. "It is a moral dilemma for the ANC."

That dilemma explains the department's silence. Publicly to commit the ANC to repaying debts arguably used to implement apartheid could raise an uproar among supporters. But taking the opposite stand would cause serious dislocations in the capital market and also harm the organisation's efforts to develop a more moderate and widely accepted economic policy.

Like Mboweni, Finance director-general Gerhard Croeser also refused to comment on the loans. However, government apparently has faith the loans will be repaid.

A well-placed source says government has no plans to repay the loans early. "It will repay them on maturity date, probably by re-issuing stock." He points out that it is getting harder for government to borrow money, even on the local capital market.

The State Pension Fund is the largest holder of government bonds. A senior government source says the Public Investment Commissioner, which manages the government service pension fund, has 75% of its funds invested in government bonds, which amounts to about 50% of the total RSA stock debt.

Should the ANC renege on the loans, state pensions would have to be paid directly by government through the exchequer. State pensioners have a legal right to the money as they in effect funded government borrowing through monthly pension payments, he says.

The ANC regards pensions as untouchable. "You cannot tamper with peoples' pensions," the ANC source says.

No government has reneged on the debt of its predecessor, says a government banking expert. Besides, a future government will need money as soon as it comes to power, particularly if it wants to spend more to correct historical imbalances. "Who would lend to a government that revokes on debt?" he asks.

Analysts warn that should the ANC say it plans to refuse to repay the loans, it would be catastrophic for government.

A senior parastatal source says any government that refuses to honour a previous government's debt would run into serious difficulties. The cost of raising funds would increase dramatically because of the heightened risk factor, affecting the current government.

He does not believe an ANC government would be able to survive if the loans were not repaid, saying the ANC realises that the country did not develop as far as it has without state assistance. Also, it is very difficult to determine which part of which rand was spent on which project.

A senior capital market dealer says nobody believes the loans will not be repaid.

Such an announcement could knock 20%-25% of their market value. "Who would want them? Investors will want to get rid of them."

LETTERS

Govt 'loses R200m a year in duties'

MARCIA KLEIN

GOVERNMENT was losing about R200m a year by not collecting the correct level of taxes on electronic goods, Radio and Television Manufacturers' Association chairman Alan Coward said yesterday.

Duty evasion and illegal imports were destroying the industry, he said.

"It is no secret that certain goods, for example TV sets, are being retailed at levels which are impossible to achieve unless duties are evaded."

According to the association, it was the responsibility of the Customs Department to ensure correct taxes were collected. A Customs and Excise spokesman said it did collect the correct duties and was not aware of any problems in this area.

He said Customs and Excise investigated cases if they occurred, but he was unaware anyone was trying to import goods without paying duties.

Industry sources said government was slow to react and it often said it was too short-staffed to act.

Coward said: "The general effect of duty evasion is higher overall taxes, a drop in business standards and unrealistic price perceptions."

FM 11/9/92 (74)

CURRENCY MARKETS (79)

Awaiting follow-through

FM 11/9/92

So far, no worse. That, as the *FM* went to press, was the net result on international foreign exchange markets of last week's policy moves by the UK government, the German Bundesbank, Italy and the US Federal Reserve. The most dramatic measures were those taken to prevent the exchange rate mechanism of the European Monetary System (EMS) falling apart or, at best, forcing a realignment of parities.

To this end, in chronological order:

☐ The UK took markets by surprise with the announcement of a 10bn European Currency Units ($14,5bn) borrowing from European banks to rescue sterling from the choices of devaluation or higher interest rates;

☐ The Bank of Italy jacked up its discount rate by 1,75 percentage points to 15% to stem the lira's haemorrhage, in spite of the damaging short-term effects on the economy and the government's battle with an intractable Budget deficit; but

☐ Most important, at the meeting of Finance Ministers and central bankers of the European Community in Bath, the 12 nations ruled out any realignment within the EMS, bolstered by an unprecedented public undertaking from the Bundesbank that it will not raise German interest rates further "in present circumstances."

The snag was that, in-between these events, the US Federal Reserve reacted to the 167 000 August rise in the non-farm jobless total by cutting its Fed funds rate (at which it lends overnight to the banks) by nearly 44 basis points to 2,875%.

By Tuesday, exchange rates were more or less back where they were. Having bobbed up to DM2,80 (EMS central rate DM2,95), the pound was retreating towards DM2,79. The lira and Spanish peseta also fell back.

And the chief reason was a renewed assault on the dollar. Having rallied briefly above DM1,40 on the Bundesbank's undertaking, the dollar lost almost a full pfennig with matching declines against the other strong EMS currencies and the Swiss franc.

Financial markets should have been reassured by the utterances from the EC Finance Ministers' meeting in Bath. In some ways, the sterling rescue package resembled the action taken in 1976, when the Labour government was forced into the arms of the International Monetary Fund (IMF).

Then a US$3,9bn IMF standby plus acceptance of the Fund's conditionality — which saw the birth of monetary targeting in Britain — was reinforced by bank credits of $4,5bn. And the combination worked.

This time, the credibility of the $14,5bn credit was underpinned by the Bundesbank's undertaking, plus hints from the Finance Ministers of Britain, Germany and France that markets should anticipate a decline in interest rates. Indeed the three-month D-mark interest rate contract on the London International Financial Futures Exchange pointed to a December rate of 9,4% against the current 9,75%. Eurocurrency rates also nudged down.

But it was clear the Fed's move had imposed further strain on the credibility of the EMS. Bundesbank president Helmut Schlesinger also stirred the pot by refusing to discuss his attitude towards a realignment of EMS parities — of which there were nine up to 1990 — in a BBC radio interview.

"If the central banks want to convince markets they are serious about stabilising rates, says Paul Chertkow, currency research chief at Union Bank of Switzerland, "they have to hit the market in a major, co-ordinated way — like selling $5bn to $10bn of D-marks a day. There is a real question whether the Fed and the Bundesbank have an appetite for this right now. They may wait until the dollar is heavily oversold, which could be at DM1,30 — and, if so, why not DM1,20?"

Meanwhile much depends on the outcome of the French referendum on the Maastricht Treaty. A no-vote will send money into the D-mark and weaken the dollar further. ■

BUSINESS BAROMETER

W/Mail 11/9-17/9/92 (85)

Bisho's long shadow

THE Bisho shooting dealt another blow to fragile economic prospects. Share prices on the Johannesburg Stock Exchange were knocked lower by foreign selling in the wake of the massacre, with the overall index shedding 1,4 percent to 3 085 on Wednesday. It was reported that South Africa's chances of an agreement with foreign banks on a final debt repayment arrangement have been set back.

Rise in reserves (74)

DESPITE foreign debt repayments of around R250-million South Africa's gold and foreign exchange reserves rose in August. Gold and foreign exchange reserves rose by R263-million to R11,5-billion compared to July. Foreign exchange holdings rose by R591-million to R5,9-billion. Gold holdings were slightly up at 6,74-million ounces compared to 6,70-million ounces in July.

W/Mail 11/9-17/9/92

W/Mail 11/9-17/9/92 (74)

Car sales in lower gear (85)

NEW car sales, one of the key indicators of economic activity, continued on their downward trend in August.

At 15 214 units, around 8,5 percent fewer new cars were sold in August this year than in August last year, according to the National Association of Automobile Manufacturers of South Africa. New car sales for the first eight months of 1992 were 11,7 percent lower than in the same period last year.

W/Mail 11/9-17/9/92

Decrease in loans for development

BDay 14/9/92 (74)

PETER DELMAR

SA's leading development agencies have all cut back on loans recently.

The Small Business Development Corporation (SBDC) has already reduced loans to small and medium-sized entrepreneurs by 20% and predicts that a further 20% cut could be in the pipeline if the organisation does not find new funding.

The Development Bank of Southern Africa's most recent annual report shows that only R759m of a budgeted R932m was disbursed in the last financial year.

And an Industrial Development Corporation (IDC) spokesman confirmed that in the past three months industrial funding allocations had dropped for the first time in several years.

The cutbacks are the result of the current recession and various other factors. But the agencies say they are well placed to help lead an upswing if political and other conditions are met.

The SBDC's cutbacks relate to a reduction in state capital funding to the SBDC from R100m to less than R8m.

SBDC accounting GM Tertia van der Merwe says negotiations are being held with various parties but as yet no major new funding have become available.

Meanwhile, applications for loans are expected to grow by 30% this year.

The DBSA's Nic Christodoulou said the reduction in disbursements was the result of a complex set of factors, including poor economic conditions, lack of clear community support for projects and low institutional capacity.

Although there had been a lower flow of funds in the past financial year, the outlook was positive with "a lot of people coming to agreement" on projects. There had also been a positive shift in priorities as well as a move towards sounder planning.

"There is a growing consensus that in a new SA we will have to live within our means and highlight the need to spend in productive areas with more prudent spending in the consumption areas," he said.

It was hoped the DBSA would disburse at least R850m this year.

☐ To Page 2

Development

BDay 14/9/92 (74)

☐ From Page 1

IDC GM Malcolm MacDonald said up until May this year the IDC had granted industrial financing worth about R1,2bn — slightly up on previous years. Since June, however, the moving average had been lower.

In July the IDC dropped its interest rates to stimulate capital investment, but the effects of this move could not yet be determined.

One positive development was the IDC's recently launched funding for ecotourism. Applications for funding of about R170m were being investigated, while R30m had already been approved.

Major projects collectively worth several billions were in the final stages of being approved and would have a stimulatory effect when they came on stream.

MacDonald said that despite the recent dip in financing for smaller ventures, the larger projects and spending on ecotourism would mean that the current financial year was likely to see a record disbursement by the IDC.

Reserve Bank raises travel allowances

SHARON WOOD

THE Reserve Bank has lifted individual travel allowances to R19 000 from R17 000 effective from August 28. Business allowances have risen to R28 000 from R25 000.

The 11,8% annual increase was calculated according to inflation rates in overseas countries and should leave travellers as well off as the year before, a source in the Reserve Bank said. BDAY 15/9/92

Analysts said while the absolute amount remained small, the increase was quite generous and on average took into account the effects of price increases in most destination countries. However, they said that in certain countries travellers would be worse off than they were a year ago.

In the year to August 28, the trade weighted basket of currencies depreciated 5,3%. In real terms the rand appreciated.

The rand had shown a mixed performance against international currencies during the year to end-August, with the dollar appreciating 4,5% against the rand, the pound depreciating 13,1%, the Deutschmark 16% and the Japanese yen 5,6%.

Travel allowances for neighbouring countries rose to R6 000 from R5 500.

Study allowances for single people grew to R2 750 from R2 500.

Markets rally on German rates cut

BDAY 15/9/92 (74)

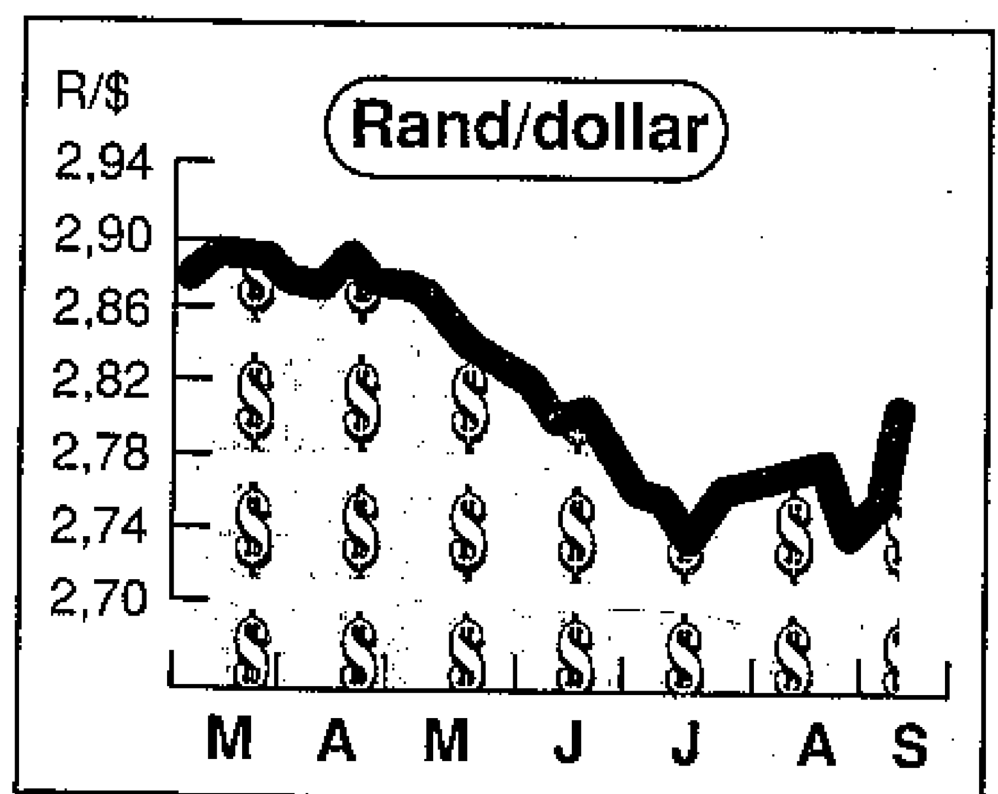
MERVYN HARRIS
and HILARY GUSH

GLOBAL markets were on the boil yesterday in the wake of the German interest rate cuts, which could be the start of a trend to revitalise the world economy.

The 0,5 percentage-point drop in the Bundesbank's discount rate to 8,25% and the 0,25-point cut in the key Lombard rate to 9,5% sparked a strong dollar rally, and sent bourses roaring ahead. Gold rose $8 to a high of $348,25 before it slipped back to a London afternoon fix of $346,25, its highest level in five weeks.

Gold's rise and an initial 100-point surge in London's FTSE 100 index swept the JSE out of the doldrums with the overall index rising almost 3% to 3 151 and the all gold index climbing 5,5% to 905 after last week's shake-out to seven-year lows.

The gold market was encouraged by a rise in the rand/gold price to R972,20 from R945,71 on the back of firmer gold and a weak commercial rand, while platinum gained $5 to $361,15 on expectations that a world economic recovery would boost demand for the metal.



Graphics: LEE EMERTON Source: I-Net

Seesaw trading in global foreign exchange markets saw the commercial rand reach a 15-week low of R2,8450 against the

□ To Page 2

Markets

BDAY 15/9/92 (74)

□ From Page 1

dollar. However, amid indications of Reserve Bank support, the currency recovered some losses to end at R2,8078.

From Friday's R2,7815 close, the rand opened yesterday's session sharply weaker at R2,8368 on the back of a stronger dollar. Following the weekend Bundesbank announcement of a planned cut in the German discount rate, the US currency rallied five pfennigs to DM1,5029.

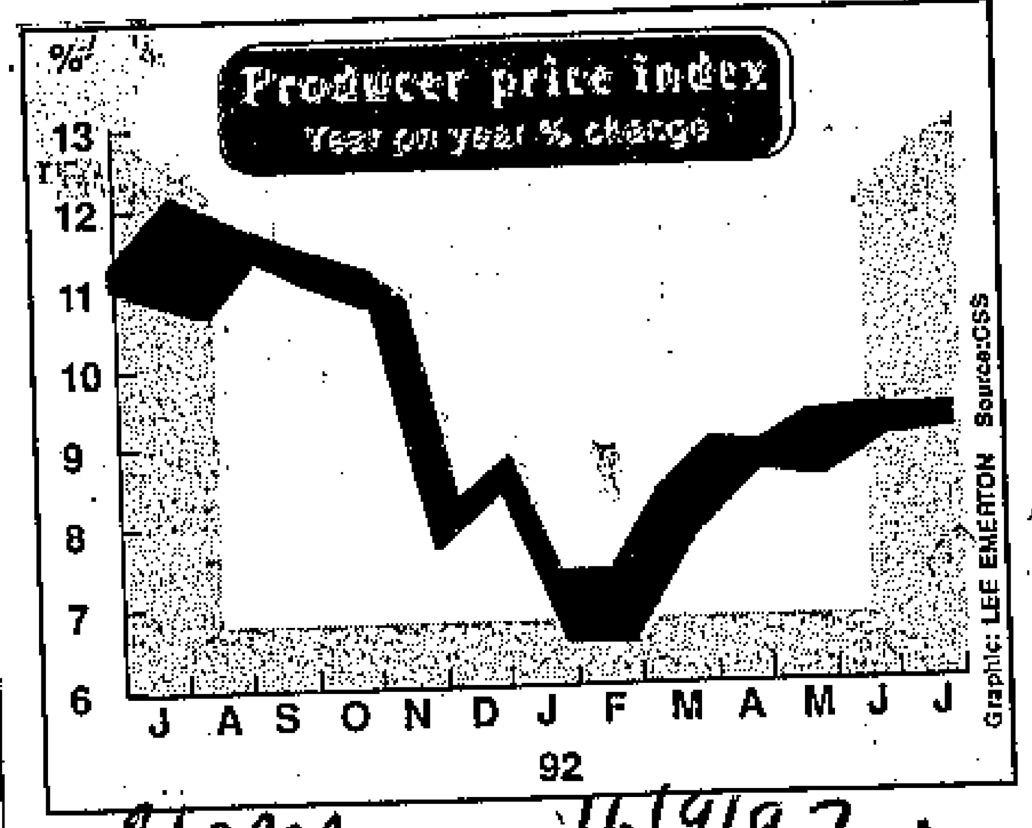
Disappointed by the half-percentage point drop in the German discount rate, traders sold off the dollar which rapidly sank to DM1,4690.

The rand then firmed against the US currency to trade at R2,7945 as exporters sold dollars and took advantage of a stronger gold price by selling proceeds forward.

On the crosses, the local currency posted strong gains. In afternoon trade the rand firmed to R5,2873 against sterling from a weekend close of R5,3766. Against the Deutschmark the rand also hardened, recording an intra-day high of DM0,5306 after ending Friday's session at DM0,5169.

The financial rand weakened 2c to R3,85 in mid-morning trade from a R3,83 opening. However, early afternoon saw keen foreign demand on hopes of a return to talks between the ANC and government with the unit strengthening to R3,81. By the session's close the currency was relatively unchanged at R3,84.

● See Page 9



BDay 16/9/92.

Jump in imported commodity prices

(74)

HILARY GUSH (2)

IMPORTED commodity price increases led annual producer inflation in July, which edged up to 9,3% from the 9,2% posted in June, Central Statistical Service (CSS) figures released yesterday showed.

Monthly growth in the producer price index (PPI) eased, however, to 1,2% in July compared with June's 1,4% rise.

Annual increases in imported commodity prices jumped to 7,5% in July from the 5,9% increase recorded in May and June. Monthly imported commodity inflation was up at 2,2% in July from June's 0,5%.

Rand Merchant Bank chief economist Rudolf Gouws said the statistics were "good news". Excluding food, he said there had been no growth in the prices of locally produced goods in July. However, in the year to July local producer inflation excluding food was 6,2% compared with last year's 11,5% average and May's 6,3%.

"July's figure is a further reflection of how difficult business conditions are."

Lower producer inflation was filtering through to consumer inflation, he said, as indicated by July's 10,9% rate of year-on-year consumer inflation excluding food.

Absa economist Dominick Sutton said the main jump in producer inflation was in imported inflation — a result of higher food imports due to the drought.

He expected producer inflation to remain stable below 10% for several months.

Price increases for locally produced commodities ebbed to 9,7% in the year to July from the 10,1% rise recorded for June.

"The downtick in local producer inflation should exert pressure on consumer prices which should start falling."

Metropolitan Life economist Chris Visser expected consumer inflation to fall steadily as producer inflation subsided, providing scope for a fall in interest rates.

US gives SA $30m credit

MEREDITH JENSEN

THE US Department of Agriculture has authorised $30m in credits for SA through its Export Enhancement Programme.

The credits have been earmarked for the sale of $25m wheat and $5m of feed grain. Wheat Board deputy GM Johan Dorfling said it was a major trade relations breakthrough.

The Comprehensive Anti-Apartheid Act had curbed SA's ability to obtain credits, he said. In 1992 SA needed to import 1-million tons of wheat.

It was unclear how many tons of wheat would be purchased as a price had not been determined, but the tender deadline was November 30 and bidding would be through the Grain Merchants' Shipping Association, he said.

Precious metals receive a boost

UK rates hike sparks global market crisis

BDAY 17/9/92. (74)

Business Day Reporters

A HIKE in UK interest rates and the suspension of trade in the pound within the European exchange rate mechanism (ERM) plunged global markets into crisis yesterday.

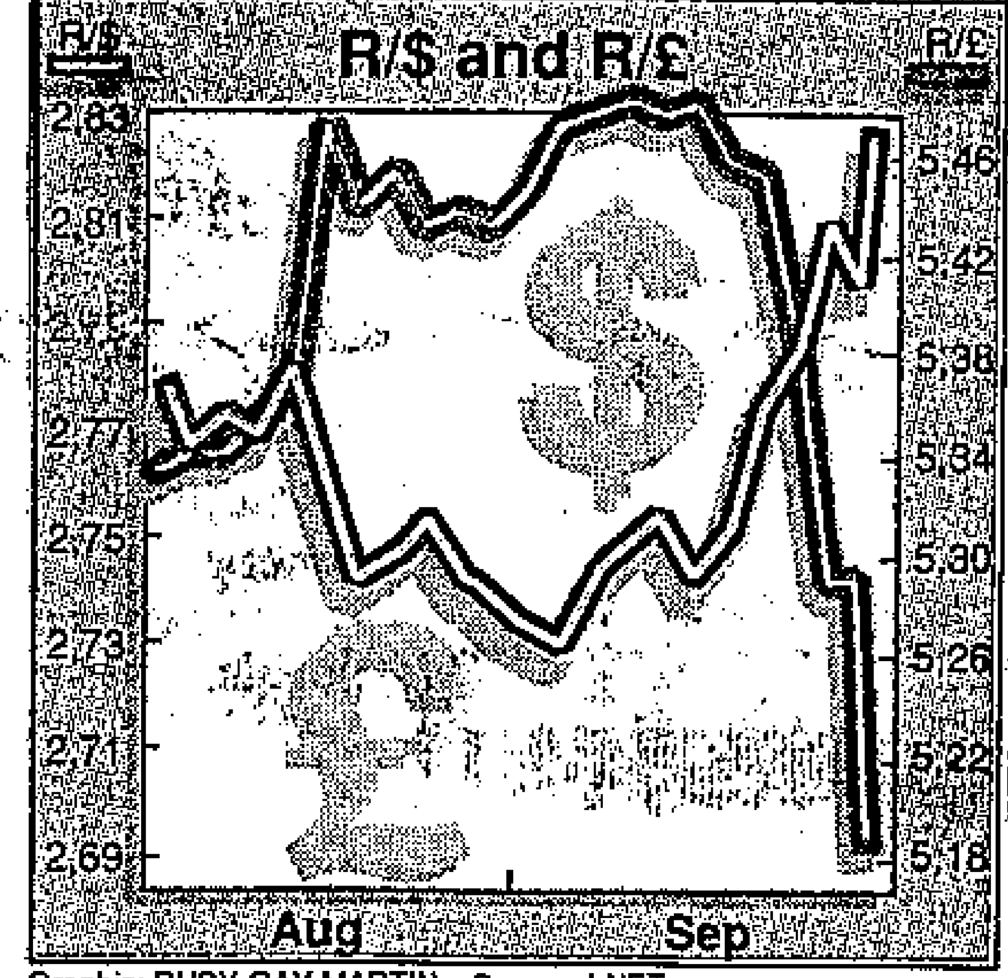
A two-stage hike to 15% sent currency markets reeling, share markets swinging wildly and precious metals surging in a flight to safe havens.

Later, British Chancellor Norman Lamont suspended the second stage of the hike, leaving rates at 12% and paving the way for the pound to be devalued.

At the same time, he suspended tha pound's current parities in the ERM.

On news of the two rate hikes, gold breached $350 in early New York trading and platinum jumped more than $6 to $365,75, helping gold shares on the JSE to defy the overall softer trend.

The uncertainty of market players was shown by gold making three assaults on the $350 level on Comex. The metal was boosted as some dealers switched from European currencies into various dollar-denominated vehicles such as gold.



Graphic: RUBY-GAY MARTIN Source: I-NET

Yesterday's hectic events were seen as further reaction to the turmoil on foreign exchanges after German interest rates were eased earlier this week.

The Bank of England's aggressive defence of the pound failed to lift the currency off the lowest level allowed within the exchange rate mechanism of DM2,7780. Expectations of a devaluation in the wake of the failure saw the London FTSE and Wall Street recover their initial losses.

"History was made today. It has been extremely confusing. People do not know how to interpret these developments," a stock exchange dealer said.

On the domestic currency markets, the rand gained against the pound as the defence of sterling failed. The local unit, which ended Tuesday's session at R5,2883, gained almost 2% to end the day at R5,1857. It also gained against other third currencies. After ending Tuesday's session at DM0,5262 the rand closed yesterday at DM0,5335.

But the rand was a victim of the flight into the dollar. It closed at R2,8273 against the dollar, from a morning opening of R2,8073 and an overnight R2,7958. The US currency broke through the key DM1,50 level as investors saw it as a safe haven.

The turmoil spilled into the local gilts market where bulls and bears tussled without a clear winner emerging. In the morn-

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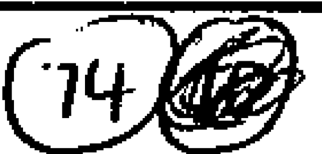
Market crisis

BDAY 17/9/92. 

□ From Page 1

ing, the bulls hoped to see the bellwether Eskom stock — E168 — fall through the 14% level as the JSE softened. Sentiment was underpinned by keen institutional buying. The UK moves, however, spurred a change in sentiment on fears that foreign holders of SA bonds would sell to move into UK gilts. The rate on the E168 finished at around 14,22% from an overnight 14,14%. The rate on government R150 stock also rose to end at 14,25% from 14,19%.

JSE shares were sent broadly lower with only golds escaping the ravage. The industrial index closed 45 points lower after London's FTSE fell 78 points. But London clawed back to retrace most of its losses on expectations of an ERM realignment.

Currency dealers are unanimous in expecting a pound devaluation and speculation is rife of an emergency G-7 meeting on ERM realignment. They see realignment as the only alternative since the level of UK interest rates would be unsustainable in the face of recession.

But some analysts believe realignment is unlikely before the outcome of Sunday's French referendum on the Maastricht treaty.

Sterling entered the ERM at a central parity of DM2,95 when calculations based on competitiveness suggested a rate of DM2,75 would be appropriate.

Summit date may be set this week

STAR 17/9/92

By Peter Fabricius

Intensive negotiations to set up a Government-ANC summit on violence are continuing, with some hope that a date could be set by the end of the week.

Both the Cabinet and the ANC's national working committee met yesterday when they were likely to have discussed the obstacles still impeding the arrangement of a summit.

ANC leader Nelson Mandela improved the mood for agreement when he said in an interview with The Star this week that he would be prepared to attend a summit on violence with President de Klerk if the Government gave the organisation assurances on the release of prisoners, a curb on carrying dangerous weapons, and adequate security around hostels.

Mr Mandela's remarks have put pressure on both sides to come to terms and led to optimism, at least on the Government side, that agreement could be reached this week.

Government and ANC delegations under Constitutional Development Minister Roelf Meyer and ANC secretary-general Cyril Ramaphosa have had several meetings this week to try to resolve these issues.

The ANC has warned that the speed with which an agreement could be reached would be determined by the Government's response to its three demands.

Welcome . . . Deputy Minister of Law and Order Gert Myburgh (right) welcomes Unit at Jan Smuts Airport yesterday. ● Report — Page 3

UK move rocks markets

By Magnus Heystek
Finance Editor

World financial markets were plunged into renewed crisis yesterday when the Bank of England increased its base lending rate from 10 to 15 percent in a desperate bid to prevent a formal devaluation of the pound.

The move sent shockwaves through currency and equity markets, including those in South Africa.

The 5 percent increase by the Bank of England came in two stages.

Yesterday morning the base lending rate was put up from 10 to 12 percent but when this failed to support the pound, it was further increased to 15 percent in the afternoon.

However, the move had little impact and sterling remained pinned to the floor.

According to international economists, the Bank of England now has no option but to formally devalue sterling. Any further increase in interest rates is likely to harm the UK economy, already in the midst of a severe recession.

STAR 17/9/92

Elsewhere in Europe, Sweden increased its prime rate by a staggering 500 percent to 75 percent, in an effort to halt the slide of the Swedish kroner, and the recent run on the Italian lira continued.

The current bout of uncertainty on world currency markets was precipitated by the surprise cut in lending rates by the German Bundesbank.

Stock markets have also been badly affected by the volatile currency markets.

Yesterday's events in Threadneedle Street in London badly buffeted world bourses.

The All Share Index dropped 40 points to 3138, wiping out all of its gains earlier this week, and the Industrial Index dropped by 45 points to 4087.

Gold was the only beneficiary of volatile markets and was trading at around $349 an ounce after a morning fix of $346,20.

The Gold Index rose by 20 points to 913 and looks set to rise further in the face of extreme uncertainty on world markets, said analysts.

The rand slipped back against the US dollar and was quoted at R2,82 but strengthened against sterling to R5,28.

Pick 6 set to top R3-m

The Pick 6 pool at Turffon-

Sterling crisis augurs well for rand's health

Star 17/9/92 (74) (16)

By Neil Behrmann

LONDON — Britain yesterday increased its base lending rate twice, from 10 percent to 12 percent and then to 15 percent in a desperate bid to defend the pound.

Traders were astonished by the move, saying they could not remember the last time the Bank of England had announced interest rate rises twice in a single day.

The latest rise pushed the effective level of British interest rates to their highest since just before sterling was pegged to the European Exchange Rate Mechanism (ERM) in October 1990.

The shock move came after a $2 billion intervention by the Bank of England and other central banks failed to lift the pound, which is still hovering around its European floor of under Dm2,78.

"It is an absolute crisis of confidence," said Brendan Brown, head of foreign exchange research at Mitsubishi Finance International, and author of a history of previous international currency crises.

Foreign exchange dealers said that huge amounts of sterling had been sold by Japanese, other Far East and US holders.

Multi-national corporations, banks and fund managers were sellers, and more orders were on the books, they said.

Since its ludicrous peak of $2 in the past 10 days, sterling has plunged by 7,5 percent against the dollar to a still overvalued rate of $1,85.

Sterling's purchasing power rate against the US currency is calculated at $1,45.

Sterling has also fallen by six percent from its record peak of R5,51 against the commercial rand and by nearly 10 percent against the financial rand.

Economists at Chemical Bank said that with the currency at the bottom of the ERM trading band, players could "sell the pound short with little risk" and buy it back at a profit at a lower rate.

"It is a speculator's dream," was the comment of several traders.

But it is a nightmare for hard-pressed businesses and individuals in Britain's downtrodden economy.

Real, inflation-adjusted interest rates are now 8 percent and indebted individuals and businesses are hurting badly.

SA businessmen involved in foreign trade may well decide to take advantage of the sterling crisis.

As reported several weeks ago, an SA exporter selling goods for £1 million in Britain would have then locked in rand revenue of more than R5,4 million, compared with R4,7 million a year ago.

It still pays to hedge forward by selling sterling for rands. The revenue that can be locked in is — depending on the forward rate — nearly R5,2 million for each £1 million.

Importers may also decide to hold fire on sterling payments.

Some analysts such as Mr Brown of Mitsubishi contend that the pound will eventually tumble to the Dm2,50-Dm2,60 range, allowing the government to cut interest rates.

At a rate of Dm2,55, sterling's dollar rate becomes 1,70, equivilant to around R4,78.

Whether the sterling bears are correct or not, it pays exporters and importers to take insurance because sterling is still overvalued against the rand.

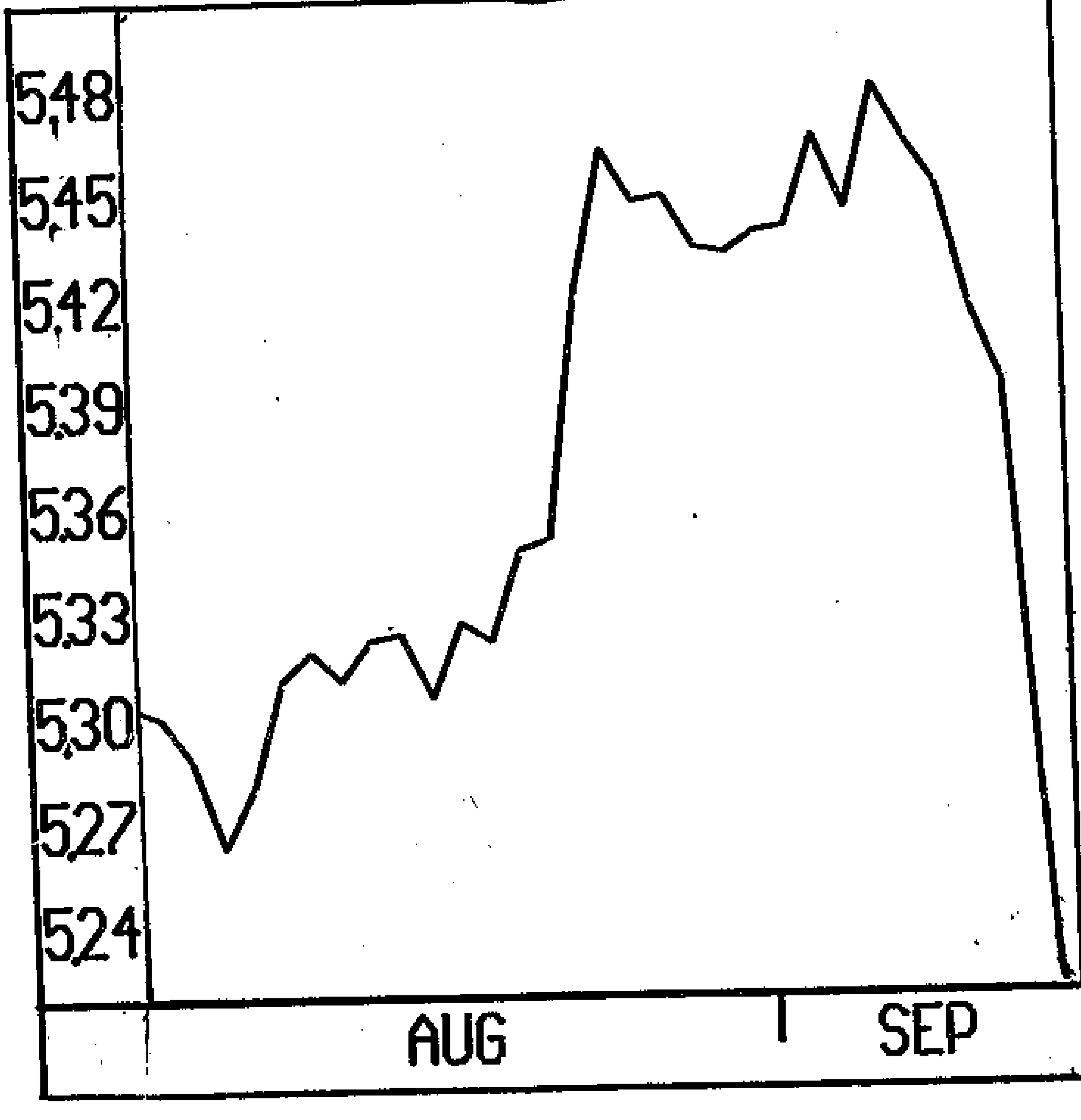
The market believes that the British government will do its utmost to support the pound until results of the French referendum on the Maastricht Treaty.

If the vote is no, both sterling, the French franc and other European currencies are expected to be devalued against the mark.

Even if the vote is yes, the view is growing that sterling will fall.

Dealers are doubtful that support measures will work. The market knows that sterling is overvalued and that the government cannot afford higher interest rates for long.

The British economy contracted by 2,5 percent last year and even before the latest interest rate rise the economy was expected to decline by at least one percent this year.



Rand/sterling exchange rate

UK abandons defence of the pound

Sterling crisis puts markets into a frenzy

BDAY 18/9/92. (74)

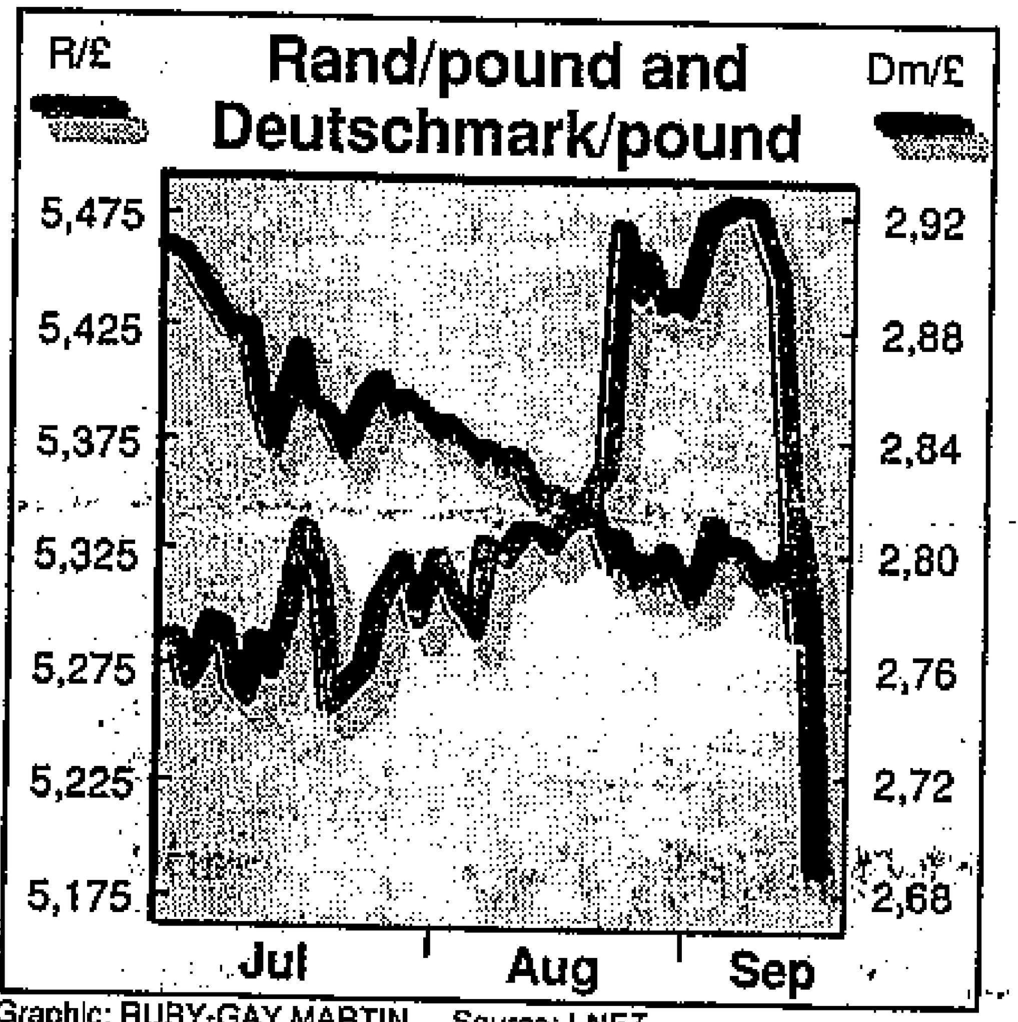
GRETA STEYN
and HILARY GUSH

THE sterling crisis rocked foreign exchange markets again yesterday after British Chancellor Norman Lamont gave up the defence and left the currency to the market's mercy.

The suspension of the pound's ERM membership, and the reversal of interest rate hikes, allowed the bears to go on a feeding frenzy.

The British currency fell to DM2,64 by early afternoon, after falling through its ERM floor of DM2,7780 on Wednesday. The rand, which last month was at record lows against the pound, joined other currencies in chalking up remarkable gains against sterling. It reached a 13-month high against the pound of R4,8786 — surging almost 6% from its previous close.

But the rand's triumph was short-lived as the local currency slipped over the R5 level towards the end of trade. Dealers said there were rumours of Reserve Bank intervention to put a brake on the rand's ascent.



Graphic: RUBY-GAY MARTIN Source: I-NET

The Bank uses a trade weighted basket of currencies as its policy benchmark. Wednesday's turmoil had pushed the rand 1% higher on a trade-weighted basis, but the gains were wiped out yesterday.

Dealers believed the Reserve Bank was active in the market in line with its policy to keep the rand stable. One trader said: "The Bank sees no real reason for the rand to be at these strong levels. It has been selling rands to bring things back into perspective, and to discourage importers.

"The long-term outlook for the rand is a return to the path of slow depreciation against all major currencies."

The rand was weak against the dollar, falling to R2,8428 to the US currency from Wednesday's R2,82 close. Its attempts to claw back from the R2,84 level were thwarted by importer demand.

But the dollar's attraction as a safe haven dimmed yesterday as dealers turned their attention to the fundamental weaknesses of the US economy. The pound improved to $1,7755 in afternoon trading — up from the morning's $1,7385.

A dealer said: "The market has gone crazy. The pound gained against the dollar

□ To Page 2

Sterling crisis

BDAY 18/9/92 (74)

□ From Page 1

after the British drop in interest rates. That is really unusual."

Gold also disappointed, leading to volatility on the JSE gold board. Reuter reports gold shares pared strong early morning gains in steady trade after the bullion price fell back. Golds soared by more than 3% in the first 15 minutes on speculation rather than genuine invesment demand.

The gains dissipated towards midday as the metal's price fell to below $350 from a $353,30/oz high. The gold index, which had touched 941, closed six points up at 919 and the overall index was 17 points firmer at 3 154.

Bearish sentiment swamped the local capital market early yesterday in reaction to chaos on global foreign exchange markets. The yield on government's benchmark gilt — R150 stock — hit a peak of 14,32%, after ending Wednesday's session at 14,26%.

By midday, bulls had returned to the market and rates had assumed their steady downward slide. At the close, the yield on long-dated Eskom was around 14,15% from an overnight 14,20%, while the yield on the R150 bond stood at 14,18%.

Dealers said the market was underpinned by bullish sentiment, which was expected to survive further shocks in the international forex market.

Forex dealers said the pound could go even lower, but it was difficult to predict a bottom. They expected the G-7 to provide some direction to the market in the next few days. The most important factor for ERM and the pound remained the outcome of the French referendum on European union on Sunday.

● See Pages 4 and 6

INTERNATIONAL CURRENCIES

In the firing line

The euphoria soon evaporated. The Bundesbank's grudging interest rate cuts and the devaluation of the Italian lira may have prevented disintegration of the exchange rate mechanism (ERM) of the European Monetary System. Equally, the U-turn — which made liars of the European Community Finance Ministers who had vowed not to realign ERM parities *(FM* September 11) — probably ensured the French will vote "oui" in Sunday's referendum to ratify the Maastricht Treaty. It also took the heat off the Germans as they prepare to leave for the IMF annual meeting in Washington.

The enthusiasm had been tempered by the token look of the Bundesbank's quarter percentage point paring of its Lombard rate (at which it lends to the banks) to 9,5%, even though the discount rate was cut by 0,5 percentage points to 8,25% and, significantly, the rate for repurchase of securities from banks was lowered by the same to 9,2%.

Many analysts felt the 7% adjustment of the lira's central parity within the ERM, via a 3,5% devaluation and a 3,5% revaluation of the other currencies, should have been twice as big to deal with Italy's problems.

But markets reacted joyously on Monday. The dollar, looking critical at DM1,39 five days earlier, leapt to DM1,49. It went from Swfr1,24 to Swfr1,31, while the pound, which had topped $2, fell to just above $1,89 — and the dollar's trade weighted index put on 4%.

Crucial to the sclerotic UK economy, sterling climbed by two pfennigs to DM2,81.

Equities bounded upwards. Tokyo gained 2%. In London, the FTSE 100 opened with a gain of 4% before closing a net 2% higher on the day. The FTSE Eurotrack index put on 3,9%, while Wall Street's confidence sent the Dow Jones Industrial Average up 2%.

Overnight reflection produced profit-taking and a degree of disillusion, notably over the vaunted independence of the Bundesbank, whose President Helmut Schlesinger, faced accusations of bowing to political pressures — unlike his iron-fisted predecessor, Karl Otto Poehl. Schlesinger did not help matters by saying the Bundesbank had never been truly independent whether under Bretton Woods or the ERM, both of which had been political decisions.

As the *FM* went to press, the dollar and the pound were backtracking and London equities had lost nearly half their gains. Gold alone was holding its illogical $6 rise to more than $346/oz (after $348 in New York) in the face of the dollar rally.

There was schizophrenia in Frankfurt. With broad money supply (M3) growth still running at 8,5% annualised — against the 3,5%-5,5% Bundesbank target range — and a cumulative Federal budget deficit of DM1,7 trillion, rising by nearly DM300 000 a minute, it was argued that Schlesinger and his council had no business easing up at this stage and that its credibility had been damaged. And Schlesinger seemed to agree, saying: "There is no room for more."

The Bundesbank also revealed one highly practical reason for the re-alignment of the lira. It had sold a record DM24bn ($16bn) in eight days in support of the lira because the Bank of Italy had run down forex reserves to perilous levels. That money flowed straight back to Germany, creating a further blip in money supply growth. The figure compared

with DM16bn deployed in 1973 after the collapse of Bretton Woods and DM15bn during the ERM crisis of 1987 — which led to the last lira devaluation. The Bundesbank, said Schlesinger, had been left where it was "really no longer in a position to continue our monetary policy."

On the other hand, pro-Maastricht voices claimed the Bundesbank had acted as if it was Europe's central bank and had allayed fears about its potential for narrow-minded tyranny in a more unified EC. The purists, however, feel that central banking by consensus is a dangerous lurch down the primrose path to economic perdition.

But there were just as many complaints that the Bundesbank had not done enough to stop Germany slipping into recession and that its focus on monetary targets would put off necessary interest rate cuts for too long.

It received a lukewarm and anxious response in Britain, which now looks hoisted by its own petard for sticking to the pound's central rate of DM2,95. Chancellor of the Exchequer Norman Lamont called it a step in the right direction — which it was — but could only express hopeful confidence that sterling interest rates would come down when the time was right.

The money markets saw little chance of an early reduction in interest rates as pressure switched to sterling. "The battle for the lira has been won. It was sterling's outer defence. Now the battle starts for the pound," said one City economist. "Re-alignment is the Bundesbank's preferred means of tackling the ERM problem and the pound is next on the headman's block. The Bundesbank could find itself laying more billions in concerted defence of sterling."

Europe's Finance Ministries and central banks will be holding their collective breath until next Monday, when the outcome of the French referendum is known. If it goes the wrong way, the forex sharpshooters will be out in force and sterling is first in the firing line.

John Cavill

SA companies converge on Dubai

PETER DELMAR

MORE than 100 SA companies will take part next month in a trade exhibition in Dubai, in the Middle East — said to be SA's biggest foreign trade outreach yet. BIDAY 18/9/92

The trade fair is being organised by the SA Foreign Trade Association (Safto) and the departments of Trade and Industry and Foreign Affairs.

Safto area manager Gyfford Fitchat said yesterday more than 200 delegates would attend the fair, which coincided with Flitestar's first flight to the Gulf.

Dubai, in the United Arab Emirates, had been selected because of its position as the trade centre of the Middle East. Last year Dubai imported goods worth $1bn.

"The show is the biggest of its kind ever put on for SA industry in the foreign market," Fitchat said. He added that businessmen exporting to Dubai could expect to reach virtually the whole Middle East and beyond.

The participating companies represent a wide range of manufacturers and traders. From October 10 to 16, a number of SA companies will take part in an exhibition in Oman.

GATT group visiting SA

B/DAY 18/9/92

PETER DELMAR

A THREE-member GATT delegation is visiting SA, for the first time in years, to update its information on SA's tariff and trade policies and procedures. (74)

The delegation has already met members of the Department of Trade and Industry, Safto and the Board on Tariffs and Trade.

It is expected to meet Sacob leaders today.

Informed sources said yesterday the visit was aimed mainly at familiarising GATT with recent developments in SA.

It was understood the future of SA's export incentive schemes and tariff policies, as well as recent undertakings to GATT to reduce tariffs, were among issues being discussed.

Bisho's mourners plan huge stayaway

BIDAY 18/9/92

Business Day Reporters

HUNDREDS of thousands of workers are expected to stay away from work in the eastern Cape and Border regions today as preparations for the funeral of 28 ANC supporters killed in Bisho last week got under way.

And in a security clampdown, government yesterday declared five more unrest areas in the eastern Cape, bringing to 10 the number of unrest areas declared in the region in the past month.

Scores of SA Police and soldiers took up positions on both sides of the Ciskei border yesterday as the ANC began its two days of mourning. Fifteen of the 29 victims — 28 ANC supporters and one Ciskei soldier — are scheduled to be buried in the King William's Town cemetery at 10am today.

The funeral will be attended by World Council of Churches secretary-general Emilio Castro, UN monitors and Border-Ciskei regional dispute resolution committee members .

UN special representative Virenda Dayal, who will also attend the funeral, met Foreign Minister Pik Botha in Pretoria yesterday. After the talks, Botha said Dayal would act as catalyst in the process to eradicate violence.

Sapa reports that the five districts declared unrest areas in a special Government Gazette published yesterday are Cradock, Fort Beaufort, Grahamstown, Port Elizabeth and Uitenhage, all of which are on the western side of Ciskei.

On September 5, just prior to the Bisho massacre, King William's Town, Cathcart, Queenstown, Stutterheim and East London, all on the eastern side of Ciskei, were proclaimed unrest areas.

The ANC yesterday slammed the latest move, saying it was insensitive.

"Law and Order Minister Hernus Kriel has taken these steps despite the fact that, in the days following the tragic massacre in Bisho, tens of thousands of people participated in peaceful and disciplined marches, rallies and vigils without incident," the organisation said in a statement.

LINDA ENSOR reports that Cape Town Chamber of Commerce yesterday appealed to its members to consider sympathetically requests by workers for time off to attend commemoration meetings.

Meanwhile, Sapa reports from Sebokeng in the southern Transvaal that Bavumile Vilakazi, deputy secretary general of the ANC's PWV region and a former Delmas treason trialist, was seriously wounded when gunmen armed with AK-47s shot him outside a hardware shop in the township.

Vilakazi was in the Sebokeng Hospital and police were investigating, police spokesman Capt van Burger Rooyen said.

☐ At least five people, one of the them a policeman, died violently in unrest-related incidents on Wednesday.

A police report issued yesterday said the bodies of four men were found by police at the Mandela Park squatter camp in Katlehong. They had been shot.

At Tembisa, Kempton Park, a number of shots were fired by unidentified gunmen at a police vehicle, killing a policeman and seriously wounding another.

The names of those killed have not yet been released.

☐ SA Institute of Race Releations executive director John Kane-Berman told the Pietersburg Chamber of Commerce yesterday that one of the main reasons for violence in SA was the ANC's strategy to make the country ungovernable, Sapa reports.

Kane-Berman was reported by SABC radio news as saying '80s ANC strategy for a people's war focused on government but it was also a declaration of war against sections of the black community and that this had provoked a backlash.

ANC may raise excise duties

(74)

LINDA ENSOR

CAPE TOWN — The ANC health department was researching the possibility of increasing the excise duties on tobacco and alcohol products as a way of funding its strategy to provide health for all, ANC health department economist Di McIntyre said at a forum on the organisation's health policy yesterday.

McIntyre is the co-ordinator of the subcommission on the future of health financing policy. BIDAY 18/9/92

She said that the use and abuse of tobacco and alcohol placed a big burden on the health system yet SA's excise of 30% was very low compared, for example, with the UK's 75%. A higher excise would enable government to inject funds into building up the primary health care system.

The heavy demands placed on a future government made it unlikely that more than the present 11% of GNP would be allocated for health services. This meant other sources of income would have to be found.

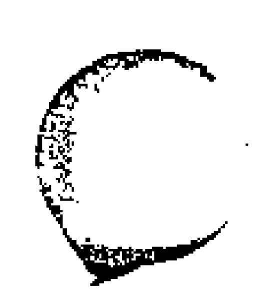
Another form of financing being debated was a national health insurance system which would require employed workers in the formal sector to contribute to a health fund for basic health services. McIntyre said research was necessary to determine what funds would be required to provide a national health system and how much could be raised by an insurance scheme.

Also, McIntyre said, the more efficient use of existing resources and the elimination of waste, fragmentation and duplication would be an additional source of funds.

The predominance of the private health sector, especially its ability to draw the best health personnel into its ranks, would have to be addressed by creating the conditions and career structures to encourage people to return to the public sector.

ANC health department head Cheryl Carolus told the forum 58% of SA's doctors were in private practice and the private sector was allocated a disproportionate share of the health budget.

The privatisation of health care, she said had led to an emphasis on the private sector and thus to an overemphasis on curative medicine. There was a need to strengthen the public health sector and to refocus it towards primary health care and preventive medicine.



Trade surplus resumes rise

(74) BT 19/9/92

By AUDREY D'ANGELO
Business Editor

SA's trade surplus resumed its upward trend in August, rising to R1,76bn after a blip in July sent it tumbling to R458m from R1,6bn in June.

Exports rose to R6,4bn compared with R5,4bn in July and R6,1bn in June. Imports fell to R4,6bn compared with R4,9bn in July and R4,2bn in August.

But the trade surplus for the first eight months of this year, totalling R11bn, is only marginally up in rand terms from R10,6bn in the same period last year.

Exports totalled R44,8bn compared with R43,5bn in the first eight months of last year.

Imports totalled R33,8bn compared with R32,6bn in the first eight months of last year.

Economists pointed out that, allowing for inflation, exports have fallen significantly in real terms this year and low imports reflect the weak state of the economy.

SA Foreign Trade Organisation (Safto) economist Bruce Donald said that, although the monthly surplus for August was strong, export growth in the first eight months of this year was "only 3% in nominal rand terms", which meant a fall in real terms.

Nedbank chief economist Edward Osborne said it was a mistake to read too much into monthly fluctuations in trade figures, since this could result from documentation being held over.

On a currency-adjusted basis exports for the first eight months of this year had gone up by only 0,5%. Imports were down by 1,2% on a currency-adjusted basis.

Osborne pointed out that the figures were distorted by such things as consignments of maize passing through SA, which were shown both in import and export statistics.

There had been an enormous drop in the value of gold and platinum exports as a result of the lower prices for these precious metals.

And he speculated that a 35% rise in exports of jewellery and precious stones meant that Botswana was "pushing diamonds out to the CSO in London like crazy" ahead of a quota system for each country which will come into effect in September.

Diamonds from Botswana are included in exports from the SA customs union.

'High company tax deters investors'

INVESTORS are discouraged when company tax is too high and a fiscal committee might encourage the ANC to adjust taxes downwards, economist Patrick Ncube told the annual Cape Insurance Liaison Committee conference.

ANC economist Patrick Ncube told an insurance conference in Cape Town yesterday that SA's favourable balance of payments was achieved "precisely because we are not doing well".

The state of the economy, with industrial firms "either bankrupt, closed down or unable to improve their output", limited demand for imports, said Ncube.

"The slackening in demand for imports is not a natural one but an imposed one because of high interest rates."

Analysing the figures, Bruce Donald said: "SA's exports are suffering the adverse effects of the general weakness of precious metals prices over the past year.

"If the unclassified category (mainly gold, and platinum group metals) is excluded, exports rose by 15% in nominal rand terms for the first eight months of 1992, compared with the same period a year ago."

Italian mission

20/9/92

A DELEGATION from Lombardy — the industrial heart of Italy — arrived in South Africa yesterday.

The Italian Trade Commission says the delegation is the largest and most important to visit SA since 1990.

It is made up of 25 manufacturers and businessmen, representing 40 companies. About 230 appointments have been made with SA companies.

The delegation follows an exploratory trade mission in October last year led by the minister of the Lombardy region, Luciano Forcellini.

SA mounts biggest trade show

S Times (Bus) 20/9/92

By ZILLA EFRAT

THE South African International Trade Exhibition (Saitex) — the largest international trade show to be staged in SA — will attract nearly 450 foreign exhibitors from more than 40 countries

Confirmed bookings have been received from 25 countries for space at the fair, which will be held in Johannesburg in October next year.

Saitex marketing manager Pep Joubert says the exhibition is being promoted in 96 countries and 480 000 invitations will be distributed.

SA is seen as a stepping stone to the African market and Saitex will bring buying missions to the show from 16 African countries, including Angola, Uganda, Kenya, Tanzania, Mozambique and Madagascar.

Mr Joubert says the five-day show will be of particular interest to SA visitors wanting to pick up import agencies or form joint ventures.

India has booked the largest exhibition space, followed by China, Brazil and Taiwan. Russia will be there and other CIS states have taken a combined stand.

Nowea International of Germany — the world's largest exhibition organiser — has booked space on behalf of 15 countries, which include all of SA's major trading partners.

Saitex is also expected to attract more than 400 SA companies which could boost the number of exhibitors to above 850. About 1 200 companies usually take space at Saitex's consumer-oriented counterpart, the Rand Easter Show.

Minister of Finance and of Trade and Industry Derek Keys says the objective of the exhibition is to promote trade between SA and the industrialised countries, as well as with the rest of Africa.

Mr Keys says SA has a wealth of products, services and technology to offer. The SA business community will have the opportunity to introduce products to international markets.

The exhibition will be divided into 12 industrial sectors, including mining manufacturing, construction and information technology.

Mr Joubert says numerous trade missions visit SA on an ad hoc basis, but Saitex aims to channel them into a single annual event.

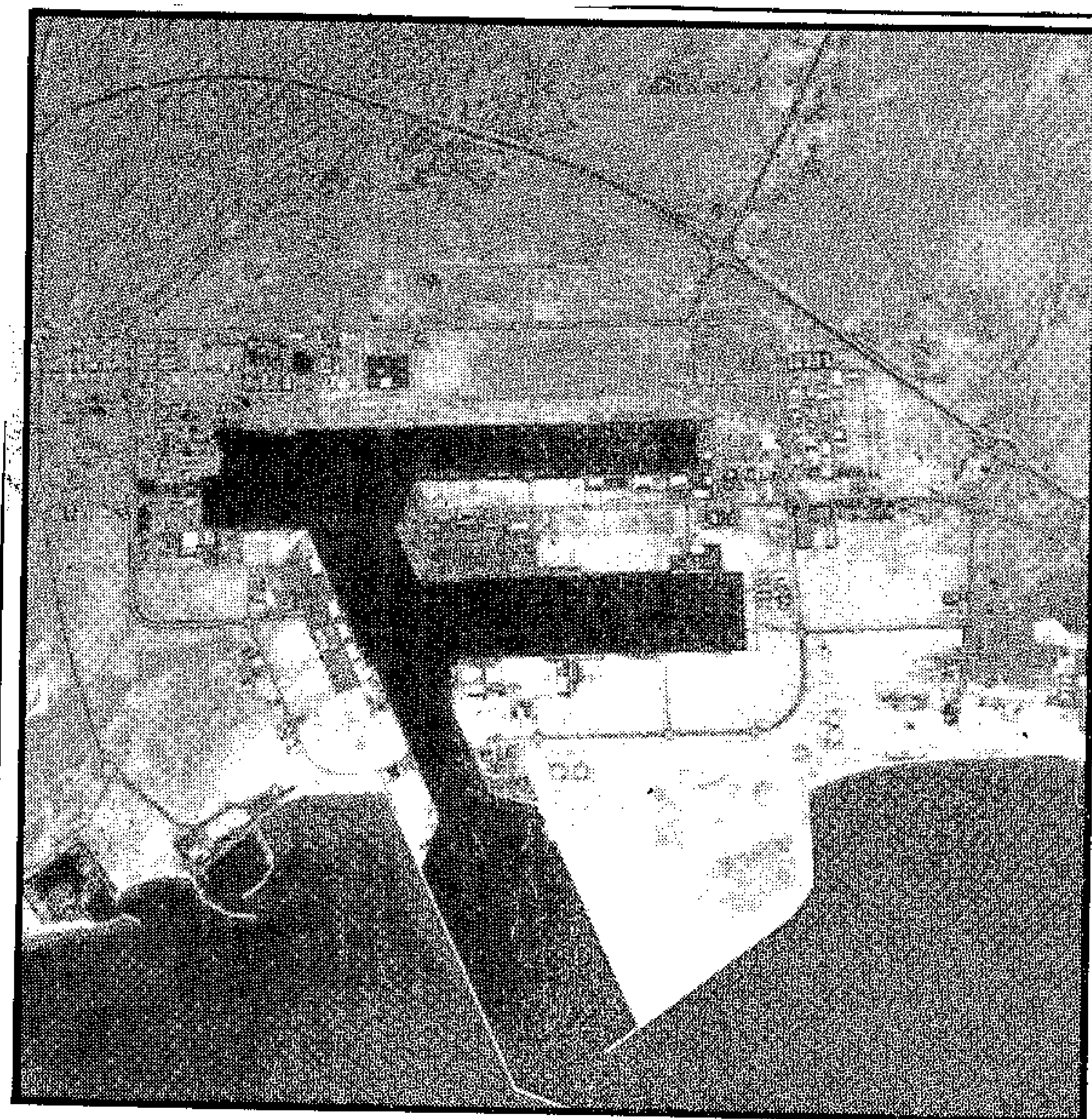
Price Waterhouse Meyernel is organising a conference on trading opportunties in SA to run concurrently with the fair.

Mr Joubert says Saitex should play an important role in the future economy.

"Similar trade exhibitions in the Netherlands are responsible for 12,5% of that country's GNP," he says.

"Companies in Europe spend 25% to 35% of their advertising-promotion budget on trade exhibitions. SA companies spend less than 15%.

"Trade exhibitions are the most cost-effective marketing tool for companies wishing to enter new markets."



FROM THE AIR: Dubai's Jebel Ali Free Trade Zone and its port — the world's largest man-made harbour

World firms flock to free-trade zone

S Times (B455) 20/9/92 (74)

INVESTORS from all over the world have been setting up operations in Dubai's Jebel Ali Free-trade Zone (JAFZ).

This is because its incentives are highly attractive in a world where countries are increasingly offering competitive packages to attract foreign investment.

JAFZ chairman Sultan bin Sulayem says the zone has advantages for SA business, both as a regional distribution centre and a base for industrial activities.

It was set up by a government decree as an industrial park in 1985 to help diversify Dubai's economy.

It is 35km from the centre of Dubai and covers an area of 100km^2.

The number of companies operating in JAFZ has grown rapidly. More than 400 companies from the United States, Europe, Asia and other Middle Eastern countries have set up business in the zone.

Among the many well-known names are Black & Decker, Citizen, Reebok, Sony International, BP, Shell, Aiwa, Union Carbide and Ciba Geigy.

About 40% of the companies in the zone are in manufacturing and processing. The balance are in trading and services.

Incentives that rank JAFZ among the world's most successful free-trade zones include:

- 100% foreign ownership (outside the zone, 51% local participation is required in Dubai) and full management control
- full repatriation of capital and profits
- no currency restrictions
- no corporate taxes for 15 years, renewable for an additional 15 years
- no personal income tax
- comprehensive support services
- modern communications
- abundant and inexpensive energy
- no import or export duties
- low distribution costs

Mr Bin Sulayem says JAFZ's attractions also include its strategic location and highly developed infrastructure.

It is linked to efficient cargo-handling facilities, harbours and an airport. Dubai's ports are served by 150 lines with worldwide links. It is also the hub of regional feeder services to Iran and other Gulf ports.

The Free Zone Authority, which supervises the JAFZ, provides companies with technical, professional and administrative staff. It will also arrange for the immigration of staff selected by companies.

"At Jebel Ali we try to give investors as much freedom as possible in terms of accommodation and facilities," says Mr Bin Sulayem.

R1bn yearly for the new-look SA

S/Times (Buss) 20/9/92

THE African Development Bank (AfDB) is preparing to invest R1-billion annually in post-apartheid SA.

AfDB's Washington director Baelhadj Merghoub says the Abijan-based development institution will move swiftly once a transitional government has been installed. AfDB makes loans of $3,5-billion annually to its 51 African members. It includes 17 non-African members such as the US, UK, China and France.

KEVIN DAVIE

Business Times Editor reports from Washington

AfDB charges reasonable interest rates of 0,5% above its average borrowing rate in the preceeding six months (at present 8%).

The triple-A bank provides its loans from finance raised on the capital markets of the US, Europe and Japan.

Mr Merghoub says: "We're extremely keen for SA to join the African family. SA has a contribution to make to the continent."

AfDB membership will depend on SA's becoming a member of the Organisation of African Unity. But this can happen immediately after a transitional arrangement has been reached.

"We're terribly disappointed at the recent lack of political progress."

Mr Merghoub says AfDB can play a role in stabilising SA, including dealing with economic disparities. It can also help an ostracised country "regain openness and competitivity".

The AfDB's envisaged programme is ambitious, but SA has the capacity and the creditworthiness for a major loan programme.

AfDB has not quantified what loans SA might need, but Mr Merghoub suggests about $300-million to $400-million.

Housing

Nigeria is its largest borrower with new annual loans of between $250-million to $300-million.

Lending will not be the AfDB's only role in SA. Mr Merghoub sees it playing an active role in policy advice and research as well."

A total of 35% of AfDB's programmes are related to agriculture. Housing and infrastructural provision would also be important projects for SA.

AfDB has completed a 1 000-page report on regional integration in Southern Africa. It will be sent to a steering committee before release.

Development Bank of Southern Africa chief executive Andre la Grange is on the committee.

AfDB makes loans of about $500-million to $800-million in Southern Africa.

Mr Merghoub says the report identifies the "substantial" benefits which should flow to the region from more harmonious relations after the collapse of apartheid.

Unlike some development money which is provided with painful conditions attached, AfDB's finance simply requires that a project comply with standards, such as safety and care for the environment.

AfDB also makes policy-based lending, but only in the context of World Bank-IMF-approved structural adjustment programmes.

Mr Merghoub says that in spite of Africa's economic problems, AfDB has a good record of payment from its members — "60% of the bank is owned by the borrowers, they have a vested interest in repaying".

AfDB has a good working relationship with the World Bank which co-finances some of its projects. The World Bank says the value of these projects more than tripled from $170-million in 1985 to $525-million in 1991.

Its annual report says: "The two institutions have identified several key programmes and sectors such as women in development, private-sector development and regional economic integration to which they will give particular concern.

"In addition the bank and AfDB will begin to co-ordinate their analytical and methodological approaches."

AfDB was formed in 1963 and allowed non-African members after 1982.

IANS ENDERLE: Pioneer to continue expanding at the rate of two hotels a year for the next five years

Sol back on throne

S/Times (Buss) 20/9/92

By CHERILYN IRETON

OL Kerzner is back at the elm of Sun International.

In a deal concluded this reek, Sun International acuired a 50% stake in Mr erzner's foreign operation, Vorld Leisure Management, pening the way for his re-urn as chairman of the hotel nd leisure group.

The deal reunites much of e old Kerzner management am — separated when Mr erzner quit to head Royale esorts in 1987.

The merged management ill prepare for an assault on e international tourism arket, says Mr Kerzner.

Discussions are under way r the acquisition of a resort the Caribbean.

Mr Kerzner says: "It is a ajor transaction, but it is likely that negotiations ill become final before the d of the year."

Sun International will not disclose the amount paid to Mr Kerzner for his half-share of WLM, saying it was not significant enough to warrant a formal announcement to shareholders.

Mr Kerzner says: "The deal is significant from a growth point of view and because of the consolidation of management. If we can put some international deals together, with the combined financial backing of the two companies, then we will become an important global player."

The management reshuffle that follows the deal results in Safren chief executive Buddy Hawton becoming deputy chairman. Sun International managing director Ken Rosevear will maintain control of the group's Southern African operations.

Peter Bacon, who was with WLM, has been appointed joint managing director and will take responsibility for Europe and the Indian Ocean operations, says a memo sent to executive staff this week.

Peter Venison, long-time right-hand man of Mr Kerzner, will be deputy managing director until early next year. He will return to Europe when the R800-million Lost City is up and running.

Mr Kerzner will continue to oversee the finishing touches to the project, but will focus more on international development.

SunBop managing director Peter Wagner will move to Sandton and become director of public affairs.

Mr Kerzner says it is non-

● To Page 3

SEEFF TRUST PR

Financial Highl

◆ ACTUAL AVERAGE RETUR
◆ VACANCY FACTOR 0,9% (
◆ SYNDICATION FUNDS UN
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◆ SYNDICATE CLIENTS 154

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	SYNDICATION PROPERTY	PERIO ENDE
*	MAYNARD CORNER	29 Feb '9
*	ROELAND PARK	29 Feb '9
*	OLD OAK CENTRE	29 Feb '9
	CINIBAR BUILDING	30 June '
	CITY HALL CENTRE	30 June '
**	ICS BUILDING	31 Aug '9
**	CENTURION CENTRE	31 Aug '9
**	STRAND STREET	31 Aug '9
**	BSE CENTRE	31 Aug '9

* Audited Figures ** Proj

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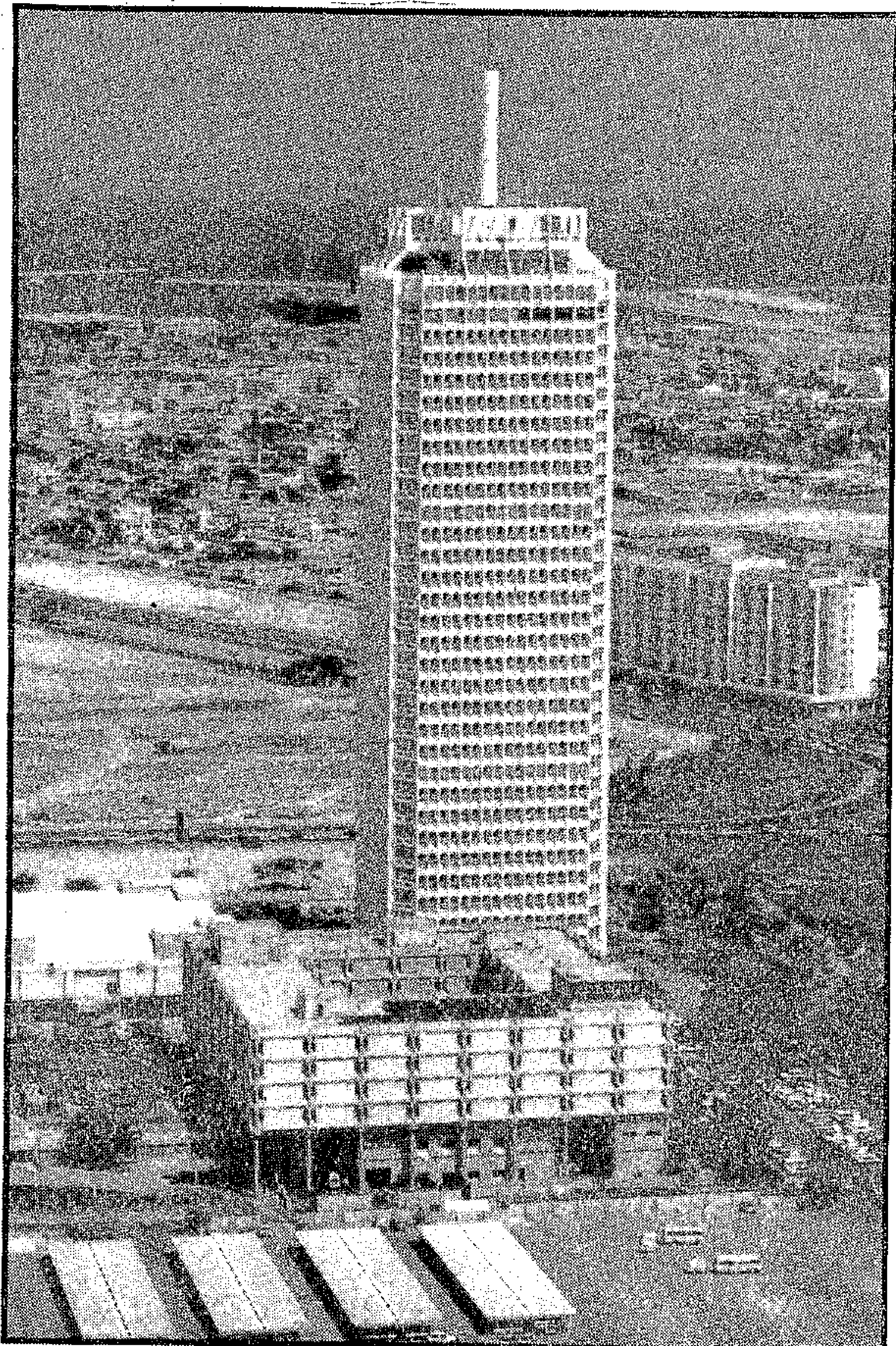


TALLEST BUILDING IN THE REGION: The 210-metre-high office tower of the Dubai World Trade Centre

Monument to a sheikh of vision

SI Times (BUSS) 20/9/92 (74)

MORE than 100 South African companies will soon be setting up their displays at the Dubai World Trade Centre, considered by many to be the Gulf's premier exhibition venue.

A monument to the late Sheikh Rashid bin Saeed Al Maktoum, who had the vision to build it, the centre is the tallest building in the Gulf.

Opened in 1979, it has played a vital role in making Dubai a prime business and commercial centre.

The complex comprises a 210-metre-high office tower, three apartment blocks, three exhibition centres and the Dubai Hilton hotel.

Largest

Its three exhibition halls are built to international standards. The halls have been used for the largest exhibitions in the region.

Numerous national exhibitions, including those of Italy, Taiwan, China, Greece and Korea, have been held at the centre.

This year's tightly booked schedule included a Made in the USA exhibition, Turkish Week, International Camel Symposium, Britain in the Gulf '92 and a Thailand National Show.

The line-up for next year includes the International Spring Trade Fair, Woman '93 and the Middle East International Motor Show.

According to Obaid Al Tayer, first vice-president of the Dubai Chamber of Commerce and Industry, a business-orientated exhibition at the centre usually attracts 5 000 to 10 000 business visitors.

Events that appeal to the public, such as a motor show, draw up to 50 000 people.

Statistics of recent business exhibitions show that 40% of the visitors came from outside Dubai.

The World Trade Centre's office tower is considered a desirable address. Among the 120 companies with offices there are Ernst & Young, General Motors, Lloyds Bank and Johnson & Johnson.

Bulging purses to pay for goods

ST Times 20/9/92

OF all the regions beckoning South Africa as potential export markets, the Gulf states offer perhaps the most lucrative prospects.

Unlike many African countries, these states are well able to pay for their imports.

Although SA's traditional markets in Europe languish in recession, the Gulf economies are remarkably buoyant.

According to Fairs & Exhibitions and Bain Communications, which both operate in Dubai and are playing a major role in organising next month's SA exhibtion, the Iraqi war soured business optimism about the Middle East.

They say the war was a fundamental cause of the current global recession. But the irony is that the Gulf is one of the few regions in the world not suffering from recession.

Share prices in the Gulf Co-operation Council (GCC) states have doubled in the past year and the weekly list of public-sector tenders has trebled in size since 1990.

Although economic activity is increasing, it is approaching only the levels reached in the boom of the late 1980s.

It should be noted, however, that the boom in the 1980s was largely based on construction projects.

Conditions in the 1990s are founded on wider economic diversity.

Anxious to expand into non-oil-related industries, the GCC states are developing general manufacturing. Some, particularly Dubai, derive much of their income via re-exports to countries like Iran, Pakistan and India.

Wider

Saudi Arabia has invested aggressively in industrial development, spending $40-billion last year.

Bahrain has launched an international campaign to promote its industrial capacity and is establishing free-trade zones and expanding its airports and ports.

Iran, a huge and mostly untapped market, plans to triple the size of its private sector in the next decade.

The war interrupted the process of regional integration. Dreams of Pan-Arabism are now Pan-Gulfism at best.

However, internal political tensions remain and have done little to encourage any Arab state to lower its defensive guard.

Arab defence spending stands at more than US$60-billion and, in some cases, accounts for up to 30% of government outlays.

Iran, not an Arab state, will spend $10-billion on modernising its armed forces in the next five years.

To support economic development, Middle East states have poured huge resources into road, sea and air infrastructure.

The health sector throughout the Arab world is burgeoning. Dental budgets are increasing by 15% to 20% annually.

Saudi Arabia is building 18 hospitals, Lebanon has earmarked $22,8-million for reconstruction of health facilities and Qatar plans a $16-million hospital for children.

Bright for tourism

S/Times (BUSS) 20/9/92. (74)

IMPROVING relations between South Africa and the Arab world are expected to lead to a spurt in two-way tourism.

Flitestar's direct flights to Bahrain are due to start the ball rolling. In addition, Satour will promote SA as a new and exciting destination to the Middle East market at next month's exhibtion in Dubai.

Emirates, the fast-growing international airline of the United Arab Emirates, has indicated that it plans to start flights to SA.

It views SA as a gateway to Southern Africa and members of its management have already visited this country to investigate opportunities.

Once this service begins, tour operators in Dubai are expected to start marketing the emirate's attractions in SA.

No doubt Dubai's blend of modern facilities and Arab heritage will appeal to the SA traveller.

Dubai offers miles of fine beaches, warm water, desert, oases, mosques and bustling markets.

The city is a haven for the bargain hungry. Its modern shopping malls and ancient markets sell almost everything. All goods are tax free and bargaining is expected of customers.

Even when leaving the emirate, tourists will pick up a good deal at the duty-free complex at the airport. It is internationally recognised as one of the best stocked and least expensive in the world.

In addition to deep-sea fishing, scuba diving and a host of water sports, visitors may watch traditional sports like camel races.

A new sport, much enjoyed by expatriates, is wadi-bashing, which involves exploring dry riverbeds, dotted with water pools, in four-wheel drive vehicles.

But SA has its own set of attractions that will appeal to the Arab market. Keith Longstaff, senior general manager of the Middle East's largest travel agent, DNATA, says they include its novelty, beauty and variety. Major drawcards will be safaris, hunting and casino resorts.

Comforts

Mr Longstaff says Arab tourists, who can be "big spenders", travel in big groups, bringing along family and friends. They also like to bring their home comforts.

Many prefer renting a house or apartment to staying in a hotel and they often take an operated tour as a private party.

However, Mr Longstaff expects SA to be mainly visited by the large expatriate community in Dubai. They have available disposable income and some may have family members in SA.

He says the Arab market is small, but could grow once SA's attractions spread.

Over 100 SA companies to go on show

Lift-off for trade in the Middle East

S/Times (Bus) 20/9/92. (74)

NEXT month manufacturers will be given a major and unprecedented opportunity to exhibit and promote their wares and services at a South African trade fair in Dubai.

ZILLA EFRAT reports on the importance of this new market for SA manufacturers and on the initiation of trade between this country and the Gulf.

A HIGH-PROFILE South African exhibition will be held in Dubai, part of the United Arab Emirates, next month.

Titled A new link: SA and the Gulf, the exhibition will take place from October 6 to 9 at Dubai's World Trade Centre. It will be opened by Deputy Minister of Trade and Industry David Graaff.

The fair has been organised by the Department of Trade and Industry (DTI) and the South African Foreign Trade Organisation (Safto) in association with the Department of Foreign Affairs (DFA).

Biggest

More than 100 SA companies will be represented. They will promote a host of goods and services.

Products will range from insulated copper telephone cables, satellite equipment and tractors to confectionery, handmade ceramics and jewellery.

Both corporations and budding small enterprises will be represented. They will come from all corners of SA.

Several organisations representing industry will be there, including the SA Stainless Steel Association, the SA Sack Exporters Association and Aluminium Federation of SA.

The exhibition will be the biggest trade fair sponsored by the DTI. It will also be the first step in a programme aimed at putting SA back on the map in a highly visible way as sanctions fall away.

It will be the first opportunity for many SA companies to openly market and promote themselves in the Middle East.

The cash-flush Arab countries, which are large suppliers of oil but have to import most of their requirements, are a market virtually untapped by SA.

The DTI believes the trade fair could be instrumental in restoring SA to its position in the region. Before sanctions were introduced by the Arab states in the early 1970s, SA was an established and reputable supplier.

The broad range of items it sold then included food, building materials, steel, timber and electrical goods.

Safto Gulf manager Gyff Fitchat says: "Although there has been no formal lifting of Arab League sanctions, the region is wide open for South African exporters."

Opportunities are many, but Mr Fitchat warns that establishing business will take time.

SA will face competition from countries all over the world who have been dealing with the Gulf for many years.

As a result, the market is extremely conscious about price and quality.

But Mr Fitchat believes that some unique SA products will gain immediate acceptance.

In addition to tourism, the DTI expects SA companies to benefit from the many investments being made in Arab countries. They include commercial enterprises, tourism development, precious metals, transport systems and property.

Contact between SA and the Arab countries has been growing. In June this year, a high-level delegation from the Dubai Chamber of Commerce and Industry visited SA to market trade and investment in the emirate.

It also stressed Dubai's importance as a springboard into other countries.

The large attendance at its seminar in Johannesburg indicated how much SA interest there is in the Middle East.

The Dubai officials expected about 200 people, but more than 400 turned up.

Now there is talk of a SA government office being opened in Dubai.

Sponsors

But DFA officials, who will attend the exhibition, are reluctant to say how soon this will happen.

Safto has appointed Fairs & Exhibitions, an international exhibition organiser with strong Gulf links to coordinate the show.

It will be marketed by Gulf-based Bain Communications.

Bain will target chief executives and purchasing officers of major business houses, industrial corporations, chambers of commerce and the public.

It will also run a programme directed at the media in the United Arab Emirates and 12 surrounding countries, including India, Pakistan, Egypt, Saudi Arabia and Iran.

Sponsors of the exhibition are Absa, Burlington Ocean & Air Express, Unicorn Lines and Flitestar.

Re-export of goods is a major business

S/Times (Bus) 20/9/92 (74)

DUBAI offers South African companies a strong base from which to trade with the Middle East.

It has established trading links with India, Pakistan and Iran, as well as Africa and the Arab world.

As part of the United Arab Emirates, Dubai is a member of the Gulf Co-operation Council (GCC) — a market of 17-million people importing goods worth more than $50-billion a year.

Dubai Chamber of Commerce and Industry first vice-president Obaid Al Tayer says Dubai has recorded strong growth in imports in the past six years.

It had another record year in 1991 when imports reached about $10-billion. Recorded re-exports are now about $2-billion a year.

There is also a large volume of personal re-exports carried by travellers and not recorded by Customs, says Mr Al Tayer.

Imports to Dubai come from all over the world. Its major source is the European Economic Community, followed by Japan, the US and industrialising countries of the Far East.

Because of the international competition, Mr Al Tayer warns that exporters have to be aggressive to maintain market share. Competitive prices and high quality are crucial for marketing products.

Jewellery

The UAE, with a population of about 1,9-million, has the highest imports per capita of all the Gulf states at $8 000.

In 1991, the country, including Dubai, is estimated to have imported more than $13-billion of goods. Of this, more than $2,5-billion worth was re-exported.

About $700-million went to GCC member states, largely in the form of textiles, machinery and electronics.

Another $500-million worth — mainly vehicles, machinery and electronic goods — was sent to Iran.

In addition, textiles accounted for a large proportion of the $300-million re-exported goods to the EC.

Jewellery makes up a large part of the UAE's sales to India and Singapore.

Interestingly, the UAE is a large re-exporter of expensive cars to Japan.

Mr Al Tayer says: "We estimate that last year Dubai's exports and re-exports to other GCC states were worth well over $800-million."

He says Dubai played a major part in helping Kuwait to rebuild after the Iraqi war and the business that was routed through the emirate is reflected in these figures.

Dubai a fast-growing distribution centre

Gateway to market of 1,2bn customers

S Times (Buss) 20/9/92 (74)

DUBAI has been chosen as the venue of South Africa's first exhibition in the Gulf because it is a major trading hub of the region.

Strategically placed at the crossroads of Asia, Europe and Africa, it is the gateway to a market of 1,2-billion people.

This market is forecast to increase by 34% to 1,7-billion by the year 2000.

Dubai re-exports 70% of its imports and is one of the fastest-growing distribution centres in the world.

Its traditional trading partners include the prosperous Arab states, non-Arab Iran, East Africa and the Indian sub-continent. It is, however, increasingly moving in to markets further afield.

Dubai also has a small but extremely buoyant domestic market with a large appetite for imports.

It imports 90% of its non-energy requirements largely from Japan, the UK, the US, Germany and China.

Safto Gulf manager Gyff Fitchat says products of South African origin may now enter Dubai without restriction. Letters of credit will be extended directly on SA banks.

The Dubai Chamber of Commerce and Industry has said that all SA bills of lading will be accepted at Dubai's ports.

Dubai, on the south-east coast of the Gulf, is the second-largest of the seven emirates which make up the the United Arab Emirates and is the leading commercial centre.

Merchants

Unlike many other Arab countries, Dubai's prosperity is largely based on commercial trade. Revenue from oil is a more recent revenue earner.

Dubai is called The City of Merchants.

Its economy is also much more diversified than others in the region. Trade, commerce, construction, finance and other service industries are all important.

It has a rapidly developing manufacturing sector producing a wide range of high-quality, competitive export products — from aluminium to garments.

Dubai Aluminium Company is the largest industrial operation in the Emirate and accounts for more than half of its total non-oil exports.

One of Dubai's newer businesses is tourism.

Dubai's government is committed to pro-business policies. It levies no corporate and individual taxes and has no foreign-currency controls.

Import duties are minimal (less than 4%). Many products are exempt from import duty.

As an established regional distribution centre, Dubai has a modern and efficient infrastructure which ensures that goods are moved quickly.

Containers are cleared from Customs within 45 minutes. If there are delays, clearing charges are waived.

Dubai's modern transport networks, ports, international airport, cargo-handling and communication facilites are all highly developed.

Dubai is considered a leader in intermodal freight. It also has airlinks with more than 100 cities through 50 airlines.

The Dubai Port Authority ranks among the world's top 10 in terms of berths and top 20 in terms of container throughput.

It combines Port Rashid, with 35 berths, and Jebel Ali, which has 67.

Land shipment from Jebel Ali, 35km south of Dubai city, is subsidised. Exports incur no penalty in spite of the distance.

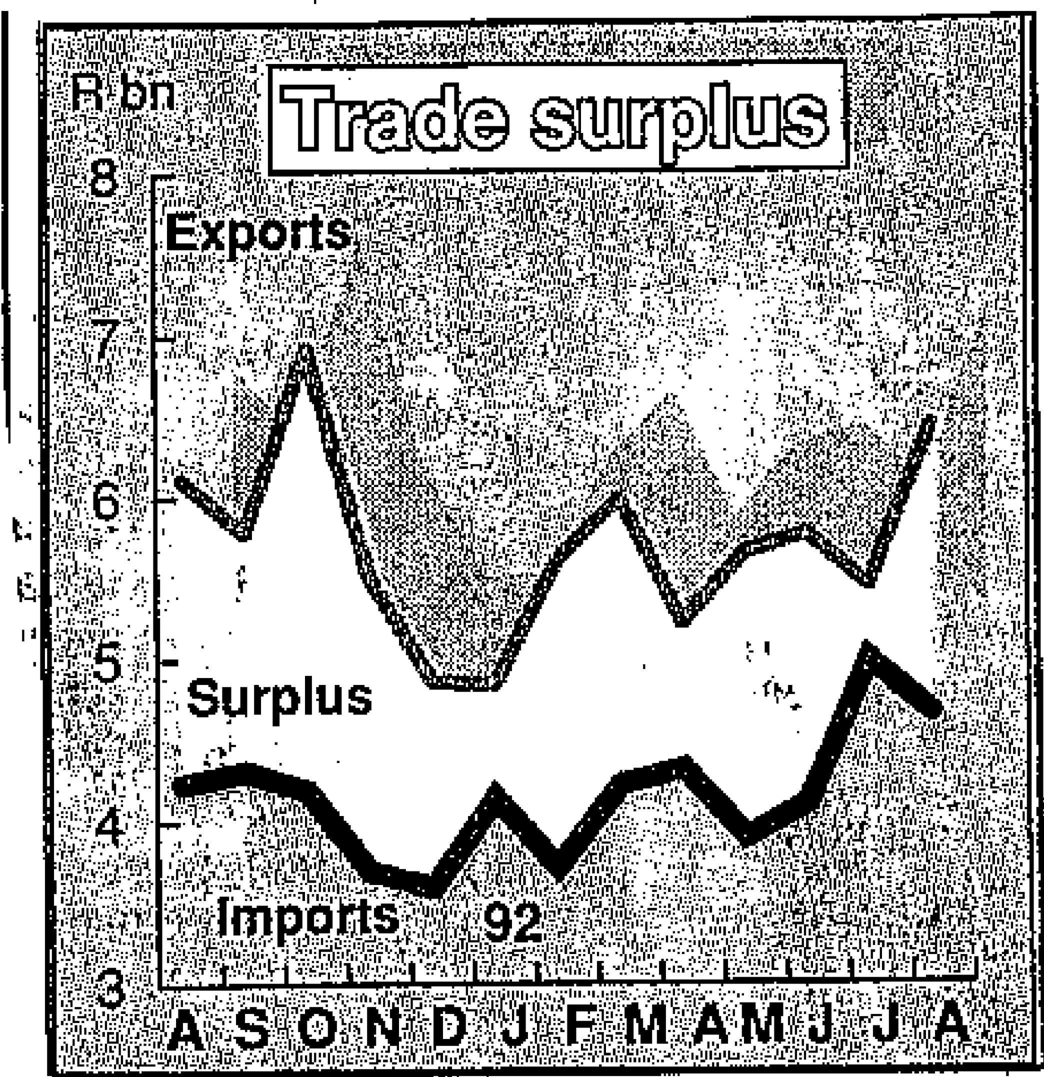
An advantage enjoyed by distribution companies using Dubai as a base is its low cost of storage. Its fuel costs are also among the least expensive in the world.

Berths

Temperatures in Dubai can reach 48 deg C in summer.

Vistors from SA will particulary enjoy its lack of crime.

Dubai offers a host of leisure activities, but its citizens are particularly proud the Emirates Golf Club, a gaint patchwork of grass set in the desert. Mr Fitchat says: "No doubt the SA exhibitors will continue their practice of doing business — on the golf course when they get to Dubai."



Graphic: LEE EMERTON Source: CUSTOMS & EXCISE

Surplus recovers as exports surge

HILARY GUSH (74)

A REBOUND in exports saw the trade surplus recover from July's 16-month low of R458m to R1,76bn in August, Customs and Excise figures released at the weekend show. BDAY 21/9/92.

August exports surged almost R1bn to R6,41bn from R5,43bn in July.

Manufactured goods exports led the year-on-year rise in total exports, with transport equipment, chemicals, plastics and machinery exports up 45%, 41%, 38% and 25% respectively.

Imports dipped 6% in the month to R4,65bn from R4,97bn in July on the back of an 8% drop in "unclassified" imports — largely crude oil.

Safto economist Bruce Donald said exports continued to suffer the adverse effects of weaker precious metal prices over the past year.

Exports, in nominal rand terms, grew 3% in the first eight months of the year compared with the same period a year ago. However, if unclassified exports — mainly gold and platinum group metals — were excluded, exports climbed 15%.

Fats and oils imports soared 76% and vegetable products advanced 64%, while live animals and animal product imports were up 62% on a year ago.

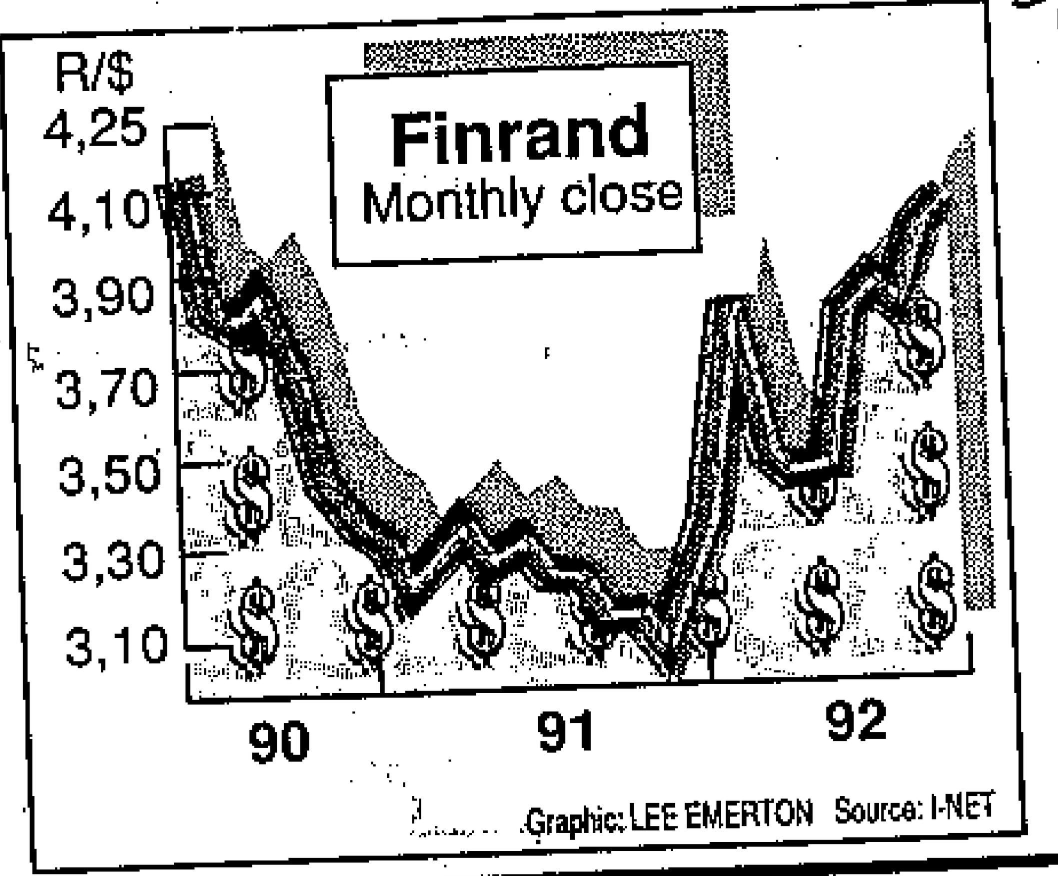
In line with slipping domestic production levels and pessimistic expectations among SA manufacturers, major industrial material imports declined in real terms.

Consumer product imports were also lower.

Finrand slumps to 26-month low

BIDAY 21/9/92

HILARY GUSH (74)



THE financial and commercial rands continued to fall prey to volatility on global forex markets on Friday.

Hectic trade in currencies saw the finrand slump to a 26-month low on the back of furious foreign selling, while the commercial rand hit a four-and-a-half month low against the dollar.

The foreign investment unit — an indicator of investor confidence — plunged to R4,12 against the dollar, from an overnight R3,96 and morning opening of R3,94.

To Page 2

Finrand

BIDAY 21/9/92. (74)

From Page 1

A previous R4,15 low was recorded in June 1990. By the close on Friday the unit was at R4,05.

Dealers said stop-loss selling out of Zurich and Munich prompted a large local finrand sell order.

One trader said, "In light of recent volatility in currency markets, investors are happy to simplify their portfolios and offload financial rands."

Ahead of the ANC's planned march on Ulundi, dealers said nervous foreigners had sold the unit. Market sentiment remained bearish and the finrand's upside potential was said to be limited.

Meanwhile, on the back of a stronger dollar — due to the currency's safe haven status — the commercial rand softened to close a week of frantic trade at R2,8518 against the US currency. The rand last fell to similar lows in early May.

Forward cover by importers concerned that the dollar might strengthen further on a "yes" vote in Sunday's French referendum on the Maastricht treaty, fuelled the rand's decline.

Dealers were convinced that dollar strength would be short-lived. "The dollar is strong only by default. On US economic fundamentals it should weaken against the Deutschmark."

While softening against the US currency, the rand did, however, gain ground against sterling. By Friday's close the local unit stood at R4,97 against the pound from an overnight R5,02.

Against the Deutschmark the rand finished unchanged from Thursday's DM0,52.

Germany set to increase local aid

TIM COHEN

PRETORIA — There was a good chance Germany would increase its R120m aid to SA after the visit of Economic Co-operation Minister Carl-Dietrich Spranger next month, German ambassador Hans-Christian Uberschaer said yesterday.

Uberschaer told a media briefing one of the purposes of Spranger's visit would be to examine ways in which aid to SA could be improved.

The German government, which also contributes 27% of the EC's aid budget, had already given an assurance that its aid to SA would not decrease in real terms.

However, once a new government was in power in SA, Germany would consider increasing its aid on the basis that it would have been making a contribution to SA over the years had the political situation been different, Uberschaer said.

Consideration would also be given to making direct grants, rather than funding non-governmental organisations, as was currently the case.

The broad intention of the German aid effort would be to create jobs by assisting in training and education.

Key role in relieving agony of Africa

By David Canning

NEW YORK — South Africa had a key role to play in relieving "the agony of Africa, and of its own people," Conrad Strauss, chairman of Standard Bank, said at a National Foreign Trade Council Foundation seminar here. STAR 24/9/92

He said that while there naturally were fears that SA would dominate its neighbours, many opportunities for mutually-beneficial co-operation were opening up between it and other countries in the region.

Trade with Africa had grown by 25 percent a year in recent years.

While there was a strong imbalance in favour of South Africa, there also was considerable scope for correcting that problem. South Africa could benefit, for example, from some of Africa's resources like water and potential electricity generation.

Multi-nationals were increasingly using SA as the logical entry point for doing business with the continent, as it had the only really viable first world economy in Africa.

It accounted for a third of the continent's trade and its infrastructure was being developed to facilitate linkages with Africa.

"If you put South Africa into the Southern Africa Development Conference, it would have 70 to 75 percent of the combined GDP."

The next most important country would be Angola, with eight percent, and then Zimbabwe, with six percent.

Nigeria, often described as the giant of Africa with three times South Africa's population, had a GDP only one third the size of South Africa's — $32 billion against SA's $102 billion.

Financial sanctions in a sense had produced a positive spin-off in helping South Africa to establish a sound external balance sheet.

The debt service ratio was only about six or seven percent and foreign debt at $18 billion was 17 percent of GDP and 65 percent of exports.

In comparison, the Australian debt service ratio was 42 percent and debt, as a percentage of exports, was 240 percent.

Mauritians woo SA clothing retailers

PETER DELMAR

MAURITIAN manufacturers are wooing SA clothing retailers and wholesalers.

More than 40 South Africans — believed to include leading clothing retailers — will attend the island's fabric and clothing exhibition, Mitex, next month.

BIDAY 24/9/92

Mauritius Export Development and Investment Authority representative in SA Arvind Radhakrishna said about 130 Mauritian suppliers would be exhibiting. He said Mauritian products cost less than a fifth of similar products from Europe or North America.

However, SA retailers said that despite the good quality and very competitive prices of Mauritian products, clothing imports had declined recently because of high duties on imports.

BUSINESS DAY, Thursday, September 24 1992

Tariff policy slammed

PETER DELMAR

(74)

GATT delegates who left SA at the weekend have taken a hard line on this country's tariff protectionism, indicating that current offers to reduce duties are not enough.

The delegation reviewed trade policies and practices.

Sources involved in the talks said the team was not satisfied with SA's overall tariff structure and wanted tariff barriers to be eliminated soon.

It suggested part of the proceeds from tariff duties be invested immediately in training funds to address problems which overnight deregulation would cause.

The team was in SA to update GATT on SA's general trade policies, but was not concerned with detailed analysis of tariff structures.

BDM 24/9/92.

A source said SA's offer to GATT to reduce duties on 4 000 tariff headings was not considered enough. Government had indicated this would start only in 1994 and could take up to seven years to implement.

The team also indicated SA's export incentives would have to go. There was little understanding of local complaints about other countries' non-tariff barriers.

It appeared that government officials largely agreed on the need to further reduce tariffs, one source said.

BUSINESS DAY, Thursday, September 24 1992 3

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TRADE (74) FM 25/9/92

Real picture

Imports and exports were higher in nominal terms over the first eight months of the year than in the same period last year. Imports were up 3,8% at R33,8bn and exports 3,1%

Cont in →

at R44,8bn. The cumulative surplus for the year is R11bn.

But nominal figures can be misleading. Nedcor Bank chief economist Edward Osborn says that by adjusting the figures at constant 1987 currency values, both imports and exports are down on their 1991 values. On this basis, imports are 1,2% lower and exports 0,5% lower. According to Osborn: "This shows that the relatively large trade surplus is more the result of extremely weak demand for imports than the performance of exports."

Import categories showing large declines are:

□ Unclassified items (-12,9% on a currency adjusted basis, or -8,2% nominal at R3,9bn);
□ Vehicles & transport equipment (-10,9%, or -6,5% nominal at R4,2bn); and
□ Textiles (-5,2%, or -0,5% nominal at R1,7bn).

Osborn says the low figure for unclassified items reflects the selling off of large oil stockpiles early in the year. "The category vehicles & transport equipment reflects the parlous state of the motor industry, with fewer parts and kits coming in for assembly."

The machinery & electrical equipment category, which accounts for almost 30% of cumulative imports at R9,9bn, shows a small increase in currency-adjusted terms, of 2,4%. "This should not be seen as an increase in gross domestic fixed investment, as the category includes many noncapital semi-durable goods such as TVs and video recorders," says Osborn.

Vegetable products, which include imports of wheat and maize, have risen steadily in the past few months. By the end of August they were up 55,6% in currency-adjusted terms, or 63,8% nominal at R1,4bn. Osborn says the impact of the drought in the form of increased grain imports a few months ago should continue into next year: "Southern Africa needs to import about 12Mt of wheat and maize but our ports can handle only 1Mt a month."

Vegetable product exports have been boosted, with the re-export of grain imports. The category is 23,5% higher in currency-adjusted terms, than in 1991, or 27,4% nominal at R1,9bn.

The poor performance of exports has much to do with the collapse of gold and platinum prices. Unclassified exports are an adjusted 17,1% lower than in 1991, or 14% down nominal at R15,8bn. Base metals are 6,2% down (-2,7% nominal at R6bn) because of poor world prices.

Strong performers on the export side are:

□ Gems & precious stones (up an adjusted 30,8%, or 35,5% nominal, at R5,4bn);
□ Chemical products (up 35,9%, 40,6%, R2,3bn);
□ Mineral products (up 9%, 13,1%, R5,3bn);
□ Vehicles & transport equipment (up 40,6%, 45%, R1,4bn); and
□ Machinery & electrical equipment (up 20,5%, 24,6%, R1,3bn).

Osborn says the figure for gems & precious stones consists largely of diamond stock transfers to the Central Selling Organisation in London: "Our estimates show that, up until June, about two-thirds of these came from Botswana. It is unclear why the transfers are so large, with world demand so weak. One theory is that Botswana has been moving as much stock as possible ahead of the imposition of a quota system on suppliers this month."

He adds: "The performance of chemical products has been attributed to the manufacturing sector. But I believe titanium oxide, which is mined and upgraded at Richards Bay by Richards Bay Minerals, is the main contributor. The category is dominated by titanium oxide (or ilmenite). There was a marked increase in capacity with the commissioning of a fourth smelter in 1991. Mineral products exports have been boosted by the increased capacity to 52Mt since the beginning of the year at the Richards Bay Coal Terminal.

"The growth in exports of vehicles & transport equipment will be explained only when detailed trade figures are available. However, in 1991, the main contributors were containers and vehicle parts & accessories." ■

FM 25/9/92 (74)

TRADE POLICY

Gatt comes to town

A three-man Gatt delegation last week reviewed SA's trade policies but revealed little of what will be in its report on SA next year. Peter Tulloch, director of Gatt's trade policies review division, says the visit is part of a general review of Gatt members during the current Uruguay Round. SA is 26th on a list of countries visited so far. Reports have been completed on the others.

The delegation met government, the SA Chamber of Business, the SA Foreign Trade Organisation, AHI and the Industrial Development Corp (IDC). Discussions with the IDC included an update on its June 1990 report on tariff policy reform, which government has not implemented.

There has been little trade and tariff reform for the delegation to report to Geneva.

SA, though a founder member of Gatt, has still not agreed to sign its codes on dumping and countervailing duties. The political logjam is one reason for the lack of progress, with the ANC opposed to agreements that would tie the hands of a future government.

SA has offered to lower tariffs on 4 000 of the 11 000 tariff headings but this would begin only about a year after the Uruguay Round is completed and SA signs the pact. It would take a further five years to phase in. In addition the Uruguay Round is deadlocked on contentious agricultural issues and may not be completed for some time.

Meanwhile, the high cost of protectionism continues to hobble the economy. The IDC calculates the cost as a full 12% of GDP or about R36bn a year.

AHI chief economist Nick Barnardt says: "We need comprehensive economic restructuring, with tariff reform an important element, coupled with freeing the exchange rate. This would imply a scaling down of export subsidies. Import tariffs, export subsidies and exchange controls distort market signals, create costly bureaucracies, promote corruption and encourage lobbying by vested interests. We should concentrate on honing the economy's comparative advantages."

He adds that after such a restructuring, the economy would be better balanced between consumer and producer interests and small though powerful lobbies would lose much clout.

"Under a new constitution one could expect a greater focus on competition and a move away from protectionism. After all, this is an important element of the successful restructuring programmes followed by Latin American countries such as Argentina and Mexico." ■

No. 2684 **25 September 1992**

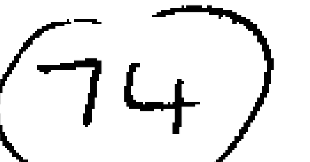
Staat van buitelandse valuta-verpligtings ten opsigte van verpligtings aangegaan kragtens artikel 30 (B) 1 van die Skatkiswet, 1975 (Wet No. 66 van 1975).

	$ '000
Totale kapitaal terugbetalings/Total capital repayments:	
1992:	
II	0
III	9 041
IV	0
1992 (Totale—3 kwartale)/(Totals—3 quarters)	**9 041**
1993:	
I	9 041
II	0
III	9 964
IV	0
1993 (Totaal/Total)	**19 005**
1994	19 927
1995	19 927
1996	19 927
1997	10 886
1998	922
Bedrag uitstaande soos op 1992-03-31/Amount outstanding as at 1992-03-31	**99 635**
Totale rentebetalings/Total interest payments:	
1992:	
II	0
III	5 199
IV	0
1992 (Totale—3 kwartale)/(Totals—3 quarters)	**5 199**
1993:	
I	4 706
II	0
III	4 252
IV	0
1993 (Totaal/Total)	**8 958**

No. 2684 **25 September 1992**

Statement of foreign currency commitments in respect of commitments entered into in terms of section 30 (B) 1 of the Exchequer Act, 1975 (Act No. 66 of 1975).

	$ '000
1994	6 935
1995	4 849
1996	2 794
1997	712
1998	48
Bedrag uitstaande soos op 1992-03-31/Amount outstanding as at 1992-03-31	**29 495**
Totale verpligtings/Total commitments:	
1992:	
II	0
III	14 240
IV	0
1992 (Totale—3 kwartale)/(Totals—3 quarters)	**14 240**
1993:	
I	13 747
II	0
III	14 216
IV	0
1993 (Totaal/Total)	**27 963**
1994	26 862
1995	24 776
1996	22 721
1997	11 598
1998	970
Bedrag uitstaande soos op 1992-03-31/Amount outstanding as at 1992-03-31	**129 130**



Hierdie statistieke is bereken in die veronderstelling dat in dié gevalle waar—

(i) die lener 'n multi-valuta-opsie by hernuwing van 'n trekking het, die valuta waarin die trekking op 31 Maart 1992 gedenomineer was, aangewend is vir die doel van die denominering van die terugbetalingsvervalstruktuur ten opsigte van daardie trekking;

(ii) die terugbetalingsdatum onderworpe is aan die diskresie van die lener, die vroegste opsionele oproepdatum toegepas is;

(iii) die lenings nie onderworpe is aan 'n voorafbepaalde rentekoers nie (bv. floterendekoerslenings), die rentekoers wat op 31 Maart 1992 van toepassing was, beskou is aan die effektiewe koers vir die uitstaande tydperk van die lening.

These statistics have been computed on the assumption that in those cases where—

(i) the borrower has a multi-currency option on renewal of a drawing, the currency in which the drawing was denominated on 31 March 1992 has been applied for the purpose of denominating the repayment maturity structure in respect of that drawing;

(ii) the date of repayment is subject to the descretion of the lender, the earliest optional call-up date has been applied;

(iii) the loans are not subject to a predetermined rate of interest (e.g. floating rate loans), the interest rate applying on 31 March 1992 has been regarded as the effective rate for the outstanding duration of the loan.

SA seeks huge loan from IMF

S/Times (BUSS) 27/9/92.

SOUTH AFRICA is soon to step out of the financial laager by applying for a multimillion-rand loan from the International Monetary Fund.

KEVIN DAVIE

Business Times Editor reports from Washington

The loan will be in terms of a special IMF programme — the compensatory financing facility (CFF) — which in SA's case can be used to alleviate the effects of the drought on the battered economy. The ANC is said to support the application.

ANC economics director Trevor Manuel says it would be wrong to "refuse the issue", but adds that IMF lending is not cheap and must be used only "as a last resort".

A source says the application will be made within three months.

Finance Minister Derek Keys says an application is a "possibility".

SA could draw up to about R2-billion from the CFF to finance grain imports. Mr Keys says the amount has not been decided on.

SA has not had access to IMF money since the early 1980s because the Gramm amendment obliges the US — the largest shareholder in the IMF — to vote against new loans to it.

But the US would be unlikely to block a drought-relief loan backed by the ANC. The ANC has given its support for amendments to US state sanction laws where investment brings humanitarian benefits.

Reserve Bank Governor Chris Stals welcomes a possible CFF loan: "It is always useful to have more funds available."

Reason

Dr Stals stresses that IMF finance cannot be used in the domestic economy. The IMF gives foreign currency to the central bank to help pay for the import of maize.

He says a CFF loan will improve the foreign reserves and SA's creditworthiness: "It will be another illustration of a more normal situation of SA's position at the IMF and in the world markets.

"That's a reason to take the CFF if we can get it."

He estimates the total potential CFF loan to be about R2-billion.

CFF loans are normally made without conditions. But it is believed that the IMF is dismayed at SA's growing budget deficit and the money may be made conditional on substantial reforms, such as cutting government spending.

The effect of the drought was the central feature of Southern African presentations at the IMF-World Bank annual meetings this week.

IMF managing director Michel Camdessus says developing countries showed growth last year of 3,5% in spite of the worldwide downturn.

He projects this growth to increase to 6% this year.

The IMF's World Economic Outlook adds that this is the strongest growth in more than a decade: "The only regions where the outlook has deteriorated are Southern and Eastern Africa where a number of countries are suffering the severe effects of the drought and civil disturbances."

The terms of trade have worsened by 6,25%, this report says.

Dr Stals says the drought has contributed 1,8% to shrinking the SA economy.

He says the message from the World Bank and the IMF is that SA needs to restructure its economy.

"The advice is that you need to do something about it at this stage."

Latest indications are that the budget deficit this year will be about 7% of GDP, says Dr Stals. This is more than double the 3% guideline the IMF uses for prudent public finance management.

"This is far too high, taking into account only 2% of government expenditure is capital expenditure."

Germany is running a similarly high budget deficit, but the money is used to fund capital investment in infrastructure in former East Germany.

In SA's case the deficit is largely used to finance current expenditure, causing a net dissaving of 5% of GDP by government.

"Government is absorbing savings from the private sector to finance current expenditure," says Dr Stals.

He says the European currency crisis which dominated the annual meetings is likely to delay economic recovery in SA.

"Recovery in the industrial nations will be delayed by the turmoil in the markets. Prospects are less now than what they were three or four weeks ago."

Dr Stals says bankers and financiers are sympathetic to SA.

"They are sorry we can't solve our problems. They would like to extend their business in SA, but they think the risk is too high."

CHRIS STALS: SA heading for a budget deficit of 7% of GDP — more than double the IMF guideline

Export aid misses target

S/Times (BUSS) 27/9/92

By CIARAN RYAN

SOUTH Africa's R1,5-billion general export incentive scheme (GEIS) may be good for company profits, but is relatively useless for boosting exports, an analysis suggests.

The cost of GEIS is equivalent to a 2% increase in VAT.

Delegates from the General Agreement on Tariffs and Trade (Gatt) who visited SA last week criticised GEIS and SA's high level of import protection.

A Department of Trade and Industry spokesman says the Gatt delegation was nevertheless impressed "with our openness and honesty and the fact that we have no secret subsidies, as do so many other countries".

Booming

The assumption that manufactured exports are booming because of GEIS is challenged by Nedbank chief economist Edward Osborn.

Exports of transport equipment shot up 32,3% between 1990 and 1991 to R1,52-billion and by 45% in the first eight months of 1992 over the same time last year. Nedbank says 25% of these exports were containers.

Vehicle parts and accessories — bolstered by rebates under Phase Six of the local content programme — accounted for a large but as yet unquantified part of the transport sector's export growth.

Vehicle assemblers are encouraged to export components which count for the local content target of 75%.

Because of Phase Six, vehicle manufacturers do not qualify for GEIS, prompting calls by the industry for inclusion in the scheme.

Chemical exports were up 40,6% in the first eight months of this year to R2,6-billion. Mr Osborn says most of the increase is attributable to the mining and primary beneficiation of titanium oxide by Richards Bay Minerals which commissioned a smelter in 1991.

A large proportion of steel exports are classified category 3 under GEIS. Domestic users of steel complain that Iscor is cross-subsidising its exports because of its two-tier pricing system. The system forces SA users to pay up to 50% more than the international steel price.

The maximum level of assistance under GEIS is 19,5% for fully manufactured products under Category 4. Materials-intensive Category 3 products receive up to 6,5%, primary manufactured products under Category 2 receive 2,5% and Category 1 primary products nothing.

Unwrought copper, lead, aluminium, zinc and tin are often counted in official statistics as manufactured exports, although nearly all base metals are subjected to only primary beneficiation and do not qualify for GEIS.

GEIS will cost up to R2-billion a year until 1997 when SA will probably be required to comply with Gatt's anti-subsidy code.

"GEIS boosts the profits of some exporters," says Bert Pienaar, director-general of export promotion at DTI. "Higher profits may lead to the expansion of manufacturing capacity, product development and use of advanced technology. This is happening."

University of Cape Town economist and economic advisor to the ANC Alan Hirsch says: "Many companies are exporting only because they receive GEIS payments. It is questionable whether the benefits warrant the cost.

Strong

"However, export stimulation for a short time is justifiable. The rationale is that by subsidising exports you learn more about the international markets and efficiency improves to the point where you can export without government support."

Mr Osborn says: "We are burdening the Exchequer with all sorts of expenses which we should do only if there are worthwhile benefits.

"In current economic circumstances many companies with underused manufacturing capacity will turn to exports, not because of GEIS, but to maintain production. They will invest in the domestic market when conditions improve.

"GEIS will not be sufficiently strong to overcome the high cost of labour and capital to encourage new investment specifically for export production — particularly because GEIS is to be phased out."

AA Life Assurance, AA Mutual In
Coaling & Exporting Co Limited,
American Corporation of SA, Angl
Armourplate Safety Glass (Pty) L
Group Limited, BP Southern Afric
Barcom Electronics (Pty) Limited
Blyvooruitzicht Gold Mining Co.
Limited, Blue Circle Cement (Pty
Limited, CNA Investment Limited,
Limited, Caterpillar (Africa), Ceme
City Motor Group, Coca-Cola Exp
Glass, Coopers & Lybrand, Corohi
Dairymaid, De Beers Consolidated
Diesel Electric Holdings Limited,
Exploration Limited, Edgars Store
Envirotech (Pty) Limited, ESD (Pt
Employers' Insurance Co, Federate
(Pty) Limited, FirstCorp, First Nati
Limited, Foster Wheeler Energy L
Glenvaal Transvaal Limited, Golde
Grinaker Data Systems (Pty) Limit
Limited, Haddons Limited, Haggie
(Pty) Limited, H J Henochsberg (P
Limited, Hubert Davies & Co (P
Corporation Limited, Intratex Gro
Limited, Kangwane Government, K
Kynoch Fertilizers, L & C Steinm
Dispensary Association, Liberty Lif
Medicald Administrators (Pty) Li
Morganite SA, Motolek SA (Pty) L
Africa), Natal Building Society, Nat
Soccer League, Natrel, NCP, NCR
Corp, Nordberg Manufacturing, N
Glass, Palmiet Chrome Corp, P E C
Pilkington Flat Glass SA, Premier E
Holdings Insurance Brokers, Protea
(Pty) Limited, Ready-Mixed Concre
Switchgear, Rhodesian Breweries L
Robertsons, Robor Limited, Rocla,
Limited, SA Container Depots, SA C
Limited, Sasol Technology, Sastech,
South African Associated Newspape
Southern Cross Steel Co (Pty) Limit
Standard Building Society, Standard
Steinmüller-Lavis Structural Steel,
Brewers, Syfrets Trust Executors SA
Thermal Insulation Suppliers, The A
Trust Bank, Truworths Limited, Un
of SA, Urban Foundation, Vaal Rec

R1,9bn outflow as investors ditch SA

BDAM 28/9/92 (74)

GRETA STEYN

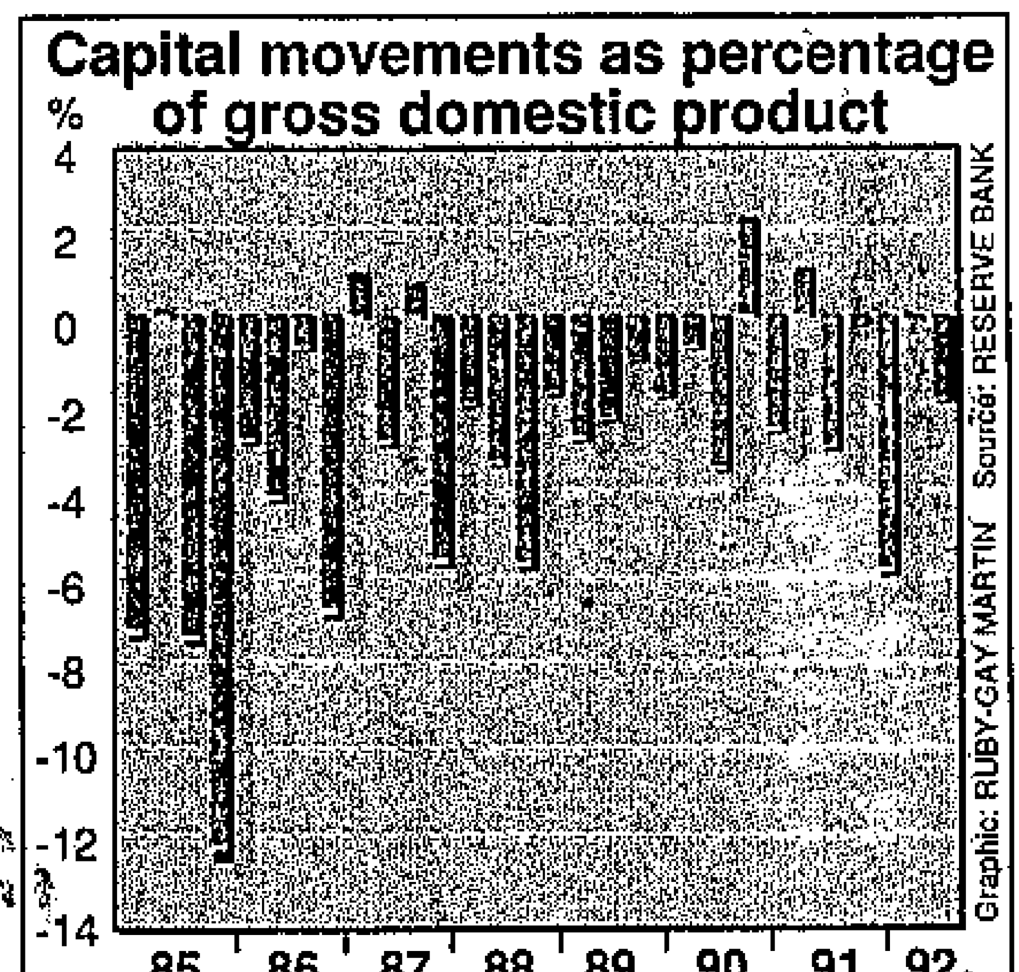
SA HAD suffered a R1,9bn net capital outflow in the second quarter of this year because of political uncertainty and social unrest, the Reserve Bank said in its latest Quarterly Bulletin.

The figures suggested that foreign creditors who had committed short-term capital to SA had scrambled to pull their money out in the period from April to June. The large capital outflow had consisted almost entirely of short-term capital, the Bulletin said. Long-term capital outflows shrank as SA managed to refinance foreign debt on international capital markets.

The Bank said: "This fairly large outflow of short-term funds is likely to have occurred mainly towards the end of the second quarter and could be ascribed to renewed political uncertainty and social unrest. Preliminary indications are that this outflow of short-term capital changed to an inflow again in July."

However, bankers said the money market had provided indications that the situation had started worsening again in the run-up to the Bisho massacre. They ascribed the surprisingly large money market shortage to foreign exchange outflows.

SA had a history of vulnerability to creditors' unwillingness to tie up capital for longer periods. In 1991, short-term outflows were R3,3bn — the eighth successive year of a drain. In the first three months of the year, it seemed the situation had turned around with a small net inflow of short-term funds.



On overall economic activity, the Bank noted "uncertainty arising from political developments and internal unrest in the country created a climate that was not conducive to domestic economic growth".

Although the depth of the recession

□ To Page 2

Unrest

BDAY 28/9/92 (74)

□ From Page 1

mainly reflected the collapse in agriculture, other sectors' output had also fallen in the first half of the year.

However, a rise in export volumes provided some relief. The Bank said the rise in export volumes reflected a "very strong" export performance by manufactured goods (particularly chemical products, machinery and electrical equipment, and transport equipment). This had offset the decline in net gold exports.

"The rise in export volume prevented domestic production from declining further and enabled the country to maintain a surplus on the current account of the balance of payments (BoP) required for the repayment of foreign debt," the Bank said.

Exports were growing in their contribution to SA's GDP. From only 13% in 1983, the proportion of real exports to real GDP had risen to 24% in the first half of 1992.

The strong export performance and fall in the volume of imports produced an impressive surplus on the current account of the BoP. This had offset the outflows on the capital account, and SA had still experienced a small increase in forex reserves.

● See Page 3

Weaker pound depresses finrand

STAR 28/9/92.

By Neil Behrmann (74)

LONDON — The devaluation of the pound has contributed to the sharp fall in the financial rand.

Sterling's devaluation boosted the finrand's rate from a recent low of 12,8p to a high of 14,55p.

Dealers say the high rate encouraged South African banks that are developing operations in London to buy pounds at the more favourable rate and their sales of rands pulled the finrand lower.

There are rumours that Royale Corporation is buying Delmonte and finrands have been sold to meet the purchase. Gencor is also rumoured to be taking over a company in Australia.

Because few international investors are buying finrands because they are worried about political strife, persistent selling has weakened SA's investment currency.

The finrand has thus slumped 7 percent to 24,5 US cents, the lowest level since the tragic violence in mid-year and the departure of the ANC from talks with the Government.

Its discount to the commercial rand is now 30 percent.

The commercial rand has depreciated by 4 percent against the dollar, but has recovered sharply against European currencies.

So SA companies disinvesting from South Africa are still buying foreign currency at expensive rates.

Through the finrand market an SA company is paying R6,9 million for each £1 million, compared with a commercial rate of R4,85 million for each £1 million. At the end of last year, the sterling finrand rate was around R5,3.

In a study of African currencies, James Capel says parallel exchange rates are trading at deep discounts to official levels.

The financial rand is affected by capital movements and a discount of 30 percent reflects acute pessimism.

Kenya's parallel rate is standing at a 27 percent discount to the official rate, Angola's 73 percent, Mozambique's 71 percent, Tanzania's 26 percent, Zaire's 77 percent, Zambia's 42 percent, Zimbabwe's 19 percent and Nigeria's 20 percent.

Foreign direct investment in Southern Africa in the past 11 years was only $2,5 billion — 0,25 percent of the world total.

This paltry sum is about the same amount that flowed into Singapore during the same period.

Singapore can hardly be regarded as a democratic country, but its growth far exceeds that of nations in Southern Africa, hence its much more impressive inflow.

The stark statistics presented by Professor Tony Hawkins at a Business International conference in London sum up the acute problem of South Africa and its regional partners.

They are not attracting nearly enough foreign investment to achieve the necessary growth to meet the demands of the soaring population.

Rand tipped to put on weight

(74) STAR 29/9/92.

By Neil Behrmann

LONDON — The dollar, yen and the rand are expected to continue to improve against their beleaguered European counterparts in the coming year.

The rand should thus be bought whenever it dips against European currencies — even against the all-powerful German mark, foreign exchange experts say.

The commercial rand may, however, depreciate slightly against the dollar and yen.

There should be opportunities to sell sterling and other European currencies at higher rates in the coming two months because the US economy's growth is still stifled and there may be further US interest rate cuts ahead of the presidential elections.

But the focus is now likely to be on weakening European economies, including Germany's.

Dollar bloc currencies and the yen are perceived to have bottomed against European currencies and are expected to ratchet upwards in the next 12 months.

The only difference in opinion among dealers and analysts is on the question of degree.

The dollar/Dmark rate is expected to be 1,55 in three months, 1,60 in six months and 1,68 in a year.

Sterling is expected to slide to $1,51 in a year. At that level, a rand/sterling rate of 4,45 is conceivable.

Realignment

Four analysts of eight consulted predicted a European realignment and pound and lira devaluation. Their only mistake was that they thought the realignment would take place after the French referendum on the Maastricht Treaty.

Also, the speed of the pound's collapse surprised them.

John Major, the British Prime Minister, is now receiving a battering in parliament.

"The more babbling politicians deny something is about to happen, the more likely it is going to occur," says Professor Alan Walters, Margaret Thatchers' former economic adviser. He has been vigorously against the government's futile attempt to bolster the pound at the expense of the economy.

It is hardly surprising that the sterling dam burst. The exchange rate reached $2 at one stage.

At that level it paid people living in Britain to take a plane, spend some nights at expensive New York hotels, buy a suitcase of clothes, fly back to London and pay the duty.

Politicians like Mr Major and Chancellor of the Exchequer Norman Lamont are blaming speculators. This is nonsense. It was deteriorating economic fundamentals that caused sterling's devaluation, now 14 percent against the Dmark.

Tariff reductions no panacea for our economic ills

BDay 2/10/92 (74)

TREVOR BELL

SINCE the mid-'80s, SA has been in the process of liberalising its foreign trade, increasing the incentive to export as opposed to encouraging production for the domestic market. Owing to the devaluation of the rand, the virtually complete dismantling of import controls on manufactured goods, and increased export subsidies, trade liberalisation in SA was far advanced by the end of the '80s.

There has thus been a substantial reduction in "anti-exports bias". Strong pressures for further trade liberalisation, through comprehensive, non-selective reductions in levels of tariff protection are now coming from various sources, including international agencies.

We may not be able to resist these pressures altogether. In terms of the current Uruguay Round of trade negotiations, we are evidently already committed to something like a one-third, across-the-board reduction in tariffs, spread over a number of years. Insofar as we have any control over the matter, however, we should be aware that comprehensive tariff reductions are no panacea for our economic problems, and indeed involve serious risks.

The trade liberalisation which has taken place so far was necessitated by a series of adverse foreign exchange shocks between 1980 and 1985 — most notably a drastic decline in our exports (especially of gold), and the foreign debt crisis of August 1985. In the absence of renewed foreign capital inflows, recovery of the forex-starved SA economy required a dramatic increase in exports.

In view of the persistently poor export performance of the mining industry since 1985, exports of manufactured goods were especially needed, both to pay for essential imported intermediate goods — materials used in domestic production — and capital goods, and to service the foreign debt.

Growth of exports thus was essential for economic recovery. In spite of trade liberalisation, the growth of SA's total exports since the mid-'80s has been disappointingly slow. This is a major reason for the woes of the economy. Some who advocate reductions apparently believe they will generate vital export growth. Though the aim is laudable, the result is by no means certain. Tariff protection cannot reasonably be blamed for slow export growth.

The basic obstacles to faster export growth have been the very poor export performance of the mining industry (especially gold), and of our major, traditional, natural resource-based manufacturing exporters (notably the basic metals and chemicals industries). Both of these obstacles have been related to external conditions, beyond our control, and not to our trade policies.

Furthermore, there has been a substantial improvement in the growth of manufactured exports excluding basic metals and chemicals. The performance of the metal products group of industries (fabricated metal products, machinery, electrical machinery, automotive products, and other transportation equipment) has been especially remarkable.

The fundamental reasons for this have been devaluation, domestic recession and trends in the growth and structure of world trade. Comprehensive tariff reductions have clearly played no part in this favourable trend. And given the dominance of other determinants of export growth, it is unlikely that comprehensive tariff reductions will have a significant beneficial effect on exports. Indeed, international evidence shows that comprehensive tariff reductions are not necessary for successful trade liberalisation and accelerated export growth. A crucial part of the case for such reductions is thus highly questionable.

Another conventionally emphasised benefit of tariff reductions is that they will result in a more rational allocation of resources. Resources would then no longer be used to produce goods that could be imported more cheaply.

However, in SA's crisis conditions characterised by severe recession and macroeconomic instability, and consequent doubts about the sustainability of import liberalisation, these resource-allocation benefits are likely to be small or even negative.

Greater production efficiency and faster productivity growth are also hailed as advantages of tariff reductions. Evidence from abroad for such benefits is inconclusive, to say the least. In short, the positive effects of comprehensive tariff reductions are very uncertain and could be negligible.

By contrast, in current economic conditions comprehensive tariff reductions involve three major disadvantages. Essentially, they conflict with the important objective of macroeconomic stabilisation.

Firstly, their immediate impact will be an increase in imports and a consequent worsening of an already fragile balance of payments. Our foreign exchange constraint will be intensified, reinforcing the depreciation of the currency. This will entail further adverse effects on real incomes and the burden of the foreign debt, and make for higher interest rates.

Secondly, by lowering customs revenues, tariff reductions will aggravate our already desperate fiscal problems.

Thirdly, there will be a direct adverse impact on output and employment in import-competing industries, struggling even now to survive the recession.

In short, comprehensive tariff reductions are not a necessary condition for economic recovery; rather they conflict with it. Their implementation involves serious risks. That there are risks is recognised by all the major institutions, domestic and foreign, advocating them. They apparently believe, however, that phasing the measures in over a period of five or six years would overcome the problem.

The trouble is that an improvement in our overall economic performance is essential before we can contemplate comprehensive tariff reductions. The economic situation in SA in still worsening, and its future is clouded in uncertainty. We do not know that our overall economic circumstances will have improved enough in a few years' time to make adherence to an automatically applicable tariff-reducing formula and a fixed timetable — as have been proposed — economically and politically feasible, and we should not pretend that we do know.

It is possible that in the longer term further import liberalisation will be good for the economy. What we require, however, is a more piecemeal approach, involving further import liberalisation on a selective basis, in the light of proper analysis of its effects. Such selective implementation should be undertaken as and when the balance of payments, the fiscal situation, and the state of domestic business permit — as has been done in most other instances of successful trade liberalisation, including Korea.

In view of the obvious disadvantages of comprehensive tariff reductions, the onus is on those advocating them to show that, in our case, their benefits are likely to be substantial enough to outweigh the costs. To my knowledge, this has not been done by any institution or individual, either here or abroad. Instead, so far we have only doctrinaire assertions of the virtues of further import liberalisation, inviting us in effect to take a leap in the dark.

□ **Bell is economics professor at Rhodes University.**

AVERAGE ANNUAL RATES OF GROWTH OF SA's MANUFACTURED EXPORTS 1970-1990 (%)

	1970/80	1980/85	1985/90
(a) TOTAL MANUFACTURED EXPORTS			
Constant Rands	8,7	1,0	5,8
Current US Dollars	20,7	−7,9	12,3
Constant US Dollars	10,4	−10,3	9,5
(b) MANUFACTURED EXPORTS EXCLUDING CHEMICALS AND BASIC METALS			
Constant Rands	4,7	−0,7	10,4
Current US Dollars	16,0	−9,1	18,1
Constant US Dollars	6,1	−11,3	15,0
(c) METAL PRODUCTS GROUP OF INDUSTRIES			
Constant Rands	3,9	−6,0	19,6
Current US Dollars	13,9	−9,3	31,2
Constant US Dollars	4,2	−11,8	20,1

Talk of big foreign bank deal

Finrand falls to new low in frantic trade

B DAY 2/10/92 (74)

HILARY GUSH and
MERVYN HARRIS

THE financial rand dived to a five-and-a-half-year low yesterday amid rumours that a large deal involving the acquisition of a foreign bank by a local institution had been concluded.

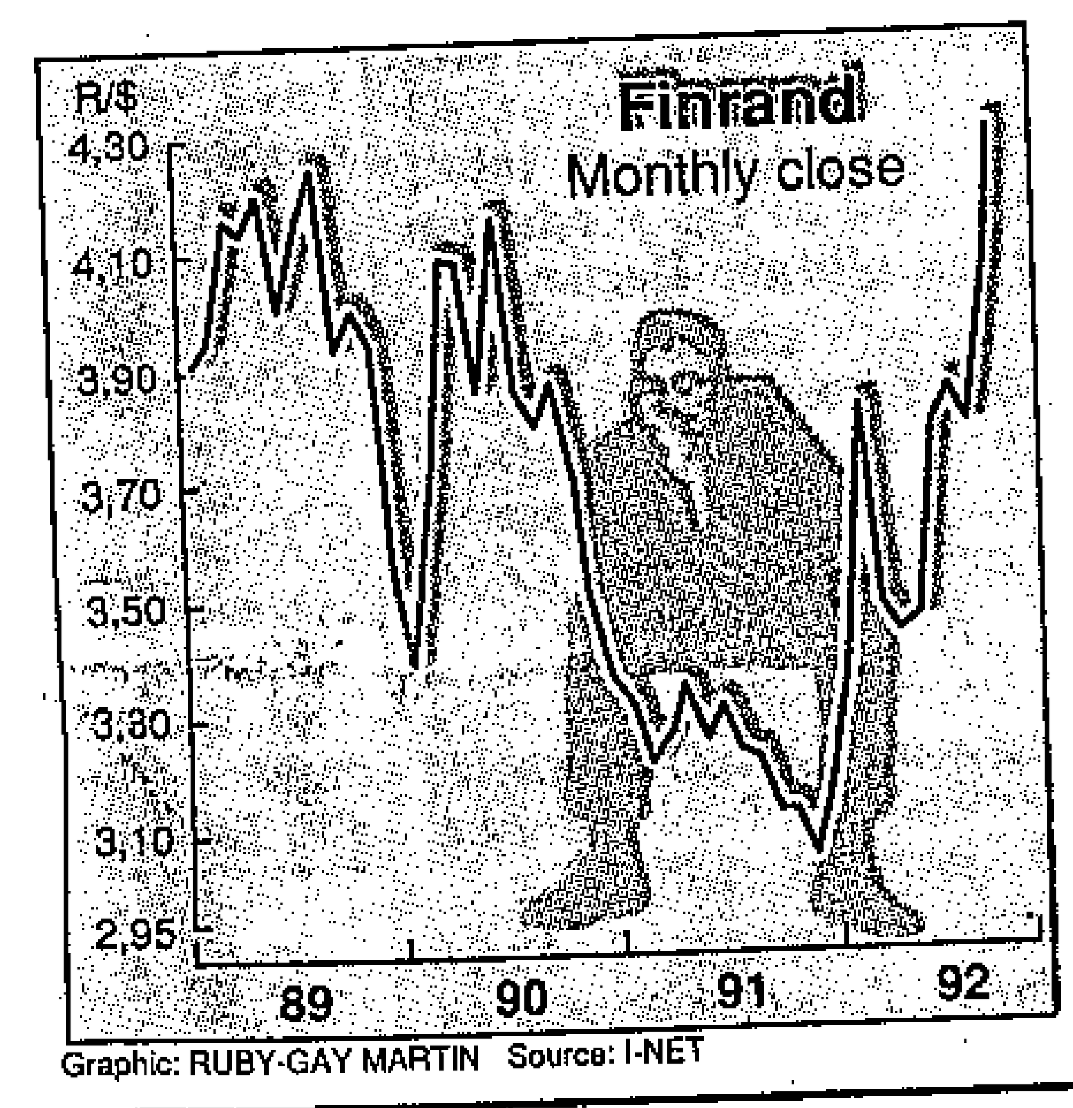
From a R4,08 opening against the dollar, the unit tumbled to R4,42 in what dealers labelled "frantic" trade, before recovering to finish at R4,30.

One large sell order fanned finrand sales which saw the currency plummet 30 points within an hour.

Traders said lack of Reserve Bank intervention to support the unit had angered foreign investors, who were losing money "hand over fist".

"The blame for finrand weakness can be laid squarely at the door of the Reserve Bank, which has, without thinking, granted foreign investment approvals to local institutions," a trader said.

The JSE was left largely unmoved by the unit's gyrations which, after causing some initial anxiety, failed to exert a significant influence on trading.



Graphic: RUBY-GAY MARTIN Source: I-NET

However, the impact on the market was reflected in share prices ending broadly lower against the normal trend of a weaker finrand propping up share prices in rand terms.

Rumours abounded as to the cause of the investment currency's plunge.

Initial market talk was that the deal between local confectionery group Royal and Del Monte Europe — estimated to be worth R1,4bn — had been struck, requiring large forex purchases through the finrand.

Later the market attributed the unit's slump to massive finrand sales by First National Bank following the bank's acquisition of British merchant bank Henry Ansbacher, in a deal worth about R300m.

Although FNB was believed to have been selling finrands consistently over the past week, speculation was that the deal was concluded yesterday, with finrand sales reaching about R250m.

A FNB dealer would not confirm the deal and had "no comment".

Earlier in the day players had ascribed initial finrand softening to news that the ANC was to go ahead with its mass action campaign.

Dealers also cited the attractive sterling rate against the finrand as cause for the unit's slide.

Traders did not commit themselves to the finrand's short-term direction, but said the unit had found some support at the

☐ To Page 2

(74) ☐ From Page 1

Finrand

B DAY 2/10/92.

R4,35 level.

"As long as foreign investors don't cut their losses and sell the finrand now, the currency should stabilise at around R4,35," one dealer said.

He added: "On the political front there are no positive developments which could prop up the finrand."

I-Net reports dealers as saying about R300m changed hands yesterday, compared with a daily average of about R25m. Selling from Europe and the UK was strong, while there had been some buying interest from the Far East at the lower levels.

Bank rolls over repurchase deal to aid market

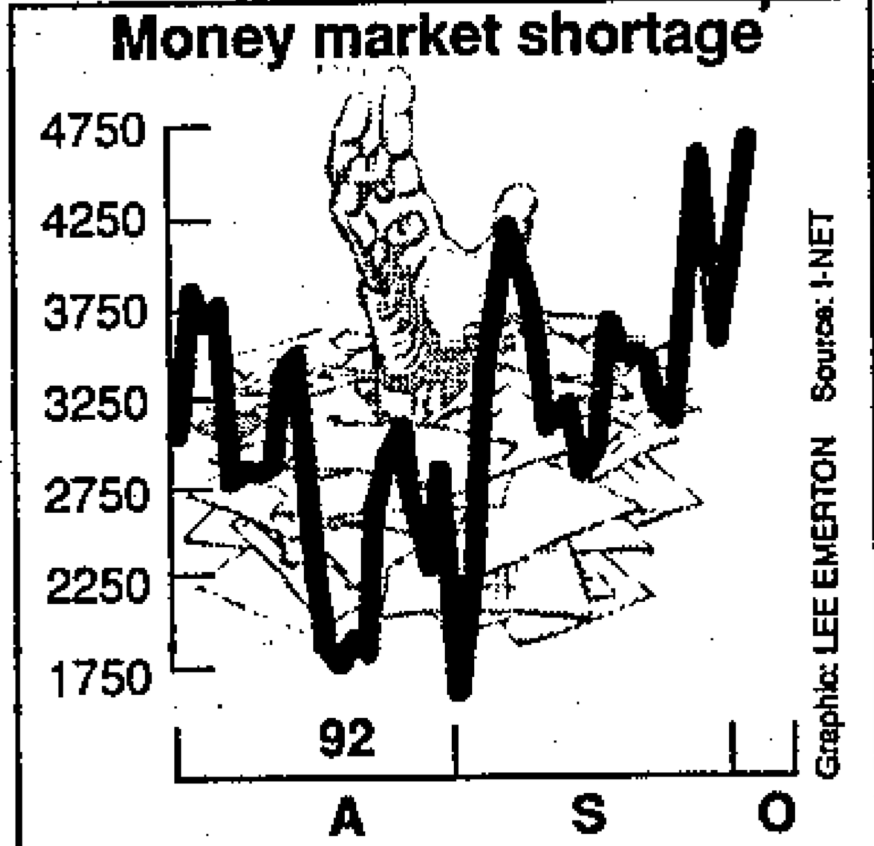
BIDAY 2/10/92

HILARY GUSH

IN A BID to relieve the money market of tight liquidity the Reserve Bank yesterday rolled over the special repurchase deal announced to banks on Tuesday.

The Bank's Corporation for Public Deposits offered to buy back gilts and semi-gilts to a maximum value of R500m for a five-day period to put some liquidity back into the cash-strapped market.

The shortage, the extent to which the Bank — at a price — finances the money market, rose to R4,76bn on Wednesday from Tuesday's R3,586bn. Similar lows were last recorded in early July.



Offers totalling R700m were received by the corporation, with R500m of these being accepted at an average rate of 15,31%.

Had the Reserve Bank not actively intervened in the money market last month, Bank GM Andre Kock said the shortage could have reached the R5,5bn many analysts had predicted.

He did not expect a speedy return to greater market liquidity, even though the shortage was traditionally lower at the beginning of the month as government spending filtered into the market.

Kock said the shortage would probably fall gradually over the month, but a level "much below R4bn" was unlikely.

In spite of government spending in the homelands, dealers did not expect the shortage to fall before Monday, as cash — in the form of tax receipts — continued to leave the system.

Rumour factory squashes finrand

STIME 2/10/92

By Sven Lünsche (74)

Rumours of a large-scale overseas deal by a South African firm sent the financial rand plunging by 8,4 percent to a year's low of 4,43 against the US dollar yesterday.

Support buying by the Reserve Bank helped it recover to a close of 4,30 — a loss of 31c on the day.

As the commercial rand remained largely steady at 2,81, the discount between the commercial and financial rands widened to 34,5 percent from 29,5 percent on Wednesday.

Against the pound, the finrand registered a similar fall, declining to 7,625 before recovering to a close of 7,516.

Dealers said rumours of a large-scale selling order, ranging from R300 million to R800 million, had a snowball effect on the market, with institutions selling finrands to cover their positions.

A dealer said early London selling added fuel to the speculation, which included the finalisation of the Anglo-Royal acquisition of international food group Del Monte and an overseas acquisition by Rand Merchant Bank.

Talks of a renewed mass action campaign also depressed market sentiment, although dealers said it was not sufficient to explain the large decline in the financial rand.

The widening of the discount between the commercial and financial rands reversed an earlier trend of mild gilt sales by European institutions — foreign investors buy gilts on the capital market through the finrand, but receive their interest payments through the commercial rand.

Capital market rates were also supported by local institutions fearing that an expected 15c rise in the petrol price over the next few weeks could reverse the recent decline in inflation.

The key Eskom 11 percent E168 closed at 13,80 percent, a gain of five percentage points on the day, after falling to 13,70 percent in morning trading.

Gilt traders, however, expect the recent downward trend in rates to continue over the next few months as the recession continues to put downward pressure on inflation and the political situation stabilises.

Nevertheless, they add that foreign investors in general and European institutions in particular would find local gilts an attractive investment as long as the finrand discount to the commercial rand remains at its current high levels.

Research conducted by analyst Dr Manny Pohl of stockbrokers Davis Borkum Hare shows that from June 1991 to June this year the percentage of foreign holdings in Eskom rose from 43 percent to 52 percent.

In nominal terms, this means that foreign holders accumulated Eskom stock, particularly E168, with a nominal value of R3,18 billion.

Foreign institutions now control R12,7 billion of the total R24,4 billion Eskom stock in issue, compared with R9,5 billion of a total R22,1 billion in June last year.

Dr Pohl notes that over the period local institutions reduced their holdings from 35 to 26 percent, while those of other local companies and individuals went up from 17 to 19 percent.

Trade not aid the key to economic upliftment

S/Times (Buss) 4/10/92. (74)

By JÜRGEN W MÖLLEMANN
Federal Minister of Economics, Bonn

WHEN I visited South Africa last February — for the first time in 18 years — I was fascinated by the possibilities that have recently emerged for the country.

A land richly blessed by nature, with a first-class infrastructure of transport routes, ports, and energy systems, now has the opportunity to escape from the blind alley of apartheid and can shape its future in a positive manner by peaceful transition to a democratic system, embracing all parts of the population.

I naturally also saw the contrasts that still exist and that put the black majority on the minus side of the economic and social ledger.

Without the construction of more schools and training facilities, without social programmes, the country will not be able to move forward; those who have thus far been disadvantaged must be able to feel the progress, to see that a new start is being made.

Upswing

With our experience in the Federal Republic's new states, we Germans can attest to the fact that it is of pre-eminent importance for economic growth and for meeting the needs of the population, that business and industry invest and create jobs.

This is missing in South Africa. In my opinion, it has been absent too long.

Not only foreign companies, but even SA's own business sector are showing reserve in the light of the uncertainties connected with political transformation.

Without investment, however, there can be no upswing. Nor does the State have the funds to finance infrastructure, housing construction and other social programmes.

The political forces in SA are therefore faced with the task of putting the uncertainties of the transitional period to an end as soon as possible for the sake of the population and of laying the roadbed for a predictable path into the future.

If the difficult undertaking of placing SA's market economy (a system that benefits all) on the track of growth succeeds, Southern Africa will also have the hope of climbing out of the continued slump.

At any rate, the neighbours would not only have the example of SA success but they would have the opportunity to intensify the regional trade in goods and services, in particular with a South Africa relatively strong in terms of capital and buying power and with industrial experience.

The region as a whole, including the states beyond SA's borders, would become an interesting economic partner for Europe.

On the basis of the standards it has already achieved, SA would doubtlessly be the development pole from which and with which Europe would have considerably better operational possibilities for fighting poverty throughout Southern Africa.

Against the background of decades of Western development assistance in Africa that has shown relatively meagre results, "trade, not aid" continues to be the principle showing the greatest promise.

I am certain and will work hard to ensure that as soon as a legitimised transitional government is in office, the European Community will extend its hand, offering a regional partnership similar to the partnerships already established with other economic regions in Asia and Central America.

The South African Development Community, supplemented by a new South Africa — and perhaps by additional responsibilities after unification with the Preferential Trade Area — could serve as the southern bridgehead.

Such a framework would have the priority task of promoting the private foreign investment that is so urgently needed in Southern Africa.

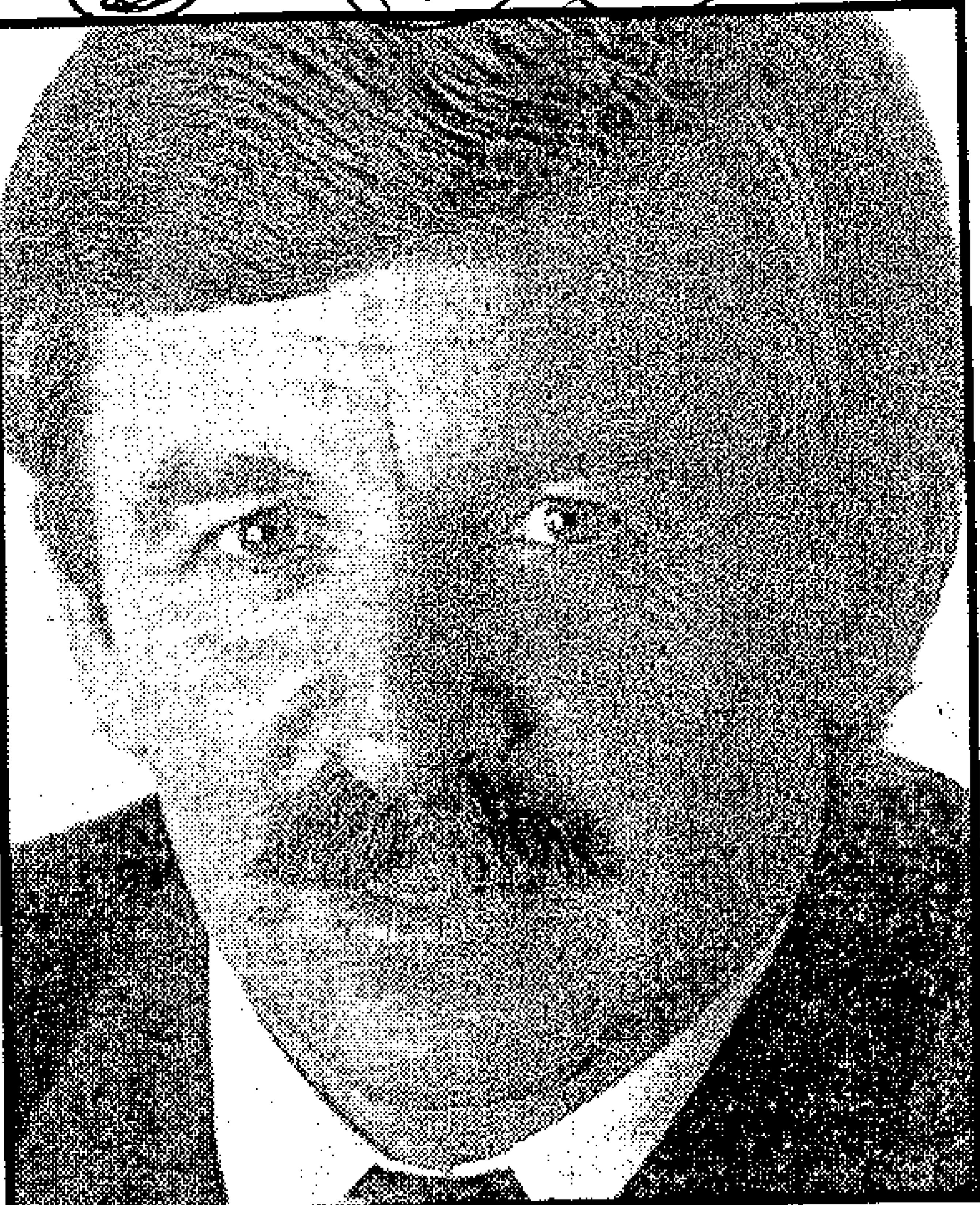
Lively

SA boasts an important position as world trading partner. This role must be sustained and developed. Germany is a good customer: in 1991 it imported goods worth Dm3,2-billion, 10% more than in 1990.

With the goal of further increasing exports to Germany — for years a surplus item in bilateral trade with a level of Dm1,5-billion in 1991 — the Federal Ministry of Economics held export promotion seminars for small businessmen, particularly black entrepreneurs, this past September in Johannesburg, Durban, and Cape Town.

The lively participation at these seminars allows us to hope that they will generate business.

In general, it is to be expected that SA, as dictated by circumstances, will try to boost its export of finished goods and will rely less on the export of commodities that have previously accounted for a substantial portion of German purchases.


JURGEN W MOLLEMANN: No upswing without investment

We know, for example, that some companies producing high-grade steel are taking steps to expand capacitiy considerably and to manufacture car parts for export, in particular catalytic converters.

As it moves into the finished goods sector, however, SA will see itself increasingly confronted with the demand to play according to the same rules as its international competitors.

It must therefore lower the high levies on imports and eliminate export assistance. This is ultimately in line with the country's own interests, for behind the high walls of protection, industries lose the ability to compete.

In addition, assistance is expensive.

The strong German-SA trade relationship is supported by a large number of German companies that have invested in SA.

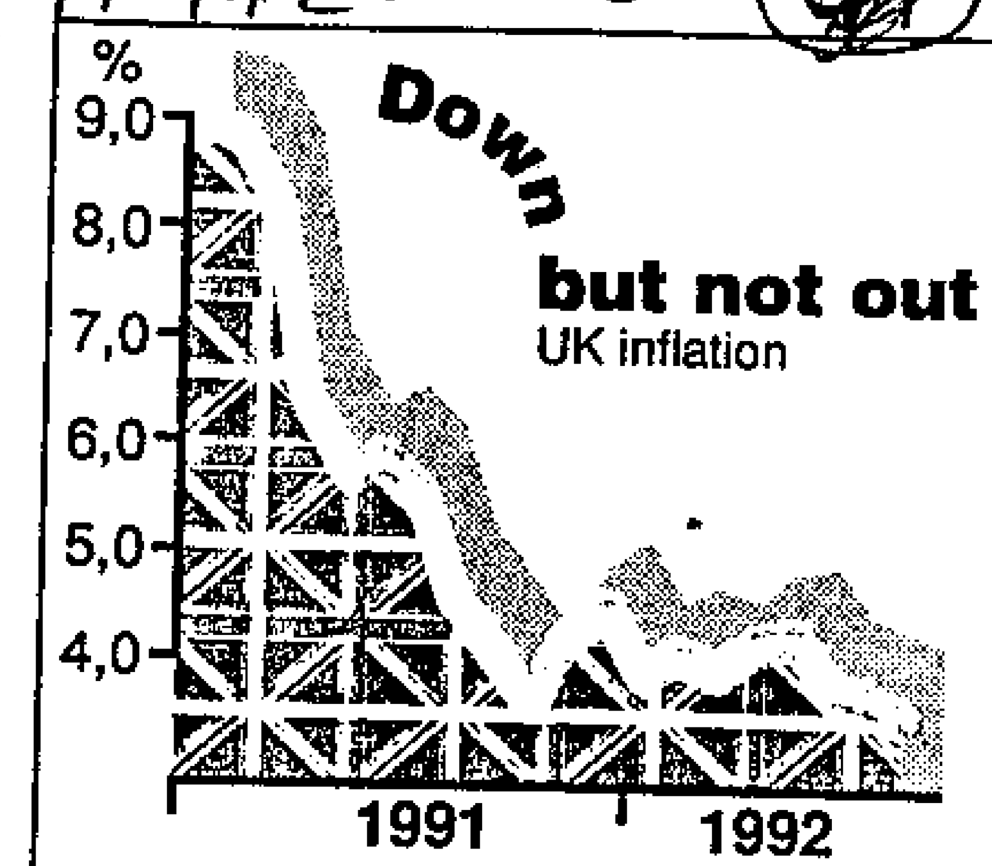
More than 300 companies — besides nearly all of the well-known large firms, also a number of small and medium businesses — have become involved in the SA market. These and other companies are willing to expand their stakes in the country — or to invest for the first time if peace comes to SA and if the country practises an economic policy pointing to the future and containing the basic lines of the market economy.

THE WEEK AHEAD by Simon Willson

Reserves likely to hold

A BETTER official gold valuation last month should shore up the September reserves total to be released this week, and continue to consolidate the marked improvement in reserves performance this year.

August reserves increased by R263m from July to reach R11,5bn despite an instalment of standstill debt repayment. Gross reserves still cover barely two months' imports, against the three months' import cover that remains one of the Reserve Bank's plainest financial targets. After rising in July for only the second time this year, the official gold valuation in the reserves fell again in August. But the September data should show another rise in the gold component following a firming in bullion and a weakening of the rand/-dollar rate during the month. The rand gold price stood at around R933 an ounce when the August reserves were measured; the comparable level last month was around R993, thanks mainly to the rand weakening from R2,75 to the dollar to R2,85 over the same period and to bullion being nearer $350 an ounce than $340.



Graphic: LEE EMERTON Source: I-NET

Internationally, the statistical release likely to get the most limelight is the UK inflation rate for September, due out on Friday. It will be a figure laden with grim irony. The August figure, showing inflation at a four-year low of 3,6%, was published two trading days before Black Wednesday — the day last month when sterling was suspended from the European exchange rate mechanism (ERM).

The speculators selling sterling short — egged on, it has since transpired, by the Bundesbank — dismissed this evidence of progress in British macro-economic management. Perhaps emboldened by their sleeping partner in Frankfurt, they were able to ignore this particular fundamental and, in the end, came out with a tidy profit. As the chart shows, UK inflation has been knocked down and is on the canvas taking a count. Whether it rises again or is counted out largely depends on sterling's short-term fortunes in its re-adopted float.

Friday's figure will probably be a last, lingering memento of sterling's final days in the ERM. It should show another fall in UK inflation as frustrated retailers, increasingly desperate for customers, failed last month to repeat price increases imposed a year earlier. This should keep September's monthly rise in average prices down to a negligible 0,1% or 0,2%, giving an annual rate of around 3,5%.

Germany, meanwhile, is dealing with the mirror image of sterling's withdrawal from the ERM: the Deutschmark strength that unzipped the mechanism three weeks ago. An area of the German economy where the effects of a strong exchange rate are seen quickly is in the trade figures, and Germany's trade and current account balances for August are scheduled for publication this week.

The German trade surplus, already showing the effects of Deutschmark strength, narrowed to DM1,3bn in July from DM2bn in June. This kept the current account well in deficit at DM4,2bn after DM7,7bn in June. As German exports continue to suffer from the firm Deutschmark the trade surplus is unlikely to widen significantly before the end of the year, leaving the unification-burdened current account in a deficit of at least DM20bn this year.

If the UK inflation rate makes it down to 3,5% on Friday, there may be a minor restoration to Whitehall's dignity. Earlier in the week, Germany's once-only revision to its already released September inflation rate is timetabled. The German figure is likely to stay at 3,6%.

Stals takes issue over finrand glut

(74) GRETA STEYN

THE Reserve Bank was unhappy about the way in which First National Bank dumped finrands in the market last week, banking sources said at the weekend.

FNB's frantic sales of finrands for pounds to finance its acquisition of UK merchant bank Henry Ansbacher was the main reason behind the currency last week hitting its lowest levels in more than five years. Friday saw a second day of drama in the market, with the currency touching a low of R4,42 to the dollar from Thursday's R4,30 close.

Bank Governor Chris Stals, asked to comment on market criticism of the Bank for approving acquisitions abroad, said the Bank usually asked SA buyers of foreign companies to adopt a gradual approach to selling finrands and purchasing foreign currency. BDM 5/10/92

He believed it was not possible to calculate exactly what the effects of the foreign takeovers by SA banks would have on the finrand, as its value was also affected by political developments. The Bank was unhappy that the discount between the finrand and commercial rand had widened.

Asked whether the Bank had abandoned the idea of intervening to support the currency, he said the policy had not changed. However, the Bank had originally envis-

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Finrand BDM 5/10/92. (74)

☐ From Page 1

aged that it would at times withdraw completely from the market. He also referred to the Bank's statement on its finrand policy, which indicated that intervention would further be determined by the need to reduce money market liquidity and by inflows of foreign exchange reserves that could be used for intervention.

Reuter reported Societe Generale's Johannesburg branch had pulled out of the financial rand market because of the volatility.

"We are pulling out of the market for the time being. I am not interested in a market that is moving like that. We are waiting for direction," the bank's chief forex dealer Neal Anderson said.

Dealers said the foreign deals were only part of the problem — the market was growing increasingly worried that the weak finrand would trigger massive sales by foreign investors in SA gilts. They were worried that "stop-loss" orders had been triggered at current levels.

Trade office for Bahrain

B/Day 6/10/92. (74)

MANAMA — SA Deputy Trade and Industry Minister David de Villiers Graaff on Sunday announced a representative office was to be established in the Gulf state of Bahrain to foster bilateral trade and investment between the two countries.

Graaff said while the status and composition of the proposed office still had to be decided, "the need to establish physical presence here has been recognised".

A similar office was to be established in the Gulf emirate of Dubai.

Bahrain's Development Minister Yousif Ahmed Al Shirawi was due to visit SA in the near future to investigate joint ventures and investments.

Meanwhile, SA Foreign Trade Organisation (Safto) Middle East manager Gyff Fitchat said in Dubai on Sunday that the Gulf crisis had spawned SA interest in the area.

Trade with Dubai, Fitchat said, would precede diplomatic relations.

SA is hosting its first sole exhibition, and largest outside Africa, in Dubai from today until Friday.

The exhibition will afford about 100 SA exhibitor companies — ranging from furniture manufacturers to heavy engineering and armaments producers — the opportunity to "openly" market their goods to an estimated 4 000 Arab businessmen.

While official trade has never been admitted between SA and Arab countries, Fitchat pointed out that SA had through the sanctions years continued to trade with Arab countries through third countries.

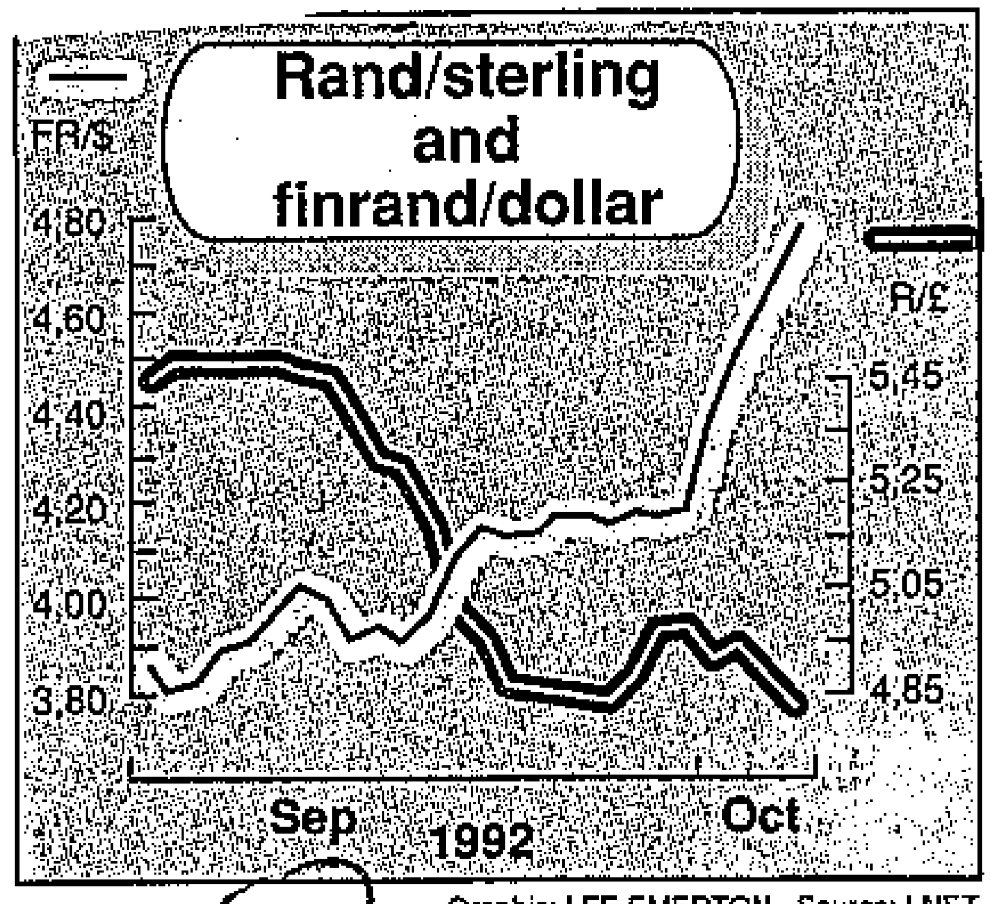
Trade has included products such as timber, chemicals, fruit and steel.

Safto took its first SA delegation to the Middle East in February with a Bahraini delegation visiting SA in April. As a result of this visit, the Gulf states of Bahrain and Oman declared trade open to SA companies.

Although the six Gulf Co-operation Countries (GCC) have not formally lifted sanctions, they hope the resumption of trade links with SA would open new oil markets to them.

GCC states import 90% of manufactured goods and food valued at more than $40bn a year and offer an ideal opportunity to SA companies.

Safto plans to establish a representative office in Dubai. — Sapa.



Graphic: LEE EMERTON Source: I-NET

Finrand at 6-year low against dollar

BDay 6/10/92

(74)

HILARY GUSH

IN A nervous, rumour-driven market, the financial rand slumped to a six-year low against the dollar yesterday while the commercial rand peaked at a 13-month high against sterling.

From Friday's R4,41 close against the dollar, the finrand plunged to R5,11 in early afternoon trade. The unit last passed the R5,10 mark in October 1986.

Rumoured Reserve Bank intervention towards the close lent support to the currency, which finished at R4,81.

On the back of an ailing pound — which plummeted to a record DM2,37 low against the Deutschmark — the rand surged to a 13-month high of R4,79 against sterling before closing at R4,82.

Sterling softened ahead of today's Conservative Party conference, which is expected to spell out the UK government's exchange-rate policy.

Against a weaker dollar, the commercial rand gained some ground to end at R2,8283 from Friday's R2,8310 close.

Players attributed the finrand's slump to continued speculation that deals involving offshore acquisitions by local banks were soon to be concluded, requiring large forex purchases through the finrand.

In particular, dealers cited payment by Standard Bank for the African operations of ANZ Grindlays for the large finrand sales. But one trader said: "There are no facts at the moment, just wild speculation by nervous dealers."

Some claimed the unit's plunge was due to large foreign gilts sales. Capital market dealers, however, said foreigners had not dominated yesterday's trade, which saw

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Finrand

BDay 6/10/92 (74)

☐ From Page 1

key gilts rates climb 20 points.

The yield on long-dated government stock ended at 14,11% from Friday's 13,91% close. Similarly, the yield on Eskom's E168 bond rose to 14,10% from 13,90%.

Rumours of an imminent hike in the petrol price, which would be bearish for inflation and might postpone a Bank rate cut, fanned gilts sales.

Dealers labelled the upward correction as "healthy, but a bit overdone".

They did not believe yesterday's correction signalled a change in trend, which remained bullish.

The yields on short- and medium-dated gilts moved up sharply yesterday and were showing "good value", dealers said. The rate on government R144 stock closed 35 points higher at about 12,05% yesterday from a weekend 11,7%.

The yield on the R119 bond was also up at 12,31% from a previous 11,94%.

Financial rand discount widens to six-year low

By Derek Tommey (74)

STAR 6/10/92.

The financial rand discount to the commercial rand, generally regarded as a measure of foreign confidence in South Africa, slumped yesterday to its lowest level in six years.

The financial rand weakened from 4,41 to 4,825 to the dollar after touching 5,12 at one stage.

This increased the finrand discount to the commercial rand to 41,6 percent from 35,8 percent on Friday — and from 16,5 percent in happier days after the referendum earlier this year.

Not since the troubled times of 1986 has the discount been larger.

Currency dealers blame the increased discount partly on renewed fears overseas about SA's political prospects, and partly on the slump in overseas share markets yesterday, which served to divert attention from South Africa.

They point to a number of adverse political developments, which have affected foreign sentiment in the past few days.

These include Inkatha's refusal to participate in the constitutional talks and the ANC's statement that it will organise marches on Ulundi and Mmabatho.

The governor of the Reserve Bank, Dr Chris Stals, told The Star last night that the slump in the finrand discount was the result of foreigners wanting to sell the currency.

Although he did not like the discount to be as big as it was and he did not like the volatility the finrand was showing, there was nothing he could do about it.

However, the upside was that the finrand was doing its job protecting SA's foreign exchange reserves and helping to keep the commercial rand stable.

Dr Stals said that when permission was given to local financial institutions to sell financial rands they were asked to do so in a way that would not disrupt the market.

A dealer said that the increase in the discount in the past two months had raised the cost of foreign acquisitions for a South African company by about 24 percent.

Dr Stals said the Reserve Bank had some influence over South African sellers of financial rands, but none at all over foreign sellers.

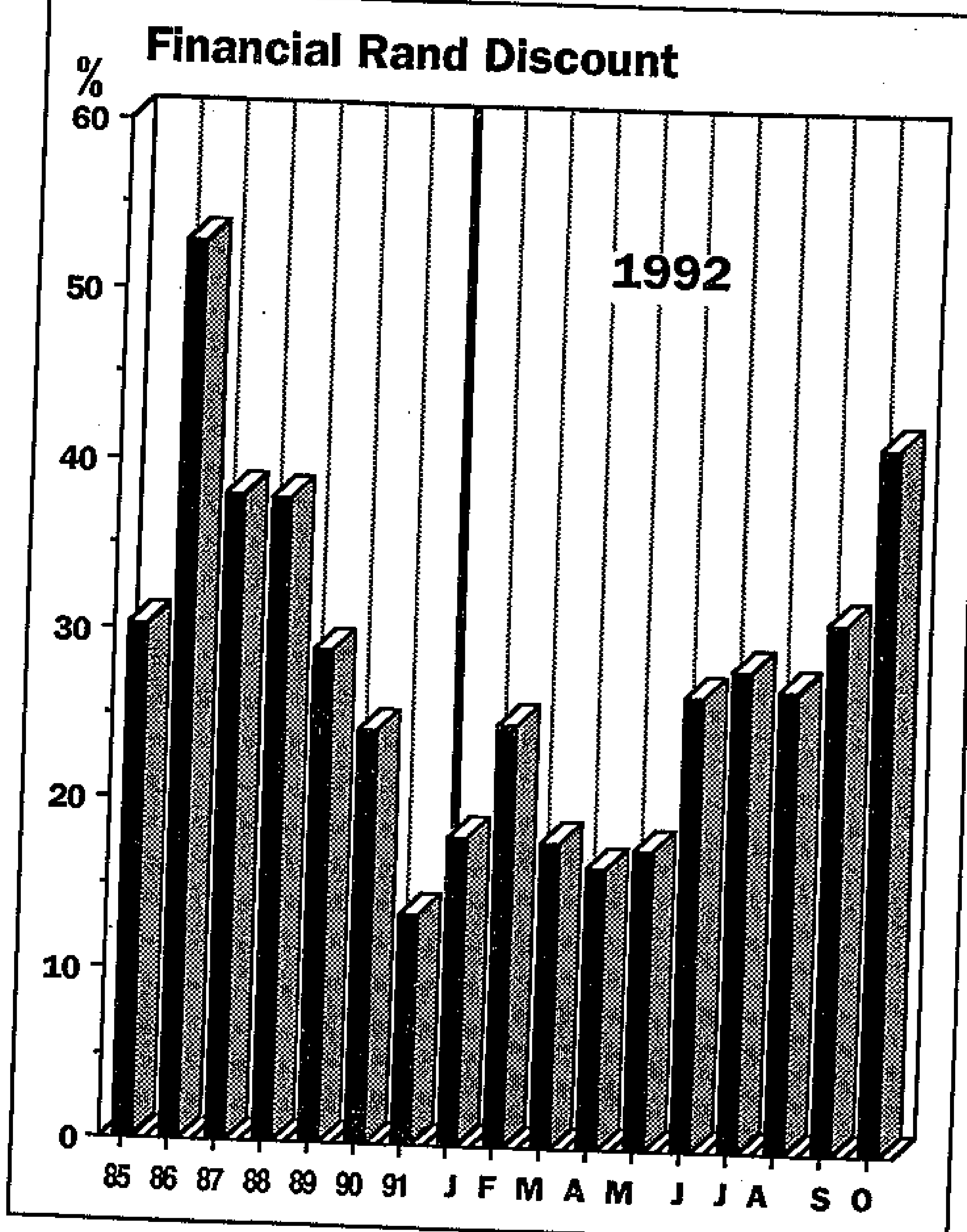
It seemed that foreigners had played a part in the rise in the discount yesterday.

One aspect of the increase in the discount, which is worrying the Johannesburg Stock Exchange and which should worry the Government, is the lack of response in share prices.

In the past, when the discount widened, the prices of SA shares in London remained unchanged, but they increased in Johannesburg.

Yesterday the reverse happened. Gold shares in Johannesburg showed only small gains on the bigger discount, but dropped sharply in London.

This suggets that British investors, at least for the present, have lost interest in South African shares and are no longer prepared to make a market in them — not an encouraging sign for prospects of new foreign investment.



World markets in disarray

LONDON — Stock markets plunged yesterday after a new blast of currency turbulence in Europe and increasing gloom about prospects for a US economic recovery rattled investors on both sides of the Atlantic.

The pound touched record quoted lows against the surging mark, helping to tip London stocks into their biggest one-day fall of 1992. The FTSE 100 lost 103,4 points to close at 2 446,3.

Stocks plunged as sharply in early trading on Wall Street, but later recouped most of their losses.

The Dow Jones lost 100 points in morning trading before recovering to close at 3 179, down 21,61 for the day.

Wall Street investors were unnerved by uncertainty over the economy, corporate earnings and the upcoming presidential and congressional elections.

The Paris bourse lost around five percent to fall to its lowest close of 1992, while German shares hit a 20-month low.

Discouraged by falling international markets, the Johannesburg Stock Exchange also went into retreat, with the overall index dropping 66 points or two percent to close at 3114, while the industrial index shed 78 points or 1,87 percent to 4103.

The weakening financial rand failed to attract foreign investors.

On the foreign exchange markets investors rushed to buy D-marks and Swiss francs as havens from the latest storm among European currencies.

The pound's fall was accelerated by weekend criticism of the British government's apparent lack of an economic policy.

All-time low

The pound fell to an all-time low at the Frankfurt midday fixing of Dm2,369 and was trading at Dm2,391 at the close in London, nearly five pfennigs lower than the Friday close.

The rand also strenghtened against the pound closing at 4,82 after hitting a year's high of 4,79 earlier.

Traders saw no floor for the currency unless the Conservative government, facing its annual party conference this week, could convince the market it had a coherent strategy.

The lira, like the pound, fell victim to the market chaos.

The US dollar, after weakening in European trading during the day, rose against most major currencies in New York last night.

Gold, the traditional investment in troubled times, closed in London more than $3 higher at $351,45. — Sapa-Reuter and Finance Staff.

SA exhibitors attract keen interest in Dubai

BDM 7/10/92 (74)

PETER DELMAR

DUBAI — SA's first solo trade exhibition outside Africa got off to a flying start yesterday as hundreds of robed Arab businessmen wandered through the stalls manned by 230 eager South Africans.

The exhibition, SA and the Gulf: A New Link, was officially opened by Trade and Industry Deputy Minister David Graaff yesterday and will run until Friday.

Outside the giant exhibition centre a United Arab Emirates (UAE) soldier armed with a rifle patrolled next to an SA manufactured armoured vehicle.

Products on display inside ranged from aluminium pots to heavy machinery; from mine detectors to breakfast cereals. One company was attempting to sell electric heaters in this country where temperatures regularly soar over 40°C.

Although most exhibitors were concentrating on establishing contacts, several deals were struck.

One was for the supply of 13 containers of SA chocolates to Bahrain. A container of fruit juice was snapped up by a Saudi buyer and battery clips worth R80 000 were sold to a Dubai customer.

Exhibitors experienced interest from Kuwaitis in security equipment and a "serious" inquiry was received from Shorjah in the UAE for 20 000 tons of SA steel.

A Cape Town jewellery manufacturer reported sales of $1 000 an hour — no mean feat in Dubai, which is possibly the world's cheapest gold retail centre.

As an indication of the show's initial success, organisers said 500 businessmen from 13 Middle East countries, including Iran and Pakistan, attended in the first three hours.

□ An Arab airline will start flying to SA for the first time in December.

Dubai civil aviation director Mohi-Din Binhendi said in an interview yesterday his department had approached SA's Civil Aviation Department on signing a memorandum of understanding to make bilateral flights possible. A formal agreement cannot be signed because of continuing Arab League sanctions against SA.

Binhendi said flights to SA by Emirates Air would probably stop off in Mauritius, Seychelles or on the African mainland.

An SA civil aviation hearing on flights to Dubai is due to be held next month and industry sources predict a similar wrangle between SAA and Flitestar to that over the Mombasa route.

In addition to wanting to fly to Dubai, Flitestar GM Reinhart Mecklenburg said Flitestar was interested in extending its service to India, Pakistan and possibly Turkey.

By next year there could be 60 000 seats available each year between SA and the Middle East, he predicted.

Exchange control strategies lapse into the past

B|DAY 7/10/92

SIMON WILLSON

REVERBERATIONS from last month's disruption of the European exchange rate mechanism (ERM) are giving financial markets a test drive in a time machine. Glimpses of the past are suddenly appearing in the guise of contemporary reality, to the point at which decades of painstaking social and financial evolution are counting for little.

Anglo-German relations have reverted to something like their cosy warmth of 1940 over allegations from the British Treasury that nods and winks from the Bundesbank prompted the run on sterling. After spending a reputed £15bn from the reserves in a vain attempt to defend the pound's ERM parity, sterling was withdrawn from the ERM on September 16 — a date now settled in forex infamy as Black Wednesday.

But besides turning back the political clock, the tumult within the ERM has also sent financial evolution into reverse. It may have set back the cause of exchange control liberalisation by several years. Just as the notion that bureaucrats could restrict people's use of their hard-earned money was being held up to increasing ridicule, a sequence of events came along that apparently justified that notion.

Several countries which had abolished exchange controls reacted to the ERM commotion by reimposing them. Bureaucratic regulation of the ability to convert currencies has not only become respectable again — it is seen by some as the guardian of more stable currency markets, and as a shield against the evils of speculation. This has implications beyond the boundaries of the ERM. In the developing world, weak-currency countries encouraged to dismantle exchange controls as an incentive to investment will have noted the ERM countries' flight back to controls in time of currency turbulence.

Out of controls
Deutschmark/sterling

Dm/£: 3.02, 2.95, 2.85, 2.75, 2.65, 2.55, 2.45, 2.35
Pound's ERM floor
J F M A M J J A S O
Graphic: RUBY-GAY MARTIN Source: I-NET

There is already a formidable roll call of exchange control restorationists in the wake of the ERM breakdown. Spain was first, as it backed up its 5% devaluation of the peseta on Black Wednesday with an emergency package of controls abolished only eight months previously. Ireland and Portugal swiftly followed suit, imposing new clamps on currency conversion and interest rate hikes as the punt and the escudo came under pressure. Ironically, the last of the EC's exchange controls came down only last year as part of the establishment of the ERM.

Two notable countries whose currencies were also under the cosh held off. France's remaining exchange controls were lifted as recently as 1990 but, thanks to fulsome Bundesbank support — which appeared to contrast strongly with the lukewarm moral and material support the German central bank offered sterling — the franc saw off the speculators.

As the first chart shows, the pound did not survive in the ERM but, despite UK government statements that "whatever measures are necessary" would be taken to maintain sterling's ERM parity, renewed exchange control was not one of them. The first Thatcher government abolished all UK exchange controls on taking office in 1979. There must be more than a few wistful UK restorationists who want to jump into the time machine with Spain, Ireland and Portugal on seeing the defenceless pound plummet almost daily to new Deutschmark lows.

What are developing countries to make of supposedly stable, homogeneous industrialised countries hastily circumscribing currency conversion rights as soon as the markets become disorderly? In particular, what might the SA authorities conclude from, first, the ERM confusion and partial resort to exchange control and, second, the recent performance of the financial rand?

Shock absorbed
Dollar/commercial, financial rand

USc: 0.38, 0.36, 0.34, 0.32, 0.30, 0.28, 0.26, 0.24, 0.22, 0.20
Commercial rand
Financial rand
J F M A M J J A S O
Graphic: RUBY-GAY MARTIN Source: I-NET

The all too plain answer is in the second chart. An immediate inference is that the finrand and its associated exchange controls have, over the past few weeks, fully absorbed heavy speculative and other pressures that would otherwise have smitten the commercial rand. Like Spain, Ireland and Portugal, SA has judged that the medium-term goal of greater currency stability justifies temporary infringements to personal currency conversion liberties.

Where SA parts company with the EC's exchange control restorationists, however, is in the timespan of restoration. The EC will probably again be free of controls in a year's time. SA will still have them, eight years after reimposition. But then, SA's problems are different. Aren't they?

LETTERS

Local disinvestment puts single currency further out of reach

GRETA STEYN

BDAY 7/10/92

IN THE heady days that followed the announcement of plans to create the new SA, the discount between the financial and commercial rands narrowed to less than 10% and a single currency seemed in the offing. As the discount surged to almost 45% this week, a unified currency again seemed a distant dream of a wishful central banker.

A dealer, when asked this week why the currency had weakened, responded facetiously: "More sellers than buyers." But he hastened to add there was a message in the identity of the sellers, in the fact that South Africans were taking money offshore while foreign investors were not keen to commit money to the country.

Is the slump in the finrand a massive vote of no confidence in the SA economy by SA business, or do the falls in the finrand only reflect a temporary blot on the horizon of new opportunities opening up for SA internationally?

The factors conspiring to send the finrand reeling include not only the SA offshore purchases, but also large speculative positions and the Reserve Bank's statement that it might from time to time support the currency.

SA companies expanding overseas are taking more than R2bn out of the country. Royal's plans to purchase tinned food company Del Monte is estimated to be worth about R1,3bn. Anglo American's purchase of a stake in Del Monte is expected to be financed offshore, which would not involve the finrand market.

First National Bank is buying UK merchant bank Henry Ansbacher, which could add another R500m-R600m. The deal will be financed through capital raised in a rights issue.

Standard Bank will be spending an undisclosed amount on buying ANZ Grindlays' African branches. The price is anybody's guess and could depend on factors such as African government attitudes and timing. Standard has been negotiating with the Zimbabwean government on the takeover amid predictions of further devaluations in the Zimbabwean dollar. To what extent it will be able to benefit from the falling Zimbabwean currency remains to be seen.

The recent purchase by Investec of Allied Trust in London is no longer exerting pressure on the finrand market, but is another example of South Africans moving money offshore. Yet another is the recent announcement by Rand Merchant Bank that it is buying a dealing operation in Australia. Bankers say there are others waiting in the wings, hoping for Reserve Bank approval.

The Bank might be somewhat hesitant in giving the go-ahead and the companies themselves might think again at the present levels of the investment currency. In FNB's case, the price might turn out much higher than initially expected. Market talk is also that the Royal/Del Monte deal has not been signed; it could be abandoned and the finrand deals for it could be unwound.

The move offshore by local interests represents sizeable negative influences on the finrand. By contrast, foreign investors in SA equity have been conspicuously absent. In general, there has been net selling of JSE shares by foreigners while non-listed equity investments in the past year run into only a few hundred million rands.

The main positive influence until now has been the speculative interest in the currency. Foreign holdings of SA gilts run into billions of rands with foreigners holding more than half of Eskom's total issued stock. The money market, because of its short-term nature, gained in popularity as political uncertainty became a factor. Throughout the period of Boipatong and Bisho, there was no sign of the speculators scrambling to get out of SA. The gilts bull run continued virtually without pause and money market rates continued to mark time.

The build-up of large speculative positions was supported by the Reserve Bank's statement that it would, from time to time, intervene to support the currency. The Bank has been at pains to point out that it did not commit itself to supporting the currency. But it seems the finer nuances of the statement were lost on the dealers. Speculators felt safe coming into SA in the "knowledge" that their capital would be protected by the Bank.

The huge SA move offshore put pressure on the currency and pushed it towards levels that could trigger speculators' stop-losses. The Reserve Bank's retreat to the sidelines while the stuffing was being knocked out of the finrand sparked fears of speculators fleeing, fuelling bearish sentiment.

There were signs that stop-losses were triggered when the currency moved below $0,24. Money market investors in the Far East cut their losses and there was some selling of gilts. A nightmare of post-Rubicon proportions no longer seemed impossible.

But the Reserve Bank made a deliberately noticeable return to the market, soothing speculators with a forceful attitude and a handful of dollars. There was to be no nightmare on Diagonal Street.

At the present lower levels, and with the Bank back in the market, there are signs of marginal investors returning. The yields are a major attraction: a discount of 40% implies an effective return of about 18% for a one-month money market investment. But these investments are short term and unstable.

Dealers, relieved that there was t be no nightmare this time round, ar worried about the way in which th SA acquisitions are being done. The believe the Bank could be more ope with the market about the flows, an could also exert some influence t smooth them.

But the Bank should take care no to waste precious foreign exchang reserves to drive down the discoun between the commercial and finan cial rands. The discount is not lan guishing at near post-Rubicon level without a reason, and the Ban would be wise not to take on th market.

The message the finrand market i giving us is that SA companies wan to move offshore while foreigner want to make easy profits but do no want to invest long term. Wh should they want to invest in SA i South Africans are themselves no investing?

Investment in the productive capacity of the SA economy has dwindled to the basic minimum needed due to normal wear and tear. The Reserve Bank commented in its Quarterly Bulletin that this had "serious implications for future economic growth". Net investment — after allowing for depreciation — has fallen to only 1% of GDP from an average of 8% in the '80s and 14,5% in the '70s. For foreigners who want to cash in on the rapidly growing developing economies, SA will not be an option until SA starts investing in itself.

The late Reserve Bank Governor Gerhard de Kock had to see his work in scrapping the finrand undone when the debt crisis hit SA in 1985. His successor Chris Stals obviously shares the desire to do away with the dual currency system. That much was obvious from his statement on the finrand market earlier this year.

One currency would restore SA's dignity and take it out of the list of "exotic" investments on offer. But as long as South Africans continue disinvesting at this rate and foreigners come in only for a quick buck, this desire will not be realised.

SPOT DESK

SA stocks and bonds slump on world markets

STAR 7/10/92.

(74)

By Neil Behrmann

LONDON — South African gold shares on foreign markets are at their lowest levels since the early 1970s, mainly because of the collapse of the financial rand.

The Financial Times index of SA gold shares has fallen 91 percent to 68,6 points from its all-time high of 735 points in 1983.

The fall in the gold price played a part, but currency losses are mainly to blame.

De Beers, South Africa's leading international share, is trading at around $9,75 — 70 percent below its end-1991 peak.

De Beers Centenary shares, already under pressure from a weak diamond market and threat of Russian gem sales, have fallen 20 percent from Friday's levels.

South African stocks and bonds quoted on world markets have slumped because they are denominated in finrands, a notoriously volatile investment currency.

Since the finrand discount has been as much as 42 percent, foreigners have been able to buy long-term Eskom stock on a yield of 24,6 percent, a return that should discount the risks of SA's political situation.

The finrand, which traded at an all-time low of 5,10 to the dollar at one stage on Monday, rallied to a close of 4,53 yesterday.

In the past year it has fallen about 35 percent. By comparison, the commercial rand's rate has hardly changed in the past few weeks.

Critical

London dealers are highly critical of the Reserve Bank's handling of the financial rand crisis, particularly since the finrand reflects international investment confidence.

When the finrand plunges, international investors perceive that the political and economic situation is deteriorating and the currency is caught in a vicious circle.

It was the mid-September devaluation of sterling rather than any worsening in political problems that precipitated the run on the finrand.

The devaluation encouraged SA banks acquiring and developing operations in London to buy cheaper pounds and sell financial rands, dealers say.

As a result the rate began weakening from 3,70 in mid-September and has since fallen by 23 percent.

Dealers say the Reserve Bank should have acted and either supported the rate or formed a separate financial rand pool for banks and other companies needing foreign currency for acquisitions.

It has been evident for months that foreign investors, concerned about the violence and in-fighting between the various black and white political parties, would be reluctant buyers.

So the finrand pool is too small to absorb large-scale foreign acquisitions by SA companies.

Now Swiss, German and other foreign holders of rand bonds are panicking and have been dumping rand bonds. The Swiss and Germans have been the main buyers of SA bonds in recent years.

Depending on the timing of their original purchases, they are estimated to have lost more than a third of their capital as a result of the finrand slump. Their investment confidence has been shattered.

Patrick Quarmby, a managing director at Standard Bank, London, says: "It is ironic that the financial rand has collapsed because South African companies are now acceptable in the international community."

Investors steer clear of weak market

MERVYN HARRIS

(74)

DIAGONAL Street remained weak in thin trading yesterday as apprehensive investors kept to the sidelines amid renewed volatility on international bourses after Monday's downturn. B/DAY 7/10/92

The finrand reversed direction from its weak trend to firm to R4,53 to the dollar from the previous R4,84. Currency traders attributed the rise to short covering and demand for the unit at the lower levels after sharp recent falls.

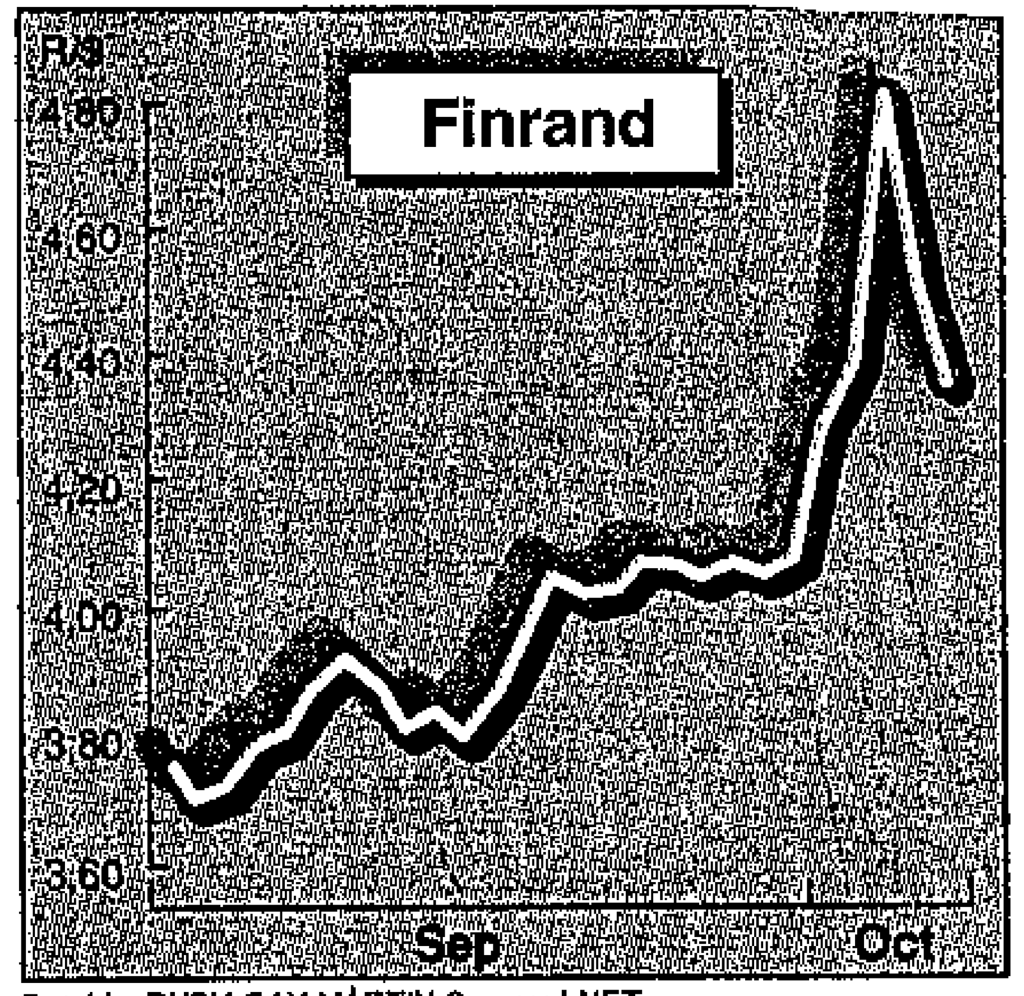
Wall Street again recovered from a sharply weaker opening after salvaging 80% of its losses on Monday. The rebound spurred rallies in Tokyo and London but other European bourses were mixed with a softer bias.

The downward drift of shares prices on the JSE lowered the overall index 11 points to 3 103 but short covering in the US enabled De Beers to defy the softer trend and close 40c up at R48,25.

Institutional nibbling of selected shares on their way down boosted activity in the afternoon after a slow and hesitant start to trading. "People are still nervous and reluctant to take positions," a trader noted.

Dealers reported more domestic and offshore interest in gold shares but a firmer finrand undermined early gains.

The all gold index ended with a loss of seven points to 895 and the industrial index slipped 15 points to 4 088.



Graphic: RUBY-GAY MARTIN Source: I-NET

Finrand recovers on local demand

HILARY GUSH (74)

THE financial rand staged a strong recovery yesterday on the back of local investor demand. Bdday 8/10/92

The foreign investment unit ended 16c firmer, at R4,37 against the dollar from Tuesday's R4,53 close, after a R4,35 high.

The stronger finrand had a depressing effect on the JSE as share prices continued to ease.

Dealers said trade had been very thin and nervous investors had slowly returned to the market to buy the unit. Sellers had moved to the sidelines as forex purchases at the prevailing rates were "exorbitant".

One trader said local banks which had already committed themselves to payment for foreign acquisitions had chosen to fund the ventures through offshore borrowing, rather than through the finrand.

Players said the short-term outlook for the currency was bullish, and expected a gradual recovery while cautioning the unit's upside potential was limited.

"None of the big deals will be executed at these levels, but towards the more favourable R4,17 rate we ought to see sellers come into the market as deals are struck."

The firmer finrand caused a slight narrowing of the investment currency's discount to the commercial rand to 37,5% from Monday's 41,4%.

The commercial rand ended slightly weaker at R2,8308 against the dollar yesterday, from Tuesday's R2,8278 close.

Dealers said mild demand from importers in early morning trade had edged the dollar slightly down to R2,8338.

SA pavilion at Universal Expo draws 2 million

Pretoria Bureau

South Africa's first time participation in the Universal Exposition '92 in Seville, Spain, was a huge success — drawing 2 million visitors since opening on April 20.

The South African pavilion at the Expo, a unique international communication platform for representatives of 113 countries, was a "visible, concrete symbol of South Africa's return as a full participant in the activities of the international community", according to the new director-general of the Department of Foreign Affairs Rusty Evans.

The Expo ends on Sunday.

Public interest in the South African pavilion increased dramatically from an initial 10 000 visitors on weekdays to an average of between 20 000 and 23 000 a day.

Weekend attendances of up to 50 000 visitors have been recorded.

By October 3, there had been 38 million visits to Expo by 15 million people.

Financial rand strengthens

STAR 8/10/92 (74)

The financial rand yesterday continued its recovery from this week's six-year low of 4,80 to the US dollar.

After gaining 25c on Tuesday the investment currency added a further 16c yesterday to a close of 4,37.

While the commercial rand fell slightly from 2,828 to 2,831 the discount between the two currencies narrowed from Monday's 41 percent to just over 37 percent yesterday. — Finance Staff.

La dolce vita beckons the rand

By Derek Tommey (74)

Star 8/10/92

Italy looks like being a favourite holiday spot for South Africans next year.

The currency turmoil in Europe in the past six weeks has resulted in the rand showing a 20 percent appreciation against the lira.

The other side of the coin is that the rand has dropped by 5,7 percent against the Japanese yen — which could further blight sales prospects for Japanese cars.

In between these movements, the rand has risen 11,9 percent against the British pound and fallen by modest amounts against the Danish, Austrian, French and US currencies.

Local exporters of dollar-priced commodities will receive a slight fillip from the rand's 2,6 percent drop against the US currency.

Exporters to Britain of fruit and other commodities will suffer a little from the rand's appreciation against the pound. But the pain should be slight because the pound has only dropped back to where it was earlier this year.

Economists contend that the different purchasing powers of currencies have little impact on their exchange rates.

An analysis of a table of currency purchasing power rates appears to confirm this.

But there are exceptions. For example, the pound's recent devaluation closely matched the amount by which it was over-priced against the German mark.

A currency purchasing power table, based on work done by the Union Bank of Switzerland and published in these columns six weeks ago, showed that the pound then was over-priced by about 12 percent against the mark.

Now, as a result of currency adjustments, it is about 3 percent cheaper than the mark. This means that further falls in the pound against the mark are probably unlikely at this stage.

The purchasing power figures show that the yen is strongly over-priced against the dollar and the German mark. Other currencies which also appear to be highly priced are the Norwegian and Swedish krone and Swiss franc.

Currencies still relatively under-priced (though not as much as the rand) are the Canadian and Australian dollars and the Italian lira as a result of its huge devaluation.

However, the most under-valued major currency remains the rand.

On a comparative purchasing power basis, it is undervalued by 25 to 60 percent against other major currencies.

● Some people believe the British press and opposition politicians are making an unjustified fuss about Britain's withdrawal from the European Exchange Rate Mechanism (ERM).

Britain was attempting to rush into the European Economic and Monetary Union (EMU) with a vastly over-valued pound, they say.

This was clearly a calculated gamble promising to bring tremendous benefits.

It would have meant, for example, that Britain would have been 12 percent richer than it deserved to be.

But once it was clear that the Danish No vote would delay the arrival of EMU, it became evident that the gamble would not succeed and resulted in the pound being dumped.

Gold, forex reserves dive

Gold and forex reserves

Graphic: RUBY-GAY MARTIN Source: SA RESERVE BANK

HILARY GUSH

PAYMENT for maize imports and end-quarter forex payments pushed gold and foreign exchange reserves almost R800m lower in September to R10,77bn from August's R11,55bn.

Reserve Bank figures released yesterday showed the sharp decline was due to a fall of over R1bn in the foreign exchange component of reserves rather than in gold.

Forex holdings fell to R4,87bn from R5,89bn, while gold holdings held steady at 6,7-million ounces. A higher gold valuation at R881/oz from August's R838 helped lift the value of gold holdings to R5,91bn from R5,66bn.

Nedcor Bank chief economist Edward

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Reserves

☐ From Page 1

Osborn said the drop in forex reserves indicated substantial payments for agricultural imports were made in September.

"The total payment for maize imports is in excess of R2bn, and I believe some of this has been bulked into one massive payment made last month," Osborn said.

He expected reserves to fall further over the next few months as payments for wheat and maize imports continued to drain Reserve Bank forex holdings.

Afrikaanse Handelsinstituut chief economist Nick Barnardt said a decline in reserves was typical at the end of a quarter as forex holdings flowed from the Reserve Bank to the banking system with a peak in forex activity.

Barnardt said the best basis of comparison was a "this month on three months ago" one, as it smoothed out seasonal factors. With June reserves of R10,2bn total reserves had risen R500m in the quarter.

"Although I regard the decline at the end of a quarter as normal, a fall of R800m is a bit higher than was expected at the end of September. This could indicate an outflow of short-term capital arising from the negative political climate," he said.

Other economists speculated Reserve Bank intervention in currency markets helped lower September's reserves. Osborn argued against this, saying the Bank would not waste valuable reserves on propping up the rand.

Promoting trade links

AN AMBITIOUS plan to bring 2 000 African businessmen to SA next year to forge trade links with their SA counterparts was launched yesterday. (74)

Africa Initiative board of trustees chairman Prof Roy Marcus said at a fundraising function at Nasrec last night it would bring together key decision-makers "who influence and finance business in Africa".

Africa Initiative administrator Jo Melville said the R1m needed to get the project going would be raised through corporate sponsorship by SA companies.

BDay 9/10/92.

Drought depletes reserves

STAR 9/10/92

By Sven Lünsche

South Africa's gold and foreign exchange reserves felt the first major impact in September of the severe drought, falling by seven percent from a record R11,55 billion in August to R10,77 billion.

The foreign exchange content of the reserves dropped by R1,02 billion to R4,87 billion as payments for imported agricultural goods, affected by the drought, mounted.

Total payments for maize imports are expected to be more than R2 billion this year. While a major part of this was paid in September, additional payments could exert further pressure on the reserves in the next few months.

Adding to the import bill are payments for wheat, which will have to be brought in for the first time in October.

Dividends

Economists say the foreign exchange reserves were further depleted by the dividend and interest payments to foreign investors in September, the last month of the quarter.

The decline in the foreign exchange content was in part offset by a R250 million rise in the gold reserves to R5,91 billion (R5,66 billion).

The volume of gold holdings fell from 6,47 million ounces in August to 6,7 million last month, but the rand gold price received rose from R838,69 an ounce to R881,14.

Bank 'unable to prop up finrand'

TIM MARSLAND

THE Reserve Bank would try to spread local finrand transactions over a longer period, but it did not have the reserves to sustain support for the unit, Reserve Bank Governor Chris Stals said at the weekend.

"There will be no change in Bank policy, but we regret what happened to the financial rand over the past few weeks," he said in an interview. "We have learnt from the experience."

The Bank would attempt to slow the pace of finrand purchases by local companies for offshore acquisitions, he said.

The finrand plummeted to its largest discount to the commercial rand and its lowest level against the dollar in six years early last week. Market sources attributed the unit's decline to speculation that deals involving offshore acquisitions by local banks, such as FNB and Standard Bank, were about to be concluded, requiring large forex purchases through the finrand at a time of waning overseas confidence in the SA economy.

The unit lost 31% against the dollar from its September high of R3,70.

Friday's close of R4,32 means the unit is still 16,8% lower than the September high.

Stals was reacting to a report from London stockbrokers James Capel, entitled SA Bonds — Robbing Peter to Pay Paul, written by analyst Jon Bergtheil.

Bergtheil said: "The Reserve Bank should have a serious rethink about the pace of its approvals for such schemes (offshore purchases) because the foreign bond investor may soon become very tired of the game and make a permanent exit instead of simply stepping out of the market until value appears."

Bergtheil said SA acquisitions abroad were the reason for the latest weakness in the finrand.

"Unfortunately, each time that such transactions take place, the SA companies have to acquire their dollars or Deutschmarks via the financial rand mechanism, thereby expanding the size of the "pool" of financial rands, which is detrimental to the price.

"All this is rather galling for the foreign

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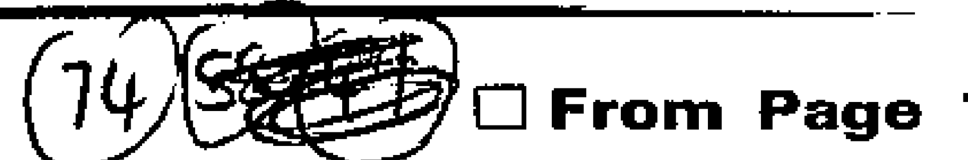
Finrand



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investor who has been faithfully investing in the country only to find that the improved trade climate (assisted by such investment-friendly foreigners) is resulting in money moving offshore and weakening the financial rand and the value of the bond investment."

Stals said that while he agreed with James Capel, there was little the Bank could do to support the finrand.

"We will perhaps try to spread finrand transactions out over a larger period. There is not much we can do, but we will be careful in future.

"The fall in the finrand reflects the frustrations we have with these exchange rate controls." He ruled out scrapping the finrand until underlying problems, such as political turmoil, were solved. However, "we want to get rid of the unit when able".

Stals believed a major reason for the fall in the finrand over the past few weeks was uncertainty regarding currencies on the global market.

He understood local companies' enthusiasm to purchase offshore, which secured them offshore trade finance. Local banks had been denied this opportunity for years, so were keen to take chances offered to them. While offshore acquisitions by local companies and political factors contributed to the finrand's fall, he doubted it was the major reason.

"One should not underestimate the effect turmoil on foreign currency markets has had," he said.

One of the unit's problems was that foreigners had R6bn in finrands on deposit at SA banks. This was not invested, and some players held the unit for speculative purposes. He believed confidence in the finrand would return, but it would take time.

Stals said SA bonds still offered attractive yields to foreigners. A bond with a 14% fixed interest rate would yield about 25% to a foreigner, due to the discount between the finrand and the commercial rand.

Foreigners are paid interest on SA bonds in commercial rands, while the unit is purchased through the financial rand.

However, he agreed the capital loss incurred when the finrand weakened could outweigh the yield advantages.

Bergtheil said: "Until we see evidence of the Reserve Bank slowing down the pace of approval for offshore investments, we will be advising clients to wait until offered real yields of 8% on the current CPI of 14,3%."

He said SA bonds were offering better value than in August. The Eskom 168 bond offered a real yield of 3,5% during August but presently offered about 7%.

☐ James Capel SA trading desk head Andy McDougall has complained that the report on October 8 misrepresented his views. However, Business Day is satisfied the report correctly reflected McDougall's comments in a telephone interview, and stands by the report.

ANC fearful of capital flight

JSE volumes low 'until the finrand goes'

BIDAY 12/10/92. (74)

SHARON WOOD

LIQUIDITY on the JSE would remain low until exchange controls could be lifted, stock exchange president Roy Andersen said at the weekend.

He said exchange control — the dual currency system of the financial and commercial rands — was one of the greatest impediments to increasing the low levels of liquidity on the JSE.

Speaking at the SA Financial Instruments Association's annual financial markets conference in Sun City, Andersen said research had indicated that JSE market users believed the exchange's low volumes were a major drawback.

Anderson said: "Exchange control is a problem for the JSE, but we realise that macroeconomic and political considerations are such that it cannot be lifted until an interim government is in place."

Andersen said there was "a concentration of power" on the JSE, while foreign investment in the stock market was deterred because of the two-tier currency system. "The JSE is not user-friendly because of exchange control," he said.

Genbel MD Anton Botha told the conference the dual currency was the single biggest obstacle to SA economic growth because it made the country uncompetitive internationally.

ANC representative Maria Ramos said the government could not lift exchange controls in the interim for fear of triggering a flight of capital from the country.

"Lifting exchange controls at this stage would have signifiant negative effects. It is not that we won't consider it but we need to minimise its effects," she said. SA's balance of payments position was not strong enough to withstand a marked depreciation of the rand.

Andersen said the JSE had conducted research into the possible new form the exchange would take. There were three pillars to a possible "big bang", based on whether commissions should be fixed or negotiable, whether brokers should act as principals, agents or both, and whether there should be individual or corporate membership of the exchange.

Research by the JSE showed most market users would prefer negotiated brokerage for larger deals, brokers acting in a single capacity as agents and a floor as opposed to screen trading system.

There would be a full JSE committee meeting in mid-November and he expected the JSE to go public with its decision in early 1993. "Deregulation is possible but not compulsory," he added.

Ramos said while the JSE had an important role to play, it would have to change its image from being a "private club of wealthy members".

Small businesses did not have ready access to credit and finance and the exchange could play an important role in overcoming that problem. The JSE "must play a positive role in the development process".

She said large institutions had a responsibility to invest part of their portfolios in social projects. If they did not do it themselves, the ANC might have to pass legislation making it compulsory.

Diplomatic coup for SA in Riyadh

PETER DELMAR

BAHRAIN — Foreign Minister Pik Botha will visit Saudi Arabia next month in SA's biggest diplomatic breakthrough in the Middle East.

The visit is expected to pave the way for the establishment of an SA representative office in the capital, Riyadh.

News of Botha's visit comes after the successful SA trade exhibition in Dubai, United Arab Emirates (UAE).

Deputy Trade and Industry Minister David Graaff — who opened the exhibition last week — said SA also planned to open representative offices in Bahrain and Dubai, the two leading distribution centres in the Gulf. B/Day 12/10/92

It is believed Foreign Affairs is keen on establishing a Saudi office first because it is the region's most politically influential state and biggest market.

Because of Arab League sanctions, likely to be dropped only once an interim government is installed in SA, an official diplomatic presence in the Arab states is not being considered yet.

Virtually all exhibitors at the Dubai trade fair expressed their satisfaction with the four-day show which ended on Friday. In one breakthrough, Cape Town-based Protackle clinched a deal to supply inflatable boats for coastal patrol duties.

☐ Meanwhile, Arab carrier Gulf Air has confirmed it will start flights to Johannesburg in December. The flights will be direct from the UAE capital of Abu Dhabi.

THE WEEK AHEAD

by Simon Willson

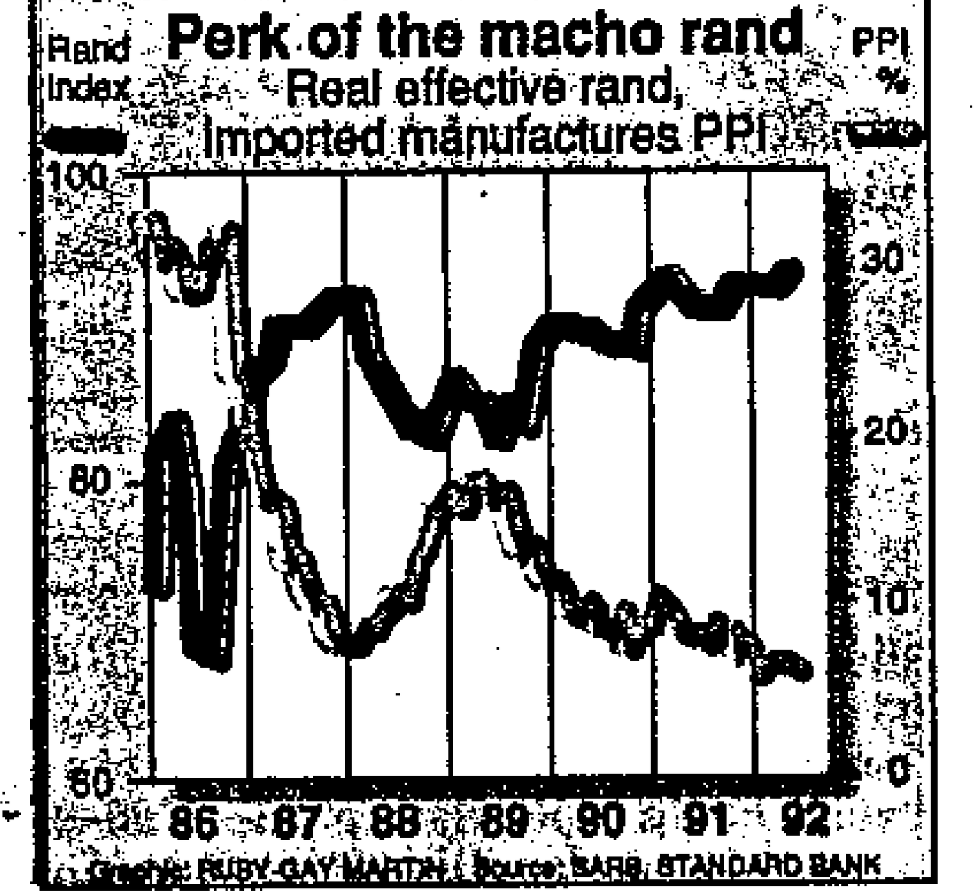
Advantage of a strong rand becomes clear

BENEFITS from the authorities' strong rand policy are never as visible as the drawbacks of a weak rand, but one of the advantages of a steady currency should become apparent this week when the producer inflation rate for August is published.

The behaviour of the producer price index (PPI) is a good indicator of what effect the exchange rate is having on the economy and, in particular, on prices. This is because a fifth of the weighting of the sample items measured in the PPI basket is devoted exclusively to imported goods — that is, goods bought with foreign currency which, in turn, had to be bought with rands.

Depicting the rand as a strong currency two days after yet another increase in the petrol price, blamed in part on the weakness of the rand, may seem a mite perverse. But the rand is strong when expressed not against a single currency such as the US dollar, but against all of the currencies SA has to buy to pay for imports. Thus the rand's weakness against the dollar, cited as a cause of the petrol price rise as crude oil prices are quoted in dollars, is often neutralised by offsetting strength against, currently, sterling and the lira.

The effective rand — the rand measured against a basket of trading partners' currencies — is falling by less than the inflation differential between SA and its major trading partners. This is the source of most of the pressure on the Reserve Bank to devalue the rand to stimulate an economic recovery: the rand is not falling rapidly enough to cover the increase in domestic costs facing SA exporters.



If the effective rand is not falling by enough to compensate for the rise in domestic costs then the real effective rand — the rand adjusted for SA's inflation differential with major trading partners — is rising. The chart shows the steady rise in the real effective rand since mid-1989; here is the strong rand that is so unpopular in certain sectors of commerce and industry. But the chart also shows part of the positive spin-off from the strong rand: the steady and inversely correlated slowdown — over exactly the same period — in the rate of price rises of imported manufactures.

This is no coincidence. It is what makes Reserve Bank officials stop up their ears and sit patiently through the swelling chorus of recent calls to devalue the rand. It is what made the UK government hurl £15bn of hard-won reserves into the currency market three weeks ago to try to avoid a sterling devaluation.

Price increases in the headline imported component of the PPI were mainly responsible for producer inflation edging up to 9,3% in July from June's 9,2%. But this headline rise in imported producer inflation to 7,5% in July from 5,9% in June covers the volatile prices of foreign raw materials, and masks a more subdued contribution from manufactured foreign inputs. These are the goods whose prices reflect most closely the relative inflation rates of exporter and importer, and whose price rises are most curbed by the strong rand.

Twelve months ago, the price rises in imported manufactures were galloping along at 8,8%. In July, the rise was less than 7%; in June it was barely 6%. These are the low-profile perks that come as part of the strong rand package. But their contribution to lowering the consumer inflation rate is no smaller for being time-lagged relative to shelf prices and overtly detectable only by obscure charts. The Reserve Bank, for one, is taking a lot of flak in defending and preserving favourable, exchange rate-related inflation signals such as these.

Internationally, Britain will this week be able to look at a few more lingering statistical benefits of its own strong exchange rate policy. Keeping the pound in the European exchange rate mechanism (ERM) for two years imposed the same disinflationary disciplines on the UK economy as those causing such indignation in parts of SA industry. Although sterling is now floating, the benefits of its ERM stint will show through in figures for a good few months yet.

Tomorrow the UK's producer inflation rate for September is released and is set to fall again from August's 3,3%, which was the lowest rate since 1968. Lower raw material and wage costs have enabled producers to skip traditional price increases, and the negligible 0,1% August increase in the UK's output PPI is set to be repeated for September, bringing the annual increase down to 3% or lower.

On Wednesday it is the turn of US producer inflation to go on display as the figure for September emerges. Even though the US imports-to-GDP ratio is only about a third of the European average, extended dollar weakness may already be propping up US producer inflation. The annual rise in the US September PPI may stay at August's restrained 1,5%, but the rate was below 1% throughout the eight months to May this year.

The costs to the UK real economy of its relative financial rectitude will be on show on Wednesday, when British industrial production and manufacturing output for September both look primed to give negative monthly readouts. On Thursday the bleak practicalities of UK disinflation are likely to be reinforced by another rise in the number of unemployed in September. The rate was already at 9,9% in August and may, therefore, hit double digits this week.

But reassurance about longer-term British economic prospects should also emerge on the same day when UK average earnings for August are released. At 6% in the year to July, UK wage growth is at a 25-year low which, in view of falling consumer inflation and the tough labour market, bodes well for the competitiveness of British exports already poised to benefit from sterling's effective devlauation of around 10% since leaving the ERM.

On Thursday the US September consumer inflation rate is due and, following the 3,1% rate in August, should continue the pattern already estblished this year of straddling the 3% level.

GATT: hard political decisions are needed

BDAY 13/10/92.

(74)

GENEVA — Six years ago in the Uruguayan resort of Punta del Este, ministers from nearly 100 countries agreed to launch a most ambitious effort to liberalise world trade.

When they convened, market economies were booming in Europe, North America and Japan and new players were emerging in Asia.

Now economists say a new GATT could provide the boost needed to end a prolonged global recession.

US and EC trade negotiators met in Brussels on Sunday and yesterday to resolve bitter differences over farm subsidies blocking a GATT deal.

The Paris-based OECD says a GATT accord would pump almost $200bn a year into the world economy as freer trade stimulates production to meet mounting demand from a richer world. But hard political decisions must be made by key leaders in the face of fierce opposition from EC and US farm lobbies.

The September 1986 Punta del Este declaration setting in motion the Uruguay round of talks included sectors such as farm produce, service industries and the trading of intellectual property.

This was largely a trade-off providing developing countries seeking wider and more stable markets for their agricultural produce with the incentive to open up to services mainly based in the developed states.

In December 1988, trade ministers meeting in Montreal set an average target of 30% for tariff reductions. Difficulties on agriculture already loomed as a potential barrier to accord. The EC, with a broad range of farm support, firmly resisted a US proposal to end all state agriculture subsidies within 10 years of the round's conclusion. A year later, what was to have been a triumphant finale to the round ended in near disaster as EC and US ministers found themselves still far apart on farm support.

GATT director-general Arthur Dunkel put the talks back on track, cutting the original 15 negotiating groups to seven. G-7 leaders at a summit in London in July pledged support for an agreement by year-end. But by December 1991 draft texts were not written.

Dunkel's version of a final deal, including proposals for compromise on agriculture, was accepted unenthusiastically by Washington and rejected by the EC.

Further months of fruitless bilateral talks followed, and again a G-7 summit called for agreement by the end of 1992. But political pressures on key governments were mounting fast. — Sapa-Reuter.

Barlan P1

'Pioneer' traders woo Arabs

PETER DELMAR

MOST of the 250 South Africans taking part in last week's SA exhibition in Dubai considered themselves pioneers in a strange and at least formerly hostile land.

For decades the region had been officially and firmly closed to SA. A Dubai promotional brochure given to the media still warned that visitors with Israeli and SA passport stamps were unwelcome. But by the time the exhibition, SA and the Gulf: A New Link, closed on Friday, the mood among participants was euphoric.

Benefiting enormously from the South Africans' novelty appeal, the show attracted 4 500 businessmen from 27 countries. They came from as far afield as Russia, Senegal and Japan (although organisers said the Japanese were there to check out the new opposition, not to buy). So many Saudi Arabians wanted to attend that they could not all get flights. Iranians and Kuwaitis flooded the exhibition.

The venue for the show was well chosen. Dubai — a bustling, fascinating *arriviste* on the world trade scene — is the undeniable trade centre of the Gulf. It is home to only 600 000 people, but last year its imports were worth more than R30bn and its non-oil exports and re-exports R8bn. It claims to distribute to a market of 1-billion people. Each year more than 5-million passengers pass through the Dubai international airport.

Exhibitors were repeatedly cautioned beforehand by Safto officials not to expect to sign deals at the show, and that doing business in the Arab world was a long-term process which required a lot of spadework.

But many went ahead and did business anyway. At night, after the show closed, it was not uncommon to see, in hotel lobbies, South Africans and Arabs in their traditional "dish-dash" robes poring over price lists and even contracts.

By the time the show ended more than half had sold their exhibition material and all were surprised with the quality of serious inquiries. The fact that so many tied up firm distribution arrangements and orders underlined the potential of the Middle East for SA exporters.

The show scored a number of firsts. It was the first SA-only trade show outside of Africa. It was the first time South Africans had exhibited their wares openly in the Middle East, and the Flitestar flight bringing many of them to Bahrain was the first air link.

The show's success had as much to do with curiosity about SA as it did with the quality of products. Safto CE Len van Zyl said his "biggest thrill" was being told that the SA products were of a surprisingly good quality and Safto international GM David Graham said he believed prices were generally "in the right ball park".

Despite being a latecomer to this hugely lucrative market, SA exhibitors found they could compete. Many show visitors remarked on how technology home-grown in the isolation years had impressed them.

Another vital factor in the show's success was the co-operation between the private sector, Safto and the departments of Foreign Affairs and Trade and Industry.

International exhibitions of this nature do not come cheap. It is believed the exhibition cost about R2,5m. The money came from the participants themselves, four major sponsors as well as a healthy contribution from Foreign Affairs and Trade and Industry. Few, if any, of the participants would dispute that it was money well spent.

Describing the show as "a victory for the whole of SA", Foreign Affairs Middle East head John Sunde said it was the first time that his department, Trade and Industry and Safto had co-operated in such a venture. "We recognised the region as a priority market and Dubai as a priority centre and for this reason decided to put more money into the show," he said.

As SA emerges from isolation, similar ventures will have to be undertaken in all the major markets of the world. And there will have to be repeated follow-up exhibitions and visits, particularly in the Middle East where the market requires continual wooing.

The governments of many other countries sponsor such trade shows 100%, and if the SA authorities are serious about export-led growth they will have to find much more money for external trade promotion. So, too, will the private sector.

The Etisalat telecommunications tower in central Dubai.

BDay 13/10/92

LETTERS

BIDAY 13/10/92

NEWS IN BRIEF

Croatia forms SA link

SA and Croatia hope to establish bilateral trade and diplomatic relations soon. (74)

This was announced yesterday by deputy director responsible for central Europe in the Department of Foreign Affairs Kevin Brennan at the launching in Johannesburg of the Croatian Association of SA.

Rand poised to slide further against dollar

BDM 14/10/92 (74)

HILARY GUSH

FURTHER weakening of the commercial rand against the dollar — to a rate of R2,95 — could be expected before year-end, while a slump to R3,00 against the dollar could not be ruled out, dealers said yesterday.

They said recent dollar strength had seen the rand fall 5c against the US currency since the beginning of the month. On September 30 the rand was at R2,8113 — yesterday it finished at R2,8693.

Traders said current rand weakness was purely on the back of a stronger dollar, but within the trade-weighted basket the rand was "still strong".

Yesterday the local currency closed at R4,91 against sterling from highs of around R5,45 before the pound left the ERM.

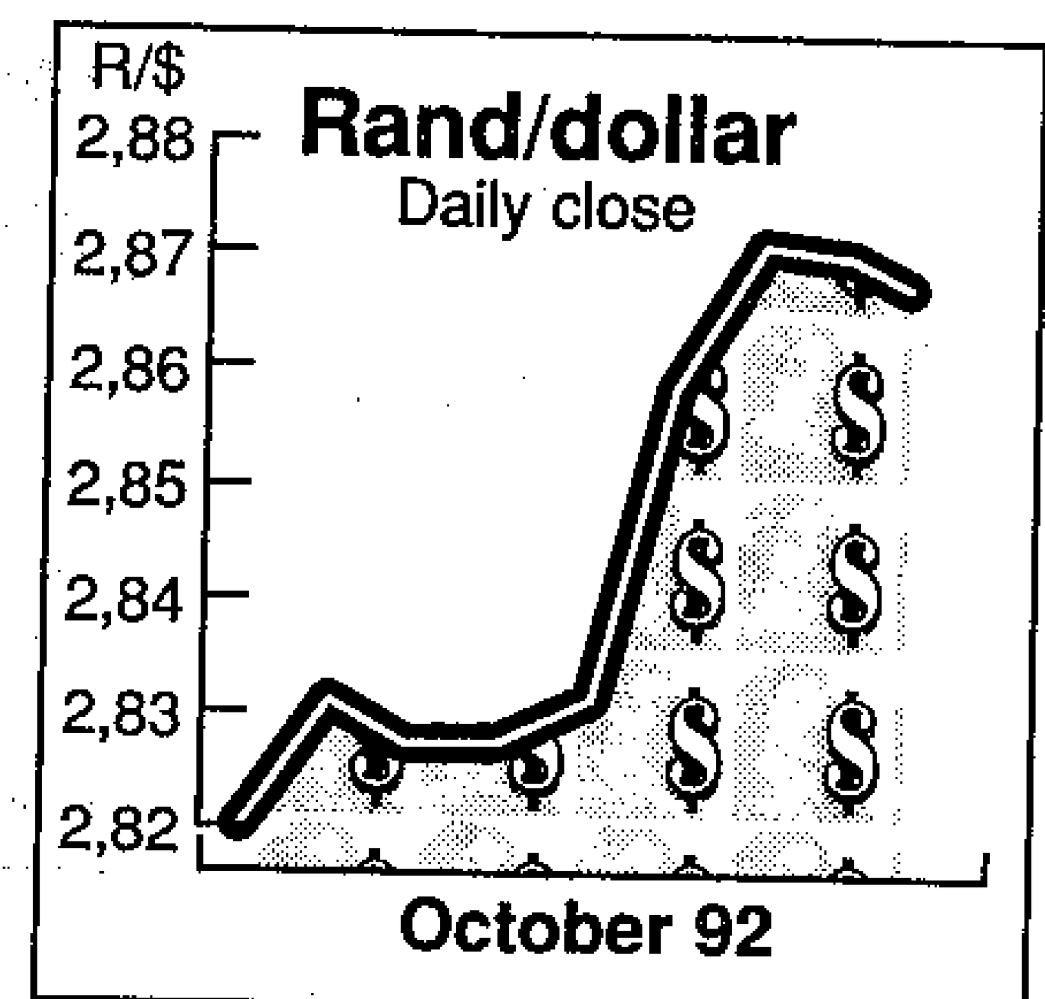
US government spending after the November elections should fuel further dollar strength, and hence further rand weakness.

A dealer said: "If the US economic recovery is strong, a rate of R3,50 against the dollar cannot be ruled out next year."

However, Absa international economist Charles Jonker predicted the rand would fall to around R2,90 against the dollar by year-end. A German interest rate cut of 0,25 percentage points on the base rate and 0,5 points on the Lombard rate could be expected in November.

"This would push the dollar up to around DM1,49/1,50, which would mean a rand rate of R2,90 against the dollar," he said.

Jonker predicted the rand would trade at R3,15 by December 1993.



Graphic: LEE EMERTON Source: I-NET

Gold dashes rising hopes of investors

By Derek Tommey

The gold price has been teasing investors again.

For most of the past four weeks it has been raising hopes that the bear market in the metal had ended by trading at above $345 and even reaching $351 at one stage.

But these hopes have been severely dashed.

The gold price has dropped $7 since the weekend and was trading at $343,55 in London last night from $346,50 on Monday.

In New York selling on the Commodity Exchange pushed the price down $1,20 to $344. In Hong Kong this morning the metal opened at $345,10.

There are no obvious reasons for this latest retreat.

It has been suggested that it could reflect forward sales by producers eager even to get the limited benefit of a $350 price.

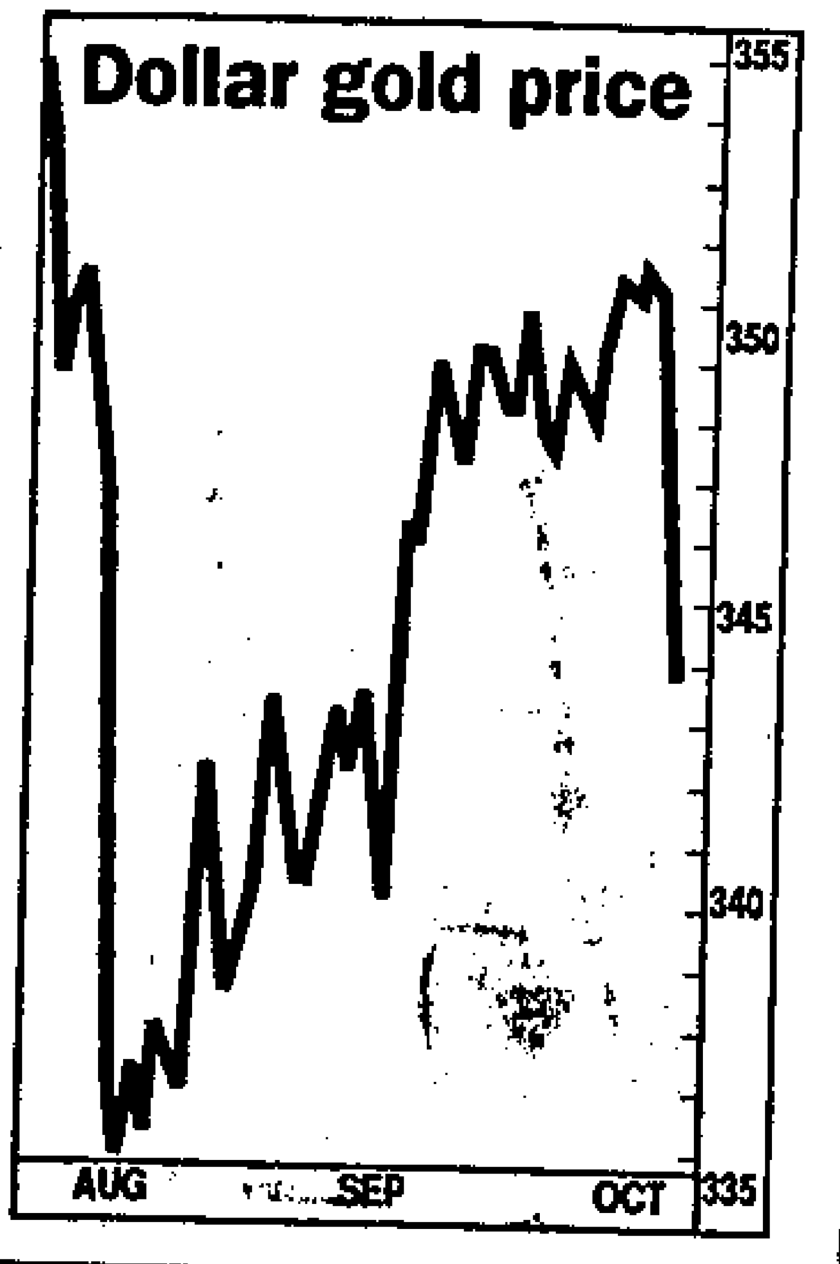
But it is possible the lower price may be related to the firmer dollar, which has appreciated against most other currencies in the past day or two. One result has been to weaken the rand against the dollar.

It closed last night at 2,868 to the dollar — its lowest rate since early May.

However, the weakness of the rand helped cushion the effect of the lower gold price on the mining industry as it resulted in the rand gold price increasing to R985 an ounce last night.

While this price is not particularly bountiful, it is better than the mining industry has been receiving.

This helps explain why the JSE gold share index recovered yesterday from its earlier fall to close only 11 points down on the day at 806.



Star 14/10/92

'£300m to bypass finrand hurdle'

Foreign loan to fund Del Monte deal

B/DAY 15/10/92. (74)

MARCIA KLEIN and GRETA STEYN

FEARS of a crumbling financial rand exchange rate had prompted Royal to finance a major portion of its Del Monte Europe acquisition with a huge foreign loan — speculated to be £300m, sources said yesterday.

They said the terms of Royal's offshore acquisition of Del Monte — through Royal Foods (Royfood) and possibly in conjunction with Anglo American and Minorco — had been restructured as the Reserve Bank had indicated the entire deal could not go through the finrand.

Reserve Bank senior Deputy Governor Pierre Groenewald confirmed the Bank was considering Royal's request to allow it to finance part of the deal with a foreign loan. He said a decision would be reached in the next few days.

It was believed that Royal wanted to finance R1,3bn of the deal through the finrand, but it would now make use of offshore borrowings.

There was speculation earlier this week that the Reserve Bank would prevent Royal from using the finrand as it would result in a collapse of the market.

A market source said Royal had at the start of negotiations arranged a £300m credit line in London as bridging finance and had originally intended to repay £185m via the financial rand. It had now arranged to defer repayment of the loan for two years.

Groenewald confirmed large amounts were involved but could not provide details.

He denied market talk that the Bank had exerted pressure on Royal to structure the deal differently, saying the finrand transaction had been approved in principle and the company had approached the Bank after the currency had weakened sharply.

There was concern yesterday that any sign that the finrand would weaken on such a huge call would see speculators and jobbers sell short. This would mean the Del Monte deal would cost more than Royal thought.

The finrand reached a six-year low of R5,12 in intra-day trade at the beginning of the month as SA companies expanding overseas put selling pressure on the unit. It has bounced back sharply and closed yesterday at R4,39 after trading in a tight range of R4,44-R4,35. Dealers said there had been little sign of Reserve Bank intervention to strengthen the unit over the past few weeks.

There was speculation that Royal had started buying back finrands because it had decided to restructure the deal.

Bankers said the weak finrand had caused companies planning to follow overseas acquisitions to rethink. Reserve Bank Governor Chris Stals was this week quoted as saying the Bank would try to spread finrand transactions over a longer period and that the Bank had "learnt from the experience".

It has been speculated that the acquisition of Del Monte Europe, which has been estimated at between R1bn and R3bn, would see Anglo acquire control of Royfood and Del Monte.

Analysts said yesterday it was possible that Royal chairman Vivian Imerman,

☐ To Page 2

Del Monte

B/DAY 15/10/92 (74)

☐ From Page 1

who would have a significant stake of the Royal/Del Monte group, could be bought out following conclusion of the deal. Imerman could not be contacted for comment yesterday as he was abroad.

Yesterday Royfood's share dropped 20c or 2,3% to 830c on expectations that the finrand problems may cause a delay in the deal, or cause Royal to pay more for Del Monte than originally anticipated.

But a source said it was expected that the acquisition would go ahead in a different form, with Royal finding another way around the finrand problem.

He said the deal was massive and complicated, and was "still at the touch and go stage".

However, an announcement was expected as soon as this weekend.

Businessmen to Rome

INDUSTRIALISTS from SA and Italy are to attend a workshop in Rome today hosted by the Italian state bank Mediocredito.

The 27 SA businessmen from, among others, Rupert International, Stocks and Stocks, LTA, Malbak, Sasol, the Gazankulu Development Corporation, Standard Bank and Wesgro will meet Italian industrialists, including representatives from FIAT, Iritecna, Falck and FATA.

Safto seeking ties with development body

SHARON WOOD

SAFTO intends to start a major campaign to interact with the Africa Project Development Facility, beginning with a visit to its head office in the Ivory Coast in late November.

Safto Africa division head Paul Runge said yesterday he was very impressed with the progress made by the organisation, which was jointly sponsored by the African Development Bank, the International Finance Corporation and the UN Development Fund.

BDAY 16/10/92

The organisation was set up in 1986 and its aim was to move away from being involved in larger, cumbersome commercial projects towards identifying and addressing the needs of smaller commercial ventures of between R5m and R10m, Runge said. It provided advisory services to private African entrepreneurs in preparing for viable projects.

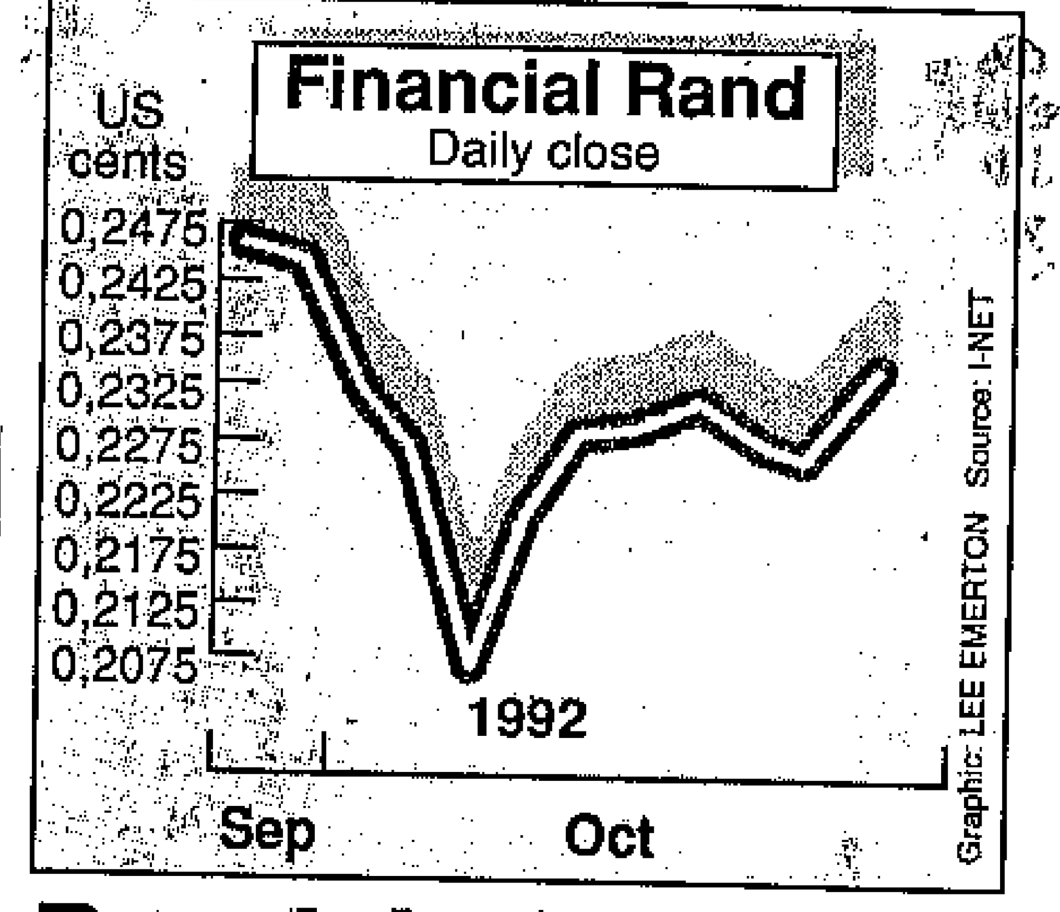
While the organisation does not provide project financing, it works with entrepreneurs to secure financing from banks and appropriate sources of capital. It also helps them to obtain technical and managerial assistance to start up projects.

SA companies had already been involved with projects identified by the organisation and some of the banks were involved in talks aimed at setting up co-financing arrangements, he said.

Runge said Safto would also promote trade between the two countries during the visit. "There is a lot of business there and it is a major link to the region," he said.

A spokesman for a company involved with the Development Facility said the organisation was approaching SA companies to conduct feasibility studies on projects in the neighbouring countries.

The organisation's southern Africa regional manager Omari Issa said Cape-based Engineering Management Services had been commissioned to conduct a market study for a manufacturing facility in one of the Southern African Development Community countries. He could not reveal further details.



Royal deal triggers surge by finrand

GRETA STEYN and MARCIA KLEIN

THE financial rand surged by 3% yesterday to close at R4,2800 to the dollar on the report that Royal was expected to abandon the huge finrand sell-off to finance its purchase of Del Monte Europe.

Dealers said the market was initially hesitant to correct as much as was warranted by the deal's restructuring, but when buying started out of London the bullishness gained momentum. The unit reached a high of R4,2450 before profit-taking caused the bulls to pause for breath.

The finrand has strengthened by 17% since its six-year low at the beginning of the month when the Royal offshore purchase and other local moves overseas put pressure on the currency.

The discount between the unit and the commercial rand has narrowed to 33% from the record 45% when the currency was under pressure. The currency had been trading in a R4,44-R4,35 range in the days before the new move on Del Monte became known.

A dealer said expectations of Royal's move had provided a major boost for sentiment in the finrand market.

A source close to Royal yesterday said part of the Del Monte deal would involve a rights issue in Royal Food in the ratio of one to four. Holding company Royal Corporation would pass its rights to Anglo American. Control would change to Anglo.

However, he said, Royal would retain management control of the enlarged Royal/Del Monte group.

He said the rights issue price was currently pegged at a higher level than the share price. The Royfood share regained the 20c lost on Wednesday to close yesterday at 850c.

BDay 16/10/92

Tariff-free Dubai an eye-opener for SA visitors

PETER DELMAR

IN 30 years' time, Dubai will run out of oil.

The 3 500km² emirate currently pumps about 350 000 barrels a day — small change compared to the 5-million or so a day which Saudi Arabia produces. But it has been enough to transform this formerly desolate little fiefdom of goatherds and small-time dhow traders into what is today often referred to as the Hong Kong of the Middle East.

Oil accounts for only 43% of GDP in the United Arab Emirates' (UAE) of which Dubai is the second largest centre, and this is set to drop further, not because of any significant decline in oil output, but because of the exponential trading growth which Dubai in particular is experiencing as the entrepot of the Middle East. Oil's share of Dubai's GDP is even less than the national average.

Recession-weary SA businessmen who visited the emirate last week for a trade exhibition were staggered by the statistics which the locals proudly trotted out.

Despite the effects of the nearby Gulf war, imports last year grew by 22% and exports by 21%. Imports amounted to R30bn and non-oil exports to R8bn. Because of the war and worldwide recession, GDP growth fell from 8% in 1990 to 5,6% last year. Container traffic was up by 37% last year and overall trade by 18%.

GDP per capita is one of the world's highest at $20 000.

Dubai's entire oil revenue accrues to one man — the emir, Sheik Maktoum bin Rashid Al Maktoum. He rules over an almost absolute monarchy and there are no trade unions or opposition parties, but locals and even expatriates speak of the emir and his late father, Sheik Rashid (known as the founder of modern Dubai), in almost reverential tones.

From Dubai's outstanding infrastructure, lush green parks and ostentatiously grand golf courses, it is clear that the emir has invested heavily in making the city an attractive investment and business centre.

Dubai's oil wealth has made it possible to exempt companies and individuals from income tax, have no foreign exchange controls and peg import duties at only 1%.

When the oil runs out, taxes will no doubt be implemented and duties raised. But by then Dubai will be well established as a trading and business power.

Road and air links have been heavily invested in and — particularly impressive — local telephone calls are free of charge.

Like all other Arab states, Dubai and the UAE are major importers of labour. Only a quarter of the population of 600 000 is indigenous. The rest is expatriate, mostly from the Indian subcontinent, Asia and Europe, the overwhelming majority of them employed in non-oil industries.

The emirate is home to the world's largest man-made harbour, situated inside the Jebel Ali Free Trade Zone.

About 420 companies, including many leading multinationals, have facilities within the 100km² zone. Last year there were 360. Some SA companies who participated in this month's trade fair, although virtual newcomers to the Gulf, were already seriously thinking of establishing a presence there.

The free trade zone allows unrestricted repatriation of profits and 100% foreign ownership, unlike the rest of Dubai where at least 51% of equity must be in the hands of locals, although there are not similar stipulations regarding profit distribution.

For countries such as SA which are desperately trying to attract foreign investment, the competitive advantages of locations such as Dubai are all too obvious.

Comparisons with SA must, because of the emirate's fabulous oil wealth, be of limited value.

In terms of cutting red tape, however, the Dubai experience offers important lessons for SA. Importing, exporting and re-exporting is easier in Dubai than elsewhere in the Middle East and in most major business centres in the world.

To exploit a growing trend towards combining sea and air transport, Dubai is equipped to despatch by air a consignment just four hours after berthing at Jebel Ali.

Despite the benefits of fabulous oil wealth and the fact that they do not have established industries to cosset, the Dubai experience serves as a powerful example of how the dismantling of trade walls can benefit a society. Perhaps SA's present and future economic policymakers should all be despatched there at taxpayers' expense.

LETTERS

CURRENCIES (74) FM 16/10/92

Riding on rumours

Despite suggestions that it had risen too much and too soon, the dollar was holding steady, as the *FM* went to press on Tuesday, after rising by 7,4% against the D-mark last week. Some profit-taking trimmed it back by two pfennigs from just over DM1,49 — in a thin market with Monday's Columbus Day holiday in the US — but a rally restored it to DM1,48.

Gold enjoyed a bout of short covering, after taking a US$5 knock — due to SA and Australian producer selling and "stop loss" liquidation by metal funds as bullion pierced $348/oz — but slumped again to $343,45 at the London morning fix.

Continued

The dollar's surge came on expectations that:

□ The Bundesbank Council's meeting on Thursday would produce a further easing as evidence of Germany's economic slowdown mounts; and

□ The US Federal Reserve would not be seen providing a crutch for President George Bush by lowering short-term dollar rates before America goes to the polls on November 3.

Weight was added to the argument when Belgium, Holland and Switzerland, which, with Germany, form the hard core of the D-mark bloc, reduced key interest rates, along with Denmark and Sweden.

But, as usual, there are contradictory factors in the equation. For example:

□ Otmar Issing, Bundesbank chief economist and member of the council, said German inflationary *expectations* were falling;

□ Johann Wilhelm Gaddum, also of the Council, warned against rapid cheapening of money, while underlying inflationary pressures remain (service sector prices are rising by 5,2% a year and the January increase in VAT will jolt the CPI) — even if the central bank is taking a relaxed view of the monetary growth overshoot;

□ UK Chancellor Norman Lamont, faced his parliamentary inquisitors about the collapse of sterling and economic policy, adding little to anyone's knowledge apart from the strong hint that, following the one-point cut to 9% in base rate, Britain will not be rushed into opening the monetary taps too soon; and

□ Federal Reserve chairman Alan Greenspan rebutted speculation about political influences. The Fed would do what was necessary, when it was necessary. "It would be irresponsible to delay a needed cut in interest rates until after the election," he said.

What was overlooked by those who nailed the D-mark as the next selling target was the amount of Bundesbank intervention which is due to be unwound. The Bundesbank laid out DM90bn (US$60bn) in intervention during the September crisis of the European Monetary System.

Almost all of it was in the form of loans which will be repaid before the end of this year.

Even controlled, this buying of D-marks will bolster the German currency.

One wild card in the hand, however, is the extraordinary EC summit in Birmingham this weekend. Top of the agenda is the Maastricht Treaty and how it can be semantically mangled into a shape acceptable to the Danish electorate at a new referendum, as well as Eurosceptics in the UK, Germany and France.

But given the role of the Bundesbank in shaping European monetary policy, the Birmingham gathering will be milked for clues about what the next move in Frankfurt will be and, more important, its timing. Last week, with three months D-marks priced at 8,3% in the Euromarkets, the Bundesbank had ample scope for a half-point cut in the Lombard rate of 9,5%.

On Tuesday, however, the three-month Eurocurrency rate was up to 8,8% with fewer people now betting on Bundesbank action before the end of the year — barring yet another realignment of ERM parities to accommodate the pressures remaining in the system. ■

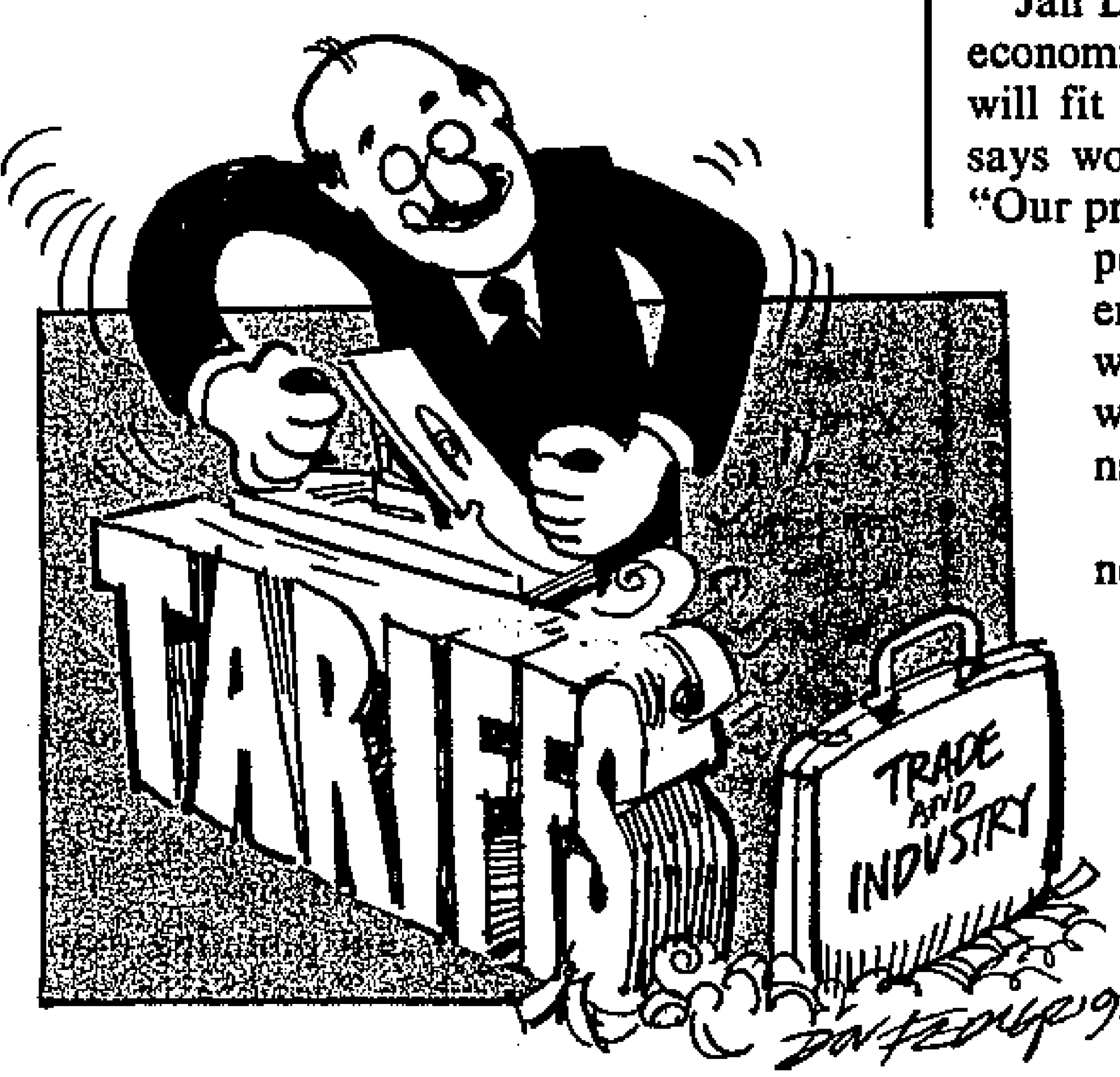
INDUSTRIAL POLICY

FM 16/10/92 (74)

A blueprint with a difference

In 1990 the Industrial Development Corp compiled its landmark report recommending lower tariffs and a host of other economic reforms. It was widely promoted by Trade & Industry Minister Kent Durr, who commissioned it, and his successor, Org Marais, but it never became a formal government proposal. Shortly after Derek Keys took over the post early this year it was quietly pigeonholed.

Now the IDC has compiled another report that should go much further. It is being released as an official Department of Trade & Industry report, giving it a stamp of approval that the first report never had.



This new, more in-depth report was written by IDC economist Flip Kotze, who co-authored the first. It repeats many of the recommendations — cutting tariffs, abolishing import surcharges, lowering corporate taxes — and adds new ones, such as phasing out the General Export Incentive Scheme, getting SA reclassified as a developing country to gain more favourable trade terms, signing the Gatt anti-dumping code, revamping the Southern African Customs Union and eliminating tariffs on goods not made here.

Keys indicated his support for the report this week, saying: "Director-General Stef Naudé's document forms part of the broad thrust of the economic model to be released next month and will also form a basis for policy discussion in the Economic Forum with labour and business."

The 60-page report is only a discussion document but it is the furthest government has ever gone in outlining comprehensive economic reform. Says Kotze: "It underlines that tariff reform cannot be seen in isolation but forms part of a broad economic restructuring package, including a focus on training, technological upgrading, a general improvement of industrial competitiveness, and fiscal and monetary measures."

The report also has the support of Reserve Bank Governor Chris Stals: "The exchange rate cannot be allowed to depreciate in isolation, but as part of a broadly based economic and tariff-reform package, as suggested by Naudé. Once tariffs come down, surcharges are dropped and exchange controls are scrapped, the rand will automatically drift to lower levels, based on the state of the economy. We will not try to stop this because our policy is more focused on controlling the money supply than in protecting the rand."

Jan Dreyer, head of government's central economic advisory services, says the report will fit in with Keys' economic model. He says work on the model is well advanced. "Our proposals will not reflect the economic policy of a political party, nor a unilateral attempt at policy formulation, but will be a discussion document that would make strong statements in the national interest."

While the report has lots of good news for economists, business leaders, consumers and others who want the economy put on track now, the proposals are not going to form the basis of a February 2-style speech on the economy by President F W de Klerk, or be rapidly implemented by the Cabinet. Government's waning authority means the ANC now must be consulted on most things economic. Two-and-half-years ago, when the IDC was putting together the first report, the story was different, but government had not learnt as much about economics then.

Japie Jacobs, government's special economic policy adviser, also claims there are fiscal contraints on any immediate reform. "We are restrained from implementing necessary adjustments by a lack of fiscal elbow room. But Naudé's proposals are part of a broad policy thrust aimed at restructuring the economy."

While the ANC would raise a stink if government unilaterally implemented much of the report, reality and Keys' steady wooing have prodded the ANC's economists towards mainstream economics to the point where the group might eventually accept many of the recommendations. A speech by ANC secretary-general Cyril Ramaphosa last week reflected the group's current thinking. He said the ANC supported a broad-based economic restructuring and blamed "decades of ideologically misguided policies" for a "structural crisis in the economy" that cannot be solved overnight.

"In trade policy, for one, the emphasis should be on an appropriate tariff and exchange rate regime and export promotion strategies. And, given the structural rigidities of the SA economy, it is doubtful if monetary policy alone can bring down inflation. The lack of proper co-ordination between fiscal and monetary authorities helps to add more distortions and does not solve the problem." So the debate begins, and perhaps some time next year government will produce a policy document instead of a discussion document. ■

COMPETITION BOARD

Would more power help?

FM 16/10/92

In SA's highly uncompetitive and heavily State-owned economy, companies may wield too much power. So the Competition Board believes it needs more power too in order to level the playing fields.

In an 18-page report released this week, Board chairman Pierre Brooks suggests a new competition policy that dramatically expands government's role in creating competition. If implemented, the proposals could avert harsh anti-trust legislation by an ANC government that would simply break up big companies. But the proposals also would give government wide powers over business.

The report, called *Future Developments in SA Competition Law and Policy*, suggests:

☐ Creating an Office for Competition Matters to handle complaints, conduct investigations and prepare reports, a Competition Tribunal to adjudicate these issues and a Special Court to deal with appeals against tribunal decisions;

☐ Granting the tribunal the power to declare anti-competitive behaviour — as well as price-fixing, market sharing, resale price maintenance and collusive tendering, which are already outlawed — "on an ad hoc basis as they arise;"

☐ Granting the tribunal the power to order reports from businesses on price increases when two or more major companies in an oligopolistic industry — defined as when the market share of the top three companies is more than 70% — raise prices by a similar percentage or amount in a three-month period;

☐ Compulsory notification of all proposed acquisitions of a certain size, or that would lead to a certain level of concentration;

☐ Prohibiting interlocking directorates between competing companies within or outside conglomerate groups and investigating possible barriers to entry and restrictive practices;

continue →

FM 16/10/92 (74)

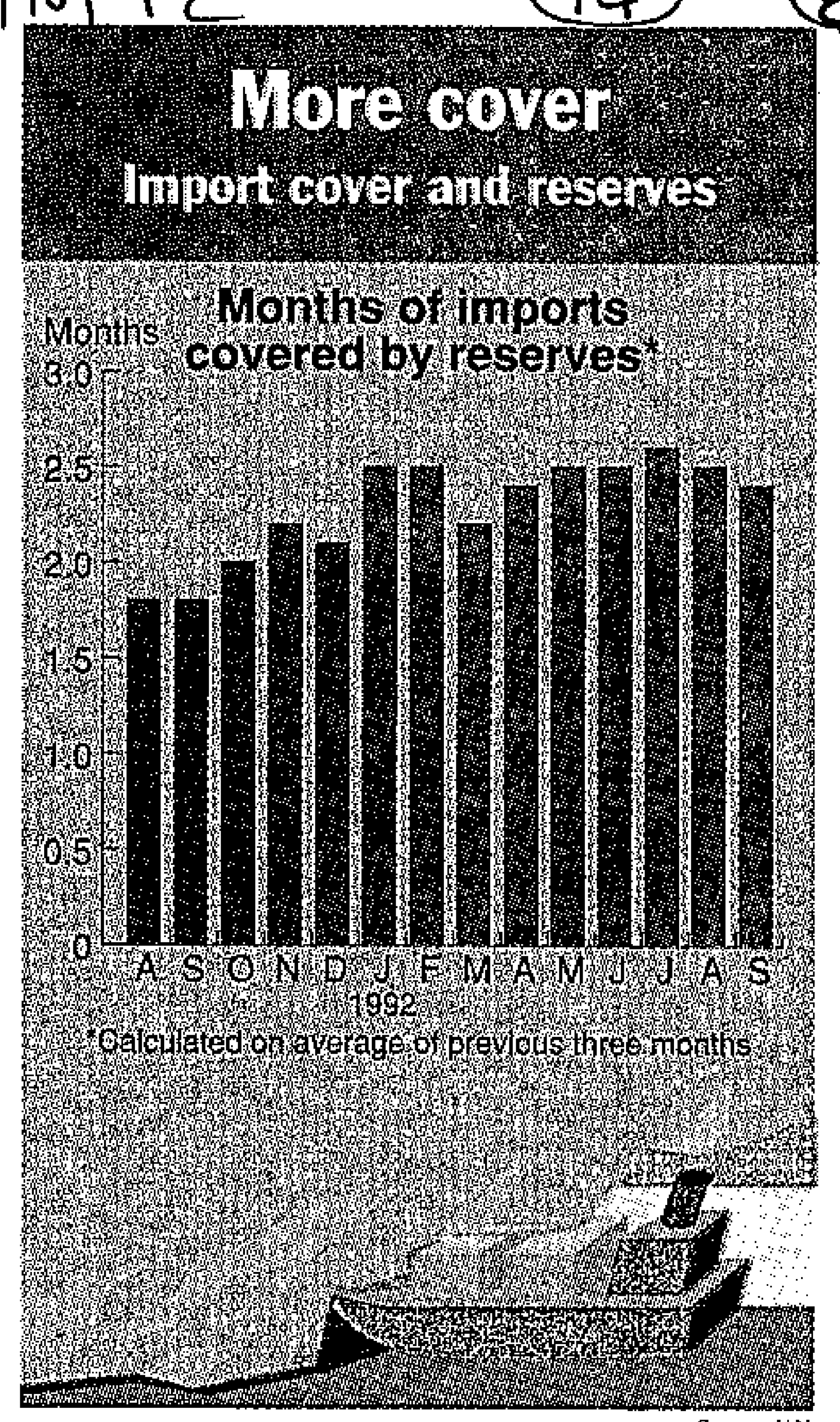
RESERVES
Well covered

Despite the fall in official gold and foreign reserves in September, the position remains relatively healthy, with import cover currently at 2,4 months (see graph). This is a rise from September last year, when it was 1,8 months, and the previous September, when it was 1,4 months. UAL economist Dennis Dykes says the improvement is even healthier if liabilities are taken into account. "The Reserve Bank had outstanding foreign loans worth about R1,4bn at the end of 1989, which had fallen to zero by the beginning of this year," he adds.

In the month, however, a R1bn net outflow of foreign exchange took place in end-quarter payments and a sizeable maize and wheat import bill. At the same time the dollar value of the reserves was eroded when the European currency crisis boosted the dollar by 2,7% in the month to US$/R2,8105.

Consequently, total reserves declined by 9,2% to $3,8bn (or 6,7% to R10,8bn), with forex shedding 19,6% to $1,7bn (or 17,4% to R4,9bn).

In spite of the strong dollar, movements in the gold price were favourable, ending September at a London afternoon fix of $349, from the previous month's $340,75. The rand valuation of gold holdings (90% of the average of the last 10 London fixings in the month) was up to R881,14/oz for the month from R838,69/oz. The value of gold reserves therefore climbed 1,7% to $2,1bn (4,4% to R5,9bn). Total gold holdings dipped slightly to 6,7m oz from 6,74m oz.



Source: UAL

The rand's weakening in the month was less pronounced against the trade-weighted basket, declining 0,4%. Against the crosses it:

- ☐ Rose to £/R5,18 from £/R5,36;
- ☐ Fell to R/Y44,07 from R/Y45,89; and
- ☐ Declined to R/DM0,52 from R/DM0,53.

Safto halts visit to troubled Angola

S Times (B455) 18/10/92

(74)

By ZILLA EFRAT

SAFTO postponed a group visit to Angola, planned for early next month, as fears of renewed political uncertainty in the country escalated this week. Safto's Africa area manager Paul Runge confirmed that some Safto clients have also postponed a visit to Angola.

One company that could benefit if political conditions deteriorate is De Beers, which has come under pressure from large-scale individual digging and illicit smuggling of rough diamonds out of Angola.

One that might have its plans thwarted is Engen. Angolan authorities reportedly hinted that the SA energy group is negotiating a deal with US company Conoco for exploration rights in one of Angola's high oil prospective offshore blocs.

SAA expects its flight to Luanda tomorrow to go ahead, but says it is monitoring the situation.

(74) CT 19/10/92

Trade boost

Cape gains shipping link with oil regions

Staff Reporter

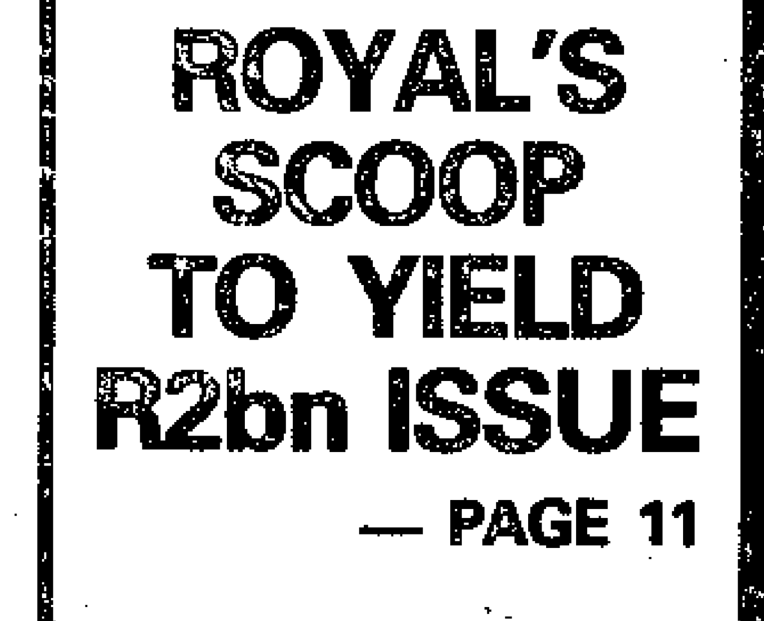
CAPE TOWN is to become a major port for a big government-owned Gulf shipping firm's new cargo service to South Africa, the Far East and South America.

This is one of the developments which significantly boosted economic expectations for the Western Cape over the weekend.

The other was the R2,4 billion South African acquisition of European food giant, Del Monte Foods International (DMFI), which is expected greatly to benefit the Western Cape deciduous fruit industry in the long term.

In a dramatic sign of SA's growing links with Arab states, United Arab Shipping Company (UASC), the biggest shipping venture in the Middle East, said yesterday that its new line would be opened on October 23.

"There is an international trend to lift sanctions against South Africa and this means new business," said UASC Middle East lines director Mr Walid Al-Dawood in Dubai. "The new line will certainly contribute to increasing trade between the Gulf and South Africa, the Far East and South America."


ROYAL'S SCOOP TO YIELD R2bn ISSUE — PAGE 11

Gulf economists said they expected a large increase in trade between South Africa and the Gulf following a major South African exhibition in Dubai this month. Deals worth millions of dollars were struck during the fair, the first in the Middle Eaat attended by South Africa.

South African officials also attended a fair in Oman last week and are considering holding another exhibition in Dubai next year.

UASC, set up in 1976, is owned by the governments of Saudi Arabia, Bahrain, Kuwait, Qatar and the United Arab Emirates (UAE). It has 58 ships and 10 new ones on order.

The new line will connect Gulf ports with Colombo in Sri Lanka and then other ports in south and south-east Asia, and Durban, Cape Town and South America. It initially will involve five ships with 520 containers and a deadweight of 23 000 tons each.

UASC is the first official shipping company to sail to South Africa since the region informally ended the anti-apartheid boycott late last year.

A twice-weekly air service will also begin operating between Johannesburg and Abu Dhabi from the beginning of December, Gulf Air airline announced yesterday.

In the fruit deal, Del Monte, one of the premier brands in Europe and the Middle East for canned deciduous fruit and pineapple, fruit juice and tomato products, has been bought by the

To page 3

P.T.O →

From page 1

Trade (74)

Royal Foods group and Anglo American Corporation and will create a powerful, established outlet for the billion-rand South African industry. CT 9/10/92

Mr Fred Meintjes, a spokesman for Unifruco, the exporting arm for the deciduous fruit industry, said yesterday that the labour-intensive fruit industry in South Africa provided jobs for 230 000.

Fruit made up 85% of South Africa's agricultural export earnings, with 60% of agricultural products exported, he said.

A growth in the international market would result in higher production and therefore more jobs.

"It is the largest private sector employer in the Western Cape," Mr Meintjes said, adding that the Western Cape economy was "heavily bound" to the fruit industry. "Without the fruit industry towns (such as Elgin and Grabouw) would not be able to survive," he said.

Unifruco chairman and Democratic Party national chairman Mr David Gant, whose family was involved in the canning industry until three years ago, said yesterday although there would be "no overnight advantages", the expansion into the international market "must have direct benefits for the horticultural industry in the Western Cape, which accounts for 40% of South Africa's agricultural exports".

Mr David Bridgman, a spokesman for Wesgro, which concerns itself with investment in the Western Cape, said yesterday the acquisition of a "mature business" such as Del Monte could mean "very exciting" developments for the Western Cape deciduous fruit industry.

"It's very appropriate to establish South Africa in the world market with this very important food industry," Mr Bridgman said.

NEWS IN BRIEF

Taiwan lends SA $15m

TAIWAN is to lend $15,5m to a SA government programme to improve black farmers' income, the International Economic Co-operation Development Fund said at the weekend.

The low-interest loan would be provided to the Development Bank of Southern Africa over three years, as part of a $48m loan package to foreign nations.

Language barrier can be overcome for trade links

BIDAY 19/10/92 (74)

ANDREW KRUMM

TALKING business is not easy when the parties do not share a common language. Business Day discovered this when following up some of the trade inquiries received from SA embassies around the world, and published on this page.

We contacted four companies featured in the list in recent weeks to find out what sort of response there had been from SA suppliers.

Language permitting, two of them had received responses. "Molto, molto," an Italian businessman said, but added that prices had to be right.

Unfortunately language was an insurmountable barrier in one case, and in the other we failed to make contact.

But the language problem need not be a barrier to trade. We suggest the prospective exporter preparing to make contact ensure that the call is made by someone fluent in the language of the inquirer.

If this is not possible, it might be best to make the first communication by fax, in simple terms, to set up the telephone approach. And don't forget that in some cases there might be quite a big time difference between SA and the foreign country.

SA's economic consul in Greece has obviously been working overtime to contribute offers to today's list which, after inquiries from the US, dominate the page. The items offered by Greek businessmen range from canned meats to the kitchen sink — literally.

At least four companies in today's noticeably low-tech list are looking for contacts with SA manufacturers with an eye to longer-term relationships in the manufacturing of garden furniture, boats or general goods.

The most technologically advanced item being sought appears to be something called "X-ray dosimeters". On the other hand, there are the usual inquiries about ethnic clothing and artwork.

☐ To advertise on this page call Janet Jadrivjevich on (011) 497 2543.

INFORMATION in this feature supplied by the export centre of the Department of Trade and Industry.

Inquiries:
Manufacturers should contact the foreign company direct. Where possible a contact person has been named. If there are any problems, communicate with the department's Export Centre, tel: (012) 310-9791. Fax: (012) 320-8157.

How to use:
The items on this page are listed by number according to the harmonised tariff code system issued by the Department of Customs and Excise. The code gives specific details of the listed item.

Export services:
For general advice on exports and export incentives, contact the department or its regional representatives in Durban, Port Elizabeth or Cape Town. It is strongly recommended that manufacturers new to the world of exports get in touch with the local office.

Warning:
SA firms should be aware that restrictions on the export of these products might be applied by the authorities. While every effort is made to maintain the accuracy of information in this list, the Department of Trade and Industry assumes no responsibility for any incorrect data. Nor will the department and its officers assume responsibility for any transactions undertaken with the firms or individuals listed.

FOODSTUFFS AND PERISHABLES

03.02.69.
Black tiger shrimp/tilapia fish — US. Gary Desarkissian. Landmark Fisheries; tel: 091-201-871 1318, fax: 091-201-646 9029.

06.03.90.
Dried proteas, baby blue eucalyptus, wax flowers and others — US. James Esmay; California Lutheran University; tel: 091-805-493 3360, fax: 091-805-493 3719.

08.11, 08.12.
Canned fruit — Portugal. Vanda Rosinha; Pingo Doce SA; tel: 09351-1-363 4900, fax: 09351-1-364 4716.

11.03.00, 17.02.10, 20.08.00, 52.04.00, 62.10.00.
Sugar, barley, peanuts, thread and garments — US. M Choupani; M Cord; tel: 091-818-702 6768, fax: 091-818-340 4168.

12.09.
Indigenous plants seeds (pachypodium, euphorbia) — US. Barry Mast; tel: 091-818-990 4060, fax: 091-818-990 4234.

12.11.90.
Medicinal herbs and herbal teas — US. Theodore Meyer; Health Food Products; 1174 Harbour Island Road, Orlando, FL 32809, US.

13.02.31.00.
Agar agar powder of food additive grade — Taiwan. Wen Tien Tsai; Devonia Technologies; tel: 09886-2-322 4769, fax: 09886-2-312 0025.

16.02.49.80.
All kinds of canned meat for Russia — Greece. E Frangou; EL Frangou and Co; tel: 0930-1-360 2873, fax: 0930-1-363 3054.

20.09.
Fruit juice concentrates — US. Nordlinger; Steinhardter and Nordlinger; tel: 091-516-561 1114, fax: 091-516-561 7983.

22.04.
Wines — Belgium. Maddhys Frank; tel: 0932-50-826085.

MINERALS AND CHEMICALS

22.07.
Synthetic ethyl alcohol, 1 000 tons a year — Japan. Ichikawa; Kishimoto Sangyo Corp; tel: 0981-3-3663 0271, fax: 0981-3-3661 6459.

28.20.
Manganous oxide chemicals — US. Ken Schwartz; SATTVA Chemicals; tel: 091-203-348 8002, fax: 091-203-348 3666.

28.41.30.00.
Sodium dichromate — Italy. Sigismondo Giovanni; tel and fax: 0939-2-404 6281.

29.15.50.20.
Calcium propionate — Taiwan. Cheng-kuei Chu; SengLong Enterprises; tel: 09886-2-760 0645, fax: 09886-2-746 0830.

30.06.40.
Dental alloys — Canada. Ian Caldwell; tel and fax: 091-514-691 2868.

32.08, 32.09, 32.10.
Paints — UK. John Martin; integrated Chemical marketing; tel and fax: 0944-689-854 755.

34.01, 34.02, 34.04, 48.09, 48.16, 27.10, 34.03.
Detergents, soap, wax, carbon paper and lubricants — UK. M Hemstedt; Industrial waxes; tel: 0944-732-741 888, fax: 0944-732-464 466.

37.03.10.60.00.90.
Paper for photocopiers — US. Dick Newman; Synergia Trading; tel: 091-315-455 1510, fax: 091-315-454 9493.

39.23.
Plastic (polythene) bags and sacks — UK. V Chandley; Portland Poly-bag; tel: 0944-602-862 533, fax: 0944-602-862 539.

HOUSEHOLD GOODS, CLOTHES AND TEXTILES

42.02.
Leather and textile handbags — UK. Sandra Anne; Designs East; tel: 0944-473-611 704, fax: 0944-473-612 930.

07.10, 19.01.00, 28.01, 33.03.00, 44.03, 48.17.30, 84.43.11, 84.71,
Seeking a trading relationship with manufacturers of agricultural products, bulk food preparations, chemical products, perfumes and other cosmetics, wood and construction material products, stationery and other office supplies, printing equipment, computers, accessories and other high technology products — US. Sam Hunaidi; Trans Continental; tel: 091-503-524 9867, fax: 091-503-524 6778.

44.07.22.10, 44.07.10.30, 44.07.22.20.30.
Asobe: wood sawn lengthwise, and wood parquets in unassembled blocks — Greece. Konstantinos Kamarianakis; tel: 0930-1-417 6963, fax: 0930-1-412 8446.

44.11.
Medium density fibreboard — Taiwan. C Chen; Pan-Tai Asssociates; tel: 09886-7-223 5234, fax: 09886-7-282 3690.

44.1820.10, 44.18.20.20, 39.22.10, 39.22.90.20, 84.81.10.90.
Wooden doors and door frames, acrylic baths, shower baths and wash basins, acrylic kitchen sinks and water taps for domestic use — Greece. Constantinos Mikronis; Thomas Mikronis; tel: 0930-1-832 3553, fax: 0930-681-28623.

48.12.40.
Paper cones — Greece. Vassilios Alexiou; Ioannis Kon Alexiou; tel: 0930-1-345 9506.

Knitted cotton apparel — UK. Rakesh Parvez; Sargam International; tel: 0944-71-436 5400, fax: 0944-71-436 4820.

42.03, 64.03, 64.05, 85.19, 85.20.
Leather apparel and footwear, sound recording apparatus — UK. Bill Jambor; Lancashire Enterprises; tel: 0944-772-203 020, fax: 0944-772-204 129.

42.05
High quality gifts including leather articles, wooden goods and ceramic goods — UK. James Dormer; Resource Management Associates; tel: 0944-245-252 525.

66.01.10.00.00.0Z, 94.01.80.00.00.0U.
Umbrellas and wooden garden furniture — Belgium. L de Cock; NV de Cock; tel: 0932-89-612 750, fax: 0931-89-613 115.

94.03.60, 94.03.90.
Seeks to contact wooden and plastic garden furniture manufacturers — Greece. Eleni Zimarides; Wood Well; tel: 0930-1-345 8883.

METALS AND MINERALS

70.05.
Sheet glass — Greece. Theodosis Fontrie; tel: 0930-1-898 0363, fax: 0930-1-894-6890.

71.03, 71.17.
Semi-precious stones and costume jewellery — US. Pat Derer; Business Assistants; tel: 091-215-364 3999, fax: 091-215-953 9065.

71.06.
All precious metals — US. Prakash Mehta; Mehta and Co; tel and fax: 091-818-709 0492.

71.14.11.
Goldsmiths' wares of silver for tables, decoration and gifts — Belgium. Therese Coene; Thecobel; tel: 0932-91-251734, fax: 0931-91-251734.

72.28.60.90.
Alloy steel bars and rods — Greece. D Kosmas; Vergina Cruise Lines; tel: 0930-1-451 0010, fax: 0930-1-451 0500.

74.03.22.10.
Bronze — Greece. Maria Pagomenou; Vokram-Pagomenou Bros; tel: 0930-1-345 0444, fax: 0930-1-347 0111.

MANUFACTURED EQUIPMENT

84.00, 84.81, 90.20, 90.27.
Pumps, dosing valves flow meters and viscosity and moisture analysers — Belgium. D Devreese; tel: 0932-91-291909, fax: 0931-91-288789.

84.18, 84.19.
Refrigerated dryers, chillers, temperature monitoring equipment, low temporature laboratory equipment and other interesting industrial equipment for distribution in Belgium — Belgium. Wouter Warmoes; CAT; tel: 0932-14-218 910, fax: 0931-14-213 320.

84.79.00, 87.14.00, 39.26.20.
Wet process recycling system for high density plastic, motorcycle poarts including wenches, lights, handlebars and sprockets, and protective clothing such as boots, helmuts, jackets and pants — US. Glen williams; Western US Tech Inc; tel: 091-714-639 3744, fax: 091-714-639 3932.

87.08.91.
Radiators — Greece. Fotios Salamanis; tel: 0930-31-528 603.

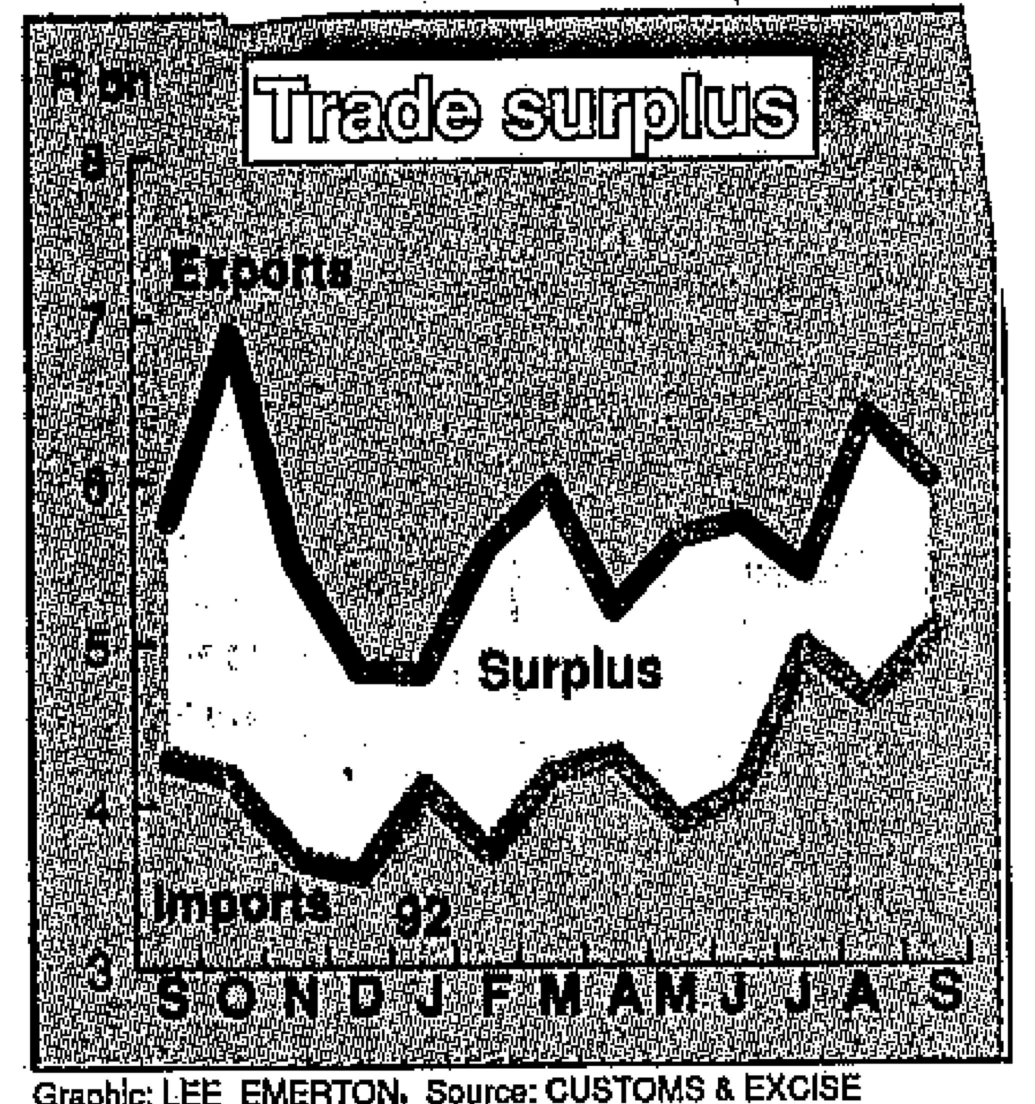
89.03.91.
Seeks contact with racing, rowing and sailing boat manufacturers — Greece. Panagiotis Kallinos; Hellinki Thalassa; tel: 0930-31-209 765, fax: 0930-31-213 084.

90.22.19.
Gamma graphics lamps and X-ray dosimeters with iridium radionuclide source — US. Nora Vinocur; Norbel MF Commercial Transactions; tel: 091-310-862 3637, fax: 091-818-906 1886.

FOLKCRAFT

95.03.50-020.
Cheap local musical instruments of all types, classifiable as folk crafts — Japan. M Suzuki; In-Style Corp; tel: 0981-468-333 482, fax: 0981-468-335 540.

97.03, 69.10.90.
Collection figurines in lead or plastic, as well as varnished wooden socles with glass or plastic cover with glass or plastic cover to protect the figurines from dust — Belgium. Alain Humbeek; Humaco; tel: 0932-2-268 3174, fax: 0931-2-268 3174.



Graphic: LEE EMERTON. Source: CUSTOMS & EXCISE

Import bill cuts trade surplus

BIDAY HILARY GUSH 20/10/92

A RECORD import bill in September — led by vegetable product imports — saw the trade surplus narrow to R965,2m from August's R1,762bn, Customs and Excise figures released yesterday showed.

September imports climbed R400m to R5,05bn from R4,65bn in August, on the back of a 80,3% year-on-year surge in vegetable product imports.

Exports ebbed 6,2% in the month to R6,01bn from R6,41bn in August.

Safto economist Bruce Donald attributed higher agricultural imports to the effects of the prolonged drought.

In the first three quarters of the year fats and oil imports soared 72% on the same period last year, while animal product imports swelled 55%.

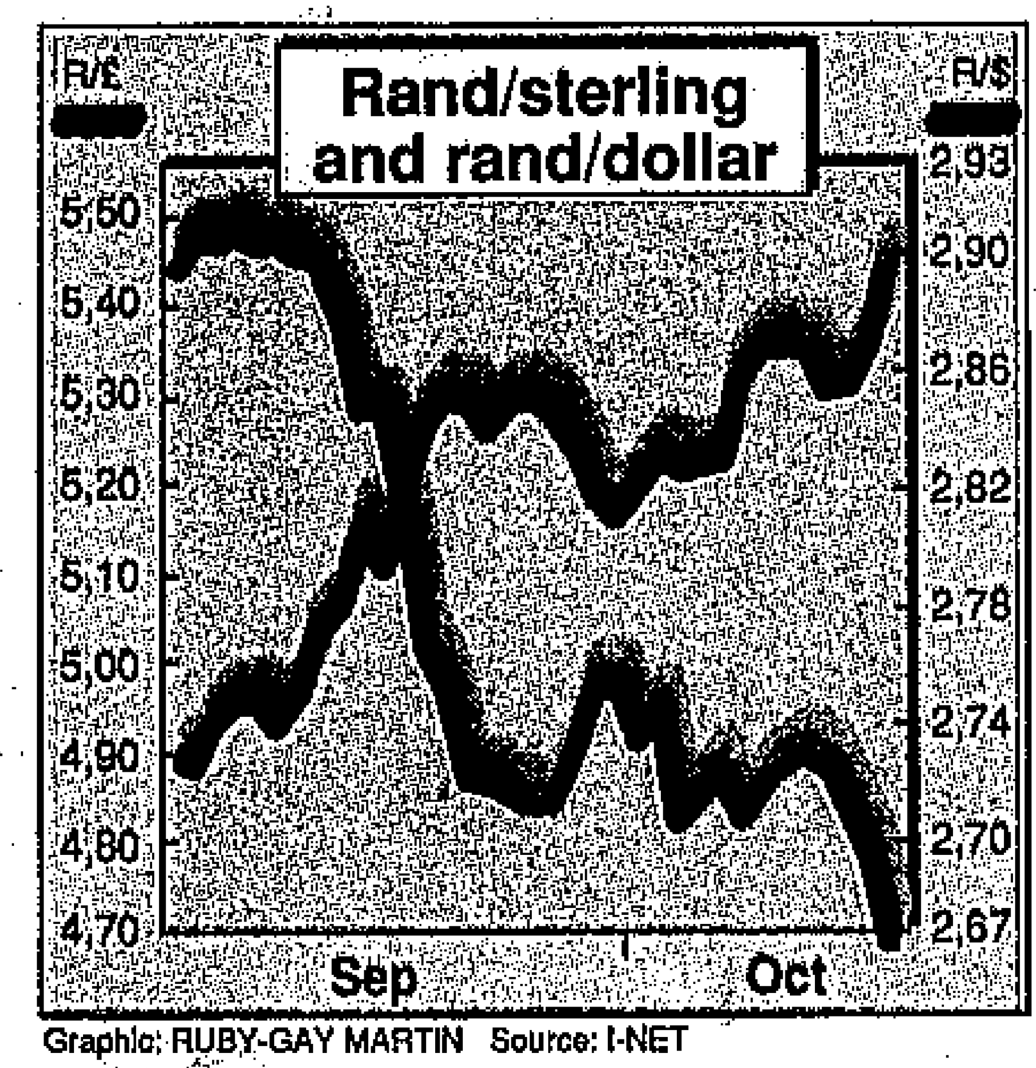
Nedcor Bank chief economist Edward Osborn agreed the higher import bill was caused by drought.

Value of imports — adjusted on a currency-weighted basis each month — "has increased by an insubstantial 0,3% since the beginning of the year. This embraces the tremendous movement of maize."

Disregarding maize movements, imports had fallen dramatically, he added.

Donald was encouraged by the export performance of a number of manufactured goods. Exports of transport equipment, chemicals and plastics had increased 59%, 39% and 35% respectively.

Osborn said that growth in chemical exports could be attributed mainly to the surge in titanium oxide exports — which was not manufactured goods.



Graphic: RUBY-GAY MARTIN Source: I-NET

Rand at 15-month high against pound

HILARY GUSH (74)

THE commercial rand peaked at a 15-month high against sterling yesterday, while slumping to a 14-month low against the dollar. B/DAY 20/10/92.

Dealers said continued UK political uncertainty and Friday's one percentage point cut in the UK base rate — from 9% to 8% — had spurred sterling sales.

From Friday's R4,79 close against the pound, the local currency firmed to end yesterday's session at R4,69, after reaching a R4,67 high in mid-morning trade.

A stronger dollar saw the rand slip to an intra-day low of R2,9015 against the US

☐ To Page 2

Rand B/DAY 20/10/92.

currency from the R2,8683 weekend close. However, exporter dollar sales towards the session's close saw the local unit recover some earlier losses to finish at R2,8933.

Traders expect the dollar to soon breach the DM1,49 resistance level, putting the rand under further pressure. The local currency is expected to fall to R3,00 against the dollar before year-end.

Mildly bearish sentiment saw capital market rates rise 13 points yesterday.

(74) ☐ From Page 1

From a weekend close of 13,81% the yield on the Eskom 168 bond jumped to 13,94%.

Dealers said the movement constituted a "healthy upward correction", as speculation on a possible delay in the Bank rate cut mounted.

A senior trader did not expect a drop in official interest rates before next month. "Reserve Bank Governor Chris Stals will need more than one month of lower inflation to convince him to cut the Bank rate."

Dollar profiting from missed economic targets

BDM 21/10/92. (74)

SIMON WILLSON

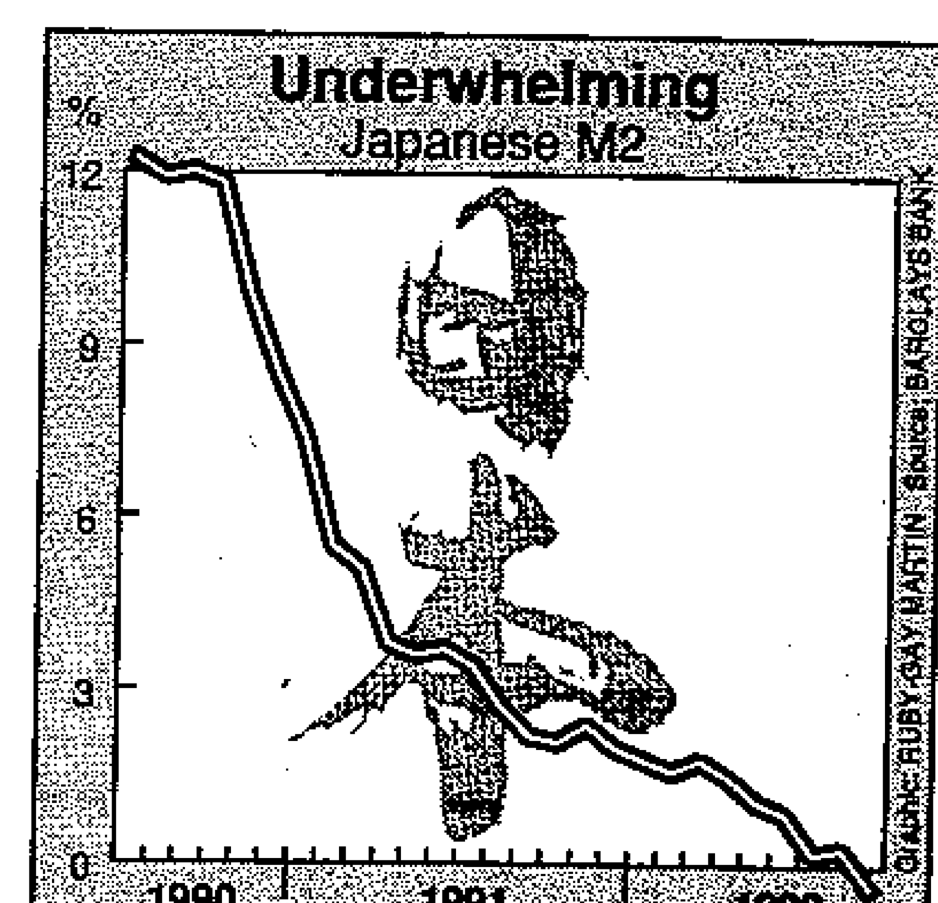
SETTING economic targets always offers hostages to fortune. Whether it is "sterling's central rate is DM2,95" from the UK Treasury, or "M3 should grow by 3,5%-5,5% this year" from the Bundesbank, the target becomes an objective just begging to be knocked over.

The fourth quarter of 1992 could, by New Year's Eve, easily be characterised as the quarter of the missed target. It looks as though it will end up being the three months in which the pound lost all touch with DM2,95, in which Germany and the US formally missed their 1992 money supply targets, and in which the Japanese were glad they never set one.

Each bungled projection demands a policy response from the appropriately embarrassed authority and the response, for better or worse, has an impact on currency trading. For the next few weeks it looks as if money supply statistics are to be the key determinants of key exchange rates. The other more medium-term factors that have been so influential on the foreign exchanges recently — political stability, regional integration, central banks' co-operation — are now further in the background.

The rehabilitation of the European exchange rate mechanism (ERM) remains over the horizon until the whole concept of European union is more deeply rooted among EC member states. The growing likelihood of a Democratic victory in both the US presidential and congressional elections means US economic policy is effectively on hold until the installation early next year of a probable new administration.

What seems set to drive the forex market over the short term is the behaviour of a few key monetary aggregates and the immediate implications of this behaviour on yields. For it is the monetary aggregates that are breaking new ground, both in their performance and in the importance accorded them by their host governments.

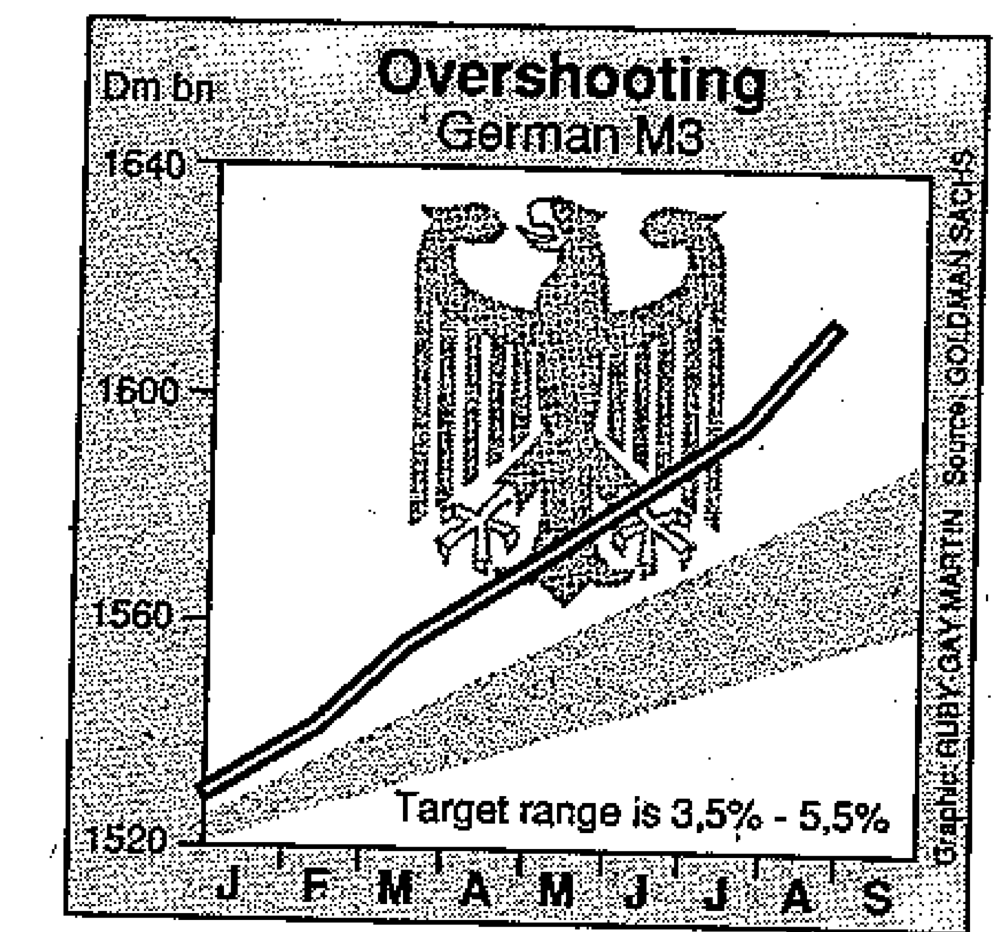


Yesterday the monetary aggregate the Japanese authorities watch most closely, the intermediate M2 money measurement, crossed a historic barrier. As the first chart shows, Japan's M2 stock contracted during September — the first time this key measurement has shrunk since records began.

Japan is one of the few major industrial countries that has no current targets for its money supply indicators, and the Bank of Japan was therefore able to brush off the M2 decline as merely further evidence of economic adjustment and as no threat to growth. But evidence on the ground in Japan suggests that recession is threatening even this historically strong economy. Large corporations are entertaining the idea of western-style redundancy — a big step in an employment culture famed for its emphasis on corporate patronage and employee loyalty. There have been outbreaks of rioting over economic conditions in a society renowned for civil restraint and conformity.

This undertone of popular disorder suggests the authorities will shortly be forced to ease credit conditions further. This should spur Japanese consumption spending, boost imports and erode the country's bilateral trade surplus with the US — all net dollar-supportive moves.

By the end of this week the German target for broad-money M3 will have been wildly overshot yet again. As the second chart shows, the Bundesbank's 3,5%-5,5% M3 target for 1992 has not really been in the frame all year. Normally such excess would signal a lengthy spell of tight German monetary policy, but Bundesbank officials have conceded that the September M3 data due this week cannot be viewed conventionally. They will have been swollen by the DM92bn spent by the bank in trying to support the weak ERM currencies last month.



Of more concern now to the German authorities than monetary targets are warnings of recession, such as the one last month from the government's own council of economic advisers. Acting on such early warnings implies a lowering of German interest rates irrespective of the M3 overshoot, and lower German rates is another dollar-positive signal.

On balance, the monetary over- and under-shooting occurring this week comes out as supportive of the dollar.

With a double-bottom chart point at DM1,45 as an additional prop, the dollar's technicals and fundamentals may be poised for a period of rare, bullish unanimity.

LETTERS

African markets 'ripe'

BDay 21/10/92

PETER GALLI (74)

LOCAL entrepreneurs were losing millions of rands in sales and many opportunities to participate in projects in Africa, Safto Africa head Paul Runge said yesterday.

He told the annual Bifsa conference at Somerset West that Safto helped about 250 local businessmen move into African territories each year and had established a strong core who traded there regularly.

However, local businessmen were hampered by factors such as a lack of deployable personnel and a lack of income to send people looking for work.

A lack of African contacts and ignorance of the local scene were other hindrances. "Africa is a continent in which little business is done until the right contacts are established, which is partly due to the fact that so many African countries have been ripped off in the past by their European partners," he said.

The legacy of apartheid was also a contributing factor, still making it difficult for locals to gain access to certain sources of funds and expertise, as well as to deal with certain governments.

"Time and again local businessmen have shown that they have better quality and less expensive services and products to offer other Africans. However, they lack the financial packages to make it possible for prospective customers to buy," Runge said.

Caution advised on entry to new world market

BDAY 22/10/92. (74)

BILLY PADDOCK

AS SA returns to an unfamiliar world market it should be cautious about rushing into long-term decisions — such as applying to be reclassified as a "developing country" — until it has fully canvassed and discussed the best options available to it.

This is one of the main thrusts of a discussion document commissioned by Sacob from Africa Institute of SA director Erich Leistner. The document was submitted to Sacob on Monday and has been distributed to government and extra-parliamentary groups, including the ANC, for consideration and input. Sacob, however, has not yet decided on its recommendations.

Leistner argues that there are certainly benefits to be derived from reclassification to a developing country — stated by Finance Minister Derek Keys on Tuesday as government's intention — but there are also many negative implications.

In a convincingly argued analysis of SA's possible future relations with the EC and southern African states, Leistner evaluates SA joining the Southern African Development Community (SADC), the Preferential Trade Area (PTA), the Southern African Customs Union and the Multilateral Monetary Area (MMA) as well as the implications of being part of the Lomé Convention, which links African states with the EC.

He argues that links with the EC are the most important because of long-established ties, enhanced economic security, aid and investment, and EC support for regional groupings and a regional role for SA.

More precisely, the EC is SA's and southern Africa's foremost trading partner, accounting in 1990 for 44,7% of the customs union's imports and 27,3% of exports, with most of SA's neighbours being tied into the Lomé Convention.

Because world trade was increasingly dominated by a few giant economic blocs, a trade war is feared if the Uruguay Round of GATT talks fails. But should they succeed, block formations will become less attractive, decreasing the value of tariff and other preferences granted to the southern hemisphere.

Finally the EC, like the World Bank, favours regional market integration as a means of promoting the development of African countries and as a step towards freer world trade. The EC has indicated that SA's possible membership of the SADC would be "wholeheartedly encouraged" by the community as this would strengthen the economic potential of the region.

However, although popularly perceived as a desirable option, there are several reasons why the Afro-Caribbean-Pacific states and others would oppose the move.

Leistner says that SA may be able to convince member countries of GATT to reclassify it. But "such a retrogressive step, if it succeeded, might arguably cost it more in respect of international creditworthiness and foreign investment than it would gain by way of EC development assistance".

It is also understood from recent documents of Trade and Industry director-general Stef Naude that he is ambiguous about pursuing the option of reclassification.

SA needs to negotiate alternative agreements with the EC and need not go hat in hand because it can argue that it is the only sub-Saharan country where preconditions exist for a self-sustaining economic development; an economically revitalised SA would provide many opportunities for EC exporters and investors, not only in SA but, thanks to SA, in the surrounding countries; and with the Lomé Convention being seen as disappointing in forging development, the EC, by co-operating with established and demonstrably competently managed SA institutions and channelling funds through them, could enhance the effectiveness of its aid packages.

Therefore, regional ties have to be formed because of the inherent desirability of it and also because, in the eyes of the World Bank and the EC, SA is regarded as the saviour of the region economically.

Leistner emphasises that neither economic co-operation nor integration are ends in themselves and what matters is the extent to which they promote production, trade and investment.

SA should persist with the Southern African Customs Union because it works and is a source of great revenue to partners. The same applies to the MMA which should be broadened to bring in Botswana.

But SA should be cautious of joining either the SADC or the PTA in their present forms as this could further heighten tensions and conflict between these organisations. Therefore in its own interests as well as those of the region, SA should insist on rationalisation of the SADC and PTA as a condition for serious negotiations about membership.

Leistner also suggests that, like Europe, where the EC and the OECD function beneficially next to each other, southern Africa also needs a non-operational expert forum where regional policies and needs can be discussed outside the constraints of executive bodies with their own agendas.

LETTERS

A change in SA's trading status can cut both ways

BDay 22/10/92 (74)

ROBERT SWAIN

THERE is a certain ambiguity in SA claiming to be the gateway to the rest of Africa, with increasing linkage to institutions such as the OAU, the Southern African Development Community (SADC) and the Preferential Trade Agreement (PTA), when at the same time business seeks to divorce itself from being lumped together with the rest of Africa.

The challenge is to avoid "Afro-pessimism" from investors at the same time as encouraging the EC and other development funding bodies to continue addressing SA's internal and regional problems. Herein lies the crux of the future EC-SA relationship, as "developing" country status demands a different approach. Future trade and aid preferences between the EC and SA will be dependent on SA's classification.

There is an opportunity for SA to seek some sort of preferential trade agreement with the EC; a range of options exists between its present developed country status and seeking developing country privileges. The potential benefits of EC trade preferences are also dependent on the outcome of GATT, where SA is classified as a developed country.

The obvious drawback to seeking "developing status" is the effect this would have on the business sector in international circles. Conversely, increased aid to the new SA would help reduce the political instability and erode one of the major stumbling blocks to foreign investment.

The EC is a major market and the UK and Germany are its most important trade partners. Both these EC countries will therefore encourage the best outcome for SA with regard to EC trade preferences as they have the most to gain, although some Afro-Caribbean-Pacific (ACP) states and other developed nations (competitors of SA) would object to preferential treatment of SA in certain product sectors. Any GATT member could also challenge an EC-SA agreement if it thought its trading interests would be damaged.

SA's most useful trade arrangement would be that directed towards its labour-intensive areas — the same areas where neighbouring states enjoy EC assistance. Very few of SA's current exports to the EC would benefit from trade preferences. There would be firm objections within the EC to any beneficial arrangement for some of SA's exports which are EC sensitive, such as coal and steel. In addition, some of the more labour-intensive exports, if given a preference, would damage SA's neighbours.

Despite these problems, SA does require some kind of external assistance, primarily because of inadequate investment levels resulting from financial sanctions. If SA was to change its status to that of a developing country within the framework of the various EC trade preference options where this is required — Generalised System of Preferences, a reciprocal association, a non-reciprocal association, "associate" Lomé status, and full Lomé status — then it might well opt for a change in the financial world. This would have a direct effect on its ability to attract investment; some would argue a negative effect.

The problems associated with the co-existence of two different economies in SA — a developed OECD type and a Third World type — demand two different solutions. The eligibility of SA for these various trade agreement options (other than most favoured nation status) would firstly be dependent on the submission to GATT, and while the SA Customs Union remains, any agreement would also extend to the customs union's countries Botswana, Lesotho, Namibia and Swaziland.

In addition, if SA were to seek an association agreement — similar to the recent agreements between the EC and Poland, Czechoslovakia and Hungary — then subregional cumulation between SA and its neighbours would have to be negotiated.

If Lomé membership was pursued, then labour-intensive manufacturers would come under threat of exclusion to protect other ACP states, and EC producers might seek to protect themselves from SA competition in the semi-processed minerals sector (also open to challenge from non-EC states such as Australia and Canada).

Full Lomé membership is the most beneficial status the EC can confer. It would mean that regional processing would meet the requirements of the rules of origin and would therefore stimulate intra-regional trade — a policy goal of the EC in southern Africa.

It may also mean that preferences would extend to a wide range of products which SA may want to produce for export in the future, such as those in the floriculture/horticulture sector. Full Lomé status would allow SA tenders for European Development Fund aid contracts to carry out work within the ACP. This, in terms of the vast technological and management "know-how" of SA in finding "African solutions to African problems", would benefit all parties — the EC, the ACP states and SA.

Earlier this year an EC delegation to Harare indicated that membership of Lomé would be offered to SA after its first democratic election. If this occurs, then quotas restricting imports from ACP states to the EC would have to be expanded to ensure an equitable trade agreement.

The Stabex mechanism in Lomé, whereby downward price fluctuations for agricultural commodities are offset, would have to be examined carefully in SA's case, as would the Sysmin mechanism, whereby mining operations are aided by EC funding. These two Lomé mechanisms are unlikely to be able to cope with SA membership.

If Lomé status was to be offered, then it is likely that a strict quota system would operate in various product areas. SA's manufacturing sector is larger than any other ACP country and, although SADC states would want SA in the fold so that their products qualify under the rules of origin procedure, it is likely that other ACP states would be unhappy with facing increased competition from SA.

Finally, a change in SA's status to that of a developing state to achieve Lomé membership would involve the whole OECD in this deliberation — a problematic negotiation.

An EC-SA agreement should therefore err towards one unlikely to be challenged, particularly as it is so difficult to assess which industries will be competitive in the future.

About one-third of SA's present exports would find some benefit from preferential access to the EC. However, the major products where reductions in tariffs might be considered would only account for about 5% of total exports. The major beneficiaries would be the deciduous and citrus fruit, fish, and paper industries. Only ferro-alloy and fruit products might meet with major opposition from developing countries. Other products, such as sugar and beef, would fall foul of the commitments to other Lomé producers and Common Agricultural Policy restrictions.

The EC — about 25% of SA's export market — does not dominate, but it is important. Preferences gained on products from an EC agreement are unlikely to benefit SA greatly and would raise objections from ACP and developed countries.

With the new European Economic Area in Europe in 1993, there will be heightened competition from the rest of the world and SA must improve its performance to compete. External assistance is required but, given the lack of direct benefits to SA, it is doubtful that an EC preferential trade agreement, outside of one negotiated on a regional basis, would greatly enhance SA's position.

☐ Swain is director of Strategy Network International UK. This is an edited version of an article in the June edition of SA Foundation Review.

Rand plunges to historic low against dollar

HILARY GUSH (74)

FURTHER dollar strength sent the commercial rand to a historic low against the US currency yesterday, and traders said a rate of R3,00 against the dollar was "rapidly nearing". BDAY 22/10/92.

From Tuesday's R2,9138 close against the dollar, the rand slipped to a R2,9207 low in early morning trade, before ending slightly firmer at R2,9173.

Dealers said there had been good demand for dollars from corporates in the last week, as the market expected continuing dollar strength in the short and medium term. One trader said: "The perception that the dollar's upward movement will be sustained has fuelled dollar buying as importers short on dollars have been forced to cover forward."

Another said that a rate of R3,00 against the dollar was not a barrier. "As the dollar appreciates against the Deutschmark the rand will not stand in its way," he said.

Transnet chief forex dealer André Cilliers expected the upward movement of US interest rates to be sustained, while German interest rates were on the way down.

He predicted the local currency would top the R3,00 level against the dollar in the next three to six months. However, there would be a slight improvement in the rand's rate against the third currencies.

Against the Deutschmark, Cilliers expected the rand to reach around DM0,535, from its current DM0,516 level, while persistent dollar strength would push the rand weaker against the basket of currencies.

Contrary to broad market sentiment, one dealer said there was strong resistance to further rand weakness against the dollar at the R2,92 level. From Tuesday's R4,7405 close against sterling, the rand firmed to end yesterday's session at R4,7293.

The money market shortage — the extent to which the Reserve Bank funds the market — dipped to R2,945bn on Tuesday.

This is the first time in more than a month that the shortage has fallen below the R3bn level. Market players said the lower shortage had not had a significant effect on rates, and expected a speedy return to high levels of market illiquidity.

Dubai fair brings $250m in orders

BDAY 22/10/92. (74)

PETER DELMAR

THIS month's SA exhibition in Dubai, United Arab Emirates, generated export orders worth substantially more than $250m, it was disclosed yesterday.

The SA Foreign Trade Organisation (Safto) said the figure of $250m was drawn from a survey of just 20% of the more than 100 companies which took part.

The show, SA and the Gulf: A New Link, had proven so successful that a follow-up exhibition, also in Dubai, was being planned for next year.

"Although most exhibitors are reluctant to release figures and Safto is not at liberty to disclose clients' trading details, the $250m is drawn from orders placed during the show with only 20% of the more than 100 companies which took part," a Safto statement said.

"More than 4 500 businessmen from across the Gulf turned out to view SA products and their response to our quality, technology and price was extremely positive," said Safto CE Len van Zyl.

"The export orders, both signed and in negotiation, are only a fraction of the potential trade into the region and both exhibitors and organisers are euphoric at the many successes of the show which ran from 6 to 9 October in the Dubai World Trade Centre," the statement said.

"Whether participating to sell, finding an agent or distributor, testing the market, establishing a joint venture or a local office, exhibitors were overwhelmed by the range and quality of inquiries.

"Visitors to the show were drawn from 27 countries with many Gulf businessmen travelling specifically to Dubai for the event."

Safto GM international operations David Graham said: "We are looking very seriously at running another exhibition in October next year and hope to be able to make an announcement very soon."

To meet local demand for trade opportunities with Gulf countries, Safto will also offer exhibition space at a variety of specialist Middle East shows during 1993.

This month's exhibition was the first solo SA trade show outside of Africa.

It was organised by Safto and the Trade and Industry Department in association with the Foreign Affairs Department.

Although a number of participants had traded successfully with the region and despite the continuing existence of Arab League sanctions, most of the exhibitors were doing business with the Gulf for the first time.

Products on display included petrochemicals, construction services, foodstuffs, steel and technology.

Rand's effective value 'still stable'

BDAY 23/10/92. 74

HILARY GUSH

THE trade-weighted — or effective — value of the rand remained stable despite the unit's recent slump to a new record low against the dollar.

Economists and forex dealers said yesterday the effective rand exchange rate had remained relatively stable despite a firmer dollar.

UAL economist Dennis Dykes said that if the market knew the exact weightings of the various currencies in the basket, they could possibly set up a trading system which would make profits at the Reserve Bank's expense.

Dykes said the Bank had disclosed the identities of the currencies making up the trade-weighted basket. These were the US dollar, pound, Deutschmark, yen, Italian lira and Dutch gilder.

He said there was no question of the dollar's dominance in the basket as most of SA's trade was denominated in the US currency. "The dollar's weighting is, without a doubt, greater than 50%, and probably quite a bit higher than that."

Martin and Co economist Carmen Maynard said despite the fact that about 10% of SA's total trade was with African countries, the Bank's trade-weighted basket did not appear to include any African currencies. "For a representative trade-weighted basket African currencies would naturally have to be included."

Maynard believed the Reserve Bank did not disclose the various weightings for fear that the potential for the market to speculate about currencies would arise.

She said the effective rand had "not performed badly at all" despite falling to a historic low against the dollar. The weaker rand was simply a function of a stronger dollar.

A Reserve Bank spokesman confirmed the Bank kept the weightings confidential to prevent the market speculating against prospective Bank movements in the forex market.

He said while the rand was weak against the dollar it had gained on the crosses and that a relatively stable trade-weighted value had been maintained.

From Wednesday's R2,9173 close against the dollar, the rand slid to a R2,9275 low in morning trade yesterday. But by mid-afternoon — as the dollar slipped to DM1,50 and exporters came into the market and sold the US currency — the rand firmed to end at R2,9188 against the dollar.

FM 23|10|92 (74)

FOREIGN TRADE

FM 23|10|92 (74)

Surplus dip

September's exports fell by about R400m, from their August level, while imports rose by the same amount, according to figures released by Customs & Excise. As a result, the surplus fell from nearly R1,8bn in August to R965m (though it remained higher than the R700m surplus in January and the R457,9m in July).

However, Safto economist Bruce Donald points out that export performance, year-on-year, is improving. For the first eight months of this year exports rose 3%, compared with the same period last year, to R44,8bn. In the first three quarters however, the year-on-year growth was 8% to R50,8bn.

Acceleration in import growth was slower. In the first eight months it rose 4% and in the first nine months 5% to R38,9bn.

The trade surplus, for the year to September, stood at nearly R12bn, up 17%, compared with a 1% rise in the first eight months.

In September, the item *other unclassified*, which includes gold, contributed to the monthly dip in the surplus. Imports rose from R410,6m in August to R1,1bn in September. This was slightly offset by a rise in exports of R119m to R2,4bn.

Also contributing was the item that includes precious stones. While imports rose R11m to R22,2m in September, exports fell by more than R450m to R535m.

Pressure also came from maize. The import bill for the category *vegetable products* rose R34m to R292,5m while exports dropped by R144,3m to R106,7m. ■

Welcome to the Third World, SA

W/Mail 23/10 – 29/10/92

By REG RUMNEY

NEWS that South Africa is to become — officially — a developing country will cause consternation in some quarters. And it will be welcomed by the African National Congress.

That the government is negotiating with trade partners and blocs such as the European Community for such a change was revealed this week by Finance Minister Derek Keys.

ANC economic adviser Alan Hirsch says the organisation should take credit for the development. "The push for this first came from the ANC."

Conservative researcher Erich Leistner described the step in a South African Chamber of Business (Sacob) discussion document, released this week, as "retrogressive". The document is titled *South Africa's Options for Future Relations with Southern Africa and the European Community.*

Leistner wrote: "With an internationally acceptable government in power in Pretoria South Africa might be able to convince the member countries of the General Agreement on Tariffs and Trade (Gatt) that it should be ranked as a 'developing' nation. Such a retrogressive step, however — if it succeeded — might arguably cost it more in respect of international creditworthiness and foreign investment than it would gain by way of European Community development assistance."

The problem is not so much the reality as the perception, adds Leistner, of the Pretoria-based Africa Affairs Institute.

"It is the idea that South Africa is confirming it is turning into a banana republic. Maybe the government knows something we don't know," Leistner says.

Hirsch asserts this is the traditional government response to the drive to change South Africa's status, that it would send the wrong signal to investors. "This was always a foolish idea. There is no other reason for opposing the change than false pride." Some countries identified as developing, such as Taiwan, South Korea and Malaysia, receive more than enough investment.

"The ANC is saying that this is just a recognition of where we actually are." One advantage of the change in status, says Hirsch, is more flexibility in the pace at which South Africa conforms to Gatt.

Also, it puts South Africa in the same league as neighbouring countries and may make multilateral and bilateral trade arrangements easier.

Hirsch and Leistner agree on the limits to development aid flowing from a change in status.

Hirsch explains the introduction of a "least developed" category lessens the impact of South Africa changing its status to "developing". Least developed countries, many African, are first in line for aid.

Hirsch doubts the South African government will be able to achieve the change without the ANC's help.

"The whole process of changing status is a political one." Developed and developing countries can be expected to resist the change. An all-party diplomatic front should be formed to get the new status accepted, he says.

Sixth from bottom. Could do better

S Times (Buss) 25/10/92

74

SA was ranked 31st of 37 countries in the latest World Competitiveness Report. What accounts for its lowly ranking? **KEVIN DAVIE** reports

SOUTH AFRICA's inclusion in the World Competitiveness Report (WCR) for the first time shows that we're not in the same league as 23 industrialised countries including Ireland, New Zealand, Spain, Portugal, Turkey and Greece.

We are also not as competitive as newly-industrialised Singapore, Malaysia, Thailand and Mexico.

Competition Board chairman Pierre Brooks says SA is not competitive because our prices are not competitive. He says the prices of many basic products are regulated, controlled or protected so that they are set artificially high.

This is particularly the case with primary products, including steel, agricultural products, commodities and chemicals.

The case of agriculture is well-known, where rather than award prizes to businessmen who are able to cut prices, the Banana and Meat Boards threaten entrepreneurs with dire consequences.

"Complaints from businessmen are increasing," says Dr Brooks. "Unjustifiable barriers increase the prices of basic products, making us less competitive in the manufacturing sphere.

"Leading SA companies complain that their competitiveness, and the country as a whole, is undermined by the pricing policy of undertakings which charge London Metal Exchange, or other internationally determined prices, for commodities produced in SA, plus the calculated transport costs from the particular international venue to SA.

"The question that needs to be asked is whether this is in the best interests of the country?"

Economist Edward Osborn concurs. He told a conference as long as a year ago that the flower and vegetable markets were the only two he could think of where prices were determined by free competition, but added that he even had his doubts about these.

The steel industry, currently subject to a price-fixing investigation by the Competition Board, is a case in point. Critics say that the reference pricing used to set steel prices in SA raises the domestic steel price by up to 50% of the export price.

Ask leading manufacturers if they can successfully export manufactured goods without the multi-billion export subsidy which the taxpayer contributes. They say high domestic steel prices limits their competitiveness beyond our borders.

Osborn says there are a number of instances where the basic feedstock is protected in some form, making the local price higher than the international or imported price.

This limits SA's export and job creation potential: "The downstream can be disadvantaged, having to take materials supplied by protected domestic producers."

Dr Brooks adds that it is no good shouting about the need to add value, to beneficiate and to export when the domestic pricing environment mitigates against this.

Fuel — perhaps SA's most important basic commodity — is subject to the same regulation which would turn entreprenuers into criminals. Fuel prices have little to do with the reality of the market.

The government and the oil industry pretend that we ship most of our fuel as a refined product from Singapore, while in reality it comes to Durban and other SA ports directly from the Middle East much cheaper as crude in giant supertankers.

This fiction adds hundreds of millions of rands annually to SA's fuel bills. It puts pressure on every price in the economy, including wages of black workers whom apartheid has accommodated some distance from their place of work. Higher fuel bills also increase the need to subsidise urban transport, which, it is estimated, will cost the taxpayer R1,4-billion this year.

Singapore is the WCR's most competitive newly-industrialised country. There are many reasons for this. One is that Singaporeans do not pretend that their fuel comes from Durban.

'Developing' tag could help SA

MONEY TALK

NEGOTIATIONS taking place between SA and its main trading partners to have us reclassified as a developing country could have an important impact on our economic future.

It would, for instance, make us eligible for assistance from the Organisation for Economic Co-operation and Development (OECD) – an organisation grouping the world's most important industrial nations. We will also – and this could be our most important benefit – be able to obtain political risk guarantees from the Multi-Lateral Investment Guarantee Agency.

This international agency issues guarantees to investors against risks such as nationalisation. Even risks associated with political instability which could impede the remittance of profits are covered.

SA is, unfortunately, increasingly being regarded as a high-risk area for nationalisation and political instability.

How crucial foreign investment has become to our future development is reflected by a recent economic analysis that shows that only about three out of every 100 job-seekers can be accommodated in formal employment at present.

Guarantees in respect of the repatriation of capital should help to calm the minds of many foreign investors who are already committed to SA. How sensitive capital has become to political developments becomes clear when one looks at the capital flight that occurred when Codesa 2 broke down and mass action began. An estimated R2-billion was withdrawn from the country in the second quarter of this year.

Finance Minister Derek Keys believes that SA's reclassification can be well advanced early in the new year. But a lot, of course, will depend on the attitude adopted by our main trading partners.

Apart from the aid that a new status as a developing country will confer on us, we should experience a resurgence of confidence. However, we should not fool ourselves that the outside world will solve our problems for us.

To get our economy moving again it is essential that ALL our political leaders make a concerted effort to rebuild local confidence. If our own businessmen remain afraid to invest, how can one expect foreigners to do so?

Dire time for SA, developed or not

S Times (Bus) 25/10/92 (79)

MOVES to have South Africa reclassified as a developing nation have sparked controversy.

By TERRY BETTY

Apart from concerns from business that the costs may outweigh the benefits, strong opposition is expected from developed countries, such as Australia.

Department of Trade and Industry director general Stef Naude says that, as a developing nation, SA would gain entry into trading blocs, such as the European Community (EC), on a preferential trade basis.

It would also have access to development aid.

But a South African Chamber of Business (SACOB) discussion paper on SA's future relations with southern Africa and the EC warns that the retrogressive step might cost the country more in terms of international creditworthiness and foreign investment than it would gain from EC development assistance.

A government source believes foreigners and local businessmen might be wary to invest in a country perceived as being a basket-case banana republic.

He says SA has to make a choice between increasing its exports or attracting foreign investment to SA. He says that even if SA had to reclassify, business would still be inhibited by the lack of foreign capital.

Negotiate

Being a developing nation does not guarantee any advantages. Dr Naude says that, even if it is reclassified, SA will have to negotiate the preferential trade agreements with each trading partner.

And this can be formally challenged by any member of GATT (General Agreement on Tariffs and Trade) whose trading interests will be damaged.

An EC paper under the title "Trade Preferences and Post-Apartheid SA", says that, of SA's top 10 exports, only one-fifth are set to benefit substantially from preferences.

But the benefits will be felt by those outside the top 10. Fresh and processed fruit and vegetables, fish products and clothing and leather goods could benefit.

The government spokesman sees opposition to this in every quarter.

The SACOB report says the African, Caribbean and Pacific (ACP) countries, who are part of the Lome Convention and receive preferential trade status from the EC, will probably oppose SA's membership because it might reduce their share of EC aid and investment.

It says non-ACP countries, such as Australia, New Zealand and Canada, would lobby forcefully against SA's membership as they compete with SA in many areas.

And even some EC countries may object to competition from our fruit, wine, steel and textiles.

SACOB has set up a committee to evaluate the rand value of the benefits and costs. SACOB deputy director general Ron Haywood says that it is essential for SA to negotiate with its partners in the interim so that it can be reclassified immediately after a decision is taken.

He says the Lome Convention is to decide next year how to split up the development aid pie amongst its members, and SA will lose out if it does not take part.

Businessmen also say SA should take advantage of the fact that most countries are at present sympathetic to its cause but that this will not continue for ever.

Benefit

But few businessmen see aid as being the issue. They believe SA will only receive marginal amounts.

SACOB economist Ben van Rensburg says UN development agencies have put aside $75-million for the whole of sub-Saharan Africa. He says Namibia receives only R100-million from all the development agencies, while SA alone pumps in R800-million a year.

Nedcor chief economist Edward Osborn says SA must not become dependant on aid anyway. He says the benefit lies in the treatment accorded to SA by the industrialised countries, which are the primary markets of the world.

He says this will benefit SA industry that is up against stiff competition and is not internationally competitive.

Osborn says reclassification must be a long-term issue to be reviewed every 10 years.

However, a BMW spokesman says that as SA is going to have an interim government, it also needs an interim trade arrangement.

He says SA should downgrade just until it gets back on to its feet again. He says there is a tremendous danger SA will start to rely on preferential trade and cannot stand on its own feet.

Trade talks crisis with US to top EC agenda

CT 26/10/92 (74)

LUXEMBOURG. — The crisis between the United States and the European Community over crucial world trade talks will top the agenda when EC farm ministers meet today.

At stake is a potential $200bn a year boost to world trade and a route out of recession, or a descent into a bruising world trade war that could turn recession into slump in a number of countries.

Among the 12 ministers around the table in Luxembourg, French Farm Minister Jean-Pierre Soisson will be effectively isolated in holding out against a deal to clinch the more than six years of talks to cut away international trade barriers under the General Agreement on Tariffs and Trade (GATT).

For its part, the French government, facing national elections within six months, is anxious not to further alienate its already irate farmers by agreeing to a deal slapping tighter curbs on grain output.

Prime Minister Pierre Beregovoy said on Saturday that France would go no further in concessions than what was agreed in this year's reform of the EC's Common Agricultural Policy (CAP).

But US President George Bush, still trailing in opinion polls barely a week before the November 3 presidential elections and keen to claw his way back into the race, has to weigh the electoral costs of holding out against a deal that could hurt farm voters or signing the accord that could give a much needed boost to the whole economy over the next decade.

SPOT DESK

Charts point to twin troughs — and Doomsday

BDAY 28/10/92. (74)

SIMON WILLSON

THIS week's big event in the foreign exchange market does not appear on dealers' fat, at-a-glance console calendars. It will not have featured in any briefings by analysts before trading opened this morning. The week's grand market happening may not rate a mention anywhere in the world media but in SA.

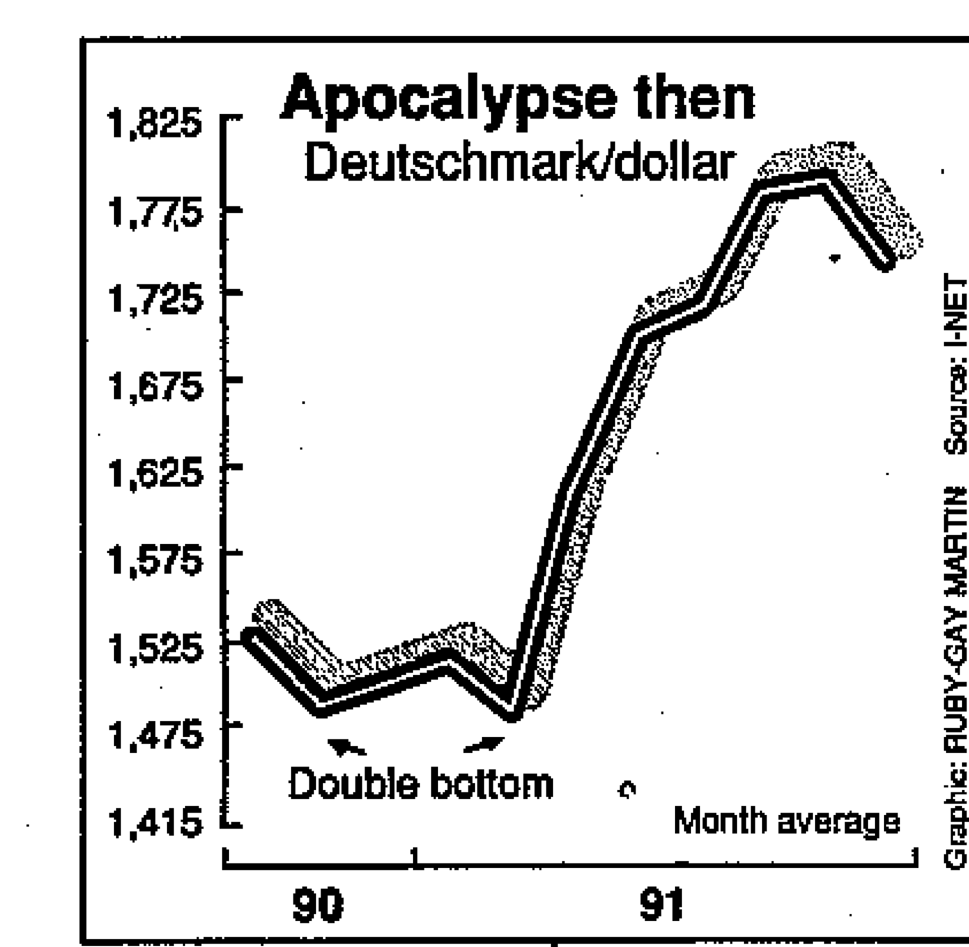
Nevertheless, were this incident to occur by midnight as scheduled, currency trading would be temporarily interrupted. The occurrence at issue here is the end of the world.

Not the Smith-Tuttle Comet episode, which some Australians (inevitably) believe will close earthly proceedings in August 2116. No, this particular terrestrial termination is due slightly sooner. Today, in fact.

It was the Mission for the Coming Days Church of South Korea which, earlier this year, concluded from a few celestial charts that October 28 1992 was Doomsday. The impending end of the world lends new significance to any trader taking an open position. If, after Doomsday, the dealer is not around to cut the position, the exposure could run unattended for aeons, breaching limits and posing a serious threat to Treasury profits. Prudent traders will surely square off at the close today to avoid this risk.

Since the Mission for the Coming Days Church used charts to arrive at today's inconvenient doom date, it seems only appropriate to devote what might be the last Spot Desk for some time to what the charts are saying about the dollar. While it is easy to belittle the art of spying outlines of bunnies and choo-choos and used car salesmen's lapels on forex graphs, technical analysis has its moments of chilling serendipity. We could be in the middle of one now.

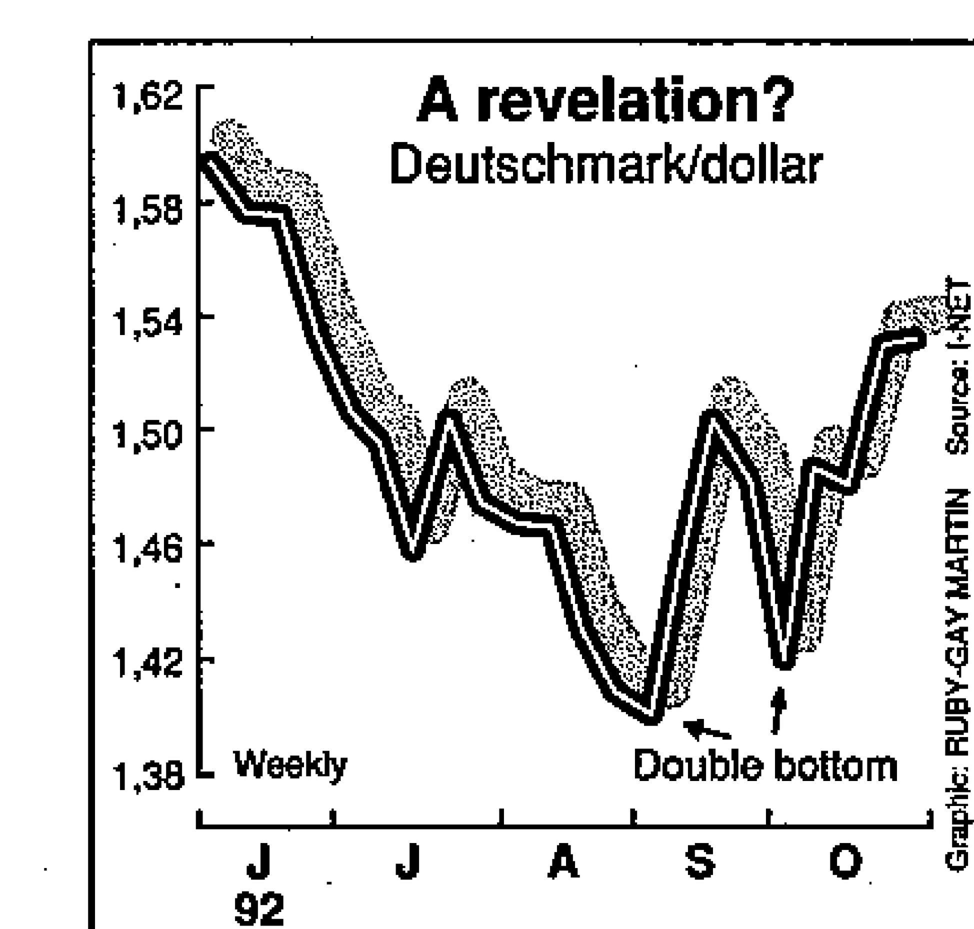
The first chart shows the dollar's steepling rally at the end of the Gulf war in early 1991. Economic fundamentals at the time did not point to a dollar surge of these proportions: the US economy was sinking into the first of the sequence of dips in its latest recession and sales, production and confidence indicators were falling in unison.



But the technical charts showed a double bottom in the Deutschmark/dollar trace, first at DM1,4625 in mid-November 1990 and then, after an aborted rebound to DM1,5545 in mid-January 1992, in another trough at DM1,4430 a month later. From the base of the second trough the dollar soared to DM1,8430 in July 1991 and had to be headed off by concerted central bank intervention.

Technical analysts take the double bottom as a rally signal because it indicates two unsuccessful tests of an existing low, signifying a rich underlying stratum of buying interest. As the second chart shows, there are significant similarities between the dollar's November 1990-February 1991 double bottom and another twin trough that has taken shape in the past two months. From its new record low of DM1,3865 at the beginning of September the dollar rebounded to DM1,5310 a fortnight later and then slumped back to DM1,3895 at the beginning of this month. Now it has rallied again and has broken above the DM1,5310 peak between its most recent twin troughs.

The dollar's last double bottom rally saw it put on 40 big figures in five months: who, as Doomsday dawns, can say that the 1992 twin trough will be any less potent?



Underlying fundamental conditions are disturbingly similar. The US economy is still in a stall, indicators in the real economy remain becalmed and confidence restricted. As in 1990-91, weak economic performance is a big factor in dollar weakness.

In the economic gloom of early 1991, the dollar needed a psychological stimulus to set out on its double bottom rally. This was provided by the swift victory of the Desert Storm campaign in the Gulf, which boosted consumer confidence. Although it fizzled out later, the confidence revival was reflected in the consumption and production indicators of the real economy. Where is the 1992 parallel of the stimulus provided by victory in the Gulf?

It could be found in Tuesday's presidential election. Whoever wins, a major source of uncertainty will have been removed and may find expression, as the success of Desert Storm did, in a bulge of better economic indicators. But before any of this can happen, we need the Mission for the Coming Days Church's forecast for today to have been wrong. Spectacularly so.

LETTERS

Capital outflow shows slowdown

BDAY 28/10/92 (74)

GRETA STEYN

SA's foreign capital situation held up well in the third quarter in spite of escalating violence, economists' calculations show.

Economists said early indications were there had been a marked slowdown in the capital drain. This would represent a turnaround from the second quarter of this year, when R1,9bn had left the country as a result of adverse political factors.

However, economists said an improvement could be expected once the third-quarter figures were released — this was indicated by the rise in foreign exchange reserves despite a small current account surplus and large foreign debt payments.

The Reserve Bank was not able to confirm or deny balance of payments projections as it was still compiling statistics. Gold and foreign exchange GM James Cross noted, however, that foreign exchange reserves had held up well over the period.

The current account surplus for the third quarter is estimated at about R600m — sharply down from the R1,32bn surplus notched up in the second quarter. Foreign debt falling due (more than R1bn) exceeded the current account balance.

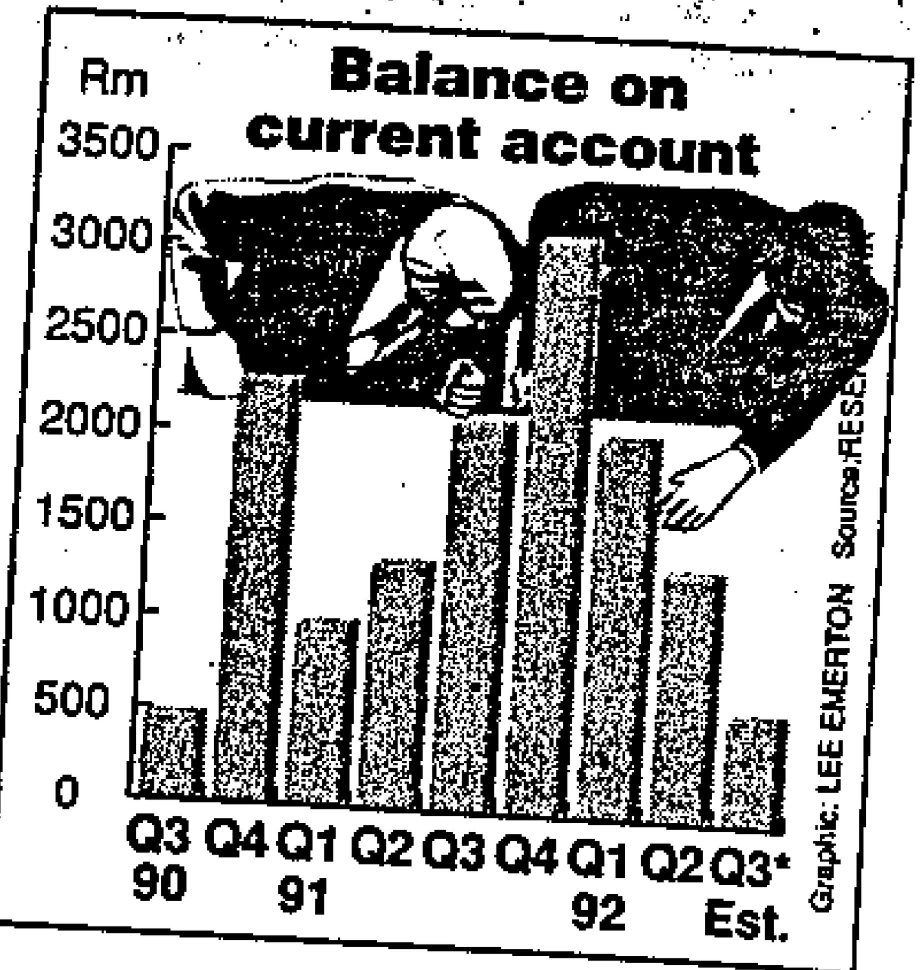
The current account is the trade balance less net payments for invisible trade.

Nedbank chief economist Edward Osborn said it was possible there had been a rollover of debt outside the standstill net falling due in the third quarter. Debt inside the net ($180m) had been repaid. He said it was possible a rollover of the remaining debt had been arranged at the beginning of the year, before the political situation had worsened.

Gold and foreign exchange reserves rose by R584m in the third quarter.

The difference between the current account surplus and the change in foreign reserves could provide clues as to foreign capital movements, AHI economist Nic Barnardt said.

The calculation indicated a small capital outflow during the quarter. However, Barnardt cautioned against drawing too firm conclusions from this calculation as the available figures for changes in foreign exchange reserves did not include those of the banking sector. Movements of currency between the Reserve Bank and the banking sector could be mistaken for capital outflows.



Shares slide as gold hits 10-week low

74 ~~MERVYN HARRIS~~

GOLD was fixed in London yesterday afternoon at a 10-week low of $338,25 to send shares broadly lower on Diagonal Street, with turnover extending its dramatic slide of the past week.

The metal touched a session low of $336,50 before edging back to close at $338,25 as support emerged at the lower levels. The fall was ascribed to Middle East sales, modest producer selling, dollar strength and jitters ahead of the US presidential election which was keeping the market on the defensive.

Edey, Rogers & Co analyst Keith Bright said the severity of gold's decline surprised the market. BDM 28/10/92

Gold shares tumbled in the wake of the falling price of the metal with the 4% drop in the all gold index to 822 points dampening sentiment on the rest of the market.

Dealers said institutions remained on the sidelines apart from several bookover deals of large lines of quality shares which helped boost market turnover yesterday.

Against the R100m generally needed for brokers to break even, turnovers declined to R65,3m on Thursday, R50,6m on Friday and R48,4m on Monday.

Financial institutions are said to be reserving cash to fund the proposed R6,3bn Alusaf aluminium smelter project, the R2,4bn Royal acquisition of Del Monte Foods International and the R600m Stanbic rights offer.

Analysts said more rights issues could be on the cards, and further down the line funding would be needed for the R3,1bn Columbus stainless steel venture.

They also cautioned that the sluggish world economic recovery and escalating violence in SA could delay even further a domestic uptick and put more pressure on corporate earnings and dvidends.

This could prompt a re-evaluation by institutions of investing in leading shares relative to returns obtainable on alternative avenues of investment.

"The weight of institutional funds theory, which would continue to support shares, works when times are good but not when shares no longer produce value," an analyst warned.

SACOB CO

Capital inflows scarce, says Stals

BDay 29/10/92. (74) (4?)

SHARON WOOD

DURBAN — SA could not rely on any significant net capital inflows from the rest of the world over the next few years, Reserve Bank Governor Chris Stals said at the Sacob annual convention yesterday.

SA's precarious position in world capital markets made it impossible to rely on net capital inflows for funding of current account deficits, he said.

"For the time being, SA remains in the straight-jacket of having to retain a surplus on the current account of the balance of payments at all times," he said.

A surplus would be possible only if SA retained disciplined monetary and fiscal policies and retained exchange and interest rates that would enable the country to become more competitive globally.

The need for continued export promotion remained, but the emphasis should shift towards greater efficiency that will only be at the cost of the standards of living of the SA people."

Stals said SA's balance of payments remained vulnerable and would almost certainly not continue to be as favourable as it had been over the past eight years. It had already begun to shrink this year.

The fight against inflation would lend full support to protecting the balance of payments, he added.

Meanwhile, the Border Chamber of Commerce motion criticising the Reserve Bank's restrictive monetary policy was put on hold at the convention.

The delegates agreed the motion should be handed over to the Sacob economic advisory commission for review.

The motion called on the economic authorities to re-examine the appropriateness of the current policy of high interest rates, to address the government's deficit before borrowing, to look at the conflict between monetary and fiscal policies, to take steps to resolve inadequate competition and to deal with wages and salaries.

One delegate said it was important that real interest rates remain high to prevent inflation from rebounding.

The motion also called on government to formulate a coherent macroeconomic strategy. Another delegate said governemt was doing this already and the motion should rather call for government to reveal its economic plan as soon as possible and then to commit itself to rapidly implementing the plan.

SOWETAN Friday October 30 1992

Company provides loans to buy taxis

■ **Members will also be helped to start other businesses:**

By Joshua Raboroko

THE Nafcoc-affiliated National African Federated Transport Organisation has launched a scheme involving millions of rands to help their members buy vehicles and start businesses.

The organisation has formed the Dewline Enterprise Long Distance Transport Company Ltd which will make loans available to potential taxi owners and shopkeepers.

The company already has R4 million in its coffers.

At a Press conference this week the company's managing director, Mr Lebina Mofokeng, said the company consisted of 28 Nafto associations in the Transvaal and Orange Free State who wanted to improve the standard and quality of the taxi industry.

Members were expected to buy the maximum of 6 000 shares. The money would be deposited in a bank and be used to buy vehicles.

About 150 of their more than 4 000 members had already benefited from the scheme, he said.

The company offered security and provision would also be made for old vehicles to be improved and be insured against theft, riot damage and robbery.

Lebina said that the association had built three large supermarkets in Petrus Steyn, Kroonstad and Vereeniging.

SA told to join Africa

■ **Research shows this will create economic opportunities:**

SOUTH Africa has been urged to enter into new economic pacts with the rest of the continent.

A study commissioned by the SA Chamber of Business and released in Johannesburg this week has outlined the crucial importance of co-operation with African States.

The Africa Institute of SA, which carried out the research, says progress towards full international acceptance will strengthen commercial and other bonds.

Researcher Dr Erich Leister says the African countries welcome these developments and look forward to South Africa joining regional groupings such as the SA Development Community and the Preferential Trade Area for Eastern and Southern Africa (PTA).

Western leaders and development agencies hope that South Africa will help to promote development and stability in the region.

Govt 'would like to get rid of finrand'

BDAY 30/10/92

THEO RAWANA

(74)

GOVERNMENT would like to get rid of the dual exchange system, but it was not possible to do so during the transitional period, President F W de Klerk said in Verwoerdburg last night.

Opening the new SA Mint complex, De Klerk said he knew the sharp decline of the financial rand and its volatility had evoked critical reaction from overseas investors.

"There is unfortunately little we can do about this, although the Exchange Control Authorities will in future monitor more carefully the effect of foreign investments by SA companies through the financial rand," De Klerk said.

De Klerk said government hoped the financial rand would be more stable in the period ahead.

He said government hoped to develop practical programmes in the National Economic Forum set in motion with organised business and labour yesterday to create a business climate conducive to economic growth.

But he said government would resist the temptation to resort to populist policies as a means of reviving the economy.

The benefits to be derived from such a policy would only be of a short-term nature, De Klerk said.

"We realise that the economy needs basic improvements in its structure and the Central Economic Advisory Services are well advanced in drafting a normative economic model for SA.

"This will be a basis for discussion with all interested parties."

Good progress had been made to restore financial stability, essential for future economic growth, De Klerk said.

DEBATING TARIFFS

FM 30/10/92

That hardy perennial, trade and tariff policy, featured prominently at the annual SA Chamber of Business convention this week in Durban. (74)

Trade & Industry director-general Stef Naudé again took the opportunity of expressing government support for a "managed" reform of SA's high levels of tariff protection. But convention delegates did him one better — they adopted a resolution calling on government to implement the recommendations of the strongly reformist 1990 Industrial Development Corp tariff report.

Naudé claimed, however, that SA's situation is different from that in countries such as Argentina and Mexico, which are often held up as examples of how SA should liberalise its economy.

"Never before was any country expected to perform a fundamental political reform while simultaneously undertaking fundamental economic restructuring," he said. "But there is no doubt that SA cannot hope to escape the challenge of meeting global competition."

Naudé believes that SA could not meet this challenge with over-protection or subsidies but that lower tariffs should only be part of an economic package that includes lower taxes and other reforms.

WORLD ECONOMIES FM 30/10/92

Waiting for liftoff

Demand, arrested by debt and demographics, will return

The reluctance of Western economies to break decisively out of the debilitating recession, into which they have drifted, is the cause of frustration everywhere and, as unemployment rises and business failures mount, growing and increasingly personal hardship.

This is a recession quite different in origin and nature from others. To see it through requires unusual reserves of fortitude which can draw at least some sustenance — if not comfort — from an examination of the causes. Therein, too, lies its antidote.

The causes are complicated and need to be synthesised from the boom-and-bust cycles characteristic of market economies, accepted by orthodox economic theory and abhorred by the romance of the collectivists.

Like alchemists, who tried for centuries to turn dross into gold, economists too often dream of controlling the business cycle. In the Sixties, when the US had the longest expansion since the middle of the last century, many believed the business cycle had been brought under control through skilled demand management.

In the Eighties, when that country achieved the second longest period of economic growth, they theorised that the cycle was waning, as sound monetary policy eliminated destabilising inflationary forces.

Now, with the Japanese economy hopefully reaching its lower turning point, output in Britain contracting at a slower rate and other western European economies losing growth momentum, the US's latest brief and shallow recession — July 1990-July 1991 — is ominously threatening to return. Says Rand Merchant Bank economist Rudolf Gouws: "Growth since the lower turning point in July 1991 has amounted to about 1,5%, unlike the period following the lower turning point in 1982 when growth of 5%-6% occurred during the first 18 months."

There is talk of "a contained depression." Some also fear the business cycle has expired at its lower turning point because of structural changes — political and economic — in the world's largest countries.

But it is important to remember that this pessimism is based not on fundamental analysis but disappointed expectations. Research published in 1988 by University of Chicago economist Victor Zarnowitz showed recessions were becoming shallower; that, in the 70 years before 1945, contractions lasted for about two-fifths of the average cycle while, after 1945, they averaged only about a fifth of it. Moreover, the previous post-war recoveries had been vigorous.

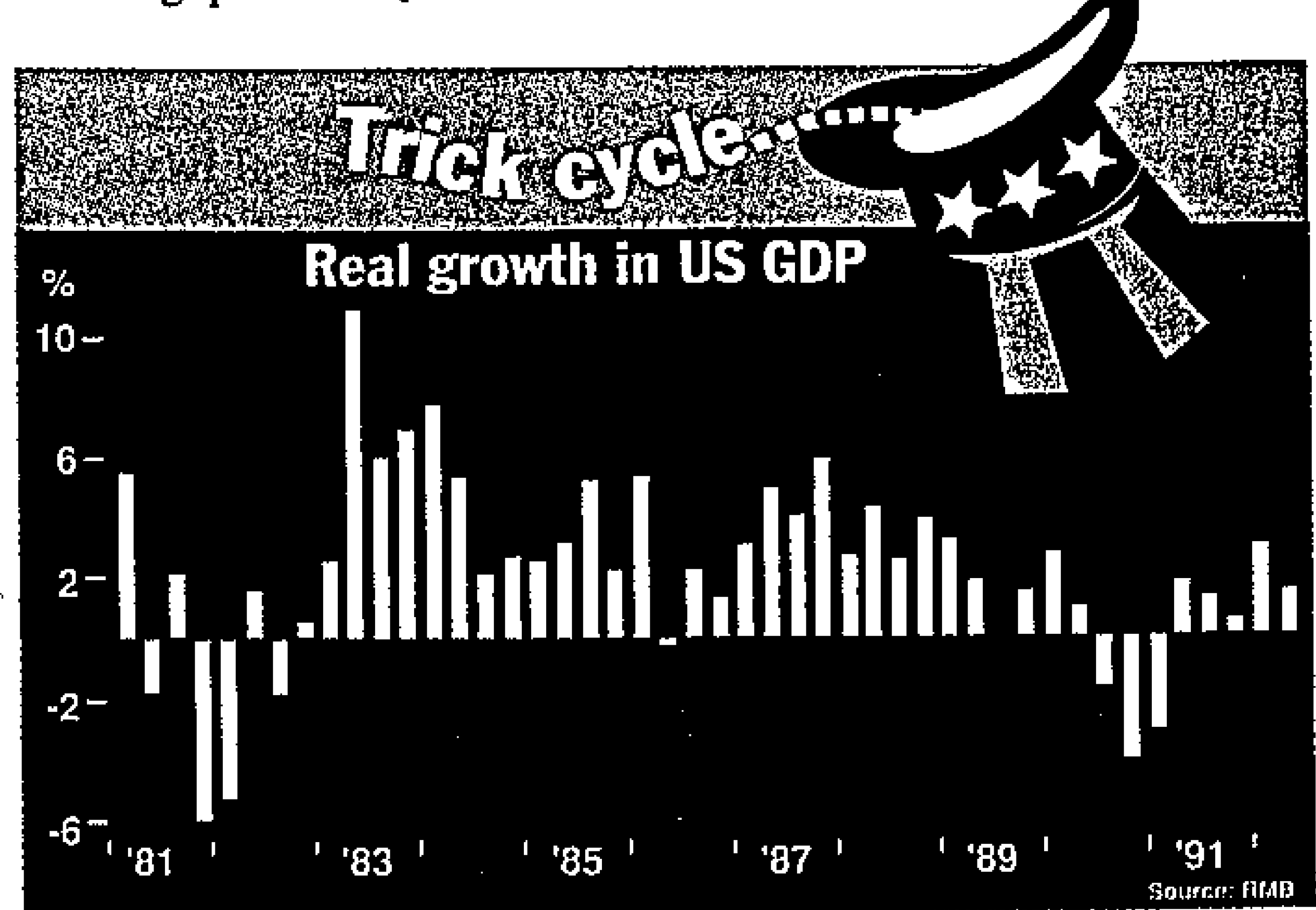
Faced with what is either a faltering recovery or a prolonged recession, voters are preparing to throw President George Bush out of office in the US election next week. In the UK, where a recovery has yet to materialise, PM John Major has been facing rebellion in his own ranks over economic policy decisions.

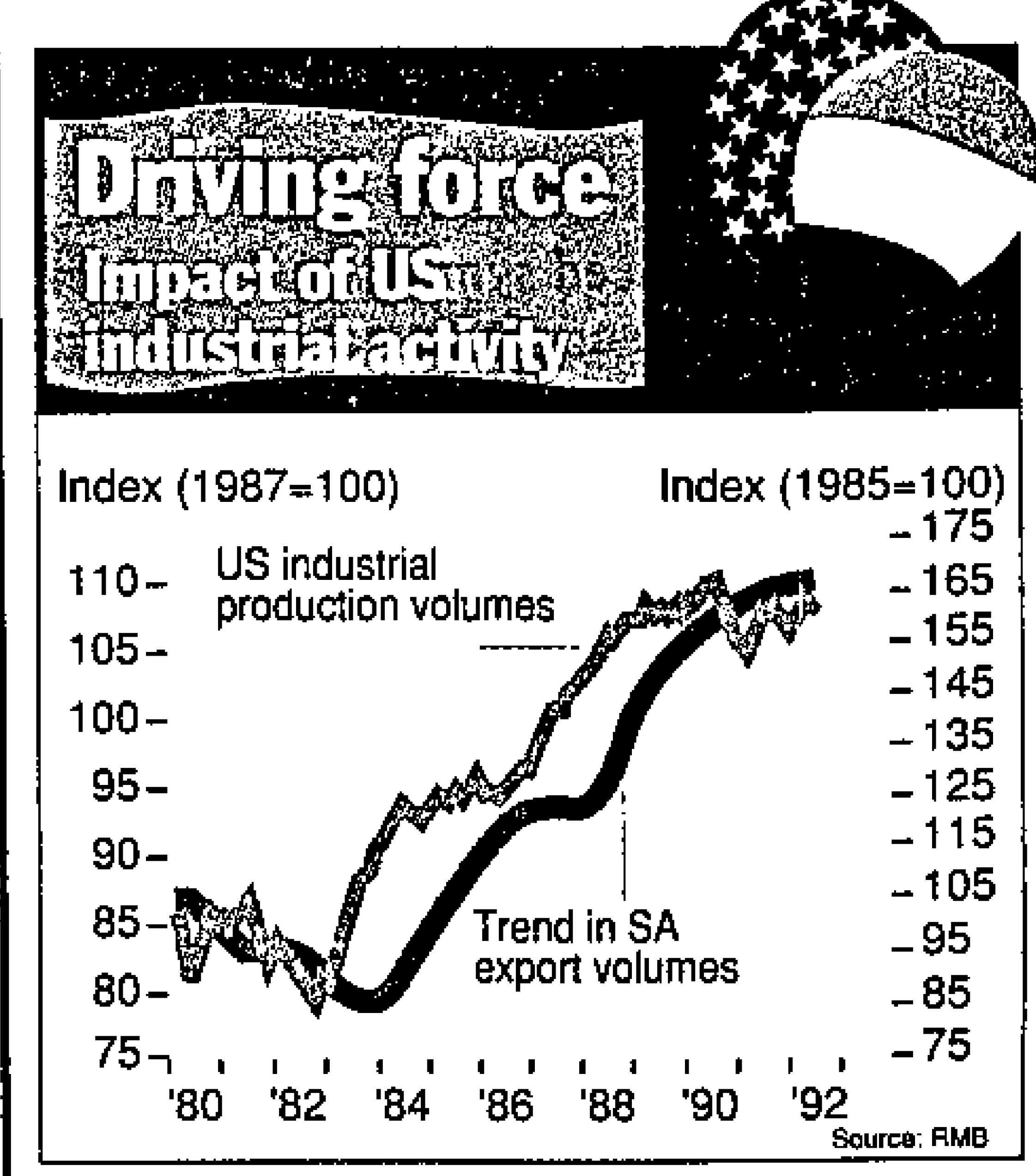
Perceptions are no trivial matter. They have a profound impact on consumer spending, which is the largest component of total output as measured by GDP. Given the close and growing inter-relationship of the world's economies, the problems of every country has implications of varying degree for others.

So the distortions in the US business cycle are of crucial importance everywhere.

Zarnowitz and Columbia University economist Geoffrey Moore describe three types of change in the cyclical behaviour of market-orientated economies: long-term trends that are irreversible; temporary changes that may or may not continue; and cycles of cycles. Though only the passage of time can accurately distinguish one from the other, it is possible to theorise about a number of important changes. In research published this week, Graham Boyd, economist at JSE stockbrokers Simpson McKie, identifies three long-wave cycles at work in the US, neutralising the current business cycle.

One is the fall in residential property values; and, a second, closely related, is the need to reduce household debt from the high levels of the Eighties.





The extent of the fall in house prices was recorded in the US magazine *Business Week* in March: "The average sale price of a new home, adjusted for inflation, has fallen by nearly 8% since the end of 1987."

The trend was not confined to the US (see graph). In the UK, according to the *Financial Times*, house prices in some regions have dropped by 25% over the past four years. *The Economist* reports that a recent study by Morgan Grenfell showed 1,5m homes (more than one in 10) are worth less than their mortgages. In Japan, household net worth fell from 8,71% of disposable income in 1989 to 8,54% in 1990 and declined further in 1991 and 1992.

In the US, demographic changes have played an important part in this development. From the late Sixties, through the Seventies and for much of the Eighties, children born in the population bulge of 1947-1957 were reaching adulthood, marrying, having families and buying homes. They kept demand rising.

But the baby-boomers did not perpetuate the population bulge — for many reasons including improved contraception, greater career opportunities for women, and changed perceptions of people's roles in society. Birth rates began to slide in the Sixties and, according to the *Encylopaedia Britannica,* the US entered the Seventies with the lowest birth rate in its history. "In 1970 the number of births per 1 000 population was 18,2; by 1972 it was 15,6."

Not only was population growth slowing, life styles were changing. Moreover, inflation rates, the ally of every borrower, were

Continued →

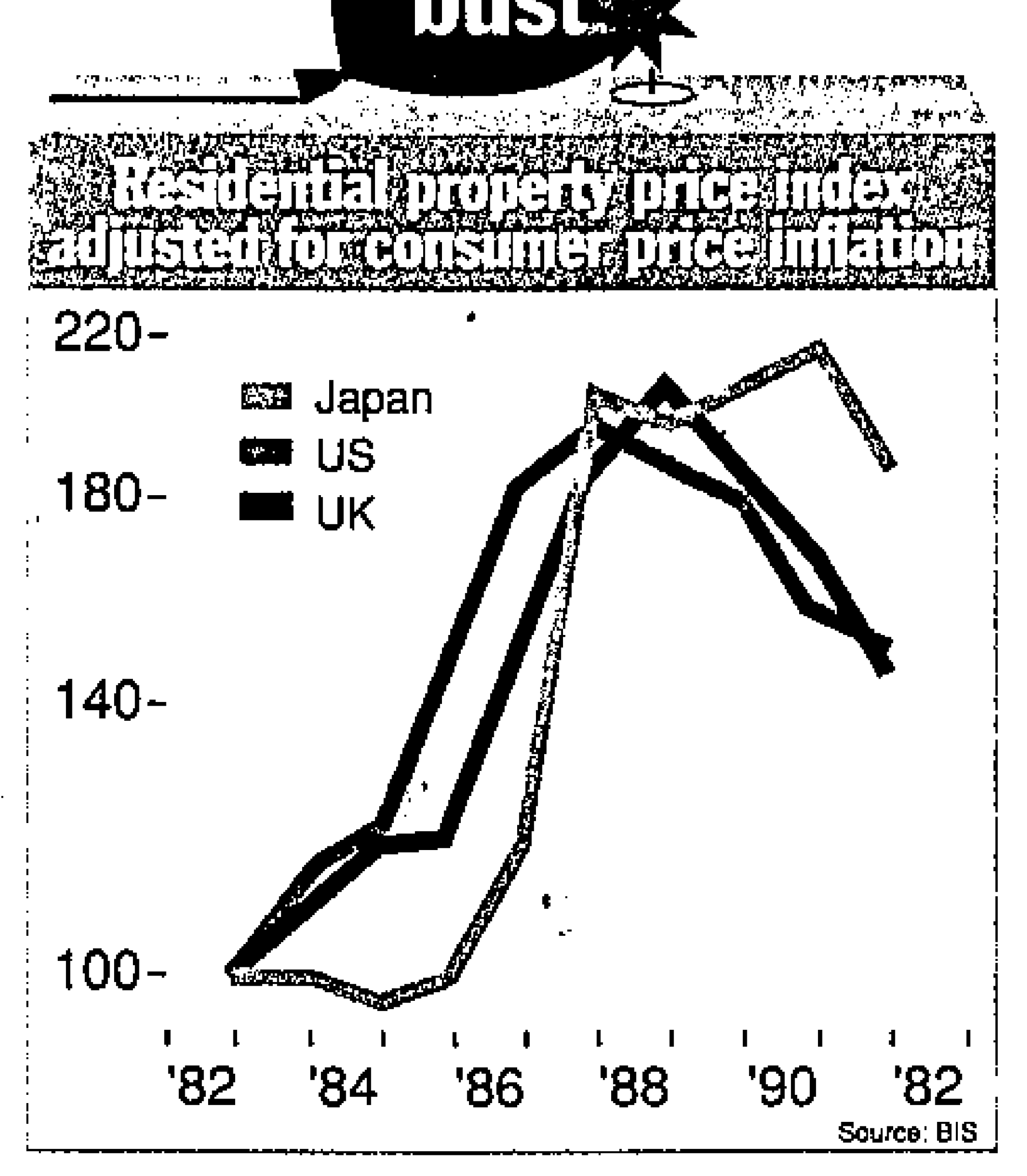
falling — by the second quarter of 1992 the broadest measure of inflation rose only an annualised 1,5%. So monthly repayments did not decline much in real terms. Houses became less attractive investments, though demand was sustained till the late Eighties as rising asset values fuelled the credit boom. This build-up of household debt was to levels that the IMF's *Economic Outlook* for 1992 describes as "a major force in the business cycle." Reducing this debt is restraining consumer spending.

The lowest short-term interest rates in nearly 30 years are not stimulating housing demand because long-term rates, which apply to mortgage loans, remain high.

These events began to drive down property values, which made homeowners feel poorer — and even less inclined to borrow or spend.

Balance sheet adjustments will reduce debt levels to allow restoration of demand for credit. But the population dent will be present for longer. US Bureau of Census figures show births per 1 000 dropped to 14,6 by 1975, before rising again to 15,9 in 1980, 15,7 in 1985 and to 16,7 in 1990. It is difficult to quantify the impact on housing demand but "a controversial prediction by two Harvard economists in 1988," says Boyd, "was that real house prices would fall 47% by 2007."

He believes the present upswing in the business cycle has fallen short of expectations because changes in asset values are not tracked by econometric models. Thus forecasts failed to predict the vigour of the previous boom and they overestimated the strength of the current recovery.



The third long-term cycle identified by Boyd is that of the US budget deficit. "Activist fiscal policies have been cited by many mainstream thinkers as the primary cause of the diminished ferocity of the business cycle. However the limits of such policies are eventually reached and this is what has happened in the present cyle. Now any policy which exerts upward pressure on interest rates is likely to prove self-defeating."

The relative importance of these factors is, of course, open to interpretation. Sir Alan Walters, economic adviser to former UK PM Margaret Thatcher (he is now based in Washington) and vice-chairman of AIG Trading Corp, attaches great importance to the slow growth in US money supply — M2 the aggregate targeted by the Federal Reserve rose only 1,7% in the year to August, well below the target range of 2,5%-6,5%. He tells the *FM* that this is partly due to the failure by the Fed to increase the reserves of the banking system. "The Fed should have carried out open-market operations that ensured a reasonable expansion."

He cites the failure of the Uruguay Round of Gatt talks to reach agreement as an impediment to growth.

Whatever the reason, the man who emerges successfully from the US election will be expected to find a quick fix. It would not be wise to place too much on the sustainability of any mad rush for growth.

"Unfortunately for him," says Sankorp economist Peet Strydom, "he will not have the fiscal opportunities presented in the early Eighties because of the US$350bn budget

Continue — P →

deficit." That is the major challenge.

Events outside the US have also disturbed the cycle — the most important being the restructuring of eastern Europe. The reunification of Germany in 1990, for instance meant a 20% fall in eastern Germany's GNP reduced Germany's growth overall to 2%, compared with the expected 3,2%.

But the cost was not contained in Germany. The decision of the former West Germany, to absorb the East German currency at parity, has had consequences for the rest of the world. The move sent an inflationary impulse coursing through the German economy — which had to be suppressed with high nominal interest rates. Last December, with inflation running at 4,1%, the Bundesbank raised its discount and Lombard rates by 0,5% to 8% and 9,75%.

Following a one-percentage-point cut in the US discount rate, that month, to 3,5%, the lowest level since July 1963, money flooded out of dollars into D-mark. This sent the value of the D-mark soaring — at a time when the EC was attempting to achieve monetary union. Attempts to align European currencies meant economies, such as the UK where inflation was subsiding, had to keep their rates at inappropriately high levels to maintain the value of their currencies (*Leaders* September 25).

Uncertainty on currency markets, associated with these destabilising capital flows, undermines confidence further. Though once resolved, the realignment of currencies may leave interest rates in closer accord with the needs of each country — and therefore growth prospects will improve.

There has, in addition, been a squeeze on resources as events in eastern Europe created a demand for capital to revitalise failing economies — at a time when a major supplier, Japan, has retreated. Since 1989, when the Bank of Japan began to squeeze money supply, the value of land and equity has plunged. This eroded banks' capital bases and forced them to reduce lending.

Initially, the emerging constraints were contained in the financial markets, but now Japanese GNP, which reached a peak in the second quarter of 1991, is flattening. It grew only an annualised 1,1% in the second quarter of 1992. A stimulatory package worth $87bn, announced in August, is expected to show up in the figures later this year. But it will be a while before Japan's lending capacity reaches its former levels.

These developments have already caused sweeping revisions to economic forecasts. A year ago, the IMF predicted GDP growth in the industrial world would be 1,3% in 1991 and 2,8% in 1992. Actual growth in 1991 turned out to be 0,6% and a recent forecast for 1992 put growth at 1,7%. But this was before the recent currency crisis.

On the positive side, inflationary pressures are falling. In the second quarter, the broadest US measure of inflation rose only 1,6% annualised. And, with the economy growing at below its potential of about 2,5%, says *Business Week*, it can't generate price pressures. Household debt levels in the US are subsiding — from 94,5% of disposable income in the third quarter of 1990 to 90,1% in the second quarter of 1992. This comes after a steady rise from about 70% in 1984.

Moreover, "economic activity in the developing world has been relatively resilient," according to the IMF's *World Economic Outlook*, "partly as a result of recent reductions in macroeconomic imbalances" — no doubt as a result of the application of IMF-inspired orthodoxies.

Perceptions, too easily influenced by disappointments, need to be reformulated on the basis of fundamental economic analysis, the principles of which have not changed though the influences on it clearly have.

Ultimately, of course, most countries are reliant on the Western economic growth to absorb their exports. SA is no exception. But that is no reason for paralysis here. We don't have to wait for favourable developments in the major economies before taking constructive action. We have a fortuitous opportunity to squeeze out inflation.

Inflation erodes the value of individual spending power which is an important component of GDP. Research into recent inflation trends is identifying defects in the production and distribution chain. If these can be remedied, falling prices will increase disposable income-boosting growth.

When the world economy does recover — as it inevitably will — a more streamlined SA economy will be in a better position to take advantage of the opportunities offered quickly and effectively. ■

'Severe limitations' in new DTI proposals

W/Mail 30/10 - 5/11/92

New state proposals on developing business don't go far enough, says an economic strategist. **By GAYE DAVIS**

GOVERNMENT proposals to encourage business investment in developing new products are welcome but limited, says a University of Cape Town economist.

The Department of Trade and Industry (DTI) proposals aimed at encouraging companies to spend money on developing their capacity for innovative production are "a significant step forward", says associate professor David Kaplan, in recognising the important role of government.

But, he adds, they have severe limitations.

Kaplan, a director of the Industrial Strategy Project (ISP), was speaking at a seminar this week on research into developing an industrial policy to make South Africa competitive in world markets.

Launched in January, the ISP sees itself as a catalyst in bringing together business, labour and the government to assess what's happening internationally and devise an effective policy for South Africa.

Kaplan said the proposals put forward by the DTI tried to encourage firms' investment in new product development by:

- Offering government support, such as cash incentives.
- The promise of government using its buying power to encourage local firms' product development.
- Government identifying and supporting key future technologies, such as bio-technology.

Kaplan said the proposals were flawed in that they were not selective, offering government support for new product development across the board.

Firms of different sizes would not respond equally to the measures, said Kaplan. Nor did they address what to do with declining industries or small, individual concerns.

The proposals were "stand-alone" measures and did not form part of a broad industrial policy. This would make them less effective: the market was so structured that some firms would benefit and others would not. What was needed was a centrally specific industrial policy, differentiated by sector, Kaplan said.

A further limitation was that the proposals focused solely on new products emerging from research and development programmes, denying the importance of the role of the entire workforce in ensuring high-quality production at source.

Kaplan said it was universally accepted South Africa needed marketing growth linked to sustained export growth. The dispute was over the mechanism to achieve this.

The World Bank view was that there should be wholesale trade liberalisation, with the same incentives offered for both domestic and foreign markets. This implied a passive government role: industrial policy would simply amount to "getting the trade regime right".

He argued for an alternative approach, hinging on selective trade and industrialisation policies. For example, certain industrial sectors protected for too long would have to be exposed to greater competition to encourage them to spend more on developing export markets.

There should be different tariffs and measures for each sector rather than the same for all. This meant government would have to play a more active role in determining industrial policy, Kaplan said.

Firms, left to face the winds of competition, would not necessarily improve their productivity. There was ample evidence that firms facing stiff competition would under-invest in innovation activities (their ability to increase their capacity to produce competitively).

"Countries succeeding in long-term growth of exports have relied heavily on selective trade and industrialisation policies," said Kaplan.

David Lewis, also a director of the ISP, said a coherent industrial policy would recognise failures in key factor and production markets, such as the manufacturing sector's "notorious incapability" of delivering in the important areas of job creation and increased exports.

Investment in infrastructure to sustain growth, create jobs and cater for developing skills and training was insufficient. Simply leaving everything to the market would not remedy these problems, he said.

South Africa's relations to the world economy and its domestic markets meant restructuring would happen "whether we want it or not". Failure to restructure would exacerbate the severe balance of payments problems which now hamstring South Africa's attempts to enter world markets.

"Our options are to leave everything to the market and see what comes out in the wash of a highly deregulated system; get into severe balance of payments problems and wait to be bailed out by the International Monetary Fund — or what we are advocating, which is a pre-emptive restructuring programme based on an industrial strategy guided by coherent policies," Lewis said.

Doors to Canadian trade open for SA

ST Times (BUSS) 1/11/92 (74)

By MICHAEL WANG

AFTER regarding Canada as a no-go area for trade, South Africa is beginning to focus on several markets there.

Although still in its formative stages, Canada's huge mining industry and its appliance manufacturing business are areas for exports, says the South African Consul in Toronto, Paul Pieterse.

"People think there are across-the-board sanctions," says Mr Pieterse. "In fact, sanctions apply only to food products (edible and potable), uranium and coal."

An example of the increased interest in trade was the turn-out of SA exhibitors at a mining trade fair in Sudbury, Ontario, Canada's nickel capital.

Knock

"Eight companies came in, including Barlows and Anglo, and seven-and-a-half went home happy," says Richard Hales, a veteran trade officer at the consulate.

Mr Hales says Canada is a market for hinges and other components for appliances.

"South Africa can competitively price these items, even on small production runs."

However, the image of SA as open for business has taken a knock.

A SA trade forum in Toronto was billed as the first of its kind in North America in almost 10 years, but it ended in disaster, says Mr Hales.

An impressive cast of speakers including David Graaff, Deputy Minister of Trade and Industry, Tito Mboweni, the ANC's trade and industry co-ordinator and Barlow Rand chief economist Peter Haasbroek attracted more than 200 Canadian businessmen.

However, the event was overtaken by events in SA, specifically the Boipatong shooting. Instead of imbuing Canadian businessmen with a favourable impression of trading potential, the speakers engaged in mudslinging.

Moreover, the conference laid bare the hitherto papered-over differences between the ANC and the Government regarding the timing of foreign investment.

In a thinly veiled shot at the ANC, Mr Graaff said business was "not like a water tap that can be turned on and off". He told potential investors that an investment today would not translate into a return for at least two years when "there will be a democratic government in place".

Mr Mboweni countered by suggesting that "business and politics are too intertwined (in South Africa) to support investment now".

The upshot of the mixed messages left open-minded businessmen shaking their heads. One said: "I came to be seduced. I was not seduced."

Although the incident has set back SA's business awareness campaign, the consulate shrugs it off.

Mr Pieterse says there are obvious advantages for SA exporters in targeting Canada as a door to the North American market.

"Where you might lose your shirt in Los Angeles or New York, the Canadian market is more manageable and more concentrated," says Mr Pieterse. "Eighty percent of the market is between Montreal and Toronto."

Mr Pieterse says that culturally Canada is closer to SA than the US.

Still, North America rates behind Asia and Europe as a destination for SA goods.

SA runs a slight trade surplus with Canada. In 1991, SA exports amounted to R300-million, mostly metals and mining equipment. By comparison, Canada exported goods, mainly wheat and sulphur, worth R276-million to SA.

This is well down from combined trade of R1,2-billion in 1986, the year before trade sanctions were imposed.

Paradise

Canada holds the dubious distinction of being the world's largest trading nation still maintaining trade sanctions against SA — a policy Ottawa is finding increasingly difficult to justify as other nations open their doors.

In concert with other Commonwealth states, that policy is unlikely to change until an interim government has been agreed on.

However, Canadian sanctions are being undermined. Last September, a delegation from the Canadian Exporters Association spent a week in SA kindling contacts.

"South Africa is not a paradise, but there are lots of opportunities for Canadians," said CEA president James Taylor, who has since died.

Most of the industries that were represented on the trip — transport, communications and technology — have received an effective carte blanche from the Canadian Government to trade with SA.

Safto plans Asian missions

BDAY 2/11/92.

MARCIA KLEIN

SAFTO is to take three trade missions to Asia early next year, including the first official business mission to India and the first SA trade mission to the Philippines.

The missions to India, the Philippines and South Korea, and Singapore, Thailand and Malaysia, are aimed at exploring business opportunities in some of the world's fastest growing markets.

Safto Asia and Australasia manager Graham Limerick said at the weekend the mission to India was a major breakthrough.

India had been the first country to impose sanctions on SA in 1948, and although sanctions were officially still in place, the Confederation of Indian Industries had officially invited Safto to bring a delegation to the country.

(74)

Limerick said the Pacific Rim was a major growth area, with no barriers to entry in the form of high tariffs.

He pointed out the European market was closing, the Americas were tying up into trading blocs and the African market was shrinking.

It was well known that SA's economic recovery would be driven by exports, and the Pacific Rim was one of the few areas open to dynamic growth, he said.

It had an import bill of more than $830bn, with total GNP of $3 500bn.

The Indian mission was planned for February to coincide with the 10th Annual Indian Trade Fair in New Delhi.

Keys takes delegation to Taiwan

ANDREW KRUMM

FINANCE Minister Derek Keys' current visit to Taiwan could open up opportunities for SA companies to take part in a $303bn capital expansion programme in the Republic of China over the next six years.

Keys left at the weekend at the head of a delegation that includes Trade and Industry director-general Stef Naude. He will meet his Chinese counterpart at the 12th Ministerial Economic and Technical Co-operation Conference in Taipei.

A statement by the Department of Trade and Industry said Taiwan's latest six-year national development programme was on the conference agenda and could hold the possibility of new business and job opportunities for SA companies.

"The six-year plan comprises capital projects worth $303bn. SA companies can participate in some of these," the statement said.

Keys would meet senior Taiwan government officials.

India on the ball in SA's markets

PETER DELMAR

DESPITE decades of political hostility and continuing trade sanctions, Indian businessmen were visiting SA at the rate of 120 a month, a Safto spokesman said yesterday.

However, Safto executive Paresh Pandya said local businessmen were not reciprocating the interest shown by their Indian counterparts and were neglecting valuable opportunities.

The first SA trade mission to India was announced at the weekend and will form part of a new Safto initiative to exploit opportunities in Asia.

Safto has published a report, Gateway to India, which outlines that country's business environment, trade opportunities and its latest economic reforms.

Pandya said that with a population of 844-million and a ranking as the world's 18th most industrialised nation, India was an important market for SA.

Since the lifting of person-to-person sanctions by India, businessmen visiting SA included senior executives from major Indian conglomerates such as Birla and Tata.

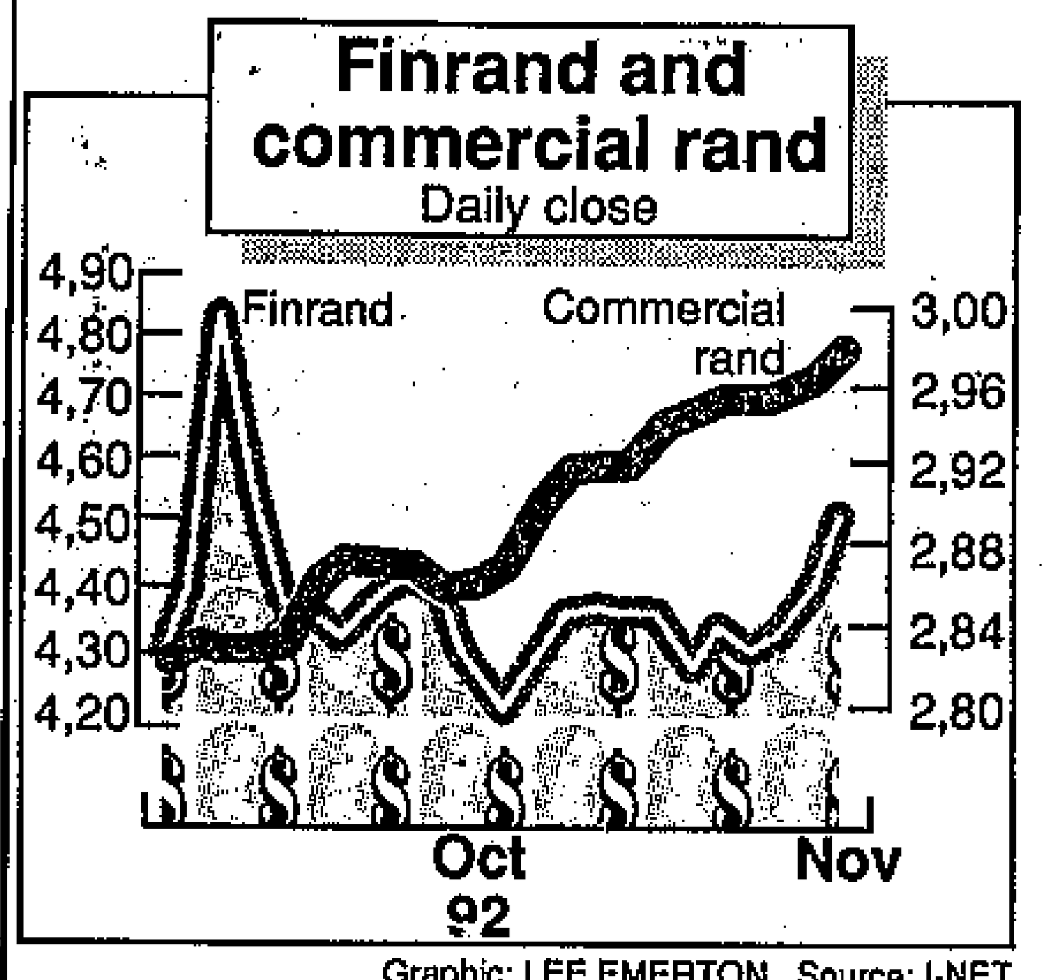
"Their visits are exploratory and research-orientated, identifying two-way trade and investment opportunities for development once economic sanctions are removed," Pandya said.

"In addition to sourcing finished goods and raw materials, most Indian businessmen perceive SA as a major supplier of industrial and scientific technology. India genuinely holds big, new potential for both suppliers and procurers."

India could be a supplier of engineering products, raw materials and agricultural products to SA, he said.

☐ A second SA business mission to Jordan is being planned for December ahead of the establishment of a dedicated distribution and warehouse facility for SA goods in Amman.

Jordan-SA Business Association chairman Mamduh Abu-Hassan said yesterday the second mission would, like the first which comprised 10 companies, be relatively small.



Graphic: LEE EMERTON Source: I-NET

Finrand jitters as outflow looms

HILARY GUSH

THE financial rand slipped 2,5% in a jittery market yesterday, amid renewed speculation that payment for foreign acquisitions by local banks had yet to be concluded.

Dealers said selling out of Hong Kong had been keen, but attributed most of the currency sales to local institutions.

The foreign investment unit slid to an intraday low of R4,52 against the dollar from a weekend close of R4,40. Traders sold the currency ahead of an expected sharp fall as Standard Bank Investment Corporation (SBIC) clinched its deal for the acquisition of ANZ Grindlays' African operations.

The finrand finished at around R4,50.

The commercial rand was also markedly softer, nearing the widely expected level of R3,00 to the dollar. It ended the day at a record low of R2,9748 on the back of a dramatically stronger US currency which reached an intraday peak of DM1,57 against the Deutschmark.

After a weekend close of R2,9603 against the dollar, the commercial rand finished at R2,9748 before reaching R2,9808 in after-hours trade.

In response to rumours of pending payment for offshore business, SBIC denied that it had sold finrands yesterday and said the deal had long been concluded.

The market remained nervous. Payment for a number of other deals involving offshore acquisitions has yet to be made. FNB's investment in British merchant bank Henry Ansbacher, Royal's acquisiton of Del Monte Europe and payment for

☐ To Page 2

Finrand

☐ From Page 1

Sappi's offshore business were still to be finalised, dealers said.

Traders remained bearish and said the unit's upside potential was limited as there were a number of sell-orders pending.

Chamber of Mines senior economist Francois Viruly said a depreciation of the commercial rand was favourable in terms of a higher rand gold price, but cautioned that a weaker rand would exert inflationary pressures on the domestic economy.

Viruly said most of SA's imported goods were capital goods which, in the case of a softer rand, would translate into higher production costs.

Bureau for Economic Research head Ockie Stuart said the weaker rand was bad news for inflation. He predicted a slight increase in the producer price index, but said the softer rand would benefit exporters and help ailing gold mines.

He said the weaker rand was not unexpected and he predicted further weakening of the local currency in the short term.

NEWS IN BRIEF

Free trade appeal

BRITISH ambassador to SA Sir Anthony Reeve yesterday called for the elimination of SA's trade barriers following this country's return to international trade.

Reeve told an Institute of Fruit Technology conference in Stellenbosch that SA would have to show a clear commitment to GATT if it wanted a sympathetic hearing from its major trade partners on preferential trade agreements.

BDay 6/11/92

Counting cost of protectionism

SOUTH 7/11 – 11/11/92 (74)

SINGAPORE'S Prime Minister, Mr Lee Kuan Yew, raised eyebrows in South Africa last week when he said local industries had become too protected, "heavy and slothful".

The price, he said, had been "tremendous inefficiencies".

The same day, the government entrenched that protectionism by introducing new import duties to protect textile and clothing industries against low-priced imports.

These imports were taking business away from local manufacturers as people opted for cheaper clothes in the recession.

The government's move will probably save some jobs in local industry, but South Africans will have to pay more for clothing — so who is the winner?

The mining industry, on the other hand, is less "lucky". Because it relies on the international market, it cannot be protected against adverse trends. Job losses have become the order of the day in mining and related industries. That trend is likely to continue for some time.

The Economist magazine's respected commodity price index says the US dollar metals index has fallen by 5,5 percent over the last month and by 2,8 percent over the last year. With no sign of an end to world economic gloom, there is little prospect of higher industrial demand and prices have plunged.

Old Mutual chief economist Mr David Mohr agrees.

"Closely linked to the indifferent prospects for the world economy in 1993 is the small chance of a strong recovery in international commodity prices," he says in his latest economic review.

"If commodities remain depressed, the serious deterioration in the local mining and related industries over the past few years is likely to continue for a while. Economic conditions in areas and regions which are heavily dependent on the mining industry will then deteriorate further."

Of all the commodities produced in South Africa, gold is perhaps the most important. But the gold price remains weak.

Mohr says investors have continued to show little interest in gold over the last three months. This was particularly obvious in September, when world currency markets were plunged into turmoil and stock markets slumped.

"We remain of the opinion that conditions are not favourable for a bull market in gold in the next few years. The deflationary international environment, attractive investment alternatives and new hedging instruments still militate against the price rising by much," he said.

The oil price has been relatively stable this year. High stock levels mean that sharp price hikes are unlikely in the short term.

But experts are divided about the longer term. Some believe that slow world economic growth and high stocks will hold down prices to between $20 (about R58) and $25 (about R72) a barrel for the rest of the nineties. But others foresee rising costs as oil producers press for higher prices. — LYNDA LOXTON

Indians keen on links with SA

S/Times [Buss] (74)

By ZILLA EFRAT

BUSINESSMEN are gearing up for renewed economic and trade ties between South Africa and India.

Safto executive Paresh Pandya says about 120 Indian businessmen have visited SA every month since that country lifted person-to-person sanctions. 8/11/92

Their aim is to examine opportunities in SA ahead of the lifting of economic sanctions.

"In addition to seeing SA as a source of finished goods and raw material, most Indian businessmen regard this country as a supplier of industrial and scientific technology."

Safto has moved to help SA business to become better informed about India. With a population of 844-million, it is one of the largest markets in the world.

Safto has released a report, Gateway to India. It outlines India's business environment and its economic reforms.

Mr Pandya says: "With a core middle-class population of about 400-million, India has big potential for suppliers of consumer and related items.

"India is classified as the 18th most industrialised nation. It offers opportunities to suppliers of technology, raw materials, machinery and capital equipment."

Breakthrough as Ghana opens doors

THE SA Foreign Trade Organisation (Safto) has been invited to exhibit at a major trade show in Ghana in what is described as SA's biggest breakthrough into west Anglophone Africa.

The Ghana International Trade Fair draws 3-million visitors and is being held for the fourth time in February and March.

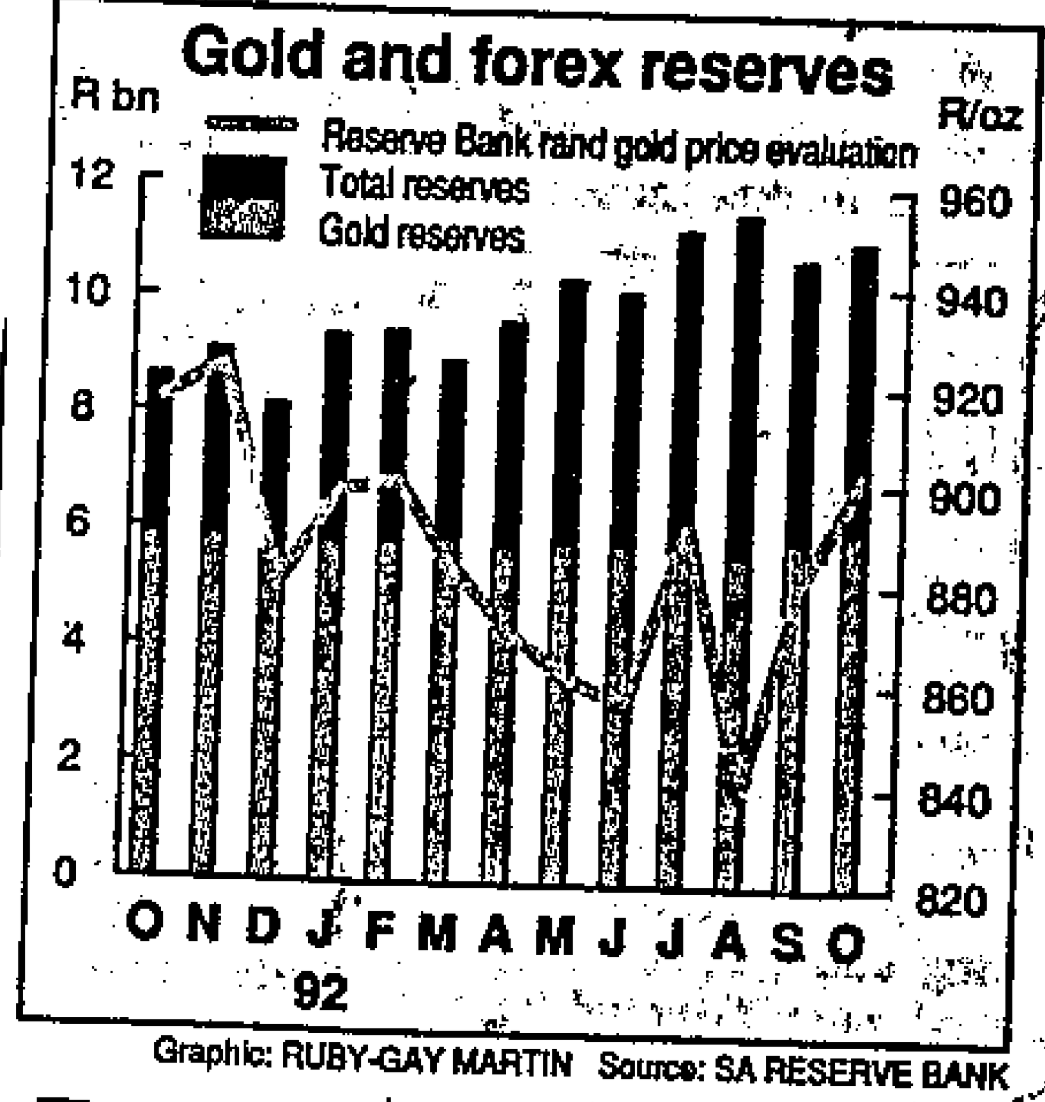
Safto Africa manager Paul Runge said of this 'major breakthrough': "The invitation to Ghana opens the door into Anglophone Africa, which has previously been closed to SA".

Runge said more than 400 local and foreign exhibitors were expected from the agricultural, building and road construction industries. Hotels, catering and tourism would also be well represented.

Runge said Ghana was a particularly important African market for SA, having maintained a 5% annual growth rate over the past 10 years.

"Ghana is a favourite of the IMF and World Bank for its successful structural adjustment programmes." Runge said.

Ghana, which recently lifted person-to-person sanctions against SA, had a liberal system of foreign exchange, operating thorugh a network of foreign exchange kiosks sanctioned by the government, he said.



Graphic: RUBY-GAY MARTIN Source: SA RESERVE BANK

Reserves back on an upward trend

HILARY GUSH

GOLD and foreign exchange reserves returned to an upward trend in October after a sharp fall of almost R1bn in September.

Reserve Bank figures released at the weekend show that total reserves increased to R11,1bn from September's R10,77bn on the back of a rise in the value of gold holdings and forex assets.

While gold holdings remained steady at about 6,7-million ounces, a higher gold valuation in October — at R902,51 — helped lift the value of gold holdings to R6,09bn from September's R5,91bn.

Economists said despite capital repayments in October forex reserves grew to R5,01bn from R4,87bn. This reflected the reasonably good performance of exports and the effect the recession had had on depressing import demand.

Nedbank chief economist Edward Osborn said the revaluation of reserves after the fall in the rand showed there had been no real change in reserves. "The apparent increase in reserves was due to the higher gold price used, as well as the depreciation in the rand from R2,81 at end-September to R2,96 at end-October."

In effect there had been a slight reduction in reserves, which was more than offset by the revaluation, he said.

However, George Huysamer and Partners MD Werner Stals said: "The higher forex reserves indicate that exports must have performed well in October, considering the capital outflows which occurred in that month." He expected further capital repayments in November.

Reserve Bank plans to curb use of finrand

44/58 LINDA ENSOR (74)

SOMERSET WEST — The Reserve Bank was considering "natural and non-disruptive" ways of limiting use of the financial rand for off-shore investments, Bank Deputy Governor Jaap Meijer said yesterday.

Various methods of restricting the use of the finrand which would not be too tough on the market were being investigated. The Bank would prefer the finrand to be more stable than it had been since mid-September, Meijer said in an interview at the Stellenbosch University Bureau for Economic Research annual conference.

HILARY GUSH reports dealers responded with enthusiasm to Meijer's comments. They speculated the Bank would either have to impose a limit on the amount of finrands sold each week by an investing company or allow direct purchase from the Bank of the foreign currency needed for the offshore acquisition.

Meijer said the Reserve Bank would prefer companies to finance their overseas acquisitions either with their own shares or with offshore finance. The socio-political uncertainty in SA and the identification of profitable opportunities overseas had fuelled the acquisition activity.

But Standard Bank Investment Corporation executive chairman Conrad Strauss said in an interview it was wrong to regard the spate of foreign acquisitions as a flight of capital. "The world is increasingly becoming a global village and we cannot operate in isolation. We need to take advantage of the windows of trade and technological opportunities opening up."

If SA financial institutions did not establish a presence overseas to cater for the needs of SA customers, foreign competitors would provide this service and set up in SA. Standard Bank's main aim was to consolidate its representation in southern Africa. BDAY 10/11/92

Regarding a cut in Bank rate, Meijer

□ To Page 2

Finrand

BDAY 10/11/92 44/58 (74) □ From Page 1

said the Reserve Bank was reluctant to surrender too soon to economic pressures as it had persisted so long with great pain and had achieved some success.

It was reluctant to reduce Bank rate without inflation coming down and even after taking into account the exclusion of the impact of VAT on inflation, would have to examine the underlying inflationary trend in the economy.

In his speech at the conference, Meijer said the Bank favoured reduction of the government deficit at whatever cost this might have for other aspects of the economy.

"The supreme and most immediate priority for government in the fiscal policy area undoubtedly is to re-establish confidence in the fiscal authorities' ability to curb their expenditure, increase their revenues and reassert control over the size of their budgetary deficits.

"We are most concerned about the effect the deficit has had in sapping confidence. It has created the impression that even in a transitional phase government is unable to maintain discipline and is unable to keep the Budget under control," Meijer said.

He said it was unlikely there would be any significant improvement in the deficit in the 1993/94 fiscal year, despite the intentions of Finance Minister Derek Keys. This year the deficit would be about 7% of GDP.

The Reserve Bank was concerned about inflationary expectations in the economy being boosted — a rise in taxes in next year's Budget to offset the deficit could add to the cost-push pressure of inflation — but it believed the deficit had to be addressed at all costs.

Meijer said the deficit was a revenue and not an expenditure problem, which reflected the weak state of the economy. Government expenditure was running according to plan but the flow of state revenue had been weak.

In suggesting some guidelines for a fiscal policy to promote economic growth and development, Meijer mooted the idea of negative income tax as an incentive for people to enter the formal sector. The system, which provided income supplements by way of a negative income tax for very low income earners, would also put downward pressure on wage rates.

Meijer suggested that the SITE mechanism could be used for this purpose, admitting, however, that, practically, the system would be difficult to implement.

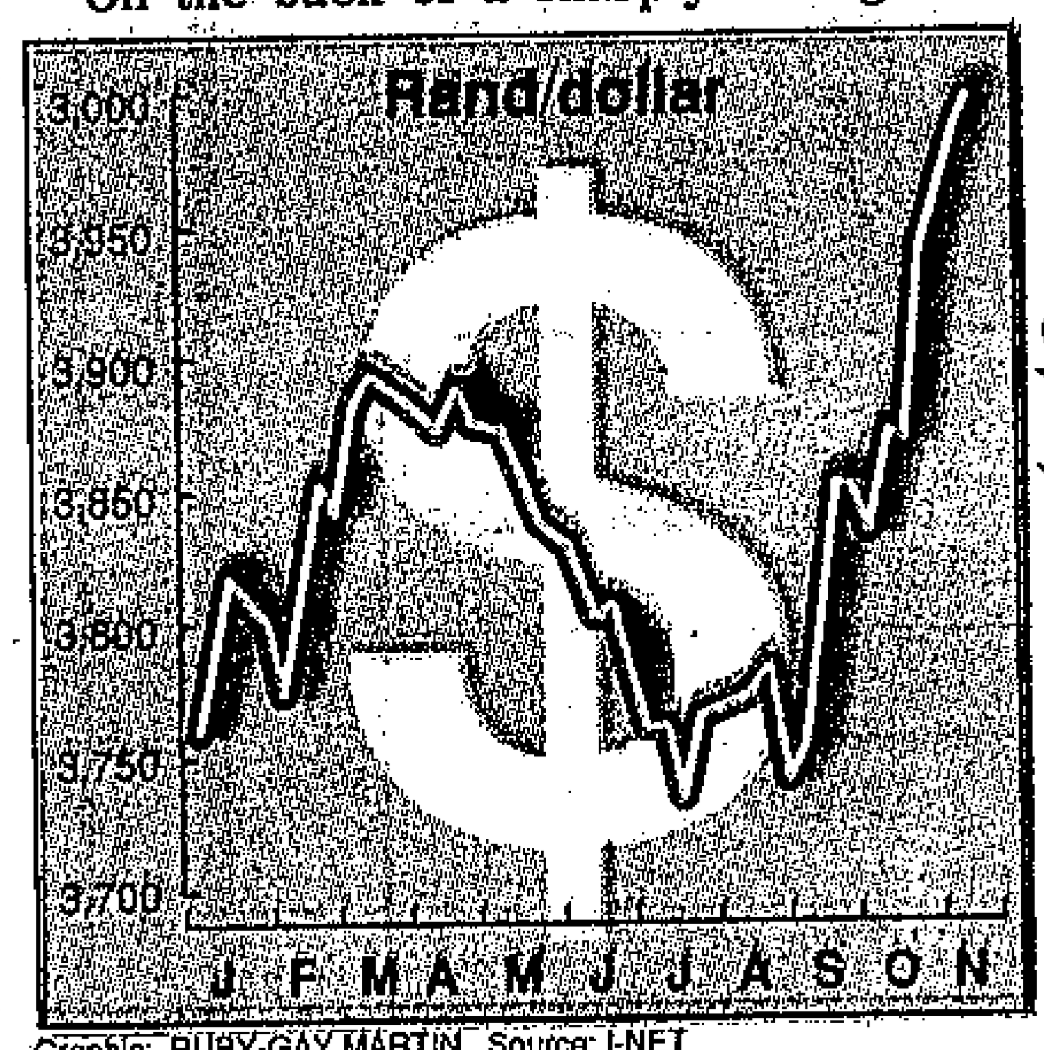
● See Page 5

Rand breaches key level

HILARY GUSH

RENEWED dollar strength saw the commercial rand breach the key resistance level of R3,00 against the dollar yesterday, and dealers said a rate of R3,10 could be expected before year-end.

On the back of a sharply stronger US currency — which peaked at DM1,62 against the Deutschmark — the rand opened at R3,002 against the dollar before exporters offered the local unit some support selling the foreign currency.



Graphic: RUBY-GAY MARTIN Source: I-NET

From a weekend close of R2,9848 the rand finished a cent weaker at R2,9948. Dealers said Reserve Bank intervention in late afternoon trade had lifted the local unit from its morning lows.

Traders said that if the dollar "decisively breached" the DM1,60 resistance level against the Deutschmark, the rand was likely to slump to around R3,10 against the US currency before year-end.

"DM1,60 is a serious technical level and once it is broken we can expect to see the rand move down further against the dollar. If the dollar maintains its current momentum and reaches DM1,65, a rand/dollar rate of between R3,05 and R3,10 can be expected even within days," a dealer said.

NEWS IN BRIEF

(74)

B/DAY 10/11/92

Bahrain officials visit

BAHRAIN's Development and Industry Minister Youssef Ahmed Shirawi left for SA yesterday for ground-breaking talks on industry, trade and finance, officials in Manama said.

Shirawi, leading a high-level delegation, would also discuss the launch of joint ventures with the private sector.

New diplomatic ties

SA HAD established diplomatic relations with the republics of Croatia and Slovenia, Foreign Minister Pik Botha announced in Pretoria yesterday.

Economists see silver lining on rand cloud

BDAY 12/11/92 (74)

HILARY GUSH

RECENT rand weakness against the dollar spelt good news for SA exporters, while appreciation of the rand against the crosses would limit imported inflation, economists said yesterday.

As most exports were denominated in dollars, the rand's slide against the US currency would make SA exports more competitive on global markets, they said.

Absa international market economist Charles Jonker said although a large percentage of imports were Deutschmark-denominated, it was impossible to determine accurately the share of total trade enjoyed by each of SA's major trading partners.

Considering the prevailing low dollar gold price, Jonker said the depreciation of the rand against the dollar was favourable, as it pushed up the rand value of gold.

The rand had remained "relatively stable to stronger against the Deutschmark, yen and particularly the pound.

"If the rand is stable to stronger against these currencies — in which most SA imports are denominated — chances of importing inflation are small in the short to medium term," he said.

While he forecast a further weakening of the rand against the dollar in 1993, Jonker predicted that the rand would remain stable against the crosses, based on a slow but sustained recovery in the US.

A rate of R3,25 to R3,30 against the dollar by the end of next year could be a "rather conservative" estimate.

Standard Bank group economist Nico Czypionka said the Deutschmark's role in SA's imports was not necessarily as important as the dollar's. About 43% of the weighted average trade index was in dollars.

FM 13/11/92 (74)

FM 13/11/92

FINANCIAL RAND

The mulberry bush

The recent volatility of the financial rand "is not due to offshore purchases by local firms," says Reserve Bank Deputy Governor Jaap Meijer. He believes it results from speculation surrounding the deals.

Perceptions that the investment currency will weaken, he says, are inducing speculators to take positions against it. Hence its fall from $/FinR4,07 at the end of September to a low of FinR5,12 on October 5, before stabilising to FinR4,20 on October 16 and falling again to FinR4,76 on November 5.

The discount against the commercial rand widened from 30% in late September to over 40% in early October. It subsided to 32% in mid-October before rising over 36% early this month.

Meijer suggests that another reason for the unit's volatility is heightened concern about currency stability following "the turmoil in overseas currency markets that started in September."

The Bank has been criticised for allowing funding for a number of offshore deals. Those in the pipeline include the purchase of the southern African operations of ANZ Grindlays by Standard Bank Investment Corp, the First National Bank (FNB)-Henry Ansbacher deal and the Royal-Del Monte transaction.

Under exchange control regulations, companies that want to finance investments

abroad out of their own funds have to apply to the Bank. If permission is granted, the commercial rands are converted to financial rands which are used to buy US dollars on the market. That increases the supply of financial rands and reduces their value.

Though the Bank blames perceptions for the finrand's recent fall in value, officials are looking at options that could prevent a repetition.

One possibility is reserving the financial rand for inward investment. Local investors offshore would be able to tender for funds from a pool of foreign exchange set up specifically for this. A similar mechanism was used in the UK — the investment premium dollar pool — between 1947 and 1979, before all exchange controls were abolished. It was funded by the proceeds from sales of overseas assets.

But the system has some drawbacks.

Absa economist Dominick Sutton says that though the supply of financial rands would be left intact, "it would simply create a third-tier currency requiring its own set of regulations, with market players making regulation-based decisions rather than market ones. It would probably be even more thinly traded and more volatile than the financial rand — and there is great potential for manipulation."

Probably its major drawback would be that, unlike the UK system, the new investment pool would have to be funded out of foreign exchange reserves, since sales of foreign assets are likely to be minimal.

FNB assistant treasurer Rob Wade says this is something SA cannot afford: "Reserves are healthy now but we still have not reached the Bank's goal of accumulating enough reserves to cover three months of imports. Meeting minimal requirements for offshore investment will take a significant chunk out of reserves. The Del Monte deal alone is believed to be worth about R2bn."

Using reserves for offshore deals would have the same effect as direct, large-scale intervention to strengthen the financial rand, which the Bank has declined to do so far. In March, the Bank announced that it would intervene on a limited scale to reduce volatility and control liquidity.

A second possibility would be to waive exchange control rules for residents investing in specific ventures expected to provide significant returns to the SA economy. However, allowing investment through the commercial rand could jeopardise the rescheduling arrangement for the repayment of foreign debt in the net. Foreign creditors would object to relaxing restrictions on residents while their debts remained unpaid. And such a system would exert downward pressure on the commercial rand.

Another criticism is that this selectivity would prevent legitimate attempts to expand into offshore operations.

No short-term solution is going to put right the long-term difficulties created by a dual currency. Ultimately, the system will have to be abolished along with other exchange control mechanisms.

☐ Gold and foreign exchange reserves weakened in US dollar terms in October, slipping 2,2% in the month to $3,7bn. Foreign exchange reserves fell 2,2% to $1,7bn, while a declining gold price pushed down the value of total gold reserves 2,1% to $2,1bn. This was in spite of a 0,6% rise in total gold holdings to 6,7m oz. The gold price dropped from an afternoon London fix of $349/oz on September 30 to $339,25 at the end of October. As a result, the Bank's dollar valuation fell from $313,52/oz to $304,95/oz.

But the rand's 5% depreciation, from $/R2,8105 at the end of September to $/R2,9595 at end-October, cushioned the blow. In rand terms, total reserves rose 3% to R11,1bn, with foreign exchange, at R5bn, and gold at R6,1bn, both rising 3%. The valuation of gold holdings rose from R881,14/oz at the end of September to R902,51/oz. ■

SA is falling from favour in credit markets

GRETA STEYN

GOVERNMENT and parastatals were not budgeting for new foreign borrowing next year — mainly because of a hardening in overseas attitudes towards the country, sources said yesterday.

The collapse of Codesa combined with the Boipatong and Bisho massacres had interrupted SA's emergence from the financial cold, a top executive of a parastatal said. Foreign creditors would prefer to wait for an interim government with a track record before committing new funds to the country, he said.

Eskom's announcement this month of its borrowing requirements for next year is expected to confirm the fall in foreign borrowing. However, financing manager Theuns Kotze declined to comment on the corporation's budget for next year. He said the foreign credit climate had worsened, causing Eskom to abandon a substantial dollar issue that had been scheduled for September/October this year.

It is understood Eskom's overall borrowing requirement will not be much higher than this year's R2,5bn, but a larger proportion is expected to be sourced from the local capital and money markets.

Foreign credit lines negotiated some time ago will still be used, taking some of the pressure off the local market.

A Development Bank spokesman said the bank was not at this stage planning to borrow on foreign capital markets next year. He said further foreign borrowing would probably be too expensive.

The Development Bank is becoming a larger borrower on the capital market while public corporations are cutting back borrowing. Its authorised capital market borrowing is R2bn, but this could be increased, especially if foreign funds dry up.

Government and parastatal borrowers raised more than R2bn on foreign markets in the first half of this year, alleviating pressure on the capital account of the balance of payments.

Bankers said a further sign of SA's fall from favour was that the interest rate premium based on country risk for trade and other foreign finance had risen again.

(74) B/DAY 13/11/92

SA the tooth fairy of Customs union

S/Times (Buss) 15/11/92. (74)

By ZILLA EFRAT

SOUTH Africa will pay more to its Southern African Customs Union (SACU) partners this year than the union raises in duties and surcharges.

About R5-billion will be paid of the total SACU pool of R16-billion, says Nedbank chief economist Edward Osborn.

The union will collect only R4,7-billion in duties and surcharges on imports.

About R4,2-billion was collected in the previous year and R4,5-billion was paid.

The Government has warned that the payments — based on a 1969 formula — are becoming unaffordable.

SA contributes more than 90% to the pool. Its other partners are the BLNS states (Botswana, Lesotho, Namibia and Swaziland) and Transkei, Bophuthatswana, Venda and Ciskei (TBVC).

Goods

The SACU's revenue includes excise duties and fuel levies.

Department of Trade and Industry (DTI) Director-General Stef Naude says SA will pay R3-billion to the BLNS states in the year to March 1993 — R2,5-billion in the previous year and R2-billion in the year before that.

In 1991-92, it paid the TBVC states about R1,8-billion and R1,6-billion the previous year.

The distribution formula ensures that the states receive a minimum payment equal to 17% of the value of their imports, including goods bought from SA.

Payments reflect imports two years previously.

Africa Institute's Erich Leistner says the share of SACU revenue going to SA is declining, largely because of this country's lowering of Customs tariffs but reduced imports in the recession.

The BLNS states will receive about R2,1-billion for their import revenue and a pay-back for purchases from SA.

They will receive R900-million as compensation for losing their fiscal discretion and being disadvantaged by being in union with an economic giant such as SA.

In theory, this compensation amounts to 42% of actual BLNS Customs and excise receipts. In practice, however, it has risen to as high as 62% and even 70% as a result of a stabilisation formula, says Dr Leistner.

Some Government sources believe the smaller countries benefit from SA's generosity at the expense of disadvantaged South Africans.

SACU, however, is viewed by several politicians and economists as benefiting both SA and the BLNS countries.

Dr Leistner says the BLNS represents a captive market for SA of about 6-million people. In 1991-92 year, BLNS states bought about R12-billion of goods from SA.

He says that in the past SACU provided SA with the one platform on which it could officially meet representatives of recognised African states.

The BLNS countries benefited because SACU yielded revenue much higher than each could have collected individually.

SACU earnings make a large contribution to BLNS states' income. Even though their share has fallen, they depend on it.

SACU payments accounted for 57,7% of Lesotho's revenue in 1990-91 and 42,8% of Swaziland's in 1991-92.

Robert Davies, a co-director of the University of the Western Cape's Centre for Southern African studies and a researcher for the ANC, says SACU has been to the detriment of industrial development in BLNS states. Compensation is required.

SA goods have the same access to these markets as domestically produced goods. Infant industries in BLNS countries receive inadequate protection from large SA companies which have moved into their markets.

Mr Osborn says there is nothing to stop foreign companies from setting up in BLNS countries to gain entry to the SA market.

Kiwi delegation looking at trade

PETER DELMAR

A NEW Zealand trade delegation arrived in SA yesterday on an extensive fact-finding mission aimed at boosting bilateral trade.

The nine-member team is on the first such visit from New Zealand and is being led by the New Zealand Trade Development Board.

Mission leader Graham Painter said SA was considered an important market, particularly as a gateway to southern Africa.

Trade between the two countries is currently worth about R55m, most of it in New Zealand's favour.

Painter said that at the outset of the visit it was impossible to estimate the potential two-way trade between SA and New Zealand.

Many of SA's leading exports, including minerals and foodstuffs, were still subject to sanctions.

New Zealand has recently started reaping the benefits of a strenuous economic restructuring programme introduced eight years ago.

The mission yesterday met officials of the Johannesburg Chamber of Commerce and Industry, Safto and bankers, and will meet various other interest groups, companies, the Department of Trade and Industry and the SA Reserve Bank.

SPOT DESK

Currencies pay penalty after every failed Test

SIMON WILLSON

PROBLEMATIC international sports tours can have no effect whatever on the currencies of the countries concerned and there is, of course, not the remotest connection between exchange rates and sports results. Or is there?

A local trader who dealt on one of Tokyo's major spot desks in the late '80s says he has seen evidence of such a link. He swears the New Zealand dollar was sold hand over fist out of Wellington on the first trading day after any All Black defeat throughout his Tokyo tenure.

It is furthermore a diverting coincidence that the commercial rand and the Australian dollar have hit historic lows while the Springbok and Wallaby rugby teams have been involved in European tours of conspicuous mediocrity.

The rand sank to R3 to the dollar for the first time only hours before the Springboks took the field for their trouncing by England. Meanwhile the Australian dollar dived to a five-year dollar low in between dismal Wallaby defeats at the hands of Welsh club sides Swansea and Llanelli.

Although the rand did give up a cent and a half against the dollar on Monday, there could have been other, weightier reasons for the rand market's dull sentiment at the start of the week.

Local dealers apparently staked a total of around 200 cases of one of the Springbok team sponsor's somewhat dry, somewhat bitter beverage in bets with London counterparts on the England-SA rugby match. One impetuous London dealer at a Japanese institution is £400 poorer after finding a price of 5-1 against the Boks and backing them.

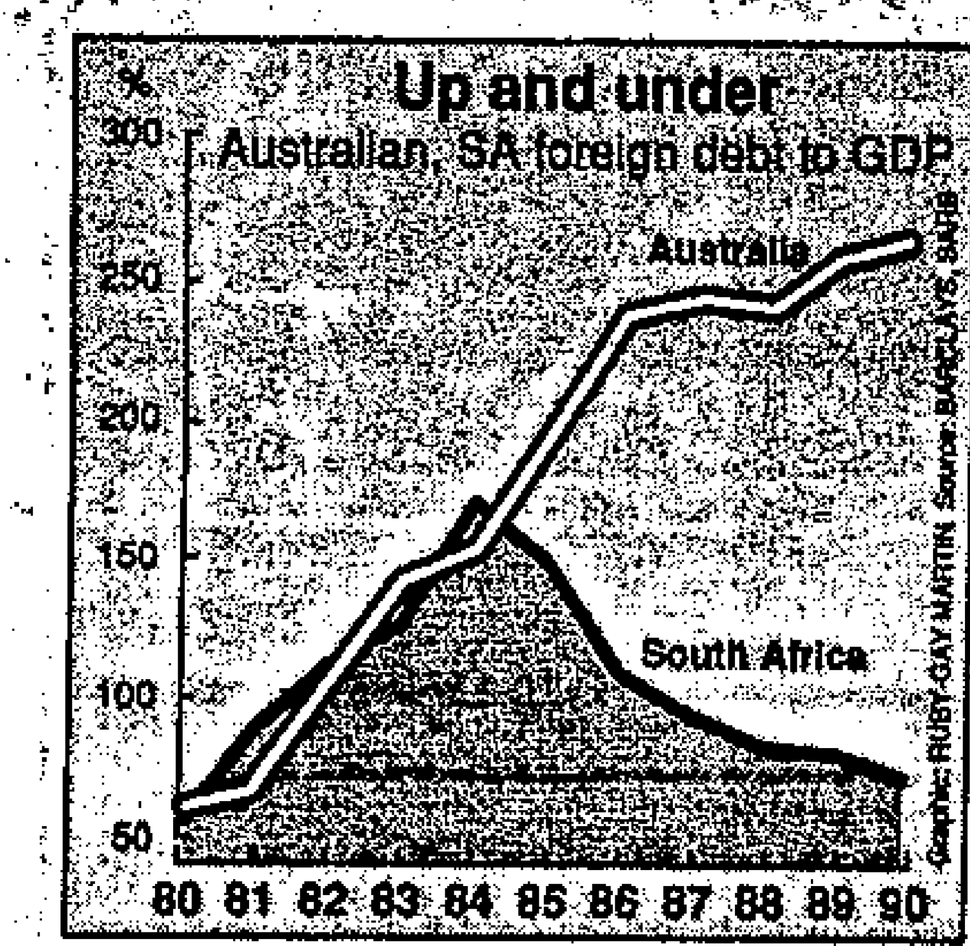
The Australian dollar's weakness on the foreign exchanges over the past few weeks has been unexpected. The Australians have been basking in the reflected glory of wresting from New Zealand the title to the Western world's lowest inflation rate while simultaneously emerging from recession.

On the slide
Australian dollar/US dollar
Graphic: RUBY-GAY MARTIN Source: BARCLAYS

And yet, as the first chart shows, the Aussie dollar has slumped to its lowest levels against the US dollar since late 1987. The 'Ocker' unit was last at its current depths in the wake of yet another memorable statement by the country's then treasurer and now premier Paul Keating in 1986: "If Australia is so undisciplined, so uninterested in its salvation that the government must slow the economy down to zero growth (to control imports), then you know you are a banana republic."

If Australian inflation, at 0,8% in the year to the end of the third quarter, is the western world's lowest and Australian economic growth is expected to rebound to 2,2% this year from -1,2% last year, why are the markets ditching the Aussie dollar? The reason is mainly that Keating's bleak "banana republic" statement is as apt for Australia today as it was six years ago. The Canberra government did indeed slow growth to zero and below in an attempt to slow inflation and curb import growth.

But although prices are now rising by less than 1% a year, the renowned Australian taste for imports has left the current account deficit at a likely A$14bn this year, and probably something nearer A$20bn next year. A fifth of export earnings now go to servicing Australia's foreign debt.



Graphic: RUBY-GAY MARTIN Source: BARCLAYS, SARB

And, as the second chart shows, Australia's foreign debt is still soaring as the country resorts to more external borrowing to finance the continuing current account deficit which is already swollen by the interest payments on its existing debt burden.

In short, Australia's external accounts are manacled to a treadmill, and the markets do not like the look of the readouts on the electro-cardiogram. The country's debt ratings are being downgraded and, without the compensation of a high yield as Canberra cuts interest rates to encourage growth, fewer investors want to hold the Aussie dollar either.

By contrast SA, which in the eyes of some is also toying with assuming banana republichood, has external accounts that are a model of restraint and abstemiousness. SA's debt burden is falling and her current account has been in unbroken surplus for seven years. The hard part of SA's economic adjustment is almost over. As those who packed for Perth in recent years will soon find out, Australia's has yet to begin.

Worse still, the Wallabies play Wales in Cardiff on Saturday and, on the evidence of the Australians' tour to date, the Aussie dollar is in for another rough Monday.

LETTERS

US bank gives Transnet R100m loan guarantee

BDAY 19/11/92 74

PETER DELMAR

TRANSNET has secured a loan guarantee for almost R100m from the Export-Import Bank (Eximbank) in what has been hailed as a breakthrough in normalising financial relations with the US.

The R92,3m guarantee is for the purchase by SAA of a Boeing 747-400.

It is expected to be followed by other similar guarantees in the near future.

SA's access to the US government-controlled Eximbank was only officially reinstated in February this year after US president George Bush signalled that sufficient progress had been made in dismantling apartheid and that the Evans Amendment prohibiting Eximbank involvement in SA was revoked.

A US embassy spokesman said the guarantee was the second to be granted for exports to SA.

Recently a small loan was guaranteed for the supply of mining equipment to an SA company.

However, it was the first involving an SA parastatal and by far the largest.

Several other smaller applications were already "in the pipeline", the spokesman said.

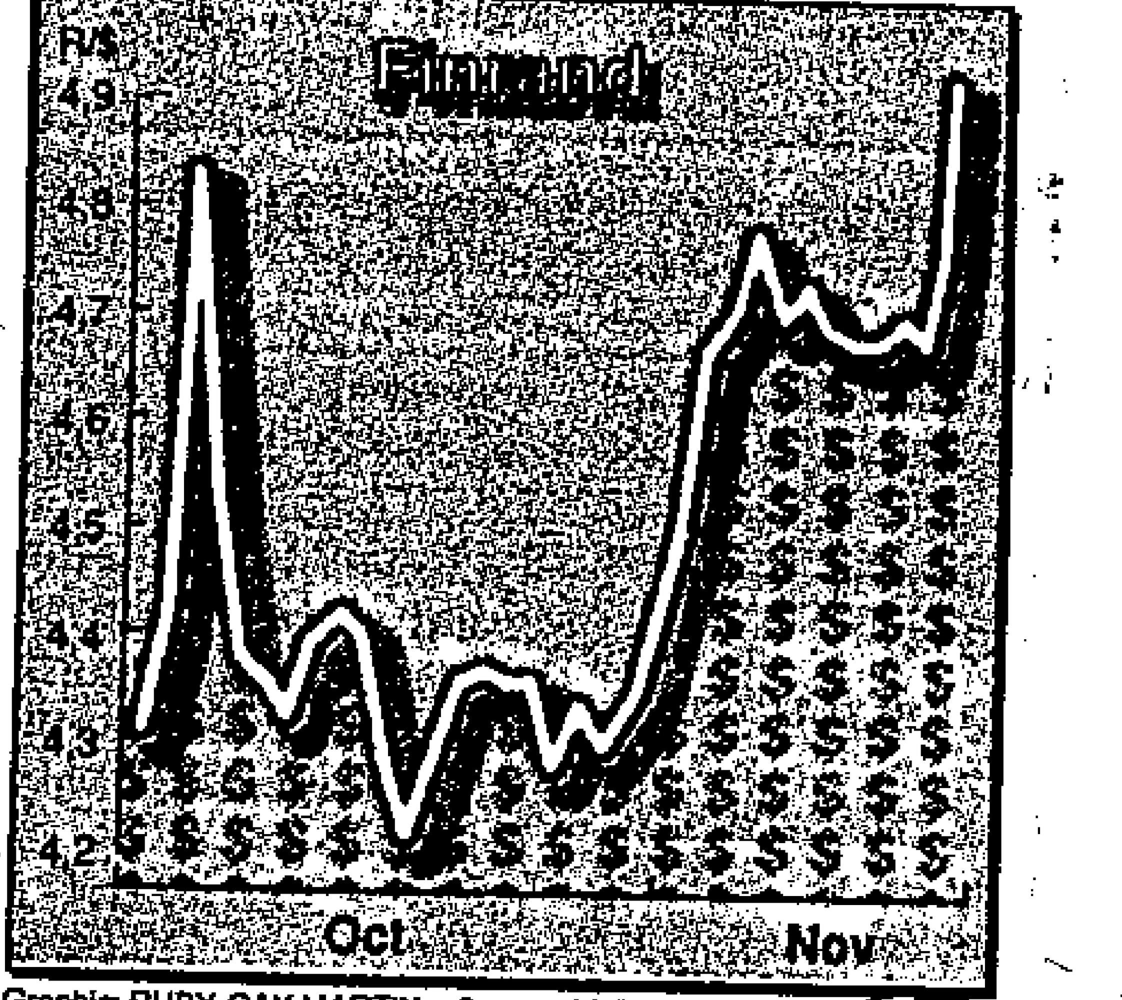
The granting of access to Eximbank for exports to SA made these exports much more attractive, he said.

The aircraft — the Kempton Park — is capable of flying non-stop between New York and SA.

The guarantee is for 85% of the cost of the aircraft (excluding its four engines).

The Kempton Park, which is already in SA, is equipped with Rolls Royce engines which were financed separately by an export credit agency of the British government.

The 10-year loan was financed by Hill Samuel Bank Ltd of London.



Graphic: RUBY-GAY MARTIN Source: I-NET

Finrand reels as Bank cuts rate

GRETA STEYN and HILARY GUSH

THE one-point cut in Bank rate to 14% and rumours of new developments on the Royal acquisition of Del Monte sent the finrand reeling yesterday.

The foreign investment unit shed more than 3% to hit a low of R4,95 before clawing back to a close of R4,9260. Dealers said the cut in Bank rate had an effect on the finrand rather than the commercial rand, but that the sharp weakening in the unit could not be justified solely by the Reserve Bank's move on interest rates.

A dealer said the market's anticipation of the finrand implications of the Royal/Del Monte deal was a major factor depressing the currency. There was speculation Royal would have a year to settle the finrand portion of the deal of about R1,5bn, implying continued pressure on the currency for that period. There was also talk of the Bank keeping the trade out of the interbank market to help smooth movements in the currency, but this could not be confirmed.

The Bank is, however, considering making recommendations to Finance Minister Derek Keys on a new policy for SA investment overseas.

Another dealer said large sell orders had emanated from Europe and the p[illegible] had been aggravated by a local bank's aggressive selling. Political factors were playing a role. "Judge Goldstone's revelations are not doing the currency any good." However, the finrand is still off its record low of R5,12 reached at the height of the

☐ To Page 2

Finrand

☐ From Page 1

Royal/Del Monte pressure. The market believes the currency will find good support at the R5,00 level and that it has the potential to strengthen to R4,82.

Money market rates also came off sharply on news of the Bank rate cut but gilt yields defied market sentiment and moved up 20 points.

In the money market, call rates dropped one percentage point — from around 12,5% to 11,5% — matching the Bank rate cut.

The rate on the three-month liquid BA was also lower, trading in a 11,8%-12,2% range from a previous 12,3%-12,5% band.

Bankers — to a degree — heeded Reserve Bank Governor Chris Stals's plea not to cut deposit rates. They said in line with Stals's request, retail deposit rates would not be reduced by a full percentage point, but rather by 0,5 percentage points.

Dealers said as the market was liquid — with the shortage falling to R1,611bn on Tuesday — deposit-taking institutions could afford to drop the call rate by such a wide margin. However, they expected calls to move up towards 12,25% as month-end neared and the shortage rose.

Although month-end was traditionally tight, interest payments on government stock — due on the November 30 — would offset a very tight month-end, they said.

The fall in call rates is not expected to be sustained as the shortage is predicted to be significantly higher by December, when spending on credit rockets ahead of the Christmas season.

Immediate response to the Bank rate cut in the gilts market was mildly bullish with rates on key long-dated stock coming off 10 points. Sentiment soon turned around and yields moved up 20 points.

The yield on the bellwether E168 traded in a 14,52% - 14,75% range before finishing at 14,72%. The yield on government's R150 bond ended the session at 14,68% after hitting an intra-day high of 14,72% from an overnight 14,57%.

● Comment: Page 8

TRADE FM 20/11/92 (74)

Sinking surplus

The trade surplus for the first 10 months of the year reached R12,7bn, a decrease of 1,7% on the figure for the same period last year. The month's surplus was R784m, down from R965m the previous month. Imports in the 10 months totalled R43,7bn, up 6,5% in nominal terms; and exports R56,4bn, up 4,5%.

A number of factors contributed to the narrowing of the surplus. Export revenues suffered from poor prices for primary products on world markets. The value of mineral product exports totalled R6,2bn over the 10 months (up only 5,6% in nominal terms), base metals R7,7bn (-4,5%) and unclassified items, which include precious metal exports, at R20,4bn (-3,1%).

The surplus has also been affected by the performance of exports in the gems and precious stones category. These have slowed in recent months. Exports in this category consist for the most part of transfers of diamond stock from southern African mines to the Central Selling Organisation (CSO) in London. After exports of R1bn in August (when the trade surplus was R1,8bn), there has been a slowing with totals of R535m and R394m in September and October.

However, exports of chemical products, at R2,8bn, were up 42,5%.

On the other side of the equation, food imports, notably of vegetable products, have been pushed up by the drought. Imports in this category soared to R2bn in the first 10 months, up 101,9% on 1991. ■

Finrand nudges its record low

B/DAY HILARY GUSH 20/11/92

BEARS continued to dominate the financial rand market yesterday, with the foreign investment unit nearing its record low of R5,12.

After hitting a morning trough of R5,05 against the dollar, the finrand recouped some value to close largely unchanged from Wednesday's R4,90 close.

Dealers said keen Reserve Bank support around the R5,00 level had ensured the unit's recovery. One trader believed Bank intervention was "definitely putting a cap on the unit's free fall".

Confectionery group Royal's statement that its acquisition of Del Monte Foods International was yet to be finalised did not calm the nervous market.

Upward potential was said to be limited as fears mounted regarding the pending payment for the offshore investment.

The market has recently become very thin — fuelling volatility — as many players refuse to make a market or quote two-way prices. Dealers said many local and foreign organisations had recently pulled out of trade in the finrand as risks outweighed potential gains. Fewer players spelt out a thinner, more illiquid market where, at most, R6m finrands could be moved at one price.

Although the finrand was softer, dealers said current levels were "natural" and displayed present supply and demand conditions and political sentiment.

Africa 'ready for funds'

BRUSSELS — Africa was more prepared for investment that would help create free market economies than Eastern Europe, African Development Bank president Babacar Ndiaye said on Wednesday.

Africa and Eastern Europe were in competition for investment from Western firms, just as funds were drying up with the global recession biting and companies tightening their belts.

"If we compare Africa and Eastern Europe I would say our continent is more prepared for a market economy," Ndiaye told a conference of Belgian businessmen in Brussels. 6|DM 20|11|92

He said Africa had greater experience with market economies than Eastern Europe.

He was also optimistic about the economic future of Africa, saying the continent was ready for what he called "more practical management", primarily through the privatisation of public industries.

Ndiaye reiterated that he saw SA as the root of a tree of potential African development, with central Africa as the trunk while western, northern and eastern Africa were the branches. — Sapa-Reuter.

COMPANIES

Reichmans lifts dividends

EDWARD WEST

IMPORT/export trade finance group Reichmans' net income increased marginally in the six months to end-September 1992, but preference dividend payouts more than doubled to R6,25m from R2,91m, today's published results show.

The Investec subsidiary's operating income fell to R6,83m from R8,02m, but lower tax at R196 000 compared with R1,47m in 1991 boosted net income to R6,63m compared with R6,55m at the same time last year. BDAY 20/11/92

Dividends in respect of the group's listed preference dividends increased to R3,4m from R1,7m while the unlisted preference dividend payouts increased to R2,84m from R1,21m at the same time last year.

Shareholders' funds climbed to R106,48 from R767,51m. Long-term liabilities werelower at R4,26m from R5,3m. Current liabilities fell to R214,61m from R266,6m. The cash balance was R44,68m compared with R46,03m in 1991.

Directors reported that the preference dividend in respect of the listed shares covered a six-month period.

MD Robert Jacobson said the recession had made the trading environment "inhospitable" and had resulted in the import volumes of the group's clients falling by 25% in the past six months. The group had been more careful in issuing business credit and bad debts were under control and on target, he added. (74)

Reichmans became a subsidiary of Investec in August 1991, entitling shareholders to convert ordinary shares into an equal number of 13,5% cumulative redeemable preference shares. The listing of its ordinary shares was terminated in the same month. Preference shares were listed soon after.

Dover to be SA base

S/Times (B4SS) 22/11/92 (74)

A SOUTH African international trade and export centre, called Protea House, is due to open in Dover, United Kingdom, in April.

INTEC project director Bob Theis says the centre is aimed at medium to large South African companies which want to tackle the European market as trade barriers fall away next year.

The centre will provide a "low-risk, low-cost" marketing base.

Mr Theis says Dover is a gateway to continental Europe and has sound infrastructure with good communications.

The channel tunnel, to be completed later next year, will ensure considerable two-way commercial traffic between the UK and the Continent.

Kent international airport is 30 minutes from the centre and Dover is connected to major road and rail networks. It is an hour by ferry from France.

Georgia officials probe city trade

S/Times [Cape Metro] 22/11/92. (74)

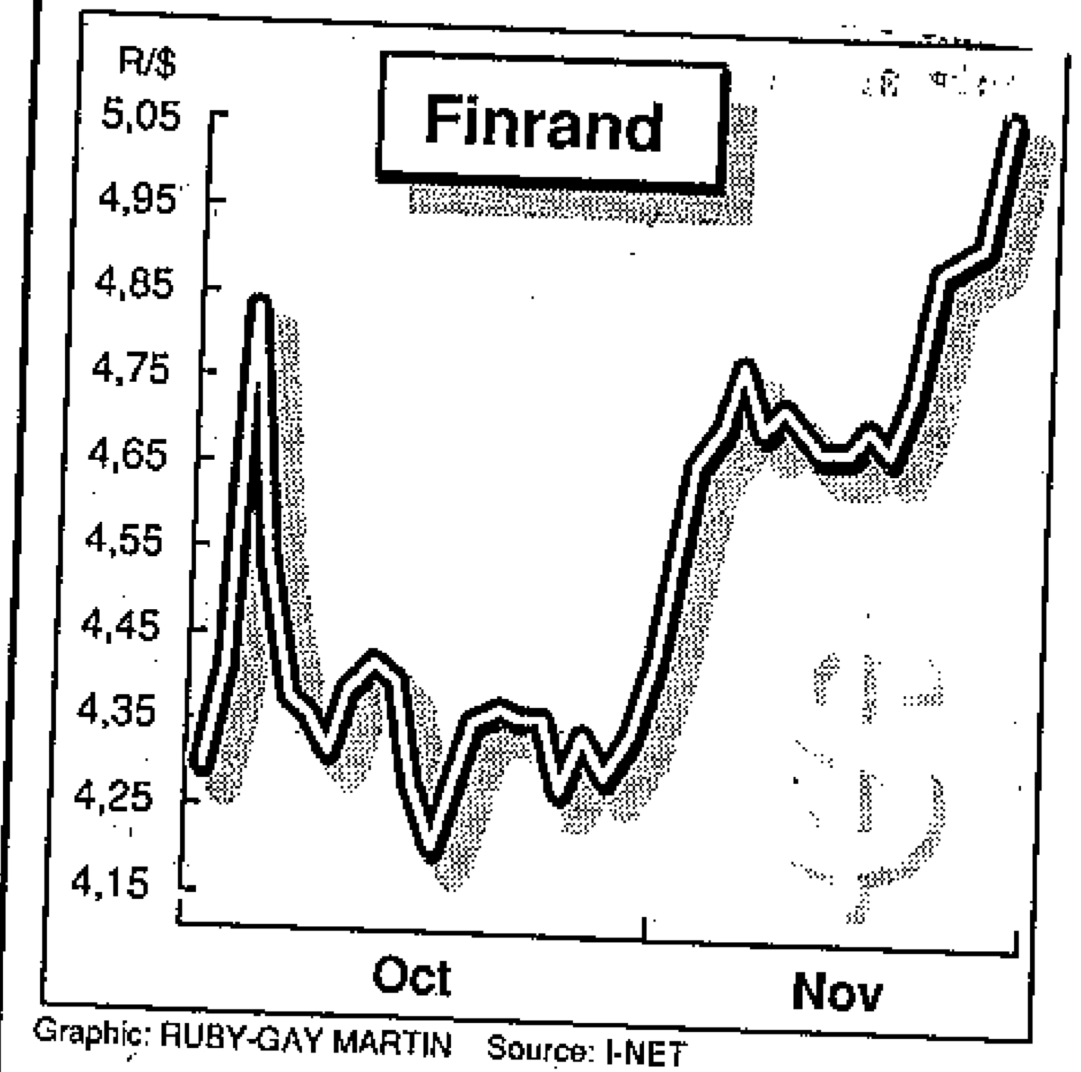
OFFICIALS from Georgia Ports Authority (GPA) have been visiting Cape Town and other centres to promote trade with South Africa following the lifting of sanctions.

"A lot of trade opportunities are opening up," said J Dewey Benefield junior, GPA chairman, at a presentation for shipping and other business people held by Safmarine.

He said GPA held the leadership position in the South Atlantic-South Africa trade corridor, with Savannah port controlling 85 percent of the 170 000 tons a year moving between South Africa and South Atlantic ports.

GPA executive director George J Nichols said the trade mission aimed to familiarise export-import officials with the port's facilities.

"Our strategic location on the US east coast gives South African-based shippers cost saving on rail and truck transportation because of Savannah's reach into the US southeast and midwest agricultural and industrial regions."



Graphic: RUBY-GAY MARTIN Source: I-NET

Foreign deals send finrand reeling

HILARY GUSH

THE finrand finished at a low of R5,07 against the dollar yesterday, amid continuing fears of looming payment for investments abroad. BDAY 24/11/92

From a weekend close of R4,93 against the US currency, the foreign investment unit quickly slid to R5,05 at yesterday's opening on reports of a deal between local chemical firm Sentrachem and Australian petrochemical company Chemplex.

Despite the unit's slump, dealers said selling had not been aggressive and there had been good two-way trade throughout the day.

As sentiment remained bearish and upside potential limited, traders expected rates to consolidate at present levels.

"Nobody is prepared to be long on finrands with all these large sell orders around, and until they're out of the system the market is going to be jittery," a dealer said, adding that R5,12 was a strong support level, where buying interest was keen.

On October 5 the unit hit an intra-day low of R5,12 against the dollar on speculation that local firms were paying for offshore acquisitions through the finrand. The finrand has since yo-yoed between R4,22 and R4,94 in a thin and illiquid market.

On the back of a stronger dollar, after weekend European exchange rate mechanism realignment, the commercial rand softened against the US currency.

At the opening of local trade the dollar was at DM1,6142, pushing the rand down to R3,0175. By the close it was marginally stronger at R3,0153.

PWV has plans to send trade missions abroad

BIDAM 24/11/92 74

GERALD REILLY

PRETORIA — A concentrated foreign trade promotion programme to meet the needs of small and medium-sized businesses in the PWV area was announced last night by Johannesburg Chamber of Commerce and Industry (JCCI) president Stuart Morris.

Speaking at the chamber's half-yearly general meeting, Morris said the programme involved visits by chamber missions to the UK, France, Pacific Rim and sub-Saharan Africa countries in the first half of next year, with more foreign missions likely later in the year.

Eight missions had so far been planned for 1993. They were aimed at strengthening existing ties with traditional partners, establishing ties with new partners and creating new trade links in the sub-Saharan trading bloc.

The first mission, in February and March, would visit Singapore, Bangkok and Hong Kong, with optional extensions to China and Macau.

April-May visits had been organised to France and Britain.

The mission to France would attend a major investment and trade seminar in Paris. The mission to Britain would concentrate on regional economic areas like the Midlands and Scotland.

Morris said a third vital programme objective would be to focus on African trade. Six missions would visit African countries selected for their trade potential.

Bank optimistic on interest rates

BIDAY 24/11/92. (14)

HILARY GUSH

EXPECTATIONS of below-12% inflation for the rest of the year gives hope for a further easing of interest rates this year and in 1993, says the latest Nedbank Economic Profile.

However, the bank report cautions: "SA is rapidly approaching a situation of balance of payments considerations taking precedence over inflation in maintaining a restrictive policy, as the political log-jam continues ahead of the expiry of the debt standstill agreement in 1993."

In the light of low levels of foreign exchange reserves in the late '80s and the "abnormal" foreign debt repayments falling due in the following years, the report says, the primary objective of restrictive monetary policy — introduced in the second half of 1988 — was to maintain surpluses on the current account of the balance of payments.

As political perceptions of SA started to improve and pressure on the balance of payments to ease from the beginning of 1990, fighting structurally rooted inflation took precendence over the protection of the balance of payments.

Although inflation has eased considerably in the past few months, the report says political stability and balance of payments considerations may prevent a further relaxation of monetary policy in the short term.

"The foreign exchange reserves position is still far from comfortable and could well come under pressure in the months ahead due to higher food imports and weak commodity prices suppressing export growth."

As a result, the monetary authorities could face a dilemma of whether or not to relax monetary policy.

"Without significant progress on the political front, monetary authorities will be compelled to maintain their restrictive policy, notwithstanding an average lower inflation rate in 1993."

The report says if the trend of declining GDP continues into the fourth quarter — it fell by an annualised 5,7% in the third quarter — a real shrinkage of at least 2,5% for 1992 could not be ruled out.

"In this context the recent widespread rains provide hope of some alleviation of the economic ills being experienced by the country."

SA targets Singapore

BDay 25/11/92. (74)

GAVIN DU VENAGE

SA WOULD hold its first expo in Singapore in July next year, the Department of Trade and Industry (DTI) announced yesterday.

Singapore had already sent a number of trade delegations to this country in recent months, and was becoming increasingly interested in developing economic ties with it, the statement said.

Singapore, which imported goods to the value of more than $66m last year, was the world's largest per capita importer. It was also at the centre of the core Asian trading nations.

These countries, known collectively as Asean, are Thailand, the Philippines, Malaysia, Indonesia, Brunei and Singapore, and have shown great economic growth in recent years.

Trade mission to US on the cards next year

SHARON WOOD

THE American Chamber of Commerce yesterday announced it was organising SA's first trade mission to the US since the lifting of the Comprehensive Anti-Apartheid Act, in March next year.

Executive director Michelle Cohen said companies interested in joining the month-long mission would have to be registered exporters with the sole rights to distribute products in the US, or otherwise would have to own the products. She stressed the organisation was interested only in companies capable of exporting products.

"South Africans have a name, internationally, of being fly-by-nights and offering products they are ... unable to produce," she said. Delegates on the trade mission must have the capability of fulfilling export orders.

Cohen said although the US was experiencing a recession, and trade and local sanctions were in place, the chamber had identified growth areas, cities and states which did not have stringent local sanctions and had businesses keen to trade with SA.

SA represented a new market and this had generated substantial interest. The trade mission would reintroduce the diversification of SA manufactured products to the US and give local businessmen an insight into US business practices.

BDay 25/11/92

Minister expects 26% rise in trade with Africa

GAVIN DU VENAGE

TRADE with Africa was expected to increase 26% this year, Deputy Foreign Affairs Minister Renier Schoeman told the North Coast Regional Development Association in Tongaat yesterday.

Exports to the rest of the continent last year amounted to R18,35bn compared with R15,75bn in 1990 and R8,94bn three years ago.

Schoeman said that the "positive developments on the political front internally" and SA's reintegration into the international community meant "countries were no longer shy to be associated with us".

Trade was taking place with virtually every country on the continent.

"As the countries of the northern hemisphere are tempted to turn their backs on Africa, we of this continent are being forced more and more to find solutions to our problems ..."

The Natal-KwaZulu region's two harbours were a natural door to the Indian Ocean Rim.

Our political staff reports that Schoeman said "a window of opportunity has opened up for Natal, with its well-developed infrastructure and expertise, to take advantage of the new climate of rapprochement in our relations with Africa and the Indian Ocean Rim.

"Imagine the potential market not only of the Indian Ocean Islands but also of India, with 900-million people, and Pakistan, Africa and Indonesia."

US aid 'if transition on course'

STAR 26/11/92

By Michael Sparks

The United States would encourage and mobilise resources for South Africa once an interim government was in place, the new United States Ambassador, Princeton Lyman, said last night.

Speaking to the Institute of International Affairs, at the University of the Witwatersrand, Lyman said President-elect Bill Clinton had already stated his support for assistance to South Africa once the transition process was irreversible.

He said bilateral aid from the United States to South Africa was unlikely to increase, though America would play a leading role in mobilising multilateral assistance.

But he emphasised the importance of returning to negotiations and a speedy transition, not only because the international community would otherwise become frustrated, but because the same would also happen to South Africans.

Lyman said the status of negotiations at the time of Clinton's inauguration on January 20 was significant. If things were going well then, the new administration would offer immediate support.

But if negotiations were stagnant, the reasons for that would need to be analysed and a response formulated, which would all take time and detract from the real issues.

SA up for sale at 40% discount — no takers

STAR 26/11/92. (74)

By Derek Tommey

Foreign investments by South African companies are being blamed for the slump in the financial rand to more than five to dollar from less than four to the dollar only eight weeks ago.

But this is only part of the cause of the finrand's decline, say analysts.

The sluggish growth of the economy and unrest must also be held responsible.

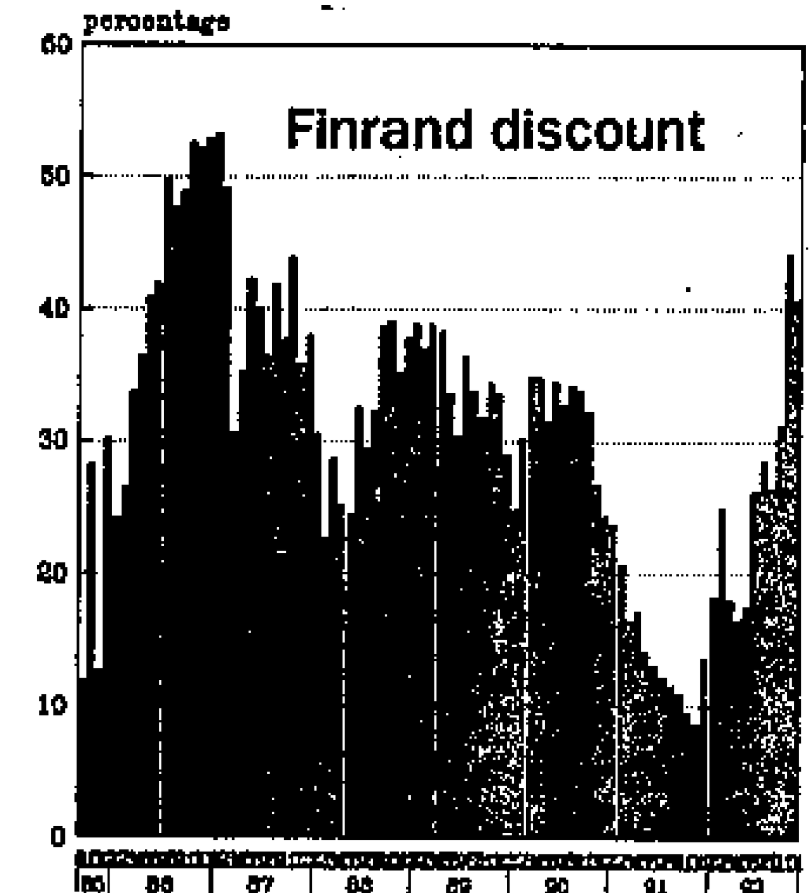
The slump in the finrand has resulted in its discount to the commercial rand growing to more than 40 percent — the biggest discount since 1986 when the country was also plagued by violence.

Portion

Analysts say this means a substantial portion of South Africa is up for sale at a 40 percent discount.

Perhaps not surprisingly, it seems there are few takers.

The fall in the finrand has led Minister of Finance Derek Keys to order an investigation into the currency and its uses, and to ask the private sector for suggestions on how the situation can be remedied.



The finrand can be used by foreign investors to buy shares in listed companies and, provided Reserve Bank consent is obtained, it can be used to make investments in non-listed companies.

Not only does the finrand allow foreigners to buy South African assets cheaply, but it also assures them of a large return.

A foreigner using finrands to buy a share yielding 5 percent gets a return of eight percent.

And if he invests in Eskom 168 stock at the current yield of 14,46 percent, the use of finrand will boost his return to 24 percent.

However, the continued high finrand discount suggests that there are few people wanting to buy it, which is an indication that not many people want to invest in SA right now.

Analysts say that if this situation were reversed and foreigners were willing to invest in SA, the finrand would be far stronger than it is.

Analysts admit that part of the weakness in the financial rand might be the result of SA companies investing overseas.

But there is also a feeling that some of the finrand's problems can be placed at the doors of speculators.

According to Reserve Bank figures, there is something like R6 billion worth of finrands in circulation.

With no market maker to give the currency some stability, it is fairly easy to manipulate.

Suspicion

Bearing this in mind, there is more than a faint suspicion that part of the finrand's recent weakness is the result of speculators taking advantage of the uncertain outlook for SA and selling the finrand short whenever there is a report of a local company investing overseas.

At the moment they would seem to be getting away with short-selling — and making lots of money.

There is no doubt that the finrand is used for speculation.

Much of the loudest complaints about its fall are coming from Britain where many people bought the currency in the expectation that it would firm and give them useful capital gains.

● The Governor of the Reserve Bank Dr Chris Stals yesterday called on South Africa to allocate as high a priority to understanding the country's economic problems as it was giving to the polical reform process.

He told journalists attending a Sanlam award ceremony that perhaps 1993 would not be the year which saw South Africa's economic problems being solved.

But it would be an extremely important year as it would see the foundations laid for economic development for the rest of the decade.

He said the authorities should not keep saying the solution to economic problems lay in the political sector.

The authorities must find the necessary economic solutions and zealously apply them, he said.

SA trade in 'basket case' of the world

As South Africa approaches the end of her pariah status, one of the important issues to be considered is the country's role in regional integration and co-operation with Sub-Saharan Africa. The hopes of Sub-Saharan African are that a democratic South Africa will act as an engine of growth that will pull the subcontinent from its economic quagmire, writes **PROFESSOR C L McCARTHY,** professor of Economics at Stellenbosch University

(74) ARG 28/11/92

MANY observers believe that Africa has a dismal future. The continent, described in *Time* as "the basket case of the planet", faces donor fatigue and exclusion from the triad of trading blocs developing in the world.

It is not surprising that hopes exist in Sub-Saharan Africa that a democratic South Africa will act as an engine of growth that will pull the subcontinent from its economic quagmire. This is one of the important issues of regional integration and co-operation that will have to be considered as South Africa approaches the end of her pariah status.

There is strong opposition to the idea of South Africa acting as a regional engine of growth. Witness the views of ANC and SADC spokesmen.

Can South Africa fulfil such a role? The country faces tremendous development needs and expectations within her own borders, which would leave little resources for her neighbours. To my mind, a realistic view of current and future developments indicates that South Africa will have no option but to attempt a leading role in regional development.

To state the obvious first: it is not possible to break links with Africa. The possibility of uncoupling and leaving the dangerous part of the trian behind belongs to popular movie scenes.

South Africa is already heavily integrated into the sub-continent through trade, investment and infrastructure and will inevitably transmit economic impulses to the region.

But perhaps the most important consideration is that people are mobile and move toward where they believe they can improve their quality of life. The Americans have been quite unsuccessful in keeping poor immigrants [out] of their prosperous country. Likewise, the apartheid-driven government could not keep poor rural blacks from migrating to the supposedly white cities of South Africa.

Currently, electrified fences are largely ineffective in preventing desperate Mozambicans from seeking safety and a better livelihood in South Africa.

It leaves little to the imagination to envisage the flood of people coming in once more accommodating transitional and democratic governments are in place.

This brings one to the mechanism of growth.

Financial transfers are not affordable and also not necessarily a productive means of promoting development, which leaves trade and investment.

Currently, R6 of exports go to African countries outside the Southern African Customs Union (SACU) for every R1 of imports from these countries.

Promoting growth to the advantage of all parties will demand radical change toward two-way trade. But this will require a capacity in other African economies to produce tradeable surpluses that can be sold in an accessible South African market.

If a broad view is taken of exports to include utilities and services like electricity, water, natural gas, transport and tourism the potential for increased exports to South Africa is substantial. Adding primary products, for example cereals, coffee, cotton, tea and marine roducts, and perhaps certain minerals such as oil and copper further extends the room for trade.

Ultimately, however, regional economic development will depend on the growth in intra-regional trade in manufactures. In this field only Zimbabwe has significant capacity to produce tradeable surpluses. Even this might be tenuous in a relatively free trade environment with competition from South African goods in integrated markets.

Production capacity introduces the issue of investment. South Africa should not be a net exporter of capital to the world, but within the region the already substantial investment of South African firms can be extended.

But increased participation of South African firms in investment will assist in ameliorating the other restriction on the capacity to produce for export — namely the dearth of markets, risk-taking entrepreneurs, technological abilities and business expertise associated with dirigist policies of economic development and the proliferation of parastatals.

Market-orientated development, as is currently illustrated in the former Soviet states, requires the existence of markets and their skilled operators.

South African business can play a significant role in Africa in developing these markets.

What benefits are there for South Africa in developing a two-way trading relationship with other African countries?

The final objective of export growth is not the accumulation of hard currencies but an improvement in the ability to import. Countries export because they have to import. This means that African countries selling more to South Africa can buy more from her. The resulting growth in intra-regional trade can be a virtuous cirle of growing prosperity in the region as a whole.

Sight should not be lost of the old argument that the growth in South African exports to African countries is restricted by the latter's inability to pay. This argument might be overstated.

Firstly, by merely increasing market share in African countries, other than SACU members and Zimbabwe, Malawi and Zambia, South Africa will be able to experience a once-off increase in exports. Using 1990 data applied to 11 accessible African countries, a hypothetical improvement in market share to an average of 15 percent in those countries where this share does not currently apply, while maintaining import shares where this exceeded 15 percent, produces total exports of R6 128 million.

This is more than double the actual level and more than the value of exports to most of South Africa's major export markets.

Secondly, the growth in exports to South Africa will also reduce the need for hard currency to finance imports from South Africa. All things considered, the ability to pay might not turn out to be such a big problem.

Obviously, the development of a two-way trading relationship accompanied by cross-border investment will require close economic co-operation in the region. This is difficult terrain and will require innovative thinking and action.

SA's on the road to India

S/Times (1455) 29/11/92

By ZILLA EFRAT

SAFTO will take its first ever trade mission to India in February to coincide with that country's largest trade fair.

Safto Asia manager Graham Limerick says this is the first time South Africans have been officially invited to India.

The delegation will attend the 10th Engineering Trade Fair in New Delhi. It displays a wide range of goods.

The delegates will visit Bombay and Bangalore.

India, a market of 800-million people, has relaxed its import policy and foreign-currency controls. Its industrial base has been restructured and personal incomes are rising.

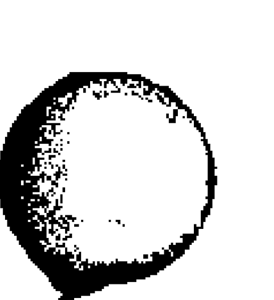
Mr Limerick says: "The Indians are keen to see SA businessmen so that trade can take place in a post-sanctions environment."

Products in demand include mining equipment, light and heavy engineering goods, gemstones, fertilisers and raw materials such as phosphates.

By ZILLA EFRAT

EGYPTAIR has selected South Africa as the base for its African operations. Its Johannesburg arm will co-ordinate its other offices and the opening of routes to Lusaka and Harare.

The airline starts flying to Johannesburg on Saturday. It



Expert weighs up funding options

6/0 47 30/11/92

(74)

JONO WATERS

SA COULD raise foreign funding worth R1bn a year to finance an economic recovery programme, Frankel Max Pollak Vinderine chief economist Mike Brown said at the weekend.

Brown told the Platform for Investment conference at Sun City at the weekend: "This is a realistic target that can be raised from abroad, but there are some problems."

He said these included the fact that money from abroad was conditional and often had strings attached.

Money could be raised domestically as SA had a "massive capital market" with more than R70bn held in long-term savings.

The conference called for R10bn to be invested in the country annually to provide about 460 000 jobs a year by promoting small and medium-size enterprises, services such as water, housing sanitation and electricity, and large capital projects to keep SA out of balance of payments difficulties.

Job creation in small businesses was low-cost, with the capital cost amounting to about R18 000 a job, compared with R50 000 a job in the formal sector.

The Industrial Development Corporation had indicated it intended to invest in export projects to the value of R29bn over the next five years and should generate export earnings amounting to R10bn, he said.

"Upstreaming" into higher value-added export products would provide the best short-term solution to a possible balance of payments constraint in the absence of the rise in gold, precious metals and other commodities prices.

An investment target of 25% of GDP should be set. The figure was currently about 16% which, said Brown, was just above the inflation rate. If the R10bn was spent, it would bring investment to 21,7% of GDP.

"The greatest threats to monetary stability are no longer excessive money supply growth, a falling rand or extreme inflationary expectations, but rather a lack of fiscal control."

It appeared that exchange control and the financial rand were here to stay, which were detrimental to investment and gave private and public foreign investors cause for concern when studying SA as a recipient for their capital.

"Making the best of the situation will require that exchange control regulations are applied uniformly,are transparent and allow free entry and exit."

Keys makes move to safeguard the finrand

(74) (419) (163) (180) STAR 30/11/92 (220)

By Derek Tommey

The financial rand should rise sharply against the dollar in the wake of moves at the weekend by Finance Minister Derek Keys to limit its use for foreign investments.

The confidence-inspiring move is expected substantially to reduce the flow of financial rands to overseas markets in the weeks ahead.

No detailed figures are available on how many financial rands would have gone abroad to conclude transactions already in the pipeline were it not for Keys' intervention.

But estimates are that the total could easily have exceeded R1 billion.

Curbing this outflow should result in a strong rally in the currency because a restoration of confidence in the financial rand's future worth, together with any short-covering that might be necessary, is likely to trigger an upsurge in foreign buying.

Keys at the weekend requested South African companies which already have permission to make investments overseas to use foreign sources of finance instead.

They would also have to make arrangements to stagger the repayments of their foreign financing.

He said the exchange control department of the Reserve Bank had been instructed to handle requests by local companies for permission to make new foreign investments with circumspection.

Approval could still be granted for those investments which might be seen to be of immediate benefit to SA in the short term.

But investments with a longer-term benefit only will have to be held in abeyance.

Keys said the financing of most new approved investments overseas would have to be done through foreign loans, with repayments being met out of the income generated by the new investments.

The curbs on the use of financial rands are, in a way, good news for companies now making investments overseas.

The slump in the financial rand has meant that they are having to pay almost 70 percent more for their investments than would have been the case had they bought them with commercial rands.

By giving them permission to raise finance overseas — something the Reserve Bank has not been keen on — to make foreign investments, they will at least save the extra expense, providing, of course, they can find foreigners to lend them the money they need.

For the past month or so the value of the financial rand has been steadily falling.

Last week the currency's discount to the commercial rand widened to more that 40 percent — the largest figure since 1986.

This has been interpreted by people overseas to mean South Africa is in serious difficulties.

Consequently, the need to strengthen the financial rand is a matter of both political and economic importance.

Capital outflows still outweighing inflows

STAR 30/11/92

(74)

Business leaders seldom waste an opportunity to tell politicians that without political stability there will be no foreign investment.

Recent evidence suggests they are at least half right.

A study by the London School of Economics (LSE) shows that while SA has enjoyed a renewal of foreign direct investment since President FW de Klerk embarked on reforms in late 1989, it has been less than half as much as disinvestments and investments abroad by SA companies in the same period.

A recent study by the Washington-based Investor Responsibility Research Centre (IRRC), concludes, however, that the trend of disinvestment has been reversed in the past year.

A longer-term perspective on capital outflows from South Africa is offered by Michael Marks, chief executive of brokers Smith New Court.

He notes that since 1959 capital inflows have totalled R100 billion in 1990 values. During this period, disinvestment has taken R84 billion back out.

He speculates that without spells of heightened political tension, South Africa could have expected capital inflows to have continued, as they did between 1946 and 1959 and between 1965 and 1976.

This might have added another R104 billion in 1990 terms.

It is hardly surprising that foreigners are holding back.

Business confidence, reported recently by the Bureau of Economic Research (BER) to be at its lowest level since ex-President PW Botha's disastrous Rubicon speech in August 1985, is clearly the key factor, with political uncertainty one of the main contributors.

But there are also important economic realities which are a disincentive to investment.

Edward Osborne, group economist at Nedcor, listed them earlier this year as including such factors as high tax rates, high wage rates in relation to skill and productivity levels, shortages of skill, highly politicised trade unions, and high inflation. — Financial Times.

HILARY GUSH

Finrand moves up on news of curbs

NEWS that Finance Minister Derek Keys had curbed finrand payments for offshore investments moved the currency sharply upwards early yesterday, but selling later in the day saw the unit lose some ground.

After finishing at R4,86 against the dollar on Friday, keen demand out of Europe saw the finrand open more than 2,7% firmer yesterday, at R4,73. Afternoon selling pushed the currency back to finish at R4,84.

Keys's weekend statement was seen as a confidence-building move and dealers expected the "well-oversold" unit to strengthen to R4,65 in the coming weeks.

Most traders welcomed the statement, but added that uncertainty still overshadowed sentiment. Even if payment for Reserve Bank-approved offshore acquisitions was staggered over time, finrands would have to be sold and the unit's value would be affected, they said. Others said intervention by the authorities prevented the finrand from being a true barometer of foreign investor confidence.

The unit is expected to trade in a range of R4,70 to R4,88 for the rest of the week.

On the back of persistent dollar strength, the commercial rand weakened further yesterday. From a weekend close of R3,0220 against the US currency, the rand fell to a morning low of R3,03 before closing slightly firmer at R3,0213.

SA's foreign trade '55% of GDP'

CT 2/12/92 (74)

Business Editor

SA HAS "done pretty well" in the export market, SA Foreign Trade Organisation (Safto) GM David Graham said at the Intermodal Africa conference yesterday.

Foreign trade, including services, accounted for 55% of gross domestic product (GDP). "It can be the make or break of the economic future of this country."

Graham said that 48% of SA exports went to Europe. This had remained more or less consistent throughout the sanctions period.

The real change had been in Asia, whose share of SA exports had grown from 13% to 25%.

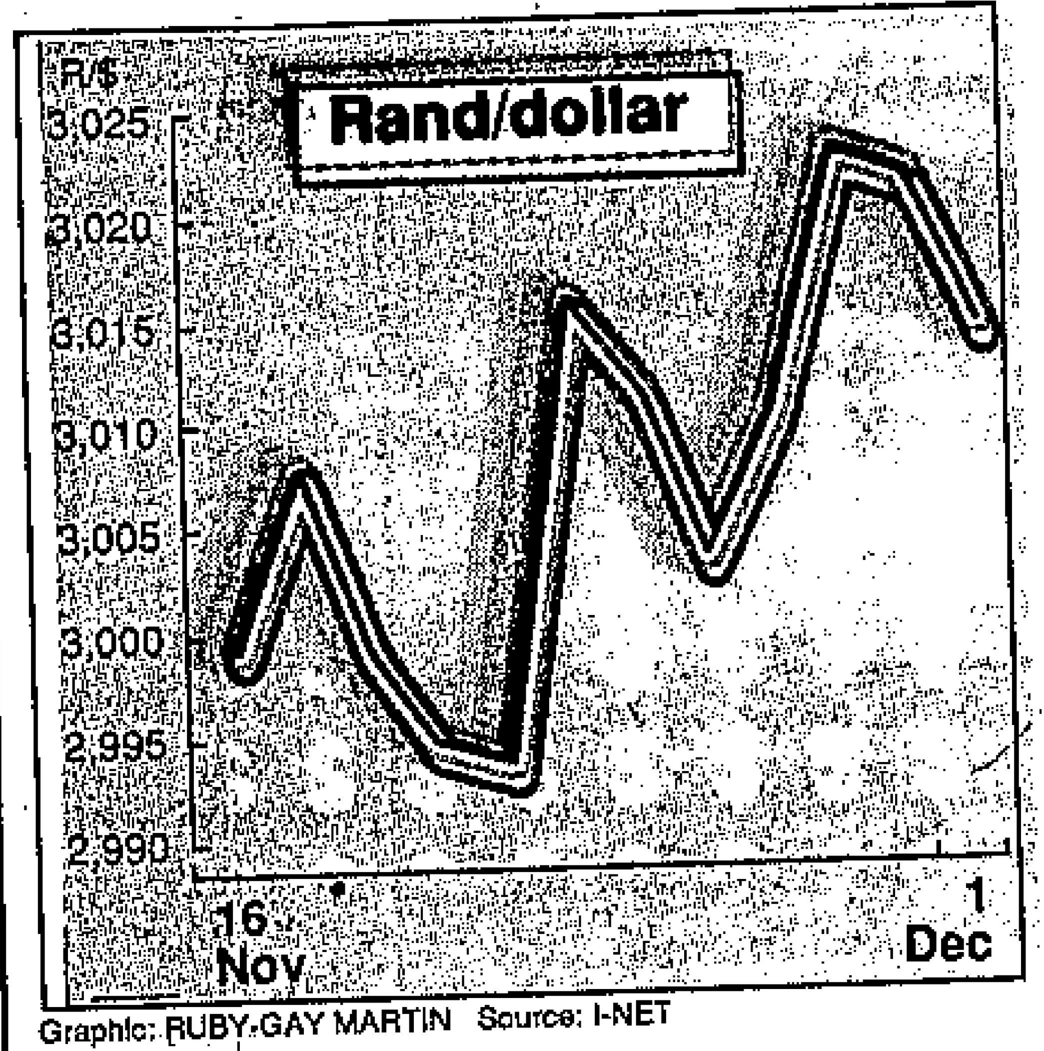
But other African countries were the biggest market for manufactured exports. This sector was showing a lot of growth.

However, Graham warned: "As world markets reopen we need to embark on projects which give us a high profile and dramatically enhance our credibility and reputation as a supplier."

The SA exhibition in Dubai World Trade Centre had been an example of what should be done.

It had achieved outstanding results. It had been attended by 5 000 visitors from more than 30 countries. Initial estimates of orders likely to be placed as a result of the exhibition within the first 12 months were in the region of $250m.

The next such exhibition would be held in Singapore in August. It was planned to follow this with one in Australia.



Graphic: RUBY-GAY MARTIN Source: I-NET

Finrand tests key level on big sales

HILARY GUSH (74)

FOREIGN selling saw the financial rand test the key R5,00 against the dollar level yesterday, although support at the lower levels prevented the unit's free fall.

Meanwhile, rumoured Reserve Bank intervention, by selling dollars, helped push up the commercial rand — which continues to track a stronger dollar — to close at R3,0135 against the US currency, from a previous R3,0210 finish.

From an overnight R4,84 against the dollar the finrand climbed to end at R4,97. Dealers said large-scale selling out of Munich and Zurich — estimated to be about R50m in finrands — had caused the unit's slide. BDAY 2/12/92

However, local and foreign support at the R5,00 level had prevented a further decline.

Although the weekend announcement by Finance Minister Derek Keys of curbs on finrand payment for foreign investments was said to be beneficial in the long run, the short-term benefits were limited.

"The attempt to support the finrand by the authorities cannot prevent foreign investors from liquidating their positions," one dealer said.

Selling out of Germany was believed to be gilts related, as investors in the E164 bond, which matured yesterday, did not reinvest their cash payment.

Although traders predicted a slight strengthening of the unit in the next few weeks, they did not expect it to trade above R4,65 before the end of the year.

Rand could come under pressure

STAR 2/12/92.

By Neil Behrmann (74)

LONDON — The financial rand is expected to outperform the commercial rand in coming months as international investment confidence improves.

Since Finance Minister Derek Keys announced that SA corporate acquisitions abroad would be tightly monitored, the financial rand has rallied by 5 percent from its depressed level of 19,65 US cents to the rand. In the same timespan, the commercial rand depreciated by a little over one percent against the dollar.

The US dollar is expected to consolidate in the next six weeks, at least until the start of the Clinton Administration at the end of January.

Eight leading international foreign exchange analysts, traders and technical analysts believe that the dollar will fluctuate within a three percent band against the Deutschemark and sterling in the coming three months. The yen/dollar rate will hardly move.

If these forecasts are correct, the commercial rand's weakness against the dollar will be limited.

London bankers who trade in the South African currencies, however expect the commercial rand to weaken further for another reason. They believe that the Reserve Bank will eventually allow some companies to fund foreign acquisitions with commercial rands.

Any outflow will place pressure on the commercial rand, say dealers. The commercial rand has already fallen, partly because of these expectations, say bankers.

Investigation

Usually the Reserve Bank handles currency matters, but the fact that Keys is also conducting an investigation into the problem, say London bankers, indicates that any new South African corporate investment abroad might be taxed.

If the corporations are willing to pay the tax which might be allocated directly to deprived areas, the Reserve Bank will selectively allow funds to be transferred via the commercial rand market.

The commercial rand is presently trading at a 60 percent premium over the financial rand. So SA corporations buying companies abroad are already effectively paying a huge tax.

For each $10 million of foreign investment, an SA company must pay R48 million instead of R30 million via the commercial commercial rand market.

Intervention by the SA authorities has become urgent say bankers here, because the financial rand rate was going into free fall.

Now that the authorities are investigating ways to reduce the acute currency risks which overseas investors have encountered during the past year, foreigners are once again buyers of SA securities.

Bankers report that Swiss, German and Far Eastern investors have been buyers of SA bonds since the financial rand rate has stabilised.

With SA bonds trading on yields of 22 to 23 percent the financial rand should appreciate, say London bankers. Particularly if SA capital outflows via the currency are controlled.

The financial rand discount is thus expected to narrow.

Bankers here believe that until recently the Reserve Bank and many South African banks, economists and corporations have taken a remarkably insular view of the finrand collapse.

According to this local view, SA company investment abroad through the slumping financial rand was acceptable because it did not have any impact on South Africa's foreign exchange reserves.

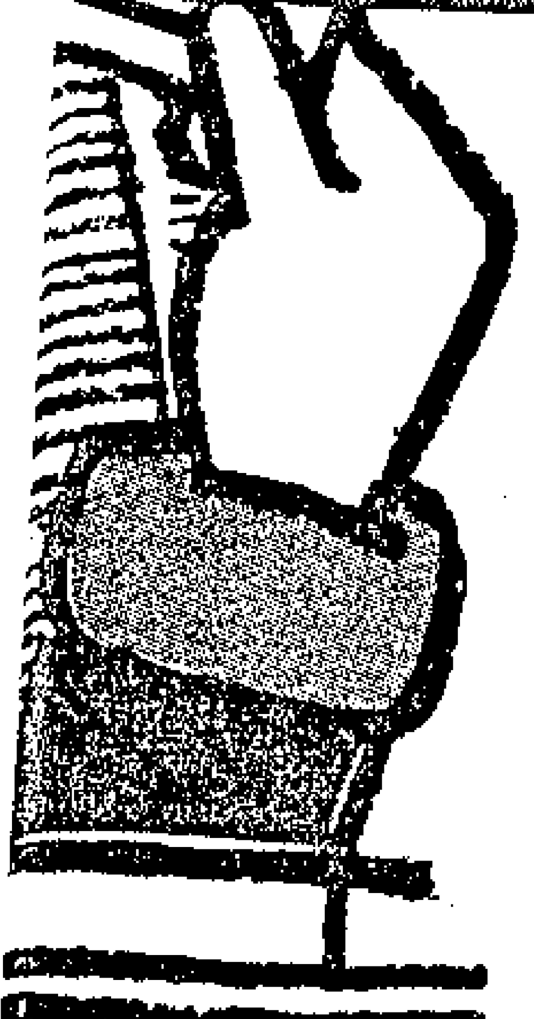
Some also said that by buying high yielding SA securities, foreign investors knew that the risks were high. They did well between 1990 and 1991, so there was little cause for complaint.

This argument, however, is specious.

On the edge

It is South Africa that needs the international investor, not the reverse. International investors can place their funds anywhere in the world. The tragedy for South Africa is that is has become very much on the periphery.

The financial rand collapse has had a damaging impact on foreign investment goodwill which is already shaky because of South Africa's volatile politics.



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Mission from Russia due

A GROUP of Russian and Ukrainian industrialists are due in SA today to explore ties with mining, chemical, steel and textile companies.

The 11-member delegation is being hosted on its 12-day visit by the National Productivity Institute, after a visit by NPI director of productivity promotion Johan Smuts to Russia and Ukraine last year.

Delegation members are expected to visit the Reserve Bank, Mintek, a gold mine, the JSE and oil-from-coal producer Sasol.

In the team from the former Soviet Union are top managers in mining, chemicals, textiles and aluminium and steel.

Trade contacts between SA and Commonwealth of Independent States member countries have been increasing this year, and there is scope for increasing co-operation between CIS states and SA's heavy industries, particularly mining. Anglo already has a firm presence in the former Soviet Union through De Beers. BIDAY 2/12/92

World trade volumes 5% up in first half

BIDAM 3/12/92 (74)

GENEVA — World trade grew 5% in volume in the first half of 1992, GATT economists said yesterday.

However, they forecast slower expansion in the second half because of weaker economic recovery.

Sweden's ambassador Lars Anell, serving as chairman of GATT's annual meeting in Geneva, also called on trade delegates to wrap up the Uruguay round of trade negotiations by year-end.

Opening a two-day annual GATT meeting, he released moderate growth figures prepared by the secretariat's economists.

"While GATT economists have estimated that the volume of world merchandise trade in the first half of 1992 was more than 5% higher than that of the corresponding period in 1991, the gain for the year as a whole will be smaller because the strength of the economic recovery has slackened."

He gave no precise figure for trade volume expansion in the second half of 1992, nor a closer estimate of an annual rate.

Imports into North America, Latin America, the Middle East and Asia — with the exception of Japan — buoyed trade in the first six months of the year.

"The somewhat downbeat assessment for the rest of the year reflects, in particular, weakness in demand in western Europe and Japan," Anell said, quoting the economists.

Trade between members of the Commonwealth of Independent States "virtually collapsed" in the first half of 1992.

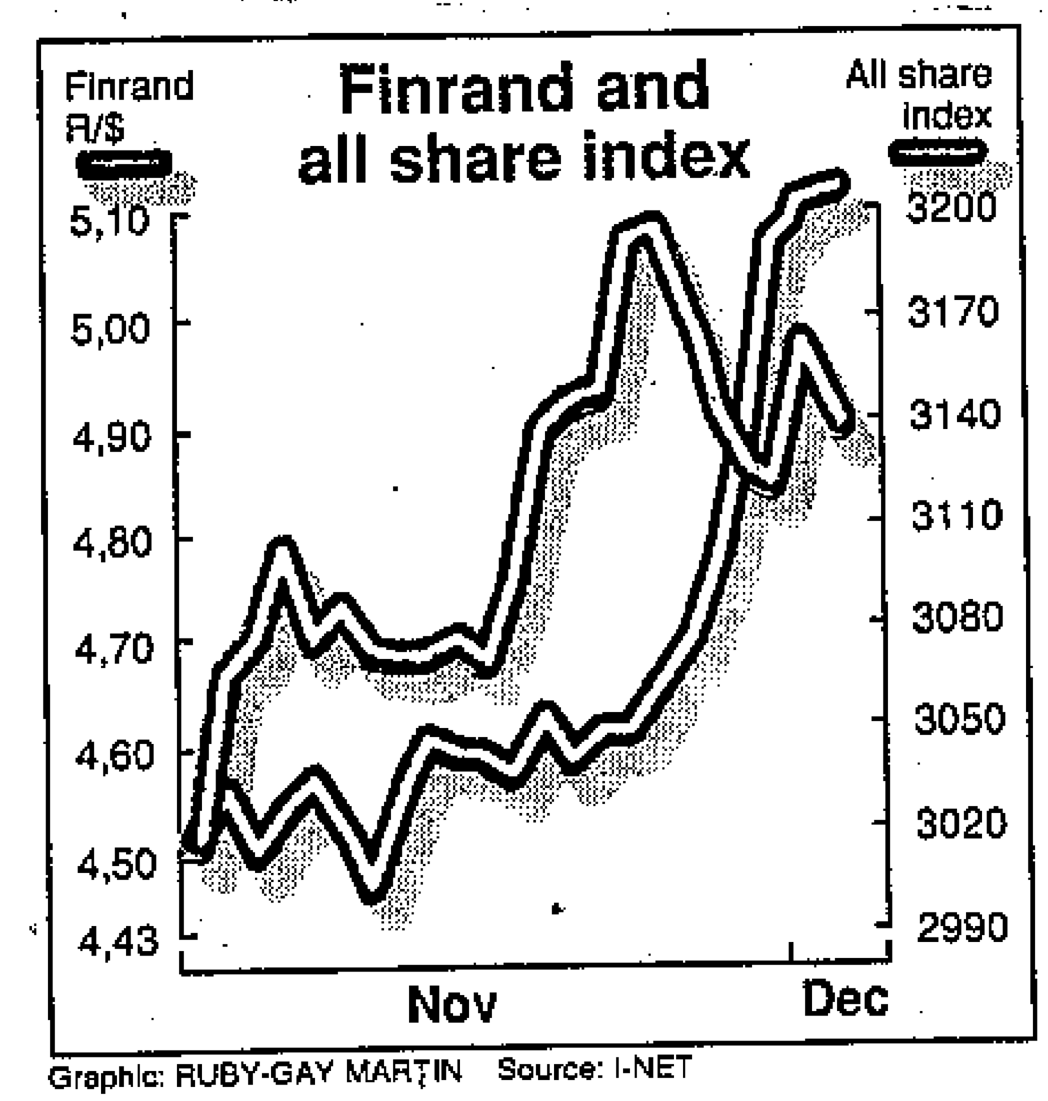
However, imports to the EC from eastern Europe had risen sharply.

Of the Uruguay round, he said: "As never before, we appear to have both an opportunity to conclude the round and — at the highest levels of government — a substantial political will to settle."

Last week the trade negotiations committee, the steering organ of the six-year round, agreed to try to reach a "successful political conclusion" to the talks on liberalising trade in agriculture, industry and services by year-end.

"It is also clear that a successful conclusion of the round would give — both for psychological and economic reasons — a much needed boost to the world economy.

"In fact, it is one of the few decisions governments can take without economic risks in order to stimulate the world economy," Anell said. — Sapa-Reuter.



Graphic: RUBY-GAY MARTIN Source: I-NET

Finrand stronger on mild demand

B/DAY 3/12/92 (74)

HILARY GUSH

MILD foreign demand saw the financial rand strengthen 7c yesterday, while a weaker US currency boosted the commercial rand/dollar exchange rate.

Far East demand early in the session saw the finrand open firmer at R4,92 from an overnight R4,97 against the dollar. The unit was then bought up to an intra-day high of R4,86 before closing at R4,90.

Dealers said selling out of Germany — an overhang from the December 1 payment for maturing gilts — prevented further strengthening of the unit, while expected Reserve Bank intervention at the

☐ To Page 2

Finrand

B/DAY 3/12/92 (74)

☐ From Page 1

R5,00 level was capping a softening of the finrand.

Traders said foreign investor fears of further finrand strength had kept them from buying mining shares on the JSE — which become more attractive as the finrand weakens.

On the back of a softer dollar following German Bundesbank reaffirmation of its tight monetary policy, the commercial rand firmed to close at R2,9963 against the dollar from a previous R3,0135.

But the local currency lost ground against the third currencies. From an overnight R4,56 against sterling, the rand closed at R4,63 yesterday. Against the Deutschmark the rand ended at DM0,525 from a previous DM0,528.

The association said the median expec- ... stimulus, analysts said. — Sapa-AP.

World trade volumes 5% up in first half

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Somali warlords meet aid groups

ADDIS ABABA — Western aid agencies and Somali clan leaders meet under the shadow of UN military intervention today to discuss the slow progress of relief efforts in the starving African nation.

The meeting in the Ethiopian capital, scheduled since October, takes place as a three-ship US battle group takes on provisions in Kenya ready to sail for Somalia as the advance guard of a UN plan to get food through by force.

The UN aid agencies and Western donors are disgusted by the clan gunmen who demand increasingly high payments to guard food convoys in Somalia and are widely blamed for looting up to 80% of the relief that arrives.

Sources close to the talks said at least 22 Somali clan leaders had accepted invitations to attend and were being flown to Addis Ababa at UN expense.

But the key protagonists — self-styled interim President Ali Mahdi Mohamed and rival warlord Mohamed Farah Aideed — were unlikely to attend as they consolidated their claims to rule Somalia before the UN intervention.

The Security Council reached broad agreement on Tuesday to authorise a US-led military operation in Somalia because of Western exasperation at the wholesale plundering of food aid meant for 2-million people starving to death.

The role of the force and its size are still taking shape but it will overshadow the three-day discussion in the Ethiopian capital of a 100-day plan launched in October to speed up help for Somalia.

"Inside Somalia, more than 2-million Somalis continue to be at grave risk and some 500 000, mostly displaced women and children, remain on the brink of starvation or death from disease," said a UN report to be discussed at the talks.

"Compounding the situation, threats from armed gangs against relief workers, extortion and robberies have made the delivery of relief assistance increasingly hazardous," the report said. — Sapa-Reuter.

iE LIFE

ns ended 30 September 1992

Six months to 30 September (Unaudited)

1992 R million	1991 R million	% change
109,1	74,0	47,4

Current account surplus plunges

BIDay 4/12/92 (74)

HILARY GUSH

A SMALL surplus on the current account and continued net capital outflow saw SA's total net gold and forex reserves fall almost R600m in the third quarter.

The latest Reserve Bank quarterly bulletin released yesterday said although SA was currently in the grip of a "long and severe recession" — normally characterised by low-volume merchandise imports — the current account surplus had dropped sharply to R0,4bn in the September quarter from R1,3bn in the June quarter.

While part of the slide was attributed to seasonal factors, when seasonally adjusted and annualised the figures still pointed to a fall in the surplus from R6bn to R3,7bn or from 1,8% to 1,1% of GDP.

Economists said the drop was a result of sliding agricultural exports and a substantial hike in food imports due to prolonged drought.

AHI chief economist Nick Barnardt said drought had played a predominant role in the surplus's decline, but "the very low prices SA received for many of its commodity exports" had also contributed.

The bulletin said in the third quarter SA had become a net importer of agricultural products for the first time since the drought of 1983. Total agricultural imports had increased from a seasonally adjusted and annualised R2,9bn in the first to R5,3bn in the third quarter. In the past three years net agricultural exports had averaged R2bn a year.

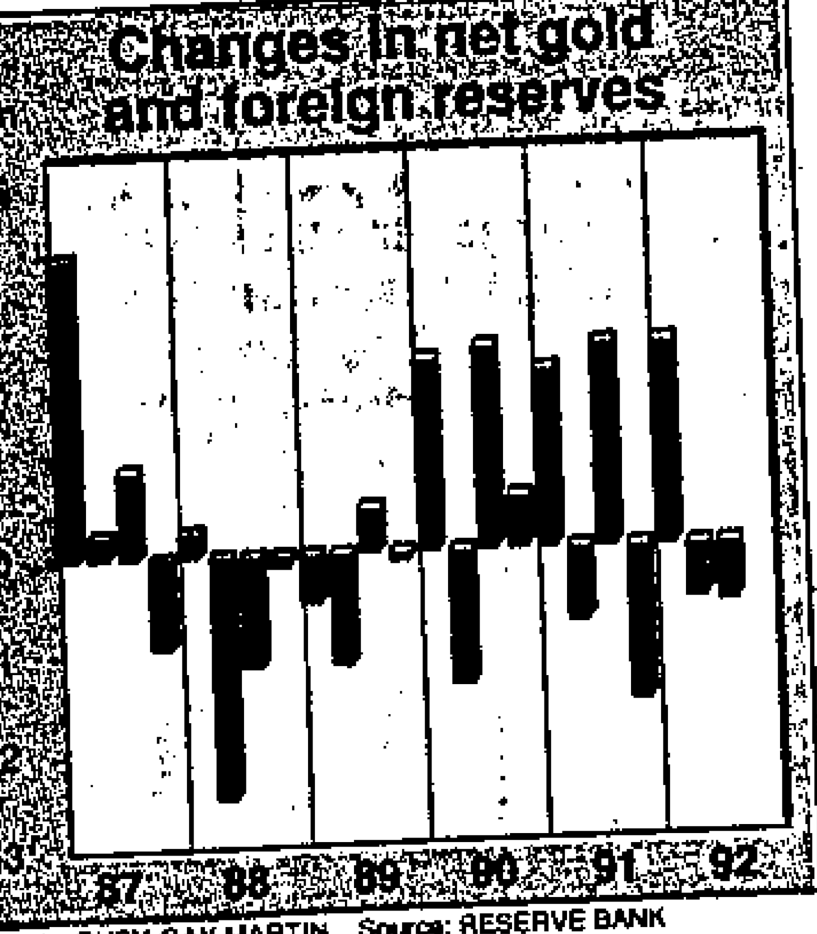
The bulletin showed that capital outflow had slowed to R1bn in the September quarter from R1,9bn in the previous quarter. Most of the outflow — R0,7bn — was in short-term capital, largely a result of foreign debt repayments of about R500m inside the net.

Barnardt said in light of the scheduled debt repayment in August and the worsening political situation in the third quarter, capital outflows were lower than expected.

Total net outflow for the first nine months of the year reached R2,9bn compared to the R1,4bn posted for the same period last year.

Barnardt predicted the outflow for the year at between R3,5bn and R4bn, which, although lower than R6,1bn recorded last year, was "still unsatisfactory".

Due to easing local interest rates which reduced the cost of domestic credit, the bulletin said "considerable" switching from foreign to domestic trade financing had occurred in the third quarter.



Graphic: RUBY-GAY MARTIN Source: RESERVE BANK

Finrand clamps hit ship owners

BIDDY 7/12/92

(74)

EDWARD WEST

THE new constraints imposed on the finrand have provided unexpected difficulties for local ship owners wanting to register vessels under foreign flags, says Northern Steamship director Chris Shone.

Shone said local shipowners could either register newly purchased vessels in SA or in other countries — most commonly through the establishment of one-ship offshore companies owned by the SA company.

However, the formation of an overseas company through which funds would need to be channelled for the purchase and registration of a vessel was classified by the Reserve Bank as an offshore investment.

The finrand constraints indicated that international finance would have to be sought to finance offshore investments. However, said Shone, foreign bankers and institutions were reluctant to deal with SA shipowners on this basis because of sanctions.

Negotiations were under way with the Reserve Bank, Shone said.

Foreign demand boosts finrand

8 DAY 7/12/92 (74)

HILARY GUSH

RENEWED foreign demand saw the finrand strengthen on Friday.

From an overnight R4,83 the finrand firmed to an intra-day R4,71 against the dollar — a level last seen three weeks ago — before closing slightly softer at R4,72.

Traders said good demand, mainly out of London, had fuelled the unit's rise and large-scale European selling had dried up.

"There doesn't appear to be any serious selling at the moment, and if there is it's being very well disguised," one trader said.

He added that after the announcement of the new curbs on foreign investment "it would not be surprising if the finrand rose to as high as R4,35 ($0,23) by February".

Dealers who had expected the unit to weaken on news of the Queenstown bombing were caught short in late afternoon trade. This spurred demand and left the currency 2% stronger on the day.

News that the deal involving the Royal Group's acquisition of Del Monte Foods International had been concluded was seen as bearish for the finrand.

Although the cost of the investment had been dropped from R2,4bn to R2,17bn, dealers cautioned that payment would still have to be through the finrand and this was bound to affect the unit's value.

THE WEEK AHEAD by Simon Willson

Underlying factors could tell real story

B/DAY 7/12/92. (74)

WHEN the level of November's gold and foreign exchange reserves is published early this week, underlying factors will matter more than the headline number.

The level of gross reserves has not yet recovered from a fall of almost R1bn in September, ascribable mainly to one-off events such as maize imports and end-quarter forex payments. Reserves rose R300m to R11,1bn in October, partly clawing back the loss, but August's record level of R11,6bn is still R500m distant.

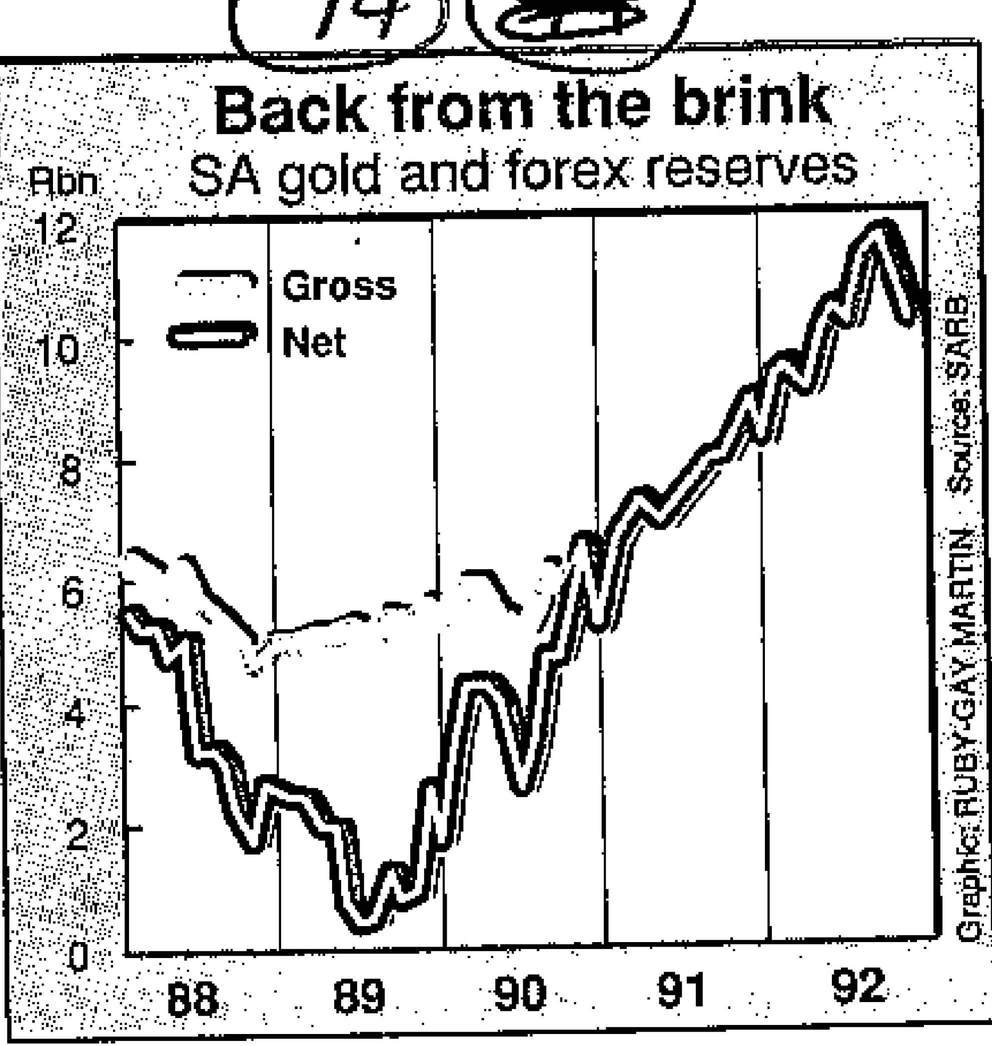
The latest Reserve Bank quarterly bulletin, released last week, seemed to indicate that the third quarter was the rough one for reserves. The bulk of drought-related agricultural imports seems to have occurred in the three months to September, knocking the reserves by dragging the third-quarter current account surplus down to only R400m from R1,3bn in the second quarter.

Now that is out of the way, and a modest rebuilding could be in prospect. After the commercial rand's historic fall through the R3 level against the dollar early last month, the rand gold price should also help to bolster total reserves. Gold remained solidly above R1 005/oz in the end-November period when gold reserves are measured, whereas it straddled R1 000 four weeks earlier.

But whatever the headline level, the reserves' true health is best assessed through two underlying features of the data. The first is the amount of import cover the reserves afford. The internationally recommended minimum import cover is three months' and SA's, at just over two, still has some accumulating to do.

The chart illustrates the second underlying feature — the relationship between gross and net reserves, where gross reserves comprise gold and forex retentions plus reserve-related loans by the Reserve Bank. Net reserves are gross reserves less the Bank's liabilities and, as the chart shows, net reserves looked a bit dicey in mid-1989.

In fact, SA was just about broke. Nearly all gross reserves were already spoken for by loans to the Bank, leaving almost nothing over in the kitty and net reserves near zero. The good news now, which should continue to apply to the rest of this year's reserves, is that gross reserves equal net reserves. The Bank has no outstanding reserve-related loans.



Internationally, the key US figure for the week is **November retail sales**, out on Friday. Recent outturns have been impressive, showing sales up 0,5% in September and 0,9% in October and rising sales for four straight months. Separate figures have shown a surge in consumer confidence last month, and this could well have fed into extra buying and higher sales.

The US **November inflation rate** is also out on Friday. US consumer prices jumped 0,4% in October, the highest monthly rise in seven months, as the annual inflation rate rose to equal its 1992 high at 3,2%. Rising demand is well short of capacity constraints, however, and with oil prices soft there seems little danger of a US inflation bulge. **US producer prices** for November are measured on Thursday and, after rising only 0,1% in October to be a mere 1,7% up on the year, should continue to calm any anxiety about inflation.

As with SA reserves, observation of the UK inflation rate involves looking past the headline figure and focusing on underlying trends. The headline **UK November inflation** rate is released on Friday, and was steady at 3,6% in September and October. But the UK authorities have a 0%-4% target range for underlying inflation, which excludes mortgage interest payments, and it is the underlying or core inflation rate that therefore drives British monetary policy.

Core inflation eased for the sixth consecutive month in October to a four-year low of 3,8% and should continue to ease over the short term until the effects of sterling's recent fall work through to import prices.

MONEY MARKETS by Hilary Gush

Call rates come off as shortage eases to previous week's level

B/DAY 7/12/92 (74) (65) (265)

CALL rates came off last week as the money market shortage eased R1bn to R2,677bn on Wednesday after a hike of the same magnitude the week before.

From an average 12,75% at month-end, calls fell to about 12% by Friday. By Thursday, however, liquidity had tightened, with the shortage up at R3,078bn. Unless it falls back below R3bn this week, calls are unlikely to ease much for the rest of the month.

There are many reasons for improved liquidity. As about half of issued Eskom stock is believed to be held offshore, the November 30 payment on the maturing E164 bond would not have lowered the shortage, but rather would have put pressure on local liquidity as cash was withdrawn to repay foreign holders of the parastatal's stock.

However, coupon payments on government stock and beginning of the month government disbursements to the homelands more than offset the outflow.

The average rate on the weekly three-month treasury bill (TB) tender moved up to 11,86% from Friday's 11,78%, with bids totalling R387m received for the R200m on offer.

After the higher rate, dealers were pondering whether it was the right time for an upward correction in other rates on the money market.

Though December is traditionally a quiet month in the market, dealers said demand for money market assets was particularly poor last week.

As bears have taken to the fore on the gilts floor, it is doubtful that investors' cash is flowing there. The recent strength of the equity market may, however, suggest that money is being invested on the JSE.

Last week the average rate in the market on the 90-day liquid BA was 11,9%, but traders expect it to move up to 12% early this week on the back of the higher TB rate.

In thin, quiet trade on Friday gilts rates kicked up as fears of an oversupply of capital market instruments mounted, and big players closed their books for the year.

Near the session's end the yield on the R150 was at about 14,84% from 14,57% the week before.

Government financing of the deficit — expected to be through the capital market — and more corporate bond issues after the good reception to Tuesday's R1bn SAB issue have fuelled bearish sentiment.

SA sets up 'hard sell' trade missions

BDAY 8/12/92

PETER DELMAR

THE Department of Trade and Industry (DTI) yesterday announced what it called two "hard sell" trade missions to Kenya and Zambia.

The DTI said the visits would be the first in a series of trade missions to Africa planned by the department for next year.

It was co-operating with its counterparts in these two countries and the visits would be "hard sell" ones and not geared to "merely exploring markets", the DTI said.

News of the visits follows the recent announcement of the first DTI-led trade delegation to the US and the announcement by the SA Foreign Trade Organisation (Safto) that it would stage separate SA-only exhibitions in four West African countries next year.

A Sacob delegation left at the weekend for a nine-day visit to Morocco and Tunisia. This year Morocco became SA's biggest trading partner on the continent beyond southern Africa. In the first 10 months of this year official SA exports into Africa grew from R3,5bn to R5,1bn, although experts believe that trade which is not officially recorded could dcuble this figure.

(74)

Trade with the Ivory Coast increased 30% and trade exports to Burundi, an important regional distribution point, by 300%.

Sapa-AFP reports that United Arab Emirates businessmen will visit SA early next year to discuss investment and tourism co-operation.

Abu Dhabi's civil aviation director Sheikh Ahmad ibn Saif al-Nahayan said at the weekend that the visit would be organised by Gulf Air — owned jointly by Bahrain, Qatar, Oman and Abu Dhabi.

Food imports take bite out of reserves

BIDAY 8/12/92

(74)

HILARY GUSH

DROUGHT and consequent high agricultural food imports continued to plague SA's total gold and foreign exchange reserves in November.

Reserve Bank figures released yesterday showed that despite an increase in the value of gold holdings, to R6,39bn from R6,09bn, total reserves fell to R10,57bn from October's R11,1bn — a result of ebbing foreign assets.

A higher gold valuation of R911,09 an ounce in November from October's R902,51, as well as larger gold holdings — these were at 7-million ounces from the 6,7-million recorded every month since July — were responsible for the increase in the value of gold holdings.

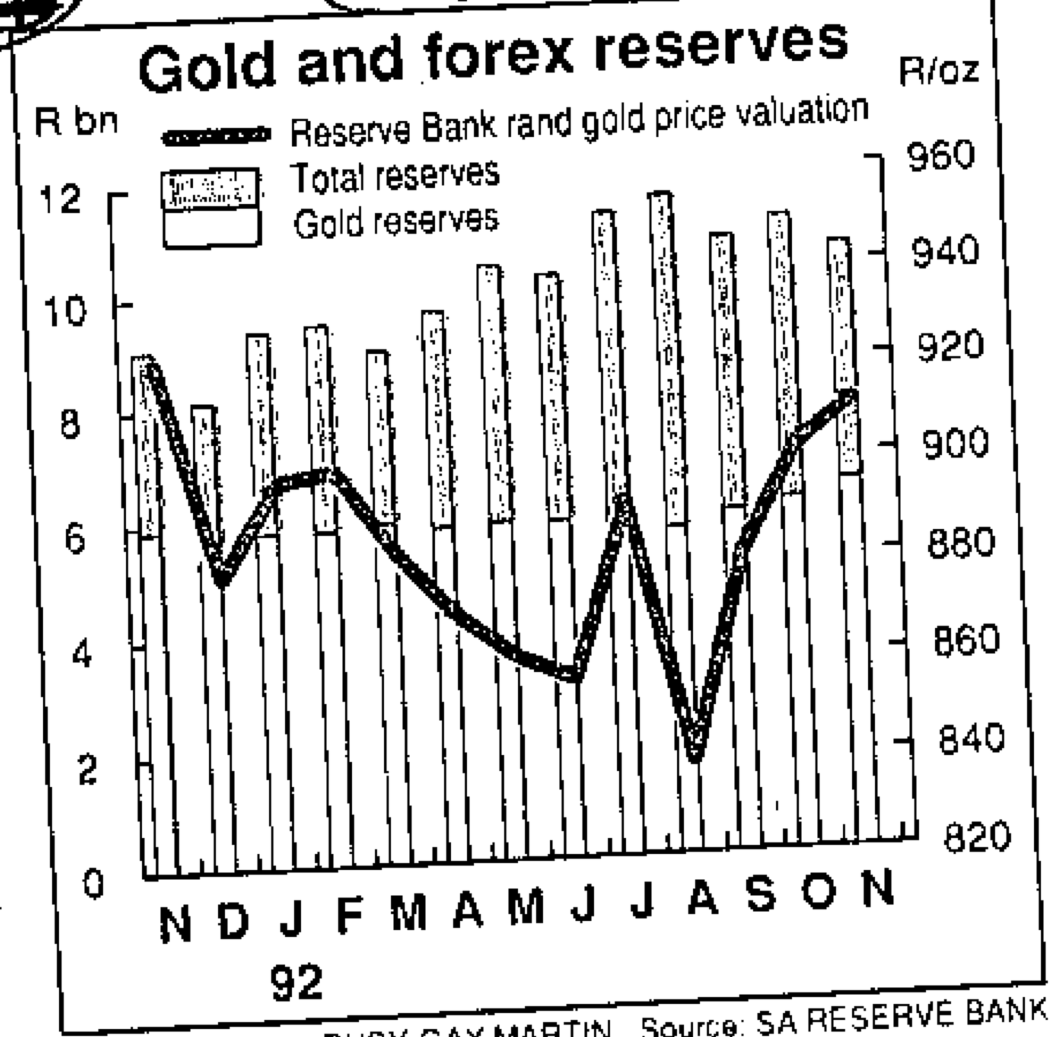
Economists blamed the prolonged drought and larger food imports for the fall in forex reserves to R4,18bn in November from R5,01bn in October.

Afrikaanse Handelsinstituut chief economist Nick Barnardt said the November figure was much poorer than expected. It seemed the balance of payments was still struggling in the fourth quarter.

Weak commodity prices abroad, a high level of food imports, low food exports and a continued capital outflow were responsible for the lower level of reserves, he said.

"The poor performance of the balance of payments in recent months and the accompanying decline in net reserves appear, at least, partially to explain and justify the hesitancy of the monetary authorities to reduce interest rates," he added.

Econometrix senior economist Azar Jammine said the drought had had an unpredictable and dampening effect on the level of gold and forex reserves and the current account. Assuming the drought would end soon, there was no reason for panic and reserves were in a "reasonably healthy position".



Graphic: RUBY-GAY MARTIN Source: SA RESERVE BANK

Pressure mounts to do away with the financial rand

STAR 8/12/92

By Sven Lünsche

(74)

With pressure mounting on the authorities to scrap the dual exchange rate system, SA's full readmission to IMF facilities could play a crucial role in phasing out the financial rand.

Finance Minister Derek Keys has taken some of the pressure of the finrand by limiting access to the currency by local companies making off-shore acquisitions, which had pushed its discount to the commercial rand to a record 40 percent.

Since then the finrand has strengthened — from over 5 to the US dollar to yesterday's level of 4,67 — and the discount narrowed to 35,9 percent.

Nevertheless, the volatility of the finrand over the past few weeks has led economists to suggest a number of alternative ways of phasing out the dual exchange rate system.

In its latest edition, the SA Banker suggests three possible strategies:

- The first ties the removal of the finrand to renewed access to IMF facilities, which would provide a back-up facility of R16 billion and restore SA's creditor status among foreign banks.

The process would be slow and involve two phases, the first being characterised by a narrowing of the discount as a result of increased foreign interest in SA investments.

The second phase could involve intervention by the Reserve Bank to narrow the discount to a point where the finrand, and probably the debt standstill arrangements, could be abolished altogether.

"This could materialise once it became clear that the conversion of standstill loans into finrands would be manageable and the indications were that capital outflows from this source would be limited in the event of the introduction of a unitary rand," the SA Banker says.

- A more radical approach would be for SA to raise as much as $3 billion from foreign banks in short-term credit facilities.

Once these credits were raised, both the debt standstill arrangements and the financial rand system could be abolished and the credit facilities used to finance any short-term capital outflows that would inevitably follow.

- The finrand could also be dismantled, in line with the renegotiation of the third debt standstill arrangment, which falls due at the end of next year.

Foreign banks would need to agree to a final debt arrangement amortising all the remaining foreign debt caught in the standstill net. The finrand system could subsequently be scrapped, particularly if the discount was low.

Phasing out the finrand under all three strategies contains many risks, particularly since the political situation is likely to remain volatile, which could lead to sudden large capital outflows.

Furthermore, the prospect of a unified rand settling at well below the current rate of the commercial rand could have highly inflationary consequences.

Yet the recent volatility of the finrand should at least suggest to the authorities that a rethink of the whole exchange rate environment has become essential.

Econometrix wrote in a recent release that the abolition of the finrand and lifting exchange control regulations would be an expression by the Government of its confidence in the economic future of the country.

"Foreign investors in SA's financial markets have been badly burnt by the finrand's collapse, and it is doubtful whether they will return to SA in a hurry, despite the large discount," Econometrix said.

STAR 8/12/92

Gold and forex reserves decline

By Sven Lünsche

Total gold and foreign reserves fell by R531 million in November against a background of a lower trade surplus and renewed capital outflows.

Reserve Bank figures released yesterday show that gold and forex reserves declined from R11,1 billion in October to R10,6 billion last month, led by a R833 million drop in foreign assets to R4,2 billion (R5 billion).

The gold content of the reserves rose from R6,1 billion to R6,4 billion on a combination of a higher rand gold price at R911,09 (R902,51) and a rise in the the volume of gold holdings to 7,01 million ounces (6,74 million ounces).

The large fall in foreign exchange reserves can be attributed for the most part to the fall in the trade surplus over recent months, but is also a sign of renewed capital outflows.

According to the Reserve Bank, total capital outflows were R960 million in the third quarter, which economists attribute to foreign investors disillusioned over the slow political process and the volatility of the finrand.

The trade surplus for the first ten months of the year declined marginally to R12,7 billion.

According to Boland Bank's latest Economic Review, the value of exports has risen by only five percent this year, reflecting sluggish demand in industrial countries.

At the same time, import values increased by seven percent in the wake of higher agricultural imports and declining domestic production levels.

weather, the is also a con- ak global econ-

Market scepticism was not shared by such Opec leaders as Saudi Arabia's Nazer.

reputation for keeping the ... — Sapa-Reuter.

West Africa beckons SA

STAR 10/12/92

By Leigh Hassall

Businessmen will have the chance to trade with West African countries via an exhibition to be held next year in Abdijan, Cote d'Ivoire.

This was revealed in Johannesburg last night by Exhibition Management Services.

It has the blessing of both the Department of Foreign Affairs and the Minister of Commerce and Industry of the Cote d'Ivoire.

The exhibition should draw businessmen from the whole of West Africa.

In 1990 the total value of imports for the target market countries was $13 740 million.

The major imports by West Africa comprise machinery and equipment, agro-industrial related products and mining technology and equipment.

At the launch a keynote address was made by Valence Sahouet, Director for External Trade Promotion in the Ministry of Trade and Commerce of the Cote d'Ivoire.

He stressed the positive attitude his country had maintained towards South Africa over the years at a time when many other countries were closing their doors to it.

"Abidjan is the most industrialised area in the region, with excellent facilities and a natural port of entry for goods," Sahouet said.

B/DAY 11/12/92

Trade show in Abidjan

A FOUR-day trade exhibition in Abidjan, the Ivory Coast, in November 1993 has been arranged for SA businessmen seeking to exploit the opportunities of the West African market. (74)

Announcing the "Contact West Africa" trade show, promoter John Thomson said in Johannesburg on Wednesday that SA businessmen would have access to a market of more than 75-million people and a region which imported almost $14bn annually.

RESERVES FM 11/12/92

Under pressure

Foreign exchange reserves fell by a disconcerting R833,1m in November. So, despite a rise in the value of gold reserves of R302m, total reserves fell nearly R531m to R10,6bn (US$3,5bn).

The drop in forex was partly due to the appreciation of the US dollar against all currencies "which results in technical outflows," says Reserve Bank GM James Cross. But the major impact, he adds, came from a decline in the surplus on the current account of the balance of payments. Though drought-related food imports have been arriving for several months, it seems substantial payments occurred only in November.

However the trend emerged earlier in the year. The Reserve Bank *Quarterly Bulletin* records that, in the third quarter, the volume of imports of goods and nonfactor services grew faster (25,4%) than exports (22,6%). At the same time the terms of trade deteriorated as import prices rose at a faster rate

Cross ...
declining surplus

FM 11/12/92 (74)

than export prices. Third-quarter figures show a decline of 3,6%.

The services account in the third quarter dropped R11bn, the biggest quarterly fall this year. And the surplus on the current account fell to a seasonally adjusted annual R3,7bn from R6bn in the previous quarter. Old Mutual economist Ursula Maritz believes the fourth-quarter surplus could be even lower. "If you take into account services net payments of R950m a month, and the R784m October trade surplus, it implies a current account deficit for October of about R170m."

Trade figures for October show the monthly surplus down to R784m from R965m in the previous month. Figures for the service account will not be available till fourth-quarter data is published next year by the Bank.

□ Gold holdings were up to 7m fine ounces from 6,7m in October and the valuation per ounce was up to R911,1/oz from R902,5. Total value of gold holdings was R6,4bn ($2,1bn) up from R6,1bn. Forex reserves were worth R4,2bn ($1,4bn) down from R5bn. ■

EXCHANGE CONTROL FM 11/12/92

Making SA investor-friendly

It will take a carrot and not a stick to build SA's forex reserves

There is only one way to stop domestic capital seeking investment opportunities outside SA — a risk-reward ratio comparable with other countries'. Simply, SA must at least offer investment opportunities comparable to those available elsewhere.

Finance Minister Derek Keys's recent restriction of the use of the financial rand for outward investment did not stop the unit's decline (*Leaders* December 4), from nearly FinR4,9 to the dollar on November 27, before the curbs were announced, to test R5 by December 1 — presumably as deals already in progress were completed and possibly also in response to a surge in political unrest.

It rose a little over the following days but is still vulnerable and will no doubt remain volatile. Its value has fluctuated sharply this year, with the discount against the commercial currency ranging from 12% to 40%. And the exchange rate against the dollar had fallen 36% by end-November.

As a measure of investors' perceptions of SA, this is a dramatic thumbs down.

In the short term, exchange control may be partially effective in a small economy, though administratively costly, constantly open to abuse and at a heavy cost in misallocated resources. In the long term, it is destructive because it distorts financial markets and signals to foreign investors that the country is high-risk. Though introduced to attract capital (by giving non-residents a more attractive exchange rate), it keeps it out as effectively as it keeps it in.

The trouble is that, once in place, it is hard to remove without destabilising financial markets and sending shock waves through the economy. Unlike industrialised countries, developing countries make "a discontinuous rather than smooth and incremental adjustment" to the removal of control, says Wits economics professor Merton Dagut.

UAL economist Dennis Dykes adds: "Removal would be seen as a temporary opportunity to get capital out, unless government could convince people it is committed to a broad and long-term policy to make SA viable." He suggests that, if all forms of control were ended simultaneously and no reinforcing economic measures put in place, the value of the single currency could fall below the present level of the financial rand.

But, properly managed and given political confidence, a huge devaluation is not inevitable. Phased removal, coinciding with the introduction of a co-ordinated economic policy, would stabilise flows — especially if done at a time when there is a reasonable prospect of a cyclical recovery. So right now may be propitious for a careful consideration of both the question of exchange control removal, and the important surrounding policy issues.

How economic restructuring, which includes an end to exchange control, can best be achieved will form part of research which Dagut, Wits's Charles Simkins and Rhodes's Trevor Bell will work on over the next 10 months. Their project, *The opening up of the SA economy to the world economy*, has won the inaugural award of Sanlam's Fred du Plessis Bursary for Economic Research and R30 000 in funding.

"In a developed country," says Dagut, "exposure to the world economy immediately brings it into line with its trading partners. In SA, the process is more complicated. I can only make a tentative suggestion that the foreign exchange market should be the last element to be liberalised."

Whatever the order of policy changes, liberalisation of the foreign exchange market must be accompanied by sound fiscal and monetary policies, progressive removal of trade barriers and domestic deregulation.

The key to economic stability is a political settlement. Only then will investors begin to believe that they will not face a battery of controls and a barrage of policy changes once they embark on major projects. If the ANC leadership fails to accomplish that, it will find itself, like the National Party, unable to achieve economic credibility.

Residents have been subject to exchange control regulations which have prevented them from freely investing offshore since 1939. In June 1961, following the 1960 tragedy at Sharpeville and in the face of huge balance of payments pressures, the blocked rand (later the securities rand and finally the financial rand) was introduced to prevent nonresidents freely repatriating assets.

The investment currency was suspended in February 1983 and re-introduced in September 1985 when credit sanctions triggered a financial crisis.

Sanctions, of course, will be lifted when a representative government is in power, but the transition will be difficult. Says Nedcor Bank economist Edward Osborn: "Retention of exchange control is an inevitable concomitant of political transition because of the attendant uncertainties that private capital has about the security of their capital and business relationships with the new regime."

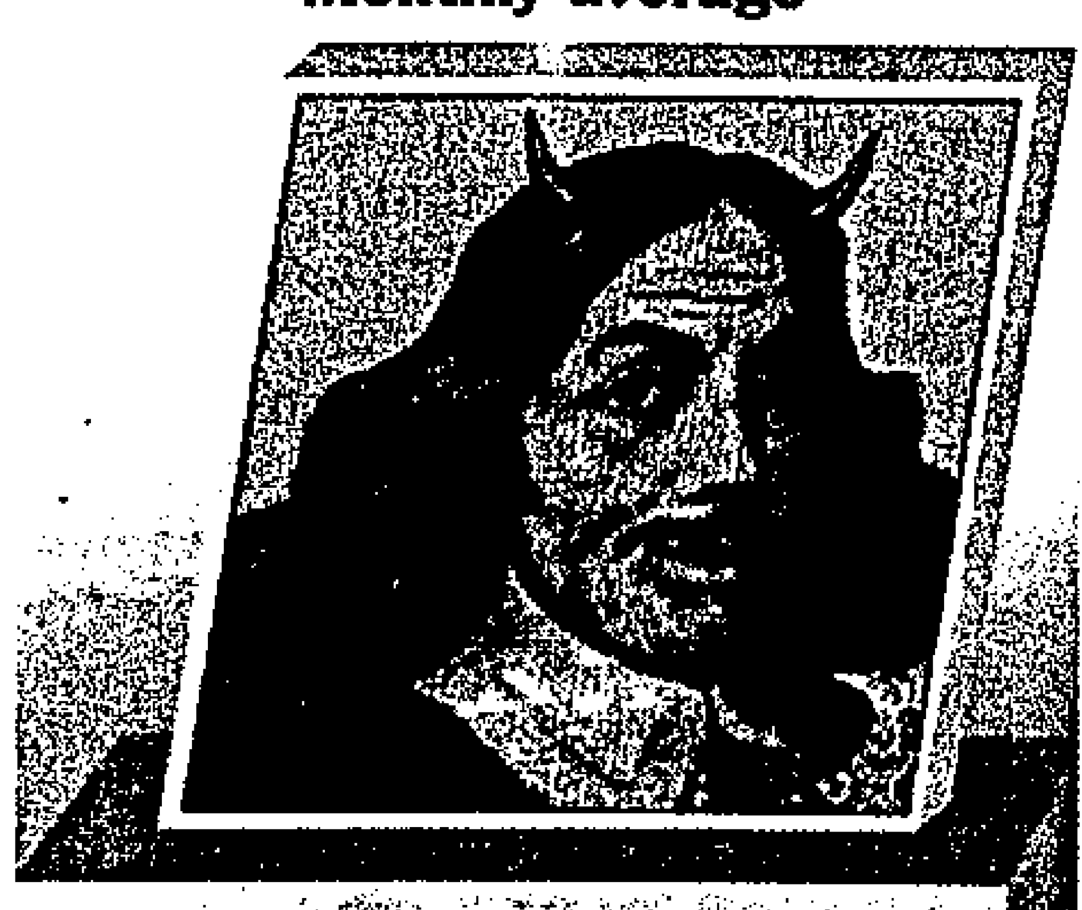
So the harder the ANC works now at gaining investor confidence, the more oppor-

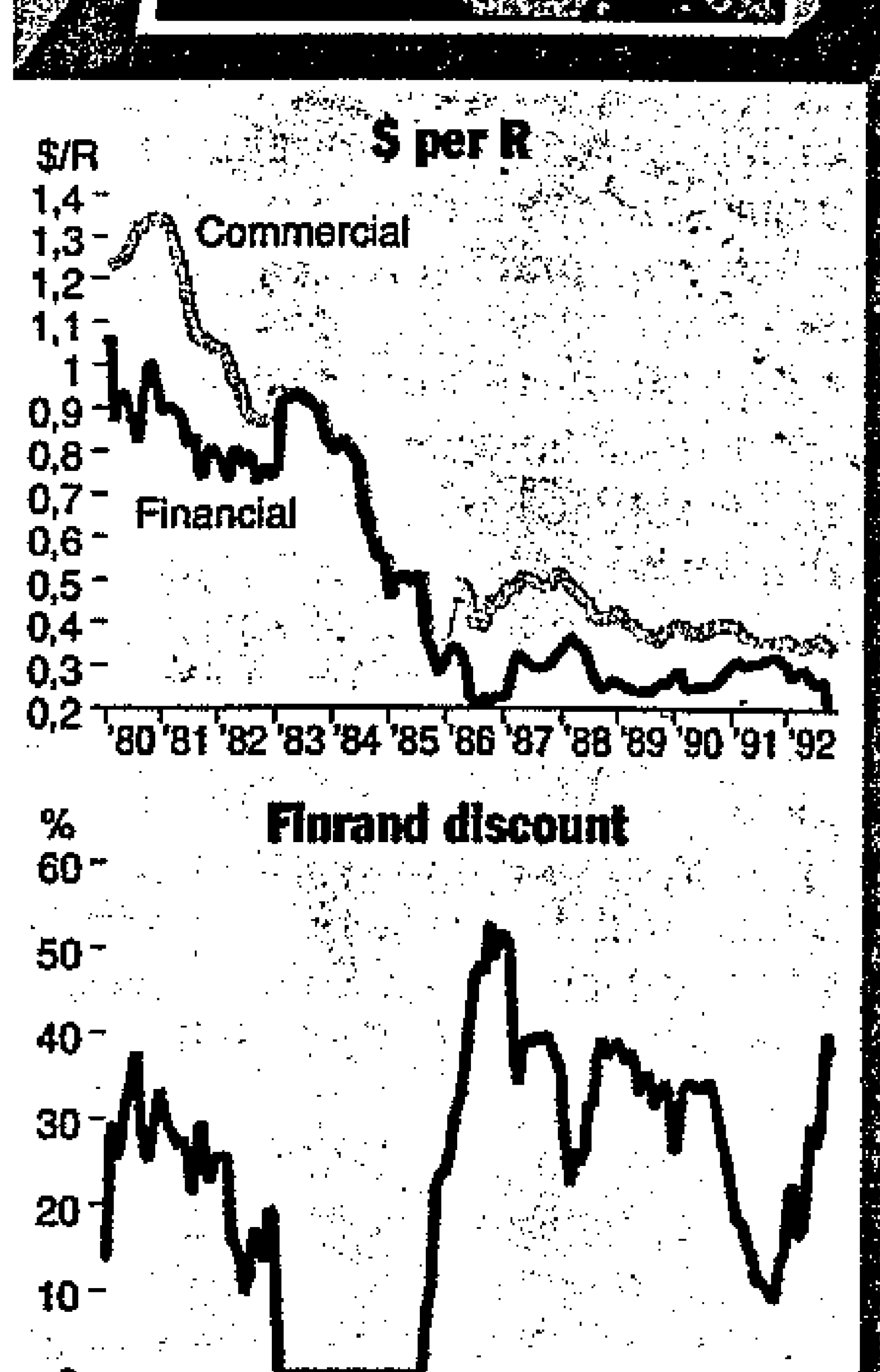
Dykes

Dagut

Tracking confidence

Monthly average





impossible to gauge the impact of economic policy on the currency.

But Wood lists direct and rapid benefits from the suspension of exchange controls: "It was highly desirable that the UK invest a good part of its oil and gas income. That income was so large that if invested at home, the return from the investment would soon have fallen very low. Less and less profitable investments would have been undertaken as diminishing returns set in rapidly. So building up a portfolio of foreign investments was the right thing."

This is relevant to SA. In 1980, liquidity that flowed in from the soaring gold price was dammed up in the economy, giving a huge boost to inflationary pressures. That inhibited fixed productive investment.

"A second and clearly related benefit," says Wood, "was that British industry was compelled to be less insular. (It) had for many years been able to pay little attention to the rate of return on investment overseas — for UK savers had to invest in Britain . . . Suspension of exchange controls meant that UK industry had to compare its performance with that of industry worldwide."

It is this process that ensures resources are properly allocated. Without impediments, funds will go to the most productive projects.

Important benefits can be derived from outward investment. A recent Bank of Lisbon *Economic Focus* points out that a listing of an SA company on a foreign exchange:

- ☐ Could make its shares more marketable;
- ☐ Would give companies access to a much larger potential pool of capital; and
- ☐ A wider geographical spread of ownership would buttresss a share price in times of market weakness. "For SA companies (this) may prove particularly beneficial since there is no guarantee that such companies will be able to go on tapping SA institutional cash flows. This will help to stabilise financial markets and stimulate the economy."

Economic Focus also argues that "direct foreign investments ênable SA companies to keep abreast with the latest technological developments in their fields and provide opportunities for training and development of their staff."

There is evidence that developing countries can lift controls without destabilising their currencies — if they have stable, legitimate governments. Argentina, Mexico, Chile and Costa Rica reversed the effects of long periods of mismanagement (though all have their problems). The package included freeing capital flows, liberalising trade, deregulating business and privatising public corporations. It succeeded in attracting capital.

Says Unisa's Philip Mohr: "Domestic investors brought back massive deposits." According to IMF reports, these repatriated resources are being channelled into fixed capital investments. As Britain had the North Sea windfall, these countries had their share of luck in attracting capital. Mohr points out that the inflow was promoted by a fall in interest rates on dollar deposits, which reduced the opportunity cost of repatriation.

But, essentially, these countries worked to inspire confidence. Says Mohr: "They are generally now more democratic and more stable than at any time since the war."

What would, in addition, cushion the removal of exchange controls would be an improvement in competitiveness. There is increasing agreement on this but less on how to achieve it. Consensus may be emerging on issues such as the need for labour to be more cost-effective — by providing more training opportunities and relating remuneration more directly to productivity. This would remove a major rigidity in the market.

With the removal of exchange control, concentration of control, seen by some as a negative factor, would crumble as giant corporations took advantage of international opportunities. This would reduce the price of SA assets, making them accessible to more South Africans — and there could be no more effective form of empowerment. ■

Croats plan to develop trade with SA in 1993

Business Staff (74) ARGT. 12/12/92

THE Croatian Association of South Africa (Casa) intends emphasising the role of the newly formed Croation Chamber of Commerce (CCC) in the new year, Casa Western Cape chairman Miso Markovina said this week.

Mr Markovina confirmed that the first Croatian Commerce Delegation was due to visit South Africa in May 1993.

In spite of the prolonged conflict in Croatia, he still believed the economic future of the country was "unquestionable".

"The opportunities for South Africans and Croats to exchange business, culture and tourism during peaceful times are numerous," he said.

The CCC already had embarked on an international business development programme.

The CCC would be aiming to promote trade between southern Africa and the central and eastern regions of Europe, using South Africa and Croatia as a gateway.

This would be initiated by "sponsoring, organising and taking part in trade promotion projects and enterprises of every description."

The CCC would provide assistance and a comprehensive advisory service on all matters affecting trade and trade prospects between the two regions.

Mr Markovina said the CCC had a very clear policy. "We can do a great deal to advise South African businessmen about our country."

He said a great degree of synergy existed between the mining and engineering sectors of the two countries. The 1 200 islands along the Adriatic Coast also presented untapped tourist potential for South Africa.

Safmarine, a founder member of the CCC, was one of the major South African companies to have dealt succesfully with Croatia. Mr Markovina said a ship ordered by Safmarine was delivered on time and at no extra cost in spite of the war in the region.

'Obstacles' to scrapping of finrand

BDAY 15/12/92 (74)

SHARON WOOD

LOW yields on long-term fixed interest stocks are an obstacle to removing the finrand system, the Bank of Lisbon says in its latest Economic Focus.

The bank said fixed interest rate stock rates had fallen in recent months and were now only slightly above the prevailing rate of inflation.

The elimination of the finrand system at a time of low positive or negative real rates of return would probably lead to the drying up of foreign buying of fixed interest stocks and precipitate a net outflow of foreign funds from the market, it said.

In addition, the prospects for a removal of the two-tier exchange rate system were partly dependent on the behaviour of foreign creditors holding standstill loans.

Creditors had the option of switching out of standstill dollars into finrands for investment in SA equities or disinvestment through the finrand market. This would influence the discount's size and the scope for abolishing the system.

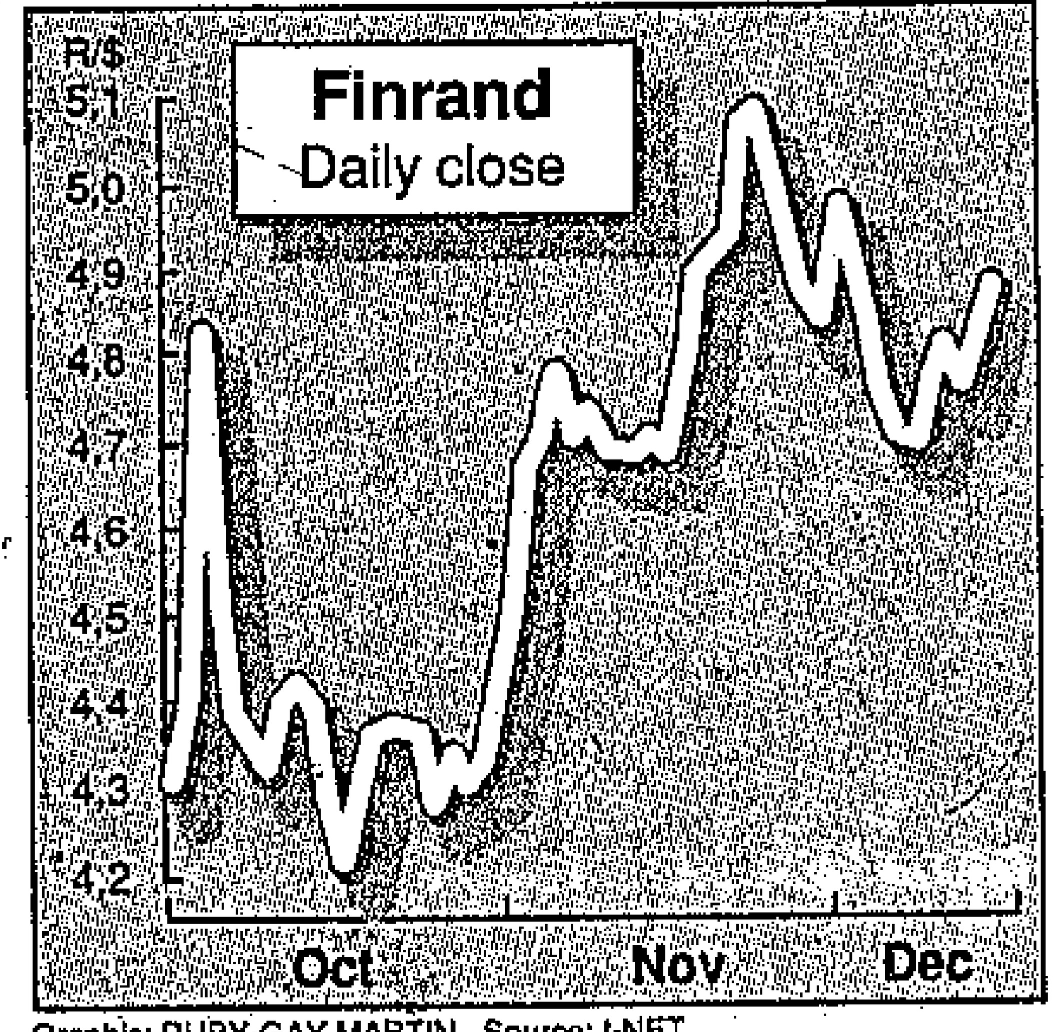
SA companies' direct foreign investments were another obstacle to dismantling exchange controls because the sale of finrands for dollars was weakening the rate while contributing to a rise in finrand balances.

Balances had risen considerably in recent years and the bank said this was in conflict with the objectives of the Reserve Bank's intervention in the market. One of the objectives was to buy finrands to reduce the balance.

"This could well contribute towards some decline in the discount on the finrand, which would render it easier to scrap the finrand system."

The Bank of Lisbon said the Bank's decision to slow down its approvals for SA offshore investments could be accompanied by some tightening of foreign investment restrictions.

Another possibility would be to alter the nature of the finrand system by confining access to non-residents.



Graphic: RUBY-GAY MARTIN Source: I-NET

Selling puts skids under finrand (74)

6I0AM

HILARY GUSH

EQUITY-related foreign selling coupled with a large local sell order around the R4,78 to the dollar level put the financial rand under pressure yesterday. 6I0AM

Dealers said in thin holiday trade the finrand ebbed 2,3% on the day. From a R4,76 weekend close against the dollar, it ended the session at R4,87, bringing the discount to the commercial rand up to 38% from Friday's 36%. 15/12/92

Some dealers attributed the softer currency to a large sell order of blue chip shares, particularly De Beers, out of Munich. The order, which was believed to be worth between R15m and R20m, prompted further selling by local institutions.

Support was said to be keen at the lower levels, where rumoured Reserve Bank intervention — at R4,87 against the dollar — helped prop up the unit.

A trader said in a market as thin and volatile as the finrand market at present any selling or buying could have a significant impact on its value.

Although the unit's upside potential was said to be limited, traders did not expect the finrand to weaken much below R4,95 before year-end, with recently announced curbs on payment for investments abroad helping prevent a freefall.

The commercial rand, which closed largely unchanged from Friday's level, continued to track the dollar yesterday, finishing the session at R3,0090 against the US unit. With an expected strengthening of the dollar in the new year, the rand is unlikely to gain much ground.

THE DOMINANT DOLLAR

FM 18/12/92

(74)

An indication of the US dollar's role in SA's foreign exchange transactions comes from a survey by the Bank for International Settlements.

It shows that 96% of domestic foreign exchange business involves dollars, either as a means of final settlement or as a vehicle of currency. Other currencies were the D-mark (2,4%), Japanese yen (1,3%) and sterling (0,9%).

Of the total turnover of US$4,2bn per working day in April, rand transactions amounted to 66,5%, the dollar against third currencies 33,2% and the mark against other third currencies only 0,3% (see graph).

The findings of the survey of foreign exchange markets in 26 countries will be published next year. Meanwhile, the SA Reserve Bank has published some preliminary results in its latest *Quarterly Bulletin*.

The $4,2bn turnover compares with "turnover figures of $73bn in Hong Kong and $5bn in New Zealand, two of the participating countries which have already released the results of their surveys," says the *Bulletin*. The figure differs slightly from the $4,5bn average daily turnover figure for April reported by the Bank, "because of differences in coverage and definitions."

The *Bulletin* also records that nearly 90% of all the transactions by authorised dealers in foreign exchange were concluded by way of automated dealing and only 10% via brokers.

In the spot market, 86% of all transactions were concluded through the electronic dealing systems and 14% of the turnover went through brokers. In the forward market, however, 97% of deals were conducted through dealing systems and only 3% via brokers."

□ SA was excluded from two previous BIS surveys in 1986 and 1989.

Forex breakdown

SA's average daily gross turnover in foreign exchange

Rand (66,5%)
US dollar (33,2%)
German mark (0,3%)

Source: Reserve Bank Quarterly Bulletin

SA in major drive to exhibit at foreign fairs

BDAY 21/12/92 (74)

GERALD REILLY

PRETORIA — SA's participation in international trade fairs next year will be the biggest yet, a Trade and Industry spokesman said last week.

Among the 20 major trade fairs at which the country will have national pavilions are the Hanover Fair in April, a Buenos Aires trade exhibition in July-August, the Ispo exhibition in Munich in August, the Anugo Fair in Cologne in October, and the ITF Fair in São Paulo in November.

This year the department struggled to attract private sector participants, mainly because of the depressed economy and low level of business confidence. Interest in next year's fairs was keen, the spokesman said.

Safto senior international division manager Mike Veysie agreed SA exporters would get their greatest exposure abroad next year through exhibitions and trade fairs.

Topping Safto's list was a major Singapore exhibition in August-September involving the Trade and Industry and Foreign Affairs departments.

The SA exhibit would be in four sections — manufacturing exporters, investment promotion organisations, tourism, and entrepreneurs, and it was hoped the latter would attract black businessmen.

An exciting first-time venture into India would be a stand at an international engineering exhibition in New Delhi in February. Safto planned to take along a group of SA businessmen.

Dealers await Christmas shocks

BDAY 21/12/92.

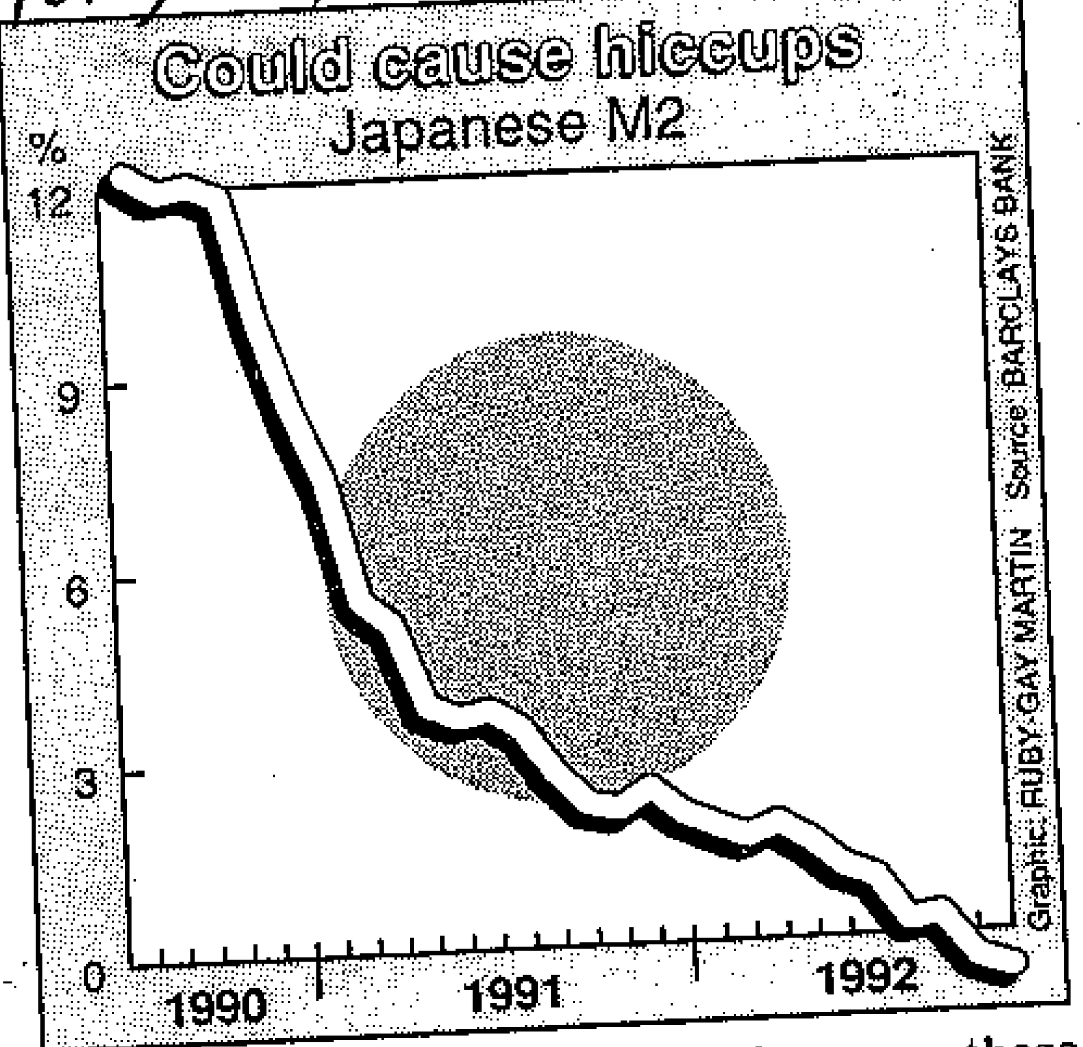
THERE was a time when the financial markets shut up shop either side of the Christmas holiday. Those days are long gone — Christmas last year was marked by energetic contortions in the international money markets, and this week could easily be the same.

Monetary authorities all over the globe have taken to using Christmas holiday trading conditions to their advantage. The skeleton staffing, prolonged lunch-breaks and sensitive hang-overs that traditionally turned the world's dealing rooms into echoing crypts in late December merely made it easier for the authorities to take the markets by surprise.

After the events of December 1991, however, dealers have rumbled this scheme. Caught in mid-grope in the dealing-room Christmas party, traders in every time zone will have choked on their mince pies and hiccupped into their Kirin Extra Dry at the aggressive unsubtlety of the authorities 12 months ago.

Inside 11 days straddling the Christmas holidays last year the big three G-7 economies — the US, Germany and Japan — all moved key interest rates. On December 19 the German Bundesbank hiked discount and Lombard rate by half a point; the next day the US Federal Reserve slashed a point off discount rate and on December 30 the Bank of Japan trimmed half a point off official discount rate.

The 1991 Christmas rates convulsion drastically rearranged the yield differentials of the major currencies and led to a paroxysm of frenzied dealing by paper-hatted traders with disarranged clothing. With good reason, those same traders will be eyeing the markets suspiciously this week and trying to gauge the chances of a repeat performance.



The best chance of a rate shift over Christmas is in Japan, where recognition of Christian festivals is anyway quite justifiably confused (a Tokyo department store once erected a vast neon display of a crucified Santa Claus). Irrespective of holidays, the Japanese economy is heading for recession.

To an economy that averages almost 5% annual real GDP growth, as Japan did in the eight years to 1991, recession is when the growth rate plunges below 3%. But now Japan is facing Western-style recession — contracting GDP — for the first time since posting a -1,2% GDP outturn in 1974. After growing by 5,2% as recently as 1990, Japan may struggle to reach 1% this year.

One of the main recession signals is national output. Japanese GNP shrank at an annual rate of 1,6% in the second quarter of the year. Another is in the chart — money supply growth. The officially monitored M2 aggregate is contracting in year-on-year terms for the first time on record, and concern is mounting.

The answer, as it was this time last year, is a cut in official discount rate from its current 3,25%. The Bank of Japan is widely expected to have to reduce discount rate back to its post-war low of 2,5% by early in the new year if outright recession is to be avoided, and the **November M2 figures** out today should help persuade the bank to move soon. The -0,5% and -0,6% M2 growth outturns of September and October are likely to be followed by another drop in November.

Elsewhere, a key figure is tomorrow's final revision to **US third-quarter GDP**, which rose a preliminary 3,9% (quarter-on-quarter) against the second quarter's final 1,5%. **November US durable goods** are out on Wednesday, the 3,9% rise in October being one of several bullish signs in the US economy.

The rate of **German November M3** growth is scheduled for release sometime this week and should begin a slow descent from October's 10,2%, although the Bundesbank's 1991 M3 target range of 3,5%-5,5% and its 1993 range of 4%-6% still look largely academic.

Sweeping moves to boost trade mooted in regional integration study

BDAY 21/12/92. (74)

TIM COHEN

PRETORIA — Sixteen African countries, including SA, are involved in a major study on regional integration.

The study proposes a host of dramatic moves intended to boost regional trade.

Co-ordinated by technical groups in all countries involved, the study comes at a time when several organisations have signalled their intention to press ahead with regional integration plans.

Dramatic initiatives are being discussed, including a proposal that if participating countries do not approve investment applications from within the region in 45 days, approval will be assumed.

The study's preliminary findings suggest that countries in a position to press ahead with integration plans should move onto a fast track".

The study is backed by the Global Coalition for Africa, which includes the OAU, the World Bank, the African Development Bank and the EC, and is in its initial phase. Other participants include the Preferential Trade Area and the Southern African Development Community (SADC). SA's involvement is via a private consultancy.

The participants are Botswana, Burundi, Comores, Kenya, Madagascar, Malawi, Mauritius, Namibia, Reunion, Rwanda, Tanzania, SA, Swaziland, Uganda, Zamiba and Zimbabwe.

The study's function is to harmonise regional organisations' plans for integration and to improve inter-regional trade.

The technical working groups established in each country involved are lobbying their governments to endorse their recommendations.

The study suggests detailed proposals, including:

- ☐ Ratifying the Preferential Trade Area charter on multi-industrial investment;
- ☐ Exempting imports from participating countries from licensing, foreign exchange allocations and other restrictions;
- ☐ Getting all countries to adhere to a timetable for regional tariff reductions;
- ☐ Implementing the Prefential Trade Area's harmonised transport charges and abolishing all other charges;
- ☐ Gradually reducing and eventually removing all visa requirements, and
- ☐ Central banks channelling payments through a Preferential Trade Area clearing house to minimise foreign exchange liquidity needs.

The report adopts a rigorously reformist approach to trade and points out that a study of the import cycle in Ethiopia showed that 146 forms, 168 pages of documentation, 296 signatures and a total of nine months were required to import goods into the country.

The first draft proposes an independent body look into rationalisation of regional organisations and harmonisation of the Preferential Trade Area and the SADC.

Trade surplus hit by higher imports

BIDAY 21/12/92

HILARY GUSH

PERSISTENTLY high agricultural imports continued to erode the trade surplus, which in November fell to its lowest levels in more than eight years.

Customs and Excise figures released at the weekend showed the surplus — which narrowed to R113m in November from October's R783m — had plummeted to levels last seen in mid-1984.

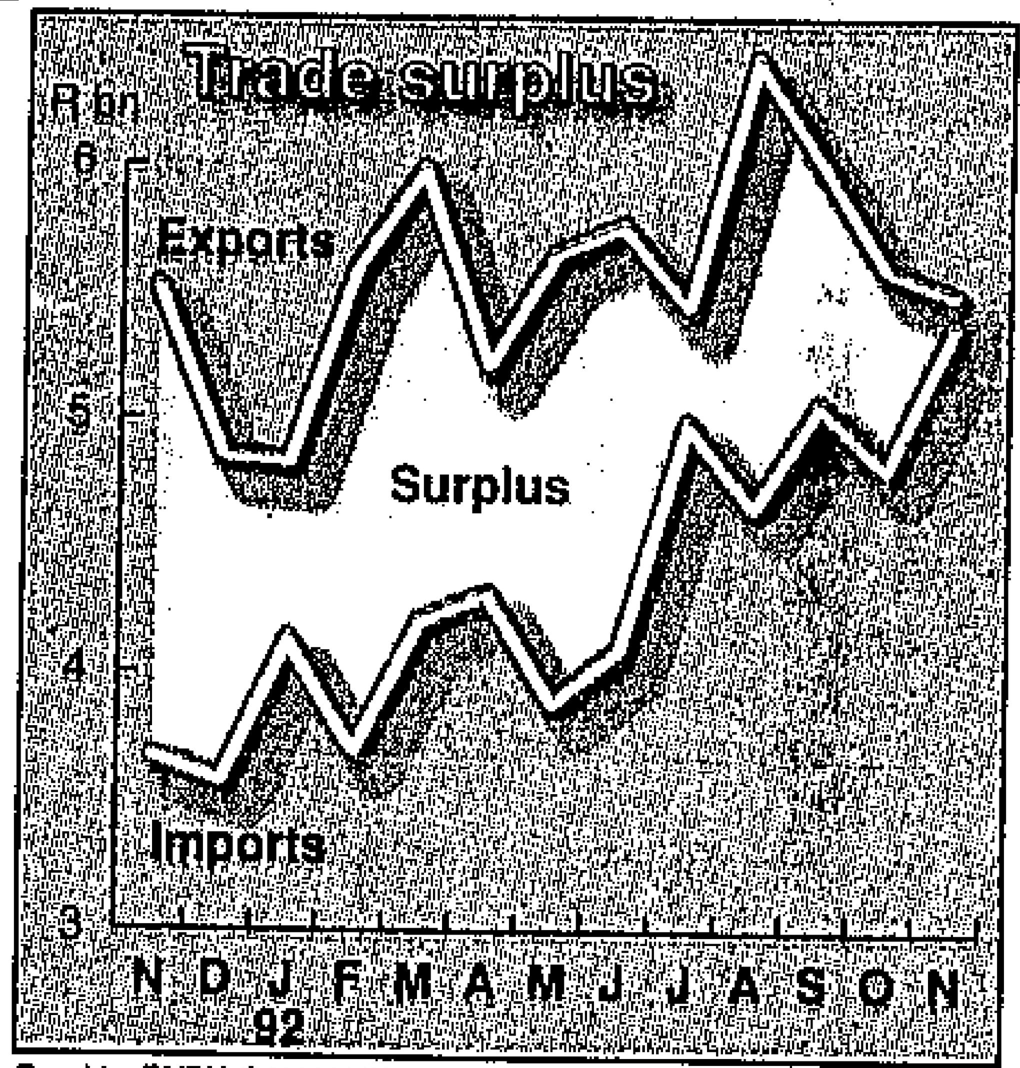
While November imports rose 11% in the month to R5,36bn — led by food imports — total exports fell to R5,48bn.

Vegetable product imports doubled in the year to November, climbing 106% to R2,21bn, with imports of fats and oils growing 84% over the same period.

SA Foreign Trade Organisation (Safto) economist Bruce Donald said the drought had led to a "dramatic surge in agricultural imports and a slowdown in agricultural exports".

He said exports of prepared foods had fallen 7%, textiles by 3%, while growth of live animal exports had slowed to 6%.

"Adding to the impact of the drought on import growth, growth of machinery imports rose significantly in November to 11% for the first 11 months of 1992, compared with the same period a year ago, perhaps reflecting a mild improvement in



Graphic: RUBY-GAY MARTIN Source: CUSTOMS & EXCISE

local investor confidence."

He added that for the first 10 months, it had stood at only 6%.

Donald said poor international market conditions for many of SA's mineral and metal exports had contributed to sluggish export growth — which had slowed to just under 4% for the first 11 months of the year, compared with the same period last year.

Base metal exports fell by 4% in the

To Page 2

Trade surplus

BIDAY 21/12/92

From Page 1

year to November and unclassified goods (mainly gold and platinum group metals) by 3%.

Econometrix senior economist Michiel Bester said: "Clearly the agricultural component of the trade figures continues to be the main cause of a narrowing surplus. However, sluggish world economic recovery has put downward pressure on SA exports."

Simpson McKie economist Graham Boyd said it appeared that the firmer tone in the US economy had not yet translated into better demand for SA exports.

Another economist said since the recent rainfalls over the interior, depressed agricultural performance was probably a temporary factor in dampening the trade surplus.

He added that this would, however, keep pressure on gold and foreign exchange reserves and thereby "reduce the latitude of the Reserve Bank to significantly ease monetary policy".

CIS causing anarchy in world metals markets

STAR 22/12/92

By Neil Behrmann

LONDON — Encumbered by economic slump, hyper inflation and huge foreign debt, the former Soviet Union is expected to continue to disrupt international metals markets in 1993.

Base metals prices tumbled in 1992 because of chaotic trading of the former Soviet republics, now known as the Commonwealth of Independent States (CIS).

Precious metals exports of the CIS are better organised, although a few tons of CIS gold are smuggled on to Western markets, say Swiss bankers.

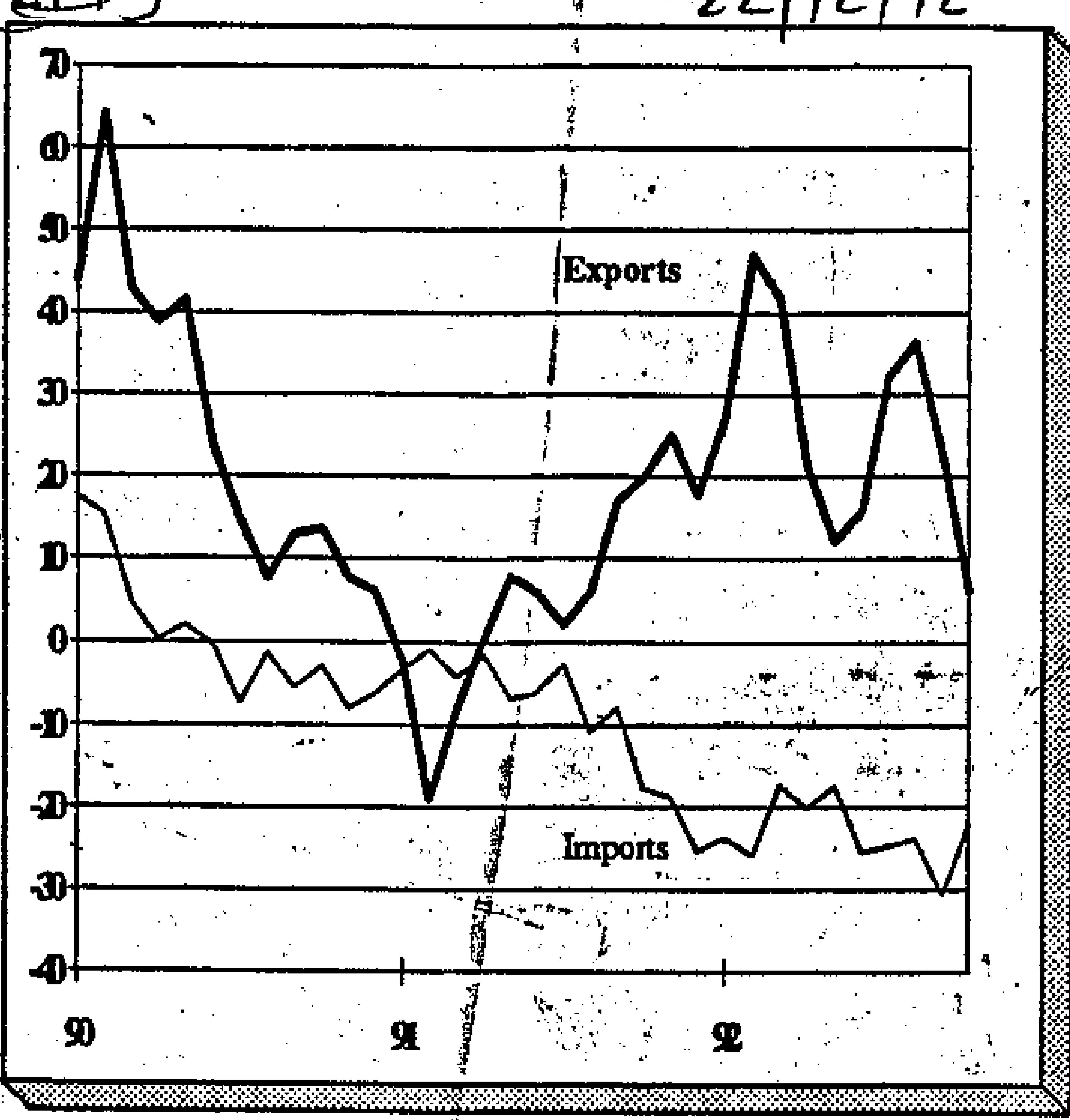
The bulk of gold export dealings are conducted through formal sales agents such as Vneshtorgbank of Russia andother foreign trade banks in Uzbekistan and Kazakhstan, according to Swiss bullion dealers. Almazjuvelirexport takes care of platinum sales.

CIS exports of gold, platinum and palladium fell sharply this year, because production is falling. The trend should continue.

Total 1992 CIS gold sales, mainly from Russia may decline by about 20 percent, or about 50 tons to around 190 to 200 tons, estimates Stewart Murray, chief executive of Goldfields Minerals Services.

At least two thirds of CIS gold is produced in Russia and the industry there is in such crisis, that some locals are forecasting a 30 percent decline in output, he says.

Meanwhile, exports of platinum and palladium, by-products of the Norilskiy nickel mines in Siberia, are falling because the mines are cutting nickel production.



SA's precious metals exports have declined sharply following weaker metal prices. — Source: Davis Borkum Hare

While lower CIS precious metals exports are helping depressed markets to some extent, base metals markets are suffering from huge surplusses.

"Without CIS exports of 750 000 tons this year, the Western aluminium market would be in deficit," says Angus MacMillan metals analyst at Billiton-Enthoven Metals.

CIS base and strategic metal exports have flooded the market for almost three years running.

"At last production is beginning to slide, but domestic demand is so slack that surplus output, stockpiles and metals scrap are being dumped on Western markets at huge discounts," says Jim Lennon, research manager, special steels and alloys at Commodities Research Unit.

CIS trade in base and strategic metals has become "anarchic", says a London dealer who is closely connected with the former Soviet republics.

"The right hand does not know what the left one is doing."

Nickel, aluminium, copper, cobalt and magnesium, manganese, chrome metal, scrap and alloys are being sold from industrial and military stockpiles by a network of CIS and Western traders with the help of former corrupt Communist agenets and officials, says the dealer.

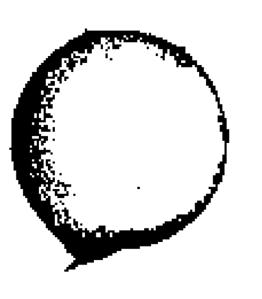
"The CIS is being raped," he says. He "would not be surprised" if part of the proceeds end up in Swiss banks and other offshore havens.

"Estonia, a Baltic Republic, is now one of the world's largest exporters of rare metals," says Serguey Braguinsky, a consultant to Salomon Brothers. "The metals are smuggled from Russia without any hindrance to the authorities," he says adding that a "privileged minority are generating fantastic profits".

Take nickel as an example.

Official exports of Noriliskiy are estimated at 60 000 tons according to mine executives. Norilskiy, the largest producer in the world cut output by 15 percent in 1992 and will make further cuts in 1993. Nevertheless total sales of Russian nickel metal, scrap and alloys are estimated at 110 000 to 120 000 tons this year.

Most of the nickel that is "sold through other channels", is being sold at discounts of around 15 percent to world market prices.



World economic output slows down

STAR 23/12/92 (74)

WASHINGTON — Worldwide economic output, already hurt by slowdowns in Japan and Germany, will grow even more slowly in 1993 than first predicted, the International Monetary Fund said yesterday.

In a special report, the fund predicted a rise of only 2,3 percent next year, instead of the 3,1 percent it foresaw in October and the 3,5 percent it foretold last May.

Rapid growth is expected to continue in Asia, but elsewhere, even where it predicted growth the fund lowered its estimates.

This year, worldwide production grew by an anaemic 0,8 percent, the fund said, lower even than the one percent it predicted in October.

After an aggregate production decline of 10,4 this year, Czechoslovakia, Hungary and Poland are exporting strongly and expected to grow next year — but by only 2,1 percent, smaller than fund predicted in October.

For Latin America, the IMF slashed its growth estimates to only two percent, due mainly to difficulties in Brazil, which accounts for one-third of the area's economy.

It said the situation in the former Soviet Union has continued to get worse, with production dropping 18,6 percent this year and predicted to drop 7,6 percent in 1993, worse than was predicted earlier in the year.

The differences in predicted growth rates mean billions of dollars when applied to the trillions of dollars worth of goods and services produced throughout the world.

Output in Germany has been declining, the fund said, but it expects to see a strengthening in western Germany next year, with a "more moderate" growth in wages and "somewhat lower" interest rates.

"Even with this improvement during the year, however, real output in unified Germany is projected to rise by only 0,5 of one percent in 1993," it said.

The fund noted Japan's slowdown in the first half of this year followed by a further drop in the second half "as indicated by slow wage growth, declines in automobile sales and other consumer durables, and a decline in the ratio of job offers to job seekers."

The IMF saw a relatively unchanged outlook for the United States. It expects stronger activity next year — three percent growth, only 0,1 percent less than it predicted in October.

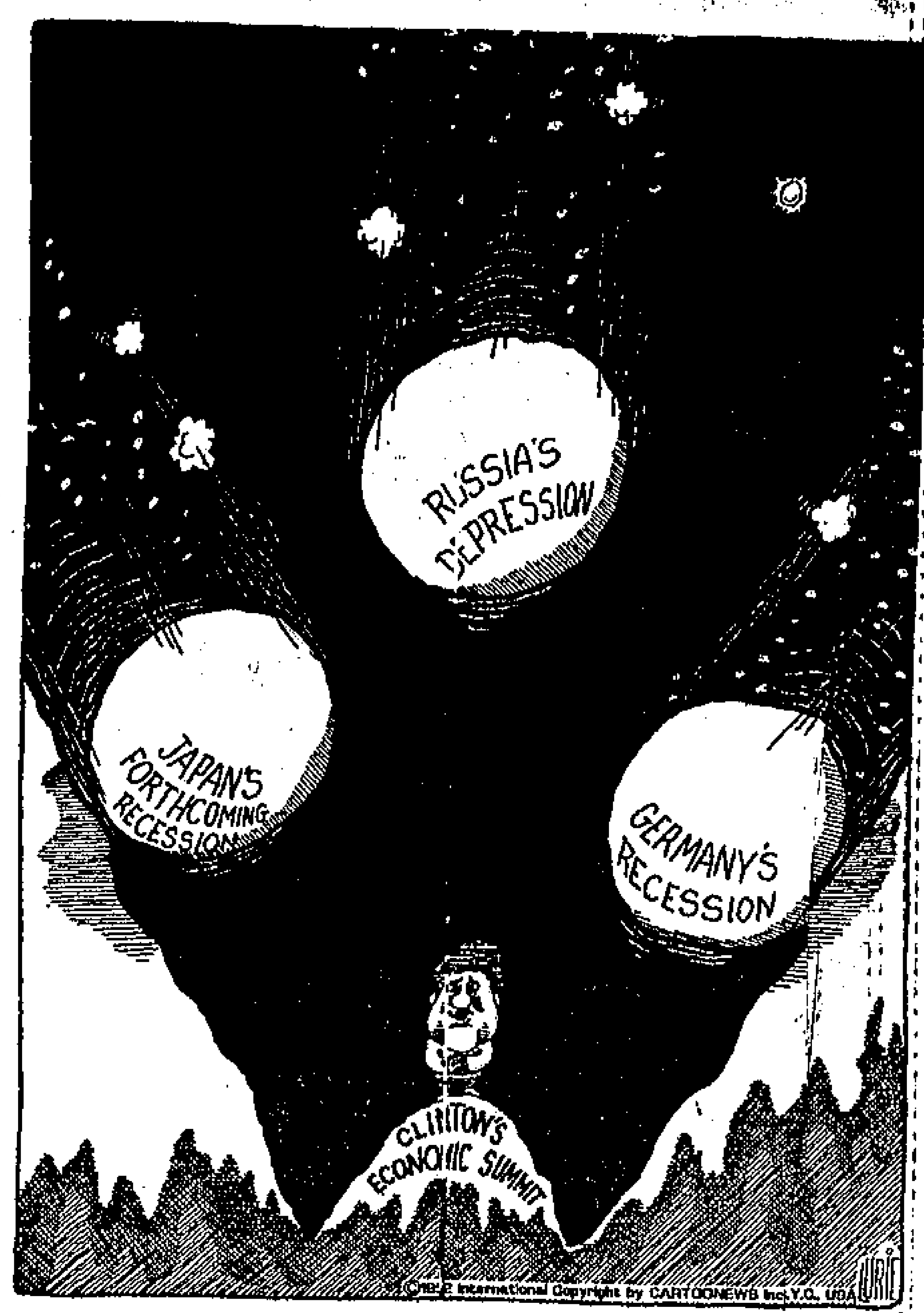
The fund released its special "World Economic Outlook," usually issued only in May and October, due to "an unexpected weakening of activity in many key economies and a period of considerable turmoil in foreign exchange markets."

The report referred to devalued assets in "in a number of countries," which officials said meant chiefly a drop of prices for land and securities in Japan.

The report also blamed slower growth on high interest rates in Europe, brought on by the cost of German unification.— Sapa-AP.

The International Monetary Fund takes today's spot in our Outlook '93 series with a report predicting continued weakening of economic activity in the major industrialised countries.

Outlook '93



"Well, I think I finally have the answer to the recesion."

JSE the odd-man out as world markets rally

Weaker trade surplus could check recovery

STAR 23/12/92.

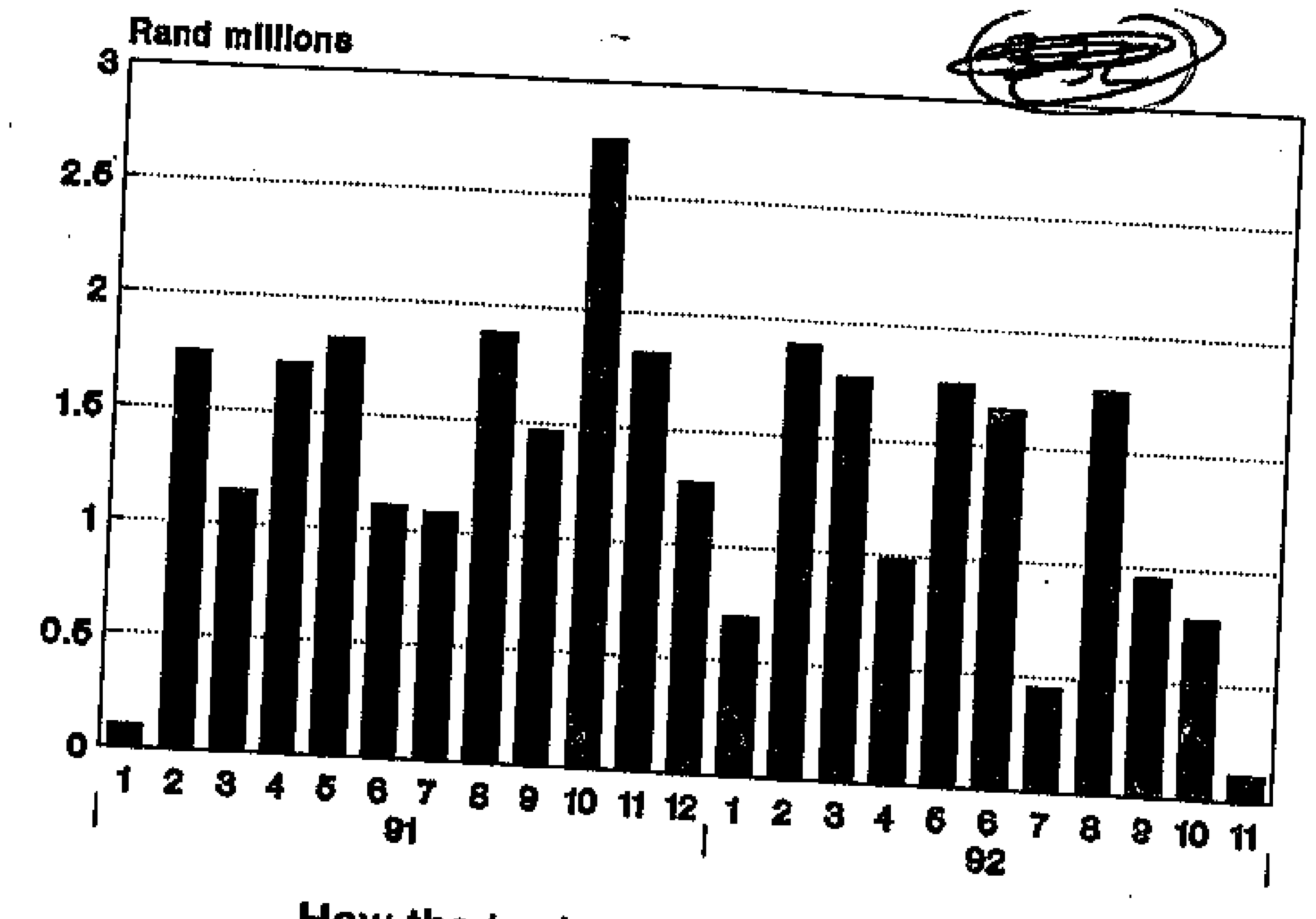
By Derek Tommey

(74)

The Johannesburg Stock Exchange is the odd man out in the pre-Christmas share price rallies which are being experienced by many of the world's other major exchanges.

While American, British, German, French, and, to a lesser extent, Japanese shares have shown reasonable gains in the past few days, share price rises on the JSE have been few and far between.

One reason say brokers is that many investors are away on holiday. But another and probably the main one is that there is also some concern about the possible damage which the sharp deterioration in South Africa's trade surplus in November could do to the economy — and especially to the incipient business recovery.



How the trade surplus has shrunk.

Capital market

The trade surplus slumped to R113 million in November from R783 million in October and R1 832 million in November last year. As the drop in the surplus can lead to tighter money conditions it is not surprising that there has already been a small increase in capital market rates and in short-term rates as well.

This is not good for businessmen or investors as neither of these developments is bullish for business or for the share market.

Economists point out that with South Africa having only limited access to foreign capital markets, the country needs a large trade surplus to meet current account payments and also to repay it foreign debts.

So far South Africa has been able to do this. But the Nedbank Economic Unit reports that some R2,4 billion in "affected" and "scheduled" debt falls due for payment next year together with a further R2,4 billion of public debt unless this is rolled over. With this millstone around its neck, South Africa's position is not a happy one.

Much will depends on whether the drop in the trade deficit is temporary or not, says Graham Boyd, economist with Simpson McKee.

At present the share market believes that this year's drought is a major factor in the shrinking trade surplus and that the situation could turn around next year.

Meanwhile, Reserve Bank figures show that the balance of payment on current account has been declining this year. It amounted to R3,7 billion in the third quarter, down from R9,7 billion in the third quarter of last year. And for the first three quarters this year was R14,2 billion, down from R17,4 billion in the same period last year.

Economists have pointed out that this highlights the great need to stimulate exports and it has been suggested that the Government should think twice about its proposed increase in VAT in the next Budget and instead reduce its own spending.

In theory an increase in VAT is not inflationary. In fact it is deflationary as it reduces purchasing power. However, in practice once an increase in VAT becomes part of the consumer price index it becomes a major generator of inflation.

This, if past experience is any guide is because it will lead to everyone demanding a pay increase to offset the extra tax they are paying. The outcome will be another inflationary spiral and, more importantly in the current context, higher priced and therefore lower levels of exports.

The IMF maintains that the high taxes imposed on South Africans is harming the economy. This being so, how can the Government, when South Africa already has 4 million or so under-employed and unemployed, justify a further economy-depressing tax increase?

FOREIGN TRADE FM 25/12/92

Import impulse (74)

November's trade surplus was eroded by surging purchases of *machinery & mechanical appliances.* At a cumulative R14,4bn this is the largest category of imports. Over the first 10 months, the item averaged R1,2bn a month, rising in November to R1,9bn. There has also been a sudden jump in *paper & pulp* imports — R544m, well above the previous 10 months average of R123m. As a result, the cumulative imports to November were pushed to R1,8bn, 40,3% higher than in the same period in 1991.

Large aggregate import figures have been recorded, over a period, in *vegetable products* — at a cumulative R2,2bn these are 105,8% up. This growth came mainly in maize imports, since the middle of the year — the average monthly figure for imports since June is R271m (R231m in November).

Exports in the largest categories were sluggish:

☐ *Unclassified items* (at R22,4bn down 3,5% on the same period last year) and *base metals* (R8,6bn, -3,6%). These categories' performance reflect poor world prices for precious metals (which make up most of the unclassified items) and base metals;

☐ *Gems & precious stones*, which include diamond stock movements from sources in SA, Namibia and Botswana, to the Central Selling Organisation in London. So far exports total R6,9bn, up 6,1%, but the monthly figure, R657m in November, has been down since R1bn was recorded in August.

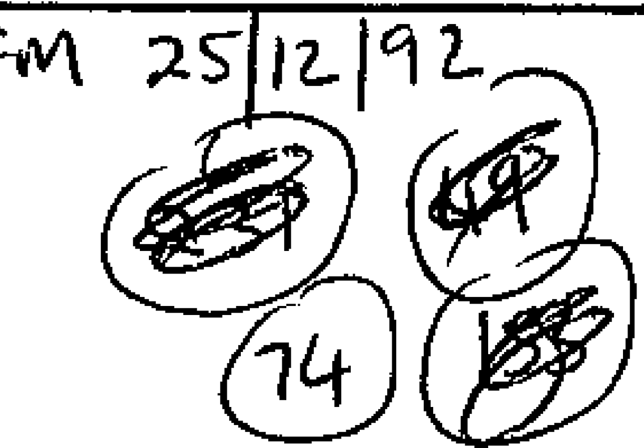
But good export growth over the 11 months was recorded in *chemical products* (R3,1bn up 45,6%), *machinery* (R1,9bn, 28,1%) and *vehicles & transport equipment* (R2,1bn, 56,6%).

The monthly trade surplus of R113m is the lowest since January 1991, when it was R151m, according to figures released by Customs & Excise. The cumulative surplus for the 11 months is R12,9bn, 13,6% lower than over the same period last year. Imports totalled R49,1bn (9,8% higher than in 1991) and R5,4bn in the month; and exports R61,9bn (3,9%), R5,5bn.

25/12/92 (74)

November's monthly surplus declined for the third successive month — since August's R1,8bn and follows R965m in September and R784m in October. ■

WORLD ECONOMIC OUTLOOK



Light on the fringes

Growth predictions are constantly revised as the world battles stagflation

Such bright lights as there are in prospect for the world economy in 1993 flicker clearest on the fringes, like candles around a stagnant pool — in China, the "tigers" of the Pacific Rim and south-east Asia, India, Argentina and Chile.

For the rest, accounting for 80% of global GDP, emergence from the quagmire will continue to be a leaden, uneven lurch, notwithstanding drooping inflation. Twelve months ago, the Organisation for Economic Co-operation & Development (OECD) revised downwards its projections for the 24 leading industrial nations and postponed real recovery from 1992 to 1993.

In July, it again dampened expectations but chirpily maintained that next year would see the OECD economies lift GDP by 3%. Now the December issue of the bi-annual *OECD Economic Outlook* warns of "relatively sombre" short-term prospects for the 24 economies as a whole — and something probably worse in the Commonwealth of Independent States (the ex-USSR).

Growth is projected at a feeble 1,9% (see table), a full third slower than foreseen six months earlier; and instead of falling to 6,5%, unemployment will leap to 8,2% — 34m in total.

It will stay close to that level even though the revival once scheduled for 1992 *may* arrive in 1994 — for which the OECD has pencilled in growth of 2,9%.

The OECD was also quick to admit it could be wrong again. America's unexpected third-quarter bounce "might" presage a return of consumer confidence which could add half a point to US GDP next year raising it by nearly 3% instead of 2,4%.

Equally, however, the drab overall outlook for the coming year may be worse. OECD forecasters were surprised by the sharp declines in Japanese and German output.

The *Economic Outlook* had barely been printed when the leading Munich research institute Ifo warned of a full-blown recession.

West Germany's economy will contract by 0,5% in 1993 and while the eastern *laender* will show growth of 8%, the total impact will be zero — not the 1,2% formally posited by the OECD which conceded, after publication, that the out-turn could be only 0,7%.

The grim prospect is that next year there could be 3,4m Germans looking for jobs, said the Ifo, but added it would be "wrong to get into a panic now."

Stronger language emanated from IBM, Ford, Volkswagen and Daimler Benz, all of which announced substantial retrenchments in Europe. VW, slashing capex by DM3bn, forecast a fall of 20% in its domestic market next year after a slump which started "suddenly and dramatically" at the end of September.

IBM had a similar tale to accompany its 12% workforce layoff in Europe. "Our European business declined precipitously and unexpectedly since the beginning of October," said IBM chairman John Akers. Daimler chairman Edzrad Reuter, presiding over 12 500 car job losses at Mercedes, with more to come in 1993, was explicit: "The German economy has burst like a soap bubble."

Accounting for 30% of the EC's GDP, Germany is to Europe what the US is to the world — only more so. The pan-European growth rate, historically, is identical to Germany's. The portents bode ill for the whole continent as it opens up into the great single market from January 1.

Leaving aside the chaos in Russia and the other newly independent ex-Soviet States — where output fell 20%, inflation hit 2 000% in 1992 and the OECD will not even hazard a guess about the future — Europe is the sick man of the international economy.

Germany's reunification hangover and the Bundesbank's tight monetary policies to counter inflationary pressures caused mayhem in currency markets. The break-up of the exchange rate mechanism (ERM) of the European Monetary System followed, with the UK and Italy pulling out while Spain and Portugal devalued within it.

Real short-term German rates are 5,3%, keeping up the pressure on economies which stayed linked to the D-mark via the ERM. French inflation is the lowest in Europe at 2% yet holding the franc's parity means real short-term rates of 9%. The same is true for Spain, despite devaluation, and for temporary outsider Italy.

The Irish, with unemployment heading for 20%, are sweating on 14% and even EC aspirant Sweden, which floated the kroner after being forced to give up its attempt to track the D-mark, has to maintain real rates at almost 10%, despite 2% inflation and facing the third year of negative growth.

"Escape" from the ERM enabled the British to chop the costs of short-term money to 7% — from 15% a year earlier — and real rates are now down to the 4% mark. But sterling's devaluation is already stoking industrial input prices while wages continue to rise faster than inflation — despite the rise in unemployment — which will threaten the competitive edge given to exports.

That will also inhibit interest rate cuts and consumer confidence remains battered by job losses, which will lift unemployment to 11%, and the blight of the property slump. Even though mortgages are the cheapest for 20 years, private residential investment will drop again next year after a cumulative 35% decline from 1989 levels.

But if Germany stumbles, the export performances of the UK and all European economies will struggle. Hence the urgings of the OECD, reinforced by the International Monetary Fund, for an early relaxation by the Bundesbank, even if disinflation is not fully under way.

Even when it does no dramatic impact is expected. The OECD is looking for German rates to notch down by only three points to 6,5% over the next two years as inflation (for the combined country) eases slowly from 5,5% to 3,3%.

Fiscal assistance is ruled out for Germany and all other big economies apart from Japan which has already launched its US$86bn spending plan, 2,3% of GDP, in harness with lower short-term interest rates. Germany's federal deficit is expected to slip below 3% of GDP but the OECD points out that off-Budget borrowing to fund the eastern states' reconstruction will continue to balloon.

Japan has other problems. After the bursting of the "asset bubble" has come the sight of the "bicycle economy" — which runs smoothly at speed but wobbles when it slows — and the second consecutive quarterly slip in output, bringing it down by 6%, was the first since the oil crisis recession of the Seventies.

In addition, consumer caution has flattened demand even though housing starts picked up and inflation, thanks to the strong yen, was a mere 1% and producer prices fell by 1,3%. Apart from property and finance sectors, Japanese industry has a healthy balance sheet but the dash for market share around the world has increased cost gearing from 75% to 88% of sales.

The volume downturn of the last three years in export markets has slashed profit margins: this year, corporate Japan's profits will fall by another 20%, losses are rising, bankruptcies among manufacturing companies are up 47% on 1991 and the net return on fixed assets has more than halved to little over 5% since 1989.

And the cost of capital — negligible when

TAKING A BREAK

This is the final issue of the *FM* for 1992 — our next magazine will be dated January 8. The Editor and staff wish our readers a peaceful festive season and hope, with you all, that 1993 will be prosperous.

P.T.O

THE RAND FM 25/12/92

Dollar's role (74)

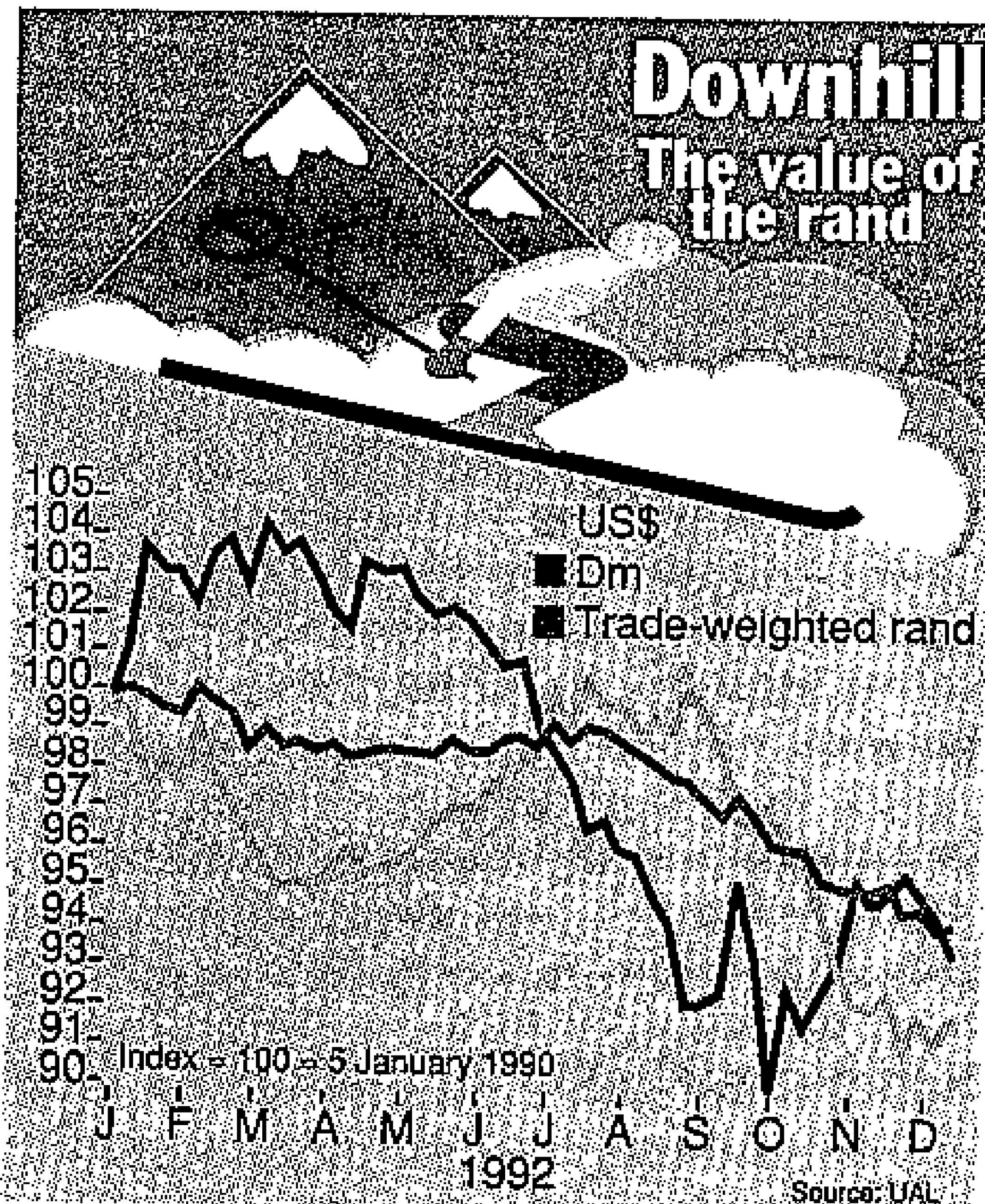
A further weakening of the rand — as measured against a trade-weighted basket of currencies — can be expected in the coming months as the US dollar, which has the heaviest weighting, gains against the cross currencies.

The rand's *nominal* effective rate depreciated by more than 3% this year. But the rate of the decline accelerated from about 0,4% in the first eight months to 0,5% in the following three months as the dollar came back from its August lows of about DM1,40.

The US currency was given further impetus as US short-term rates bottomed towards the end of October when a Bill Clinton victory in the presidential elections became likely.

Now, US economic indicators are looking more encouraging. At the same time, the fundamentals for the D-mark and the yen are shaky as the German and Japanese economies slow further. Standard Bank's *International Comment* for December points

FM 25/12/92 (74)

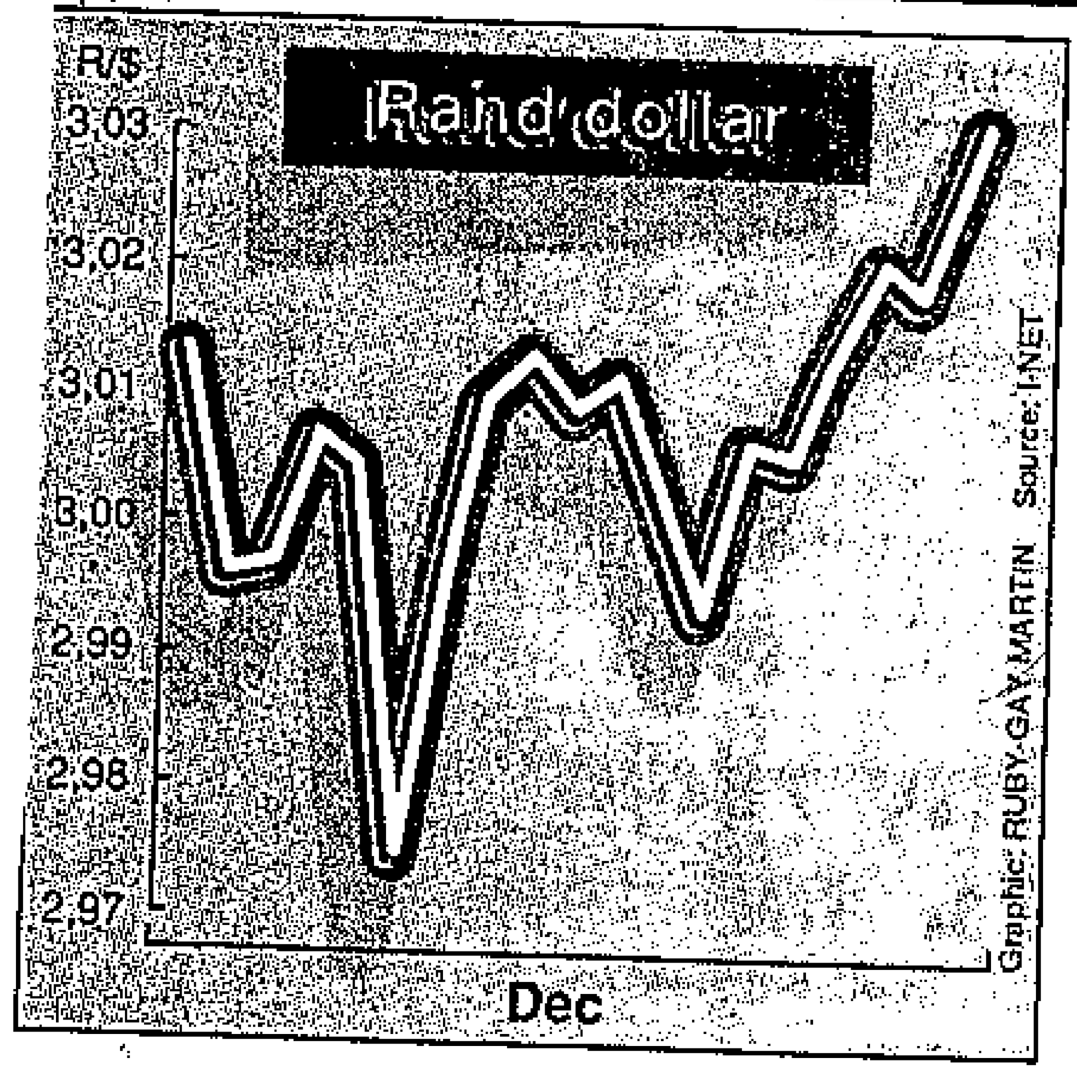


out that German GNP declined over the second and third quarters, by 0,3% and 1,5%. German industrial production has declined by 3% year-on-year in recent months and Japanese production by 6% whereas US industrial output has been marking time and is expected to pick up next year.

This will affect the relative strengths of the currencies. Carmen Maynard, of stockbrokers Martin & Co, says the Bundesbank, which has refused to reduce rates further than the 0,25 percentage point cut in the Lombard and discount rates in mid-September, is likely to relent before the middle of next year.

"Then the market will begin to discount lower German rates against those in the US. This points to dollar strength in future. One must remember, too, that the dollar has received little support over the past few years and is now in the process of a correction from oversold positions," she says.

Maynard predicts the dollar strengthening to around DM1,70 over the next six to nine months, from its current level of about DM1,57. "This will at least provide some respite for exporters of dollar-denominated commodities," she adds. ■



Rand reaches new low against dollar

HILARY GUSH (74/93)

IN QUIET holiday trade, a stronger dollar pushed the commercial rand down to a new low yesterday. B/DAY

From Thursday's R3,0178 close against the US currency, the local unit slipped to a trough at R3,033 as the dollar surged against the Deutschmark. Later in the day, exporters came into the market and sold dollars at the more attractive higher levels, lending the rand some support. The rand finished at R3,0328. 29/12/92

Dealers attributed the softer rand to technical factors, adding that "as long as expectations of a German interest rate cut persist, the dollar will continue to be well bid, thus pushing the rand weaker".

AP-DJ reports that in New York last night, the dollar rocketed to a three-year high against the pound. After dropping as low as $1,4955, sterling was trading late at $1,50, off from $1,5230. The pound last fell below $1,50 on June 18 1989. The dollar also touched a six-month high of DM1,6235.

The rand's gradual decline is expected to continue next year. In its latest economic profile, the Nedbank economic unit forecasts that in the first two quarters of next year the rand will trade respectively at R3,067 and R3,143 against the dollar, before sliding to R3,253 in the third quarter. Standard Bank's economics division is more bearish, predicting levels of R3,08 and R3,18 against the dollar in the first two quarters, and a level of R3,33 in the third.

Funding for SA products at world fairs

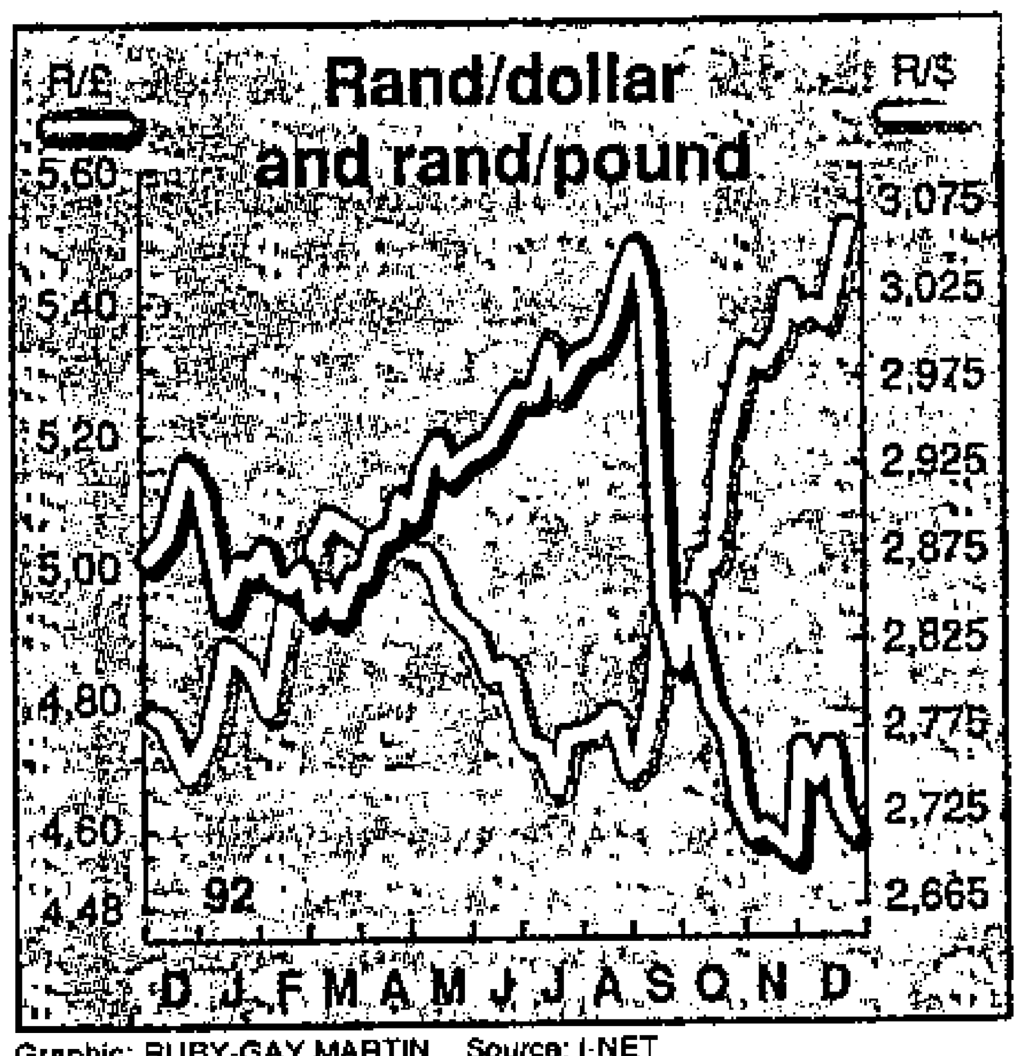
EDWARD WEST

THE Trade and Industry Department allocated R6,4m in the 1992/93 financial year to fund SA product displays at 23 international exhibitions. BDAY 21/12/92

The latest SA/British Trade Association Bulletin says about 320 companies will have been able to display their products in national pavilions at the exhibitions in the financial year ending on March 30 1993. From April to August 1992, 275 companies made use of such assistance.

The bulletin said judging from the number of applications, the amount allocated was adequate. However, in the 1993/94 financial year a surge in applications was expected and an increased amount probably would be made available.

The department organises official SA participation in trade fairs abroad by means of national pavilions to encourage individual exporters to display their goods.



Graphic: RUBY-GAY MARTIN Source: I-NET

Rand hits record low as dollar firms

(74) HILARY GUSH

THE commercial rand slumped to a record low against the dollar yesterday as the US currency continued to gain ground on international markets.

From Monday's R3,0328 close the local unit dropped to a low of R3,0655 against the dollar before mild exporter dollar sales pushed the rand back to finish at R3,0636.

Dealers said the Reserve Bank had not intervened to prop up the unit as the rand was seen to be relatively stable against the basket of currencies. They did not expect any Bank intervention in the short term.

Since early November the rand has been hovering around the R3,00 against the dollar level, but economists say the trend is now clearly downwards.

A year ago the rand was trading at R2,7435 against the dollar, compared with yesterday's R3,0633 close. This represents an 11,7% depreciation over the year.

Despite rand weakness against the US currency, the local unit has fared well against the crosses.

Following the pound's withdrawal from the European exchange rate mechanism in mid-September, the British currency has lost ground against most currencies, including the rand. Towards the end of December last year South Africans had to pay

□ To Page 2

Rand slumps

B Day 30/12/92 (74)

□ From Page 1

R5,1275 for a pound. Yesterday the comparable rate was R4,6035. This translates into a 10,2% appreciation of the rand against sterling.

Some economists say as most of SA's imports are denominated in third currencies, the appreciation of the rand against the pound is favourable in terms of limiting imported inflation.

A weaker rand against the dollar — in which most SA exports are denominated — spells good news for exporters.

However, Sanlam economist Eric Coetzee said as many commodity prices were made on world markets the depreciation of the rand against the dollar "was not helping the SA mining industry as it will not sell more gold just because the rand is weaker". He said the unit's depreciation had very little influence on the price of gold and although rand gold earnings increased with a depreciation of the local currency, it had no affect on the country's foreign exchange earnings.

Coetzee said most international trade was dollar-denominated, but traditionally SA had had very strong ties with Britain. "Therefore if the rand appreciates against sterling, as it currently is, local exporters are harmed as their goods become less competitive in Europe."

The financial rand closed yesterday at R4,89 from Monday's R4,92, resulting in a narrowing of the unit's discount to the commercial rand to 37,4% from a previous 38,4%. A year ago the discount was around 14%. Coetzee expected the discount to remain at 30%-40% in the next 12 months.

"There is no good reason for the discount to narrow, particularly with expected elections in 1994, which are bound to spur political uncertainty. This will mean that foreigners will want to stay away from SA assets, thus putting pressure on the discount to widen," he said.

Turkish trade pact to end

EDWARD WEST

GOVERNMENT would terminate the controversial preferential tariff arrangement between SA and Turkey on December 31 next year, it was announced in the Government Gazette today.

A Department of Trade and Industry (DTI) statement said the notice was to inform SA importers timeously that imports from Turkey under the tariff arrangement would be allowed only until that date.

The arrangement, introduced amid a flurry of protests in October 1988 to balance the flow of trade between the two countries, allows importers to obtain a permit to bring in Turkish goods at a ceiling duty of 3% and a rebate of the full surcharge. The protests emanated mainly from the textile, white goods and electrical appliance industries which claimed the arrangement would provide unwelcome competition and alienate trade relations with other countries like Japan.

Another claimed side-effect of the arrangement was that the relatively high-priced Turkish goods cost SA more foreign exchange than goods from elsewhere with a low free-on-board price — the prices of which were then boosted by import duties and surcharges.

Trade sources said that during the sanctions era, Turkey was used as a conduit for SA products, which resulted in the trade balance being in SA's favour.

The majority of SA exports to that country consisted of primary products such as coal, iron and steel. Semi-manufactured products were exported to Turkey for processing and re-exported under "Made in Turkey" lables, they said.

Turkish consular attaché Cengiz Mutar said yesterday the arrangement was being terminated at the request of the SA government. Although Turkey would have preferred an extension of the arrangement, there was little chance of reversing the decision.

The DTI declined yesterday to give reasons for the decision, saying spokesmen would be able to comment only today.

Equity markets take a backseat to bonds

STAR 31/12/92. (74)

LONDON — The year-end wave of optimism which has propelled the UK equity market to another all-time high — the FTSE-100 index is now up 14 percent this year — is not typical of markets around the world.

In fact, another poor year for the global economy, in which overall growth of the 24 nations in the Organisation for Economic Co-operation and Development is estimated to have been only 1,5 percent, has formed the backdrop for a generally dreary 12 months for the world's capital markets.

In these conditions fixed interest securities have often outperformed equities, although rapidly expanding government financial deficits have had the effect of subduing the bond markets too.

Only some spectacular events in the currency markets have livened up the year and provide the more speculative investors with some handsome returns at limited risk, mainly by courtesy of the European central banks.

As the year draws to a close, hopes for a global recovery look little better. The OECD has just knocked down its 1993 growth forecast from 3,0 to 1,9 percent.

And although some of the countries early into the recession are now showing signs of an upturn — certainly the US and possibly the UK — Germany and Japan may not yet have seen the worst.

Investors are having to grapple with the evidence that this is not just another business cycle but that long-term structural changes are afoot.

When leading industrial companies such as IBM are shedding tens of thousands of jobs, while the only rapidly growing area of the global economy is in regions such as southern China and parts of Latin America, it is a foolish portfolio manager who continues to extrapolate the long-term charts from the past.

Certainly, shareholders had to dabble in stock markets such as Hong Kong and Mexico this year in order to achieve returns that were at all interesting in local currency terms.

The best-performing national market in dollar terms has been Malaysia with a gain of 23 percent.

Overall, however, the World Index is down 7 percent this year in dollar terms and is up just 12 percent for investors who prefer to do their calculations in sterling.

On Wall Street it has been an amazingly steady year, with year-on-year improvement of only 4 percent.

Moreover, 1992 has been the least volatile year for the US stock market in living memory, essentially because the recovery in the economy and therefore incorporate earnings was already discounted in 1991.

Since then there has been a flow of money into equities from private individuals fleeing low savings deposit rates and buying large quantities of mutual funds.

But, on the other hand, there has been a sharp rise in stock issues and a certain amount of selling by foreigners who generally feel that Wall Street is overpriced. The net result has been stalemate.

As for Tokyo, the well-managed slow-motion stock market meltdown has gone a stage further.

This year's index fall has been 20 percent (only Denmark has performed worse in local currency terms) and the Japanese equity market now accounts for only 26 percent of world market capitalisation, against about 45 percent at its peak three years ago.

The painful return of Japanese property and equity prices to more justifiable levels still poses a severe threat to the country's finan cial system, with the capital bases of the banks undermined.

But Japan is better placed than most other countries in terms of fiscal balance and bond yields. Ten-year Japan government bonds (JGBs) now yield only 4,6 percent, easily the lowest for any leading country.

In the UK, the global bond funds have enjoyed a great year, and are heading the unit trust performance charts.

But it looks very different in the US where the strength of the dollar against many currencies in the past few months has caused many equivalent international fixed income funds showing returns which are meagre and sometimes even negative.

Generally speaking bond yields have dropped in 1992, because the impact of the recession and the influence of lower inflation rates has outweighed the increasing flow of government debt as fiscal deficits widen.

Average inflation, according to the OECD, will fall from 3,5 percent in 1992 to 2,5 percent by the end of 1994. But the average budget deficit is running at about 4 percent of gross domestic product this year and next.

Brokers James Capel have calculated that new borrowing by the Group of Seven leading industrialised nations next year will total a huge $750 billion.

Real interest rates, apart from in Japan and Germany (where inflation is still rising) are remarkably high. This ought to make bonds very good value, as they indeed have been this year. But there could still be problems if so much paper is issued that the markets find it indigestible.

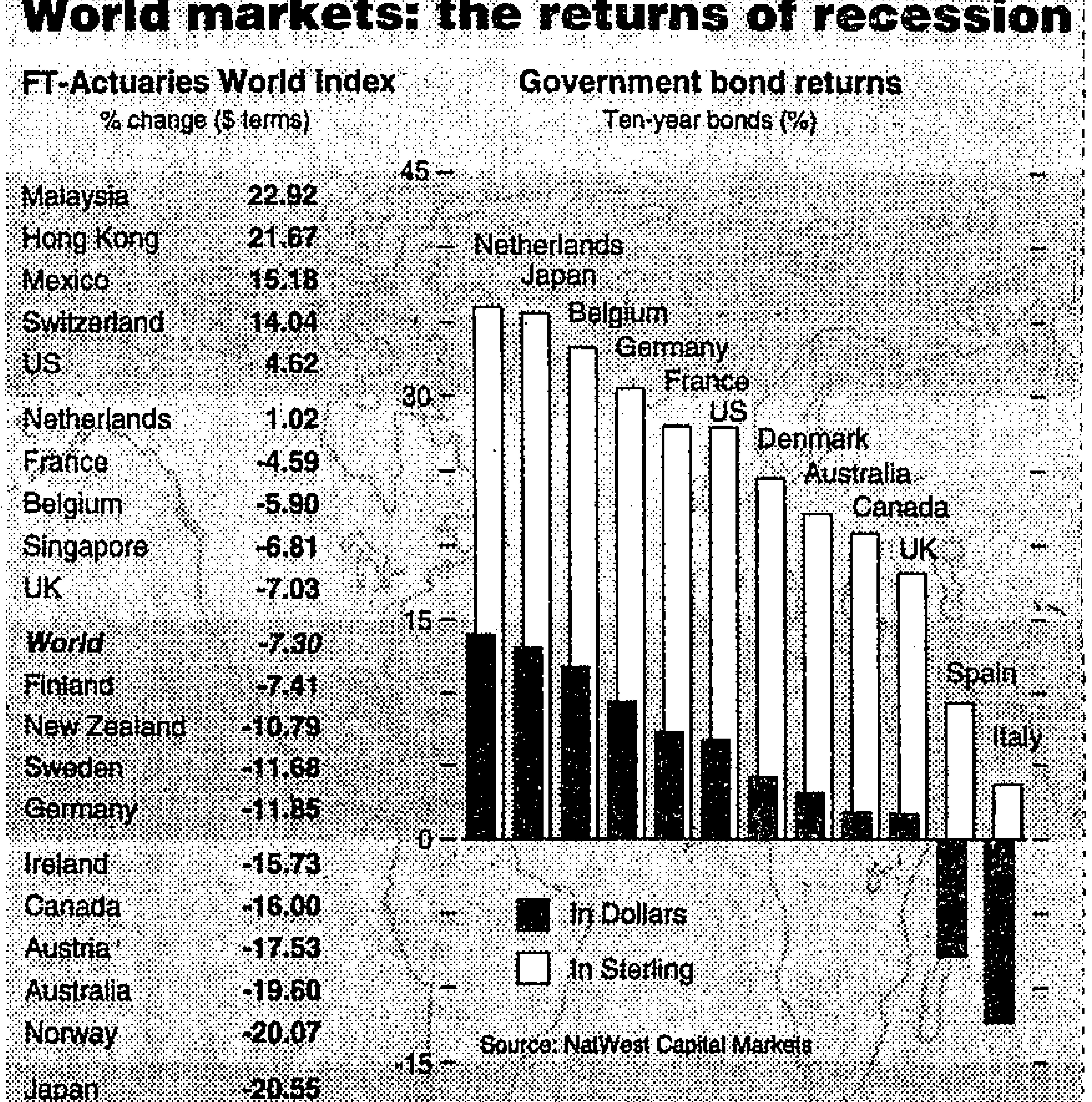
The UK government, for instance, is threatening to issue gilt-edged securities at the rate of £1 billion a week during the financial year 1993-94.

A real bull market in bonds will not happen until investors can see a way in which government deficits can be brought down.

The bond investor's calculation must be that real interest rates will have to be brought down through an acceleration of inflation, but there are not many countries in which that is going to happen, given the surplus of capacity in the industrial, farm and labour markets.

In the meantime, attention has been focused on currencies.

It was hard to make money by trading currencies when they were floating freely in the 1980s, but the growth of the semi-fixed rate European exchange rate mechanism proved to be a godsend for speculators. — Financial Times.



World markets: the returns of recession

FT-Actuaries World Index

% change ($ terms)

Country	% change
Malaysia	22.92
Hong Kong	21.67
Mexico	15.18
Switzerland	14.04
US	4.62
Netherlands	1.02
France	-4.59
Belgium	-5.90
Singapore	-6.81
UK	-7.03
World	*-7.30*
Finland	-7.41
New Zealand	-10.79
Sweden	-11.68
Germany	-11.85
Ireland	-15.73
Canada	-16.00
Austria	-17.53
Australia	-19.60
Norway	-20.07
Japan	-20.55
Spain	-23.08
Denmark	-25.58
Italy	-29.31
South Africa	-40.69

Government bond returns

Ten-year bonds (%)

Source: NatWest Capital Markets

All changes and returns calculated from Jan 1 to Dec 21 1992