FOREIGN TRADE - GENERAL

1991

JULY — OCT.

FOREIGN TRADE

TRADING STORIES

Depending on how you look at them, the trade figures tell different stories. The monthly performance for June was disappointing: the surplus was down 39,5% on May, after exports fell 12,1% and imports were barely changed. On a quarterly basis, however, the news is better: in the second quarter the surplus rose 55% over the first quarter, with imports up 5,2% and exports up 15,6%. But the cumulative surplus over the six months to June was 6,6% less than in 1990; exports rose 6% but imports rose 11%.

These figures are in nominal rand terms; a more accurate picture, says Nedbank chief economist Edward Osborn, is given in trade-weighted terms: "Exports rose 2% in the first half of 1991 compared to last year, while imports rose 4,6%."

Cumulative imports in the six months to June showed notable year-on-year increases in vegetable products (probably wheat), chemicals, plastics, textiles, and electrical equipment. A similar pattern was seen comparing the second quarter with the first. Osborn says this indicates some inventory replenishment in expectation of increased activity towards the end of the year.

Despite SAA's purchase of two Boeing 747s for R375m each, there was little year-on-year change in the transport category over the six months. But there was a notable increase in unclassified imports probably indicating a surge in oil imports early in the year after the Gulf War.

The performance of cumulative exports in the six months to June was disappointing relative to last year in:

☐ Vegetable products (because of poor harvests);
☐ Mineral products (weak prices); and
☐ Pulp and paper.

But there were increases in:

☐ Unclassified exports (partly reflecting the higher rand gold price); and
☐ Chemicals, prepared foods, transport equipment and jewellery.

The monthly surplus for June shed R721m (US$252m) from May's R1,83bn ($653m) to R1,11bn ($386m). This was largely due to a R697m ($243m) drop in exports, from R5,78bn ($2,07bn) to R5,09bn ($1,78bn). Imports, at R3,98bn ($1,39bn), were barely changed from May's R3,96bn ($1,42bn).

The cumulative surplus for the six months is R7,64bn ($2,84bn), compared to R8,05bn ($3,08bn) last year. Exports were R31,19bn ($11,59bn) compared to R29,33bn ($11,22bn) while imports were R23,55bn ($8,75bn) compared to R21,28bn ($8,14bn). ■

RAND'S PRICE

Jul 23 1991

	R1 equals	One foreign unit equals (R)
SDR	**0,263**	**3,808**
	0,284	3,522
ECU	**0,299**	**3,339**
	0,302	3,311
UK £	**0,207**	**4,826**
	0,209	4,786
US $	**0,347**	**2,884**
	0,382	2,620
Canada $	**0,400**	**2,500**
	0,441	2,269
Switzerland Fr	**0,531**	**1,883**
	0,528	1,894
France Fr	**2,080**	**0,481**
	2,078	0,481
Germany DM	**0,613**	**1,631**
	0,619	1,615
Japan Yen	**47,560**	**0,021**
	56,630	0,017
Italy Lira	**456,495**	**0,002**
	454,020	0,002
Zimbabwe $	**1,130**	**0,885**
	0,930	1,075
Austria Schil	**4,310**	**0,232**
	4,360	-0,229
Holland Guilder	**0,689**	**1,451**
US $ value of SDR	0,698	1,432
US $ value of ECU	1,347	**1,332**
Financial Rand	1,264	**1,164**
Cost per US $	3,933	**3,218**
Discount (%)	33,440	**10,446**

Year ago figures in light print.
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved.
The above rates are for guidance purposes only.

Premier 'handles 10% of SA trade to Africa'

B Day 9/7/91

MARCIA KLEIN

PREMIER International, the Premier Group's offshore trading arm, handled an estimated 10% of all trade between SA and the rest of Africa, the group said in a statement.

The company exported products primarily manufactured by the Premier Group, and also handled the group's import requirements.

Premier International marketing director Katerina Yiannakis said Zambian President Kenneth Kaunda's recent praise of the firm marked "a successful 10-year effort by the company to establish itself as an African presence".

74

Kaunda, who officially opened 10-year-old Premier International's new International Bonded Warehouse (IBW) at Ndola, praised the company's "continued efforts towards economic reform and of easing the problem of shortages and exorbitant pricing".

The IBW stand took the prize for the best commercial stand at the Zambian International Trade Fair, where various other Premier group divisions also exhibited.

Yiannakis said most of the company's trade in Africa was through its six bonded warehouses, which offered goods in Mozambique, Zaire and Zambia. Commodities included well-known brands of foodstuffs, stockfeed and chemicals.

In the group's annual report, chairman and CE Peter Wrighton saidthe imminent removal of sanctions placed Premier International "in a highly favourable position to take advantage of the crumbling political divisions between SA and its neighbours".

Trade doors now swinging open

Star 2/7/91

(74)

Moscow is likely to be added soon to a growing list of key South African trade outposts as the sanctions blockade is dismantled. The USSR will be linked into a network of hotlines that alerts exporters to more and more new trade opportunities as South Africa comes out of the cold, reports MICHAEL CHESTER.

THE swiftness of reaction to the gradual removal of sanctions as South Africa moves into a post-apartheid era can be measured by the hectic activity on a global network of special hotlines that have been installed to alert exporters to a flood of new trade opportunities in overseas markets.

The hotlines all converge on a new electronic databank created by the Department of Trade and Industry (DTI) in Pretoria.

DTI director-general Stef Naude has already increased the number of overseas trade offices to 42 as South Africa comes in out of the cold on world markets.

The next significant extension to the network is expected to be made within weeks when South Africa opens a trade office in Moscow to add the USSR to a growing list of new trade partners.

The formal establishment of official trade links with the Soviets is likely to be agreed to next month, say sources.

It promises to provide a whole new export thrust behind what used to be the Iron Curtain — always considered forbidden territory, until the winds of political reform started to blow in the communist bloc as well as in South Africa.

The DTI has already started making trade inroads into East Europe through trade offices now opened in Prague and Warsaw.

All the trade representatives have been briefed by Bert Pienaar, director of export promotion, to give high priority to the hotline links.

The outposts have been told to flash back news and analyses on all new developments in their territory that could alert South African exporters to potential fresh business contacts.

The flashes can take the form of information about tenders being opened on major new construction projects, with a possible chance for bids on subcontracts; or threatened crop failure, opening a chance for agricultural exports to fill the shortage.

All news flashes, plus market research surveys and tip-offs about overseas trade fairs, are fed through the hotline network to 12 000 companies in South Africa known to be reliable exporters.

The value of the listening posts was demonstrated when the Soviets launched their glasnost programme and relaxed travel restrictions on Jewish families anxious to leave.

An early alert drew the attention of South African exporters to the fact that thousands of families were known to have automatically chosen Israel as a new home.

But did Israel have the accommodation?

The fax machines in Pretoria relayed messages to various house-building companies in South Africa about the sudden need for virtually instant new homes several thousand kilometres away.

The reponses were swift. When Israel put out tenders for the urgent supply of prefabricated houses, three South African companies were already in line. Because of the early alert, they were able to win contracts to send no fewer than 600 new home units to start filling the demand.

In the process they added about R45 million to South Africa's export earnings.

The information network tries to have eyes and ears open everywhere.

The DTI's Toon Murray likes to recall a perfect example when an overseas aid programme decided to provide hundreds of hospital beds to overcrowded wards and clinics all across Africa.

Contracts were being planned in Sweden, at a moment when Scandinavia was at the forefront of sanctions pressures on South Africa.

Even the Swedes, however, decided that pragmatism can sometimes be better than political posturing.

The aid donors looked at the map, looked at the industrial centres best able to handle the contract — and came through the DTI to place the huge orders with a South African manufacturer.

The order has already reaped more than R40 million in export income, and repeat orders still flow in.

It was the initiative of a hot line outpost in South America that spotted an unexpected export opening when Brazil found itself with a massive surplus of citrus crops.

An early alert resulted in a South African company stepping in with offers of immediate supplies of thousands of cardboard boxes, so that the citrus could be packed hastily and shipped off to eager buyers around the world.

The order for containers netted almost R30 million in foreign exchange.

"The cloak-and-dagger 007 days are over," says Paul Pieterse of the DTI strategy planning section.

"South African exporters don't need to sneak across a minefield of sanctions and boycotts any more. When they go out exploring most overseas markets nowadays, they can beat the drum."

There are still a few sensitive spots where the local politicians have yet to rubber-stamp withdrawal of sanctions.

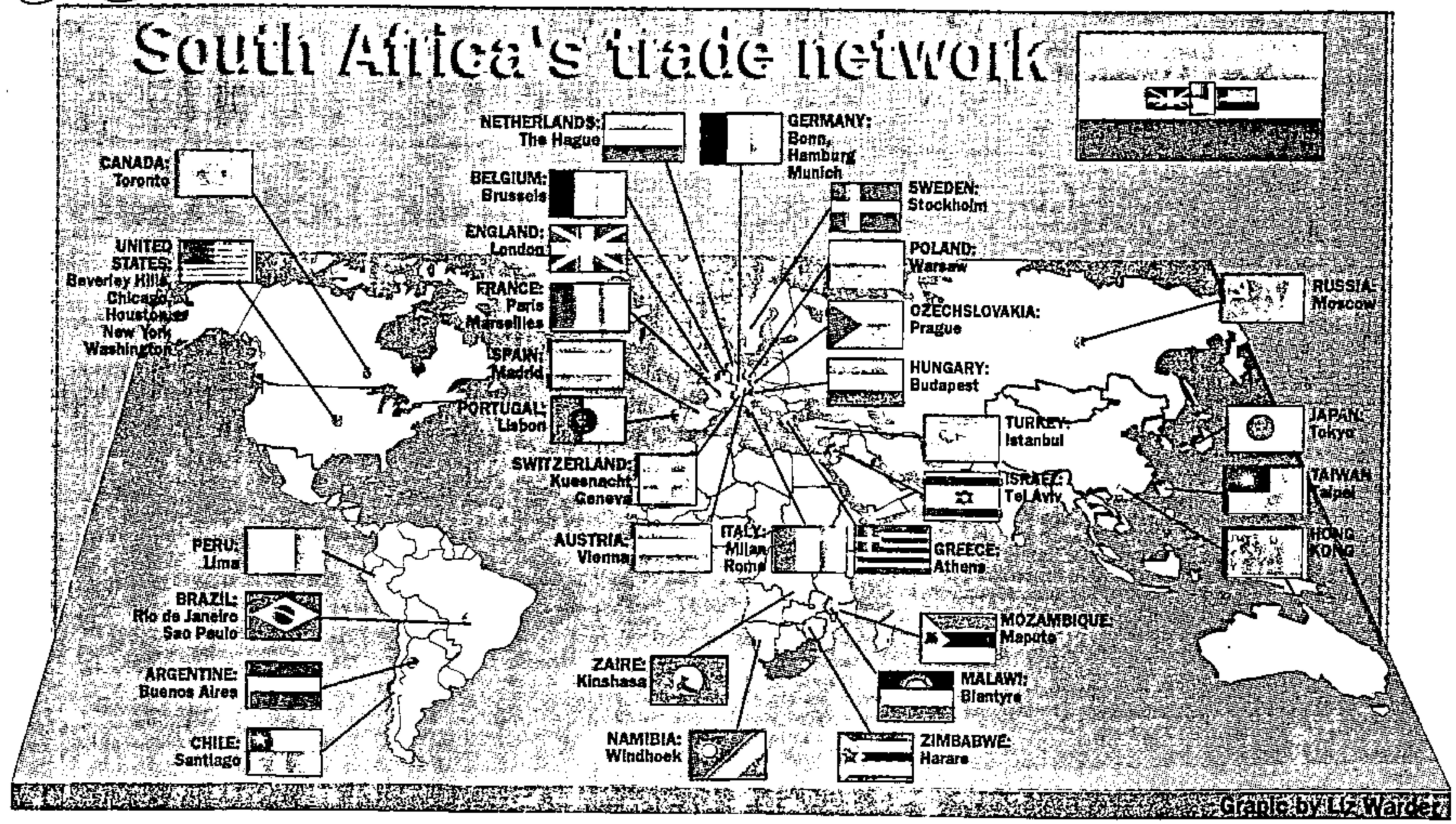
But even so, almost everyone is prepared to turn a blind eye on political taboos if the agenda sticks to business.

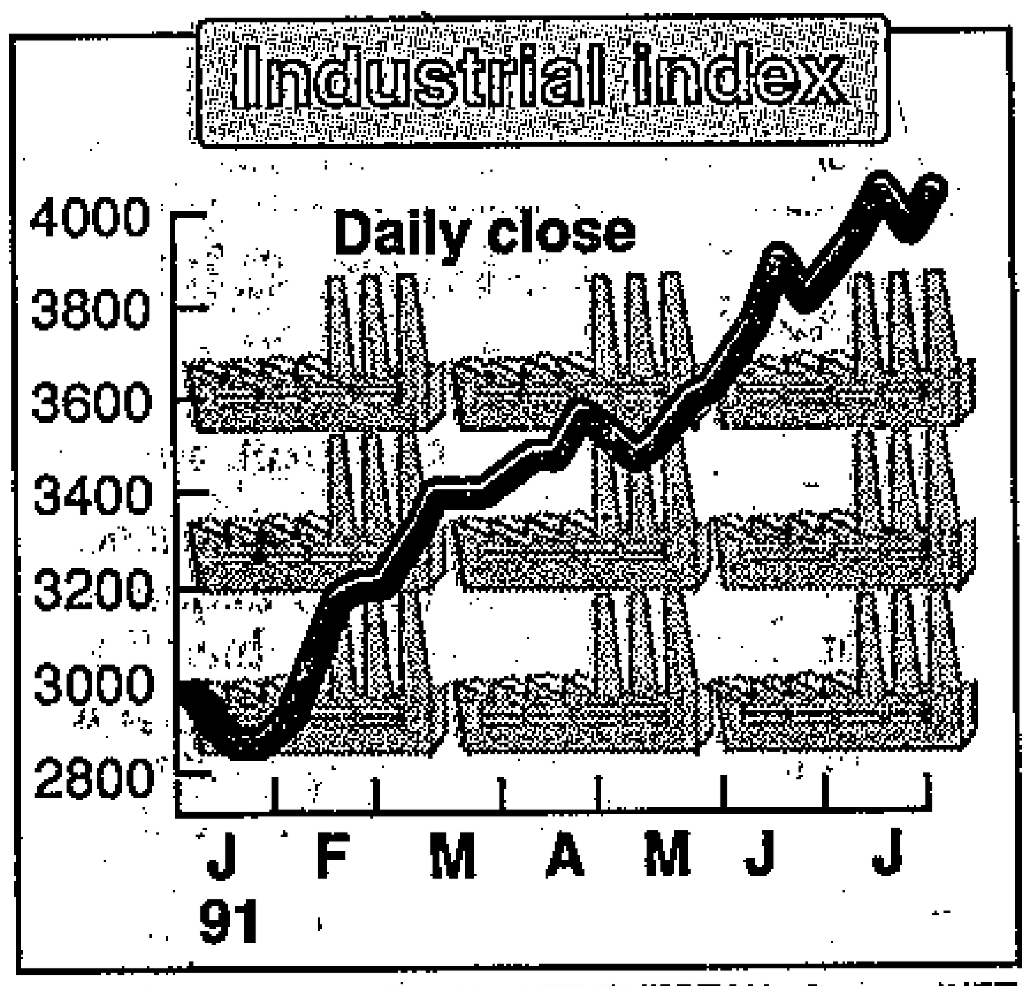
Even the Scandinavians, who erected the toughest sanctions barriers of them all, are mellowing as they watch the pace of reform.

"Doors that have been padlocked for years in most of South Africa's traditional markets have started to swing open," says Mr Pieterse.

"Our exporters also have the bonus of the long list of alternative markets they discovered when they were forced to find chinks in the sanctions blockade — especially in the Far East and around the Pacific Rim, where a brand new generation of trade partners has been cultivated.

"And now comes the extra bonus of access to markets that were always bolted, such as the Soviet Union, People's Republic of China and a whole chain of countries across Eastern Europe. All in all, the list of potential overseas markets opening to our exporters may soon be even longer than when we were shunted into isolation in the 1980s." □





Graphic: LEE EMERTON Source: INET

FW puts markets on positive track

MERVYN HARRIS

A NOD of approval by the foreign and domestic investment community for President F W de Klerk's stance on the slush fund scandal put Diagonal Street back on a positive track yesterday.

Improved sentiment was reflected in the JSE industrial index surging 1% or 43 points to scale a fresh peak of 4 084 and surpass the previous high of 4 061 set on July 10 when the US scrapped sanctions against SA. B Day 1/8/91.

Yesterday's uptrend came despite a strong rally by the finrand investment unit, indicating that share prices were higher in dollar as well as in rand terms.

The 1,6% rise in the finrand to R3,24 to the dollar means that the unit has recovered all of its heavy losses sustained earlier in the week on the back of big divestment deals.

"The President's remarks at his Press conference in Pretoria went down exceedingly well in London where the speech was accepted in the spirit in which it was put across," a dealer said.

The strength of the market was reflected in the overall index rising 35 points to 3 491 in a broad-based rally with the all gold index rising 28 points to 1 327.

With politics no longer a dominant factor, the market was switching its attention to the gold price, which closed 65c up in London at $363,25 after moving in a narrow range in quiet trading for most of the day. It closed at the same price in Zurich.

There was also concern over the weak platinum price. The metal firmed in London trading yesterday but pared some of its gains towards the close to end below gold at $361,88.

Trade bonanza on the horizon

Star 1/8/91.

The South Africa Foundation finds evidence of growing international interest in closer trade ties with this country, but forecasts that the brakes will be held on potential new investment until financiers feel assured about the shape of future economic policies, reports MICHAEL CHESTER.

SOUTH AFRICA must face the blunt reality that most overseas financiers will hold the brakes on investment until they see the shape of the economic policies in the post-apartheid era.

That is the message heavily underlined by South Africa Foundation executive director Kurt von Schirnding on return from an extensive tour of Eastern and Western Europe to sound out business and political leaders about the two-way trade and investment outlook.

Foreign investors, he says, have been heartened by signals from Nelson Mandela of a softening in ANC hardline socialist stances on economic policy, but seemed likely to remain cautious about investment decisions until the risk of nationalisation was completely wiped off the political agenda.

"There's still uneasiness about possible Communist Party influence at negotiations on a new constitution and economic strategies in general," he said.

"Trade union leaders, as well as the new generation of political leaders in Eastern Europe, are astonished that discredited communist ideologies could be even considered as an option in the new South Africa — especially when the whole world has seen proof of the inevitable economic devastations caused by Marxist policies.

"Most potential foreign investors will have reservations about major decisions until they see evidence of a commitment to free-market principles."

If the risk of Marxism were removed, however, the prospects for robust two-way investment and trade-flows between South Africa and Eastern Europe were excellent — within the constraints of the severe shortages of foreign exchange in the former Soviet satellites.

"There is enormous interest in South Africa, particularly in Poland, Czechoslovakia and Hungary, which feel they have an affinity with South Africa in the way each country is planning to open a new chapter in international relations as they break out of isolation."

Just as South African exporters were keen to increase direct trade and use Eastern Europe as a springboard to adjoining markets — in particular the European Community nations — so Eastern European exporters saw South Africa as a significant market on its own, and also a springboard into Africa as a whole.

Mr von Schirnding believes South African business should keep an especially sharp watch for opportunities to launch joint business ventures in Eastern Europe as State-owned industries laid out privatisation plans.

"Moving in to buy a slice of such industries could be an ideal way to find a foothold at bargain basement prices," he said. "There could also be important spin-offs in exchanges of technology and marketing know-how.

"What promises to give an edge to businessmen in South Africa when deals are negotiated is that most Eastern European countries are suspicious of domination by their wealthier neighbours in Western Europe and are anxious to secure a new economic independence from further afield.

"There's a formidable list of business sectors where closer ties could be forged."

He is also convinced that moves by Austria to abolish all remaining sanctions now look imminent, providing South African businessmen with more chances to create new trade conduits into Europe.

"Much now depends on an end to violence in our townships, an image of stability — and more evidence that the ANC is moving further away from a Marxist approach to long-term economic strategies."

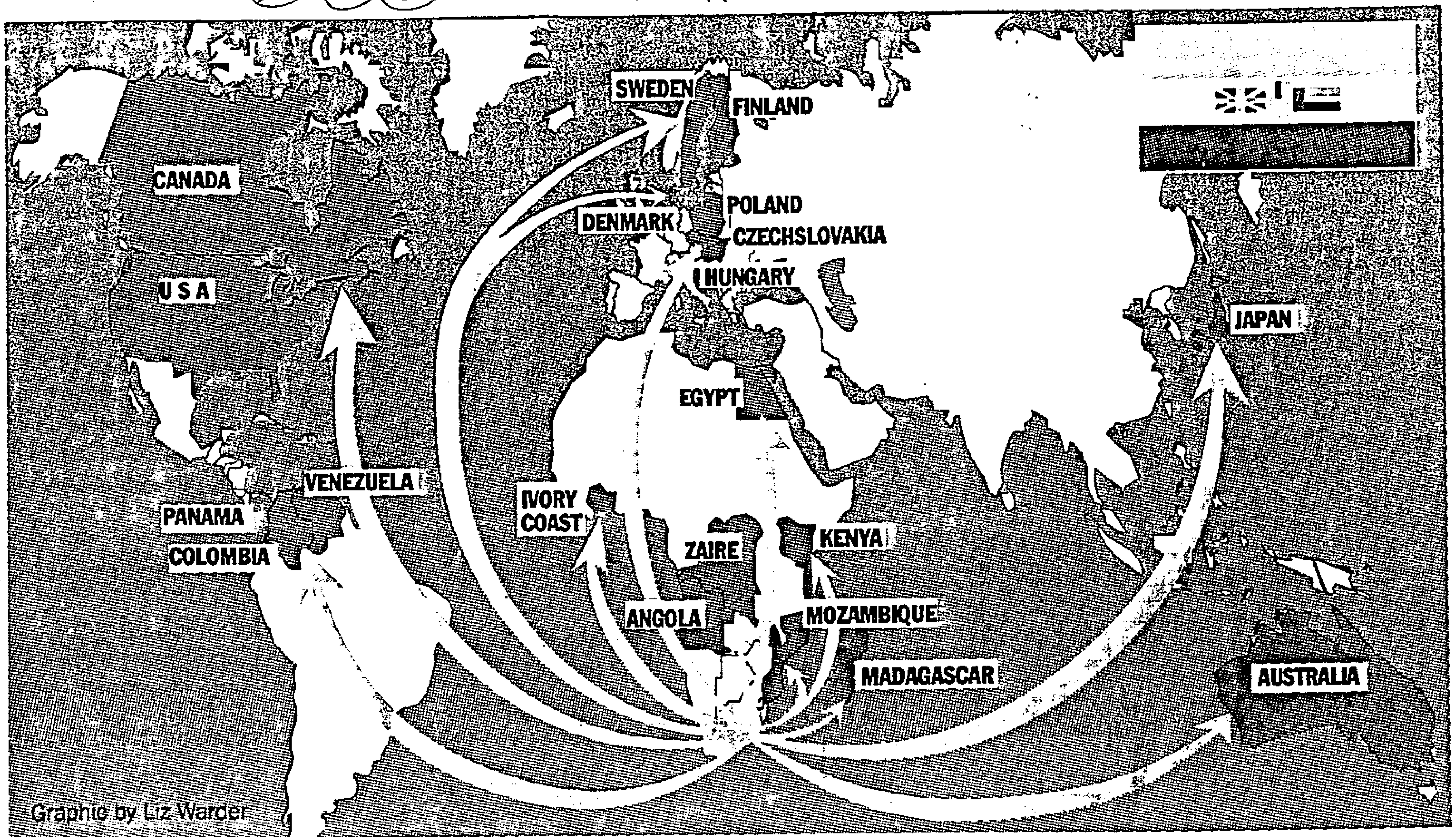
Eastern Europe is also one of the hunting grounds selected by the South African Foreign Trade Organisation to go searching for more export business in the next few months.

Safto has laid out its most crowded programmes of international trade missions on record as exporters come in from the cold with sanctions barricades coming down. No fewer than nine regions will be explored by trade missions in the next six months.

One that has inspired special interest is Eastern Europe — in particular Hungary, Poland and Czechoslovakia. A mission will go there next month.

The dynamism of the worldwide programme is shown in the accompanying map of export targets.

The Safto team reports that South African companies of all sizes have booked places to investigate new international business opportunities — not only in merchandise exports, but also in investment, technology transfers, banking, transport and tourism. □



Reaching out . . . the SA Foreign Trade Organisation has planned its busiest programme of overseas business missions on record as South African exporters set out to explore world-wide markets as sanctions barriers come down. No fewer than nine trade missions will be probing markets from North America to the Far East in the next six months.

EDWARD OSBORN

Between Scylla and Charybdis

FM 2/8/91

74

Edward Osborn is Nedbank chief economist

Flows on the capital account of the balance of payments (BoP) are mirrored by reverse flows on the current account. The current account surplus of R23,7bn, accumulated since the debt moratorium in 1985, therefore represents a dissipation of capital resources of incredible dimensions. More likely is that the surplus on the current account has been seriously overstated.

The figure is, of course, distorted by the depreciation of the rand — the more it declines the greater the rand value of the surplus. A constant figure can be derived by valuing each year's surplus in terms of an acceptable *numéraire* like the SDR, adding these up and reconverting to a standard round. On this basis the accumulated current account surplus amounts to SDR6,2bn — equivalent to only R17,3bn in 1986 rands.

Even this sum seems unlikely in the face of exchange controls, strict debt redemption arrangements and a financial rand system designed to protect the currency. The financial rand system is closed and, therefore, plays no part in the dissipation of the current account surplus.

What financial rand transactions do influence is the composition of SA's foreign liability structure. Finrand transactions are recorded in the BoP capital account — published by the Reserve Bank. They are balanced out in the capital account and so have no net effect. They are not identified separately and so it is not possible to analyse the capital account in terms of actual flows of foreign exchange.

With the debt interim arrangements in place the flows are confined to: debt redemption payments; changes in trade related claims, mostly short-term that have arisen since the moratorium; Reserve Bank losses or gains on actual forward exchange transactions; and changes in the net reserve position of the banking system.

Unfortunately, changes in trade credits or debits are not separately identified and, in any case, tend to be lumped together with other short-term transactions as a balancing item, which is labelled "short-term nonbank private sector." Nor are losses or gains on forward cover identified. That leaves debt redemption flows and changes in reserves.

Since end-1985, changes in reserves attributable to BoP transactions — that is, excluding valuation changes of gold and foreign exchange assets and liabilities — amount to a net increase of R2,4bn.

Overall, since 1985 foreign debt has fallen by a net R13,6bn (US$4,3bn), but this covers considerable valuation changes. If these were not taken into account it would seem all the rand change in foreign debt occurred in 1986, since when there has been a net increase of R175m!

One has to attempt to estimate the debt payments on a transaction basis (see table below).

These debt transactions total R12,3bn over the past five years. This figure is pieced together from a number of sources, not all of which are consistent, but is a reasonable order of magnitude. With the net increase in reserves this totals R14,7bn, leaving R9bn of the R23,7bn, mentioned at the start of this article, unaccounted for.

A net decline in trade credits would explain part of the missing R9bn. But an independent study by the LSE Centre for the Study of the SA Economy (J F Garner) concludes that these actually rose by about 9% from 1985, to some $3,7bn in 1989. A further rise is likely during 1990, given the preferential forward cover scheme to encourage overseas trade financing.

Net losses on forward cover entered in the capital account as capital transfers would certainly have been significant, but the quantum is unknown. For the rest, we have to fall back on the errors and omissions item in the BoP.

This is not separately identified in the *Bulletin* but is in the IMF *Balance of Payments Yearbook*, which shows errors and omissions totalled $1,9bn, or R4,4bn in current rand terms in 1986-1989. The figure is derived arithmetically and depends on what is included in the accounts. It is not definitive but a useful indicator of the order of magnitude and direction.

The IMF figures are consistently negative, suggesting a bias in estimates. This, of course, points to the current account, in particular trade data, as the source of error. This is confirmed by the observation of E J van der Merwe and M C Bester in their Reserve Bank paper, *The Sources, Methods & Reliability of SA's Balance of Payments*, that the errors and unrecorded transactions relate to exchange rate movements.

For one thing, this is likely to arise as a result of consistent undervaluation of imports. Imports should be entered in the trade statistics and BoP at the exchange rate at the time of clearance. But with import duties and the like calculated *ad valorem* there is a strong incentive to provide lower values, either at the spot exchange rate on forward exchange contracts or the rate at the time of shipment from the foreign port.

Trade date

There is also a problem with trade data. Published data covers the entire SA Customs Union and therefore must be adjusted, for example, to exclude the exports of Botswana, Swaziland, Lesotho and now Namibia to the rest of the world and to include SA's exports to those countries. Yet, in recent years, the net adjustment to the trade figures to arrive at the BoP figures is negligible. This implies that SA's exports to these countries are about the same as their exports to the rest of the world and SA's imports from them equals their direct imports from the rest of the world. Furthermore, any increase in their foreign reserves derives from surpluses of services transactions.

This is extremely unlikely.

It seems, then, that errors and omissions largely have their origin in the current account — specifically in the merchandise account in respect of valuation and timing. The consistent negative bias in the errors item, notably related to the rate of depreciation of the rand, implies that current account surpluses are seriously overstated, by as much as 50%.

So we can conclude that allowance has to be made for an overstatement of the expected current account surplus, projected on the basis of past estimates. It is essential to roll over as much debt as possible. And, in current circumstances, strict monetary and fiscal discipline has to be maintained.

CAPITAL FLOWS

$m

	1986	1987	1988	1989	1990
Affected debt:					
1st agreement	500				
2nd agreement		520	400	340	150
3rd agreement					101
Non-affected debt:					
IMF repayments	332	486			
Bearer bonds					
redeem	7	44	59	122	66
issues			−39	−50	−36
Loans					
repaid	80	192	243	201	1 077
received	−41	−42	−74	−60	
Maturing exit loans					
Total net debits $m	878	1 200	589	553	1 965
current Rms	1 990	2 440	1 332	1 450	5 080

Sources: South Africa's Foreign Debt and the Standstill, 1985-1990. Jonathan Leape. LSE Centre for the Study of the South African Economy. IMF Balance of Payments Statistics Yearbook, 1989 Exchequer accounts. Government Gazette schedules of State guaranteed commitments.

New tax concessions for exports may be delayed

(74)

B Day 2/8/91.

LESLEY LAMBERT

AN imminent announcement on tax breaks for new export-oriented mineral beneficiation projects could be delayed by debate.

Enabling legislation for the tax incentives, proposed earlier this year by Trade and Industry Minister Org Marais, has been passed by Parliament. Full approval of the proposals — expected last month — rests with President F W de Klerk.

Leading officials from the Finance Department have expressed concern at the discretionary nature of the proposed incentives, while representatives of organised commerce and industry have confirmed that they have met Marais "to clarify certain issues" about the concessions.

The main concerns are that the concessions would be granted to export-oriented mineral projects at the discretion of a committee comprising government officials and could give the recipients an unfair advantage in local markets. The enabling legislation proposes that the recipients use local resources and export at least 60% of their output.

The Trade and Industry Department argues that the concessions are likely to be a short-term measure to provide a vital export-driven "kick-start" to the economy. An inter-departmental committee has been established to consider measures which could replace or even be used as alternatives to the concessions.

Potential recipients, such as Anglo American and Gencor's joint R3bn Columbus stainless steel project, have said start-up costs would be prohibitive without state assistance or foreign investment.

Anglo American group tax consultant Marius van Blerck yesterday said similar targeted measures had contributed to the success of Japan and other Far Eastern nations which had become leading exportrs during the past decade.

He urged opponents to consider the long term value of the projects to the economy.

In the meantime, Marais told delegates at a seminar on Swiss-SA economic relations yesterday that the concessions "may well be introduced shortly".

He emphasised that the shift in government's emphasis from import replacement to exports did not mean it would not support viable import replacement projects. "On the contrary, an expanding manufacturing sector will naturally also generate additional import replacement opportunities," he said.

'New opportunities' for GDM

SHARON WOOD

THE welcoming back of SA to the international community and world trade would open up new opportunities for trade-financing company GDM Finance, chairman Michael Waring said in the company's annual report released this week.

This would also increase demand for services already offered.

However Waring cautioned there was little evidence of any economic upturn at the moment.

"There are still considerable political uncertainties which could undermine confidence for some time to come," he said.

Nevertheless, GDM Finance had a strong management team which had consistently produced record earnings for shareholders.

The company reported a 15% rise in earnings to 33,7c a share in the year to April from 29,3c the previous year.

BDay 2/8/91.

Waring said the company had "always placed great store on risk assessment and has not sought asset growth for its own sake and never more so than in these difficult times".

This had been evidenced by the results of the company and the soundness of the balance sheet.

"It is company policy to spread risk across a broad client base and a wide spread of business sectors," GDM Finance MD John Cowper said.

Japanese look keenly into SA investment

74

ARGUS 3/8/91

DEREK TOMMEY

Weekend Argus Correspondent

The Japanese are scrutinising South African business, says a leading business information bureau.

In recent months top Japanese businessmen have been investigating business and economic conditions in South Africa, says Andrew McGregor, a director of McGregors Online Information (Pty), which is well-known for McGregor's "Who Owns Whom".

He has been making presentations on the economy and the business set-up in South Africa for the benefit of Japanese visitors.

Mr McGregor said yesterday he had received the impression that the Japanese would like to start making investments or acquisitions in South Africa fairly soon.

He believed that the Japanese felt they had to beat the Americans to the draw and they would have only about 18 months which to do so.

THE MONEY MARKETS by Andrew Gill

BIDay 5/8/91. 74

Bears are out in force as lethargy in rates takes its toll

THE bears were out in force in the market towards the end of last week as the continuing lethargy in rates took its toll at a time when liquidity levels were stronger than they had been for some time.

Reserve Bank Governor Chris Stals's effective squashing of hopes of a rate cut to counteract the effects of VAT gave the market more insight into his determination to fight the inflation bogey.

While the market realises the intention it questions the effect of the policy. Inflation is refusing to come down despite the most stringent attempts at getting it under control.

People are loathe to venture suggestions as to how to balance monetary policy on the one hand and give the economy a margin for survival on the other, but they point out that business is suffering more now than it has in years.

Overkill hasn't been mentioned much yet but if comments from businessmen earlier in the week are anything to go by, statistics for the past couple of months are going to show a dramatic weakening in economic activity.

Sectors that showed resilience last year are now falling victim to high interest rates and stubborn inflation, thousands of jobs are falling by the wayside and the bottom line is looking decidedly red.

The market has been forced to balance Stals's obvious determination in the face of crumbling activity and a tantalisingly liquid system that would normally see rates tumble.

Despite taking a large R800m out of the market on Thursday the shortage dipped R240m, meaning some R1,04bn crept into the system that day.

Where it was coming from could be ascribed only partly to the usual homeland and government expenditure. Analysts suggest that expenditure usually amounts to about R500 to R600m; so where did the other R500m come from?

Hard evidence of more government expenditure hasn't surfaced but it could easily be a factor and the Bank has been struggling to keep control of strong forex inflows which are playing a large part in the excess liquidity.

Friday saw another tender, this time for R500m, which should see the shortage climb to R1,8bn barring any further large inflows. With a fair amount of dollar swaps still to mature, speculation is that the market is in a surplus position similar to that at end-June.

THE WEEK AHEAD by William Richards

Reserves set for upward trend

BDay 5/8/91

74

CONDITIONS are set fair for the July reserves figure to maintain the upward trend shown in the past two months' outturns when it is published this week, probably tomorrow. The June producer price index (PPI) is also due for publication before the end of the week and will probably be released on Friday.

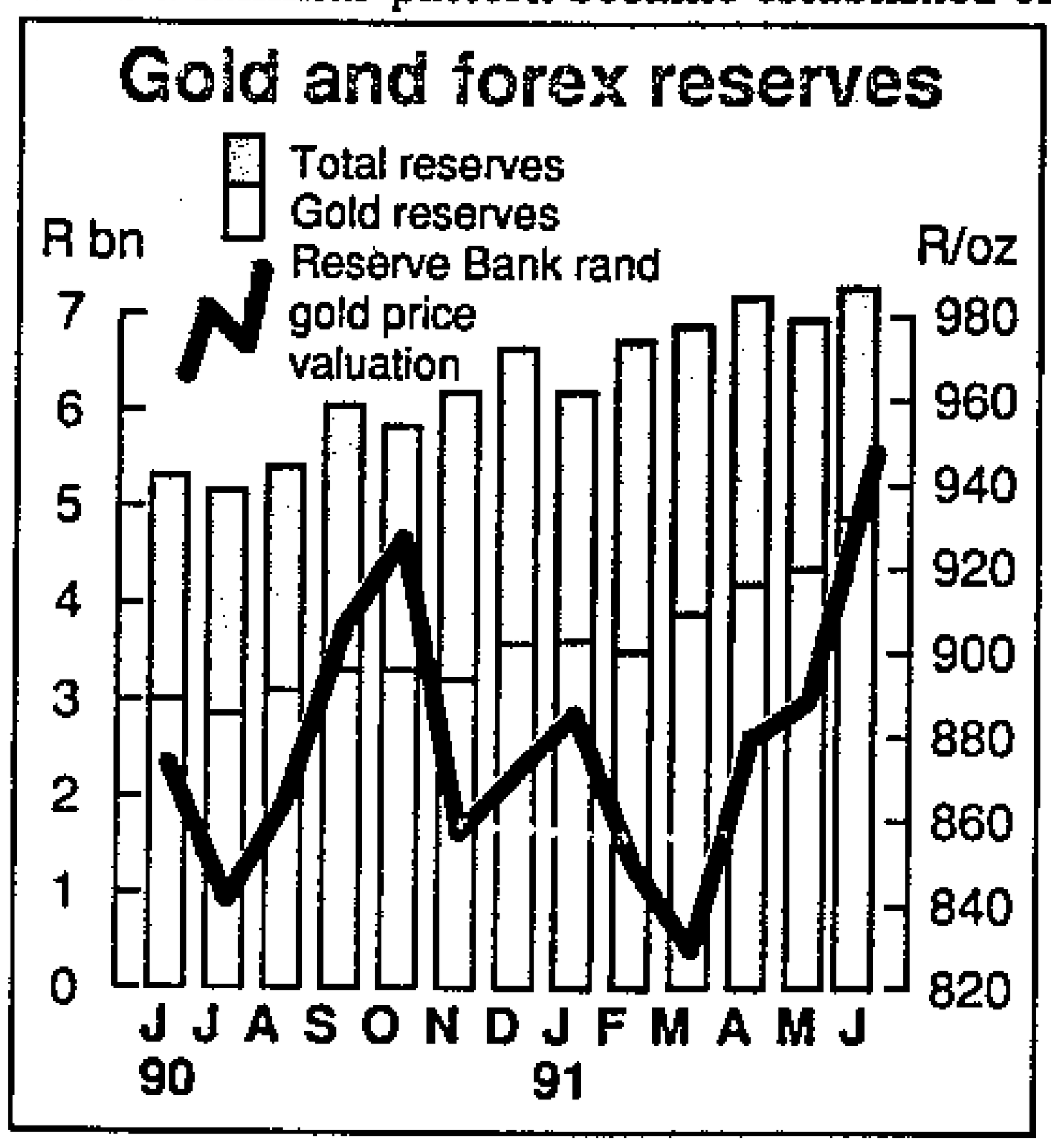
The reserves already stand at a record high nominal level — the R7,4bn posted for June — and the outcome of the July figure hangs on a volatile mix of the lower rand/dollar average for the month, the slightly higher average July gold price and the ongoing refinancing of ever-higher proportions of foreign debt.

The fact that SA's reserves have never been higher in rand terms is not, of course, hugely significant in itself — as the Reserve Bank and the Finance Ministry never tire of reminding the markets. The important aspect of total reserves is the amount of import cover they afford, and the R7,5bn-odd accumulated at the moment is barely halfway to the IMF's recommended good-housekeeping level of three months' import cover.

During July the rand did fall to new dollar lows on the threshhold of R2,92 and also eased on its trade-weighted index against a basket of currencies, meaning that foreign currency reserves may briefly have come under pressure. But the dollar correction in mid-July bolstered the rand in time for its average for the month to be only slightly lower than June's. Meanwhile, the jump of steep foreign debt repayments outside the standstill net has been passed and obligations inside the net have been trimmed by rollovers, offering tangible support to the reserves level.

The PPI has been SA's top performer so far this year among the price indices, and the pressure is on for another star turn when the June level of the index is released towards the end of the week. Annual PPI growth has delivered a reassuring sequence of four successive monthly falls — an unbroken trend since the beginning of the year, to represent SA's best hope of also heading off inflation at consumer price level. The prospects of another drop in the year-on-year rate of PPI inflation in this week's figures remain good.

In the February, March and April PPI outturns a familiar pattern became established of



Graphic: LEE EMERTON Source: SA RESERVE BANK

falling levels of imported inflation thanks to the relatively steady trade-weighted rand, but of unchanged levels of domestic inflation at producer price level.

For the fist time this year, however, there were signs of a slowdown in domestic prices visible in the May figure. In addition to the customary 0,8% month-on-month decline in import prices, the May PPI figures showed a near-halving in the rate of domestic price growth to 0,8% month-on-month from April's daunting 1,5%. Whether it is too early to take this marked domestic price deceleration as a trend will be evident in this week's figure. The usual contribution from the imported side is almost assured, but the domestic inputs remain highly variable.

Internationally, in a quiet week elsewhere in the markets, attention is likely to be concentrated on Thursday's release of the US monetary aggregates for July. The northern hemisphere's summer holidays are in full swing and this tends to dull the effect of such economic releases as there are.

US monetary growth is under the spotlight as world markets try to anticipate the Federal Reserve's next move on interest rates. The Fed targets a relatively narrow measure of monetary growth, M2. This is narrower in definition than the M3 measure targeted by the SA Reserve Bank, but wider than the basic M0 measure targeted by the Bank of England.

US M2 growth has softened in recent months and the aggregate has moved towards the bottom of its 2,5%-6,5% target range. Any lowering in US interest rates will have immediately adverse consequences on the dollar at a time when German interest rates are poised to rise.

VAT: freight forwarders 'must define their roles'

74

GILLIAN HAYNE

THE distinction between acting as an agent or as the principal in a transaction is central to the freight forwarding industry's handling of VAT, say tax experts.

B/Day 5/8/91

Freight forwarders need to define their roles carefully, as the VAT treatment of their transactions will differ depending on the agent/principal definition.

Inland Revenue chief director Trevor van Heerden says agents, in terms of VAT legislation, simply act as conduits. The VAT charges will pass on to principals.

Agents acting for principals resident in SA are not entitled to claim input tax credits on costs incurred on the principal's behalf. They will also not charge VAT on sales.

However, if the principal is a non-resident the agent will be considered the principal, says Van Heerden.

For example, clearing and forwarding agents who pay for freight, harbour duties, surcharges and other charges on behalf of clients will not be allowed to charge VAT and claim credits on inputs in most cases.

They will, however, be able to levy VAT on fees charged for the preparation of import/export shipping documents and clearing of goods through customs.

The insurance on export goods in transit and the cost of arranging transport for those exports is zero-rated, meaning no VAT is charged but the company will still be allowed to claim back the tax paid on inputs.

Foreign

A further complication may arise when the agent charges interest on credit (that is, when the agent pays to have goods cleared up front and receives payment later). It is deemed to be a financial service and will be exempt.

Agents who charge an all-inclusive fee (for standard and exempt services) will have to apportion all inputs to ascertain which credits can be claimed, Van Heerden says.

Fees charged to foreign principals will be zero-rated as will freight charges related to international transport.

However, the value for customs duty includes the freight charge which is subject to VAT.

Harbour fees, container handling charges and other related charges will be subject to VAT if they are supplied by the same individual who supplies the international transport.

Where the agent arranges for the transport of the goods from the harbour to the importer's premises, such transport will attract VAT, Van Heerden says.

Charges in respect of the loading and off-loading of goods by stevedores will also attract VAT.

"Ancillary transport services" are defined as stevedoring services, lashing and securing services, cargo inspection services, preparation of customs documentation, container handling services and storage of transported good or goods to be transported.

Deloitte Pim Goldby tax partner Doug Jolliffe says one concern is that VAT paid on imports will be based on the spot rate of exchange. If forward cover provides an exchange rate advantage for the importer, it will not be taken into account in the VAT payable calculation.

IMF help needed to expand foreign trade

Business Staff (74) (16/8/91 ARGUS

JOHANNESBURG. — The expansion of South Africa's external trade would require the restoration of its rights as a member of the International Monetary Fund and the World Bank, Minister of Trade and Industry Dr Org Marais said here.

Speaking at the plenary session of the 11th Ministerial, Economic and Technical Co-operation Conference between South Africa and the Republic of China (ROC) yesterday, Dr Marais said strong impetus for this expansion was provided in the form of the changing political circumstances in South Africa.

The end of the Cold War had also created an opportunity for new initiatives to establish trade relations with the countries of central and eastern Europe, Africa and the world.

"We have already signed trade agreements with some of the central European countries while further agreements are being finalised."

He added that excellent progress had been realised in the broadening of trade links with African countries and "it would be safe to say that few, if any, African countries do not trade with South Africa at present and this trade is growing".

Dr Marais said that although South Africa was on the road towards the complete normalisation of its trade relations internationally, it would not turn away from allies who had stood by it in the most difficult times.

The ROC had been one of South Africa's "staunchest allies".

The Economic and Technical Co-operation Agreement with the ROC had been signed in 1975. Two-way trade had increased from R40,3 million in 1974 to R3,3 billion in 1990.

Oil imports show no sign of easing

B Day 6/8/91.

(74)

SHARON WOOD

OIL imports have shown no signs of abating despite government's assurance that sales of SA oil stockpiles are under way.

Central Energy Fund chairman Danie Vorster says government has been selling off some of the strategic oil stockpiles for "some time".

The sale of oil stockpiles to local refineries was expected to halt crude oil imports for three months from June, saving the government about R1bn in foreign exchange.

But Customs and Excise trade figures show cumulative "unclassified" imports (mainly oil and arms) for the six months to June were up 43,1% to R3,4bn from R2,4bn last year.

Unclassified imports rose by about 8% in June month-on-month, and 52,9% from last year.

Although it is not possible to quantify the volume of oil imports from the trade figures available, economists estimate that oil imports comprise about 80% of the unclassified import category.

This category was created to keep information about SA oil imports secret, after the oil embargo in the late 1970s.

Analysts say long-term oil contracts will probably delay the effect of sales of local oil stocks on SA crude oil imports.

Vorster says: "Existing long-term oil supply contracts do influence the rate of sell-off to some extent.

"Offtake under these contracts has reduced in line with the stockpile sales."

He says local oil stockpile sales have reduced the level of oil imports.

Although this did not show up in the June trade figures, it is possible that July trade figures, which will be released later this month, will show the beginning of a downtrend in oil imports.

When asked how much foreign exchange could be saved, Vorster said: "Actual figures with regard to oil volume sold and the amount of money realised are classified information and cannot be commented on."

Despite the continued growth in crude oil imports, the current account has continued to perform well and Reserve Bank foreign reserve holdings have grown steadily during the year.

Reserve Bank figures for the first quarter show the current account surplus was R973m.

The Reserve Bank's holding of gold and foreign exchange reserves reached a new high of R7,44bn in June.

uncertain.

Chidzero calls for Africa to set up monetary union

Star 6/8/91 (74)

HARARE — Zimbabwe's Finance Minister Bernard Chidzero has called for an African economic community and monetary union to make the continent a power to be reckoned with in the global economy.

He told the closing session of a meeting of African central bank governors that the single European market and proposed monetary union within the European Community threatened to stifle Africa's traditional markets.

"Africa remains fragmented with economically weak regional groupings like the Economic Community of West African States (ECOWAS), the Southern African Development Coordination Conference (SADCC), the Preferential Trade Area (PTA) and the Maghreb Union, to mention just a few.

"The establishment of the African Economic Community would ... render Africa an economic force to reckon with in the global economy much to the benefit of her economies," he said.

"The establishment of a monetary union is by no means an easy task and hence has no overnight solutions. However, it is a direction in which Africa inexorably has to move and efforts at both national and regional levels have to continue," he said.

Chidzero said Africa's debt burden threatened the international monetary system because the continent was exporting capital to developed countries, through debt servicing.

The governors said in a communique at the close of the meeting that little progress had been made in arresting the protracted and deepening poverty in several African countries.

The governors said some of the preconditions for monetary integration were the increase of trade among African countries, cross-border investment, the flow of labour among African states and encouraging joint ventures. — Sapa-Reuter.

Bleak prospects for the bearish dollar

BDay 7/8/91 (74)

SHARON WOOD

THE dollar is now officially in a bear trend and the outlook for the US currency does not look favourable.

Worldwide interest rate differentials, expected to move against the dollar, will provide the key to international currency movements in the next few weeks.

International forex markets are ignoring political turmoil in Yugoslavia and Japan and are, instead, concentrating on the likelihood of a hike in German interest rates and cut in US rates.

Political turmoil outside the US usually works in favour of the dollar, which is viewed as a safe haven investment, but disappointing US economic statistics sent the dollar plunging through the key DM1,73 support level on Monday.

Increasing expectations of a near-term rise in German interest rates served to accentuate the dollar's near-term lacklustre fundamental position, says Standard Bank's International Comment.

Forex markets expect the Fed to drop US interest rates to stimulate the economic recovery, which has so far failed to meet expectations.

If expectations of a US interest rate decline are realised, dollar yields will deteriorate, pushing the currency even lower. In addition, forex markets are not expecting news which would buoy the dollar.

FNB technical analysts say the breach of the key support level DM1,7350 (C) could take the dollar as low as DM1,6933. Their trading range for the week is DM1,6933-1,7450.

The Deutschmark's outlook is relatively rosy. The economy remains healthy and the authorities' preoccupation with inflation makes a rise in interest rates a firm possibility in mid-August — strengthening the Deutschmark even further.

The longer-term prospects for the Deutschmark are also favourable.

An Economist article reports three factors could depress the dollar over the next decade: a sharply lower US economic growth rate compared with Europe's and Japan's; the creation of a single currency in Europe and the promise of an even more anti-inflationary EuroFed; and the proposed new European Central Bank.

Thus the 1990s could see the removal of the dollar as the world's dominant currency.

The yen remains in limbo, awaiting any new developments in the stock exchange scandal. Union Bank of Switzerland says the controversy may intensify with the beginning of the political session.

In the medium term, however, the pressure for drops in Japanese interest rates to lift the stock exchange may push the yen lower.

There were mixed developments on the domestic front during the week which saw foreign investor interest creep back, while the outlook for the gold mining industry deteriorated along with the gold price.

The finrand recouped some of the losses caused by the Inkatha funding scandal but remained below the highs seen earlier this month with the termination of US sanctions.

International investors seemed happy with the President's statement regarding the scandal, but hesitancy regarding SA's investment potential remains. The investment currency gained 12c from R3,36 on Tuesday last week to R3,24 yesterday afternoon.

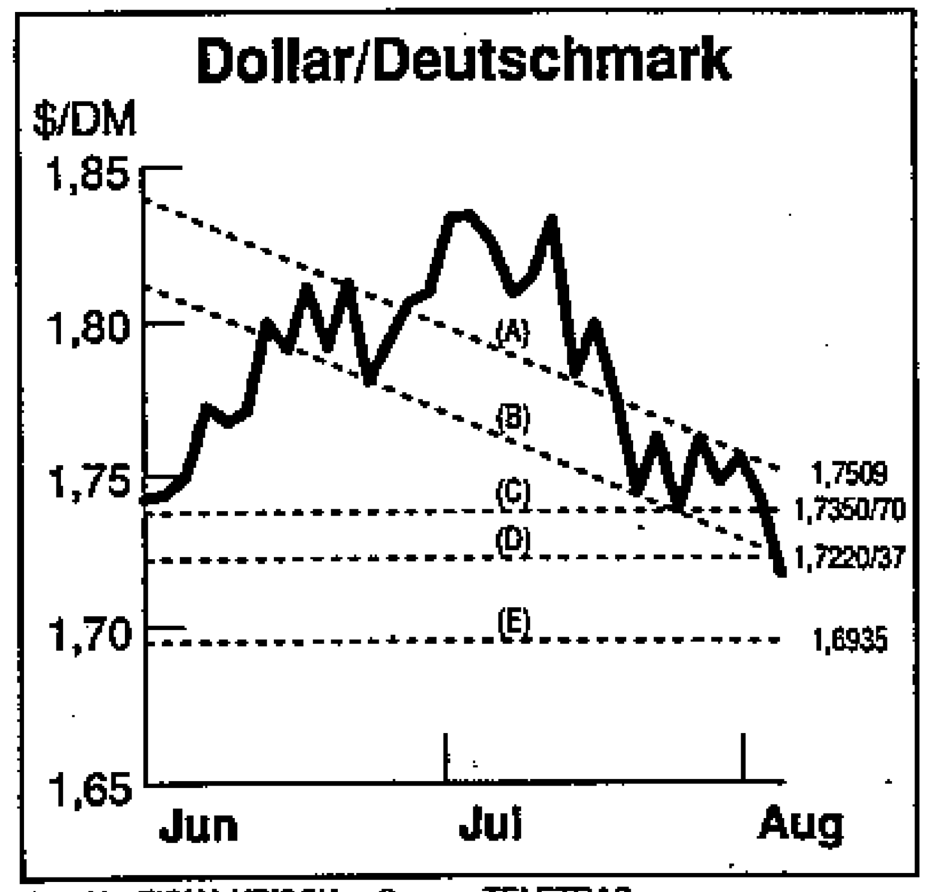
All was not well in the precious metals market during the week, with platinum, silver and gold plunging further. FNB analysts say gold has moved into a new bear trend. If gold breaks through $352 the price will almost certainly fall to $350.

Union Bank says reports of sharply higher platinum exports from the Soviet Union triggered a platinum sell off, and the gold price moved down in tandem. It says the gold price is no longer responding to currency movements and has been unable to benefit from the sharp dollar decline on forex markets — an ominous sign for the metal.

Market analysts say only a major political crisis would push gold back into the limelight and into a bull trend.

The commercial rand strengthened slightly against the dollar, tracking movements rather than moving on fundamental factors.

Against third currencies, the rand remained virtually stable against the yen, sterling and Deutschmark during the week.



Graphic: FIONA KRISCH Source: TELETRAC

REVIEW

'Environment comes first'

LINDA ENSOR

CAPE TOWN — It was time that SA realised that economic development and the environment were inextricably linked, Medical Research Council's Dr Yasmin von Schirnding said yesterday.

Von Schirnding, who has just returned from an international environmental conference in Sweden, said while SA was gaining acceptance internationally there was a danger that the country could soon face environmental sanctions. BDay 8/8/91

She said one of the main conclusions of the conference was the necessity to strive for sustainable development rather than short-term economic goals.

"The environment needs to be planned for to ensure that development does not take place at the expense of the ability of future generations to enjoy the benefits of the quality of life we are presently enjoying."

Von Schirnding is planning to discuss the findings of the conference, organised by the World Health Organisation (WHO) and the United Nations Environment Program, with Health Minister Rina Venter and organisations such as the ANC and the PAC.

Steel stocks up despite exports and SA demand

(74)

BDay 8/8/91.

BRENT VON MELVILLE

STEEL stocks are still increasing despite inroads into export markets by SA steel producers and reports by Iscor that domestic demand had been holding up better than expected over the past several months.

Latest Central Statistical Service (CSS) figures indicate that stocks of primary steel products for May this year showed a 12% increase from the comparable period last year.

The largest increase in stocks was recorded for basic primary products, which jumped 105% to 1,2-million tons (May 1990: 573 670 tons) while profile products increased 5,2% mainly due to an increase of 26% in stocks of wire rod and wire.

The only decrease was in stocks of flat products, which showed an 18,7% decline. However, the decline came off a high stock level recorded last May of 1,8-million tons.

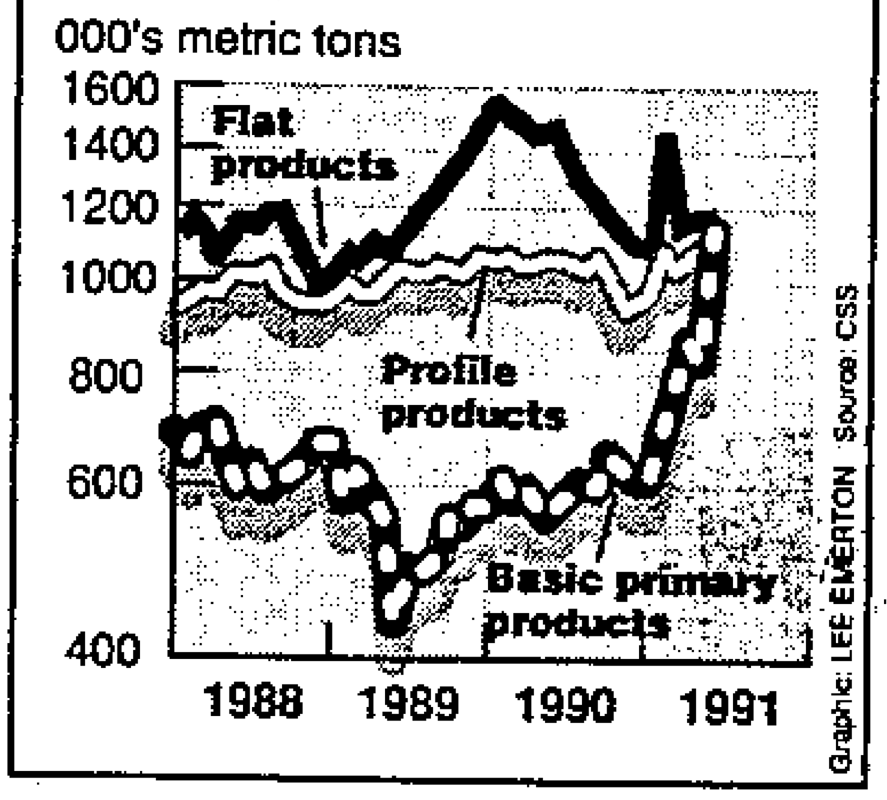
Flat products are produced by Iscor and Highveld Steel & Vanadium (Hiveld), and are used mainly in the motor industry and durable consumer "white" goods (such as large household appliances).

One steel analyst suggested little could be read into the decline in stocks of flat products — which are differentiated into slabs (stocks of which dropped 18%), plates (down 16,5%), sheets (down 19%) and tin plate (down 23%). It was likely stocks would again show increases for June and July "particularly in view of the problems with the motor industry".

"Generally the domestic steel market is still in the doldrums and producers are struggling with excess stocks of steel. The durable goods market is depressed and steel merchants are curtailing orders."

There had also been some overbuying ahead of this year's second hike in the basic steel price, following January's 16,5% rise.

Steel products on hand



Slowing economy hits civil engineering

BDay 8/8/91

GERALD REILLY

PRETORIA — SA's economy has slowed down so much that the civil engineering industry finds itself in a parlous situation with many companies facing bankruptcy, says C D Roux of Con Roux Construction.

Roux told the 11th Annual Transport Convention at the CSIR in Pretoria on Tuesday that the industry's current crisis stemmed from a number of factors.

These included completion of the current toll road building programme and the general reduction in road expenditure, as well as a reduction in construction by Eskom.

Also, regional services councils had switched from providing new services to subsidising existing ones.

The gravity of the situation was illustrated by labour figures. In 1970 employment was 73 000. By 1975 it had increased to 130 000; and by 1986 had declined to 85 000.

"Apart from normal staff turnover, a staggering 164 000 workers have come and gone because of the ravages of gross domestic fixed investment in construction fluctuating between 3,8% and 8,9% of GDP."

Roux said as SA's acceptance by the rest of Africa increased, there would be a growing market for civil engineering in sub-Saharan Africa.

Roux said infrastructural development had to at least keep pace with population growth.

However, this was not happening in SA, particularly in the field of road construction and maintenance.

"And the chickens will come home to roost within five years if warnings are ignored."

"Neglect of an asset of about R53bn would have serious repercussions, which would affect socio-economic development and stability," he said.

US exporters 'must make the first move'

74 CT 8/8/91

From SIMON BARBER

WASHINGTON. — The Bush administration may be willing to grant SA access to US Export-Import Bank loan guarantees if asked to do so by a major US exporter.

Officials said this week that the administration viewed the 1978 Evans Amendment, which tightly restricts Exim support for exports to SA, as a "sanction against American companies" rather than against SA itself.

They said that were a company like Boeing Corp to seek Eximfinance for the sale of aircraft to SAA — which they stressed was a hypothetical case — the administration would be willing to back the application.

The Eximbank serves to promote US exports by providing guarantees that US exporters will be paid. These guarantees are used by foreign purchasers — often government entities — to obtain cheaper trade financing on the private market than they might otherwise.

Exim support could thus help lower the cost of imported capital goods for SA.

The Evans Amendment places strict conditions on Exim backing for any export to the SA public or private sectors, except in cases where the purchasing concern is "majority owned by SA blacks or other nonwhites".

No guarantees have ever been granted under this exception.

Support for exports to the SA public sector is conditional on the President certifying to Congress that "significant progress on the elimination of apartheid has been made".

In the case of the private sector, the Secretary of State must certify that the purchaser is abiding by labour standards equivalent to those contained in the Sullivan Code for US business in SA.

Although President George Bush has deemed that the conditions contained in the Comprehensive Anti-Apartheid Act have been satisfied, he has not rendered the certification required by the Evans Amendment.

US officials said that for political reasons he was unlikely to do so at this stage unless he could field the additional argument that he was trying to protect American jobs and international competitiveness.

For this reason, it was important that US exporters make the first move.

When Bush first announced he was lifting the CAAA's sanctions, the White House included the Evans Amendment in the list of sanctions — others include the Gramm Amendment restricting SA access to the IMF — which the administration intended to keep in place.

Significantly, however, Assistant Secretary of State for Africa Herman Cohen omitted to mention the Evans Amendment when he briefed the House Africa subcommittee last week on those sanctions still in effect.

French trade minister to visit South Africa

(74)

ARG 9/8/91

JAMES TOMLINS
The Argus Foreign Service

PARIS. — The French Minister of Foreign Trade, Mr Dominique Strauss-Kahn, will visit South Africa next month — the first such visit since 1975.

The announcement of the visit last night is interpreted here as the effective end of French sanctions. It is the first bilateral visit by a French cabinet minister since 1975.

Two ministers have visited Pretoria, since then, but they did so within a multi-lateral framework including other countries. They were Mr Olivier Stirn and Mr Thierry de Beauce.

In a related development, America has lifted air sanctions opening the way for a return to normal air travel between the two countries.

Sapa-Reuter reports from Washington that the U S Transportation Department said yesterday it had ended all aviation sanctions against South Africa and will consider applications from carriers from both countries for routes.

It said the move followed an announcement by President George Bush that South Africa had met conditions set out in 1986 in anti-apartheid legislation for the dismantling of apartheid.

Mr Strauss-Kahn's visit is bilateral, with the blessing of Prime Minister Edith Cresson, who brought him into her government when she was appointed three months ago.

Mrs Cresson is known to take a pragmatic view over foreign relations.

Industry Minister Roger Fauroux is expected to follow Mr Strauss-Kahn in October.

France's renewed trade interest in South Africa could mean private and state capital investment flowing in. France might decide to aid Pretoria in seeking closer ties with the EC.

A South African embassy spokesman said: "This can be regarded as a major breakthrough. For years France has maintained an ambiguous policy towards South Africa, and this has been finally changed in our favour by this decision to send a high-ranking minister to Pretoria."

Hong Kong lifts gold coin, steel ban

BDay 9/8/91

74

BRENT VON MELVILLE
and MATTHEW CURTIN

HONG Kong will lift its ban on imports of Krugerrands and SA iron and steel today.

The decision, announced by the territory's government yesterday, follows decisions by the EC and the US to lift SA sanctions.

An SA Foreign Affairs spokesman welcomed the decision, TIM COHEN reports.

A Department of Trade and Industry spokesman said it meant barriers were removed but SA exporters should not expect to regain their former positions without stiff competition. "We will have to compete to regain market share."

SA's major steel producers said the move would go a long way towards renewing access to Far East markets.

The steel and gold industries welcomed the news, but analysts said there would be no bonanza in sales of SA gold coins.

Iscor and Highveld Steel & Vanadium said Hong Kong had been a very lucrative export market before 1986. One industry source said Hong Kong was a crucial access point to Pacific Rim countries, and represented the third [illegible] market after Tokyo and Taipei.

Iscor deputy MD Nols Olivier said Iscor planned to work these markets at the earliest opportunity. Iscor would use its existing marketing networks for this purpose, affording it a wider choice of outlets worldwide for its steel products, and particularly for its value-added lines.

Highveld chairman Leslie Boyd welcomed the announcement but said the

□ To Page 2

Hong Kong

BDay 9/8/91

74

□ From Page 1

company did not disclose export levels.

Market analysts estimated that SA steel exports would amount to about 50% of total production this year, up from about 37% last year. They estimated that of total exports of about 4-million tons, about one-third would go to Pacific Rim countries such as Taiwan, Korea and Taiwan.

Anglo American gold and uranium division public affairs manager James Duncan said: "We welcome any move that eliminates barriers to the trade in gold products of any kind, particularly those with a track record such as that of the Krugerrand."

A Chamber of Mines spokesman said it was too early to speculate on the effect the move would have on Far Eastern demand for Krugerrands, but that the news was welcome. Outgoing chamber president Clive Knobbs said in June that the chamber was preparing to relaunch the gold coin overseas.

The lifting of the ban comes six weeks after a similar move in the US, where Krugerrand imports had been banned since October 1985.

Worldwide demand for official gold coins has slumped from 191 tons in 1981 and 348 tons in 1986 to only 117 tons in 1990. SA production fell from 112 tons 10 years ago, to 24 tons in 1985 and 13 tons last year.

The Kruggerand was the most highly prized gold coin, trading regularly at a 40% premium to the gold price, before it was hit by sanctions in 1985. Since then demand locally and overseas has fallen to such an extent the coin has all but lost its premium to the gold price.

SA breaks the back of debt repayments

BDay 9/8/91 74

SHARON WOOD

SA WAS over the hump in debt repayments as most of the public sector foreign debt had been repaid or rolled over for the rest of the year, Reserve Bank gold and forex GM James Cross said yesterday.

Two-thirds of maturing public sector foreign debt had been repaid in the first half of the year and SA would have to pay only the remaining third in the second half.

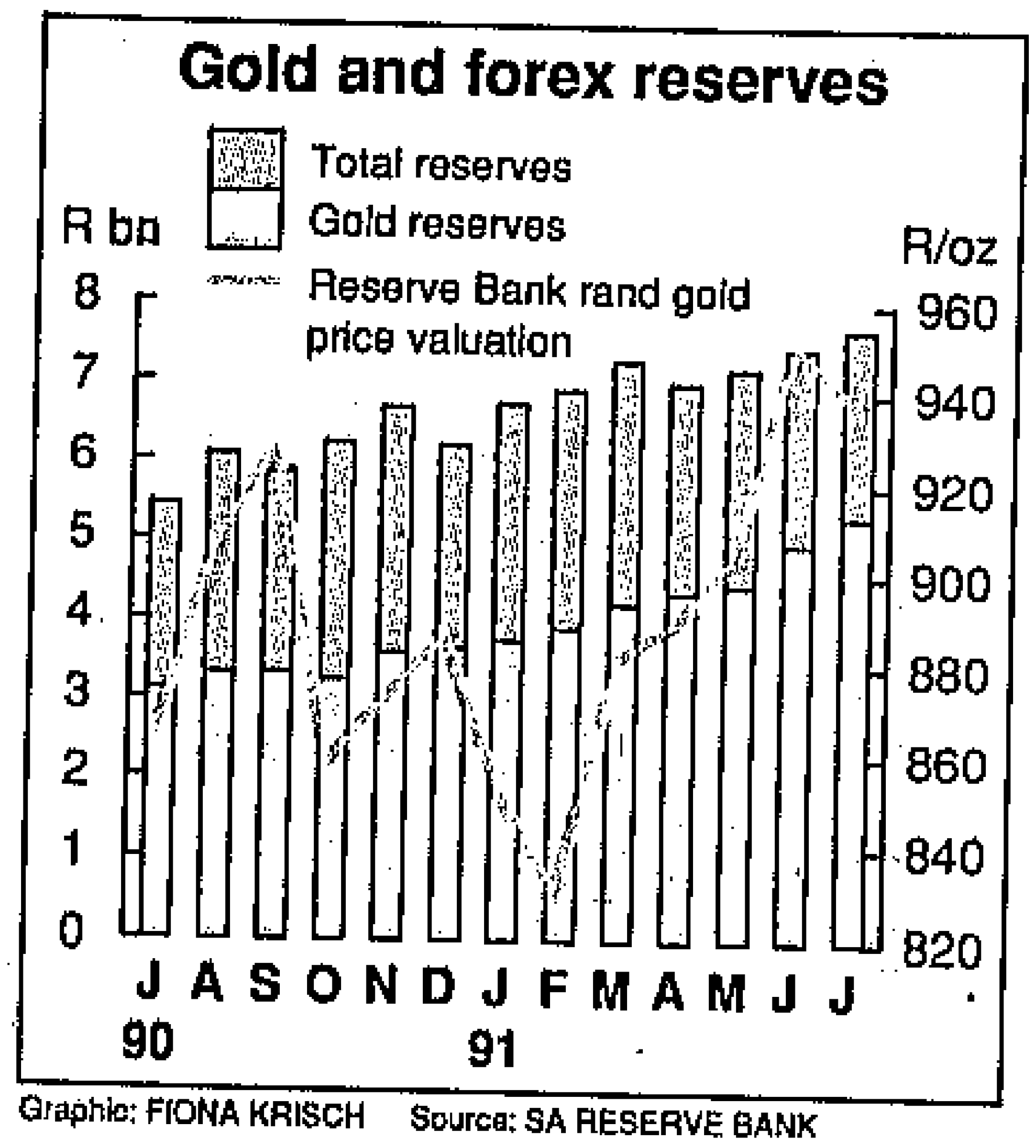
Cross could not give exact public sector foreign debt figures, because they are not released to the public.

The low foreign debt commitments bode well for the Reserve Bank's level of foreign reserves this year, which in July again moved closer to providing two months' import cover. The Reserve Bank aims to build up reserves until they provide three months' import cover.

Total foreign reserves rose by 3,4% month-on-month to R7,7bn from R7,4bn in June, Reserve Bank figures released yesterday show.

The Reserve Bank's foreign reserves look set to rise again in August despite the biannual repayment of about $200m still inside the debt standstill net.

Cross said: "At this stage, although it is



Graphic: FIONA KRISCH Source: SA RESERVE BANK

still uncertain, it looks as if the repayment of debt will not have much effect on foreign reserves in August. Reserves have increased so far this month."

In terms of the third interim debt arrangement, SA pays instalments of debt "inside the net" in February and August.

Higher Reserve Bank gold holdings pushed up reserves in July, despite a lower

☐ To Page 2

Debt

BDay 9/8/91 74

☐ From Page 1

rand gold price valuation of R938,25 an ounce, R11,81 lower than June's R950,06.

Continuing the steady rise in Reserve Bank gold reserves this year, gold holdings surged by 441 089oz in July to 5,7-million ounces from 5,2-million ounces.

Cross said this was intentional because the Bank aimed "slowly but surely to rebuild gold holdings". He would not say what the Bank's target was, but said it did not intend to reach previous peak levels.

Gold reserves rose by R352m to R5,3bn in July from R4,97bn in June.

Foreign currency holdings, on the other hand, fell by R105,5m in July to R2,4bn from R2,5bn at the expense of higher gold holdings.

Nedbank chief economist Edward Osborn said the rise in reserves was a "remarkable achievement". In dollar terms they had risen by $130m.

The tremendous build-up of gold holdings in July amounted to nearly 30% of one month's gold production, he said. This probably signified the lack of need for building up foreign currency reserves because this would be achieved through trade finance.

Osborn estimated about $1,5bn in debt matured in the first half of the year and about $500m in the second half.

Seardel in 41% exports boost

(74) CT 9/8/91

Business Editor

THE huge Seardel Corporation lifted export sales by 41% in the year to June, to R48m. And it reduced gearing to 60% compared with 75% the previous year.

Chairman Aaron Searll said last night that it had achieved record sales of R992,4m, trading in conditions that were "the toughest I can remember".

But pre-tax income rose by only 8,6% — lagging behind inflation — to R46,7m. After-tax income was up by 9,3% to R29,2m. Earnings at share level were 7% up at 108c.

The final dividend is up by 4,5% to 15c, making a total pay-out for the year of 23c.

Searll said he considered the performance "satisfactory" in view of the state of the economy, although the group had not reached its sales target of R1bn.

Results were in line with what he had expected. "I don't recall when trading has ever been harder than it is today."

It was impossible to forecast what business would be like in coming months. He doubted optimistic forecasts by economists that the coming year would show "healthy growth."

Searll and Ron Malcom, MD of manufacturing subsidiary Bonwit, emphasised that it would be a disaster for the clothing industry if the Government tampered with the structural adjustment programme of incentives formulated to encourage exports.

"We are kept alive by exports," said Malcolm. "If the structural adjustment programme is tampered with at all it could destroy the industry."

Both Searll and Malcolm slammed local fabric producers for poor quality and late deliveries.

Malcolm said poor quality fabric had cost Bonwit two orders worth a total of R2,5m — one from a local customer and one from overseas. The orders were cancelled because Bonwit had to reject the fabric, and could not meet the delivery dates.

Poor quality fabric was causing a reject rate of 6% or 7% of Bonwit's total production. "The reject rate is 15% in our high fashion division, because of the fabric."

"The cost to the group as a whole runs into millions in lost sales," said Searll.

Malcolm said some imported fabric was also faulty. The weak rand and the recession meant that the group was now "buying on price" — importing from China and Korea because the fabrics it used to buy from Japan and the US were now too expensive.

He said the local textile and clothing industry was suffering from lack of skills. "We used to recruit skilled immigrants, but now many of them have retired or left the country. The weak rand prevents us from being able to recruit more.

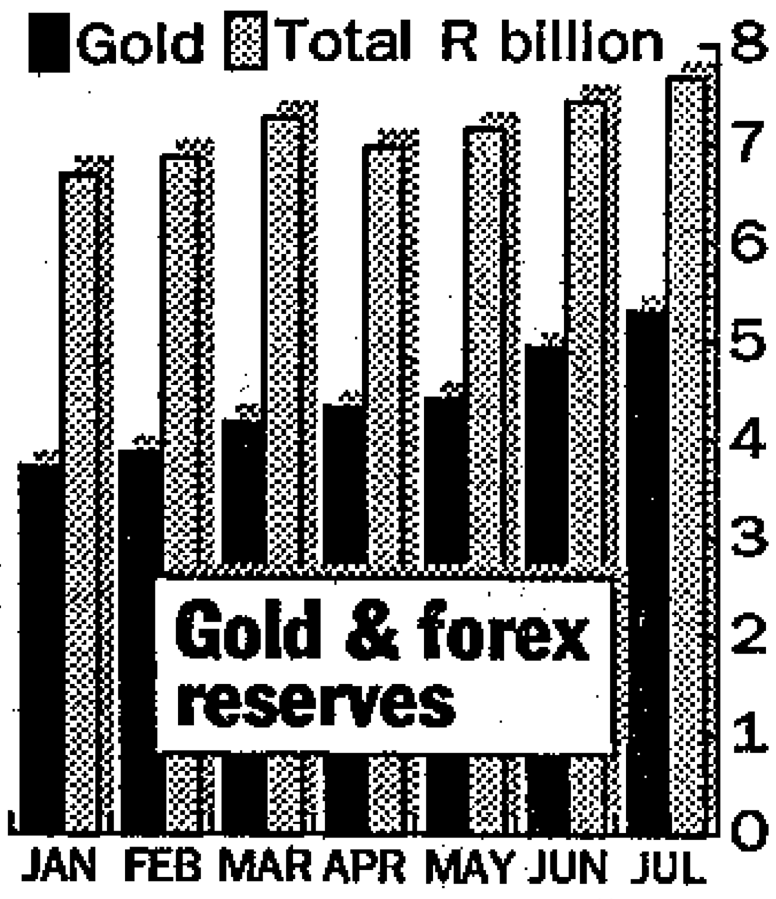
"We have training programmes but the level of skill and experience is not yet there."

However, Malcolm said, all export clothing was made from locally produced fabric.

Gold, forex reserves rise to record level

(78) (74)

By Sven Lünsche Star 9/8/91



South Africa's gold and foreign exchange holdings rose to a record level of R7,69 billion in July, 3,3 percent higher than June's R7,44 billion.

The rise in the reserves gives the government a little bit more scope to stimulate economic growth, but economists say that the figures should be treated with caution.

"For one," says Bankorp economist Nick Barnardt, "the level of reserves are still not sufficient to cover even two months of imports, as against the internationally recommended three months."

Furthermore, while the reserves rose by 2,5 percent in US dollar terms during July to about $2,68 billion, they are still below the level recorded in the beginning of this year.

However, more favourable capital flows and moderate surpluses on the trade account have boosted the gold and foreign exchange reserves by about 10 percent since May.

The reserves in July were also lifted by a virtual absence of foreign debt repayments, both inside and outside the debt standstill net.

According to the figures released by the Reserve Bank yesterday the foreign exchange content of the reserves during July was slightly lower at R2,36 billion (June: R2,47 billion) following on the slight drop in the rand-dollar exchange rate during the month.

But the value of the gold holdings soared from R4,97 billion to R5,32 billion despite a slight fall in the average rand gold price from R950,06 to R938,25 per ounce.

The gold holdings were boosted by 441 000 ounces to 5,67 million ounces (5,23 million ounces), as the Reserve Bank withheld gold from the international market in an endeavour to stabilise the gold price.

BUSINESS

Renewed scramble for Africa

WMail 9/8 - 15/8/91.

74

As sanctions fade away, more and more South African businesses are looking to the rest of the continent for expansion, reports MONDLI MAKHANYA

SOUTH AFRICAN business is looking north again.

Despite sanctions posturing by most African countries in the past, trade with Africa is already quite substantial — estimated at R10-billion during 1990. While many companies did terminate their dealings with Africa, others maintain their operations there at low-key levels.

Now that secrecy is no longer required there has been a spate of renewed interest in the markets across the Limpopo. The South African Foreign Trade Organisation (Safto) says there was a 22 percent increase in trade last year.

Major South African corporations such as Premier International, JCI, Anglo American, De Beers and retail chain Metro are exploring markets to the north.

Infrastructural development projects in African countries has aroused a lot of interest among South African companies. War-ravaged Mozambique and Angola have attracted particular attention.

Safto regional trade manager Angela Self says although there has been a surge of interest in Africa among local businessmen, there has been little fixed investment yet. Construction is paving the way for South African involvement.

"Our great asset is our construction and engineering skills. In a lot of these countries infrastructure needs to be rehabilitated," she says.

The Council for Scientific and Industrial Research (CSIR) is also planning to step up its involvement in Africa. The organasation — which is already involved in 13 countries — is also doing a lot of work on the restoration of the African infrastructure.

The CSIR boasts of having Africa-specific technology which will be in demand as the continent picks itself up. Director NicoWalters feels the task of his organisation and others involved in reconstruction is to create an "enabling environment" for regional trade.

Steel and Engineering Industries Federation of South Africa spokesman Mike McDonald makes the point that certain engineering projects are necessities rather than mere marketing opportunities.

"We no longer need to build Sasols and Mosgasses anymore. We need to use our know how and technology elsewhere. Our technological equipment will lie idle if we don't do this."

Murray and Roberts and Dorbyl have gone into Africa in a big way. M&R has procured construction contracted in a number of countries, notably Angola and Mozambique.

Dorbyl is involved in agricultural projects and diesel generating schemes.

Dorbyl marketing manager Mike Smytheman says the lack of hard currency in African states has slowed down investment. "They they have to prioritise the projects they embark on. So we either have to wait a long time until they earn foreign currency or until a foreign aid grant is given," Smytheman says.

Premier International — whose chairman Albert Nillesen is reputed to have extensive contacts in Africa — has its foot deeply rooted in Africa. The company's African interests are bakeries in Zimbabwe, food exports to many countries and it has established itself as the main supplier of food relief to Mozambique.

Motor manufacturers are also making inroads into Africa. Nissan and the South African Motor Corporation have established special divisions entrusted with exporting to Africa.

Samcor managing director Spencer Sterling says the absence of motor industries in Africa means there is a great demand for South African cars there. At present the company exports about 800 cars annually — mainly to Zambia and Zaire — and is gearing up for bigger business. He concedes, however, that poor economies in African states put a ceiling on trade.

"Vehicle exports are increasing because of the great demand for our cars. But the biggest problem is the shortage of hard currency in these countries."

International aid to these countries alleviates the foreign exchange crisis. For instance, a lot of the CSIR's payment comes from foreign aid.

Protectionism, too, is an obstacle. Spencer points out that Malawi has tried to protect its fledgling motor industry but "it is unable to meet demand so our cars are needed there too".

Most ventures undertaken by South African companies in Africa have been joint ventures with other local firms and foreign operations. These foreign interests are usually from the former colonial powers — such as Portuguese firms in Mozambique and Angola.

Penetration of the African market by South African companies is likely to have spinoffs as other local companies get subcontracted for specific projects.

A classic example of this is the restoration of the Polana Hotel in Maputo. Three South African companies are involved in this R25-million venture, with hotel chain Karos spearheading the project. South African architects Osmond Lange and construction company Concor are also involved.

Pretoria seen as pivotal to Africa's economic axis

B/Day 12/8/91 (74)

TIM COHEN

THE establishment of a Pretoria-Abuja-Cairo trading and investment axis has been suggested as a way to upgrade Africa's economic performance.

The idea first surfaced during a meeting between President F W de Klerk and former Nigerian head of state Gen Olusegun Obasanjo, writes Nigerian newspaper editor Olantunji Dare in the latest edition of the magazine, Africa Forum.

"The discussions with De Klerk at the Union Buildings in July flowed so smoothly, amiably and constructively that Obasanjo suggested that Pretoria and Abuja (the next seat of the Nigerian government) could constitute a kind of axis on which the continent would spin. De Klerk was clearly excited. He suggested that the concept be expanded to included the Egyptian capital, Cairo," Dare writes.

"Developments in Europe and elsewhere and the emergence of the post-apartheid SA could provide the catalyst of the economic transformation of the continent with a major axis pivoted on Pretoria, Abuja and Cairo," says Dare.

Nigeria and SA are roughly equally powerful economically in relation to their neighbours, although in real terms SA would wield more power because of the greater diversity of its economy, Dare writes.

Both countries offer major investment and trading attractions to the outside world as core centres of manufacturing for their regions and because of the size of their markets.

Nigeria offers by far the largest trading market on the continent, and has a greater long-term potential, although SA is more attractive in the short term because of its more developed market and infrastructure.

For Africa, Egypt is a major gateway to the Middle East as well as the Mediterranean. Its infrastructure is one of the best in North Africa and the Middle East and it provides skilled manpower for many Arab countries, he says.

Dare adds that the single European market of 1992, and developments in the Pacific Rim and Eastern Europe are a warning to Africans to look to themselves, rather than others.

Black business tours Far East

B/Day 12/8/9 THEO RAWANA (123)

SIXTY-FIVE black businessmen have planned a 16-day trip to the Far East to set up links with their Asian counterparts, SA Business Interest Group (Sabig) president Lucas Sebobe said on Friday.

The Business Observation Mission to the Far East would visit Taipei, Tokyo, Shenzhen, Gungzhou and Hong Kong, and would participate in the International Electronics Show at the World Trade Centre in Taipei.

"The primary objective of the mission, which leaves on October 3, is to assist small businessmen to establish international contacts for future networking, communications and technological cooperation," Sebobe said.

Highlights of the trip included attending the 80th National Day Celebrations as guests of the Chinese foreign affairs ministry, meeting machinery and plant manufacturers in the Japan Information Exchange Forum, as well as officials of the Keidanern (Federation of Japanese Economic Organisations), and visiting Japanese companies Sony and Nissan.

SA needs vision to win space in the world marketplace

BDay 12/8/91 .

LESLEY LAMBERT

74

EXPORT-LED growth has been offered as a solution to SA's economic woes. But do our policymakers and industrialists have the imagination and discipline to create new comparative advantages of the type that transformed small Pacific Rim nations into export giants?

The challenge is immense. Almost a century of inward-looking trade policies, strengthened by the siege mentality of the past decade, have built an industrial sector which is structurally uncompetitive. Over-reliance on the export of raw materials has marginalised the manufacturing sector and lulled the innovative instincts of the nation's industrialists. Apartheid has left our human resources, the basis of many of the export success stories, unskilled, demotivated and largely unemployable.

However, the foundations on which these weaknesses are based are breaking down. Sanctions are being lifted, removing the need for obsessive self-sufficiency. SA leaders are preparing new industrial and technology policies aimed at encouraging outward-oriented trade.

But the transition will not be easy, nor will it happen overnight.

Not only has our share of world trade declined over the past three decades, with the trend exacerbated by the loss of markets during sanctions, but the distortions created by the over-emphasis on import replacement and export of raw materials has left the country trailing behind changing world trends.

During the past 30 years, raw material exports have risen as world trade in raw materials has declined, while manufactured goods exports have declined as world trade in manufactured goods has increased.

The manufacturing sector is an obvious target for export development. But SA manufacturers are at a disadvantage. Their capital costs are higher than those of their major international competitors because of relatively high tax rates, interest rates and inflation; their labour costs exceed those of the newly industrialised economies of the Pacific Rim and productivity levels are low.

Import tariffs, which are outdated compared with international efforts to liberalise trade policies, add to the burdens of many. And while a weak rand has driven export upsurges of the past two years, it is a double-edged sword for capital-intensive exporters who rely on imported plant and machinery to expand and upgrade their operations.

Sacob economists have identified two relatively minor cost advantages: mining inputs and electricity. They estimate that, to be profitable, local manufacturers have to charge an average 15% more for their exported goods — 25% more if transport costs are included.

One of the companies that has managed to break out of SA's insular culture is Bell Equipment, the Richards Bay heavy duty truck manufacturer, which has doubled its exports in each of the past four years and plans to increase annual turnover from R350m to R1bn by 1995 with exports to South America, the US and Africa. Another company worth mentioning is Unifruco, the deciduous industry's international marketing arm, which has maintained strong growth in fruit exports despite sanctions.

Barlow Rand consultant Paul Hatty, who has researched exports and beneficiation, argues that the successful export nations have had one thing in common: industrial development policies with specific strategies for targeted sectors.

The economic restructuring programme, initiated by late Administration and Economic Coordination Minister Wim de Villiers, emphasised the development of manufacturing into a competitive export sector. The Department of Trade and Industry (DTI) has established a support network with upgraded foreign trade missions and incentives to encourage the export of manufactured products with a high local content.

But, while incentives will provide impetus, the authorities concede that it will take fundamental restructuring to transform the fair weather attitude of SA exporters into sustainable, long-term commitments.

Beneficiation of raw materials and production of more sophisticated products with a high value-added content for export are central to new technology and industrial strategies on the drawing board. Tax breaks to kick-start these processes are being considered by DTI.

The potential value of beneficiation is enormous. Hatty has calculated that while a ton of chrome ore would fetch only R568 (using 1989 prices), its value would increase to R2 340 when converted into ferrochrome, R49 246 if the alloy was used to produce stainless steel and about R113 000 if the stainless steel was used for manufactured products.

Successful examples of beneficiation and diversification are the new material (3CR12) Middleburg Steel & Alloys has developed as an exportable alternative to coated carbon steels, and the catalytic converters for motor exhausts which are being developed by a handful of local producers. Johnson Matthey, Algorax and Bosal are using local platinum and stainless steel to produce the "clean air" exhaust systems exported by the motor manufacturers.

But the only local industry to have mastered the entire process of beneficiation from start to finish is the oil industry which prospects, refines and then markets its finished product at the pump.

In spite of the massive world markets in jewellery and woollen garments, and growing demand for catalytic converters, for example, SA still exports the bulk of its gold, wool and platinum in its raw form.

Local producers appear to be discouraged by the traditional support channels for unprocessed and semi-processed exports and the additional capital and marketing costs associated with diversification.

Hatty suggests they are short on entrepreneurial instinct. He says a new industrial policy should be multifaceted, incorporating other measures alongside beneficiation. There seems to be consensus among most of the parties involved in the formulation of the new policy, that SA can learn valuable lessons from the Pacific Rim countries' use of sectoral targeting, niche marketing and subcontracting.

Export successes achieved by Phase VI of the motor industry's local content programme show how effective sectoral targeting and niche marketing can be, particularly in small economies like SA's which have neither the capacity nor the competitive edge to take on the bulk conventional product markets. Export earnings from components and assembled vehicles have grown from about R25m five years ago to a forecast R1bn this year.

Manufacturers are using local steel and technology to make body panels for vehicles which are no longer produced elsewhere, while BMW produces 60% of its parent company's leather seat cover and trim requirements. Samcor has created a prototype Mazda for a specific sector of the UK market.

The Japanese refer to this as finding the "loose brick" in an otherwise competitive market. Pepkor has done something similar in the clothing market, making inroads into the inexpensive clothing market in Britain.

International subcontracting and joint ventures — a driving force behind Pacific Rim successes — are other options worth developing.

Joint ventures with foreign companies, like those established in Europe by pulp and paper manufacturers Sappi and Mondi, provide instant benefits to both participants — the use of SA raw materials on the one hand, and inroads into foreign markets on the other.

SA industry is poised between its insular past and its export prospects. Trade strategies being explored now are likely to enhance the competitiveness of SA exporters. But ultimately, success will depend on the ability of individual industrialists to develop existing opportunities and create new ones based on comparative advantages.

SA, Taiwan sign major trade pacts

Business Staff (74) AKG 12/8/91

JOHANNESBURG. — South Africa and the Republic of China have signed a number of important trade and industrial agreements as part of the 11th session of Economic and Technical Co-operation Agreement between the two countries.

Minister of Trade and Industries Dr Org Marais said in a statement that South Africa has now signed the ATA Carnet Agreement with Taiwan, facilitating temporary imports from both countries.

Taiwan has also decided to open up its liquor market to South Africa, under an agreement which will allow exports of South African wines, beer and spirits from 1993 onwards.

Taiwan also agreed to maintain a previous agreement to import South African maize.

Dr Marais said the two countries will also start work on an investment guarantee agreement and have agreed in principle to co-operate on a bilateral basis in developing export markets in African countries.

Taiwan has also offered its services to South African exporters in penetrating the Asian markets and joint working groups would be set up for this purpose.

Furthermore, South African contractors and suppliers are now eligible to participate in all Taiwan government tenders.

THE MONEY MARKETS by Andrew Gill

Strong forex inflows keep the Reserve Bank on its toes

BDay 12/8/91.

(74)

RESERVES figures released last week reveal the impetus behind the flush market and the difficulty the Reserve Bank is experiencing in reining in liquidity.

With government spending apparently less buoyant this month than last, continued forex inflows are keeping the Bank on its toes. The figures are cause for optimism among a host of gloomy indicators.

Bank reserves are approaching R8bn and with about R2bn in foreign credit lines, a positive response from the IMF would place the economy in a healthy balance of payments position, possibly reaching the magical three months of imports level targeted by Governor Chris Stals.

Outflows on the debt repayment side are unlikely to be extensive this year, according to Bank gold and forex GM James Cross, so further reserve increases are expected, bolstering liquidity in the process.

Compounding the liquidity problem is the impending maturity of some R2bn in government stock, about R1,6bn of which is in the market's hands. The Bank has offered to roll the lot in new three-year RSAs which gives them liquid asset status.

The offer is expected to be taken up by holders of the maturing paper. It not only ensures they have sufficient liquids but also keeps a potentially shortage-killing amount from getting into the system.

The Bank was apparently involved in fairly extensive dollar swaps during the week to stem strong inflows. Suggestions that R500m to R600m had been taken out were considered credible. Thursday's R450m jump in the shortage to R1,7bn was the result of dollar swaps.

The extra R20m taken out weekly on the Friday tenders by virtue of the R150m tender (R130m was maturing) continues to niggle liquidity levels.

Demand for the TBs was "unbelievably" strong with over R900m being tendered for the R150m on offer. With demand for liquids holding up banks will obviously be looking for the best possible deal.

Buying at 16,69% and rediscounting at the window at 17% is a far better prospect than at 16,80% for BAs and rediscounting at 17,50%. Activity picked up in the six to 12 months for the first time in weeks and fair demand helped push NCD rates at six, nine and 12 months down about 10 to 15 basis points.

The indication is that interest rate speculation is on the rise.

THE WEEK AHEAD by William Richards

July imports should show a decline

B Day 12/8/91 (74)

A DECLINE in imports is overdue and should at least begin to show itself when the July SA trade figures are released later this week. If exports managed to hold up despite slowdowns in foreign markets and soft commodity prices, the July trade surplus should have risen from the R1,1bn posted in June.

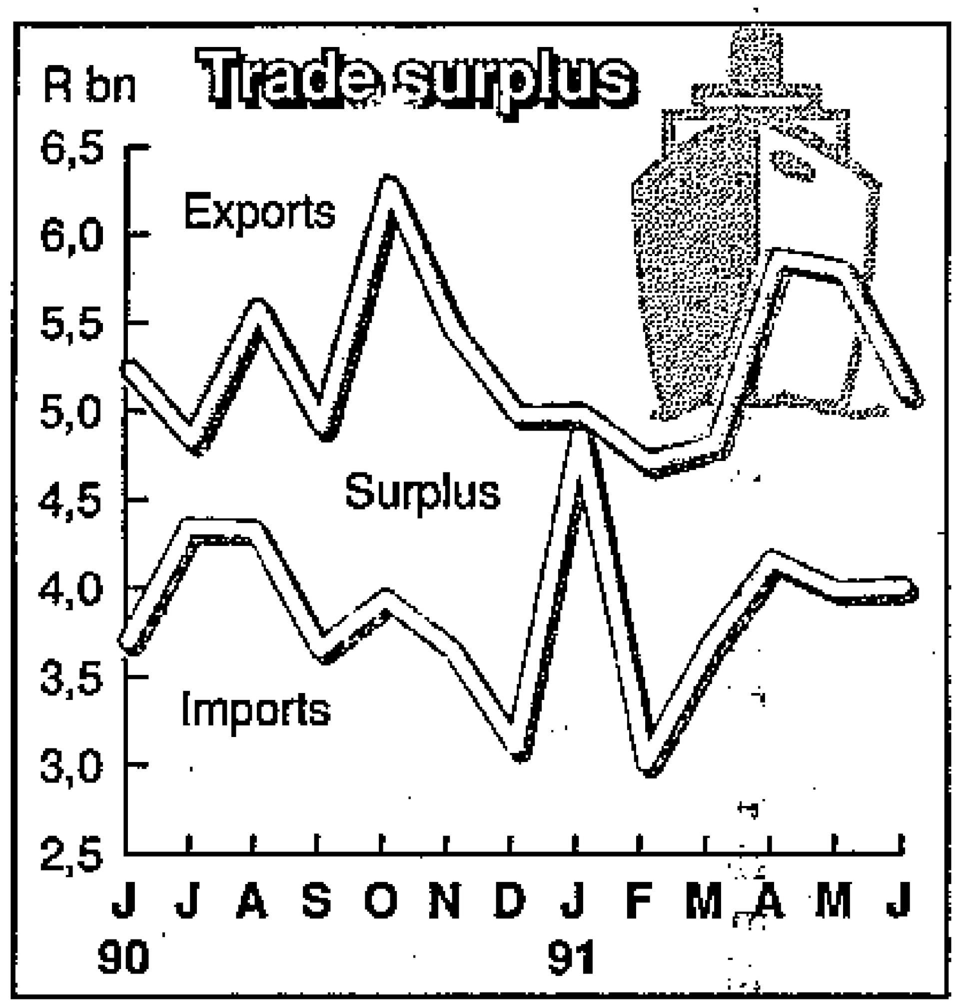
Imports have shown a remarkable resilience to SA's longest postwar recession, and the stubborn refusal of imports to react definitively to the two-year-long credit squeeze has played a part in extending the duration of that squeeze. The authorities cannot yet feel comfortable in easing their monetary stance while imports are so buoyant, given the slow reaction to high interest rates among the other financial variables.

Imports rose by 11% in the first half of this year from the first half of 1990 — hardly the feeble vital signs some would like to portray of a bedraggled economy reeling under the burden of high interest rates. Exports, meanwhile, have begun to slow in the major markets, and as commodity prices have begun to drift.

The economic recovery in the US has showed signs of faltering after a strong start; moreover the two strongest economies in the Group of Seven major industrialised countries — Japan and Germany — are also slowly coming off the boil.

These G-7 trends on their own would be enough to suggest a moderation in export performance from a primary producer such as SA. But when combined with increasing evidence of a commodity price slump, the evidence becomes persuasive.

Non-oil commodity prices were basically static in the second quarter of the year when measured by SDRs (special drawing rights — an artificial currency used by the IMF). SDRs are used in price measurements to neutralise the effects of volatility in a particular currency. Because the SDR is made up of fixed proportions of the US dollar, the yen, the Deutschmark, sterling and the French franc, a commodity price in SDRs instead of dollars for the first half of the year would not be swung by the big dollar rally at the end of the Gulf war.



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

Static SDR commodity prices in the second quarter represent a fall of 15% from the same period last year and a tumble of 33% from the last commodity price peak in at the beginning of 1989. Next year, the cycle should turn around again as the US economic recovery gains pace and momentum, and a rebound of anything up to 10% in SDR terms is likely. In the nearer term, though, exports will have to look in other directions for support.

The lifting of sanctions, for example, should stimulate demand for SA's more competively priced exports, but only after a sizeable lead time. In the case of steel and coal, for example, the foreign demand may be there but the ability to supply it may not until domestic freighting and shipping capacities are raised. The much-heralded drawdown on oil stocks should also contribute eventually to a decline in imports, but only when long-term contracts come up for renewal in the months ahead.

Internationally, this is decision week for German monetary policy and the key event of the week is the meeting of the policymaking council of the Bundesbank, the German central bank, in Frankfurt on Thursday.

Bundesbank officials have, in recent weeks, given fairly explicit signals that they feel current German official rates — discount rate at 6,5% and Lombard rate at 9% — are out of line with the market. One (or both) of these rates looks likely to be raised on Thursday.

The Bundesbank has signalled its inclination to tighten policy so clearly to the market that higher German rates are probably largely factored into current exchange rate levels. Of additional interest to traders, therefore, will be the latest economic releases from the US economy. The durability of the US economic recovery has been called into question by several recent outturns, and a return to positive readings on some of these figures would help to give the dollar a firmer support level.

July retail sales are due tomorrow and should resume positive readings after a surprise -0,2% outturn for June. May sales may have been inflated by a heatwave, leaving the June figure a high month-on-month base. July industrial production and capacity utilisation are scheduled for Thursday and should extend recent runs of positive figures. Industrial production has risen in each of the past three months by 0,5% or more.

Housing starts are also out on Thursday, and crossed the psychologically important 1-million level on June for the first time since last November. The issue of housing permits — a prerequisite to starts — points to starts progressing towards 1,1-million in the months ahead. Weekly jobless claims, also released on Thursday, stand on the 400 000 watershed level and should dip below it as another indicator of accelerating economic activity.

SA liquor may go to Taiwan

GERALD REILLY

TAIWAN will open its liquor market to SA from January 1993, which means SA wines, beer, brandy and spirits could be exported to Taiwan under a liberalised system, says Trade and Industry Minister Org Marais.

Marais said this at the weekend after a ministerial economic and technological co-operation conference between the two countries. Earlier last week the Taiwanese and SA governments signed an agreement which ensured a significant expansion of trade between the two countries. B/Day 12/8/91

The two countries agreed in principle to co-operate in developing export markets in African countries. In addition, Taiwan had agreed to assist SA experts to penetrate Asian markets.

The agreement assures co-operation in the field of agricultural development, environment, forestry and sea fisheries. SA contractors and suppliers were now eligible to participate in all Taiwan government tenders.

Both countries had made good progress setting up agreements for the avoidance of double taxation, as well on two complementary planning, technological and industrial developments, Marais said.

Cape trade mission on the cards

(74) CT 12/8/91

Business Editor

CAPE Town Chamber of Commerce is considering another trade mission early next year.

It sent one to Britain and Germany earlier this year, which has already resulted in R2,5m worth of orders. According to the chamber's weekly bulletin at least R15m more are in the pipeline.

Executive director Alan Lighton said at the weekend that the next mission would probably be in March. Exporters were being asked where they wanted to go. "It will probably be to Europe."

Members trading with other parts of Africa preferred not to go as part of a mission. "Negotiations can be protracted and they have to be flexible about time."

Lighton said the chamber was receiving so many inquiries from would-be exporters, and so many visits from foreign business people, that it had been decided to appoint a foreign trade officer.

The Cape Chamber of Industries is holding regular briefing sessions at which experienced exporters pass on advice to those entering foreign markets for the first time.

But its executive director, Colin McCarthy, said most members preferred to go on business trips by themselves and not as part of a mission.

Zaire trade: SAA 'spanner in the works'

(74)

CT 12/8/91

Business Editor

NOW that Africa is opening up to SA business people SAA is making it almost impossible for them to continue a lucrative trade with Zaire, accuses Paul dos Santos, MD of Sopex Importers and Exporters (Pty).

He said four flights a week between Johannesburg and Kinshasa, which other national airlines used to provide, had been replaced by only one by SAA and one by Air Zaire.

Appealing to other Cape Town business people to help him put pressure on SAA to provide more frequent flights, Dos Santos said Air Zaire was "unreliable," with frequent cancellations.

If the situation did not improve he would close down his SA operation — through which he had been able to trade with other African countries throughout the sanctions era — and carry on export and import business with Zaire from a European base.

"You can fly to Europe from Kinshasa throughout the week.

"But if you are going from Johannesburg by SAA you have to fly out one day and back the next, which is too short a time."

The chairman of the Cape Chamber of Industries Foreign Trade Committee, William Storey, agreed that it was now more difficult to do business with Zaire than when Sabena provided two flights a week and TAP and UTA one each.

Storey said that on his last trip to Kinshasa he was stranded for 24 hours when Air Zaire cancelled his flight without warning.

"They said there 'might be another plane tomorrow', without saying what time.

"And unlike professional, First World, airlines Air Zaire does not provide accommodation for passengers who are stranded by the cancellation of a flight."

Dos Santos said there was a lot of business to be done in Zaire, where he was a director of companies with interests ranging from diamonds to coffee and timber.

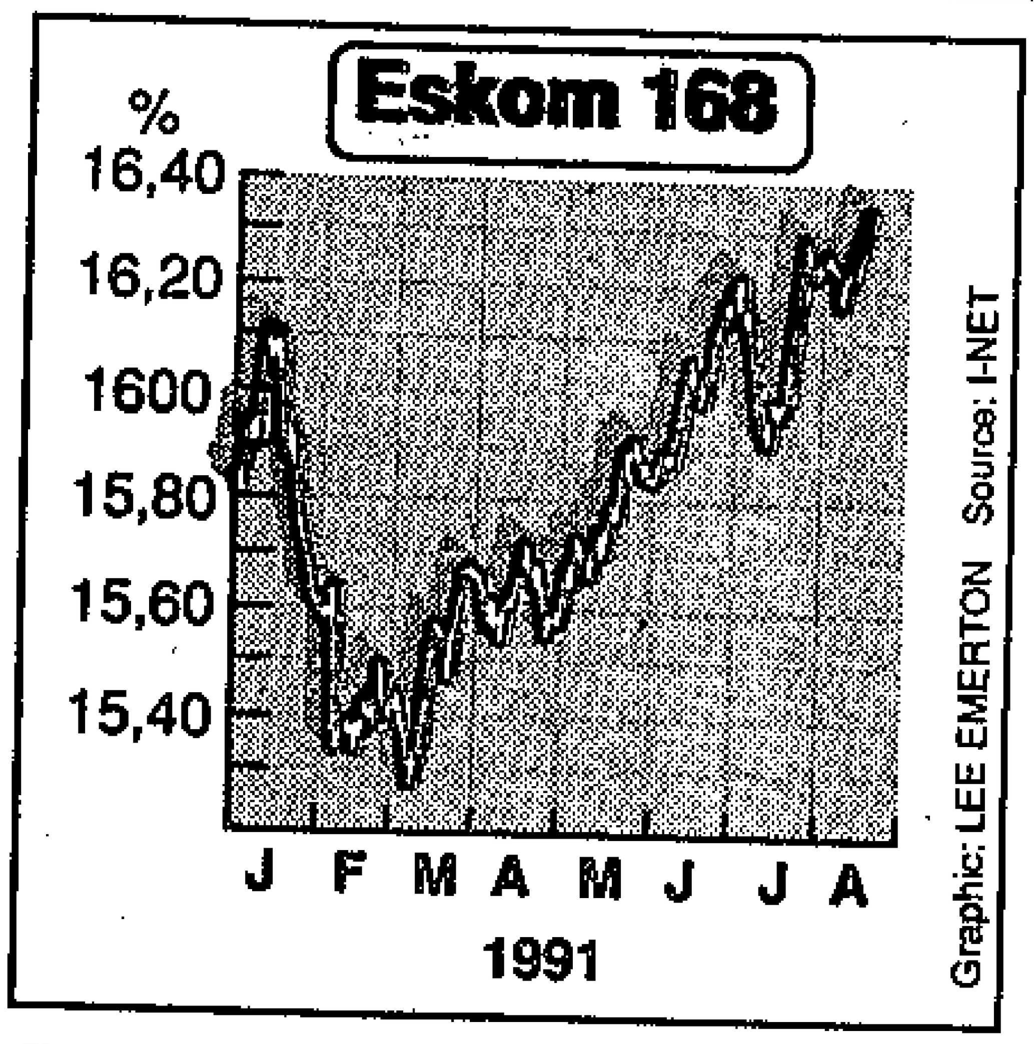
He had heard that foreign airlines were willing to form a pool and Zairean authorities were willing, but SAA had objected.

"Zaire kept its door open to SA in spite of sanctions.

"Now they are being lifted, SAA is hampering trade between the two countries."

A spokesman for SAA said that it had exercised its right to fly the route together with Air Zaire under a reciprocal agreement, excluding other carriers.

"We are continually looking at all parts of our service and trying to improve them — particularly in-flight service."



Bearish upturn for capital market rates

B/Day 13/8/91

ANDREW GILL and MERVYN HARRIS

CAPITAL market rates took a bearish upturn yesterday as the weekend's violence at Ventersdorp was compounded by a producer inflation figure that killed hope of a cut in official interest rates.

The benchmark Eskom 168 stock rose to 16,36% from Friday's 16,22% as slowly recovering sentiment suffered what market analysts said could be a fatal short-term knock. Government's R150 stock suffered a similar fate as it hardened to 16,745% from 16,62%.

Dealers said sentiment, especially among foreigners, had turned sour as a result of the violence in Ventersdorp. The release of July PPI figures was sufficient to see rates harden further.

Also, a meeting between the Reserve Bank and commercial banks late last week had been interpreted poorly by the market, pushing forecasts of an interest rate cut even further back.

The violence also took its toll on the finrand, which lost 3c to R3,22 to the dollar. Although not a major move, it reflected the dearth of buying on the market.

The prospect of almost no buying of capital market stock by foreigners has been a major cause of bearish sentiment.

The weaker finrand did help the JSE, as investors shrugged off the Ventersdorp violence. Gains on the overall market outnumbered losses by two to one as the weaker finrand helped support gold and other currency-linked shares.

The overall index gained 18 points to 3 508 and the industrial index climbed 13 points to a new high of 4 120.

Marais knows what he wants from the new BTI chairman

(74)

B/Day 13/8/91

LESLEY LAMBERT

THE successor to Lawrence McCrystal as chairman of the Board of Trade and Industry (BTI) will ideally be a private sector industrialist who will contribute to the Department of Trade and Industry's new outward-oriented industrial strategies.

Trade and Industry Minister Org Marais says he has a list of people who fit the bill and, although McCrystal's resignation is only effective from next March, he will probably name a successor before then.

Marais says the new BTI leader should support proposals by the Industrial Development Corporation (IDC) for the reduction of protective tariffs as well as new anti-dumping measures to be released in a draft Bill within weeks. But he should also have a macro view of the industrial strategy which will help SA exporters to compete in world markets.

Although Marais does not say this in so many words, another important characteristic will be the ability to avoid the adversarial relationship which has existed between the department and the board in the past. "My style is to get the two together, to encourage cross-fertilisation and to discourage polarisation," Marais says.

Under Kent Durr's reign as Trade and Industry Minister, McCrystal's structural readjustment programmes were rejected because they were regarded as being too interventionist and cumbersome.

Nevertheless, McCrystal continued to argue publically that the liberalisation of protection measures would do more harm than good to the economy if it was not preceded by a fundamental restructuring of industry.

● MCCRYSTAL

In an interview after announcing his resignation last week, McCrystal said he believed his structural readjustment proposals had been "misunderstood".

Marais has been more of an ally to McCrystal, restoring much of the streamlined BTI's former glory as an advisor and contributer to policies formulated by the department. He has also invited McCrystal to stay on as a part-time member of the BTI after March.

Soviet officials haggle over diamond marketing strategy

(74)

Star 13/8/91.

A recent deal between De Beers and Glavalmazzoloto, the Soviet state monopoly for precious stones and precious metals sales, gave Moscow immediate access to hard currency. But it has not stopped a continuing domestic dispute over whether Moscow was getting the best value for its diamonds.

MOSCOW — A year after senior Soviet officials were disciplined by the Communist party for irregular trading in diamonds, the state prosecutor has closed a judicial investigation after finding certain violations but no grounds for criminal prosecution.

Nikolai Sapozhnikov, a member of the investigating team, said the government had been informed of these violations, which apparently stemmed not from fraud but from high-level and continuing differences over the Soviet Union's diamond marketing strategy.

The man at the heart of last year's initial investigation by the disciplinary commission of the central committee of the Communist party was Yevgeny Bichkov, the then head of the Soviet Union's precious stone depository, Gokhran.

Hard currency

He and senior finance ministry officials were accused of failure of discipline and crude violations in the conduct of commercial operations involving the sale of state-owned precious stones for hard currency on foreign markets.

But Mr Bichkov, who, together with his colleagues at the finance ministry, was accused of losing at least $22 million on the secret sales, has since been made director of a new division of the finance ministry set up to control the states use of precious stones.

Fair price

In an interview he denied that losses were involved and said that the aim of the controversial sales was to check whether Glavalmazzoloto, the state monopoly for precious stones and precious metals sales, was getting a fair price for Soviet diamonds.

But his operations were interrupted before he could come to any conclusions about official Soviet diamond trading.

Mr Bichkov is bitter about the parallel system of justice operated by the Communist party a relic of the old system of intertwined party and state structures and says the central committee investigators, who used the services of the KGB, knew nothing about diamonds.

He believes that the Communist party accusations were prompted by Glavalmazzoloto senior management, which was putting the finishing touches on last year's unprecedented deal with De Beers Centenary, the Swiss arm of the De Beers diamond corporation.

Under the agreement, Moscow transferred its diamond stockpile to London as collateral for a $1 billion loan.

Glavalmazzoloto also signed an agreement giving De Beers Central Sales Organisation (CSO) exclusive right to sell uncut Soviet gem diamonds worth an estimated $5 billion over the next five years.

Although the diamond deal gave Moscow immediate access to hard currency, it has not stopped a continuing domestic dispute over whether Moscow was getting the best value for its diamonds.

An expert from the ministry of foreign trades research institute wrote recently that the De Beers agreement committed the Soviet Union to a second rate position for five years.

Igor Kazakov claimed that analysis of the agreement showed a complete lack of professionalism of its Soviet authors and he called for a break-up of Glavalmazzoloto.

His views were dismissed by Valeri Rudakov, the head of Glavalmazzoloto, who defended the agreement with De Beers, saying a monopoly system was needed for the diamond market.

But Mr Bichkov, who has emerged as one of the strongest critics of the state monopolyof diamondiferous material in the Archangelsk area of arctic Russia.

The $1 billion loan to Glavalmazzoloto was not project-tied but generically tied to development of the diamond industry and investment is clearly taking place.

Mr Ralfe said: "We have been impressed by the efficiency of their industry. Some things in the Soviet Union still work well, like the Moscow metro. And so does the diamond industry."

Co-operation

Nicholas Oppenheimer, the CSO chairman, recently visited Yakutia, source of more than 90 percent of current Soviet diamond production, and signed a general agreement to widen areas of future co-operation and liaise on technical and related subjects with Mikhail Nikolayev, the Yakut leader.

This gold- and diamond-rich area of eastern Siberia is an autonomous republic of the Russian federation and has been involved in complex negotiations with both the Soviet all-Union authorities and the Russian Federation.

Big impact

Under the new Union Treaty, currently being finalised, Yakutia expects a greater share of its hard currency revenue to be controlled locally.

The new tri-partite division of powers is likely to have a big impact on the future of Glavalmazzoloto, which could be transformed in the near future, according to Mr Rudakov. — Financial Times.

Protectionism is harming SA's economic future

Bday 14/8/91

HENNIE VAN ZYL

(74)

POWERFUL industrial lobbies continue in their attempts to counter the trend towards a more free and democratic economic system in SA and, in doing so, are causing great harm to the country's economic future.

They are seriously eroding the economy's job creation potential, and its ability to ensure a more equitable distribution of wealth.

A case in point is the textile industry, and the article by textile industry executive Nicola Magni, "SA manufacturers' survival depends on tariff protection" (Business Day, May 6) which contains a host of grossly misleading assertions.

Most SA manufacturers are efficient in terms of their investment in labour (wages, training and so on), in research and development, in management development and training, in equipment, in professional marketing and in social programmes.

Instead of growing fat behind high protective walls, these manufacturers welcome and thrive on competition. They know that only through real competition will they remain lean and fit. But numerous clothing manufacturers will also bear witness to poor fabric and yarn quality, constantly late deliveries and other problems.

I cannot agree with the implication behind Magni's statement that "new reborn economic policies are being formulated by theoreticians, few of whom have ever run a business". To have run a business in itself does not mean much. Research undertaken in the US has shown that efficient businessmen are usually the least vociferous, and make more use of advisers (consultants or theoreticians) than their less efficient counterparts.

The efficient businessman is always looking for ways of improving himself and his company, while the inefficient merely blames others for less than optimal performance.

The so-called theoreticians said to lack business experience include, among others, GATT, the IMF, the World Bank, the IDC, the Department of Trade and Industry, the Board of Trade and Industry (which, in its structural adjustment programme for the clothing and textile industries published in April 1989 undertook that protection levels would be frozen for the next five years and thereafter gradually reduced) and the President's Economic Advisory Council. It is difficult to identify one reputable organisation which argues that survival depends on protection.

One should also guard against accepting Magni's glib statement that SA's cost of labour is very high and its productivity extremely low. Research conducted by Sacob consultant Paul Hatty shows that labour costs constitute only 15,7% of manufacturing inputs. Capital constitutes 13% and materials/services the remaining 71,3%.

Hence, not only does labour not have a decisive impact on final cost, it is far from the highest priced. NPI research has found that labour costs in some rural areas of SA are among the lowest in the world.

Productivity, apart from being largely a management and not a labour responsibility, is similarly very far from the lowest in the world. Figures to support these statements are available from, among others, the World Bank, GATT and the NPI.

This does not mean that labour is blameless. However, managers, especially those who regard labour as opposition and not as a partner, often point fingers at labour to divert attention away from their own performance deficiencies.

Another widely abused notion is that foreign competition is, by definition, unfair. Foreign competition is unfair only when imports are at prices below those existing in the exporting country. In such cases — actual or potential — a local manufacturer need merely apply to the BTI for the immediate imposition of a provisional charge, to be followed by an anti-dumping investigation.

We in the clothing industry also do not subscribe to Magni's statement that "export giants such as Japan only achieved their positions from behind almost impenetrable trade barriers". This is a one-sided, parochial US-European view.

Also, while protective barriers which did exist in Japan may have assisted manufacturers to lower unit costs as a result of the large domestic market, SA's smaller domestic market severely limits the benefit to be obtained from economies of scale.

In addition, economic miracles such as Singapore and Hong Kong have occurred in an environment of low barriers (if any) and free trade.

Another popular misconception is that tariff protection preserves jobs. Numerous case studies around the world have proved that high tariffs can, at best, save jobs in the short term, but eventually result in massive unemployment.

A 1987 World Bank report on managing the industrial transition provides the following "lessons of OECD experience":

□ While trade protection has lengthened the time available for adjustment and has maintained incomes in the textile sector, it has failed on two counts. It has not protected jobs in the industry and it has been extremely costly. It has not prevented the industry from relocating away from the regions that were supposed to be the beneficiaries of the protectionist measures. By weakening the incentive to upgrade, innovate and invest, protection can become a problem rather than be a solution;

□ Those segments of the industry which have prospered are those where the need for protection was least — where genuine comparative advantage was available;

□ The high volume, standard product, mass market strategy has been a failure because of quick diffusion of advanced technology to competitors and continuing rise in labour costs. The large integrated companies of the UK, France and Germany have been unsuccessful in achieving economic viability without government support; and

□ Small-scale units which have emphasised process flexibility, product diversity, and product quality have been very successful. In the clothing industry, the most lucrative segment has been the high quality fashion and design-intensive segment.

Finally, Magni's statement that "almost any consumer product produced locally could be obtained at a cheaper price from a foreign supplier, and therefore that it would mean that most of SA's manufacturing industry must be shut down", reveals ignorance about the fundamentals of international trade, in particular the law of comparative advantage.

This simple but basic law states that although country A may be able to produce everything cheaper than country B, both countries will benefit if country B specialises in manufacturing those commodities in which country A has a comparatively smaller cost advantage (even if country A has an absolute cost advantage).

In SA we have had endless commissions and investigations which produce comprehensive and authoritative reports whose recommendations are seldom implemented.

In the clothing and textile industries we have, in the past decade, produced the Steenkamp Report, the Kleu Report, the DTI Technology Report, various reports from the Economic Advisory Council and others. All held the view that protection levels were too high and should be gradually reduced to stimulate growth and create job opportunities.

To date very little has been done. Indeed, through very effective lobbying (such as Magni's article) not only are protection levels at an all-time high, but the local textile industry is using the current impasse to apply for even further increases in protection which, if granted, would cost the SA consumer billions of rands.

□ **Van Zyl is executive director of the National Clothing Federation of SA.**

A 1987 World Bank report on man- ... tions are seldom implemented.

Lethargic markets likely to receive a jolt

BDay 14/8/91 (M4)

SHARON WOOD

A PROBABLE hike in German interest rates combined with a stream of US economic data this week should jolt international forex markets out of the lethargy that marked last week's trading.

But which way will the dollar go? All indications are that it will hover at its recent low levels, unless there are surprises on the US economic front.

A rise in July retail sales above the forecast 0,3% could see sentiment towards the dollar improve. But the moderate improvement expected in the markets would merely prevent the dollar from falling over the edge.

However, German interest rates alone are unlikely to provide the energy and direction in forex markets. A rise in the German discount rate probably has been factored into the exchange rates while forex markets have waited for the German authorities to return from their summer break.

Some of the impetus could come from a 0,5% rise in the Lombard emergency fund rate at tomorrow's council meeting.

The worst is over for the dollar as far as US interest rates go — the Fed performed the much-awaited cut in interest rates last week.

Union Bank of Switzerland says the easing of monetary policy on Tuesday was the main event of the week on a market characterised by very small trading volumes.

The dollar initially fell below the DM1,70 level but the Fed's action prompted a moderate recovery. But by Monday the dollar had lost ground against the Deutschmark, sterling and yen.

Analysts agree the dollar will probably consolidate at current levels until new factors emerge.

FNB technical analysts say the dollar is testing its intermediate bear channel (AB on graph) with resistance now at DM1,7260. A head and shoulders formation (LS and H) will be completed if the US currency continues to fluctuate within a narrow range, creating the right shoulder of the formation.

The dollar will probably only test the neckline at DM1,7000 after the expected period of ranging. FNB's forecast range for the week is DM1,7094-1,7400.

The dissipation of anxieties over the stock exchange scandal will leave the yen as the most fundamentally sound international currency.

Union Bank says if there are no overly negative surprises on the political front the yen should gain against the DM.

But speculation is still rife concerning another interest rate cut to prop the scandal-ridden stock market which would work against the yen's potential strength against the dollar.

Technical analysis shows the dollar finally penetrated the 136,20 yen support level, dating from April this year. The US currency is expected to re-test and then fail to breach higher levels at about 138,26 yen. Thereafter it could move towards the base of the bear channel at 135,16 yen.

On the local front, the rand firmed slightly to R2,8580 on Monday from R2,8630 last Tuesday.

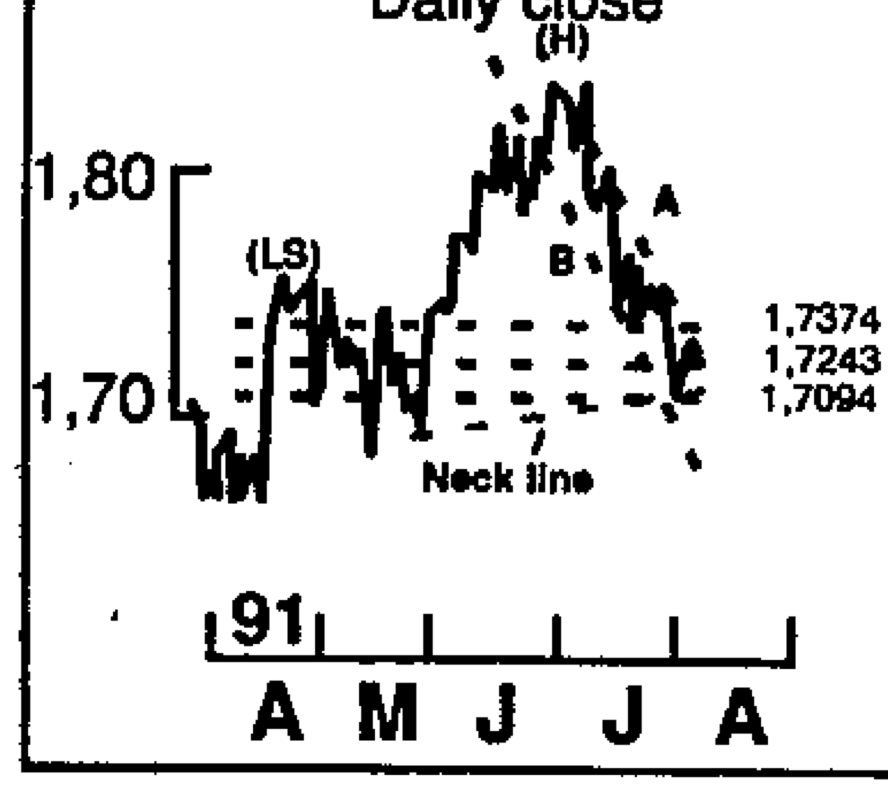
While the dollar's decline has instilled some strength in the local currency, some analysts say it is not welcome for the SA economy.

A falling dollar implies a firm rand against the dollar which is bad news for the majority of SA's exports which are dollar denominated because they become more expensive on world markets.

This would further depress SA's exports which have already come under pressure from slowing worldwide economic growth.

The financial rand improved to R3,22 yesterday afternoon from last Tuesday's R3,25, despite the political upheaval spurred by the Ventersdorp events. The unit lost 3c on Monday, but consolidated at R3,22.

Dollar/Deutschmark
Daily close



Graphic: LEE EMERTON Source: TELETRAC

REVIEW

3. Contact person

Govt considers major IDC plan to replace export incentive scheme

74

B Day 14/8/91

LESLEY LAMBERT

TOP-level Industrial Development Corporation (IDC) proposals are being considered by government as part of an overall industrial strategy likely to be unveiled during the next session of Parliament.

The IDC report, which emphasises the improvement of SA's international competitiveness, is being studied by government and organised commerce and industry. However, a Cabinet decision is likely to be delayed for about a month while Sacob formulates its response, a Department of Trade and Industry (DTI) spokesman said yesterday.

The report emphasises the reduction of protective import tariffs in line with the liberalisation of international trade. But it also contains a comprehensive package of economic recommendations aimed at improving SA exporters' competitiveness.

The IDC suggests in its report that if its proposals are implemented, they should replace the General Export Incentive Scheme (GEIS) introduced by the DTI in April last year.

This, and the fact that the GEIS incentives contradict GATT rules, has caused concern among exporters who fear that they may lose the financial assistance without adequate warning.

But in a statement yesterday Trade and Industry Minister Org Marais reassured exporters that the GEIS programme would remain in force until April 1995 and then be comprehensively reviewed.

Marais said the programme, which will have replaced all previous export incentives by March 31 next year, would be continually monitored and evaluated to ensure that it remained cost effective.

A senior Trade and Industry official confirmed yesterday that the five-year limit had been placed on GEIS because of its contravention of the GATT subsidy code.

He said SA hoped to justify the short-term measures on the basis that they were necessary to help overcome the distortions sanctions had caused in the economy.

The IDC report supports moves towards lower company tax and greater savings. It urges the authorities to maintain exchange rate stability and to address low productivity and market overregulation.

IDC proposals for tariff policy include the abolition of import surcharges and the reduction of customs duties, coupled with the improvement of anti-dumping legislation. Draft anti-dumping legislation is expected within weeks.

The proposals are expected to dovetail with new technology and industrial policies which are being formulated. They emphasise the need for industrialists to produce more value-added products with a high local content for export.

The draft technology policy has been revised to include input on developments in foreign technology and research and development. It should be released soon.

But the industrial policy appears to have been delayed by resistance to DTI proposals for tax incentives to kick-start new beneficiation projects. If these proposals are rejected by Cabinet, other stimulatory measures will have to be found to replace them, says a DTI spokesman.

NEWS FOCUS

Exporters may need initial line of credit

BDay 14/8/91 (74)

Deloitte Pim Goldby's VAT team responds to queries raised by Business Day readers.

If you have queries about VAT, address them to: VAT Queries, Business Day, P O Box 1138, Johannesburg, or fax (011) 836-0805 or 497-2224.

We cannot respond individually, but will concentrate on areas of general concern raised by readers.

EXPORTERS AND CASH FLOW

EXPORTERS may have to arrange an initial line of credit to finance the tax paid to their suppliers while waiting for the Receiver of Revenue to refund the VAT.

To this extent they may initially be worse off than other vendors who can reduce a cash flow deficit by output tax collected.

On average, an exporter with a one-month tax period can expect to receive his refund from the Receiver of Revenue after about 70 days.

Therefore, if the exporter's creditors' settlement terms are less than 70 days, which is highly likely, there will be a cash flow deficit for a number of days.

The problem will not extend beyond the initial period, as the refund of the first period's VAT should secure sufficient cash flow to finance the tax payable for the next period and so on.

In order to minimise the effect of this cash flow disadvantage exporters are advised to:

☐ Apply for a one-month tax period if their supplies do not exceed R30m;

☐ Insist on the early receipt of tax invoices from their suppliers;

☐ Ensure that their accounting systems produce the necessary information to prepare the VAT return as close to the beginning of the following tax period as possible; and

☐ Make their purchases towards the end of a tax period.

VOLUNTARY REGISTRATION

WHERE a person's taxable supplies are below R150 000, provision is made in the Act for voluntary registration.

In deciding whether to apply for registration there are a number of factors which need to be considered:

☐ Whether or not your suppliers are registered vendors. If they are and you do not register, the input tax which you pay will be an additional overhead to your business. In this situation, will you be able to absorb this incremental cost or will you have to pass it on to your customers?;

☐ Whether or not your customers are registered vendors. If they are registered, they may consider taking their business to your registered competitor in order to secure their input tax credit, for the goods or services which you supply;

☐ The impact of VAT on your cash flow. If you do not register you will now be required to pay input VAT on your purchases, whereas previously most of your purchases were exempt from sales tax.

This situation will be aggravated if your debtors settlement terms exceed those of your creditors; and

☐ The administrative burden of compliance with the VAT Act.

SELLING ONE'S HOUSE TO A REGISTERED CLOSE CORPORATION

IN TERMS of the VAT Act, where a vendor purchases immovable property, transfer duty will not be payable if the seller can certify to the Inland Revenue Commissioner that he has accounted for the VAT.

The seller would therefore have to be a registered vendor for transfer duty not to be payable on this transaction.

If, for example, an individual conducting his business through his close corporation from home, sells his residence to his registered close corporation, transfer duty of 5% on the market value will be leviable.

However, a notional input tax on this transaction will be granted to the close corporation if the house is used for the making of taxable supplies.

If, on the other hand, the house is used partly for residential purposes (more than 10% of the time) this notional input tax credit will have to be apportioned, on a basis acceptable to the Inland Revenue Commissioner.

Bday 19/8/91

SA company gets Soviet response

74

DAVE LOURENS

THE first SA company to have advertised in a Soviet publication, Supreme Spring Systems, has established contact with several Russian firms eager to do business with it.

Supreme MD Willem Slieker said eight companies, including one in Bulgaria, had responded to the company's Russian-language advertisement.

Slieker said he would travel to the Soviet Union next month for talks, but he anticipated several problems.

Supreme, which designs and manufactures automotive suspension parts, already has a significant export market in western Europe and the US.

Slieker said exports already made up between 15% and 20% of Supreme's turnover, but the company was aiming to double that figure.

Slieker anticipated payment problems in deals with Soviet firms.

"Most of them are interested in barter trade, and those who do have cash available have roubles, whereas we would prefer to deal in dollars.

"It is also difficult to do any market research in the Soviet Union. I know the Russians have an extremely limited array of passenger cars and light commercial vehicles, but otherwise they are a mystery to us at the moment."

Slieker said Supreme had also received job applications from several engineers and from a doctor of computer science.

SA business equipped to compete with the best

Star 14/8/91. (74) (180)

By Frank Jeans

During the cold years of economic isolation, many companies used the time well to build up expertise and knowledge and were now ready to compete with the best in world markets.

This was the message which Warren Clewlow, chairman of Barlow Rand gave to the South African-German Chamber of Commerce and Industry in Johannesburg yesterday.

Referring to "international trade which has become evermore competitive", Mr Clewlow said many South African businesses now had efficient distribution mechanisms which ensured that goods placed in distribution networks arrived at the right place, at the right time and the right cost.

Recognising German attitudes towards South Africa which saw companies "staying involved and making a difference here rather than leaving in protest", the Barlow chairman said big opportunities were opening up for business in search of manufacturing and distribution bases in other parts of the world.

Warren Clewlow . . . Big opportunities opening up for business.

"South Africa is ideally suited to be at least on your shopping list for such projects for we are now well placed at the world's economic crossroads," he said.

"We find ourselves re-entering a world economy which is not in the best of health and doesn't promise to improve in the immediate future.

"This means that now, more than ever, prices are very competitive, quality and service are of utmost importance and our commitment to these markets must be complete so that there is no impression that we are simply opportunists making the best of once-off chances."

Noting the enormous market of southern Africa waiting to be tapped, Mr Clewlow said that the area south of the equator, which has a population of 190 million, presented an ideal opportunity for South Africans to participate in partnerships.

"These partnerships would take the best of your products, your investment, your expertise and your research and development ability and combine them with our resources, like production, marketing and distribution, to create wealth-generating companies, not just for South Africa but for the entire sub-continent," he said.

BUSINESS DAY, Friday, August 16 1991

Kohler Packaging ties up South American contract

ROBERT LAING

HOLDAIN Group subsidiary Kohler Packaging signed its largest export order to date yesterday — a R30m contract to supply corrugated cartons to four of South America's biggest agricultural companies.

Holdain CE Derrick Minnie said: "We have been active in Chile for the past seven years and have managed to broaden our market to other South American countries.

"I am hesitant to name which South American companies the orders were received from yet, because the group is on the verge of cracking another big contract."

He said Kohler beat the world's major packaging groups to the deal.

"We are a market leader in agricultural packaging, holding patents on certain types of containers which give us an edge on competitors. The exchange rate also helped us."

He said the SA packaging industry was very competitive offshore. "Kohler is exporting flexible plastic packaging to North America and we are very big in Africa."

The firm has chartered three container ships to take the 14-million cartons to South America.

Export scheme may hamper SA

B Day 15/8/91 (74)

LESLEY LAMBERT

THE General Export Incentive Scheme offered by the Department of Trade and Industry (DTI) could threaten SA's bargaining power in forthcoming negotiations between GATT member nations, DTI officials confirmed yesterday.

SA has agreed to comply with a GATT requirement to reduce import tariffs by at least a third on 4 700 of over 11 000 imported items. But it has assured exporters that the incentive scheme, which contravenes GATT rules, will run until April 1995 when it will be reviewed.

The scheme offers cash incentives to encourage the export of beneficiated products with a high local content. It was introduced in April last year and will have been fully implemented by April next year.

But its lifespan has been limited because it contravenes the GATT subsidies code which prohibits the subsidisation of certain exports.

SA, which has come under increasing pressure to fall in line with GATT's fair trade requirements as sanctions have eased, is arguing that it needs short-term concessions to overcome the distortions created by sanctions and to develop its economy, DTI officials say.

But they are concerned that GATT signatories may have little sympathy for protection measures, which exceed those applied by other GATT members, once sanctions fall away completely.

Former Trade and Industry Minister Kent Durr confirmed last year that the decision to comply with the tariff reductions had followed threats by the EC, a leading trading partner, to exclude SA exporters from benefits offered to GATT members.

Importers of SA goods subsidised in contravention of the GATT code could introduce import tariffs similar to the value of the concessions on the goods. This could leave SA exporters at a massive competitive disadvantage.

DTI officials say GATT negotiations for more liberal international trade policies are expected to start later this year or early in 1992.

In the meantime, SA departments of Trade and Industry, Finance, Agriculture and the Reserve Bank are preparing a report on trade policy for a GATT trade inspectorate which will visit next year to assess compliance with fair trade regulations.

Slow world growth, strong imports hit trade surplus

(94)

Bday 15/8/91

SHARON WOOD

SA's cumulative trade surplus fell by 5,1% year-on-year in the first six months of this year as a result of slower world growth depressing exports and strong growth in imports.

Imports grew by 10,7% year-on-year during the period and outstripped a 6,3% rise in exports.

The growth in imports was partly due to special factors such as the higher value of oil imports and the purchase of two Boeing aircraft, said Bankorp economist Nick Barnardt.

In addition, imports were more favourably priced in the first half of the year. The ratio between import and domestic prices was the lowest in twelve years and contributed to the buoyancy in imports, he said.

Drought conditions pushed up vegetable product imports by 65,8% year-on-year in the first six months.

Exports were hit by unfavourable international commodity prices and the recession in the English-speaking countries.

Mineral product exports were particularly hard hit and fell by 8,3% year-on-year during the period but base metal product exports held up well, rising by 3,3% year-on-year.

Prospects for foreign trade for the rest of the year remained relatively favourable, said economists.

The current account surplus would be lower than last year but should remain at a reasonable level.

Barnardt projected a surplus of between R6bn and R7bn.

Nedbank chief economist Edward Osborn was more pessimistic, forecasting a surplus of about R4,6bn.

Import growth is expected to show either moderate growth or fall slightly for the rest of the year.

Barnardt expected some weakening of import volumes because of slow economic activity, falling fixed investment and reduced oil imports.

Osborn said imports would tend to come down in real terms, but a higher rand could result in greater imports than in the first half of the year.

Exports would continue to be depressed by low international commodity prices, which were expected to improve only next year.

"World economic growth is expected to slow down in the second half," said Barnardt.

Osborn said there would not be positive movement until the end of the year, when there would probably be a rise in gold, platinum and commodity prices.

IMF help needed to expand trade

(148) (74) (74)

Finance Staff

The expansion of South Africa's external trade would require the restoration of its rights as a member of the International Monetary Fund and the World Bank, the Minister of Trade and Industry, Dr Org Marais, said yesterday.

Speaking at the plenary session of the 11th Ministerial, Economic and Technical Cooperation Conference between South Africa and the Republic of China (ROC), Dr Marais said strong impetus for this expansion was provided in the form of the changing political circumstances in South Africa.

The end of the Cold War had also created an opportunity for new initiatives to establish trade relations with the countries of central and eastern Europe, Africa and the world.

"We have already signed trade agreements with some of the central European countries while further agreements are being finalised."

He added that excellent progress had been realised in the broadening of trade links with African countries and "it would be safe to say that few, if any, African countries do not trade with South Africa at present and this trade is growing".

Dr Marais said that although South Africa was on the road towards the complete normalisation of its trade relations internationally, it would not turn away from allies who had stood by it in the most difficult times.

The ROC had been one of South Africa's "staunchest allies".

Dr Org Marais . . ."Few, if any, African countries do not trade with South Africa at present."

The Economic and Technical Cooperation Agreement with the ROC had been signed in 1975. Two-way trade had increased from R40,3 million in 1974 to R3,3 billion in 1990.

"I believe that this agreement between our countries can be singled out as an example of an exceptionally successful bilateral partnership."

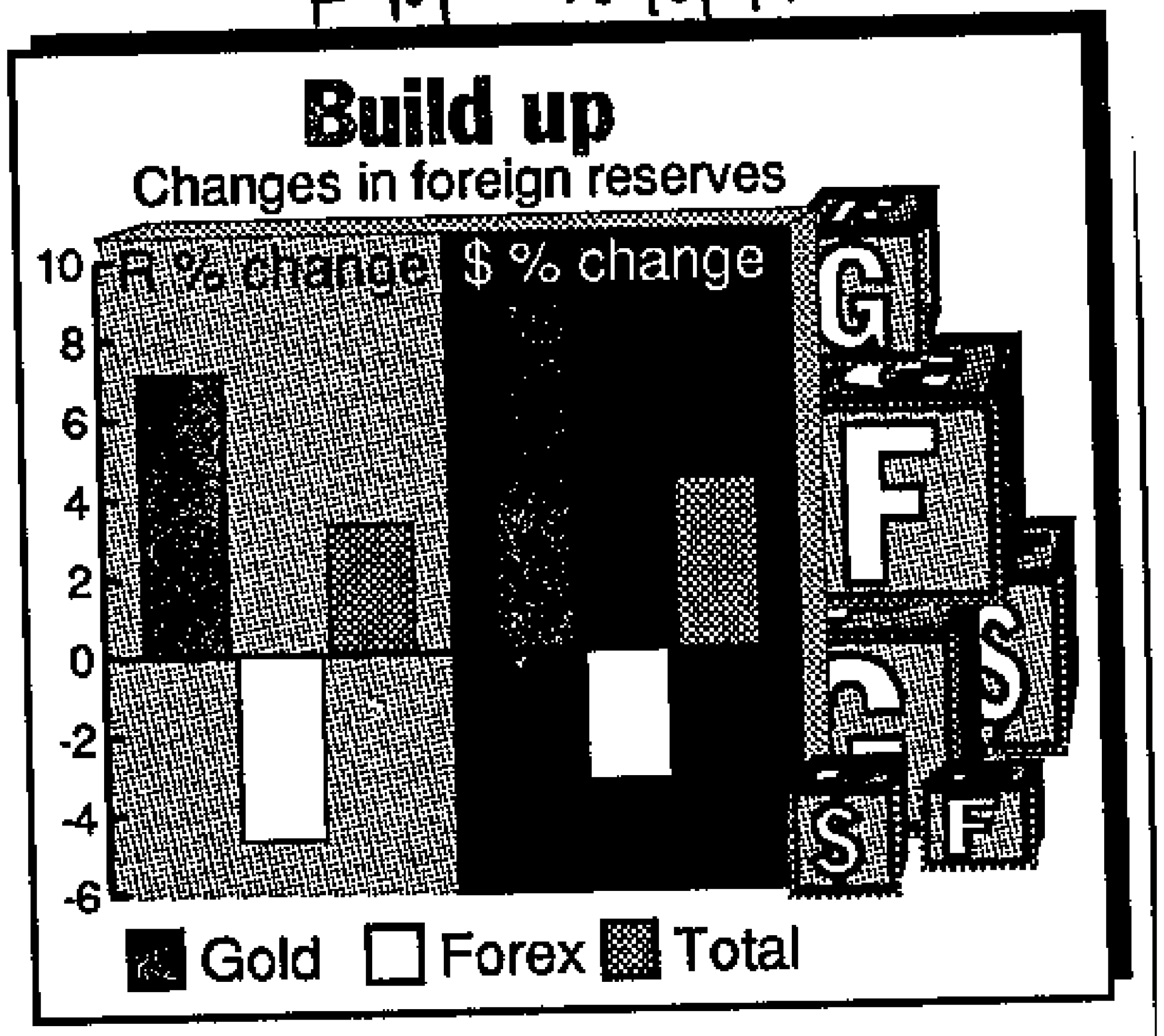
The partnership had blossomed at a time when both South Africa and the ROC were isolated in the world.

Dr Marais warned that the increasing possibility of the ROC's accession to the General Agreement of Tariffs and Trade (GATT) might require both the RSA and the ROC to reconsider the issue of exchanging preferential tariff quotas.

"This may, therefore, be a problem with no easy solutions at hand."

However, he said he believed relations between the two countries could enter a new phase of greater cooperation with regard to investment and undertakings in the industrial sector.

FM 16/8/91.



from US34,6c to US34,9c.

Though this is encouraging, it is not without problems, expecially for exporters, whose rand revenues have fallen. And there are further implications.

Says Econometrix's Azar Jammine: "Though exports are mainly dollar denominated, imports are mainly sourced from Europe and the Far East. And, as the dollar declines against these currencies, the rand traditionally falls with it — so if the trend continues, imported inflation will begin to put pressure on domestic prices."

In July the rand fell from:

- □ DM0,623 to DM0,609;
- □ £0,212 to £0,207;
- □ FF2,114 to FF2,072; and
- □ L463,916 to L455,401.

It rose against the yen from Y47,893 to Y48,123. Since end-July, however, this trend has reversed. The Japanese currency appreciated sharply against the rand — it stood at a record high of R/Y47,73 last Friday. ■

RESERVES (74)

Relative rates FM 16/8/91

The improvement in gold and foreign reserves in July was even greater in dollar than in rand terms (see graph), thanks to the decline in value of the US currency.

Gold reserves rose 7,1% to R5,3bn — a new peak, after a steady increase in recent months. Holdings up from 5,2m oz to 5,7m oz offset a price decline from R950/oz to R938/oz. Foreign currency holdings fell 4,3% to R2,4bn and total gold and foreign assets increased 3,3% to R7,7bn, about two months.

Holdings up from 5,2m oz to 5,7m oz offset a price decline from R950/oz to R938/oz. Foreign currency holdings fell 4,3% to R2,4bn and total gold and foreign assets increased 3,3% to R7,7bn, about two months' of import cover.

Continue →

Trade with Taiwan set to soar

BRENT VON MELVILLE

TWO-way trade with Taiwan was set for a tremendous boost and was likely to greatly exceed last year's level of $1,54bn, said Trade, Industry and Tourism Minister Org Marais. BDay 16/8/91

Speaking at the SA-Republic of China Chamber of Economic Relations general meeting in Johannesburg yesterday Marais said there was strong scope for developing further strong links with Taiwan in the years ahead. 74

He said some of the exciting developments to date included:

- An agreement to avoid double taxation, which stands to the future benefit of entrepreneurs of both SA and Taiwan;
- The existence of over 250 Taiwanese factories in SA;
- The establishment of a major SA bank in Taiwan and the imminent opening of a branch of the Bank of Taiwan in SA;
- The introduction of a scheduled service to SA from Taiwan by China Airlines;
- The opening of the Taiwanese market to SA wines, beer, brandy and spirits in the beginning of 1993.

Chamber chairman Allen Sealy said there was optimism that trade could be significantly upped over the coming years.

SA must be wary of carpetbaggers bearing foreign aid

BDay 16/8/91 (74)

EDWARD OSBORN

LORD BAUER, one of the world's leading development economists and an arch-critic of foreign aid, has said "God did not create the world in two parts, one developed, the other undeveloped".

What he meant was that countries have emerged from poverty to prosperity without aid or donations. Aid is not a precondition for growth or the elimination of poverty.

Indeed there is an appalling record of misuse of aid. Aid intended for the benefit of the population and in particular the poor, has too often gone straight towards propping up bad governments.

Foreign aid results, too, in a syndrome of dependency. Where the aid has failed in achieving growth, more and more is requested.

Too often foreign aid has gone into projects that are inherently uneconomic — prestige projects usually designed to underpin the popularity of the ruling party. Often the aid has taken the form of concessional soft loans, and massive foreign debt has accumulated without contribution towards either the servicing or redemption of those loans, flowing from projects. They become a continuous drain on the country's resources.

The very availability of aid is itself corrupting in that it leads to the misallocation of resources, and either neglect of or lax attitudes towards economic appraisal and standards. Projects are judged on their prestige rather than on their necessity and economic benefit.

But perhaps the saddest part about foreign aid is that it is not entirely altruistic. There is competition among donor countries to demonstrate their beneficence, and castigation of those, like Japan, which have until recently been somewhat laggard in their efforts.

In practical terms development aid is very much a form of export promotion. Nearly two-thirds of capital and commodity aid, and even a higher proportion of technical assistance, is tied, in the sense that the supply of the goods and services have to come from the donor country. The benefits go directly to the domestic industries, consultants and bankers of the donor country.

Trade patterns become distorted. The freedom to choose the goods and services required for development is disrupted and, furthermore, the recipient country becomes tied to the donor country for repeat orders and services, regardless of the suitability of the products.

A further weakness is the tendency on the part of donor countries to limit their aid to capital projects without regard to the capacity of the recipient country to maintain and run the projects. Many such projects have been abandoned in Africa because of a lack of skilled operators, and perhaps a lack of funds for the purchase of materials and fuels. This situation arises because the kudos are attached to the capital project itself rather than to such mundane aspects as training of technical and administrative staff.

Marshall aid was the first instance of international foreign assistance. This was wholly successful because of the unique combination of muscle, determination and intelligence on the one side and altruism on the other. Since then foreign aid has grown tremendously through the multilateral agencies, such as the World Bank and the International Finance Corporation, and bilaterally between donor and recipient countries.

Foreign aid is by nature an interference with international and domestic market forces, which, as already seen, can be baleful. On the other hand it can be advantageous, for example in the removal of foreign currency bottlenecks.

It is difficult to assess whether foreign aid has been successful overall in its promotion of economic growth. There are a number of cases — Korea, Taiwan, Greece and Israel — where it undoubtedly has played a critical role in getting a country on to a growth path. But the position is not clear cut for sub-Saharan Africa.

Despite the billions of dollars of aid poured into the continent, there has been a serious decline in national income and a spread of poverty. Nevertheless, there is the nagging thought that matters may have been worse in the absence of aid.

☐ US Congressman Stephen Solarz

Foreign aid, in its guise as a redistributor of resources, receives its ongoing justification from the great wealth differential between North and South. But it is boosted from time to time when massive reconstruction is necessary, or decolonisation occurs or, as in the case of SA, there is to be a transition to a more internationally approved order.

The international gravy caravan moves from country to country as it comes under the international spotlight, and there is a flurry of intensive carpetbagging by governments, consultants, and salesmen. In the mistaken belief that there is something for nothing, or at least without economic cost, countries will grab as much of the aid going as possible, and they know that they have to do it quickly, as the caravan will be moving on to the next oasis of attention.

It would indeed seem curmudgeonly and foolish if SA were not to accept the foreign aid being promised it, but we should be very careful about the terms and conditions associated with the aid.

In the first place, there should not be a loss of sovereignty in the area of economic policy. The recently proclaimed Solarz plan of congressional aid has reached the pinnacle of arrogance in attaching conditions "characterised by commitments to economic liberalisation and growth of the private sector".

Such aims are laudable, but they are not relevant for the intended uses of the aid transfers. It is also breathtaking crassness to disregard existing development structures in SA and call for a new SA Development Bank as a "credible vehicle" for channelling the assistance.

Secondly, there would appear to be no real need for SA to have project aid and commodity aid entailing a tied supply of goods and services. SA's balance of payments is, and should remain, sound. If for any reason there is a temporary balance of payments problem, there should be access to IMF credits to fall back on. There is no justification in terms of a foreign currency dearth for a distortion of foreign trading patterns and freedom of choice.

Thirdly, SA should not succumb to offers of soft loans, as this would entail a complete disregard for the iron discipline of the process of setting priorities and dispassionately assessing the economic value of projects. Furthermore, there is neither virtue nor advantage in building up foreign indebtedness, to which the related projects can make no contribution in terms of servicing projects or redemption, because they are economically sterile.

SA is in a far better position to determine its own development needs and structures. It must not be hassled into undertaking foreign assisted projects to suit donors simply because aid is being pushed at the country.

Fourthly, far more would be achieved for the domestic economy and for the creation of job opportunities and reduction in poverty levels if the aid were transformed into the opening up of trade opportunities in the would-be donor country. But unfortunately this would quickly run foul of protectionist lobbies.

So, finally, if aid flows must take place then they should be channelled through SA institutions and structures into spheres of enduring value for SA. This, undoubtedly, will be humanitarian aid, pre-eminently to education, technical training, housing, and health. They all contribute to enchancing the human capital of the country and, coincidentally, the technical assistance and aid flows would help to ease the burden on the state budget.

☐ This article appears in the latest Nedbank Guide to the Economy to be published today. Osborn is head of the Nedbank Economic Unit.

Industrials' record run comes to a halt

Star 16/8/91

(74)

By Jabulani Sikhakhane

A firmer financial rand and a negative view on the rise in German interest rates took the edge off the industrial market yesterday after five record breaking days.

The index fell by 56 points or 1,3 percent to 41 11, but rebounded to close the day at 4 128.

Analysts said that the industrial market had run too fast too far and needed a reason to correct, which was provided by the rise in German rates and the firmer finrand.

The Bundesbank, the German central bank, announced yesterday that its discount rate would increase from 6,5 percent to 7,5 percent.

Analysts said the recent sharp gains in the industrial market had been discounting an anticipated drop in local interest rates.

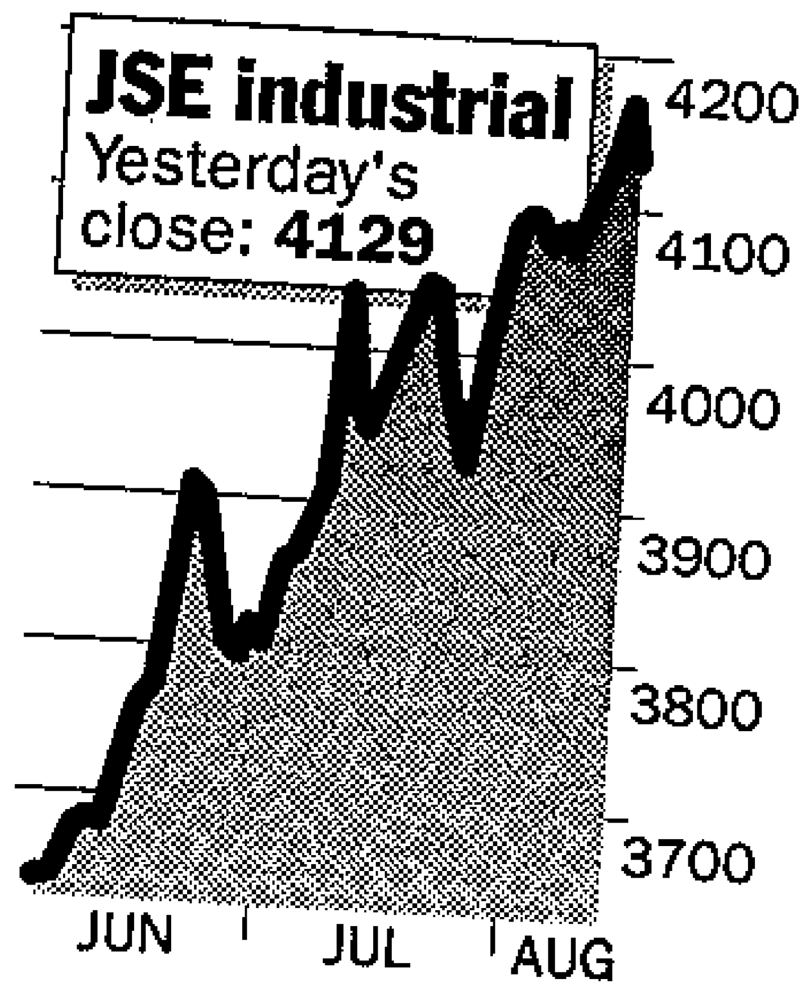
However the increase in German interest rates had dampened those expectations.

Tony Twine of the Econometrix think-tank said that most of SA's trade is with European countries whose currencies tended to follow movements in the Deutschemark which is expected to strengthen against the rand.

"The majority of our imports will become more expensive. Most of our exports are US dollar denominated and if the rand strengthens against the dollar, our export earnings will decrease in rand terms."

But the rand showed no reaction yesterday, closing unchanged at R2,87 to the US dollar.

Frankel Max Pollak Vinderine analyst Mike Haworth added that higher import costs and reduced export revenue would affect the country's balance of payments, inducing the Reserve Bank to mantain interest rates at current levels.



POSITIVE: Mike Berry, (left)MD of Europos, based in Preston UK with Hendrik Steÿn general manager the Software Company, Somerset West.

Cape firm signs major export deal

(74) Aug 17/8/91

ANDREW MORRIS

Computer Correspondent

The Software Company of Somerset West has signed a major agreement with British based company Europos for the distribution and marketing of the recently launched POS-IQ system.

"The agreement with Europos enables us to enter the British market with POS-IQ software running on Ankerdata 2000 POS terminals," said Mr Hendrik Steyn, general manager of the Software Company.

POS-IQ integrates accounts and control requirements at the cash register immediately updating creditors, debtors, stock sales ledger and balance sheet.

Mr Mike Berry, MD of Europos, based in Preston Lancashire said he was greatly impressed by the power and performance capabilities of POS-IQ.

Changes to export regulations put off

BDay 19/8/91 (74)

MARC HASENFUSS

PROPOSED changes to regulations governing the export of catalytic converters under phase VI of the local content programme have again been delayed, this time at the request of vehicle manufacturers.

National Association of Automobile Manufacturers (Naamsa) executive director Nico Vermeulen confirmed that the changes, planned for September 1, had been postponed to December 1. They were originally scheduled for June.

The Board of Trade and Industry (BTI) was examining the role of catalytic converter exports and motor manufacturers needed more time to evaluate certain changes to the phase VI framework.

BTI chairman Lawrence McCrystal said the board was still investigating whether catalytic converters should remain as part of phase VI or whether a special programme should be devised for them. The situation for other exported components would not change.

McCrystal said components did not carry an excise duty and component manufacturers could not earn rebates directly.

Currently, independent component manufacturers are forced to export through original equipment manufacturers (OEMs). The export rebate is usually split on a 50/50 basis between OEMs and parts-makers.

Component manufacturers say they are at a disadvantage under the current structure of phase VI and that without direct and independent links to export markets, the viability of the component industry is threatened.

Catalytic converter makers, however, do not receive any form of rebate but offset this by selling to local vehicle manufacturers at a price above the current European selling price.

B/Day 19/8/91

SA company gets Soviet response

74

DAVE LOURENS

THE first SA company to have advertised in a Soviet publication, Supreme Spring Systems, has established contact with several Russian firms eager to do business with it.

Supreme MD Willem Slieker said eight companies, including one in Bulgaria, had responded to the company's Russian-language advertisement.

Slieker said he would travel to the Soviet Union next month for talks, but he anticipated several problems.

Supreme, which designs and manufactures automotive suspension parts, already has a significant export market in western Europe and the US.

Slieker said exports already made up between 15% and 20% of Supreme's turnover, but the company was aiming to double that figure.

Slieker anticipated payment problems in deals with Soviet firms.

"Most of them are interested in barter trade, and those who do have cash available have roubles, whereas we would prefer to deal in dollars.

"It is also difficult to do any market research in the Soviet Union. I know the Russians have an extremely limited array of passenger cars and light commercial vehicles, but otherwise they are a mystery to us at the moment."

Slieker said Supreme had also received job applications from several engineers and from a doctor of computer science.

European investors taking SA profits

Star 19/8/91.

By Neil Behrmann

19

LONDON — After heady profits in the past two years, European investors have begun to take profits on South Africa bonds.

German banks which recommended the issues when the financial rand was much weaker are advising clients to pocket their gains.

James Capel calculates that $100 invested in rand bonds in May 1989 would have appreciated to $210, inclusive of income reinvested. This is a remarkable return by any standards.

The dollar was exceedingly weak between September of 1989 and February this year. But when the US currency rallied strongly against its European counterparts, the financial rand held firm.

As a result European investors who invested in SA bonds at the beginning of this year have also seen their investment appreciate, while income returns have been extremely attractive.

If a German investor had bought rand bonds in November, just before the financial rand began its recovery, the capital gain would have been 29 percent. Income in the nine months to mid-August would have amounted to 17 percent, so the total gain from the bond would have been a remarkable 46 percent.

After such a run, it is hardly surprising that some investors have decided to bank their gains and the profit-taking on relatively small volumes has contributed to a slightly weaker financial rand.

Of course, most investors bought the bonds at higher prices.

Some were caught in the euphoria that followed the ending of US sanctions.

Since then the financial rand has fallen four percent against the dollar and has plunged nine percent against the Deutsche mark, pound and other European currencies because they have recovered against the US unit.

Those European individuals and institutions who bought rand bonds at the top are not only nursing nastly losses from the decline in bond prices in Johannesburg, but from the depreciation of the currency.

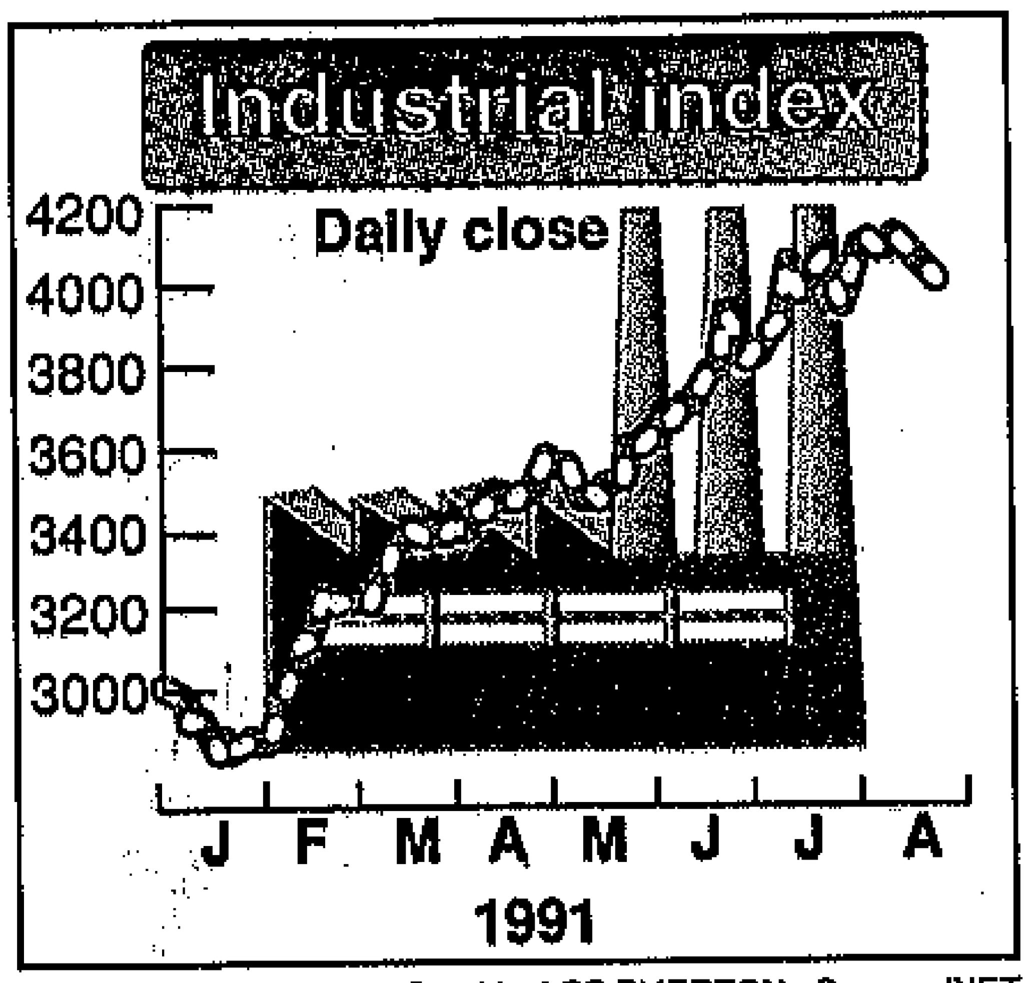
Large gains

In general large scale international investment in SA bonds took place between November and April at financial rand rates of R3,20 to R3,60.

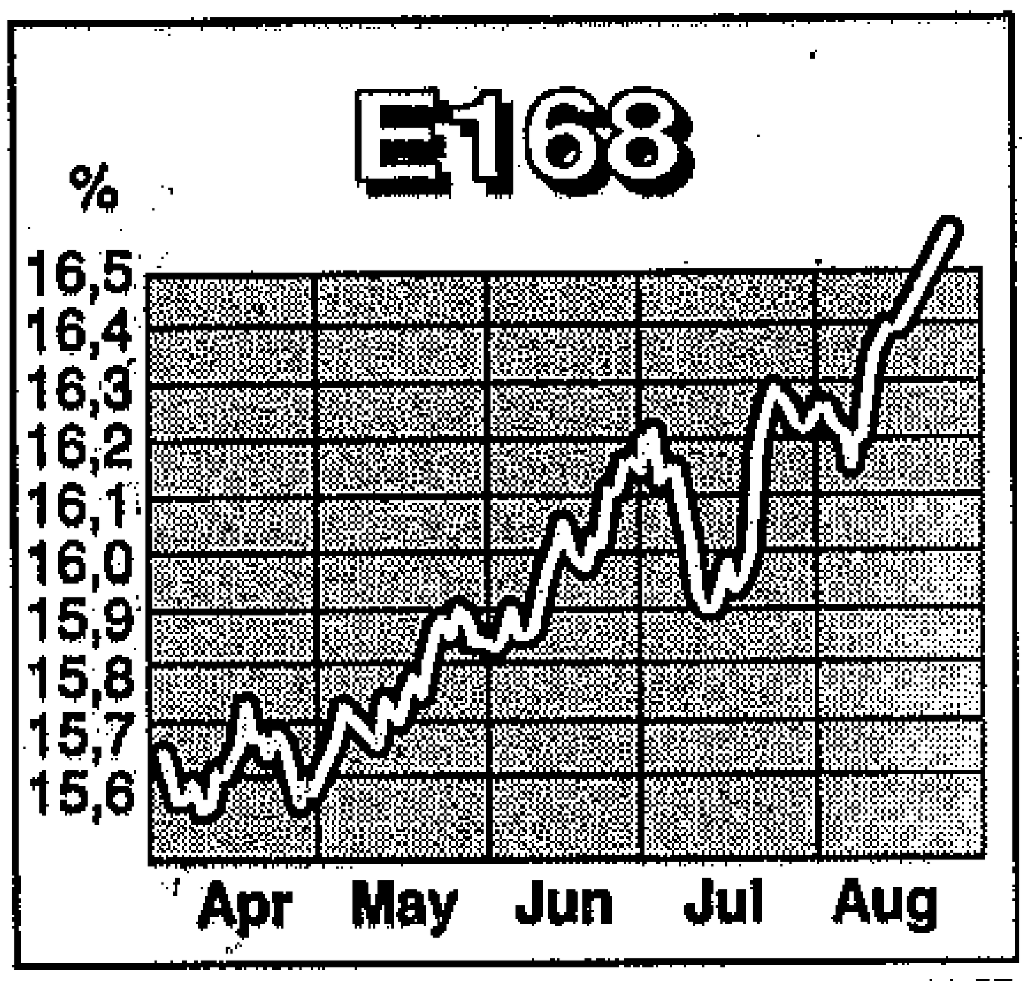
The finrand is now just above the bottom end of that range, but European investors are still showing large gains because the financial rand rose against the dollar and the US currency is still well above its 1991 lows.

It is interesting to note that the gains for foreign investors have come from currency appreciation and income. The underlying bond market has remained depressed mainly because SA investors are worried about inflation and money market returns have been more attractive.

Now that the gold price is languishing near its lows and key commodities such as platinum and diamonds are hardly booming, the international investment community needs more incentive to buy SA bonds.



Graphic: LEE EMERTON Source: INET



Graphic: LEE EMERTON Source: I-NET

Panic selling sees industrials tumble

B/Day 20/8/91 (74)

MERVYN HARRIS and ANDREW GILL

FUELLED by waves of panic selling from small investors, non-gold shares tumbled on Diagonal Street yesterday in reaction to the removal from office of Soviet President Mikhail Gorbachev.

Local markets followed the lead of weakening world bourses in volatile trade that saw share prices plunge and capital market rates soar.

The selloff swept the JSE overall index down 5,2% or 182 points to 3 293 on the back of the industrial index plunging 5,5% or 227 points to 3 895 and market leaders De Beers and associate Anglos coming under strong pressure.

The two market leaders were each at one stage down 10% before recovering to end about 7,5% lower amid concern about the group's connection with Russia through a $5bn diamond deal.

The news hammered an already bearish capital market as rates climbed more than 15 points to levels not seen since late-1989.

The key Eskom 168 stock climbed to 16,57% from a Friday close of 16,42%. The rate has now hardened by more than 35 points since the beginning of July this year.

Concern about an overseas selloff in the wake of declining returns was compounding the negative sentiment, dealers said.

Only the all gold index went against the trend with a gain of 14 points to 1 269.

But gold shares were off session highs as the price of the metal again disappointed investors by backtracking from a high of $365 to end just over $2 up in London at $360,40.

Fears that the Soviets may sell precious metals in the face of any Western cutback of credits combined with early Middle East and producer selling to pare the metal's gains.

Reuter reports that SA mines were notably active in selling forward to lock in sharply higher rand prices as the dollar soared and rand weakened to lift the rand gold price R23 to R1 054,27.

A sharp weakening of 2,2% in the finrand investment unit to R3,26 to the dollar from R3,19 failed to act as a prop for sliding

□ To Page 2

Panic selling

b/Day 20/8/91 (94)

□ From Page 1

currency-linked shares.

A JSE dealer said: "People are disturbed that gold has not performed as strongly as would have been expected under these circumstances." This dampened sentiment.

The selloff on the market was triggered by smaller investors on the premise that if there was to be panic, "those first to cut would be the best off", a trader said.

Professional jobbers were also among the sellers as institutional holders remained on the sidelines.

But volumes indicated that the big holders of shares entered the market to buy shares at the lower levels.

Losses on the overall market outnumbered gains by 181 shares to 40 with only six non-gold shares showing a price rise. But some dealers said the market reaction had been overdone.

On the SA Futures Exchange management moved to protect itself, members and clients by exercising an intra-day margin call for only the third time in its existence.

Trade was intense and as the industrial futures index plunged more than 200 points. Safex called in the margins of players on the downside, bringing in R11m as a contingency against losses.

● See Page 8

Dollar conquers in scramble for safe havens

BDay 20/8/91 (94)

ANDREW GILL

WORLD markets were bludgeoned by news of Soviet President Mikhail Gorbachev's ousting yesterday with equity and forex markets feeling the effects of a rush for safe haven investments.

All world stock markets made large percentage falls as the dollar soared to record levels against the rand and kicked the Deutschmark out of bed. The plunge prompted some exchanges to take emergency measures and halt trading in various shares.

Fundamentals were ignored and sentiment-driven panic took over. More than £13bn was lost in early trade in London. The FTSE-100 index finished 3% off at 2 541 after losing an initial 4,5% before lunch.

Trading on Wall Street opened with a flurry and 110 points were chipped off the Dow Jones industrial average in the first hour, before stocks recovered partially.

The exchange imposed trading restrictions designed to slow market volatility when the Dow falls more than 50 points.

In Frankfurt, the German market crumbled with a 9,5% fall in the 30-share Dax index to 1 498 at the end of official business. However, prices fell by as much as 1% more in subsequent unofficial trading in processing leftover orders. It was the biggest fall in more than two years.

German markets were hit hard because the Soviet Union is strategically, politically and economically important to that country.

In Tokyo, the Nikkei index shed 6% to 21 457 as news of the turmoil hit the market just before closing. Sydney and Hong Kong reported similar falls.

In Milan, trade was suspended in major shares, including Fiat, to stop the rot before midday.

The dollar dominated proceedings in foreign exchange markets as the currency benefited from its safe haven status and shrugged off two rounds of intervention by the Bundesbank and other European central banks.

"It's back to Cold War theory. The dollar is furthest away (from the Soviet Union)," Chemical Bank strategist David Cocker told Reuter.

It gained seven pfennigs against the mark to DM1,8320 in Europe before coming back to end at DM1,8150 in Europe.

Against the rand it scaled new heights in touching R2,9288 in morning trade before recovering partially during the day to end at a new closing high of R2,9188.

☐ To Page 2

Dollar

BDay 20/8/91 (94)

☐ From Page 1

This compared with Friday's close of R2,8823 and R2,9103 on July 5.

Commodities were the only real winners on the day as the unfolding uncertainty prompted a move to safe haven precious metals amid fears of supply shortfalls should the crisis disrupt production.

Precious metal and oil prices all rose, with gold climbing an early $7 in Asia before slipping back to end only $2,20 up at $360,40 an oz in London.

Oil prices were panicked up to post-Gulf war highs, climbing more than $2,50 a barrel to $22,20 for October Brent blend in morning trade, before correcting slightly to hold above $21.

The Soviet Union is the biggest oil producer in the world but little of the crude has made it to the world market recently as production problems have hampered supply levels.

Platinum climbed off its recent depressed lows to end in London at $352,25 from $344,50 on Friday. Palladium jumped to $82.25 from $78.

IDC earmarks R69m for export companies

(74)

B Day 20/8/91

SHARON WOOD

THE Industrial Development Corporation (IDC) had approved R69,2m in low-interest loans to export companies by June 30, IDC general manager Jan De Bruyn said yesterday.

The IDC introduced an export incentive scheme in May this year which provides R100m a year to companies for the next five years.

De Bruyn said the money had been given to eight firms, but could not name the companies because this was confidential information.

Companies would only qualify if they exported more than 30% of the additional capacity created by the loans.

If the export capacity was 30%, a company would receive half the loan at 9% for three years, while at 60% the full loan would qualify for the lower interest rate.

After companies applied for loans the IDC would conduct a feasibility study to determine which companies qualified for a loan.

The feasibility study determined the economic merit of the company, based on marketing, financial and technical aspects.

It also looked at the return for shareholders and the ability of the company to service its debts.

The IDC had not targeted the funds to specific industries but had given across the whole spectrum of export companies.

The loans were specifically intended for export promotion and not import replacement, De Bruyn said.

When asked whether the IDC planned to increase the assistance if the scheme was successful, De Bruyn said it was too early to say, but it had no plans at this stage.

But the scheme might change depending on the progress made, he added.

Bank Rate likely to stay high after Soviet drama

(74)

TIM COHEN

POLITICAL developments in the Soviet Union will probably prompt Reserve Bank governor Chris Stals to maintain Bank Rate at its current level, Sacob director-general Raymond Parsons said yesterday.

Parsons told about 100 members of the Johannesburg Chamber of Commerce and Industry that his reading of the economic evidence was that Stals was likely to sit tight.

BDay 21/8/91

Although it might have been possible to argue up until Monday that Stals had some room for manoeuvre to make a token reduction in Bank Rate at his major annual address on August 27, that option now seemed to be closed.

"My own assessment of the USSR situation is that if it does have a serious negative impact on the world economy, the recession in SA may be slightly prolonged and the expected upturn a little delayed."

The events in the USSR also underlined the importance on "getting the economics right" in terms of political reform.

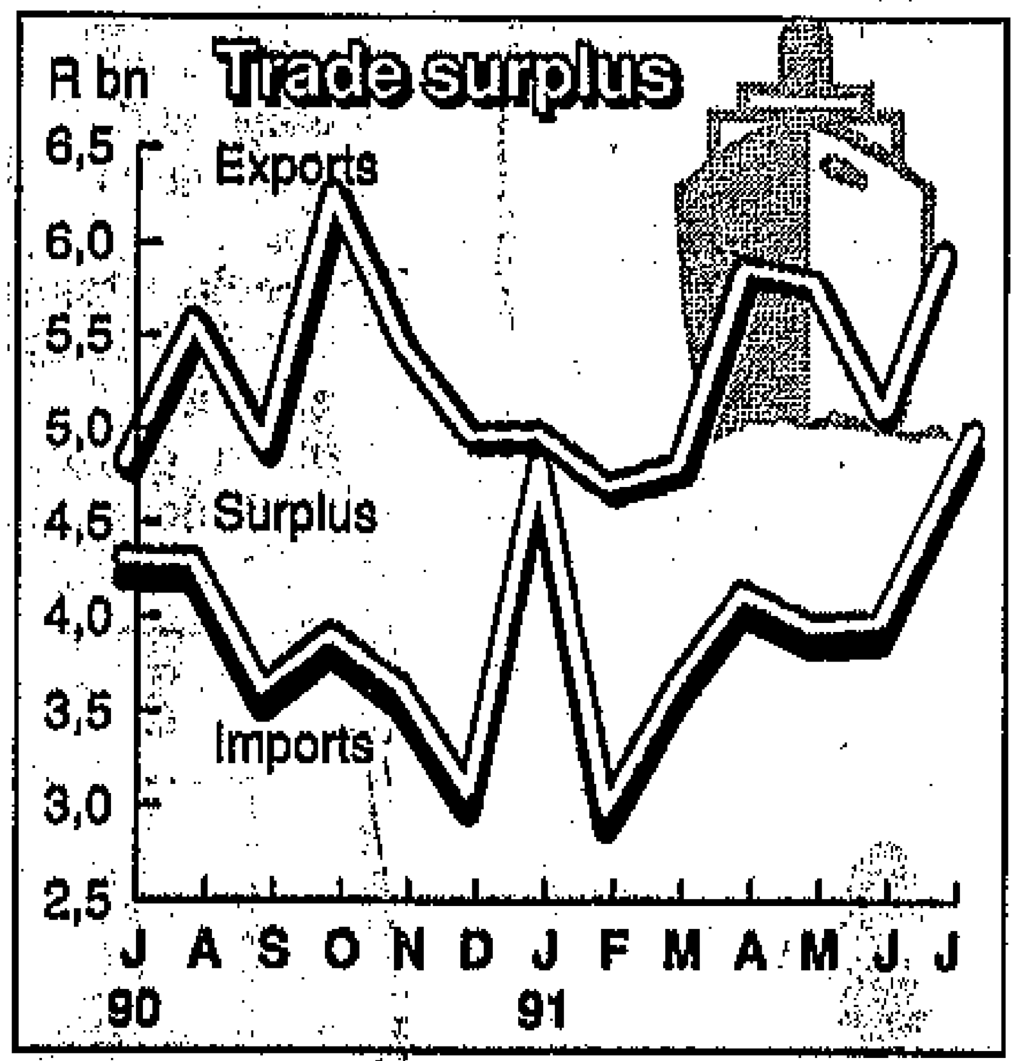
The Soviet economy had been Gorbachev's Achilles Heel and economic management during the political transition in the Soviet Union had been poor.

He said it may well have been better for Gorbachev to have accepted the radical 500-day economic reform programme last year.

"Small ad hoc changes appear to have antagonised too many people," he said.

The Russian experience again emphasised why good economic performance was needed to underpin political change in SA as well, Parsons said.

"A strong economy must go hand-in-hand with political progress and the risks of the transition must be properly managed."



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

Strong export sales lifted to R5,9bn (74)

SHARON WOOD

STRONG export growth in July was outstripped by aircraft-boosted imports and the merchandise trade surplus narrowed slightly to R1,05bn. B/Day 21/8/91.

The Boeing 747 imported for use by SAA at the end of June depressed the trade surplus by about R300m.

However, economists welcomed the surge in SA's major exports in July, saying this was encouraging in the face of a weakening world economy.

Total exports soared by 16,6% on a month-on-month basis in July to R5,9bn.

In spite of weak international commodity prices, base metal exports rose 40,2%

☐ To Page 2

Exports

B/Day 21/8/91 (74) ☐ From Page 1

and mineral products by 33,2%.

"Unclassified" exports (mainly gold, platinum and arms) increased by 22%. The gold price held steady at about $365 from June to July, but gold production rose 5,1% month-on-month to 1,64-million oz during the month.

Imports jumped by 22,6% to R4,9bn in July because of the 78,2% rise in transport equipment imports. SA's largest import, machinery, advanced by 9,5% between June and July.

Long-awaited signs of the sale of strategic oil stockpiles emerged in July when "unclassified" imports (mainly oil and arms) fell by 9,5%. This category can be expected to decline for the rest of the year when government supplements imports with domestic oil sales.

Improving agricultural conditions, which saw production rise by about 7% in the second quarter, reduced vegetable imports by 22,9%, month on month.

Bankorp economist Nick Barnardt said the trade figures were pleasing.

The phasing out of sanctions had had some effect on exports, which had risen despite the weaker world economy and poor international commodity prices. He expected exports to maintain momentum throughout the year and the cumulative surplus to be higher next month.

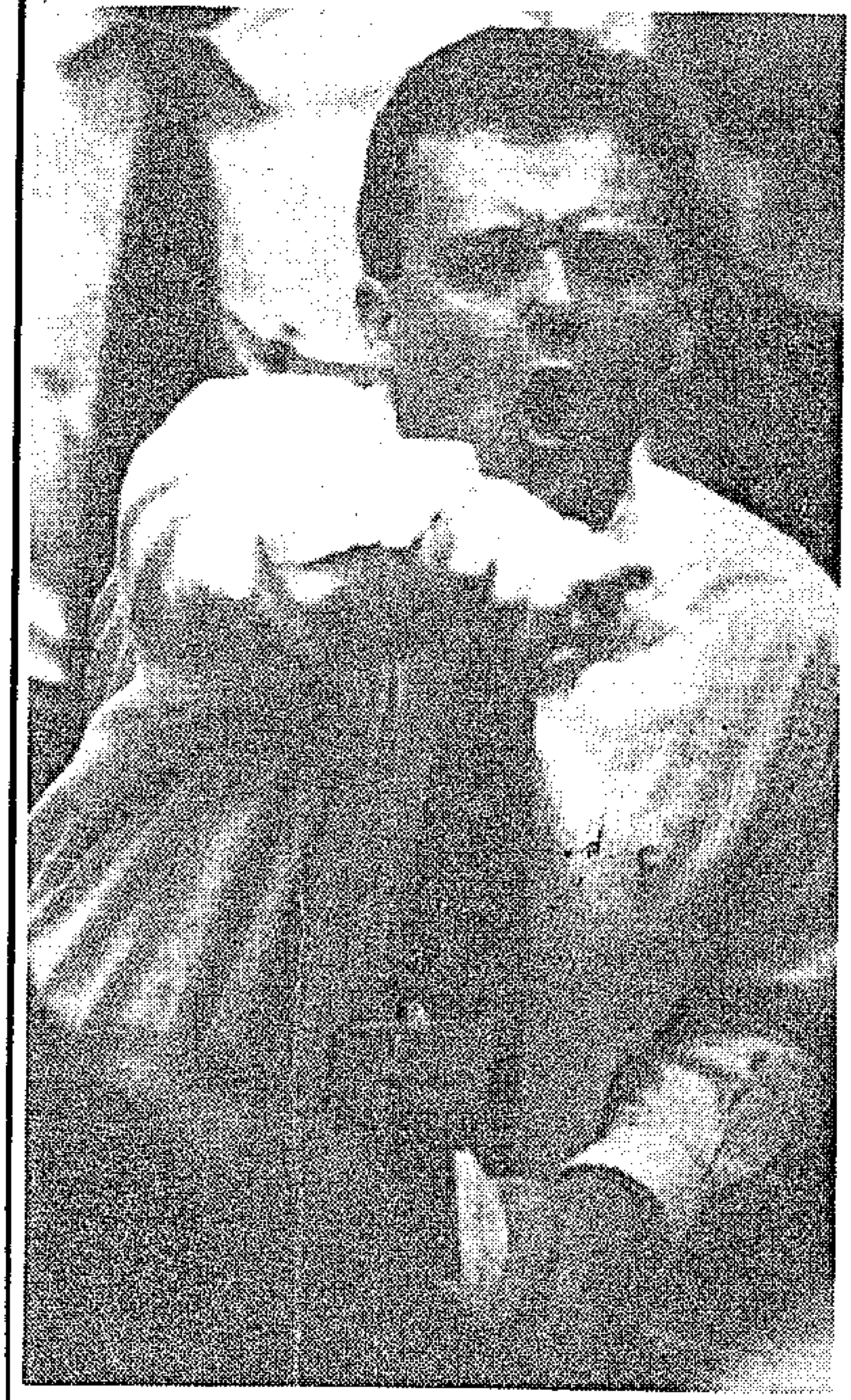
Imports were suprisingly high but this could be accounted for by the import of the Boeing. In the next few months there should be a reduction in imports as government used the strategic reserves.

SA was still on track for a R5bn cumulative trade surplus, he said.

SOVIET CRISIS

New fears over world economy

BlDay 21/8/91 (74)



A trader at London's International Petroleum Exchange market negotiates a gas-oil deal yesterday. The Soviet Union is a major supplier of gas-oil to Europe and oil prices have risen sharply in active trading since Mikhail Gorbachev was deposed on Monday. Picture: AP

WASHINGTON — The ousting of Mikhail Gorbachev raises the risk of a renewed US recession and lessens the chances of a global economic upswing next year, economists said yesterday.

They voiced fears that the uncertainty engendered by the crisis could undermine consumer and corporate confidence in the industrial world and hurt the global economy.

"It's going to delay the recovery in the US," which has the world's biggest economy, said David Jones, chief economist at Aubrey G Lanston & Co. "World economic growth could be curtailed,." he said.

On the face of it, the removal of Gorbachev by hardliners should not have much of an impact on the global economy. Trade between the Soviet Union and the industrial world is minimal.

"They might as well be on Mars," said William Stirling, international economist at Merrill Lynch & Co.

But Stirling and other economists said the aftershocks of the crisis could threaten the world economy. The Soviet Union is a major oil exporter and political chaos there could severely disrupt shipments to the rest of the world.

Much depends on how long the crisis lasts and how much it affects consumer and business confidence. If, as Jones expects, it proves prolonged, it would be bad for the world economy.

"Consumer and business confidence are the keys to how our economy will respond to the Soviet events," said John Silvia of Kemper Financial Services Inc.

The turmoil sent US interest rates tumbling on Monday and could strengthen the inclination of the Federal Reserve, the US central bank, to push official rates lower still, economists said. The Fed was already on the road to lowering interest rates because of weak money supply growth, a sluggish economy and low inflation.

To help cushion the world economy from the impact of the Soviet crisis, other central banks, such as Japan's, are likely to cut interest rates in the coming weeks to boost demand, economists said.

But Germany will be the country hardest hit by the financial fallout. Lanston's Jones said Germany faces inflation from higher oil prices and a weak currency and slower growth because of cutbacks in investment and other spending. — Sapa-Reuter.

'Winds of change' spark SA trade missions move

Business Staff (74) ARG 22/8/91

IN the light of recent "dramatic winds of change", the Department of Trade and Industry has decided to organise trade missions abroad.

It has chosen the Far East and South America for two trade missions because of "very favourable trading conditions" which they hold for South Africa.

Countries in these regions are seen as having "vast potential" for increased trade, investment and technology transfers — especially as certain sanction measures against South Africa have been lifted by the US and the EC.

"Countries such as Japan, South Korea and Hong Kong have now followed suit in lifting sanction measures such as voluntary trade boycotts and restrictions on investment in South Africa. Already the department's trade representatives have reported an upsurge in interest by concerns in these countries to expand their trade with and investment in South Africa," a spokesman said.

"The Far East region offers especially attractive export prospects for South Africa products in virtually every product category, as well as potential for increased joint ventures and investments in South Africa."

The first mission will last 14 days between September 23 and October 8.

The programme includes visits to Tapei, Tokyo, Seoul, Hong Kong and Singapore.

It says these markets are normally difficult to penetrate without the necessary personal contact. They have also, to a large extent, been untapped by South Africa exporters and offer the potential of developing into important re-export centres.

The South American mission will be between September 23 and October 9. It includes Rio de Janeiro, São Paulo, Santiago and Buenos Aires.

The department says its network of foreign trade offices attached to the various South African embassies and consulates will arrange a programme of appointments with substantive importers and will also, where possible, set up appointments with active chambers of commerce.

The number of participants will be limited to 15 in each mission.

Companies wishing to market specific products or services, those who are interested in participating in major capital projects or who may be interested in joint ventures with concerns in the Far Eastern or South American regions, have been invited to apply for inclusion.

More details are available from Mr J J Murray ☎ (012) 310 9372 for the South American trade mission and Mr A H Boshoff ☎ (012) 310 9494) for South America. In both cases, the address is Private Bag X84, Pretoria 0001.

Safto in bid to boost Middle East trade

(74)

JONATHON REES

ARAB, Israeli and SA businessmen will hold a closed-doors symposium in Pretoria today to provide impetus for potentially lucrative SA trade with the Middle East.

The SA Foreign Trade Organisation (Safto) says the rich Middle East countries import $105bn worth of goods annually, and payments are in hard currency. BDay 22/8/91

A top-level group of Middle East businessmen are in SA for the symposium, which was arranged by Safto and Foreign Affairs.

The gathering will be chaired by Foreign Affairs director-general Neil van Heerden.

Safto said yesterday the symposium represented a "tremendous initiative" between government and the private sector in opening new trade doors for SA.

Safto international division manager Martin Smith said yesterday almost every major SA business sector was represented at the symposium, including mining, construction, insurance, banking, building materials and food processing.

He said the Middle East held huge export potential "across the manufacturing range". The symposium had been arranged to show SA business the way to Middle East markets.

Smith said the prospects for future SA-Middle East trade were "absolutely tantalising".

The best prospects would be found in the United Arab Emirates, Saudi Arabia, Egypt, Iran and Kuwait, he said. SA companies could secure secondary contracts for Kuwait's reconstruction after the Gulf War.

Speakers at the one-day symposium include a major Middle East consultant to former UK prime minister Margaret Thatcher's government, Sir Anthony Parsons, and other experts from Britain, Israel and SA.

Topics include political and economic risks in the region, from an Arab and Israeli viewpoint, and how cultural differences can be overcome.

Smith said Safto would lead an SA business mission to the Middle East in October.

(74)

Trade missions in the pipeline

By David Canning

Star 22/8/91

DURBAN — The Department of Trade and Industry has decided to organise trade missions abroad.

It has chosen the Far East and South America for two trade missions because of very favourable trading conditions they offer.

Countries in these regions are seen as having vast potential for increased trade and investment and technology transfers, especially as some US and EC sanctions have been lifted.

The first mission will last 14 days from September 23 to October 8.

The programme includes visits to Tapei, Tokyo, Seoul, Hong Kong and Singapore.

The South American mission will be from September 23 to October 9. It includes Rio de Janeiro, Sao Paulo, Santiago and Buenos Aires.

(74)

Overseas investment vital, says Genbel chief

B/Day 23/8/91

MATTHEW CURTIN

THE Reserve Bank and the Johannesburg Stock Exchange had to take action to attract foreign capital to SA by ensuring investment opportunities were on a par with those overseas, Genbel chairman Tom de Beer said on Wednesday.

The rebuilding of foreign investors' confidence and the adoption of internationally accepted economic policies were critical preconditions for bringing new foreign investment into SA.

De Beer said Genbel, the Gencor group's investment arm, was confident the Reserve Bank was planning to scrap the two-tier exchange rate, and the company had been talking to the JSE for several months over ways to encourage overseas investment.

Industries

Addressing stockbrokers at a presentation of Genbel's year-end results, he said the Companies Act did not preclude local companies from placing shares for cash on behalf of interested overseas parties. But the JSE, unlike the London Stock Exchange, prohibited such activity.

Why should the JSE not comply with SA law and international practice?, De Beer asked.

MD Anton Botha said Genbel had successfully concentrated its investments over a wide number of industries in the year to end-June 1991, as it continued to cut its reliance on income from the gold mining industry.

Income from Genbel's offshore interests, investments in primary exporters and trading activity replaced income from its gold, platinum and mining finance interests as the main contributors to group profits between 1990 and 1991.

SA is targeting European finance

BDay 23/8/91 (74)

ANDREW GILL

SA IS poised for an official return to European capital markets with a public issue of government stock expected by London bankers later this year. Government is also expected to release details of a R330m rollover of government debt next week.

The bankers believe government will be the first SA borrower to go for a public issue of its stock since the debt standstill in 1985. The SA Housing Trust is rumoured to be next, followed by Eskom.

Government sources said yesterday the Finance Department would be releasing details of a DM200m loan rollover with Germany's biggest bank, Deutsche Bank, on August 28. In recent years, rollovers have been kept secret.

However, Finance deputy director-general Estian Calitz would not disclose details of the deal. He said a loan was maturing later this year and negotiations were under way to have it rolled over.

Reuter, quoting banking sources, reported from Bonn yesterday that the government issue would total DM150,2m and would be lead-managed by Deutsche Bank.

Calitz said it was premature to speculate about a rollover, let alone a new issue.

Finance director-general Gerhard Croeser is in Zurich, apparently testing the water for a public issue of RSA stock.

Deutsche Bank would not comment, but behind the scenes it was making a strong bid to be lead banker for the SA issue, Reuter reported.

A German banker said: "SA is very interesting but remains sensitive politically."

Deutsche Bank spokesman Hellmut Hartmann declined to comment, but said SA had made real progress in dismantling apartheid laws in the past year.

A banker close to SA said: "Since it is the first bond issue after the debt standstill in 1985, it was decided the government would do it itself." A second government bond could be issued as early as March 1992, he added.

The exact terms of next week's issue would be set after presentations to top bankers in Zurich, Paris and London, which began yesterday, the sources told Reuter. "They want to see the response before finalising the conditions." Top brokers in those three cities would also be underwriting the issue.

To remove investors' lingering "ethical qualms" about taking up SA paper, the proceeds from the first bond will be earmarked for "development projects", Reuter's sources said.

Industrials confirm underlying strength

CT 23/8/91 (74)

DIAGONAL Street has displayed its underlying strength with yesterday's rise of 48 points in the Industrial Index to 4 106 enabling it to recover 211 of the 227 points it shed in Monday's shake out.

The latest uptrend came on news of the return to power in Moscow of Mikhail Gorbachev in the wake of the failed Soviet coup, which fuelled demand for quality shares across most sectors.

The rise was boosted by a continuation of rallies on major global stock markets after a strong opening on the JSE petered out before noon in a volatile session of trading.

The rand also showed strength as it more than regained the losses it suffered against the dollar during the week following the coup attempt.

It closed at R2,8633 to the dollar as the US unit was discarded on overseas markets. This compared to the Wednesday close of R2,8863 and levels as high as R2,93 earlier in the week. However, it lost ground against other major currencies.

The Overall Index rose 28 points to 3 417 after starting the week at 3 475 with lagging gold shares holding the market back.

Gold closed little changed in London at \$356,55 as sliding platinum prices weighed on the market. Platinum fell \$5 to below \$342 before recovering slightly on news of the temporary closure of two Impala Platinum mines.

In New York, gold slid a little to close at R354,75.

JSE dealers said positive sentiment pervading the market was shown in the strength of leaders De Beers and associate Anglos, which had both plunged by 10% in early trading on Monday on concern over the \$5bn diamond deal with Russia.

De Beers, down on Monday from R91,50 to R84,25, touched a high of R92 yesterday before slipping to close 50c up at R90, while Anglos, which slumped from R120,50 to R111 on Monday, rose to a high of R120 yesterday before easing to close at R118.

However, capital market rates moved higher as bearish sentiment about government's borrowing requirements following the VAT revamp outweighed the developments in the capital market.

● In London, the FTSE-100 resumed last week's record-breaking trend, beating last Friday's closing high of 2 621,0 to end at 2 623,0, 21,1 points up on Wednesday's close.

● In New York, the gains were modest. **Wall Street** stocks settled into range trading as investors paused to assess the US economy and the market's direction.

The Dow average ended up about five at 3007.

Industrials confirm underlying strength

CT 23/8/91

(74)

DIAGONAL Street has displayed its underlying strength with yesterday's rise of 48 points in the Industrial Index to 4 106 enabling it to recover 211 of the 227 points it shed in Monday's shake out.

The latest uptrend came on news of the return to power in Moscow of Mikhail Gorbachev in the wake of the failed Soviet coup, which fuelled demand for quality shares across most sectors.

The rise was boosted by a continuation of rallies on major global stock markets after a strong opening on the JSE petered out before noon in a volatile session of trading.

The rand also showed strength as it more than regained the losses it suffered against the dollar during the week following the coup attempt.

It closed at R2,8633 to the dollar as the US unit was discarded on overseas markets. This compared to the Wednesday close of R2,8863 and levels as high as R2,93 earlier in the week. However, it lost ground against other major currencies.

The Overall Index rose 28 points to 3 417 after starting the week at 3 475 with lagging gold shares holding the market back.

Gold closed little changed in London at $356,55 as sliding platinum prices weighed on the market. Platinum fell $5 to below $342 before recovering slightly on news of the temporary closure of two Impala Platinum mines.

In New York, gold slid a little to close at R354,75.

JSE dealers said positive sentiment pervading the market was shown in the strength of leaders De Beers and associate Anglos, which had both plunged by 10% in early trading on Monday on concern over the $5bn diamond deal with Russia.

De Beers, down on Monday from R91,50 to R84,25, touched a high of R92 yesterday before slipping to close 50c up at R90, while Anglos, which slumped from R120,50 to R111 on Monday, rose to a high of R120 yesterday before easing to close at R118.

However, capital market rates moved higher as bearish sentiment about government's borrowing requirements following the VAT revamp outweighed the developments in the capital market.

● In London, the FTSE-100 resumed last week's record-breaking trend, beating last Friday's closing high of 2 621,0 to end at 2 623,0, 21,1 points up on Wednesday's close.

● In New York, the gains were modest. **Wall Street** stocks settled into range trading as investors paused to assess the US economy and the market's direction.

The Dow average ended up about five at 3007.

SA public bond issue on the cards

74

SOUTH AFRICA is likely to unveil its first public bond issue next week after six years of self-imposed exile from international capital markets.

Banking sources say the issue will total DM150,2m, and will be lead-managed by Germany's biggest bank, Deutsche Bank AG.

Government is also expected to release details of a R330m rollover of government debt next week.

Government sources said yesterday the Finance Department would be releasing details of a DM200m loan rollover with Deutsche Bank, on August 28. In recent years, rollovers have been kept quiet.

However, Finance deputy director-general Estian Calitz would not disclose details of the deal. He said a loan was maturing later this year and negotiations were under way to have it rolled over.

But Calitz cautioned it was premature to speculate about a rollover — or a new issue.

Finance director-general Gerhard Croeser is currently in Zurich, apparently testing the water for a public issue of RSA stock.

Despite its behind-the-scenes jockeying to win the lead, Deutsche Bank is said to be keeping the news under wraps, a fact other Frankfurt bankers did not find surprising.

"SA is very interesting but remains sensitive politically," said one German banker.

Deutsche Bank spokesman Hellmut Hartmann declined to comment, but said SA had made real progress in dismantling apartheid laws in the past year.

SA has already begun emerging from international isolation, refinancing expiring bonds in private placements to the tune of over \$1bn in the past two years.

Bankers say these low-key issues have been well-received, but banks — wary of rekindling anti-apartheid protests — have been hesitant until now to participate in a public issue.

SA now wants a splashy issue to re-establish its respectability, and is willing to a pay a premium to guarantee a success, banking sources said.

"Since it is the first bond issue after the debt standstill in 1985, it was decided the government would do it itself," said one banker. A second government bond could be issued as early as March 1992, he added.

The exact terms of next week's issue would be set after presentations to top bankers in Zurich, Paris and London, which began yesterday.

"They want to see the response before finalising the conditions." Top brokers in those three cities would also be underwriting the issue.

To remove investors' lingering "ethical qualms" about taking up SA paper, the proceeds from the first bond will be earmarked for "development projects," sources said.

CT 23/8/91

If the first public issue succeeds, other borrowers like the SA Housing Trust, Eskom, Transnet, and the Department of Post and Telecommunications are sure to follow suit quickly.

"They have already set up an unofficial waiting list," said one banker. "I'm sure it will go quickly after the first one."

He added that SA has plenty of internal capital, but its external resources dried up after the 1985 standstill on repayment of \$14bn of outstanding foreign debt.

The standstill is expected to be renegotiated in 1993.

According to a SA Chamber of Business report, SA needs \$3bn to develop the long-ignored infrastructure in black townships.

Euromoney magazine, noting SA raised \$1,07bn in 1984, its last full year on the Euromarket, predicts annual borrowing could soon reach \$4bn. — Business Staff and Reuter

Stability in SA vital to trade links

Sowetan 28/8/91 (74)

Violence in South Africa must be replaced by political and economic stability before foreign investments and trade will increase freely.

Mr Johan Louw, Sanlam's chief economist, in the company's latest survey, sounded this warning against excessive optimism about an unlimited flow of goods and funds to South Africa over the short term.

For South Africa, it was fortunate the sanctions campaign coincided with strong growth in countries such as Taiwan, Hong Kong, South Korea and Singapore. As a result, the reduction in trade with some traditional trading partners could be replaced.

For this and other reasons, the results of trade sanctions were not as bad as originally feared.

Regarding financial sanctions, however, the South African economy was in fact seriously affected. This was aggravated by disinvestment, companies leaving the country and the largescale call-up of foreign loans and credits.

From 1985 to 1990 South Africa had a net capital outflow of about R30 billion, generated on the current account of the balance of payments.

As a result, this money could not be spent on local growth.

An International Monetary Fund study found South Africa's ability to grow and create employment had been badly damaged in the absence of foreign capital. For every drop of one percent in the growth rate of the fixed capital supply, real production was decreased by approximately 0,8 percentage points.

This in turn caused sharp drops in employment and real salaries and wages.

The lengthy downswing in the SA economy - about 29 months - was resulting in serious consequences for companies as well as individuals. Unemployment, already unacceptably high, was aggravated by staff cutbacks at companies being dragged under by economic circumstances.

The turning point was expected towards the end of the year or early in 1992, with a considerably increased growth rate as from next year.

Sanlam expected a negative growth rate of between 0,5 percent and 1 per cent for this year. - *Sapa* projects that are inherently un-

Short-term help seen for CPI

Star 24/8/91.

CAPE TOWN — The tax adjustments announced by the Minister of Finance could result in the Consumer Price Index (CPI) rising less in the short term than would otherwise have been the case, says Johan Louw, the chief economist of insurance giant Sanlam.

"As far as the switch from GST to VAT is concerned, the envisaged recomposition of the Consumer Price Index makes it very difficult to determine the net effect of this change.

"At this stage, we think it should bring about only a small once-off increase in the inflation rate."

He says the higher petrol prices — 13c a litre for conventional fuel and 8c for diesel fuel — and excise duties on liquor, tobacco, TV sets and cars, on the other hand, are expected to cause this rate to rise by an estimated 0,7 percentage point in September.

(The forward and backward linkage effect could push the inflation rate still higher in time).

"All in all, we foresee that the inflation rate (after the tax adjustments) will be just over 14 percent by the end of the year.

"For 1991 as a whole, we estimate a figure of between 14,5 percent and 15 percent.

This could decline to an average rate of about 13 percent in 1992," Mr Louw concludes. — Sapa.

Gold, platinum take it on chin

Star 24/8/91.

FINANCE STAFF and REUTER

THE gold price yesterday fell to its lowest level in a year in the aftermath of the failed coup by hardliners in the Soviet Union.

Over the past week gold has fallen by almost $9 to be fixed yesterday afternoon in London at $353,70.

Platinum prices also took a hard knock, despite the temporary closure of two mines by Impala, the second-largest producer in the world.

It was set at $331,50 an ounce yesterday, its lowest level since December, after a close of $344 on Thursday, and in the wake of selling by Japanese investors.

The decline in the gold price, coupled with a recovery in the rand against the dollar over the week, hit the rand gold price — the price SA gold mines receive.

The rand gold price started the week at R1 054 immediately after the coup, but over the week plunged to close yesterday at R1 018.

The decline had a devastating effect on gold share prices on the JSE. Over the week the gold index shed 125 points to 1 144 yesterday.

Gold's failure to budge on news of the abortive coup in the Soviet Union, shows once again that the precious metal has lost its place as a safe haven in political crisis, analysts say.

Monday's coup by hardliners in the Soviet Union initially tacked $5 on to gold's price.

But values had retreated to the minus column by midday as threats of potential gold sales by the Soviets worried the market.

The Soviet Union, the world's third-largest gold producer, has a stockpile of 2 000 tons, and the market feared the economically ailing country would sell more gold to boost its foreign exchange reserves.

The coup's speedy demise resulted in a brief rise, as anxiety about Soviet sales waned on Wednesday.

Investors are not interested in trading gold, analysts say, and many have switched to more robust markets, such as the dollar, stocks and government bonds.

"I think part of the problem for gold is that world financial markets have matured and people are looking to other vehicles," says Jeffrey Nichols of American Precious Metals Advisors, a Florida-based consulting company.

"Gold is not particularly sensitive to geopolitical anxieties. Its traditional response (to global crises) is no longer valid. People prefer to hold dollars as opposed to gold," he says.

When Iraqi President Saddam Hussein's troops stormed into Kuwait in August 1990, gold prices on New York's Commodity Exchange rose just $3.

In mid-January, when Gulf War ground fighting erupted to dislodge the Iraqis, gold gained more than $6 in Sydney, Australia, the first market to respond.

But the next day it crashed a spectacular $30 in New York on expectations of a quick victory for the allies.

● Scores of miners at GFSA's Doornfontein gold mine have been on strike since Tuesday, the company confirmed yesterday.

It said the apparent reason for the strike was a resistance to alternative employment one level lower than existing positions in order to avoid retrenchments.

An ultimatum to return to work was issued to those employees who participated in the illegal strike.

The employees did not respond to the ultimatum, with the result that about 6 000 employees out of a total of 7 000 have been dismissed.

Government set to woo foreign insitutional investors

Star 24/8/91 (74)

STAR FOREIGN SERVICE

BONN — THE South African Government will make presentations to institutional investors and bankers in Germany next week, preparing the ground for its first public Eurobond issue since 1985.

Deutsche Bank, the biggest German bank, and favourite to win the mandate for a public issue, is hosting presentations of institutional investors in Frankfurt on Wednesday.

Representatives of the South African Ministry of Finance will be present.

However, a senior Deutsche Bank official says no decision has been made on the timing or size of a public bond issue.

South African Government-backed borrowers, such as the Department of Post and Telecommunications and Transnet have been active in the private placement markets of Germany and Switzerland this year.

The Centre for the Study of the South African Economy in London estimates that borrowers have raised about $300 million from this source in the first half of this year.

However, almost all of these funds have been used to refinance the redemption of outstanding bond issues made in the early 1980s.

There has been no public bond issue by a South African borrower since 1985.

The Government has said that it would like to make a big, public bond issue in the name of the Republic of South Africa and would like to raise new money.

Bankers says the lifting of US sanctions in July made it possible for institutional investors to participate in a public issue.

The involvement of large investment institutions would be vital to ensure the success of a public issue in the region of Dm150 million to Dm200 million.

But they say political sensitivities remain great.

For example, some of the biggest borrowers, such as the Province of Ontario and Ontario Hydro, will not deal with SA-linked banks.

Government set to woo foreign insitutional investors

Star 24/8/91 (74)

STAR FOREIGN SERVICE

BONN — THE South African Government will make presentations to institutional investors and bankers in Germany next week, preparing the ground for its first public Eurobond issue since 1985.

Deutsche Bank, the biggest German bank, and favourite to win the mandate for a public issue, is hosting presentations of institutional investors in Frankfurt on Wednesday.

Representatives of the South African Ministry of Finance will be present.

However, a senior Deutsche Bank official says no decision has been made on the timing or size of a public bond issue.

South African Government-backed borrowers, such as the Department of Post and Telecommunications and Transnet have been active in the private placement markets of Germany and Switzerland this year.

The Centre for the Study of the South African Economy in London estimates that borrowers have raised about $300 million from this source in the first half of this year.

However, almost all of these funds have been used to refinance the redemption of outstanding bond issues made in the early 1980s.

There has been no public bond issue by a South African borrower since 1985.

The Government has said that it would like to make a big, public bond issue in the name of the Republic of South Africa and would like to raise new money.

Bankers says the lifting of US sanctions in July made it possible for institutional investors to participate in a public issue.

The involvement of large investment institutions would be vital to ensure the success of a public issue in the region of Dm150 million to Dm200 million.

But they say political sensitivities remain great.

For example, some of the biggest borrowers, such as the Province of Ontario and Ontario Hydro, will not deal with SA-linked banks.

Trade will cut debt

(74)

C Press 25/8/91

REGIONAL co-operation in trade is the only way to reduce the high level of debt among Preferential Trade Area (PTA) member states.

An editorial in the latest PTA newsletter says the total debt of the 17 members, excluding Somalia, increased from $36 416-billion in 1985 to $54 437-billion in 1989.

An economist at the PTA secretariat in Lusaka said the figure stated in the newsletter was conservative and estimated this to have gone up to about $64-billion.

Zambia's debts of over $7,2-billion in 1989 were second only to Sudan, whose external debt was $12,3-billion.

The lowest debt figure was for Djibouti with only $191-million.

Inadequate production of quality export goods has contributed to trade imbalances, falling prices of primary commodities, high interest rates, depreciation of national currencies and dependence on single export products.

On a favourable note, the newsletter said inter-PTA trade increased by six percent during the same period, but it called for increased trade among member countries to realise the projected goals. – Sapa

Investment spur as govt seeks votes

LINDA ENSOR

CAPE TOWN — The investment environment in the run-up to national elections and/or a referendum would be positive, Southern Life investment GM Carel de Ridder said at an Institute of Life and Pension Advisors' function last week.

"Positive sentiments will prevail and government policy can be expected to be stimulating, especially fiscal policy, so as to generate support from the population," De Ridder said. BDay 26/8/91

He expected uncertainty about the form of the new government to set in closer to the election or referendum, having an adverse effect on capital and stock markets.

Taking a longer-term view, De Ridder said it was possible to extrapolate from the experience of the SA economy in the '60s and '70s to construct high-road and low-road scenarios respectively.

The high-road scenario assumed that government would follow free market principles and a policy of monetary discipline, while still being actively involved in the economy and in the redistribution of wealth. Government spending as a percentage of GDP would not rise much above the present 35%, the tax rate would not rise dramatically, inflation would be in the region of 10% and the rate of exchange would be moderate.

The low-road assumed a socialist government controlling the economy and using tax increases to redistribute wealth, but constrained by the requirements attached by the IMF and other donor agencies to loans. 714

De Ridder said that even should a socialist government come to power under a new constitution, South Africans should not expect any worse than they had already experienced.

New doors open in East Europe

74

B/Day 26/8/91

SHARON WOOD

NEW doors to SA trade will open next month when Trade and Industry Minister Org Marais signs two new trade agreements with Czechoslovakia and Poland, the department's new markets director, Piet Verwey, has said.

This follows trade agreements already signed with Hungary in August last year and Romania in October.

SA has official missions in five of the six countries in the Eastern Bloc. Yugoslavia is the exception, but this is due to its internal political problems.

Vermey said in an interview on Friday that SA had opened up most of the "difficult areas" in the world, such as China and the Soviet Union.

Trade relations with the Far East, including Thailand, Singapore and South Korea, were "almost normalised" but no official links had been established.

They were "important markets" because the future for growth lay in that part of the world.

"Initiatives have also been made in the Middle East because that is where all the money is," said Vermey.

A major problem in SA's export drive was not the lack of markets and opportunities but the lack of suitable products for export, he said.

Export incentives to be raised soon

SHARON WOOD (74)

EXPORT incentives will increase by one percentage point on October 1, because of high inflation and the weaker rand which have reduced SA's export competitiveness on world markets.

Manufacturing export incentives would rise to 19,5% of free-on-board export value under the General Export Incentive Scheme (GEIS), Trade and Industry Department export promotion director Bert Pienaar said in an interview on Friday.

Material intensive products would qualify for 7% (6% in the previous six months), beneficiated raw materials for 2,5% (1,5%) and basic raw materials 0%.

A rise in export incentives occurs by changing the E-factor in the GEIS equation, which measures the level of assistance to exporters. The E-factor is the exchange rate factor, which is adjusted for inflation and exchange rate fluctuations.

The factor is revised by the department every six months and is announced six weeks before implementation.

Pienaar said it was no accident that Category 4 (manufactured products) were at a high level.

"It is one of government's strongest instruments in promoting a manufacturing industry in SA, without which this country will continue on a no-real-growth road."

This was the typical syndrome of mineral rich countries such as SA and Australia, he said. B/Day 26/8/91

The high incentives given to industries falling within Category 4 should also pull investment from abroad, which was sluggish at present for political reasons, Pienaar said.

THE MONEY MARKETS by Sharon Wood

Market back in the doldrums

B Day 26/8/91

AFTER a small twitch in rates on Wednesday the money market slumped back into the doldrums, ahead of a what is expected to be a liquid month-end.

Markets reacted neutrally to the news on Wednesday night of a reduction in the VAT rate and the simultaneous petrol price hike.

The smaller rise in inflation as a result of lower VAT is expected to be counter-balanced by higher transport costs.

But the news did push expectations of an interest rate cut into the distance because government agrees tight monetary policy will be maintained to contain more buoyant consumer expenditure this year.

Money market rates moved sideways and trading activity centred on longer term one-year market instruments because of uncertainty regarding interest rate direction and not much paper was created in three-month NCDs.

There was no demand for rates under 17,40%.

Twelve-month NCDs moved up to 17,50% on Wednesday after hovering around 17,45% during the first half of the week, but Finance Minister Barend du Plessis' statement on Wednesday night saw the rate move down to 17,45% again on Thursday.

The Reserve Bank rolled over R500m in Treasury Bills on Monday and Thursday leaving R800m in special Treasury Bills in the market. The rollovers increased the market shortage to R1,851bn from R1,350bn on Wednesday.

74

Indications

When the shortage drifts below R1,5bn the Reserve Bank drains liquidity from the market.

The Bank will have its work cut out to maintain a decent shortage on Friday because all indications point towards an easy month-end. Month-end promises to be liquid because R2bn of RSA government stock is maturing and R1bn interest is being paid out.

The shortage will probably remain at current levels — unusual for a month-end when it is normally relatively high.

Mining tax payments, which would take money out of the system, are not that substantial this month.

The Bank will probably use dollar swaps and short-dated Treasury Bills to mop up liquidity and may sell short-dated assets.

Money supply figures show M3 growth remained relatively static with the target used by the Reserve Bank to monitor monetary policy falling below 20% for the first time since the figures were distorted in February. The M3 annualised growth rate from the base of the guideline year rose by 19,38% in July from 20,22% in June.

The reasonably good money supply figures will probably be ignored by what is expected to be another disappointing rise in inflation in July, when the consumer price figures are released today.

Markets may show some movement when Reserve Bank governor Chris Stals delivers his annual address at tomorrow's ordinary shareholders meeting.

Export incentives gain from high inflation

(74)

CT 26/8/91

Own Correspondent

JOHANNESBURG. — Export incentives will increase by one percentage point on October 1, because of high inflation and the weaker rand which have reduced SA's export competitiveness on world markets.

Manufacturing export incentives would rise to 19,5% of free-on-board export value under the General Export Incentive Scheme (GEIS), Trade and Industry Department export promotion director Bert Pienaar said in an interview on Friday.

Material intensive products would qualify for 7% (6% in the previous six months), beneficiated raw materials for 2,5% (1,5%) and basic raw materials 0%.

A rise in export incentives occurs by changing the E-factor in the GEIS equation, which measures the level of assistance to exporters. The E-factor is the exchange rate factor, which is adjusted for inflation and exchange rate fluctuations.

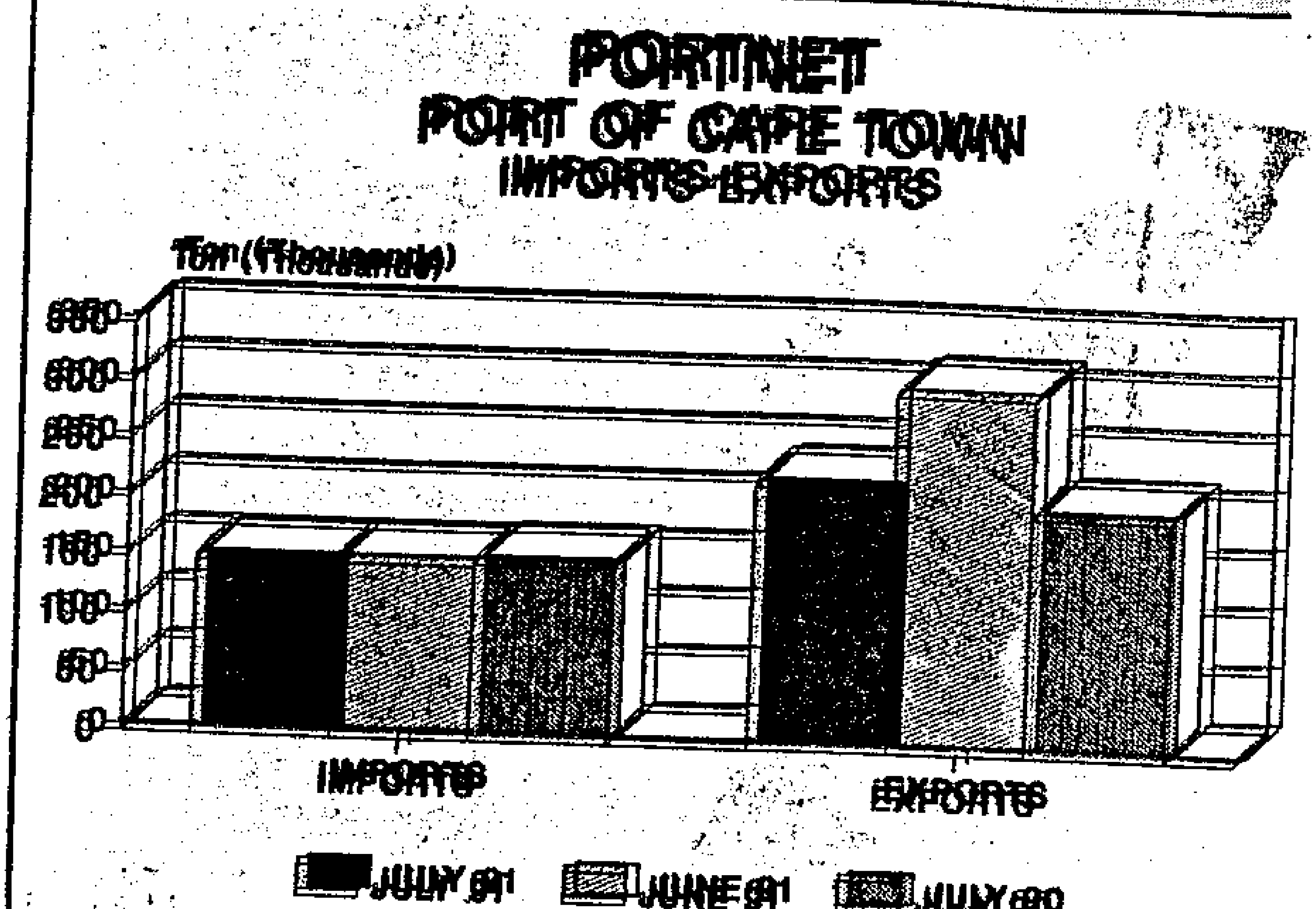
The factor is revised by the department every six months and is announced six weeks before implementation.

Pienaar said it was no accident that Category 4 (manufactured products) were at a high level.

"It is one of government's strongest instruments in promoting a manufacturing industry in SA, without which this country will continue on a no-real-growth road."

This was the typical syndrome of mineral rich countries such as SA and Australia, he said.

The high incentives given to industries falling within Category 4 should also pull investment from abroad, which was sluggish at present for political reasons, Pienaar said.



HARBOUR ROUNDUP . . . The ending of the deciduous fruit season meant a 26,4% drop in exports from Cape Town harbour in July, compared with June. But, at 225 301 tons compared with 306 032 in June, they were still 10% more than in July the previous year when they totalled 204 877 tons. Imports totalled 149 000 tons — 1,4% down on July 1990 when they totalled 151 142 tons. Between April and July exports from the harbour totalled 1 265 673 tons, 1,3% more than in the same period last year when they totalled 1 249 338 tons. Imports in the four month period were 43,7% higher this year. They totalled 709 457 tons compared with a total of 493 740 tons last year.

74

CT 26/8/91

Debts of R3bn rolled over

GRETA STEYN

SA SECURED about R3bn in foreign debt rollovers in the 18 months to June this year, figures in the Reserve Bank's Economic Report show.

The Bank describes as "dramatic" the recent improvement in the capital account of the balance of payments (BoP) in the face of the country's foreign debt burden.

"The smaller capital outflow than the debt maturing confirms that the more favourable foreign political and economic perceptions regarding SA led to a substantial refinancing of debt or that new funds were made available to SA borrowers."

About R7,3bn in foreign debt fell due over that period, but capital outflows were considerably less at R4,16bn. The Bank estimates that about 40% of maturing bearer bonds and notes were rolled over or replaced by new loans. Bonds and notes are more difficult to refinance than normal bank loans as a range of individual investors are involved. (M4)

Indications are that the improvement in the capital account is continuing. The Industrial Development Corporation this month secured a $150m credit line from an Italian banking consortium for capital goods imports, while Taiwan is to invest $200m in an SA petrochemical plant. Government's accounts for the year to June show it has received R139m in foreign finance this year. Talk is that it will provide details soon of R330m in rollovers and

☐ To Page 2

Rollovers

B/Day 27/8/91 (M4)

☐ From Page 1

that it is poised to enter the European capital markets for a further R245m.

The BoP also received a major boost this year from an impressive performance on the current account (the trade balance less net payments for "invisibles" such as interest, dividends and insurance). The current account surplus shot up to an annualised R6,2bn in the second quarter — higher than the quarterly average for last year.

The Bank says SA's current account performance "is probably a record for a developing country". The current account was helped by reduced interest payments because of lower foreign debt.

The overall strength of the BoP has given SA a healthy cushion of foreign exchange reserves — a factor which will help in sustaining the next economic upswing.

The Bank says "the total potential reserves are now considerably better placed to accommodate an economic upswing". The Bank has a "substantial amount" of unused credit facilities available after redeeming almost all its foreign liabilities.

Net reserves, which exclude special central bank credit, rose by R1bn in the first half after increasing by R2,9bn in 1990.

But the Bank sounds a note of caution on the BoP by pointing out that most of the improvement in capital flows was the result of movements of short-term capital. These are notoriously volatile and influenced to a large extent by exchange rate expectations. It also notes that total foreign exchange reserves still represent only about seven weeks' imports.

BUSINESS

SHARON WOOD

Govt rejects criticism of export incentive scheme

(74)

THE Department of Trade and Industry has rejected criticism of the effectiveness of its export promotion programme, saying it is among the most advanced and assertive in the world.

Results from a recent National Productivity Institute (NPI) survey of 29 exporters showed the repondents felt SA's export promotion programme had not kept pace with world and local developments.

The report said the results "indicate the present government export strategy may not be sufficiently geared to motivate companies to export".

But in an interview the department's director of export trade promotion, Bert Pienaar, rejected the validity of the survey, describing the selection of the participants as unscientific.

Respondents included companies which produced minerals, ferro-alloys, chemicals and basic materials.

"These are the traditional exports with well-established markets and very little government export promotion needs to be done for these exporters.

"This leaves the impression that there was a total lack of understanding on the part of the surveyors," he said.

Government had played, and was still playing, a leading role since it embrarked on an export culture creation plan more than two years ago, Pienaar said.

The export strategy was based on both financial services and a wide range of services to exporters.

The NPI report also said the repondents felt there was a lack of co-ordination between government and the private sector.

Pienaar said there was more co-operation and consultation with industry than at any time in SA's history.

The government worked closely with Sacob and the Afrikaanse Handelsinstituut.

He added the private sector had a permanent forum, the Private Sector Export Advisory Committee (PSEAC), with whom government met on a regular basis.

"The department has been urging industry to widen membership on the PSEAC so that it has a more representative voice." BDay 29/8/91

Incentives

Another criticism from exporters was that incentives were not performance orientated.

Pienaar said the General Export Incentive Scheme (GEIS) was sophisticated because it was triggered by local content and was value added. In addition, it responded to local conditions working against exporters.

When the rand is stronger or inflation is high, making SA exports less competitive on international markets, the assistance given to exporters was greater.

According to the NPI report: □ 80% of the respondents said the two-year time factor for the payment of the GEIS incentive eliminated the benefits;

□ 65% said there was uncertainty regarding the future of GEIS and government intentions;

□ 80% of the respondents in the survey said the phasing out of the previous export incentive package would leave exporters worse off; and

□ The withdrawal of the section 11 bis export incentives in particular would have an adverse effect on the competitiveness of many export companies..

The 11 bis is the section of the Income Tax Act which allows companies whose executives travel overseas to claim rebates on marketing expenditure from the department.

But Pienaar said it would have been grossly irresponsible of government to maintain section 11 bis with GEIS.

"Billions of rand were drained from the tax system through this scheme and it was abused to an awesome extent," Pienaar said.

The definition of marketing expenditure was too wide and included expenses which were actually business transactions, such as agents' commission and registration of patents overseas, he added.

Pienaar said there were various hurdles in the export promotion drive.

Many of the large corporations were restricted in expanding operations internationally through licence agreements with the parent company.

An inward-directed manufacturing sector had resulted in short and uneconomic production runs and low productivity.

In addition, there was no general export culture in SA industry, he said.

Keen interest in SA markets

Sowetan 29/8/91.

(74)

> *"They are keen to link up with us and to discover that South Africa, through all the ups and downs and bad patches, was one of the countries that really stayed on course and was never mesmerised by the socialist paradise."*

President De Klerk's speech to Parliament on February 2 last year signalled a new era. Six diplomatic missions have since been established in Europe. The director-general of the Department of Foreign Affairs, Mr Neil Van Heerden, spoke to Political Staffer ESTHER WAUGH

Links with E European countries now bloom

NEIL VAN HEERDEN - looking east.

EASTERN EUROPE could help get South Africa back into the international community, says Mr Neil van Heerden, Director-General of Foreign Affairs.

Poland, Czechoslovakia and Hungary have offered to help return South Africa to the international fold, he says, and new links with them are being "energetically pursued".

They were all prominent members of the non-aligned movement which had undergone very severe change: "It is a sort of a club where they all know each other.

Hunting

"They still hunt in packs in New York and Paris, and places where multilateral things take place and are happy to facilitate in bringing South Africa back into the international fold," he said.

Van Heerden said this was an option that could not just be dismissed, because "their numbers are big and their influence has been pervasive in the past".

On his recent visit to eastern Europe he discovered a special interest in South Africa.

"They are keen to link up with us and to discover that South Africa, through all the ups and downs and bad patches, was one of the countries that really stayed on course and was never mesmerised by the socialist paradise."

Fears

They were not particularly interested in discussing with Van Heerden the dangers in having a communist party or the fears in some South African minds about communism taking over.

"They can hardly comprehend that there is a place in the world where there are still people who are amenable to that kind of ideology."

They were, of course, quietly thinking of job possibilities for technicians - not necessarily permanent immigration, but people on contract. They regarded South Africa as a wealthy country where there are plenty of trading possibilities.

Direction

South Africa has missions in Czechoslovakia, Hungary, Romania, Poland, Bulgaria and the Soviet Union. "During my visit Hungary upgraded to full embassy and we are looking to Poland and Czechoslovakia to develop in a similar direction."

Many possibilities also existed on the cultural front for orchestras, art exhibitions, ballet, and so on.

All of them had resident communities in South Africa which had been less visible in the past, and would now play a role.

The three countries were energetic about the new relations. "We will want to develop them as we go along. We can't afford to put down big missions there. It is very expensive and we want to do it in a cost-effective style."

Van Heerden saw these links rapidly developing into normal bilateral ties with agreements reached on investments, double taxation, air agreements, export credit, export credit guarantees which were discussed during his recent visit.

Proposals

"They came to the table with specific proposals on specific agreements across the whole spectrum. At this pace, I think we will have well established, full fledged bilateral relationships very soon."

"When eastern Europe opened up there was a sort of euphoria about economic prospects - not only with us but with the west Europeans - which has not been entirely justified.

"Understandably so, because these countries are coming out of a deep, dark period where the economy was their weaker side.

"We must know for sure these are developing economies, not El Dorados. We must go slowly and explore links and find where we can have trade-offs and possibly elements of barter trade. It is not going to be a massive commercial windfall overnight for anybody, also not for South Africa."

On whether events in the Soviet Union would affect relations with these countries, he said the decision to go with the West was final. "It will take blood to change that."

South Africa's raw materials could find important markets in these countries because their supply contracts had been disrupted.

"We should not underestimate the level of technology in those countries. It is a new window for our economy. Remember, two years ago we had nothing going with those countries. Seen from our economy's point of view, it is a plus," he said.

5073

Exports boost Trencor earnings

(74) ARG 28|8|91

Business Staff

AN INCREASE in exports and overseas operations enabled Cape-based Trencor to maintain its growth record with a 29 percent increase in earnings for the year to June

The advance in earnings was achieved on a 6 percent rise in turnover to R829 million (R784,6 million) by the group's manufacturing and trading interests.

Income after tax was 25 percent better at R109,6 million (R87,7 million).

Attributable profits totalled R105,2 illion (R81,8 million) after outside shareholders' interest of R4,5 million (R5,9 million).

A final dividend of 125c (100c) a share brought the total payout for the year to 160c (130c).

■ PACKAGING makers Consol are contemplating a rights issue to reduce gearing and redeem preference shares, managing director Piet Neethling announced yesterday.

The group had an earnings growth of 23 percent to R124,5 million and a dividend increase of 22 percent for the year to June.

Mr Neethling said Consol was not in a desperate position. At year-end gearing stood at 29,2 percent, down from 34,8 percent, compared with the group's internally imposed ceiling of 40 percent and 50 percent, depending on interest rates.

Mr Neethling said it was felt that with the current strong share price, the market would be receptive to a rights issue.

In financial 1991, Consol's turnover rose 33 percent to R2 072 billion .

■ MUTUAL and Federal has announced a 14 percent increase in after-tax profits for the year ended June, and has shown an underwriting surplus at a time when the short-term insurance industry as a whole is reporting record losses.

After-tax profits increased to R101 million (R88 million).

Gross premiums amounted to R1,2 billion, a 36 percent increase on last year. Net premium income rose to R1 01 billion from R748,4 million in 1990, an increase of 35 percent.

The underwriting surplus for the year under review was higher at R18,9 million (R11,6 million).

■ PRIMA Bank, which increased net profits by 150 percent to R3 million in the year to June, is hopeful that profit levels will be maintained in the current year in spite of recessionary conditions, chairman Professor Wynand Mouton said in the bank's annual review.

Dollar is expected to stand its ground

B Day 28/8/91

(74)

SHARON WOOD

THE turmoil factor was taken out of the dollar during the week, but favourable economic fundamentals made a comeback on Friday improving sentiment towards the US currency.

The dollar lost little ground during the week because the dramatic fall in the currency, following the collapse of the Soviet coup, was reversed by surprisingly good US durable goods order figures for July released on Friday.

"Consolidation around current levels" returns to forex vocabulary and this is what the dollar is expected to do until the release of key US economic data this week and next week.

Positive sentiment towards the US economic recovery is tentative at the moment and markets still expect a steady but erratic growth path. For this reason forex markets are expected to be quiet this week as participants wait for further news on the Soviet scene and US economic performance. Analysts say forex markets are wary after last week's tumultuous events and will probably act cautiously this week.

Union Bank of Switzerland says the US economic optimists have found their second wind and experience has shown this kind of mood swing can withstand more than a few negative reports. Thus the interpretation of the forthcoming numbers may be more positive, they say.

A rise in the personal consumption data to be released tomorrow and leading indicators on Friday could be used to test the dollar's resistance. The economic release which usually moves the market substantially is unemployment data which will be released on Friday next week.

FNB technical analysts say the dollar bull trap last week appears to have run its course and further progress has been made on the right shoulder (RS on graph) of the long-term head and shoulders (H and LS) formation.

But the formation is expected to take some time to complete and thus the dollar will probably show little movement this week.

The forecast range for the dollar this week is DM1,7350-1,7645.

The Deutschmark was at the receiving end of events in the Soviet Union last week and was initially battered by the dollar's strength. But it recovered later in the week.

The yen was one of the most stable of all international currencies because of its safe distance from events. Expectations of an interest rate cut in Japan, which would add life to the stock exchange, looks unlikely to be fulfilled at this stage.

Union Bank says without a jump start from the Fed, the probability of lower interest rates in Japan in the near future is slim — to the chagrin of the stock market but a plus point for the currency.

Initial signs of a turnaround in the British economy have dissipated. Standard Bank's international comment says the bulk of UK statistics show the economy is still in recession, but the trough may be near.

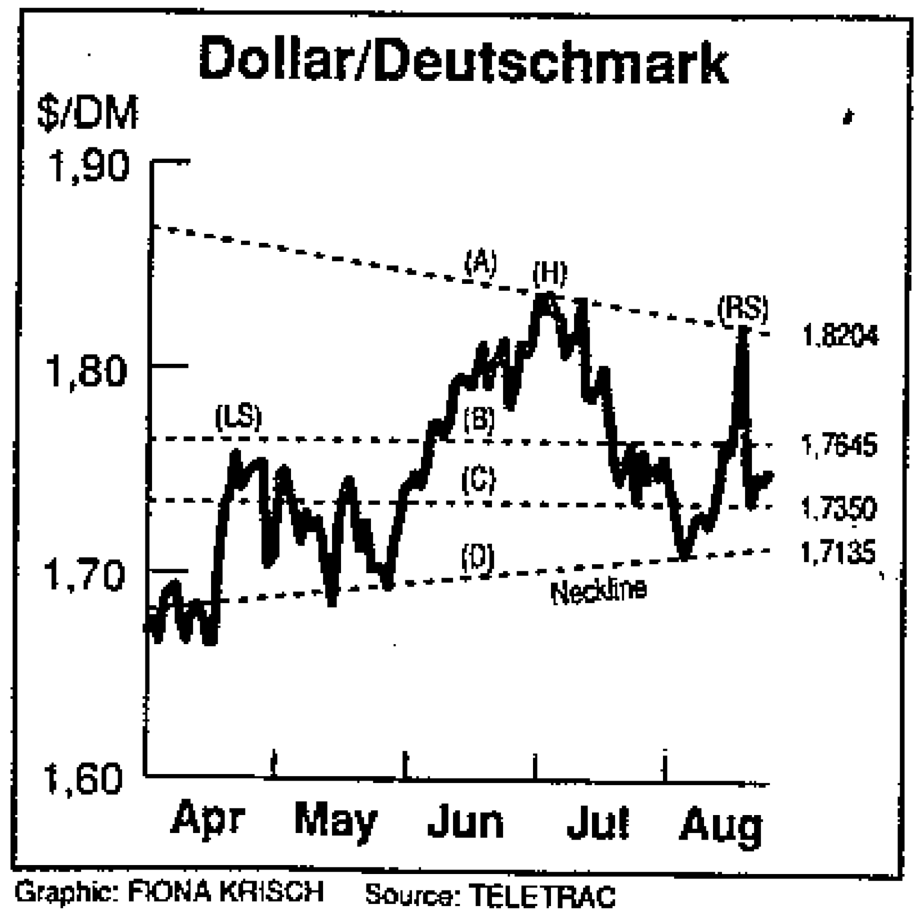
Gross domestic product data for quarter two, released last week, showed a decline of 0,9% quarter-on-quarter, while on an annual basis the economy slid by 3,7%.

The rand tracked movements in the dollar in a hectic week's trading and lost some ground during the week, trading at R2,8747 yesterday afternoon from last week Tuesday's close of R2,9078.

The gold price is in a "dead cross" according to technical analysts, which aptly describes market views towards the precious metal after its failure to go near the $400 level during the Soviet crisis.

The technical explanation of a "dead cross", a bearish signal, is when the short-term moving averages cross below the one-year moving average.

FNB expects gold to range between $352,20 and 358,75 this week.



Graphic: FIONA KRISCH Source: TELETRAC

—REVIEW—

Pepkor chairman calls for pact on economy

BDay 28/8/91

LINDA ENSOR

74

CAPE TOWN — A pact between the state, private sector and trade unions to develop the potential of the SA economy should be agreed upon, Pepkor chairman Christo Wiese said yesterday.

He told an Afrikaanse Sakekamer function that none of these interest groups could achieve the task alone.

The provision of welfare for the population was a precondition for the development of democracy, which could succeed only if it satisfied people's material wants.

One of the threats to democracy was the high rate of unemployment.

Exports by sectors with a high growth potential had been identified as the path of salvation for the SA economy, but would succeed only if prices were lower and quality better, Wiese said.

The strategy of government in the past to encourage exports by certain sectors had not worked.

It was necessary for a strategy to be adopted that made all exports competitive by encouraging investments in technology and by instituting an appropriate tax structure to make investment possible. Productivity would have to improve, input costs cut and the expectations of trade union members tempered.

Wiese stressed that attempts to improve competitiveness should not be directed at the international market only, but also at the domestic market.

Trencor lifts earnings 29%

CT 28/8/91

(74)

By AUDREY D'ANGELO
Business Editor

EXPORTS and overseas operations enabled Cape Town-based Trencor to lift earnings by an impressive 29% to 735c (572c) a share in the year to June in spite of difficult conditions in the domestic market.

Attributable income rose above R100m to R105,2m (R81,8m) for the first time.

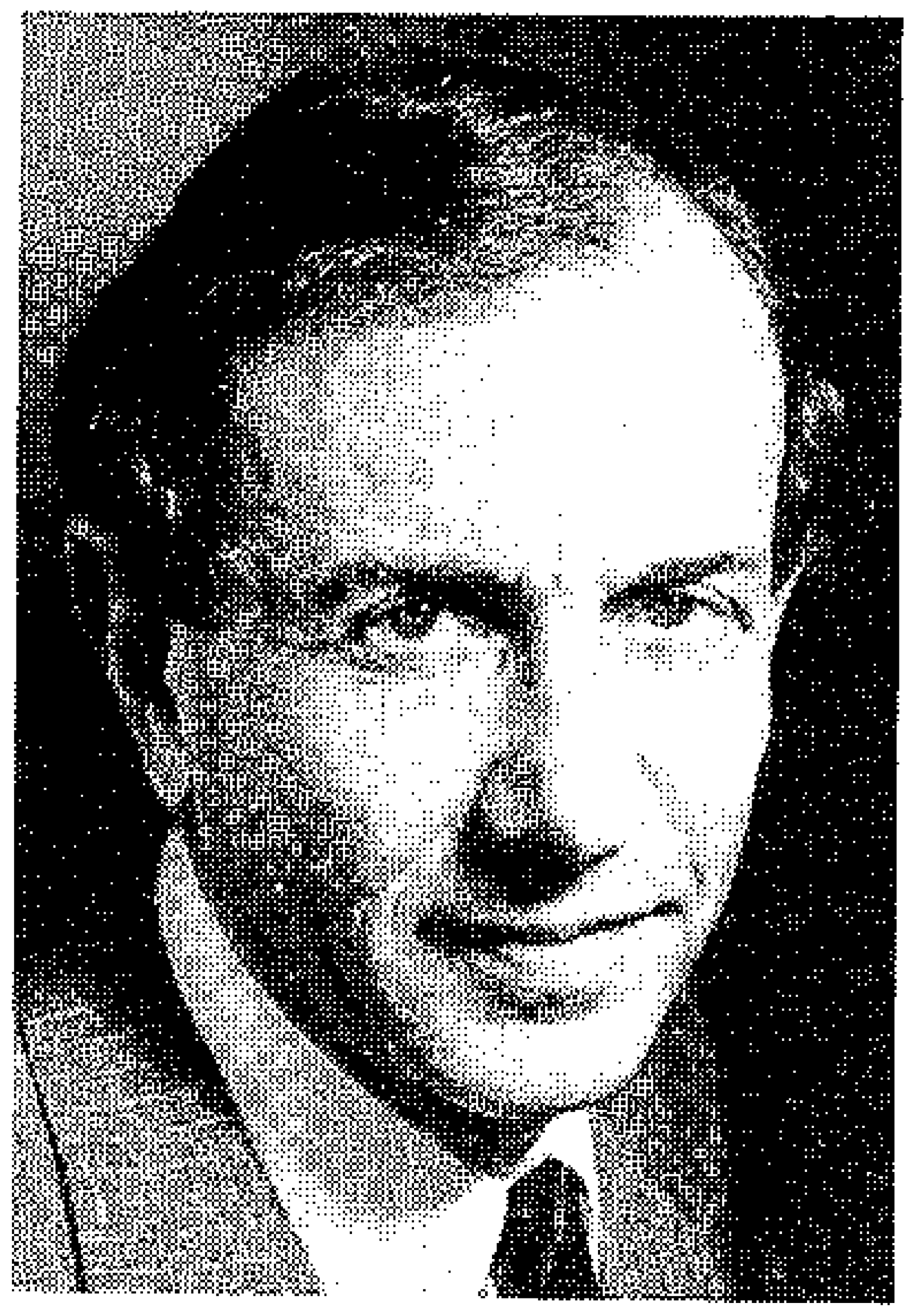
This was achieved on a rise in turnover of only 6% to R829m (R784,6m). But executive chairman Neil Jowell points out that turnover is not comparable with the previous year's because of a change in the mix of manufacturing and retail trading resulting from the merger of Tycon (previously Goodyear) and Tredcor to form Contred.

The final dividend is 125c (100c) a share, covered a conservative 4,6 times, making a total pay-out of 160c (130c) for the year.

Pre-tax income rose to R132m (R112m). After-tax income rose by 25% to R109,6m (R87,8m).

Trencor has turned in a consistently good performance for at least seven years, regardless of the state of the economy. This year's results mean that a compound growth in earnings of 40% has been achieved since 1984.

Jowell says that in view of the recession the group's performance in the domestic market was "satisfactory" although some operations did less well than the previous year. Results from the trailer manufacturing operation were the lowest for 20 years.



Neil Jowell

And the group's core business of transport has been affected by the recession, rising fuel costs and unfair competition from smaller firms who overload their trucks.

But the group's overseas operations and exports of containers have had a successful year's trading and "have again made a significant and increased contribution to group earnings."

Jowell is still reluctant to give details of overseas operations although he points out that containers travel all over the world. "The largest container leasing operation in the world, which is based in the US, still will not deal with SA."

Jowell is always cautious in his forecasts. Discussing prospects for the current year, he warns that conditions in the international container market are "tightening".

Prices are softening because recessionary conditions have reduced demand while new manufacturers are coming into the market in the Far East.

And production costs in SA are rising in line with inflation. This is happening at a faster rate than the depreciation of the rand against the dollar, eroding the price advantage the weak SA currency gives exporters.

In spite of this, he says that while the Government's export incentives are in place "they should enable us to maintain viability through the dfifficult phase in the cycle the container industry is now facing."

● Mobile, which has a 48% stake in Trencor, lifted attributable profit to R51,3m (R40m). The final dividend is 32,4c (26c), making a total pay-out for the year of 40,6c.

Finrand ruling set to boost futures

74

BDay 29/8/91

ROBERT GENTLE

THE Reserve Bank yesterday gave non-residents the green light to trade futures on the SA Futures Exchange (Safex) through the finrand.

All registered members of the exchange — from futures brokers and banks to institutions and JSE stockbrokers — will now be able to handle futures trades directly on behalf of foreign clients.

This key decision, which the market had been waiting for since late last year, is expected considerably to boost liquidity on Safex in the medium to long term.

It is also expected to help the sluggish liquidity of the JSE, the reasoning being that non-residents are more likely to trade in shares now that they have the ability to hedge their exposure through futures.

Exchange CE Stuart Rees, confirming the Reserve Bank's decision, said: "The importance of this move cannot be underestimated. It is the first stage of the internationalisation of the hitherto closed futures market."

"Safex, the Reserve Bank and banks authorised to trade futures for non-residents will now jointly consider the detailed mechanics to control the flow of funds," Rees said. "We expect final implementation to be in two to three months."

The futures market reacted with great enthusiasm.

"We are ecstatic," said Greenwich Futures & Options MD Bryan Coyne.

☐ To Page 2

Futures

BDay 29/8/91.

74

☐ From Page 1

Mike Bolus of stockbroker Ed Hern's futures division said it would be enable the firm to offer futures to its foreign client base. "It's an excellent move," he said.

First Financial Futures MD Derek Kreunen said it would spark off a whole range of new activity as foreign clients moved into the market.

Rees said the Reserve Bank had accepted all the basic proposals initially put forward by the exchange for non-resident trading of futures.

Non-residents would pay for futures contracts in finrands and take profits out through the finrand. Interest earned on margins placed with the exchange was likely to be in the commercial rand.

The overall gearing effect would be very favourable for non-residents, Rees said, especially as few overseas futures markets paid interest on margins.

Govt may take up more German funding

BDay 29/8/91 (174)

FRANKFURT — The SA government may take up between DM50m and DM100m of new funds in addition to rolling over a DM200m bond maturing in December, Finance director-general Gerhard Croeser said yesterday.

He said the public issue would be a prelude to broader public financings on the international markets by government and other SA borrowers.

He confirmed SA was having talks with Deutsche Bank, which issued the original DM200m facility. The planned issue would be its first in six years.

Croeser said SA's strategy envisaged refinancing 75% of its bonds maturing in 1991 after 40% in 1990. It aimed to refinance the DM600m in bonds expiring in 1992, with some issues to exceed the original amounts.

Croeser said the Independent Development Trust (IDT) and the Development Bank of Southern Africa also intended to come to the market soon.

Special adviser to Finance Minister Barend du Plessis Jan Lombard said the bank planned a small token issue on capital markets soon. — Reuter.

SA gearing up to capture refined oil export market

74

B Day 29/8/91

BRENT VON MELVILLE

SA is poised to become the refined oil producing engine of southern Africa as its major oil refineries gear up for a massive export drive.

Over the past four months SA's four oil refineries, Shell SA, BP SA, Caltex SA and Sasol, have announced significant expansion plans costing billions of rands.

The result will be bolstered production capacity which, market analysts say, will exceed local consumption demands and promote exports.

Industry sources say the only constraint on exports thus far has been limited capacity. The current total crude oil distillation capacity of SA refineries is about 430 000 barrels per day (bpd).

That capacity will be dramatically improved following a host of major capital programmes. One of the most significant is the planned R450m expansion for Africa's biggest refinery Sapref, which is owned jointly by Shell SA and BP SA. The 200 000 barrels per day (bpd) refinery is set for a 30% (60 000 bpd) boost.

Engen, which holds 100% of Mobil SA, 100% of Trek-Petroleum and 85% of petrol distributor Sonap, is planning a R2,2bn two-stage expansion to its Genref refinery in Durban.

Engen MD Rob Angel says much of the new expansion will be earmarked for projected growth in the export market.

Analysts say it is also on record that Engen is hoping to export oil as far afield as India.

Caltex SA, which is wholly owned by Dallas-based Caltex Petroleum Corp, is planning to spend R240m to double its 55 000 bpd production at its Milnerton refinery in the Cape.

A Caltex spokesman says SA is well placed to supply Africa with fuel requirements, but export opportunities will depend on profit margins, as well as growth in local demand.

Domestic demand is expected to rise by about 6% over the next several years, although industry sources say this may fall slightly because of the recent increase in the price of fuel. At the 6% level, local consumption would rise to approximately 468 000 bpd by 1995.

Industry sources estimate that current output of refined products is at about 390 000 bpd, with exports at about 40 000 bpd.

There are no official figures to back up these estimates.

Ed Hern, Rudolph investment analyst Peter Brown says southern Africa is the logical market for SA oil. Many southern African countries have been badly hit by the cutting of supplies from war-torn Iraq, and are desperate to get alternate sources.

He says the expansion plans must be looking at export markets because domestic demand cannot absorb the additional output.

J D Anderson & Co analyst Charles Booth echoes the sentiment. It makes perfect sense for SA to act as the main supplier to the region because few of limited refining capabilities in those countries.

Booth says it makes more sense to import fuel from SA than from the Middle East, and the fact that SA's neighbours need an alternate fuel supply dovetails with SA's eagerness to build ties and increase trade.

Of all the countries in the region, which include Lesotho, Swaziland, Botswana, Zimbabwe, Namibia, Zambia, Mozambique and Angola, only Angola produces oil, while only Angola and Zambia have refining capabilities.

Namibia is building a 15 000 bpd refinery which, it says, will make it independent of SA for its fuel needs.

A

Opening markets needs to balance a range of interests

(74) B/Day 29/8/91. **ROBERT GENTLE** (74)

THE SA financial markets have taken a major step towards competitive neutrality with the announcement last month that government is to be asked to consider scrapping anti-competitive clauses in the Stock Exchanges Control Act.

In its present form, stockbroking membership remains limited to individuals who hold SA citizenship, commissions remain fixed and stockbrokers may act only as agents for their clients (the so-called single capacity sytem).

This contrasts with the other key markets — bonds and futures — where there are no fixed commissions, brokers may act as agent and principal (the so-called dual capacity system), and banks are free to operate either directly or through a shareholding in a broking firm. Trading is done on screen as well as through open outcry.

The move by the Financial Services Board's Piet Badenhorst to bring the restrictive Stock Exchanges Control Act into line with the more open Financial Markets Control Act — which governs futures and bonds — can be viewed in three ways. Firstly, the government does not want to enshrine laws which could be construed as restricting entry to equity markets or giving participants particular privileges; secondly, it wishes to provide a mechanism for eventual foreign participation in our financial markets; and thirdly, it wishes to eliminate any competitive distortions in the present structures of financial markets.

Some examples of these distortions are that JSE broking firms are members of the futures and bonds markets, but not all members of the futures and bonds markets can become members of the JSE. This gives JSE brokers an advantage over other exchange brokers. They get first shot at price information on equities because of their position on the equity floor while the rest of the market — particularly the futures market — has to wait for it to be relayed to their dealing screens.

Though the few minutes' delay might seem short, it does enable JSE brokers to take positions in the futures market based on what is happening in the underlying spot market ahead of their competitors in the rest of the futures market.

More seriously, the JSE is the victim of deterrent turnover taxes such as marketable securities tax, uncertainty over capital gains tax, exchange controls and SA's high degree of economic concentration — all of which severely undermine the liquidity of the share market.

This filters through to the futures market, whose own liquidity and price efficiency is inextricably linked to the underlying equities, resulting in SA having some of the most stark price inefficiencies between shares and futures. They increase the cost of capital in the economy. Worse, they cannot be arbitraged away because the shares cannot be easily obtained — a vicious circle.

Moreover, effective arbitrage requires huge amounts of capital. Undercapitalised JSE brokers who operate alongside heavily capitalised banks in the futures and bond markets are at a competitive disadvantage.

These are some of the problems, and it is a fair bet that significant foreign participation will not materialise until they are sorted out. But would opening up the market — whether through Big Bang or a series of controlled explosions — necessarily improve the situation?

The argument against deregulation, highlighted mainly by stockbrokers and major users of the exchange, is essentially that the JSE's present structure and rules are the most appropriate for SA with exchange control, high economic concentration and limited size. Opening up the market would simply increase that concentration as huge corporations buy up stockbroking firms or get their banking subsidiaries to start trading shares for their own account and for clients.

☐ BADENHORST

This would result in a handful of big securities houses, under the sway of corporations, dominating the market, reducing competition and worsening price efficiency. Conflict of interest would occur and cornering of shares would be a real possibility. The small investor would be virtually eliminated.

Starting a rival exchange dominated by these same corporations would be equally devastating for the market as they would concentrate on the 20 to 30 liquid stocks at the expense of the rest of the market; the capital-raising function of the equity markets would be seriously impaired. The London Big Bang is anything but a success and has no place in a market like SA's.

The counter-argument, put mainly by the banks and a minority of portfolio managers, is that the concentration argument is a red herring. What counts is not the number of banks "dominating" the market but whether they operate in a competitive environment. The 50-odd stockbrokers, they claim, are a price-fixing cartel. Saying there is competition among them is like saying there is competition among members of oil cartel Opec. And the JSE itself is dominated by a handful of stockbroking firms anyway.

It does not necessarily follow that the big financial instutions would — or could — dominate a deregulated equity market by funnelling all deals through their stockbroking subsidiaries. The dual capacity bond and futures markets have been open to the big corporations for years, yet they have not moved to dominate them. If anything, many are conspicuous by their absence. As for a rival exchange concentrating only on liquid stocks, that is pretty much the situation on the JSE already.

The shortcomings of the London Big Bang relate to how it was implemented rather than because it was implemented. Open, competitive markets of that type are becoming the norm throughout the world.

Given the complex pros and cons of the argument, SA might well look abroad for clues as to how it might improve its financial markets.

Tokyo may be something of a laughing stock at present with a seemingly endless string of financial scams. But it does handle trading efficiently with illiquid stocks traded on computer screens while liquid stocks are traded on a floor.

In Germany, all illiquid stocks are traded on order-driven markets while the 15 most liquid stocks are traded on a quote-driven system. In the UK most firms choose to trade in single capacity even though they are allowed to trade in dual capacity. In New York, small rival auction-based electronic exchanges coexist with the large New York Stock Exchange.

There is no single solution to the problem of how to create a vibrant equity market. For example, our liquid stocks might lend themselves to one sort of treatment (say continuous floor trading), our illiquid stocks another (say three times weekly, through an electronic auction). Small participants may want single capacity and low capital outlay; big ones might go for more capital intensive dual capacity structures.

There is broad consensus that the only thing Pretoria need concern itself with in these or any other prospective scenarios is that the three pillars of regulation are observed: system safety, market efficiency and investor protection.

But for any of this even to reach the planning stage, a competitively neutral operating environment is a must. That is why the proposed amendments to the Act are so important.

Know US trade rules or suffer the consequences

B Day 29/8/91. (74)

DAMON XENOPOULOS and KEVIN HORGAN

WITH the termination of the anti-apartheid sanctions, American companies facing competition from SA merchandise may turn to US trade laws for protection.

Various laws entitle American companies to file petitions with the US government requesting protection from competing imports.

A US industry that is being hurt by foreign competition may choose from an array of potential trade actions. The most frequently invoked are an antidumping action, a countervailing duty action, a "S 301" action, a "S 201" action, and a "S 337" action.

An antidumping action is intended to prevent imports from being sold in the US at a price lower than the home-market price or the cost of production. If dumping has occurred and it is, or is threatening, materially to injure a US industry, an antidumping duty may be imposed on the particular product.

A countervailing duty action is intended to prevent imports being sold in the US at a price that, due to the receipt of a subsidy from a foreign government, is lower than otherwise would be possible. A countervailing duty (CVD) equal to the amount of the subsidy will be imposed on all such imports in the event of a successful application.

Antidumping and CVD proceedings involve two US government agencies, the Department of Commerce (DOC) and the International Trade Commission (ITC). The DOC determines whether imports are being dumped or subsidised. The ITC determines the question of injury to US industry.

An antidumping or CVD investigation is generally initiated by by US manufacturers, producers and wholesalers of the like product.

Section 301 serves a variety of purposes that include:

☐ The elimination of discrimination against US exports;

☐ The enforcement of rights that the US acquired pursuant to trade agreements; and

☐ The elimination of acts, policies or practices by foreign governments that restrict or burden US commerce.

If the US Trade Representative initiates an investigation and the matter is not resolved within a period prescribed by law, generally not more than 12 months after the petition is filed, the representative decides what action should be taken. The action may take the form of suspension or withdrawal of the benefits of a trade agreement, the imposition of duties or other import restrictions on the goods and services of the country involved, or an undertaking by the foreign government to eliminate the offensive practice or policy.

If the trade representative decides to retaliate by imposing quotas or tariffs on products from the offending country, those sanctions may not be limited to the products involved in the dispute. The sanctions may be imposed against any products from the offending country.

Section 201, the so-called "escape clause," is designed to provide US industry which is being injured by imports with a period of temporary relief to enable the US industry to adjust to the imports. To obtain relief under S 201, the industry must demonstrate that it is being injured by imports. There is, however, no requirement that the imports be unfair — for example subsidised or dumped. If relief is granted it may take the form of import quotas, higher tariffs, or assistance to affected workers. The remedy may operate against imports of other countries.

A S 201 action may be brought by any entity that is representative of the US industry. The ITC administers S 201 proceedings, and makes its recommendations to the president. If the harmful imports originate in a non-market economy country, a S 406 action rather than a S 201 action may be appropriate. Section 406 is similar to S 201 but it applies only to imports from non-market economy countries.

The primary use of S 337 is the protection of intellectual property rights, for example patents. However, S 337 may also be used to eliminate other "unfair methods of competition".

Where S 337 is used to protect intellectual property rights, it is not necessary to prove injury. However, the petitioner must show that he is using those rights or investing money or labour in exploiting or developing those rights. Where S 337 is used in an attempt to eliminate other "unfair methods of competition", it is necessary for the petitioner to show injury.

In the event that an S 337 action is successful, the available remedies include an exclusion order, which prevents imports, either by particular persons or of particular products; and a cease and desist order, which orders the offender to "cease and desist" from engaging in particular conduct.

Lifting sanctions opens the world's most lucrative market. The US is one of the world's most competitive markets. If you want to compete successfully, it is best to know where the hazards lie.

☐ **The authors are attorneys with the law firm Pillsbury Madison and Sutro in Washington DC.**

LETTERS

— lengthy

Trade mission to Kenya on the cards

CT. 29/8/91

74

THE Cape Chamber of Industries (CCI) is considering a trade mission to Kenya — which, until recently, officially had no dealings with SA business.

The CCI newsletter explains: "With the opening up of the African continent to SA, local business are able to enter developing economies.

"Other factors which have prompted the (export trade) committee to centre its attention on the African continent are the convenience of locality and because the features of the market are ideal for the smaller, less experienced exporters to expand their foreign trade activities.

"Kenya, in particular, has been selected to be the focus of the trade mission as it possesses one of Africa's more developed economies with a demand for both technological and consumer commodities.

The newsletter also mentions trade missions the Department of Trade and Industry (DTI) is currently arranging to the Far East and South America.

Both missions are leaving SA on September 23 and applications must be received by the DTI by September 7.

Death of parabats 'a tragedy' but church uneasy at military training

The Argus Correspondent

KING WILLIAM'S TOWN. — The Border Council of Churches has described the death of eight Ciskeian soldiers in a parachuting accident as a national tragedy.

But the council was concerned that the soldiers died undergoing military training and it asked why Ciskei was "gearing itself up for war and violence".

The soldiers, members of the Ciskei Defence Force parabat battalion, died during a training exercise on August 21, when they landed in the Fish River.

"As representatives of the Christian Church in this region we are deeply concerned that lives have been lost.

"The untimely death of one single human being is a great loss to humanity, but when eight lives are lost in one incident it ceases to be a matter of individual concern. It becomes a national tragedy.

"Although accidents will always be with us, we are concerned that these men lost their lives while undergoing military exercises.

"South Africa is at a time when all parties are turning away from war and violence and entering into a new spirit of negotiation, peace and reconciliation.

"While the rest of South Africa is celebrating a crucial breakthrough contained in the Peace Accord, in Ciskei we see the exact opposite — the creation of covert armies, a huge military budget, intensive recruitment from the SADF, rumours of a CCB-like hitsquad, military attacks on people's homes and surveillance of our homes."

The council welcomed the announcement that the deaths would be thoroughly investigated, but called on the South African government to "see to it that the principles of the Peace Accord are adhered to by their appointed authorities in the homelands".

In an address this week to soldiers attached to the Ciskei Defence Force's Air Wing at Bulembu airport, military ruler Brigadier Oupa Gqozo said his government hoped the parents of the dead parabats would work with the government "in a united spirit".

Rowdy reception for Ciskei's military ruler at Rhodes meeting

74 ARG 30/8/91

The Argus Correspondent

GRAHAMSTOWN.— Students at Rhodes University jeered Ciskei military ruler Brigadier Oupa Gqozo at a meeting on the campus this week before walking out.

They said they were protesting against his presence and continued repression in the homeland.

Brigadier Gqozo was invited to speak on the campus by the Liberal Student Democrats, a rightwing group until recently affiliated to the National Students' Federation.

Members of the audience greeted Brigadier Gqozo and his entourage of bodyguards and security police with shouts and whistles when he entered the packed lecture theatre.

The chairman of the meeting tried to introduce Brigadier Gqozo but was interrupted by a Nusas/Sansco representative, who said he had a number of questions to put to the brigadier

He asked Brigadier Gqozo to give a detailed account of the "notorious" International Research, a CCB-type organisation that had been "linked to a secret camp used to train Inkatha members in guerrilla warfare", and to explain why the Whittlesea Sada area was under curfew.

He then called on all "peace-loving" people to walk out and join a protest outside.

Addressing the 30 or so people left in the lecture theatre, Brigadier Gqozo devoted much of his speech to attacking the ANC.

Members of the audience asked a couple of questions at the end of the address, but the meeting quickly turned into a shouting match between Brigadier Gqozo and some of the protesters who had wandered back into the room.

His bodyguards eventually urged him out of the room while he shouted at a heckler that he would "spank" him if he ever set foot in Ciskei.

REGIONAL DEVELOPMENT

Waiting for SA

The Southern African Development Co-ordination Conference (Sadec) on Monday ended its 11th annual summit in Arusha, Tanzania, with one ray of hope focused on welcoming a "democratic" post-apartheid SA among its ranks. It might work.

The 10-nation Sadec, which includes some of the poorest states in the world, is again facing serious food shortages and has a combined debt of US$25bn. Despite some "modest" infrastructural achievements, it has in recent years looked increasingly irrelevant compared to its optimistic launch ambitions in Maputo in 1980.

"The region cannot afford to wait any longer for SA to join the community of Sadec. We are impatient for the end of apartheid," said the chairman, Botswana's President Quett Masire.

Zimbabwe PM Robert Mugabe observed that SA's economy was three times bigger than that of the Sadec economies combined. SA's participation would increase the organisation's resources and enable Sadec "to accelerate" their development. Sanctions against SA should, however, remain until a new constitution is agreed.

Dealing with the possibility of donor fatigue and whether Sadec would have a role following peace in Angola and Mozambique and the end of apartheid, Mugabe said that despite a hostile international economic environment, unfavourable weather conditions and brutal destabilisation by SA, Sadec had made some modest achievements which justified its continued existence. The group had started formulating strategies to enable members to assume greater responsibility for funding projects.

A post-apartheid SA could easily take the role of co-operating partner through the provision of aid and investment capital. "It is our contention that the post-apartheid government in SA will be faced with the enormous task of reversing the structural imbalances created by apartheid as immediate priority.

"Though we are aware that SA's economy, apart from being the most sophisticated, is also bigger, we should look forward with joy to the membership of a democratic SA as that membership would increase the resources of our organisation and enable it to accelerate our developmental pace," Mugabe said.

"If, as is increasingly evident, the Nineties are likely to be a decade of trading blocs and growing multilateralism. . . then Africa must surely strive harder at economic integration and co-operation."

The final communiqué stated that the region was undergoing fundamental economic, political and social changes which would have a major impact on its future.

The root cause of their economic problems was a lack of skilled people without professions and entrepreneurship, which resulted in low productivity, said Masire, painting a gloomy economic outlook for member states. Masire recognised that "no amount of foreign aid or investment will change this reality. Only our own innovation, creativity and hard work will take us forward."

The summit welcomed the ongoing process toward the abolition of apartheid, though apartheid was still firmly in place in the fabric of SA life. Particularly regretted was the continuing cycle of violence. Government was urged "to take decisive action to end the conflict."

The international community was called on to maintain sanctions against SA to ensure the process of reform and negotiation led to the establishment of a nonracial and democratic SA. "The summit strongly urged all countries, particularly African countries, to refrain from contact with SA until a new political dispensation acceptable to the majority of South Africans is in place."

The "liberation movements" were urged to co-ordinate their strategies, and efforts to establish a Patriotic Front were welcomed.

The Mozambique and Angolan peace processes were welcomed and Renamo was urged to "take these talks seriously."

continue →

Meanwhile, member countries should attempt to increase the region's food supply, as a deficit of 2,8bn t was expected this year.

Namibia is to host the 1992 Sadec summit in Windhoek, where the organisation could change its name to the Southern African Development Community. ■

Export loss shock

~~DAIRY MILK~~
74
CT 30/8/91

PRETORIA. — Thousands of tons of dairy products are to be exported at a loss by the Dairy Board.

The board's general manager, Mr Eddie Roux, said yesterday that most of the surplus of 7 500 tons of skimmed milk powder and 3 000 tons of butter would have to be exported at a loss to foreign markets already saturated with dairy products.

The move drew heavy criticism last night from the Democratic Party and Operation Hunger.

The organisation said 100 000 starving South Africans could have been fed on the surplus.

Mr Roux said it was not possible to estimate the possible extent of export losses. However, any loss would be met by the board's stabilisation fund, which is financed from a 5c levy on milk buyers.

In the 1983/84 financial year the board went over R30 million in the red when it exported surplus milk powder to the Far East.

In the same year the price of milk rose by nearly four cents a litre, while prices of butter (14%) and cheese (10%) were also raised.

In 1986 the board lost over R37m when it dumped 195 000 tons of skimmed milk powder. It also had a surplus of 8 000 tons of butter.

Last night Mr Ken Andrew, DP spokesman on finance, said: "It is disgraceful that South Africa should be exporting skim milk powder at a loss when a child dies every 20 minutes in this country from malnutrition.

"A way must be found for surplus essential foodstuffs such as milk powder to be purchased and distributed to those in need."

Operation Hunger deputy director Mr Mpho Mashanini said the surplus could have helped to feed more than 100 000 people.

He said the organisation urgently needed to raise an additional R1m this month to avoid suspending all feeding programmes for September and October.

The situation countrywide was becoming more desperate by the day.

Mr Roux said the surplus was a result of high production and a decline in demand for dairy products stemming from current economic conditions.

He said demand declined markedly in some areas during last year's unrest.

"Had it not been for this, we would not now be sitting with this large surplus."

The dairy surplus could not be sold locally at reduced prices as "(local) demand for dairy products is inelastic", he said.

"A drop in price, even a substantial drop, does not significantly stimulate consumption. We would still be landed with the surplus."

FOREIGN DEBT — 1

Coming in from the cold

FM 20\9\91 (94)

If the DM175m-DM200m public bond issue planned by government is launched this year, total foreign funds raised by SA in 1991 could amount to US$494m, according to the London School of Economics (LSE). This is an increase of 74% on 1990. The issue is intended to refinance a DM200m public bond issue maturing in December.

Jonathan Leape, director of the LSE's Centre for the Study of the South African Economy and International Finance, and research officer Jonathan Garner, report that flows of foreign capital into SA, in the first eight months of 1991, amounted to $376m — 42% higher than the full-year total of $264m for 1990.

An issue by AECI, refinancing a maturing private placement, was the first from a private issuer since the debt standstill in 1985. And, for only the second time since 1985, a "new money" bond was raised.

In addition, "significant" long-term credit was granted and some interbank lending, which apparently stopped after August 1985, with the exception of small-scale lending by Swiss banks, has been reported. This involves banks "outside the established European financial centres that wish to break into the SA market."

A $60m long-term loan was made to the Industrial Development Corporation (IDC) from Taiwan's Export-Import Bank in January and SA entered the Eurodollar market for the first time since the debt moratorium was imposed with two private placements:

- A three-year $50m issue for government, carrying a 10% coupon, in April. The yield was 280 basis points above the three-year US Treasury bond rate. This refinanced a maturing $75m public bond issue; and
- Eskom placed a five-year, $40m issue in May, with a yield 240 basis points above the five-year US Treasury bond rate. This was new money. Say the researchers: "As with the first new money bond in 1988, the circumstances surrounding the $40m Eskom bond were somewhat unusual, involving a small number of special institutions. Indeed, one of the investors reportedly dropped out at the last minute, forcing a cut in the size of the issue from $50m to $40m."

Borrowing activity continued to expand in the German market, with five private placements:

- Eskom refinanced a $75m public bond issue in February, with a four-year DM120m private placement;
- Transnet refinanced a maturing DM50m private placement in April with a four-year DM25m issue;
- Posts & Telecommunications refinanced a five-year DM150m public bond issue with a four-year DM130m issue;
- The IDC financed a maturing DM50m private placement with a five-year DM50m issue; and
- AECI refinanced a maturing DM80m private placement with a four-year DM40m issue.

The average maturity of the DM issues has increased from just over three years to more than four years.

The researchers say the proposed new issue is "not only a critical next step in SA's rehabilitation in international capital markets, but also a crucial part of government's campaign for renewed access to the IMF. Indeed, SA authorities had hoped to launch the issue before the IMF meetings in late September but the Inkatha funding revelations forced a postponement."

The study points out that new borrowings of long-term capital are still not keeping pace with repayments falling due. Ten bond issues have matured in the first eight months of 1991, totalling R1,75bn, while only R810m has been raised in new bond issues — less than half of the maturing bond debt. ■

FOREIGN DEBT — 2

In perspective

FM 20\9\91 (94)

Short-term interbank lending "played a very important part in the build-up of SA's indebtedness in the early Eighties," say London School of Economics researchers, Jonathan Leape and Jonathan Garner (see above).

It contributed "in particular to the shortening of the maturity structure that helped precipitate the debt crisis in mid-1985. Ownership links between some SA and foreign banks contributed to the large scale of this form of lending. Moreover, the use of short-term interbank foreign borrowing, by some SA banks, to fund long-term rand-denominated loans to SA companies, was an important factor behind the banking crisis that accompanied the debt crisis."

But the researchers conclude that, "while short-term interbank loans can provide an important source of credit — for balance of payments as well as

FM 20\9\91 (94)

commercial purposes — stricter liability management and prudential supervision since 1985 imply they will not have a significant impact on the availability of long-term finance."

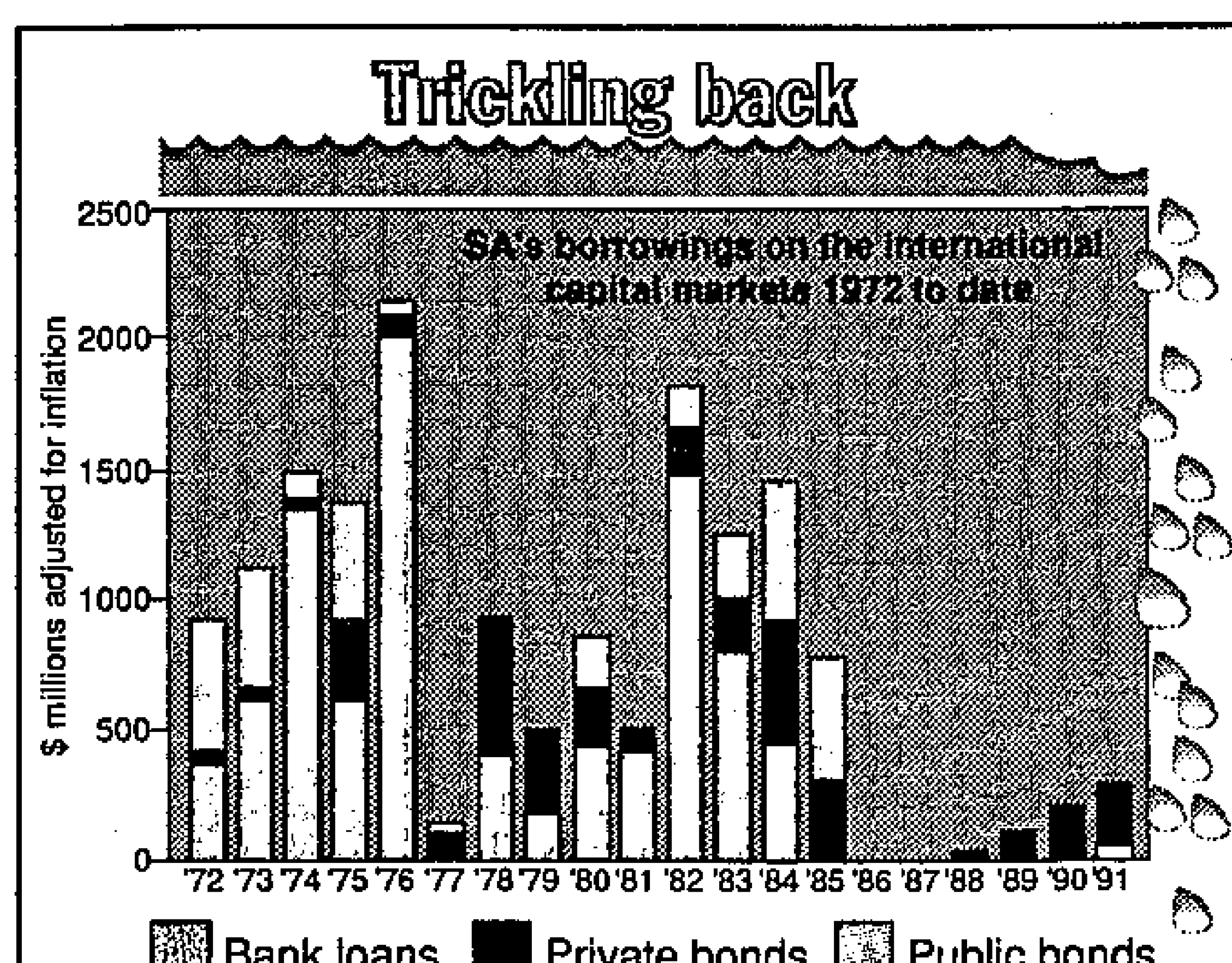
So the study focuses on SA borrowings on international capital markets since 1972 — specifically through publicly traded bonds, privately placed bonds and syndicated bank loans.

The 1991 inflows represent the latest turn in the cycle of supply, which has been dominated by risk perceptions of foreign investors. Between 1972 and 1976, gross inflows of foreign debt capital averaged 2,6% of GDP. The Soweto uprising brought a sharp fall, followed by a moderate recovery in 1978-1981 in this ratio to 0,9%. And when inflows rose once again, over the next two years, it averaged 2,1% of GDP. But, following the moratorium on debt repayments in 1985, inflows ceased completely in 1986-1987 and only token borrowing took place in 1988 and 1989.

In 1988, Swiss banks succeeded in placing a small three-year private bond for the SA government. This privately placed SFr55m issue with a 7% coupon was not a refinancing of a maturing issue. "It was apparently the result of a small number of institutional investors who approached a Swiss bank with the proposed private placement."

This was followed in 1989 by three similar issues in the Swiss market:

- In January, a SFr70m private placement of the SA government, which refinanced a five-year SFr70m maturing issue;
- In March, a SFr50m placement refinanced a maturing SFr100m Eskom issue; and
- In April there was a SFr50m refinancing



This graph covers 310 transactions - all data expressed in 1982 US$

Source: LSE Centre for the Study of the South African Economy and International Finance

continue ->
P.T.O

FOREIGN FUNDS (94)

Currency risk FM 27/9/91

Though the launch of a major public bond issue by government brings much needed foreign exchange into the country, it also exposes Pretoria to the risk of a depreciating domestic currency over the next five years — the life of the bond. It cannot take forward cover on its rand-dollar position because all profits and losses are for its own account. However, it could well take cover on the dollar-DM leg of the transaction to protect itself against movements between the two currencies.

The issue was lead-managed by Deutsche Bank AG of Germany and the group of co-managers involves financial institutions from several European countries. Though buying was dominated by retail investors in Germany, reports from the UK suggest strong institutional interest there. Of the total amount raised, DM200m is to be used to redeem an issue falling due in mid-December. The remainder is to "contribute to financing SA's social development."

The success of the launch has established that the climate is favourable for domestic borrowers to raise funds abroad. The DM300m five-year issue of RSA stock offered at par with a coupon of 10,5%, last week, was so warmly received that the Finance Department decided to increase the issue to DM400m.

Other organisations are taking the opportunity to establish a presence on international capital markets as quickly as possible. The Independent Development Trust (IDT) hopes to float a Eurobond issue in November with New York investment bank J P Morgan as lead banker; the amount will be decided after presentations next month but is expected to exceed US$100m. Funds raised will go towards IDT initiatives which include building schools and the provision of clinics and clean water supplies for rural communities.

Until the money is spent, the IDT is expected to recover the cost of servicing the debt by investing in the money market. "How we will meet our obligations, thereafter, is still the subject of negotiations with the relevant authorities," says IDT's Jolyon

FM 27/9/91 (94)

Nuttall.

Meanwhile, rates earned on the funds will be considerably higher in nominal terms than the rate paid to investors. The differential, however, will be eroded by substantial forward cover costs.

If this cover were available only at market-related rates, the IDT would incur losses. On top of an interest rate which will probably exceed 11%, there would be an approximate 9,5% cost of forward cover. This 20,5% is well over the 17,35% to be earned from six-month certificates of deposit, for instance.

However, the IDT's loan qualifies for preferential forward cover rates, says Reserve Bank GM James Cross. Though preferential rates on short-term cover were finally phased out last week, they are still available for borrowers of "new" long-term funds. The cost of cover is negotiated separately for each deal. It is not known what it will be in the case of the IDT but it will presumably be pitched to allow the IDT to break even. ■

RESERVES FM 13\9\91

Rising trend (74)

There is confusion about dollar values attached to changes of the level of foreign reserves. Differences are due to methods of deriving them.

By multiplying the physical change of gold reserves (263 000 oz) by the average monthly dollar price (US$356) and adding the increase in foreign assets ($61m), Nedbank chief economist Edward Osborn arrives at an increase of $155m in August. He says: "I adopted this method to align the change of reserves with a balance of payments flow concept and circumvent valuation problems inherent in valuing the entire stock of gold holdings at month-end."

However, if Reserve Bank figures are converted at the month-end rand-dollar rate, the change is only $88m. On this basis, despite a $200m foreign debt repayment:

☐ Total reserves went up 3,2% to $2,8bn;
☐ Gold reserves 1,4% to $1,8bn; and
☐ Foreign assets 7,5% to $887m.

In rand terms, increases were:

☐ Total reserves, almost 3,6% to R7,9bn;
☐ Gold, 1,7% to R5,4bn; and
☐ Other foreign assets, 7,9% to R2,5bn.

Osborn suggests that this increase could indicate a further rise in short-term liabilities. But Bank foreign exchange GM James Cross says there is no sign of this. "We have not noticed an increase in forward cover, which would be an indication. However, this possibility cannot be ruled out."

☐ Gold holdings are up 4,6% to 5,9m oz, valued at R911,76/oz. This is down 2,8%. ■

'Time to export Cape in shape'

BLAISE HOPKINSON (74) ARG 6/9/91
Business Staff

THE Western Cape can export itself into relative properity due to its infrastructure, industries, labour and support services says a leading academic.

Professor Colin McCarthy of the University of Stellenbosch department of Economics yesterday told a Western Cape region South African Chamber of Business (SACOB) symposium a commitment to achieve export orientation was important.

"In this regard the Cape is in the fortunate position of having industries which over the last few years have shown themselves very adept in building up an export market," Professor McCarthy said.

He told delegates the region also had local authorities, development agencies and trade and industry organisations which were not only aware of the importance of exports but also were actively involved in spreading the export gospel.

He explained circumstances in the Western Cape were ideal for a "bottom up" approach in laying the foundations of an export orientated strategy.

"A co-ordinated effort in this regard can be foreseen. What will be required, however, is action by the government that will allow such development," Professor McCarthy said.

He said he was fairly optimistic that the region could look forward to an increase in economic growth and development.

"This will to a large extent depend on the region's people and organisations – workers, industry, development agencies and local authorities – and of course on the existance of a consistant government policy that will facilitate export orientated industrial growth," he said.

Mr Bob Tucker, scenario expert and former managing director of The Perm, told delegates the Western Cape could develop a regional strategy which would make it a global success even if the Johannesburg economy was an abject failure.

The development of skills and technologies and institutions to utilise them would ensure the Western Cape became a regional success, he said.

UK-SA trade drops

(74) ARG 14/9/91

Weekend Argus Foreign Service

LONDON. — The recession in the United Kingdom and South Africa has dampened trade between the two countries, despite the end to sanctions.

The trade balance, however, is marginally in South Africa's favour.

UK Department of Trade statistics show that imports from South Africa slipped 11 percent to £600 million (R2,94 billion) in the first seven months of this year, from $675 million (R3,31 billion) in the same period in 1990.

British exporters also suffered.

(74) ARQ 7/9/91

Cape knitwear company casts off for exports

TOM HOOD
Business Editor

IMPROVED training, bonus and productivity schemes have been started by Towles Edgar Jacobs in a bid to be competitive by world standards.

The Cape knitwear company, like many clothing manufacturers, is looking to exports to at least compensate for a drop in orders from South African retail chains.

After nine months of negotiation with a leading British retail chain, TEJ is working on styles for trial orders. It is also look to export to Continental Europe, says managing director Tony Owen in his annual report.

Progress has been achieved in the company's recovery programme, with profit before tax improving to R1,4 million from the previous year's loss of R463 000, he says.

"A sound base has been established for the company's continued progress towards acceptable levels of return."

Operating profit increased by 55 percent on turnover down bny 5,8 percent and the cash flow improved from R440 00 to R3,9 million.

Debt/equity ratio improved from 1,18:100 to 0,75:100.

"Factories are fully booked for the next six months but economic conditions are worst we can remember," says Mr Owen. "It would be imprudent to be too optimistic about prospects for the second half of the year."

The company is stepping up formal training programmes for all levels of management and staff.

Stocks had been reduced by 16 percent and further improvements in gearing and stock holdings were expected.

The chairman, Mr Bobby Jacobs, reports a number of top changes to management.

Mr Bill Orton has been promoted to administrative director. Mr Antony Ball, who has been a consultant and adviser, is now a non-executive directort. Miss Fiona Grant becomes the company's first human resources director.

FM 27|9|91

ONE SWALLOW (14)

Econometrix's Tony Twine warns against interpreting August's improvement in the foreign trade surplus as a harbinger of things to come. He says the underlying trend in exports remains depressed, "reflecting the weak economic situation overseas."

Customs & Excise figures published this week show the surplus amounted to R1,9bn (R1bn in July). It is the largest monthly surplus since October.

However, exports worth R6,1bn represented an increase of only 3,4% over the value of exports in July. The jump in the surplus is due to a 13,7% decline in imports since July, to R4,2bn, and this fall is misleading because it is from a figure boosted by the registration of aircraft in July.

Accumulated exports in the eight months amounted to R43,2bn, accumulated imports to R32,6bn. The accumulated surplus in the period was R10,6bn — 12,7% higher than in the same period last year.

Safto's Bruce Donald calculates, however, that the annualised trade surplus in the eight months amounts to R15,8bn, which is lower than the R16,4bn trade balance achieved in 1990. He remains optimistic. "Considering the poor conditions prevailing in international commodity markets, SA's performance has been outstanding."

Sanctions strangled growth prospects

Star 25/9/91

By Derek Tommey

Five years of foreign trade sanctions appear to have been weathered reasonably well. But Mike Brown, economist with Frankel Max Polak Vinderine Inc claims the economy has been seriously damaged and the country is now in a "fourth world" category.

Over the tough years of sanctions South Africa managed to keep open its channels to international markets.

Technology limitations were not a major short-term constraint and foreign disinvestment and debt repayments accommodated and honoured.

On the surface the economy appeared relatively unscathed. But five years of sanctions brought out the underlying economic frailties, claims Mr Brown.

A cursory examination suggests that exports did relatively well. But as the effective value of the rand fell 60 percent over the sanctions period, much of the export growth was bought at the expense of a depreciating currency.

The falling rand had several negative effects. It contributed to the steady decline in the terms of trade, which pushed up the price of imports by 20 percent a year in both 1984 and 1985 and the annual price increases of imports have remained in double figures since then.

This increased the inflation rate and raised the effective level of protection for South African producers from zero in 1984 to above 40 percent in 1986 to 1990, according to the IDC.

This situation carried the risk of unduly endangering the international competitive position of a large portion of the country's production process.

Sanctions also resulted in the export of about R30 billion in capital over the past six years.

The foreign capital haemorrhage was a major factor in the reduced investment.

"South Africa's level of effective net invstment is now among the lowest in the world, placing us firmly, but hopefully temporarily, in the 'fourth world' category," he says.

Potential

"Sanctions did not destroy the ongoing momentum of the economy to the same extent that they appear to have blocked the generation of new investment and job creating activity, and strangled the future potential of the economy".

Government policy in the early 1980's switched towards the promotion of consumption as the chosen multiplier for economic expansion.

Mr Brown saidthe "consumer boom" was to a disappointing extent reliant on growth in Government consumption expenditure which has been growing faster than private consumption expenditure.

The result was Government employment rose nearly 60 percent while total employment rose by a cumulative 12 percent.

"South Africa became a nation of civil servants, with the Government insulating those fortunate enough to be in its employment from the ill effects of sanctions," he adds.

However, now that sanctions are being lifted South Africa must start attracting foreign capital.

Mr Brown says that plenty of interest is being shown in South Africa. What is needed is a catalyst to turn this interest into actions.

This could include:

- Concentrated efforts to establish "show piece" projects involving at least partial foreign participation and provide a visible display of foreign confidence in South Africa;
- "Flag-raising" the issue of South African capital market stock as occured with the German loan last week;
- Specific tax incentives such as temporary "tax holidays" to encourage foreign investment, and;
- Joint ventures by foreigners with South African companies.

Mr Brown says that economic and political stability is a prerequisite for attracting foreign investment.

Violence

The endemic political conflict and violence was also obstructing foreign investment.

A priority for the multiparty conference and any interim Government arrangements should be the issuing of a uniform declaration of support for foreign investment and a pledge to allow free flow of dividends, interest and other payments for nonresident investors.

Foreigners quicken share sales

By Sven Lünsche 74

Foreign selling of shares on the JSE has accelerated markedly this year, according to Reserve Bank figures. Star 27/9/91

In the second quarter, foreign investors' net sales soared to R977 million from R892 million in the first quarter and R564 million in the fourth quarter last year.

Sales accelerated further in July, with net sales of R604 million.

But foreigners continued to build up their holdings of public-sector stock in the capital market to the tune of R665 million in the second quarter.

In July, a further R266 million of public-sector stock was acquired.

The sale of shares contributed to the net outflow of R2,1 billion recorded on the capital account of the balance of payments in the second quarter.

In the first three months of the year R779 million of new capital entered the country.

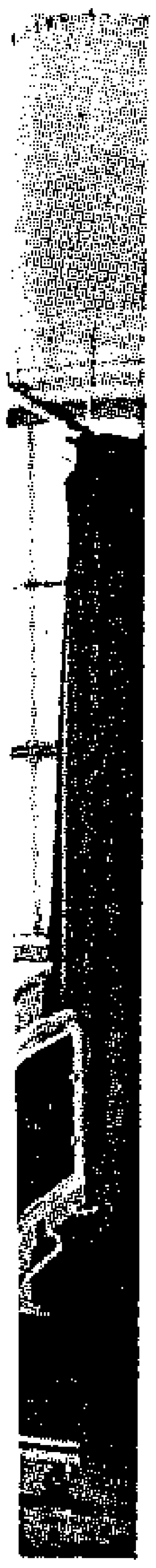
The Reserve Bank says the decline is attributable to short-term outflows related to a decrease in SA's trade credits on imported goods.

However, the more favourable trade picture boosted the current account surplus from R1,5 billion in the first quarter to R6,2 billion in the second quarter.

Total gross gold and foreign exchange reserves stood at R8,7 billion at the end of June, equivalent to seven weeks' imports.

re

in



RIOR

301

IBLE
AINS

Textile imports hit Strebel earnings

74

Business Staff

THE prolonged recession and a flood of textile imports severely impacted on the Strebel Group's results for the year to June.

Margins came under extreme pressure, leading to a 44 percent drop in attributable income — from R5,7 million to R3,2 million.

In the light of these results, the directors declared a final dividend of 4c per share to bring the total payout for the year to 7,5c (13c).

Gearing remained at acceptable levels, being 39 per cent of shareholders' funds and 93 percent in the case of all liabilities to shareholders' funds. This compared with the group's self-imposed levels of 50 percent and 150 percent respectively.

Managing director Fred Strebel said he expected the difficult trading conditions to continue in 1992, with no increase in earnings. However, he was confident that the group, with its strong balance sheet, would be in a position to respond to the first signs of an economic upswing and an improvement in consumer demand.

The ongoing recession had severely affected the group's sales in its main markets — the textile, clothing and retail sectors — and had placed an enormous strain on operating margins. The situation was aggravated by textile imports flooding into the country in the latter half of the group's financial year.

Investors rush to finance new SA loan

74

By Sven Lünsche Star 20/9/91

The South African Government's first loan on international capital markets since 1985 received huge support from overseas investors.

So much so that Deutsche Bank, the lead manager of the Eurobond issue, raised the amount of the issue to D-mark 400 million (R675 million) in the first morning of trading from an initial D-mark300 million (R500 million).

Of the D-mark 400 million, half will go to refinancing a previous loan, while the other D-mark 200 million will be used to finance socio-economic projects in SA.

Dr Gerhard Croeser, the Director-General of Finance, said the success of the issue could be regarded as an important phase in the normalisation of South Africa's borrowings abroad.

● Eurobond issue a roaring success — Page 18

PRIE
REV.
TEL:

Foreign investor interest in SA shares picking up

Star 20/9/91 (74)

By Sven Lünsche

Foreigners may have been net investors on the JSE in the first half of this year, although they slightly reduced their holding in South African mining stock.

In a study of foreign ownership of local mining shares, Davis Borkum Hare analyst Manny Pohl says that total foreign holding in mining shares was 13,8 percent at the end of June this year, slightly down from 14,1 percent in December 1990.

The investment was valued at R23,78 billion at the end of June.

Foreigners have been steady sellers of local mining stock since 1982, when they controlled in excess of 33 percent.

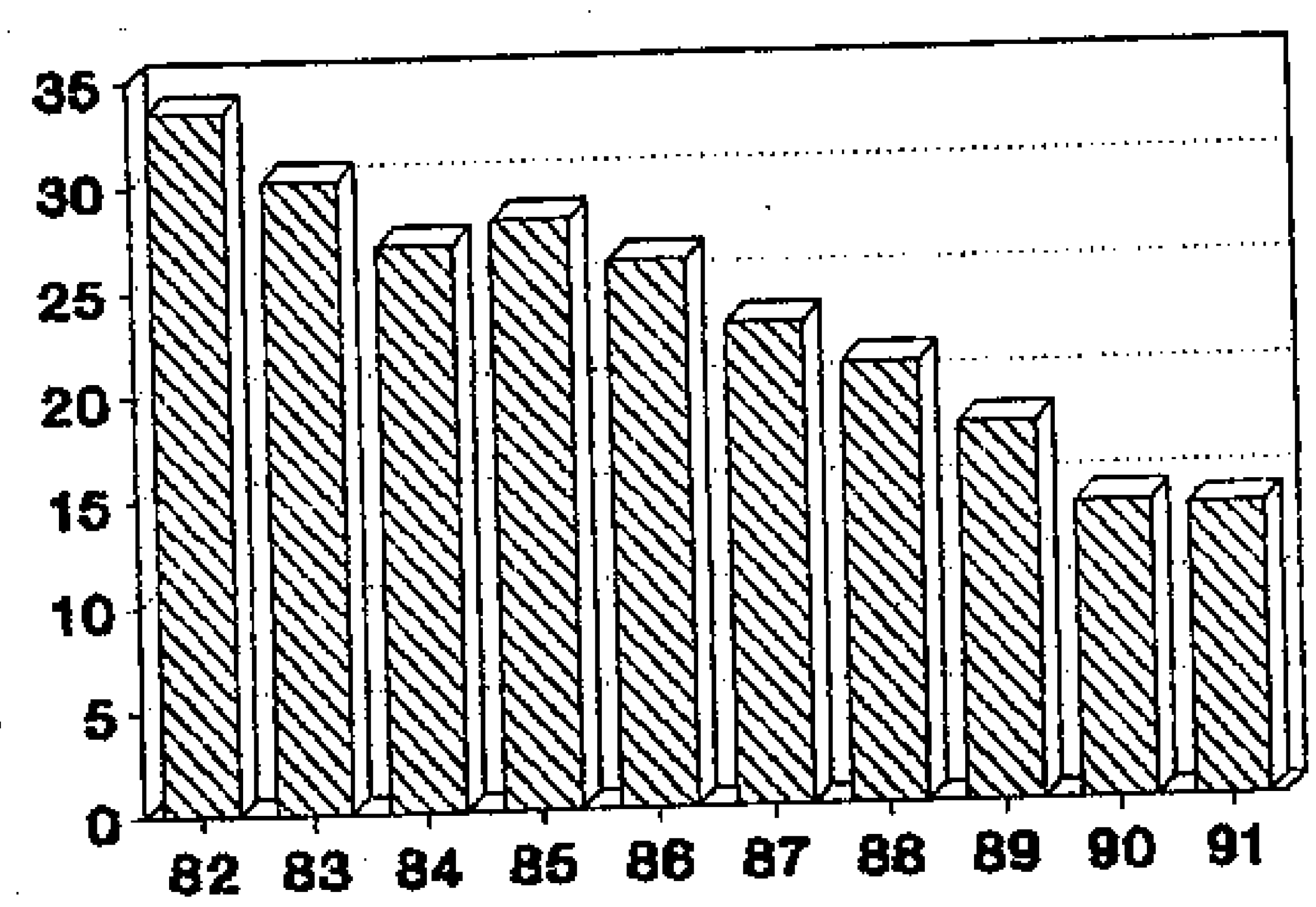
Dr Pohl notes, however, that overseas interest in the JSE over the past few months has been focused on industrial shares as reflected by the 40 percent surge of the industrial index.

"There may thus have been a net inflow of funds into equities," he says.

He ascribes the increased interest over the past few months to a number of factors:

● The stabilisation of the commercial rand and the decrease in the financial rand discount from 25 to 11 percent since the beginning of the year which has increased the total return on SA shares to foreign investors.

● Foreign investors have imparted a political risk to holding SA shares. This has changed with the recent rapid political reforms and foreign investors are once again looking at SA for investment opportunities.



Foreign ownership of SA mining shares (Percentage of shares in issue).

However, US investors are still prevented from investing by a range of state and municipal laws.

Turning to mining shares Dr Pohl says that relatively poor performance of base and metal prices have mitigated against investments in this sector.

Furthermore the revival of the gold mining industry in North America and Australia has provided international investors with an alternative source of mining equity investment.

A breakdown of foreign holdings shows that the largest decline was recorded in local mining houses. Foreigners now only hold 4,4 percent of their total equity compared with 5,2 percent six months ago.

The foreign interest in diamond mines, almost exclusively De Beers, has dropped from 22,8 to 21,3 percent, but the listing of De Beers Centenary in Switzerland has made it more difficult to assess the exact foreign holding.

The decline from 4,4 percent to 3,9 percent of the total issued share capital of platinum mines under foreign ownership was anticipated given the extremely volatile platinum price and negative investor sentiment.

Against the trend foreigners are now holding a larger share of SA gold stocks — 24,7 percent against 24,2 percent — largely as a result of an increase in investments from continental European investors.

Dr Pohl adds, however, that US involvement in gold shares in particular and SA mining shares in general, at 3,3 percent (3,4 percent in December), seems to be at an all-time low.

UK investors' holdings in total mining shares are down from five to 4,9 percent and those of other European investors has dropped from 5,2 to 5,1 percent.

Finally, Dr Pohl says, although the foreign holdings in Eskom declined from 44 percent in September last year to 43 percent in May 1991, foreign holders have accumulated further stock with a nominal value of R600 million.

ERN AFRICA

P.O. BOX 4005
KWANOBUHLE TOWNSHIP
6242
UITENHAGE

NEWS

Sacob backs call to scrap Africa's debts

star 6/9/91

By Michael Chester

Proposals that international banks should cancel the multibillion-rand mountain of foreign debts that burden black Africa have been backed by the South African Chamber of Business.

The proposals that black Africa should be released from official debt obligations — as Poland and Egypt have been — were first put forward by United Nations Secretary-General Javier Perez de Cuellar.

Support for the proposals was urged in Maputo yesterday by Sacob deputy director-general Ron Haywood when he addressed a conference discussing closer co-operation among the nations of southern Africa in a post-apartheid era.

Mr Haywood said it was costing black Africa $23 billion (R66 billion) a year just to pay service charges on loans.

Both the World Bank and the International Monetary Fund were now enforcing greater financial discipline.

Release from debt burdens would have an immediate positive impact on economic development, he said.

There was enormous potential to increase Africa's total exports — which at the moment accounted for only 4 percent of world trade.

But it was critical to reach closer co-operation in the financial sphere, and raise investor confidence with evidence of civil order, overall stability and trustworthy laws.

Mr Haywood welcomed suggestions that some form of corporation be created to channel funds into cross-border co-ordination of joint ventures.

An important lead had already been taken by the Development Bank of Southern Africa, which had so far committed about R5,8 billion to 760 projects — with another 540 projects under consideration.

It was crucial that southern Africa laid the foundations to inspire banks and businessmen with maximum confidence, he said.

Township violence forces two US fund groups to think again

Star 17/9/91 (94)

LONDON — Two international fund management groups have dropped plans to launch funds investing in South African stocks, citing township clashes and worries that US state pension funds might withdraw business.

The decisions by Baring Securities and Genesis Investment Management come at a time when South Africa is preparing its first public bond offering since 1985. It hopes to raise around Dm250 millionfrom international investors.

Genesis, which has $420 million under management, decided not to proceed with a fund investing in second-tier South African stocks as well as stocks from other southern African countries such as Zimbabwe, Botswana and Swaziland.

Genesis had approached about 60 institutions to gauge their interest in the fund. Despite initial interest, it seemed unlikely that the fund would be able to attract its minimum target of $25 million. The violence last week has not helped sentiment, said a spokesman for the group.

Baring Securities had also discussed the possibility of launching a South Africa fund in conjunction with South Africa's UAL Merchant Bank. It shelved plans because of worries that Baring Asset Management (BAM), its fund management arm, would lose valuable US state pension fund business.

BAM claims to be the leading non-US manager of US pension funds. It manages a total $29 billion worldwide of which $4,9 billion is US pension fund money.

"We have taken the view that we do not want to be associated with South Africa, although we can buy and sell South African shares, among other markets, on behalf of clients," said a director of Baring Securities.

The truth is most investors are uncertain how to approach this opportunity. It is frustrating because the economic and commercial opportunities exist and are very obvious.

The Barings/UAL fund would have invested mainly in South African shares.

Old Mutual, South Africa's largest life insurance company, recently announced plans to launch a $50 million South Africa investment company to be listed on the London Stock Exchange.

Smith New Court Securities, which is sponsoring and underwriting the placement, said that several UK and European institutions had expressed an interest in the fund, but that it was too early to say how much money had been raised from investors.

Smith New Court said that a recent poll of 110 UK institutions revealed that 25 percent already invest directly in South African equities, while 45 percent are changing their views on investment as a result of recent political reforms in South Africa.

However, Mr Peter Webster, executive secretary of Ethical Investment Research Service, a company which screens individual UK companies for their involvement in South Africa, said that ethical investors do not believe that the time has come to start investing in South Africa yet. — Financial Times.

New bill to scrap coal export controls

74

CT 23/9/91

By BARRY STREEK

STATUTORY controls over the export of coal are to be scrapped in terms of a new bill which has been tabled in Parliament.

The bill follows a finding by the Coal Advisory Committee that statutory control over coal exports was no longer necessary, "as the objectives of these measures are adequately addressed by market forces".

The committee, which was appointed in terms of the 1985 Coal Resources Act had earlier recommended the deregulation of the marketing of coal, the Department of Mineral and Energy Affairs said in a memorandum attached to the Coal Resources Act Repeal Bill.

The six-year-old law provided for the regulation of the price, production, acquisition, storage, distribution, supply, sale and delivery of coal, but these provisions were scrapped in 1986 and 1987.

The only provision still in force is the control over the export of coal.

"In order to give effect to the deregulation policy and the recommendation of the Coal Advisory Committee, it was decided to repeal the Coal Resources Act, 1985," the memorandum said.

Foreign capital outlook improving, says Barend

(74)

Star 3/9/91.

By Derek Tommey

Minister of Finance Barend du Plessis had good news for businessmen yesterday.

He told the Wits Business School Association in Johannesburg that the Government might consider using foreign bank loans to give the economy a kick-start.

He said Gerhard Croeser, Director-General of Finance, and Jan Steyn, chairman of the Independent Development Trust, had found on a visit to Europe last week that commercial banks were prepared to lend money to SA.

"Our desperate need for readmission to the International Monetary Fund is no longer as important as it was a few weeks ago," he said.

The implication of his remarks, say economists, is that easier access to foreign capital should remove the need for the Government to keep the economy on a tight rein to maintain a balance of payments surplus.

Renewed foreign borrowing could also contribute to lower interest rates.

And though the injection of foreign loans might be seen as an inflationary increase in money supply, the effects could be more than offset by a rise in imports, thereby providing more competition for local producers.

Barend du Plessis . . . Government intends removing the import surcharge

Mr du Plessis said the Government intended removing the import surcharge and getting a better balance between the cost of local and imported goods.

Other points in his speech were:

- Several developments were under way, which should help the economy start growing;
- The Government was still looking at a single withholding tax on savings interest and at ways of ending fiscal drag;
- A tight fiscal policy meant tighter control of expenditure on hospitals, education, roads and other departments;
- VAT was a fairer tax than GST as it fell on both rich and poor;
- Job reservation had caused serious wage distortions, even though job reservation had ended;
- Because many businessmen started taking a short-term view of SA after 1985, there had been a loss of business integrity;
- If the growth rate had been only one percent higher from 1985 to 1991, the Government's tax revenues would have been R6 billion higher;
- The Government was not too concerned at the moment about low revenue figures.

Mr du Plessis said that SA was one of the world's most underborrowed countries. Total foreign debt was equal to 70 percent of one year's export earnings.

The average for the Western Hemisphere's developing countries was 254 percent.

"The country's low borrowings and the way it has met every commitment in terms of interest, capital and dividends in the difficult years have combined to give us an international standing as a borrowing country second to none," said Mr du Plessis.

"It is terribly important that European banks are keen to put money here because we have had every positive vibe coming out of this country in terms of honouring our commitments."

Other good news, said Mr du Plessis, was that R1,5 billion of the R2 billion pledged by Jan Steyn's Independent Development Trust had been committed and 108 building contracts would be concluded in the next few weeks. The first would be operational a week from now.

The R1 billion being spent by Dr Dawie de Villiers, Minister of Economic Co-ordination and Public Enterprises, would also make a contribution to the upturn.

There was, in addition, the moderately expansionary Budget, the end to sanctions and the opening of African countries to SA businessmen.

Mr du Plessis said he had had many visits from foreign businessmen who wanted to come to South Africa, or who wanted to buy back their old businesses, or who wanted to enlarge their surviving businesses.

They wanted to use SA as a base for exports to Africa and other Southern Hemisphere countries.

They would bring managerial and entrepreneurial expertise and new technology, he said.

Trading partners with snarls

Star 20/9/91.

74

Zimbabwe is seeking better trade terms with South Africa at the same time that it is opposing the relaxation of sanctions, reports GERALD L'ANGE.

PRETORIA'S suppressed irritation with Harare has begun to show.

It emerged in official accounts of the meeting this week in Pretoria between South African and Zimbabwean officials over a request from Zimbabwe for a revision of the preferential trade agreement between the two countries.

The South Africans appear to have taken a somewhat firmer line than usual in expressing Pretoria's irritation at what they see as the uncompromisingly sour face presented by Harare when the rest of Africa is beginning to smile on President de Klerk's reforms.

It seems unlikely at this stage that this irritation will lead to a deterioration in the already strained relations between the two governments. But a lot may depend on what Zimbabwe does at the Commonwealth summit in Harare next month.

According to official sources, the South Africans made it known a little more plainly than they have in the past that they find it odd that the Zimbabweans should seek better terms under the agreement (which is essentially what the Pretoria meeting was all about) at the same time as opposing the relaxation of international economic sanctions.

They pointed in particular to Zimbabwe's key role in persuading the Organisation of African Unity to maintain sanctions at its summit in Abuja, Nigeria, in June. President Mugabe himself led that attack and pushed it home, even though ANC leader Nelson Mandela was there trying to get sanctions conditionally softened.

Ironically, this happened at about the same time as Harare began seeking better trade terms from South Africa.

The Zimbabweans were impelled into that seemingly contradictory action by the knowledge that improving trade with South Africa is a key pillar of the economic restructuring programme on which Mr Mugabe's government is depending to save Zimbabwe's struggling economy.

The trade agreement benefits both parties, but it is of much more benefit to Zimbabwe, which does most of its trade with South Africa. The Republic counts its trade with Zimbabwe as a comparatively small part of its overall foreign business.

Widening gap

The imbalance is likely to increase rather than lessen if the Zimbabwe dollar continues to weaken against the rand, as economists predict.

Seemingly to emphasise their irritation, the South Africans said that if the agreement were to be revised, it should be signed by a cabinet minister and not by a senior public servant, as in the past. This was apparently not expressed as an ultimatum, only as a point of view.

It amounts to no more than an objection to President Mugabe's consistent refusal to deal with Pretoria at ministerial level. But it plainly is an objection that could quickly become an ultimatum if Pretoria were to come to believe that its interests were no longer served by taking a tolerant attitude.

The South Africans suggested that Pretoria's tolerance might be severely tested if the Zimbabweans pursued what is seen almost as their hounding of South Africa at the Commonwealth Heads of Government Meeting (CHOGM) which opens in Harare on October 16.

It seems inevitable, however, that Zimbabwe will do just what the South Africans don't want them to do at CHOGM.

Britain, which still regards itself as the senior partner in the Commonwealth, is said to be trying to get the South African issue played down at CHOGM, fearing that the progress towards a negotiated solution in South Africa could be set back if the Commonwealth nations play political football.

There is worried remembrance of the 1979 CHOGM in Lusaka, which led to the Lancaster House conference and independence for Zimbabwe. The British, it seems, do not think that kind of approach is what is needed for the entirely different South African issue.

The Zimbabweans, however, take a different view. In the first place, they think they are morally right. In the second place, they do not think they are out of step with the rest of Africa in demanding the maintenance of sanctions, and point out that the Abuja resolution on sanctions won general support.

And in the third place, it is argued, you can't very well have a CHOGM right next door to South Africa and virtually ignore the issue.

South African Director-General of Foreign Affairs Neil van Heerden does not believe that CHOGM 1991 will be anything other than a predictable expression of opposition to the South African Government.

As it is being held in Harare, and given "the expectations we have of the Zimbabwe government's attitude, one must assume that CHOGM must to some extent be a captive of the Harare syndrome, if I can call it that", he said.

Great store

Mr van Heerden, who described CHOGMs as "pre-programmed love-ins of a particular kind", appears not to attach much importance to the Harare meeting.

Mr van Heerden made it plain in the interview that South Africa is prepared to go to some lengths to establish good relations with Zimbabwe.

"We are setting great store by the possibilities of normalising relations with Zimbabwe," he said. "But right now we have no reason to be optimistic about the prospects."

The Zimbabweans appear to be slightly puzzled by the South African attitude. There is a suspicion in Harare that the displeasure of the South Africans arises partly from their having over-estimated Zimbabwe's influence in Africa and the rest of the world.

Perhaps CHOGM 1991 will show whether this impression is correct. — Star Africa Service. □

Gallic visit . . . French Minister Dominique Strauss-Kahn (right) faces the media at a conference with Foreign Minister Pik Botha. Picture: Jacoob Rykliff.

Top French delegation on trade visit to SA

Star 20/9/91.

By Kaizer Nyatsumba
Political Staff

French Industry and Trade Minister Dominique Strauss-Kahn and a delegation of MPs and businessmen who arrived in South Africa yesterday, are to meet Finance Minister Barend du Plessis.

The meeting in Pretoria will be one of four meetings the delegation will hold today.

The others will be with business organisations, including the South African Chamber of Business (Sacob) and the French Chamber of Commerce and Industries of Southern Africa.

Shortly after arrival yesterday, the delegation was briefed by the French Trade Commission and later had talks with Economic Co-ordination and Public Enterprises Minister Dr Dawie de Villiers, and Constitutional Development Deputy Minister Dr Tertius Delport.

During its five-day visit the delegation — which was met at Jan Smuts Airport by Foreign Affairs Minister Pik Botha and French Ambassador Joelle Bourgois — will hold talks with a wide range of business and political leaders, including President de Klerk and ANC president Nelson Mandela.

Others will include Mineral and Energy Affairs Minister George Bartlett; Trade, Industry and Tourism Minister Dr Org Marais; Cosatu secretary-general Jay Naidoo, and Nafcoc president Dr Sam Motsuenyane.

Addressing a press conference at the airport on their arrival, Mr Strauss-Kahn said his visit to South Africa — the first by a high-ranking French Minister since 1975 — had both political and economic importance for the two countries.

He said France, which was one of apartheid South Africa's fiercest critics, now wanted to be among "the strongest supporters" of the political change.

Mr Strauss-Kahn said France wanted to have stronger economic links with South Africa, so that his country could appear at the top of the list of this country's trading partners.

"It is obvious to everybody that South Africa can be a leading country in Africa, and it will therefore need France's help."

But normalisation of relations would have to take place "parallel to the continuing democratic process".

Mr Strauss-Kahn said Inkatha Freedom Party (IFP) leader Chief Mangosuthu Buthelezi was not one of the people he would meet, because France wanted to preserve its good relations with the ANC.

Mr Botha, sitting next to Mr Strauss-Kahn, immediately added that the IFP leader was not being snubbed by the French delegation, but it had a tight schedule.

In his remarks at the press conference, Mr Botha said South Africa had gone a long way towards eradicating apartheid and had nothing to hide.

Large Eurobond issue in the pipeline for SA

Star 18/9/91

(74)

By Neil Behrmann

LONDON — South Africa is expected to launch a large Deutschemark bond issue this week, its first public Eurobond issue since the early Eighties.

"The issue may be launched in the next few days," a syndicate manager from Deutsche Bank, the lead manager of the bond, said yesterday.

"We must first tie up some loose ends."

Deutsche Bank said the issue would consist of Dm250 million (R420 million) of five-year notes pitched at par on a coupon rate of 10,5 percent.

Syndicate managers in the Eurobond market are confident of success.

They have noticed that retail investors and funds have clamoured for the high-yielding paper denominated in a currency which is likely to remain firm over the long term.

If the returns are above 10 percent, they will compare with five-year D-mark bonds that yield 8,76 percent and with long-term government bonds of 8,45 percent.

In Frankfurt at the end of last month South African officials said the issue would refinance a Dm200 million government bond that matures this year.

The SA Government will be the first of several South African borrowers to return to the international capital markets.

These borrowers include two newcomers — the Independent Development Trust and the Development Bank of Southern Africa.

Others will be normal high-profile borrowers such as Eskom and the Department of Posts and Telecommunications.

Deutschemarks

The first South African bond issues were targeted in Deutschemarks because $1,3 billion out of South Africa's total $1,9 billion in outstanding capital market issues are denominated in Deutschemarks, say bankers.

German and Swiss retail investors have tended to be the best market for South African bonds because they have faith in the country and are attracted to the high yields.

South Africa last launched a public Eurobond prior to the debt moratorium in 1985.

It has recently negotiated private placements with leading German and Swiss banks.

Eskom, in particular rolled over maturing debt in this way. It recently partially refinanced two expiring bonds, denominated in Deutschemarks and dollars through Commerzbank, officials say.

Trade finance has also been forthcoming.

South Africa's return to the international capital markets will be gradual, say bankers.

South Africa has never defaulted on a loan, but government-backed issues do not have an internationally recognised debt rating.

As a result, yields must be much higher than those of major sovereign debt and the spread raises the cost of borrowing.

According to the latest credit rating survey by the magazine International Investor, South Africa rates 49th of the 112 countries surveyed.

Individuals, rather than fund managers and banks, will thus account for a greater proportion of the purchases.

Continuing violence and the recent Inkatha scandal have made caution the by-word of some institutions.

For example, Baring Securities and Genesis Investment Management, two UK funds decided to abandon plans to launch funds investing in South African securities.

Genesis, which aimed at raising $25 million, approached 60 institutions and blamed violence for the poor response it got.

Smith New Court and Old Mutual still say it is to early to determine whether a $50 million South Africa fund will be a success.

Eurobond issue is a 'roaring success'

Star 20/9/91

(714)

By Neil Behrmann

LONDON — South Africa's first public international bond issue since the end of European sanctions has been a roaring success.

So much so that Deutsche Bank, the lead manager of the Eurobond issue, yesterday raised the amount of the issue to Dm400 million (R675 million) in the first morning of trading from an initial Dm300 million (R500 million).

Only a few days ago Deutsche Bank and other underwriters were estimating that the first RSA post-sanctions Eurobond would be Dm250 million (R420 million).

The five-year Euro-mark issue on a coupon of 10,5 percent, priced at par, traded at an immediate premium when it was issued yesterday.

Officials at Deutsche Bank said the issue was trading at 100,95 to 101,05 points, an excellent level considering that this is South Africa's first public bond issue since the debt moratorium six years ago.

The price of the issue then settled back at 100,75 points, even though Deutsche Bank raised the amount of the issue by a further Dm100 million. (R168 million).

Above par

The issue created tremendous interest, a syndicate manager of Deutsche Bank said.

He was very pleased with the response and said the bond continued to trade above par, even though the size had been increased to Dm400 million.

Co-underwriters with Deutsche Bank are Banque Paribas, Bayrische Landesbank Girozentrale, Kleinwort Benson, Bayrische Vereinsbank, Berliner Handels und Frankfurter Bank, Commerzbank, Dresdner Bank, Swiss Bank Corp and Westdeutsche Landesbank.

Sub-underwriters include Credit Suisse and Korea Development Security.

Individual investors, in particular, are interested in buying the bond, which is being placed in denominations of Dm1 000 to Dm10 000.

Syndicate managers in the Eurobond market said retail investors and fund managers clamoured for the high-yielding paper denominated in a strong currency that is likely to remain firm over the long term.

If the returns are above 10 percent, they will compare with five-year triple AAA Deutschemark Eurobonds yielding 8,76 percent and long-term government bonds of 8,45 percent.

The issue will refinance a Dm200 million government bond that matures at the end of this year, Dr Gerhard Croeser, Director General of Finance, said yesterday.

The remainder would help finance social development, he said.

"The positive reaction to the issue represents an expression of confidence in SA's conduct of both its foreign financial relations and its domestic economic policies.

"It can also be regarded as an important phase in the normalisation of SA's borrowings on international capital markets," Dr Croeser said.

"With total external debt now equivalent to only 70,2 percent of annual export earnings and the debt-service ratio down to 7,1 percent, or a little under 20 percent of Gross Domestic Product, South Africa can be considered to be under-borrowed in international terms," he said.

He said, however, that the authorities were committed to an orderly and cautious approach in entering the international financial markets.

The Independent Development Trust would be the next issue, said a spokesman for the SA Consulate-General in Zurich.

German and Swiss retail investors have tended to be the best market for South African bonds because they have faith in the country and are attracted by the high yields.

Individuals rather than fund managers and banks are expected to account for most of the purchases.

For South Africa, however, the negative side of the issue is the expensive yield on a currency that is likely to appreciate against the rand in the long term.

US and some UK investment banks still refuse to trade in SA issues while waiting for a fully democratic constitution.

Eurobond for SA goes ahead

(74)

Star 10/9/91.

LONDON — South Africa has finalised plans for its first public debt issue since 1985, a D-mark denominated bond issue which could also raise the first new money from international investors since the mid-1980s.

The Dm200-250 million (R330-410 million) issue will refinance an outstanding South African bond issue due on December 15.

However, bankers said a small amount of new money would also be raised.

The deal will be lead managed by Deutsche Bank in Frankfurt. Other banks playing a leading role include Swiss Bank Corporation, Paribas and Kleinwort Benson.

Presentations

Institutions attended presentations by South African officials in Frankfurt, Zurich, Paris and London last month.

Since then, underwriting banks have been pre-selling bonds to investors ahead of an official announcement of the launch, expected soon.

Sources expect the debt to be priced to yield around 2 percent more than German government bonds, slightly less than the yield spread on small private placements completed for South African borrowers this year.

If the bond issue goes smoothly, other government-backed borrowers will include the Independent Development Trust and the Development Bank of Southern Africa.

Sources say SA borrowers hope to make a public issue every six to eight weeks next year. — Financial Times.

Czech trade barriers go

(74) CT 13/9/91

PRETORIA. — An agreement signed in Prague yesterday provides for the normalisation of trade between South Africa and Czechoslovakia.

The agreement provides for the immediate and final abolition by the Czech authorities of trade restrictions against South Africa, the Minister of Trade and Industry, Org Marais, announced yesteday.

In a statement released here, he said "in return, the government of South Africa will allow all goods of Czechoslovakian origin to be imported into South Africa free of surcharge".

Marais said the agreement he had signed with his Czechoslovakian counterpart was characteristic of the process of normalisation between the two countries, which had gained momentum especially over the past few months.

The agreement, furthermore, provided for the strengthening of trade relations.

He pointed out that South Africa and Czechoslovakia had in November 1990 agreed to establish official relations providing for the opening of permanent missions in both countries.

The two countries had come a long way since the first contacts between foreign trade officials were made about five years's ago.

South Africa had always considered Czechoslovakia as a country with which it would like to develop closer links. — Sapa

SA-Angola crude oil deal reported

74 CT 11/9/91

Own Correspondent

LONDON. — South Africa is reported to be negotiating a one-off $600 million (about R1 800m) agreement allowing it to sell Angolan crude oil on the international market, says the London-based trade magazine Petroleum Argus.

Petroleum Argus says this is the first time since the introduction of the 1979 UN oil embargo that South Africa has "openly been offered access to foreign crude supplies and potential hard currency earnings of the spot market".

However, Central Energy Fund chairman Mr Danie Vorster yesterday denied any crude oil agreement with Angola.

BP SA chairman Mr Tony Deacon said he could not comment on the Angolan deal and a Shell SA spokesman said he was not allowed to comment on any matters relating to the supply of oil.

Not suited

The Argus, quoting "trade sources", says representatives of the Strategic Fuel Fund and the Angolan oil ministry, headed by Petroleum Vice-Minister Mr Diserderio Costa, had drafted an agreement.

Under the pact, it says, Angola would set aside a portion of its 500 000 barrels per day oil output to guarantee payment for increased imports of foodstuffs and mining equipment from South Africa.

A spokesman for Petroleum Argus said yesterday that South Africa would not be shipping the crude to its refineries because they were not suited to handling the type of crude exported by Angola.

A South African oil deal with Nigeria is also imminent, according to a report in the latest newsletter of the Dutch Shipping Research Bureau, which monitors the oil embargo on South Africa.

This, too, was strongly denied by Mr Vorster, who said discussions were not in progress — or being contemplated — on the supply of Nigerian crude to South Africa.

The bureau also said South Africa was interested in a huge gas field in Mozambique, with plans to pipe gas via Maputo to the Witwatersrand. Mr Vorster also denied this report.

Road to the world widens

Star 25/9/91. [redacted] (M4) [redacted]

**South Africa's avenues back to worldwide acceptance seem to be shifting all the time.
By GERALD L'ANGE of the Star Africa Service**

THE BELIEF long held in Pretoria that South Africa's road back to international acceptance runs through Africa may be revised by the Department of Foreign Affairs.

It is certainly being reconsidered by Neil van Heerden, Director-General of Foreign Affairs.

"I have personally come to question somewhat the position of the past whereby we said that our road to the rest of the world leads through Africa," he said in an interview in Pretoria.

"It is true that the outside world does look at Organisation of African Unity (OAU) positions and the positions of important individual African countries when they consider dealing with South Africa.

"But there is another dimension to South Africa's place in the world, and that does not necessarily go through the African capitals.

"The world has grown very much smaller. South Africa has been an international player in trade and also politically.

"Whether through criticism or praise, we have had a high profile internationally, and that has carried us into the living rooms of people across the world."

That road had not run through Africa — it had gone directly to the international community, with South Africa recognised as a part of that community, Mr Van Heerden said.

While South Africa was "pushing to normalise our situation with Africa, we are also pushing to normalise our situation globally — politically, economically, culturally and in sport.

"I tend to come to the conclusion that the notion that we are tied to this road through Africa has changed, if indeed it was ever an entirely valid statement.

"There is another dimension to our position in the world than the African one.

"It also has to do a bit with the fact that Africa is under threat of being marginalised.

"And now that sanctions are going, people are going to look at South Africa as a market, as a tourist destination, as a trading partner per se, and not through the perspective of how this would fit into the overall African scene.

"In fact, there are indications that many major international players have burnt their fingers elsewhere in Africa and are looking at South Africa as a platform and a safe haven from which they can have African operations."

At the same time, Mr Van Heerden noted that recent developments had given greater substance to South Africa's claim to be an African country.

AndAfrica, itself, had changed radically over the past few years, with its peoples' demanding pluralistic democracy, and developing countries threatening to withhold aid if they did not get it.

While the traditional stand of the Organisation of African Unity had not changed, African countries were individually telling South Africa that the OAU rhetoric was no longer in keeping with the changed situation in the country and the continent in general.

Mr van Heerden said it would be interesting to see whether President Babangida of Nigeria, the new OAU chairman, would be "the person to take the issue of South Africa across the threshold into a new era".

"I wouldn't be surprised if precisely such an intention is on the agenda."

In response, South Africa was continuing to put out signals that it had a right to be, and wanted to be, part of the continent.

Mr van Heerden noted, however, that South Africa could not begin to meet Africa's enormous needs for aid, especially as it own domestic backlog must take priority.

This would dictate that a strict system of priorities must operate, based on South Africa's own national interests.

Trade would be an important criterion for developing relations with African countries but so would the "political weight" of other countries.

As a country in transition — with "lots of unfinished domestic business" — South Africa would want to avoid being caught up in friction and tensions elsewhere.

South Africa would not be a major donor of aid for a long time but would rather be a technical power.

As a regional force, South Africa must live in harmony with its neighbours.

What had been "a rather adverserial climate" in the region was changing, although there still was an adverserial relationship with Zimbabwe.

He hoped, however, that this relationship would also benefit from the "general sense of reconciliation and the acceptance of the need to talk to each other, even if we differ".

Discussing the Southern African Development Co-ordination Conference (SADCC), Mr Van Heerden said that it was increasingly being recognised that no regional association could succeed if it excluded South Africa. □

Neil van Heerden . . . South Africa cannot begin to meet Africa's enormous needs for aid.

Exports the route to go

74 CT 6/9/91

Changes needed in custom regulations

By AUDREY D'ANGELO
Business Editor

THE Western Cape can achieve relative prosperity through exports, Colin McCarthy, professor of economics at the University of Stellenbosch, told the Western Cape regional conference of the SA Chamber of Business (Sacob) yesterday.

But for this to happen he stressed the need for duty-free imported materials for the manufacture of exports, the lowering of protective import tariffs, and a lower rate of company tax.

The conference was held at the Lord Charles Hotel in Somerset West.

Referring to the latest moves in the "war" between textile and clothing manufacturers — the proposed introduction of import duties of 20% on yarn, 30% on fabric and 60% on clothing — McCarthy said the best solution appeared to be changes in customs regulations enabling individual factories to become export processing units.

This would enable exporters to obtain rebates of duty on materials used for exports. "And if a control system is devised that will prevent leakages of duty-free goods into the domestic market, domestic industry should have no reason to complain."

McCarthy said he did not believe massive investment in low-cost housing for the poor would be enough to "kick-start" the SA economy, as suggested in the Old Mutual-Nedbank scenario.

"We will be building many houses in SA and also spend a lot on education and other social services, but I have my doubts that this should be seen as the short term answer to low growth.

"Take one question as an example — let us assume that the kickstarting effort is not confusing needs and effective demand and that the purchasing power is available to finance housing. Will we be able to supply the bricks, cement and other building materials at unchanged prices or will bottleneck inflation be the outcome?

"Does supply really create its own demand in a money economy? Will the effects on the balance of payments be negligible? I have my doubts.

"The comparative study of economic growth has convinced me that quick fixes do not exist."

McCarthy thought it would take from three to five years to turn the economy round and reverse the longterm downward trend that began in the mid-1970s.

"Under these circumstances responsible government will require good and consistent policy and above all honesty about the economic dawn which is still some way from breaking."

SA's first need was for an inflow of foreign funds. "There is no way that we can save enough to finance the investment requirements of a rapidly growing economy."

An economy could expect a consistent inflow of foreign capital only if it earned its keep competing internationally.

"A return to rapid industrialisation is a prerequisite for a return to high and sustainable economic growth. Export orientated growth provides us with the only neans of achieving a quantum leap in economic performance.

"Outward-looking development will require a gradual but determined lowering of the protection of SA industry and a change in the mentality of manufacturing from mainly production oriented to more marketing oriented.

"At the same time macroeconomic stability will be an important condition. Taking on foreign competition in an economy experiencing 15% inflation and with a corporate tax rate which is high by international standards is not going to produce the desired results."

McCarthy said the Western Cape had the infrastructure, industries, labour, supporting services and agglomeration advantages making it the ideal location for export orientated growth. "I believe that the Cape can export itself into relative prosperity."

It would also be helped by the new policy on regional industrial development, making tax-free cash grants available to new firms starting up.

"In view of these considerations I am fairly optimistic that the Western Cape can look forward to an increase in economic growth and development."

But, McCarthy pointed out, it would be essential to close the gap between the "haves" and "have-nots."

Export-led growth might still leave a large part of the population out in the cold.

"Human values, and the adage that in the long run economic development and growth depends largely on the quality of your people, demand that programmes designed to alleviate poverty directly must be given high priority."

Caution on trade with East bloc

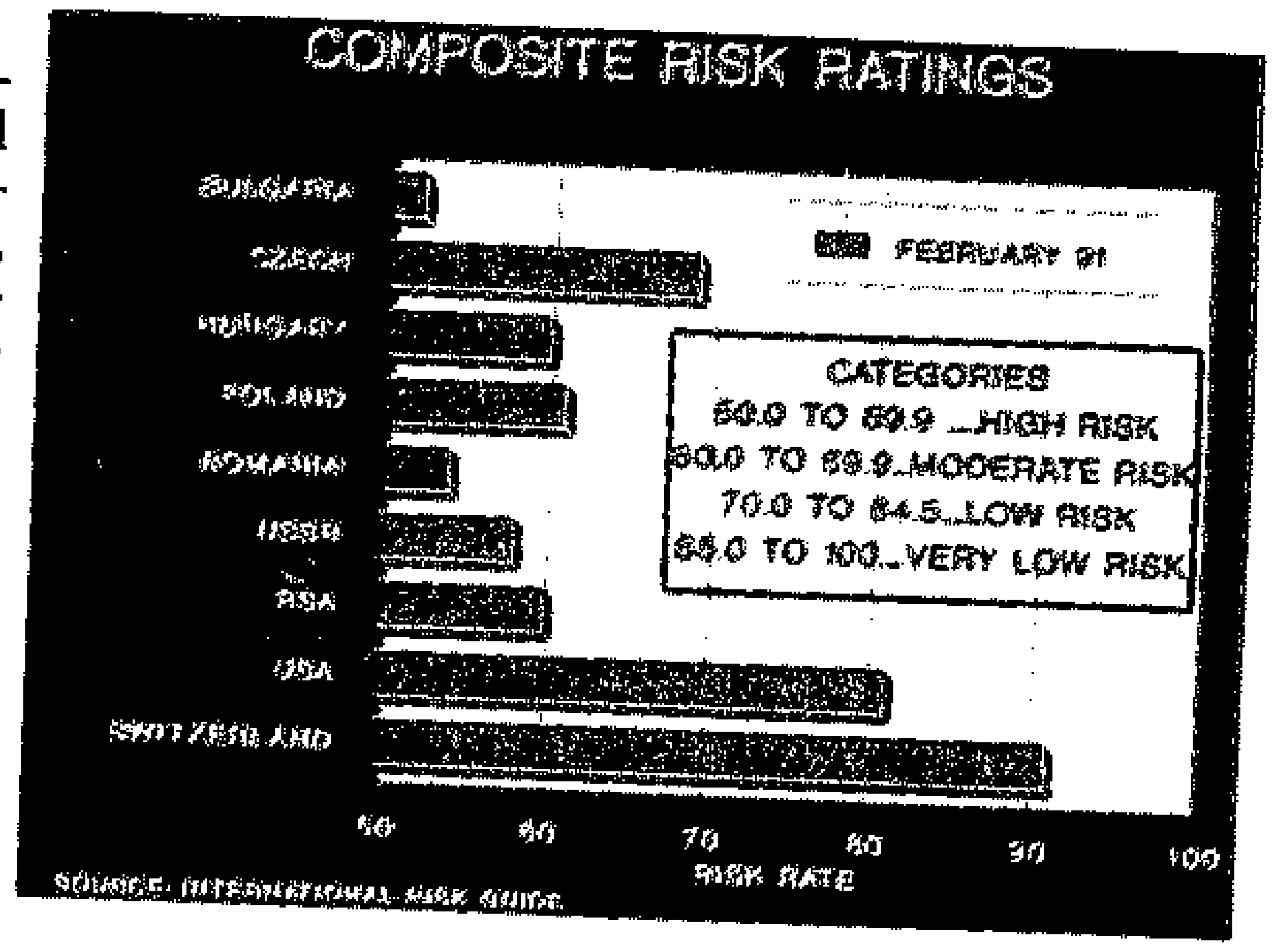
CT 5/9/91

By AUDREY D'ANGELO
Business Editor

TRADE is still growing between SA and Czechoslovakia, Poland and Hungary, says Francine Beudeker, regional manager of the SA Foreign Trade Organisation (Safto).

But Russia and the former satellites still in the process of breaking away are not seen as offering trading opportunities in the short term.

"Some countries in Eastern Europe are better propositions for exporters than others," said Francine.



"Czechoslovakia, Poland and Hungary are coming up and trade with them is developing.

"But for the moment I think SA exporters should leave Russia out of their planning. It may have longer-term potential — it depends how their economy develops — but for the time being I think their need will be for very basic things.

"The situation in Eastern Europe is all so new. The UK and Western Europe are still our main markets."

Colin Boyes, deputy director of the Cape Chamber of Industries (CCI) agreed: "We wanted to expand our trade wherever possible and Eastern Europe was viewed as a market where we could inter-act, given their level of development and ours.

"Local manufacturers were keen to establish contacts there. But events in Russia have caused a great many people to review their position.

"There are countries like Czechoslovakia which are developing quite strongly. They have been keeping their heads down during all the upheavals and quietly getting on with the business of restructuring their economies.

"When we received a delegation from the Polish private sector recently we discussed the question of payment.

"They told us this would be no problem because they were underwritten by the World Bank and were re-orientating themselves into the world economy. They indicated they had made great strides.

"We had one or two missions from the Soviet Union before the recent troubles. But contacts with some other Eastern European countries have been firmer and more solid."

Cape Town Chamber of Commerce business affairs manager Albert Schuitmacher said that after an initial explosion of interest in trade with Eastern Europe there had been a noticeable decline.

Warning that conditions in most of Eastern Europe were "unstable", Schuitmacher advised local exporters to be very careful, particularly about arrangements for payment.

But he said that Czechoslovakia had "liberalised" its arrangements with Western Europe long ago, Hungary had been "fairly independent" for some time and Poland had also been restructuring its economy.

A recent issue of Fincom — a monthly publication by Transnet economic services division — quoted the International Risk Guide which in February this year gave Czechoslovakia a better security rating than SA and Poland a slightly better one. Hungary was rated equal to SA.

All four were in the "moderate risk" category but Czechoslovakia was almost in the low risk category. SA and Hungary only just scraped out of the high risk category.

Russia itself was in the high risk category with Bulgaria and Rumania.

Fincom says Czechoslovakia's gross domestic product (GDP) was expected to contract by 5% this year following a drop of 3,4% last year. "Inflation will be around 30% and unemployment could jump by 8% to 10%.

"On the positive side, Czechoslovakia has enough foreign reerves for 1991 as well as IMF, US and EC credit.

"Monetary and fiscal policy has been improved, price fixing scrapped , subsidies cut, central planning institutions abolished and privatisation launched on a big scale — especially in the small business sector."

In Hungary, Fincom says, production by the small business sector is estimated to have risen by 250% while that of the state sector has fallen by 8,4%.

Inflation is expected to fall to an average of 22% this year from 28,9% last year.

In Poland, Fincom continues, the inflation rate was brought down from 640% in 1989 to under 100% by February this year. Growth, which was negative last year, is expected to be 3% this year.

"Lately queues have disappeared at selling points. Shops offer more goods and more brands.The signs of a free market economy become more visible."

Rand

PARLEZ PIK? . . . Foreign Minister Mr Pik Botha watches yesterday as the visiting French Minister for Industry and Foreign Trade, Mr Dominique Strauss-Kahn, addresses journalists in Johannesburg. Picture: AP

(74) CT 20|9|91

France to strengthen economic ties with SA

JOHANNESBURG. — France wants to strengthen its economic and political ties with South Africa, but would link the process to political change in the country, the French Minister for Industry and External Trade, Mr Dominique Strauss-Kahn, said yesterday.

He was speaking after arriving for a fact-finding mission accompanied by a strong trade delegation.

Mr Strauss-Kahn is to hold talks with President F W de Klerk, ANC leader Mr Nelson Mandela and various South African cabinet ministers. He said he would not be able to fit Inkatha leader Chief Mangosuthu Buthelezi into his tight schedule.

After meeting his Lesotho counterpart Mr Pius Tankimolap yesterday, Foreign Minister Mr Pik Botha said he did not think South Africa was being snubbed by the suspension of visits here by Australian Prime Minister Mr Bob Hawke and Canadian Prime Minister Mr Brian Mulroney.

He said the two prime ministers would visit at a more opportune time.

Mr Botha also met Mr Strauss-Kahn and Namibian Prime Minister Mr Hage Geingob yesterday.

He encountered Mr Geingob by coincidence at the airport, and said the two discussed aspects of the countries' mutual relations.

● A Danish multi-party delegation is due to arrive in South Africa today, on a visit that could lead to Denmark dropping its veto on the lifting of European Community sanctions. — Sapa and Own Correspondent

Exports lift SA trade surplus

74 CT 24/9/91

By AUDREY D'ANGELO
Business Editor

SOARING exports and falling imports pushed SA's trade surplus to nearly R1,9bn in August, after it had fallen to R1,05bn in July and R1,1bn in June.

Economists, predicting a trade surplus of more than R15bn for the year, pointed out that exports were doing surprisingly well in view of the slowdown in the international economy.

But, because of continuing high inflation, none thought it would lead to a cut in interest rates before the end of this year.

Exports surged in August to R6,1bn — the highest level achieved since the record surplus of R3,2bn in October last year.

Total exports for the first eight months of 1991 rose to R43,2bn, which is 8% higher than in the first eight months of 1990.

Imports for the first eight months of the year, compared with the same period a year ago, were up by 9% to R32,6bn.

But month-on-month imports dipped to R4,2bn in August from R4,9bn in July.

Safto economist Bruce Donald pointed out that export revenues had been boosted by a steady decline in the rand exchange rate against the dollar this year. It fell from an annual average of about R1 to \$0,39 in 1990 to R1 to \$0,37 during the first eight months of 1991.

But Donald said the strong performance of manufactured categories which were helping to reduce SA's dependence on commodity exports was "startling".

There had been major improvements in exports of chemicals, plastics, prepared foods, transport equipment and "miscellaneous manufactures".

Exports of base metals were up by only 5% and mineral products fell by 1%. However, considering the poor conditions prevailing in international commodity markets, SA's performance was "outstanding" here, too.

If these trends were maintained, the SA economy could stand to benefit significantly from the improvement in world markets, expected about halfway through next year.

"If the decline in commodity prices is taken into account, it is likely that our producers are increasing or at least maintaining market share in these two major categories.

Donald said the poor performance of vegetable product exports, down by 9%, reflected the recent drought conditions. "This category is set to improve in the light of the better maize crops this season."

He said imports of machinery rose by only 3%. Imports of vehicles and transport equipment rose by 10%, of textiles by 21%, footwear and accessories by 66% and miscellaneous by 21%.

The cumulative trade surplus for the first eight months of 1991 was R10,6bn, which was 4% higher than for the same period last year. "Annualisation of this figure suggests a trade surplus of R15,8bn for the year, and a current account surplus of at least R3bn," said Donald.

"Given a healthy current account surplus, combined with improved access to foreign funds (as displayed by the successful re-entry of SA into the European capital market), it appears that limited foreign reserves are no longer an obstacle to economic growth."

Southern Life economist Mike Daly said:"It looks as if we are heading for a trade surplus of R16bn for the year as a whole.

"When you subtract the services deficit which SA always has, which is something like R11bn, we shall be left with about R5bn on the current account of the balance of payments.

The tremendous success of the Eurobond flotation should help the capital account.

Sanlam chief economist Johan Louw said imports were still at a high level in spite of the recession. But he thought they had reached a core level and were unlikely to fall much more.

"We seem to be laying the foundations for an upswing next year.

"We are probably in the lowest phase of the downswing but I think we shall be in it for some time."

Old Mutual chief economist Dave Mohr said the balance of payments situation seemed the best for five years. "These figures look very good."

First National Bank chief economist Cees Bruggemans said the "remarkably healthy" trade balance figures were what would be expected at the bottom of a recession.

Imports rain on Strebel's parade

(74)

By MAGGIE ROWLEY
Deputy Business Editor CT 26/9/91

A FLOOD of textile imports, coupled with the continued downswing in the economy saw Cape-based Strebel Group's pre-tax profits more than halved to just over R5m for the year ending June 30.

MD Fred Strebel, who forecast lower earnings at the half-year, said the on-going recession had severely affected the manufacturing group's sales in its main markets — the textile, clothing and retail sectors. Turnover had dropped 4% and margins had been placed under severe pressure.

The situation had been aggravated by textile imports flooding into the country in the latter half of the group's financial year.

"As a group we strongly favour healthy competition in our economy. At the same time we believe the government must balance imports against the strategic needs of the country in terms of raw materials production, manufacturing capacity and continued employment.

Dumping ground

"Allowing SA to become a dumping ground for world-wide surplus production is not going to improve our ability to export successfully in a competitive world," he said.

Operating income before depreciation and interest was down 35,6% at R8,6m (R13,3m). The interest bill was up sharply at R1,2m (R924 000).

A 58,9% cut in the tax bill to R1,8m saw attributable earnings down 44% from R5,7 to R3,2m, equal to 21,3c (38c) a share.

A final dividend of 4c a share brings the total payout for the year to 7,5c (13c).

However, the directors said gearing remained at acceptable levels, being 39% of shareholders' funds and 93% in the case of all liabilities to shareholders' funds. This compared with the group's self-imposed levels of 50% and 150% respectively.

SA loan bid to test US waters

ST Times 29/9/91

By SIMON BARBER
Washington

BY agreeing to manage a $100-million Eurobond issue for the Independent Development Trust, Wall Street investment bank JP Morgan is throwing down the gauntlet to American sanctioneers.

State and local governments and "socially responsible" investment fund managers are being challenged to decide whether it is acceptable for South Africa to raise development capital on the open market.

Proceeds from the issue, which is expected to go to the market in October and is the first of its kind to be managed by a US bank, are to be used for classroom construction in black communities.

Blessing

The IDT is planning a European roadshow in mid-October to drum up support for the issue. The maturity, par value and interest rate of the bonds have yet to be settled.

Morgan is clearly concerned that it may run foul of local sanctions laws in the US, especially new regulations in New York designed to discourage banks from any involvement with South Africa.

Morgan vice-president Richard Mahony said the bank had contacted local authorities to emphasise that the IDT had the blessing of both ANC president Nelson Mandela and IFP leader Mangosuthu Buthelezi. He said there had been no reaction so far.

Back in franchise fold

S Times (Bus)

Business Times Reporter

THE SA Franchise Association (Safa) has been readmitted to the Washington-based International Franchise Association (IFA).

Membership of the international body of franchisors was suspended at the height of the sanctions campaign in the mid-1980s and SA was cut off from the mainstream exchange of franchise information.

22/9/91

IFA president Bill Cherkasky confirmed SA's readmission this week.

Safa director Kurt Illetachko says: "Our policy of cultivating relationships with companies and individuals around the world has paid off."

Leon Smith, chairman of Safa's international relations sub-committee, says membership of the world organisation will help SA to learn from foreign counterparts and to import and export concepts under master licence.

"This will benefit emerging black business people who need proven business frameworks."

Aussie trade mission for SA defies unions

(74)

S/Times(Bus) 22/9/91

By ROBYN CHALMERS

SYDNEY — An Australian business delegation will visit South Africa — in spite of opposition from trade unions — after sanctions are lifted later this year.

The worldwide movement to lifting sanctions has prompted Australia's largest employer group, the Confederation of Australian Industry (CAI), to tour SA in an attempt to resume trade links.

The tour, expected to take place in November, has been criticised by Australia's United Mineworkers Federation (UMWF) as opportunistic and premature.

Cymbals

The UMWF has close links with the National Union of Mineworkers in SA. It believes reform is not developed enough to consider the resumption of trade links.

UMWF national secretary Tony Wilks said in The Australian newspaper this week that the union was sceptical about the delegation's trip when it looked as though there might be some movement "rather than waiting for the movement to develop into something".

CAI director-general Chris Mackay replied that the mission would not be going to SA "with trumpets blowing and cymbals playing".

"It will go there for thoughtful reconnaisance, with a view to what the relationship should be, how quickly and how committedly should companies view the SA market for opportunities."

The announcement of the CAI-led delegation to SA follows hot on the heels of Frankel, Max Pollak, Vinderine economic consultant Mike Brown's report that the lifting of sanctions against SA would increase competition for Australian mining companies.

Mr Brown told an Australian Investment Conferences meeting in Sydney this week that barriers against SA coal producers would fall away when sanctions were removed. As a result, SA exports of coal, uranium, mineral sands and processed mineral products could increase rapidly to challenge Australian companies.

"There is no doubt that the two nations are rivals in many markets and that the lifting of sanctions will remove some barriers for SA producers," he said.

In an attempt to offset this development, the CAI-led delegation will explore the possibility of boosting its own mineral exports by using SA as an entry point to the rest of Southern Africa. It will also seek to increase trade of $120-million between Australia and SA.

Interim

The CAI warns business leaders that prompt action will be needed if opportunities in SA are to be exploited.

"Australian companies will face strong competition from foreign companies. And the door will not be open indefinitely."

Mr Mackay said the Australian Government supported the mission, although it would not commit itself officially until sanctions were lifted.

Commonwealth foreign ministers agreed last weekend that trade and investment sanctions would be removed when an interim administration to share power with blacks was approved. This is expected within the next few months.

Forward cover spur is dropped

By DIRK TIEMANN

THE RESERVE Bank has dropped its short-term preferential forward cover rate because foreign financing for importers and exporters is freely available.

It used to offer discounts on forward cover to encourage banks and companies to borrow abroad — mainly in an effort to bolster the foreign-currency reserves.

In 1988 the preferential rate was about two percentage points lower than that for general forward cover. Last year the bank reduced the difference to about one percentage point.

Reserve Bank general manager James Cross says SA has overcome the liquidity crunch and will not subsidise foreign short-term trade finance any longer.

St Times Buss Cash 2-9-1991 (74)

He says it is still profitable to borrow abroad without the preferential margin.

The balance of payments has improved to such an extent that it will not place too much strain on the reserves if some short-term trade debt is repaid.

But preferential forward cover rates are still available for long-term foreign financing on such things as capital goods. The SA borrower pays between 6% and 8% for forward cover in addition to the interest of about 8% charged by the foreign lender. This makes it cheaper to borrow abroad than here.

Nedbank international division manager Robert Stone says importers who had access to the preferential forward cover rate could afford to ask suppliers for extensions of payment instead of immediate cash.

R1,8bn surplus as imports plummet

BIDay 24/9/91. (74)

SHARON WOOD

LOWER oil imports and surging diamond exports shot SA's trade surplus to R1,8bn in August, figures released by Customs and Excise yesterday showed.

The figures indicated an 80% hike in the monthly trade surplus in August compared with July — the result of a 2,8% increase in exports and a 13,8% decline in imports.

The large drop in imports to R4,2bn in August was partly due to lower oil imports, which were supplemented by local strategic oil stockpiles.

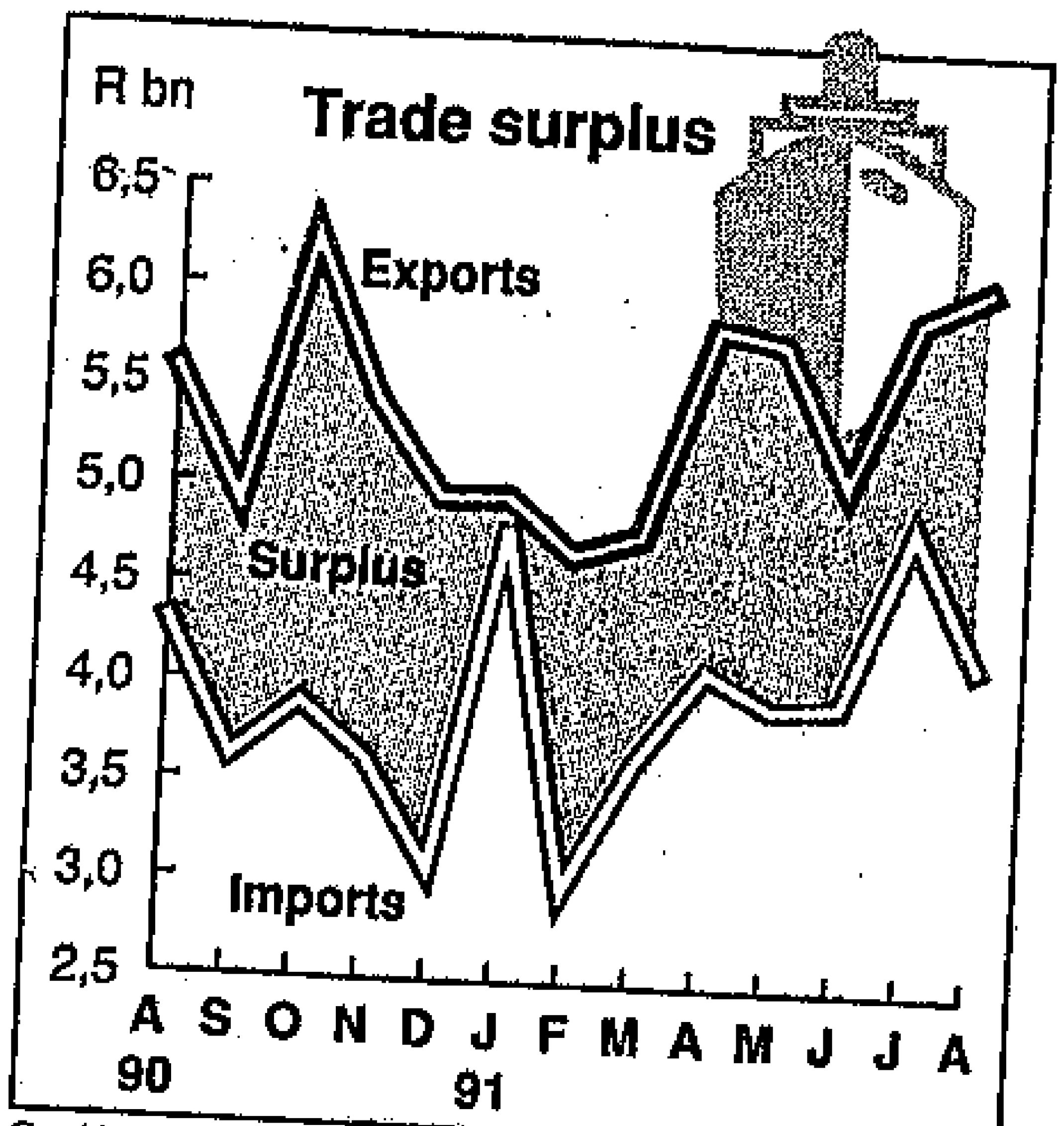
In addition, imports of transport equipment reverted to normal levels following the import of a 747 Boeing in July.

Exports rose to R6,1bn in August and were buoyed by a 125,9% rise in precious stone and coin exports.

Base metal and mineral product exports continued to suffer from weak international commodity prices, falling by 6,8% and 13,6% month-on-month respectively.

However, economists cautioned about being too optimistic because exports were still suffering from weak gold and international commodity prices.

Standard Bank chief economist Nico Czypionka said: "We are lucky to be in a position where the surplus is as high as it is, given the difficulties in the gold and international commodity markets."



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

This indicated the underlying trade position was in acceptable shape.

Nedbank chief economist Edward Osborn said exports looked good on the surface because of the major R300m jump in

☐ To Page 2

Surplus

BDay 24/9/91. (74)

☐ From Page 1

jewellery exports. But most of these were probably Botswana diamond exports, because the figures covered all trade in the Customs Union area.

Imports had been kicked up by the inclusion of the Boeing in July, he said. Transport equipment imports had fallen back R400m in August.

For the year as a whole exports, adjusted for currency movements, rose by 4,2% year-on-year and imports by 2,9%.

The August figures had caused a dramatic swing in the apparent movement in trade, he said. Before this the situation had not looked as favourable.

Safto economist Bruce Donald said there had been a marked improvement in the trade account this year.

The cumulative trade surplus for the first eight months ot the year was R10,6bn or 4% higher than last year.

If this were annualised, a trade surplus of R15,8bn and a current account surplus of R3bn could be achieved for the year.

"The strong performance of manufactured exports this year is assisting in diversifying SA's trade away from a dependence on traditional commodities," he said. "If this trend is maintained, the economy could stand to benefit significantly from the improvement in world markets expected halfway through next year."

● Comment: Page 8

Outflow of R2bn reduces reserves

Bday 27/9/91. (74)

SHARON WOOD

AN OUTFLOW of R2,1bn of capital during the second quarter, which neutralised a sharply higher current account surplus and reduced gold and foreign reserves, is shown in the Reserve Bank Quarterly Bulletin released yesterday.

The main reason for the significant outflow of capital was a short-term capital outflow of 1,74bn in the second quarter. This reversed the previous quarter's R1,36bn inflow.

The outflow of short-term capital was mainly related to the drawing down of SA's trade credits because of rising imports and outstanding export payments, which remained overseas as short-term assets, the bulletin said.

Short-term capital movements had fluctuated considerably since June 1990 because of changing exchange and interest rates and the costs of forward cover.

Redemption of debt inside the standstill net by the private sector caused a R326m outflow of long-term capital.

SA's current account surplus jumped to R1,3bn from R973m in the first quarter. If the surplus remained at this level for a year, the current account surplus would be R6,2bn, the bulletin said.

Exports rose to new highs during the second quarter because of higher exports of textiles, transport equipment and precious metals and stones. The value and volume of merchandise exports rose by 9,5%, quarter on quarter, and 5,5% in the second quarter respectively.

The bulletin said despite lower growth in international trade over the past year, export volumes rose by 10,5% year on year in the second quarter.

Imports rose by 9,2% quarter on quarter and, when seasonally adjusted and annualised, reached a new high of R50,2bn.

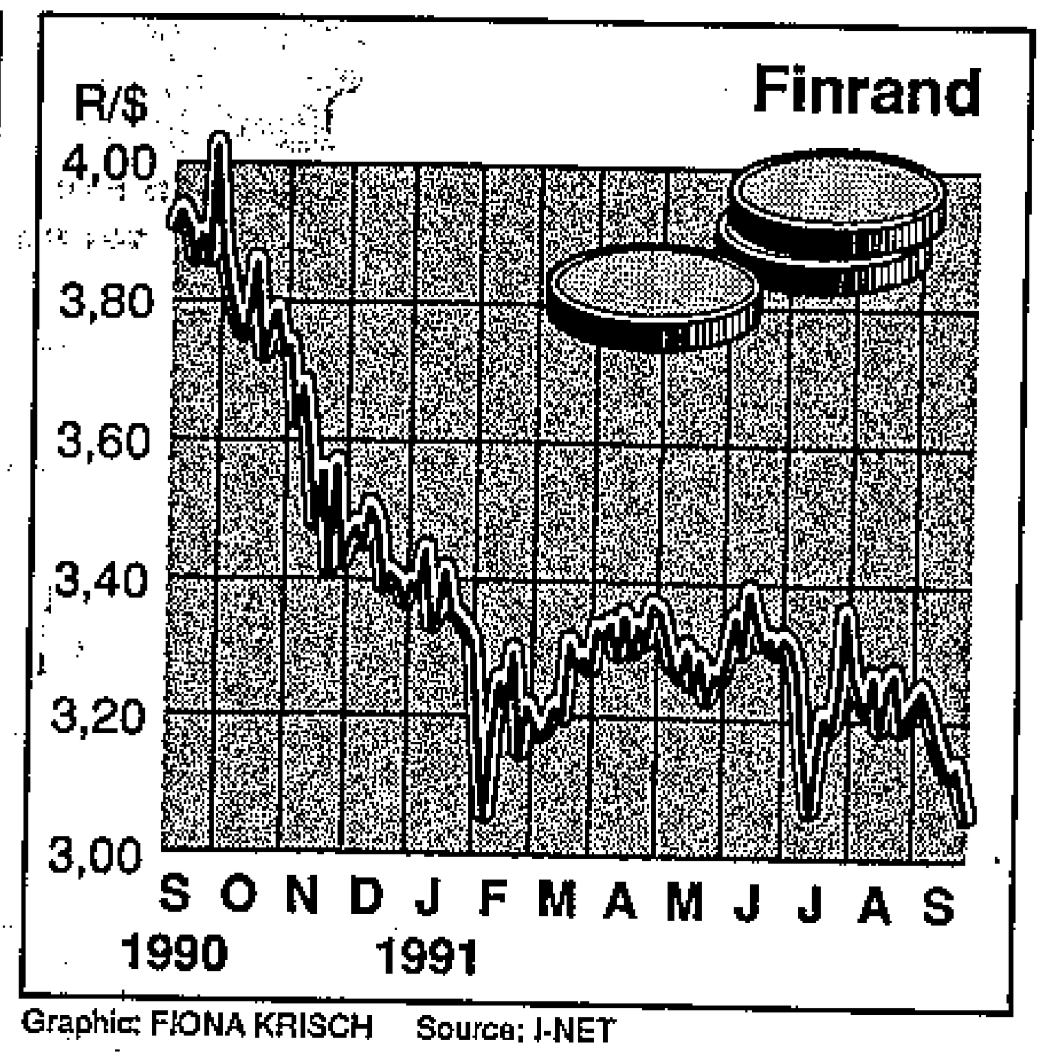
The exceptional increase in the volume of imports was largely because of the purchase of a macro-jet aircraft and the further replenishment of depleted inventories of mineral products.

Despite a strong current account surplus and a steady rise in reserves this year, capital outflows knocked SA's net gold and other foreign reserves down by R0,8bn in the second quarter.

Net gold and foreign reserves thus rose by R1,0bn in the first half of the year.

At the end of June total gross gold and other foreign reserves amounted to R8,7bn, equivalent to about seven weeks' imports of goods and services.

See Page 3



Graphic: FIONA KRISCH Source: I-NET

Foreign interest boosts finrand

(94)

B/Day ANDREW GILL 27/9/91

THE financial rand yesterday rose to its strongest levels in six months as it continued its steady climb backed by active foreign interest.

It finished 2c stronger at R3,07 to the dollar, equalling its strongest levels attained in three years as dealers reported both local and foreign buying with traders covering their positions.

Rumours that some big sell orders were about to hit the market saw much of the market take short positions in anticipation of a quick profit. However, the sales did not materialise and traders found themselves searching for extra finrands.

The unit has been strengthening over the past few weeks, as foreigners become increasingly resistant to political unrest and look more closely at the bottom-line.

Also, confidence in SA was confirmed by the recent Deutsche Bank-backed DM400m public bond issue on European capital markets, where the bonds were trading at a premium to issue price.

Analysts said the finrand could gain further in the coming weeks judging by the interest being shown in it.

Its discount to the commercial rand stands at 8,5% which, although low, is more than two percentage points above July's 6,5%. If it was to return to that discount and the commercial rand held at current levels, it could climb back to R3,00 to the dollar.

The main interest has been in gilts but creation from the equity side has also slowed. A dealer said a corporate finance deal may have been behind yesterday's gains but this could not be confirmed.

IDT seeks $75m in new bond issue

B/Day 23/9/91 KIN BENTLEY (74)

LONDON — The next major ~~public~~ SA bond issue, by the Independent Development Trust (IDT) in about six weeks time, will seek to raise $75m, say European financial banking sources.

But because the IDT issue will be in dollars, it will be a "different ball game" to the successful DM400m government bond issue last week, lead managed by Germany's Deutsche Bank, said one banker.

He said the dollar market differed from the German one because, instead of largely retail investor interest, institutional investors would have to be targeted.

He said he expected the issue to be carried out in London, lead managed by a US bank. Like last week's, it would be a medium-term five-year issue.

Commenting on last week's issue, the banker said its success showed there were "a lot of loyal investors out there".

The SA Finance Department had "applied the right strategy of rewarding loyalty by giving a nice political risk premium".

The SA government bond offers an interest rate of 10,5%, compared with 8,4% on German government bonds.

He said as political and economic stability grew in SA, this premium could be expected to come down gradually.

Luxury items get 2,5% excise duty

TANIA LEVY (74)

GOVERNMENT yesterday announced a 2,5% excise duty on a range of luxury consumer items designed to keep their prices stable after the introduction of VAT on September 30.

The duty will bring in an extra R300m to compensate for revenue lost as a result of the reduction in the VAT rate from 12% to 10%. B|Day 18|9|91

Deputy Finance Minister Jacob van Wyk said in a statement that motor vehicles, tobacco products, alcoholic beverages, TV sets and radios would be subject to the 2,5% ad valorem excise duty.

No extra duty would be charged on computers or office machinery. As capital goods, these items would not be subject to VAT and their prices should drop by 13% from September 30, he said.

Unfortified wines and other fermented drinks such as apple, pear and orange juice would also be subject to the 2,5% duty, as would sorghum beer powder.

A duty of only 1% would be introduced on sorghum beer itself because of its high nutritional value, low alcohol content and the fact that the sorghum beer industry had recently been privatised, said Van Wyk.

He said duty had been set at 2,5% instead of 3% — the difference between the VAT and GST rates — to prevent merchants using the extra excise duty as an excuse to push up prices to consumers.

Canadians threaten rollover

KIN BENTLEY

LONDON — Two of the biggest borrowers in the international bond market, both Canadian, have warned banks they risk losing their business should they participate in a planned Eurobond issue for SA.

But one major bank affected, Germany's Deutsche Bank, said yesterday that while this "could have an impact on the issue of the bonds", exploratory discussions with the SA government were continuing.

It is currently negotiating with SA to roll over a DM200m bond maturing in December. It is also believed SA may take up between DM50m and DM100m in new funds, for "development projects".

A Deutsche Bank spokesman said from Frankfurt yesterday the announcement that discussions with SA were continuing was made in the full knowledge of the position of the two Canadian borrowers.

Province of Ontario and Ontario Hydro have raised the equivalent of US$5bn from Eurobond and global bond offerings since December. Their policy is to exclude from their bond syndicates any bank "which has participated in underwriting new loans to the Republic of SA or any of its agencies", the Financial Times reported yesterday.

Province finance policy director Standard Tychsen was quoted as saying the policy remained unchanged.

The refinancing of the SA bond is expected to be finalised before the end of the year, when it falls due.

Reserve Bank Governor Chris Stals said last night the matter was with the Finance Department and he could not comment.

BD 15/11/90

174

IDT bond issue to raise $100m

B/Day 24/9/91 (74)

LINDA ENSOR

CAPE TOWN — The Independent Development Trust's (IDT's) Eurobond issue would raise more than $100m to fund the organisation's initiatives in the building of schools and provision of clinics and clean water supplies for rural communities, IDT spokesman Jolyon Nuttall said yesterday.

An IDT team led by chairman Jan Steyn will make a series of presentations in London, Frankfurt and Zurich from mid-October to float the Eurobond issue in November. New York Investment Bank J P Morgan & Co has been selected to lead the financing of the bond in international markets.

Call to liberalise exchange control

B/Day 17/9/91 (74)

ANDREW GILL

SA must do away with exchange control regulations imposed on non-residents if it is to attract long-term capital, says Price Waterhouse Meyernel national taxation director Chris Frame.

In a statement, he said the only way of gaining a net addition to the economy was to create the right conditions for foreigners to invest.

"Our economy is being run on old money, industry is operating on a capital base that is far too narrow and we are in desperate need of more participation by foreign companies."

Government should also make it worthwhile for overseas investors to pump funds into the economy by guaranteeing repatriation of income and capital. SA could not become the "engine of Africa" if it was shackled with a paternalistic and restrictive investment code.

"Once we are totally acceptable to the rest of Africa we will have a grand opportunity to be the world's springboard for the continent," Frame said.

SA could not afford to jeopardise this chance and its economic future because of a "misguided desire to control our destiny".

He said no country could exist entirely off its own capital base and that capital had become a truly international commodity. SA needed to do everything possible to attract and encourage international capital flows in a highly competitive environment, especially with recent developments in the Eastern Bloc, which had seen demand for international capital far exceeding supply.

"SA simply cannot afford to lag behind with trade and investment liberalisation or it will degenerate into another example of the African economic nightmare," he said.

Recent capital account flows have illustrated SA's daunting long-term capital position. Although capital outflows amounted to only R2,9bn in 1990 from R4,3bn in 1989, most of the improvement came in the form of short-term, trade-related finance.

The short-term money is erratic and can be easily withdrawn, analysts warn. Long-term capital flowing out of the country in the first six months of the year amounted to R900m compared to R1,9bn for the whole of 1990.

Foreign support in capital market

B/Day 16/9/91 (74)

ANDREW GILL

RENEWED violence on the Reef and bearish producer inflation figures released last week have failed to have a negative impact on normally hypersensitive capital market rates, because of consistent foreign support.

Perplexed local dealers had feared a heavy foreign sell-off in the wake of the violence that started on Sunday last week, but the dumping failed to materialise.

Rates actually strengthened by five points over the week, with dealers reporting relatively strong demand in a market with few sellers.

Locally, long-standing bearishness was fuelled by the violence and the uptick in producer inflation but foreigners appeared to shrug off the unrest.

Dealers said foreign investors seemed to have become accustomed to the fighting and were more confident than local investors about the country's future.

A foreigner who invested in gilts during the rush on the market in 1988 and 1989 would have recovered all capital investment by next year through dividends alone because of returns in excess of 25%.

As a result, the attractive risk of SA gilts still lured foreign investors despite crumbling yields since the financial rand started its rally last year.

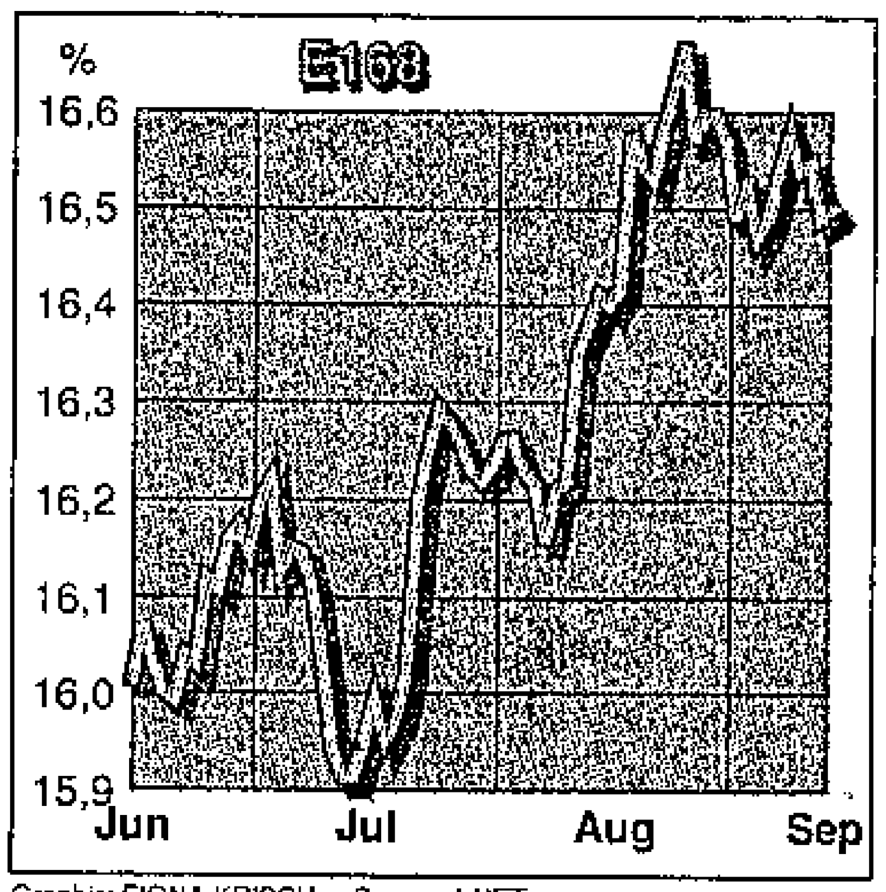
Also, with the current bear market standing at 1,5 percentage points, there is said to be limited scope for any further major hike in rates despite the poor outlook for a cut in official rates.

Added to this was the limited borrowing requirements of major players at the moment and the likelihood that many of them would be partly funding themselves on overseas markets, leaving a shortage of paper on the market.

☐ Citing township clashes and worries that US pension funds might withdraw business, two international fund management groups have dropped plans to launch funds investing in SA shares, says a report in the *Financial Times*.

Genesis Investment Management has decided not to proceed with a fund investing in second-tier SA stocks and shares in other southern African countries.

Baring Securities had discussed the launching of a South Africa fund in conjunction with UAL Merchant Bank. It shelved the plan because of worries that Baring Asset Management, its fund management arm, would lose valuable US state pension fund business, the report stated.



Graphic: FIONA KRISCH Source: I-NET

Europe scrambles for SA bond issue

B/Day 20/9/91 (74)

ANDREW GILL
and KIN BENTLEY

SA RE-ENTERED European capital markets with a bang yesterday as investors scrambled to get in on government's five-year bond issue, prompting authorities to increase it from DM300m to DM400m.

Government's first public issue since 1985, launched yesterday morning, aimed for the upper range of DM250m-DM300m.

Finance Department director-general Gerhard Croeser said the "overwhelmingly positive reception" that the issue received had prompted the department to increase it by DM100m.

Demand was reflected in the bonds trading well above the par issue of 100%. After coming in at just over 101%, the issue dropped back to 100,80% as the extra DM100m was added. It bounced back to 101,05% before closing at 100,9%.

A spokesman for the Frankfurt-based Deutsche Bank, which lead-managed the deal, said last night that the first day's trading had been "very good".

Among the group co-managers are major financial institutions from several European countries, believed to include Swiss Bank Corporation, Paribas and Kleinwort Benson.

A Finance Department spokesman said although response to the "roadshow" which went to European financial capitals last month had been encouraging, a conservative issue of DM300m had been decided on because of the risk of a failure after six years out of the market.

The good response, he said, "shows that financial institutions are regaining faith in SA and that the end of the debt standstill is closer".

Croeser said in a statement the DM400m issue would boost SA's reserves by DM200m, after refinancing the DM200m loan falling due in mid-December.

The R335m boost to reserves would assist in financing the Exchequer in 1991/92, he said. The issue had been sold to investors as one with a social investment angle.

This followed criticism of the issue by the ANC, which claimed the money "could easily be diverted to unstated projects detrimental to the negotiation process".

Croeser said it was "especially heartening" that foreign investors were reacting so positively to the re-entry into the market. This represented an expression of confidence in SA's conduct of both its foreign financial relations and its domestic economic policies. It could also be regarded as

☐ To Page 2

Bond issue

B/Day 20/9/91 (74)

☐ From Page 1

an important phase in the normalisation of SA's borrowings on the international capital markets.

He said the issue would "contribute to meeting the increasing socio-economic demands in SA and the backlog of services for a fast-growing population".

Bond analyst Jon Bergtheil, of London stockbrokers James Capel, said: "It has been a successful issue. It seems popular."

The coupon rate on the five-year issue was 10,5% a year payable in October. Bergtheil said the 10,5% coupon was attractive to European investors because it was well above the 8,4% on German government bonds.

Although there were still "country risks", he said the rate was a "very nice reward" considering the low currency risk, because SA had proved it paid its debts.

"Although this issue eases the balance of payments position somewhat further, SA nonetheless remains subject to the Third Interim Debt Arrangement. Although new foreign funds are becoming available and can make an important contribution to economic growth and development, the fiscal and monetary authorities are committed to an orderly and cautious approach in entering international financial markets."

With total external debt now equivalent to 70,2% of annual export earnings, and the debt service ratio down to 7,1%, or a little under 20% of GDP, SA could indeed be considered under-borrowed in international terms, Croeser said.

Bank considers changing forex rules

CHARLOTTE MATHEWS

THE Reserve Bank is considering allowing registered financial institutions to buy dollars spot and sell them forward as an extension of its present money market operations to control large amounts of short-term foreign exchange coming into the country. B10 ay 3/9/91

Reserve Bank Governor Chris Stals confirmed yesterday he had asked the investment community at a private function last week whether it would be interested. He was waiting for a reaction.

"As the registered financial institutions don't deal with short-term money as the banks do, we could consider making the investment for a longer period, up to six months," Stals said.

He said the purpose of such a move would be to take the surplus cash and liquidity out of the SA market. An increase in gold and foreign reserves brought surplus liquidity, which the Reserve Bank had been neutralising by doing short-term swaps with the banks. 74

"We do dollar swaps on a short-term basis because so much money that is coming into the country is on a short-term basis. If we get a long-term inflow of capital into the country then we can think of more permanent arrangements on exchange control," Stals said.

Personal Trust director Glenn Moore said yesterday SA was experiencing a "hot-

□ To Page 2

Forex rules B10 ay 3/9/91.

74

□ From Page 1

house" effect as a result of its tight exchange controls.

The Reserve Bank had from time to time allowed limited investment overseas — for example, gold mines could hold receipts of dollars for sales of gold for a limited period before remitting them.

SA's tight exchange control policy was one of the major barriers to foreign investors re-entering SA, Moore said, but on the negative side it would be politically difficult to allow investment abroad when opposition parties were clamouring for development spending inside the country.

Moore believed the first and least disruptive step towards easing exchange control would be to allow gold mines and exporters to hold their dollars for longer.

Safto sees benefits in SA trade figures

(74)

BDay 25/9/91

SAFTO says SA's economy could benefit significantly from an improvement in world markets expected around mid-1992 if recent trends are maintained.

Commenting on the latest trade figures for August, it noted in a statement that SA's exports surged to R6,1bn for the month — the highest level achieved since October last year.

Total exports for the first eight months of 1991 rose to R43,2bn — 8% up on the same period a year ago.

Base metal exports were up by only 5% and mineral products fell by 1% over this period.

"However, considering the poor conditions prevailing in international commodity markets, SA's performance is outstanding," Safto said.

If the decline in commodity prices was taken into account, it was likely that SA producers were increasing, or at least maintaining market share in these two major categories, it said.

It said even more startling was the strong performance of the manufactured categories in assisting the diversification of SA's trade away from a dependence on traditional commodities.

The following categories experienced major improvements: chemicals (35%), plastics (50%), prepared foods (22%), transport equipment (36%), and miscellaneous manufacturers (49%).

"If these trends are maintained, the SA economy could stand to benefit significantly from the improvement in world markets expected about halfway through next year," it said.

Export revenue was assisted by a steady decline in the rand exchange rate this year.

The poor performance of vegetable product exports (-9%) reflected the recent drought. This category was set to improve in the light of a better maize crop yield this season, it added.

Knock

Cumulative imports for the first eight months of the year compared with the same period a year ago climbed by 9% to R32,6bn, indicating that the current recession was a mild one, it said.

However, month on month, imports dipped significantly to R4,2bn in August from R4,9bn in July as domestic demand took a knock.

It said the stronger rise in consumer imports during the first eight months of 1991, compared with the same period a year ago, suggested that the recession had been felt less among consumers than producers.

Machinery imports rose by only 3%, while vehicles and transport equipment rose by 10%, textiles by 21%, footwear and accessories by 66%, and miscellaneous manufactures by 21%.

The net result of these trends had been a marked improvement in the trade account this year. The cumulative trade surplus for the first eight months of 1991 was R10,6bn — 4% higher than the trade surplus for the same period last year.

Annualisation of this figure suggests a trade surplus of R15,8bn for the year, and a current account surplus of at least R3bn.

"Given a healthy current account surplus, combined with improved access to foreign funds (as displayed by the successful re-entry of SA into the European capital market), it appears that limited foreign reserves are no longer an obstacle to economic growth in SA," it says. — Reuter.

Bond issues in Europe soon

B Day 13/9/91 (74) [redacted]

ANDREW GILL

TWO SA borrowers will follow government's imminent public bond issue on European capital markets with their own issues before March next year.

The Development Bank of SA would go to the market before the end of March to raise in the region of R150m to R200m and the Independent Development Trust (IDT) was expected to have an issue before the end of this year, spokesmen said yesterday.

Development Bank group finance manager Richard Kirkland said the bank expected to have a public issue before the end of its financial year in March, with a view to raising half of the annual R300m to R400m funding requirement overseas.

Government is set to go to the market next week with its DM50m to DM100m public issue. After the Development Bank and IDT issues, the way will be clear for parastatals to go to the market next year.

Development-related bond issues would be the first to test the water, expecting a warmer reception than loans for purely commercial ends.

IDT spokesman Jolyon Nuttall said trustees had sanctioned an approach to international markets and donor agencies with a view to financing development activities, probably before the end of the year. No figures were available yet.

Eskom and Transnet are expected to

☐ To Page 2

Bond issues

B Day 13/9/91 (74) [redacted]

From Page 1

follow the three development-linked bond issues at some stage next year, but are cautious about flooding the European market with SA issues at a time when former Eastern bloc countries are taking a large chunk of the finance.

Also, Eskom has had to allow government, the Development Bank and IDT issues to precede its own for fear of taking away potential finance from the three because of its good reputation in the market.

Kirkland said the timing of the issues was appropriate and there was a "reasonable appetite" for SA paper. This had been borne out by the relatively limited adverse reaction to government's issue.

SA Housing Trust GM Willie Conradie said the trust was not looking for financing at commercial rates from the capital market but rather from donor agencies in the form of highly subsidised loans.

Industrial Development Corporation (IDC) GM Louis Kingma said the IDC was not looking at an issue at the moment, but next year could see a change.

THE WEEK AHEAD by William Richards

Rise in reserves likely

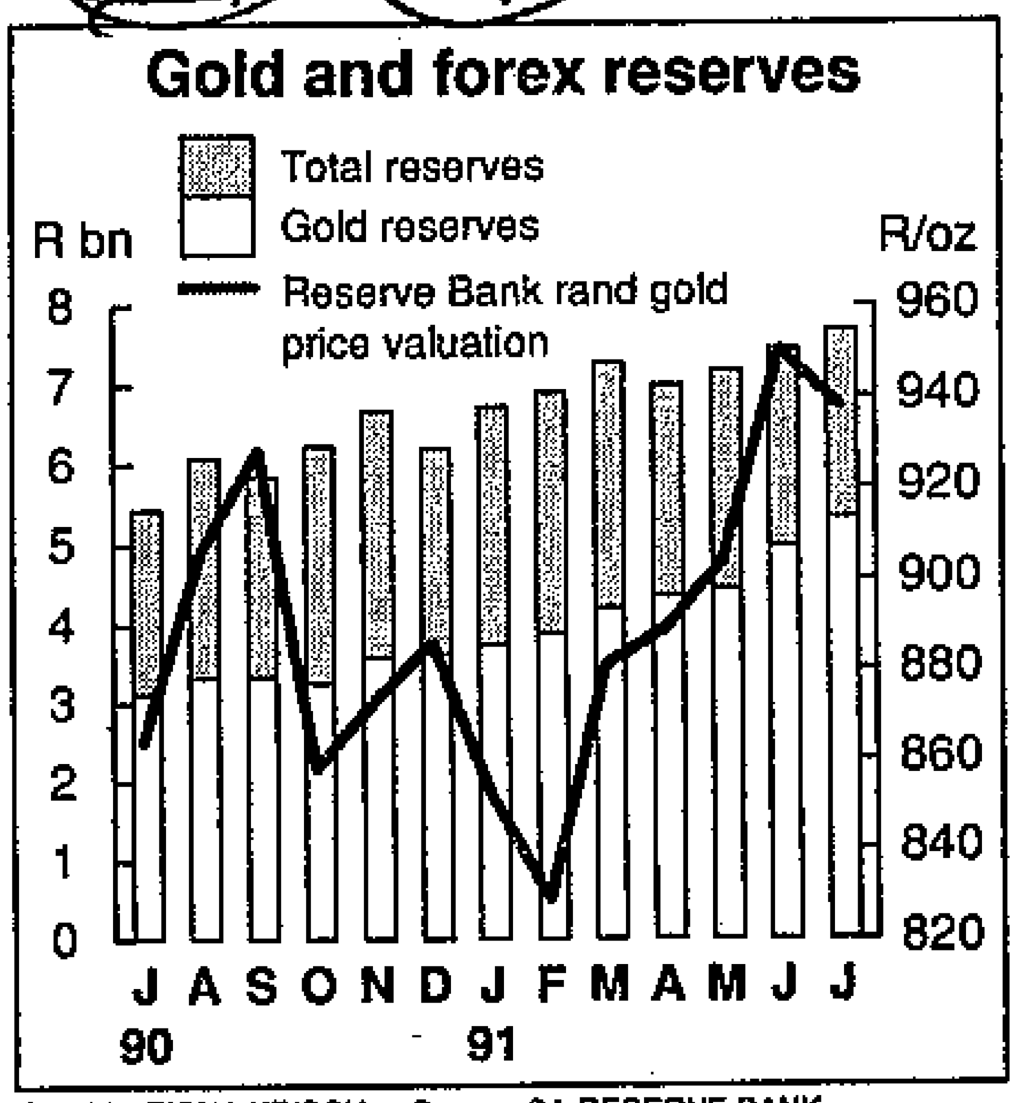
BDay 2/9/91 (74)

SA's gold and forex reserves, due for release on Friday, comprise one of the few statistics which markets await without trepidation. The August figure is unlikely to show the impact of a scheduled repayment of foreign debt inside the standstill net.

Reserves over the past few months have risen steadily, and look more than capable of having absorbed the second of this year's two foreign debt repayments.

Expectations are that the July level of R7,7bn may edge up again — despite the debt repayment — to a nominal record high. But the total is still well short of the Reserve Bank's target of three months' import cover.

The next foreign debt repayment is due in calendar 1992, which means the reserves have several months in which to build further towards the Bank target.



Graphic: FIONA KRISCH Source: SA RESERVE BANK

The finrand market will be apprehensively awaiting Wednesday's special NP federal congress when the adoption of a draft constitution will be proposed. Constitutional developments are assuming an increasingly high profile among international investors, especially in Europe, and the smooth adoption of this landmark measure would enhance foreign perceptions of the political situation.

The focus on international markets this week will be on tracking an incipient US recovery. The US economy is recovering, but the question is: how fast and how durable will this recovery be?

Last week's downward revision of the preliminary second quarter GNP from +0,4% to -0,1% rekindled doubts that the recovery was durable. This week the market will be looking for further signs.

The most important of these could be Friday's release of August's unemployment rate. The rate is expected to rise to about 7% . However, markets will appreciate that recovery is still possible on a jobless rate of 7% or more. So this, on its own, should not be a damper on hopes for a steady upswing.

Another index of activity in the US manufacturing sector — the August survey of the National Association of Purchasing Managers — will be released on Tuesday. An index above 50 would indicate economic expansion and below 50 would mean contraction.

Overall, these figures should fall into the broad pattern of positive US fundamentals which have consolidated favourable dollar sentiment.

Monday is Labour Day in the US which will give markets a quiet start to the week.

The yen may be sensitive to Thursday's reconvening of the extraordinary session of the Japanese parliament.

Interest rates loom over dollar

B/Day 11/9/91. 74

SHARON WOOD

INTEREST rates moved into the forex market limelight again this week as the long-awaited US unemployment figures faded into the distance and sentiment towards the dollar turned bearish.

Forex markets switched their focus from the better-than-expected unemployment figures towards an expected US interest rate cut, which would widen the already significant interest rate differential between the US and Germany. The differential between German and US three-month Eurodollar interest rates is currently at 3,6% in favour of the Deutschmark.

Market sentiment is divided on the possibility of a decline in the interest rate and most expect that the Fed will wait until the release of inflation and retail sales data later this week before moving interest rates. But the sharp fall in the dollar during the past week indicates that an interest rate cut has already been largely discounted into the currency.

The dollar was unexpectedly battered by the unemployment data and lost ground against most of the major currencies from Wednesday last week to yesterday morning. It fell by 2,5% against the Deutschmark, 2,3% against the sterling and 0,8% against the yen.

US unemployment remained unchanged at 6,8% in August, with non-farm payrolls rising by 34 000. This was better than the forecast 6,9% unemployment rate or 22 000 rise.

The fall in the dollar could be due partly to the fact that July's unemployment figures were revised downwards substantially. Standard Bank says this encouraged the normally forward-looking forex market to sell the dollar and break out of the trading range of between DM1,72-1,75 which has governed since the end the Soviet crisis.

FNB technical analysis shows the dollar at last penetrated below the longer-term neckline of the head and shoulders formation. The dollar breached a resistance level of DM1,6850 yesterday, leaving a reasonable medium-term objective of DM1,6430. The expected trading range for the dollar this week is DM1,6850-1,7171.

Analysts say although sentiment against the dollar turned bearish last week the long-term trend was still expected to be upwards.

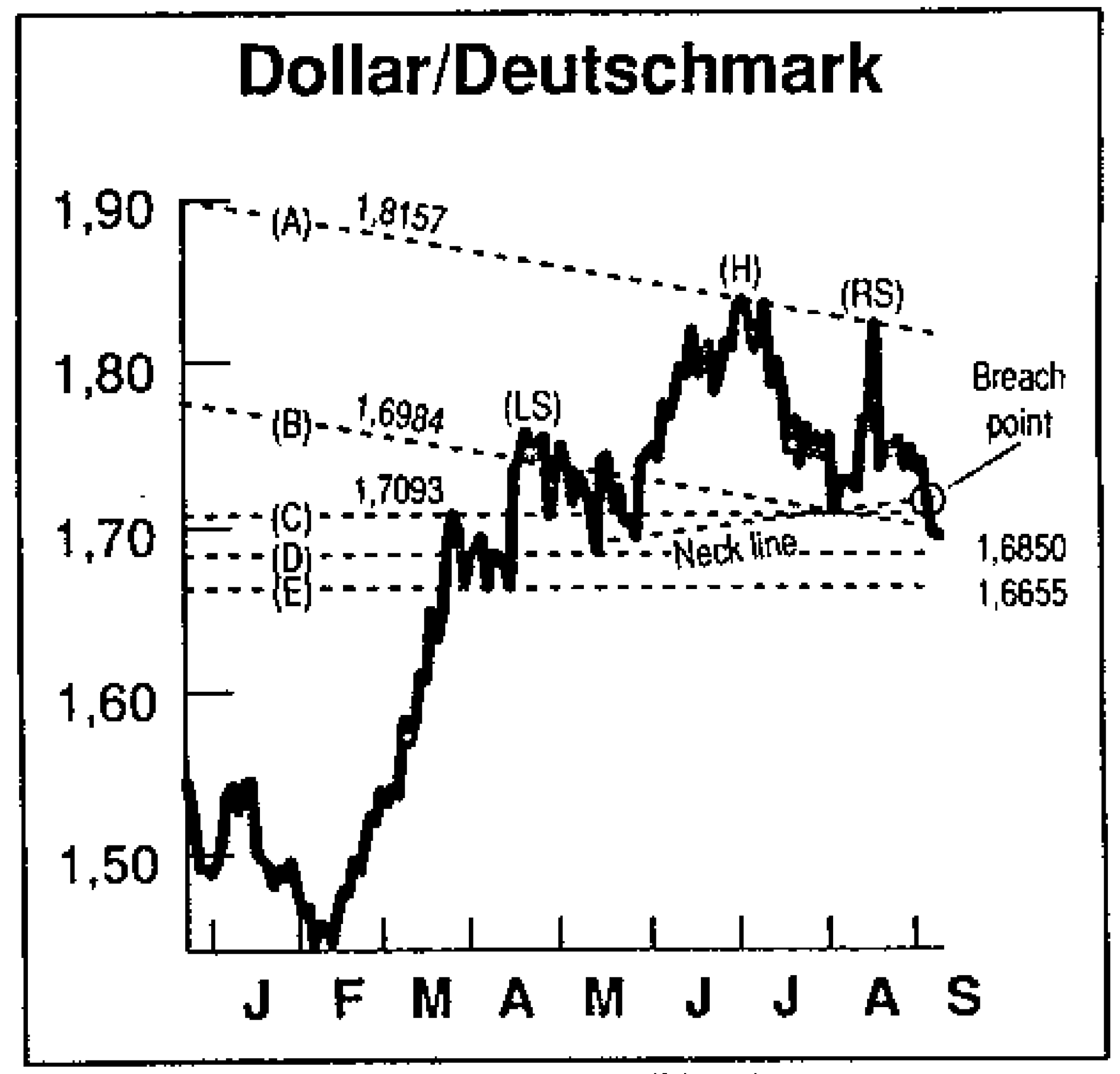
Sentiment towards sterling has turned bullish despite a cut in UK domestic lending rates last week. Better political sentiment towards the Conservative Party, ahead of a possible general election as early as October this year, probably outweighed the effect of lower interest rates on sterling.

Standard Bank says it has been generally believed that sterling would be vulnerable to political uncertainty ahead of the election. But it is now felt that as long as the Conservatives can sustain and build on their current opinion poll lead, sterling's perceived political risk premium may not be as great as originally thought.

There are also signs that the UK economy is moving out of the recession, which is adding further strength to sterling.

Political and economic activity in Japan was quiet and movements in the dollar dictated the yen's direction. Expectations of a cut in Japanese interest rates have been pushed forward to October.

The rand gained 1,1% against the dollar from Wednesday last week to yesterday on the back of the weaker dollar.



Graphic: FIONA KRISCH Source: TELETRAC

Movements in the international gold market were uneventful, with the gold price consolidating below the $352,20 resistance level. FNB says although there may be tests of this resistance level, they are expected to fail and eventually the price is likely to retest a support level at $346,70.

REVIEW

SA got more than R600m aid in 1990

TIM COHEN 74

MORE than R600m in aid reached SA last year, excluding funding given to political parties, an article in the International Affairs Bulletin suggests.

The ANC and Swapo received R142m each in 1989 from the Swedish government alone. And the ANC would probably get that amount for several years, says the article, written by Alan Whiteside from Natal University's Economic Research Unit.

The largest individual bilateral donor listed in the article is the US, which provided R80m in 1986/87 for education, human rights and black private enterprise development.

Bilateral (or single country) donors gave some R229m in 1990, of which the European Development Fund, which is attached to the EC, provided R42m.

Multilateral aid (from agencies representing more than one country or group), which is currently comparatively small, will increase dramatically beginning next year and increase steadily until about 1997 peaking at about about R500m.

B/Day 9/9/91.

Whiteside concludes that the flow of aid to SA is much greater than is generally realised.

In addition, the aid given to SA is very different from aid given to most countries as it has political rather than developmental goals.

Narrow ranges make life dull

B(pay) 4/9/91. 74

SHARON WOOD

FLYING paper aeroplanes, doing the crossword and relaxing over a cup of coffee were just some of the activities in international forex markets last week as dealers waited for currencies to break out of their extremely narrow trading ranges.

US unemployment data due at the end of this week should end the boredom and determine dollar direction in the short term.

If a forecast 27 000 rise in non-farm payrolls for August materialises, the dollar should be jolted out of the lethargy characterising forex markets at present. This would follow a disappointing 51 000 drop in July.

Currencies traded narrowly worldwide and on Tuesday the dollar/yen traded in the narrowest range for 16 years between 136,81-136,85 yen. Forex markets are wary of taking a stand based on the mixed US economic data released last week and the still uncertain conditions in the Soviet Union.

Economic indicators released last week reaffirmed views that the economy was moving unevenly out of recession, with consumers not spending because they could not afford to.

The pressure of recession on individuals' wealth in the US was reflected in figures released last week. Jobless claim figures showed the growing number of jobless workers exhausting their unemployment insurance benefits and not qualifying for further aid.

Analysts say confidence would improve if US President George Bush signed the emergency order to activate the extension of unemployment benefits.

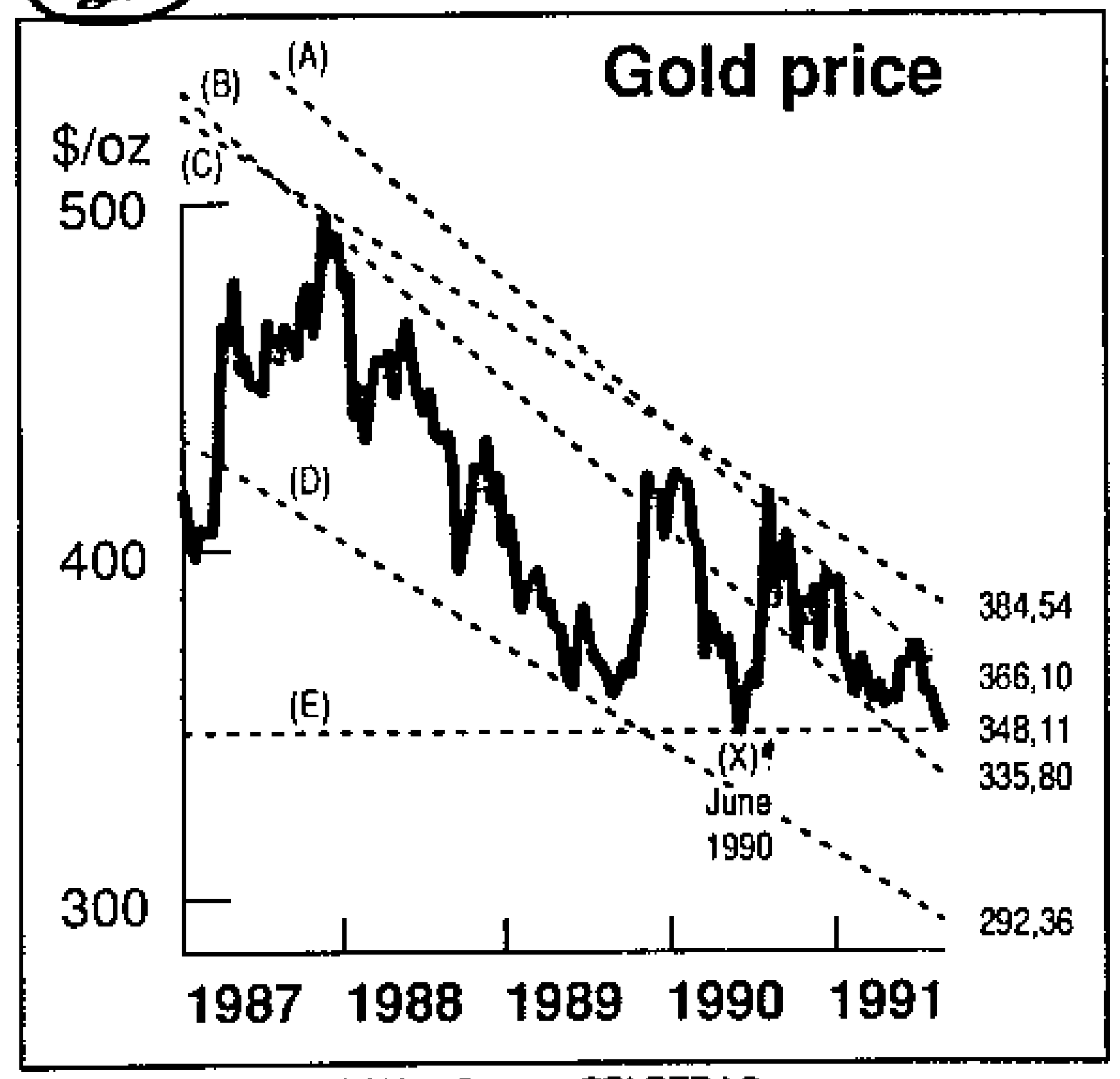
The direction the dollar will take at the end of the week will also depend on whether the speculated US interest rate cut occurs. The Fed has already indicated it will not cut its discount rate.

Market expectations of an interest rate cut in the US are based on the belief that the economic recovery needs a push in the right direction.

FNB technical analysts say the ranging activity of the dollar is expected to continue for the time being but the range is narrowing, suggesting a breakout can be expected in the near term.

The longer-term view is the dollar will test and break through the neckline of the head and shoulders formation at DM1,7148. The forecast range for the week is DM1,7148-1,7644.

Political uncertainty in the Soviet Union continues to overshadow international conditions. Forex markets will probably remain wary of the Deutschmark until the uneasy calm in the Soviet firms into stability.



Graphic: FIONA KRISCH Source: TELETRAC

The Soviet financial situation is much the same as SA's. Investors are only prepared to invest short term and longer-term money will flow in only once political and economic confidence has been established.

Once this happens the Japanese may lead the way because they are geographically well positioned to do business with the Soviet Union. Trading companies are already looking at developing markets as the republics break up into separate entities.

On the local front the rand shadowed the dollar, weakening slightly during the week. A decisive breach of the rand's support levels at $2,8623 could be precipitated by a stronger dollar, if employment figures are favourable, say FNB analysts.

Against the third currencies the rand gained ground against the Deutschmark and yen but weakened slightly against the pound.

The gold price continued to disappoint, finally breaking below the $350 level during the week.

The graph shows a longer-term perspective of the gold price since 1987. The recent performance indicates the precious metal's price has real potential of breaking out of the medium-term bear trend (AB) it has been in since mid-1990 into the longer-term bear trend (CD).

The gold price is now retesting the low weekly close in June 1990 (X), when it fell to $348,11. A penetration of support here is very bearish because it will herald much lower levels, perhaps as far down as $330, say FNB technical analysts.

BDay 25/9/91 (74)

Cape chamber slams tariff plans

LINDA ENSOR

CAPE TOWN — The Chamber of Commerce has come out strongly against recent reversals in the strategy of the Department of Trade and Industry to promote exports by reducing tariff protection.

In its latest weekly bulletin, the Cape Town chamber asks whether the department knows the direction in which it is going.

"On the one hand the Minister of Trade and Industry has spoken out in favour of the Industrial Development Corporation's (IDC) proposals for the reduction of protective tariffs, while on the other hand the department has sharply hiked the import duties on footwear and announced a proposed development plan for clothing and textiles which will push these duties through the roof."

In a memorandum to the department, the chamber said the latest tariff increases in the footwear industry were "totally unwarranted and incorrectly targeted".

The local footwear industry was unable to meet the demand, particularly for specialised lines hard hit by the tariff increase which, the bulletin says, is likely to cause an increase in local prices to achieve import parity pricing.

On the department's proposed development plan for the fibre, textile and clothing industry, the chamber says that what is needed is not a further hike in duties but a plan to scale down protective duties from their present high levels over a period that will allow local manufacturers to adjust to the changed circumstances.

SA wines win favour in Britain

74

CT 16/9/91

Own Correspondent

LONDON. — South Africa is the flavour of the month, according to the British wine industry, and major food chains are rushing to fill their shelves, says a report here.

Supermarket giant Sainsbury's is introducing a South African wine to its extensive range from around the world, and Tesco, which recently launched its first four, is topping up with another two next month.

Marks and Spencer's first two will be available to British consumers this week, while Asda recently put three on its shelves.

"Recession-hit retailers seem terrified if missing out on what might just end up as the next great wine trend," says the London Sunday Times consumer report.

And it comes as no surprise. South African wine makers, who produce a massive surplus of wine every year, are keen to sell, the report adds.

With the weak rand, exporters are offering wines at attractive prices. And buyers are not shy.

Added to the impressive list of retail outlets are the bottle stores. One chain, Victoria Wine, describes South Africa as "one of our major areas for development".

But now the timing is at its best. Sanctions have gone, apartheid has been officially discredited and previously closed doors have been opened.

Added to this is the disastrous frostbitten 1991 vintage from Europe and price hikes over the past 18 months which show little sign of abating.

At around R14, a bottle of South African wine is relatively cheap in the UK.

Our pride and joy, has, however, not escaped review.

"South Africa is not another Australia," says the writer, Joanna Simon. "It has been isolated from winemaking progress in the rest of the world and it has some catching up to do.

"The average, is, well, average," she says.

SA public debt issue 'all wrapped up'

(74) CT 19/9/91

From KIN BENTLEY

LONDON. — Senior European bankers said yesterday that the launch of South Africa's first public debt issue since 1985 was to be officially announced today.

One source said the deal had been "very satisfactorily wrapped up" and would exceed the DM200m issue needed to refinance an outstanding SA bond issue due in mid-November.

He said the issue would probably include a symbolically important additional amount of over DM50m, marking the beginning of the end of six year's of damaging financial isolation.

The deal is being lead managed by Germany's largest bank, the Frankfurt-based Deutsche Bank. Other banks playing a leading role in the deal incldde Swiss Bank Corporation, Paribas and Kleinwort Benson.

In August, a broad cross-section of institutions attended presentations by Gerhard Croeser, the director general of the SA finance department, in Frankfurt, Zurich, Paris and London.

Banks participating in the deal have risked being ostracised by some of the leading borrowers in the international bond market, including the Province of Ontario and Ontario Hydro. However, the signing last weekend of the SA peace accord, bankers say, has been beneficial.

With around $1,1bn of existing debt falling due in 1992, the smooth running of today's bond issue will give impetus to private sector involvement in the market.

● End Loans to South Africa, the London-based anti-apartheid group, announced yesterday they will picket the British offices of Deutsche Bank today "to express growing opposition to this ill-informed and dangerous action".

They claimed that as a result of its involvement in the bond issue, Deutsche Bank was excluded from a large Ontarian bond issue earlier this month.

● Meanwhile, Reuter reports that SA's campaign to reclaim its good standing on global capital markets has left European bankers scrambling to get in on the act, despite initial fears that the republic's re-emergence would prompt moral outrage.

London's Smith New Court, which has launched an investment fund together with Old Mutual, is leading the charge back into the country, but researcher Stephen Oke says many other bankers are starting to share its optimistic views.

Steel deal with the US

(14)

Own Correspondent CT 19/9/91

JOHANNESBURG. — The US and SA have negotiated a new steel contract which will see exports of locally produced steel on the American market once more — albeit at greatly reduced levels.

In terms of the deal, SA steel exports to the US will be regulated to below 20% of pre-sanctions levels.

The agreement, the first since the lifting of sanctions on July 10, was negotiated at bilateral talks involving Department of Trade and Industry director Hardi Vos.

Vos was unavailable for comment and industry sources were tight lipped on the agreement yesterday, but according to well placed sources the scheme was given the go-ahead by both parties last week.

Zurich base for Sappi offshore trade

74

CT 18/9/91

JOHANNESBURG. — SA Pulp and Paper Group said it has established a new Zurich-based company, Sappi Trading Ltd, as a holding company for its offshore trading activities.

Sappi's offshore sales exceeded R1bn in its financial year to last February 28, and it called the formation of Sappi Trading a step in its ambition of becoming a global pulp and paper player. It said its thrust into international markets by way of exports from SA and via the recently formed Sappi Europe division is set to grow as trade barriers are removed.

Robert Hope, appointed Sappi Trading MD, said the company would have responsibility for the group's trading businesses in the Far East, the United States, Europe and Africa.

Sappi Trading will manage the group's international trading including selling and distribution, while the manufacturing divisions will be responsible for product and market development, and the ultimate pricing structure of their products. — Reuter

Top-level French trade group flies in

(74) CT 20/9/91

Own Correspondent

JOHANNESBURG. — The first French trade minister to visit SA in 16 years arrived in Johannesburg yesterday with a top-level trade delegation, including CEs from 25 major French firms.

French Trade and Industry Minister Dominique Strauss-Kahn said yesterday a substantial number of major French companies were interested in investing.

He said economic links between SA were underdeveloped and had the potential to grow rapidly.

The delegation includes CEs and MDs from Banque Nationale de Paris, Banque Paribas, Credit Lyonnais, Renault Vehicle Industries, Aerospatiale, Total, Indosuez, Rhône Poulenc, Dassault and coal mining company Le Carbon Lorraine.

Also in the party are the presidents of the Paris Chamber of Commerce, the French External Trade Organisation, the Southern Africa committee of the French Confederation of Industry, and national telephone firm France-Télécom.

The minister said all the firms represented were "interested in specific developments" in Southern Africa.

Strauss-Kahn would meet President F W de Klerk, ANC president Nelson Mandela, senior Cabinet Ministers and Gencor chair Derek Keys during the trip.

He would not be meeting Inkatha leader Mangosuthu Buthelezi "because of the crowded schedule", a French embassy spokesman said.

The Bureau de Recherches Géologiques et Minières (BRGM) would also be signing an agreement with Gencor to co-operate in mining gold in Guyana, Strauss-Kahn said.

Danes on SA recce

JOHANNESBURG. — A Danish multiparty delegation is due to arrive in SA today on a visit that could lead to Denmark dropping its veto on the lifting of EC sanctions on trade in iron, steel and Krugerrands.

(288) CT 20/9/91

The delegation includes Denmark's ruling coalition partners as well as the major opposition parties, Danish embassy chargé d'affaires Erik Boel said.

The visit is a prelude to a meeting in October of the Danish foreign affairs committee.

This committee will — in conjunction with other Scandinavian countries — decide on whether to implement the first phase of a Danish plan to lift sanctions in stages.

IFC looks at role

(256) CT 20/9/91

HARARE. — The International Finance Corporation (IFC), the private-sector investment arm of the World Bank, has been evaluating its possible future role in the new SA, a senior IFC official said yesterday.

"But we are some way away yet from making any investments in SA," Tom Milton, the IFC representative for southern Africa, said.

Banking sources said the US, the biggest single shareholder in the World Bank and IFC, had let it be known it did not think the time had yet come for the international financial organisations, including the IMF to begin activities in South Africa.

New bill to scrap coal export controls

74

CT 23/9/91

By BARRY STREEK

STATUTORY controls over the export of coal are to be scrapped in terms of a new bill which has been tabled in Parliament.

The bill follows a finding by the Coal Advisory Committee that statutory control over coal exports was no longer necessary, "as the objectives of these measures are adequately addressed by market forces".

The committee, which was appointed in terms of the 1985 Coal Resources Act had earlier recommended the deregulation of the marketing of coal, the Department of Mineral and Energy Affairs said in a memorandum attached to the Coal Resources Act Repeal Bill.

The six-year-old law provided for the regulation of the price, production, acquisition, storage, distribution, supply, sale and delivery of coal, but these provisions were scrapped in 1986 and 1987.

The only provision still in force is the control over the export of coal.

"In order to give effect to the deregulation policy and the recommendation of the Coal Advisory Committee, it was decided to repeal the Coal Resources Act, 1985," the memorandum said.

Business Report

No 'quick fix' for input

CT 25/9/91. 74

Incremental flow of foreign investment

By AUDREY D'ANGELO
Business Editor

THERE is no "quick fix" to bring substantial foreign investment into SA, David Bridgman, executive director of Wesgro, warned at its AGM last night.

"Instead we must expect an incremental flow as perceptions of our political prospects and our business and economic prospects gradually improve."

However, Bridgman said, there had been some foreign investment. Wesgro was receiving inquiries from other prospective investors, particularly about joint ventures with SA companies.

It was important to give such people as much help as possible, to encourage others to follow their example.

Discussing reasons why substantial foreign investment was not yet flooding in Bridgman listed high air fares, high company tax rates, few air connections, restrictive regulations, the financial rand and — above all — lack of capital expenditure by local residents among deterrents.

But the main reason was that most potential investors were waiting to see what sort of government, constitution and economy the new SA would have, and how it would be run. They were likely to wait until the new government had a track record of four or five years.

"Anyone who talks a lot to potential foreign investors, as I do, hears of a variety of obstacles," he said.

"Our tax levels are too high. With company tax at 48% in SA and 35% or less in major western countries, and with 10 year tax holidays being offered by aggressive developing countries like Singapore, our rates are seen as too high.

"Our productivity levels are low and the whole structure of our labour regulations is orientated towards production for the domestic market, making it difficult to compete in export markets.

"Our society is beset by regulations. We require visas from most countries — a nuisance factor for business — few air connections are available to SA and the flight costs are very expensive.

"The morass of regulations and duty surrounding imports make our products uncompetitive on world markets."

And, he emphasised, "foreign investors do not like the financial rand. This, like other two-tier currencies around the world, makes them uneasy by reminding them of our government's ability and desire to involve itself in the financial markets of the country.

"More recently, people quote concern over the ongoing violence in SA. An environment of social instability is a difficult one to invest into."

But, Bridgman said, the real reason foreign investment was not substantial was that "for so long as the period of political negotiations concerning the structure of our new society continues, investors will consider our country to offer a very high level of political risk.

"Further, even when a new constitution is concluded, the bulk of investors will wish to be assured of the economic implications of this constitution and would even wish to see it establish a track record."

IDT issue

SA continues the balancing act with GATT

BDay 25/9/91 (74)

LEORA BLUMBERG

SA IS is one of the founding members of the General Agreement on Tariffs and Trade (GATT) and has participated in all its rounds of negotiations since GATT was first used in 1948 to liberalise world trade. Now we have reached a point where GATT has serious implications for a post-apartheid SA.

SA has not been a disciplined subscriber to the treaty, or even to its philosophy. SA has tended, like the US, to be protectionist and has pursued import replacement policies since 1922. Membership of GATT did little to change this country's stance and, by the late '70s, sanctions and problems with the balance of payments hugely increased resistance to any trade liberalisation.

During the early rounds of GATT negotiations SA managed to avoid tariff reductions across the board. Lately, however, SA has come under severe pressure from its trading partners, notably the EC, to fall in line with the GATT philosophy. In the present Uruguay Round the EC members have put pressure on SA to make a substantial move to open its markets to foreign manufacturers, or face retaliation.

During negotiations in Geneva with the EC and Switzerland, a package of proposals devised by the SA Standing Committee on GATT and by the Board of Trade and Industry was put to these countries. The package, which contained binding offers of only 2 700 items out of a total of 11 300 in the industrial sector, was rejected. A revised package was put together which adjusted its tariff offer to consist of 4 700 items. SA is still awaiting a formal EC response.

If the new package is accepted this will mean that, with existing bindings, 55% of SA customs tariffs on industrial products will be bound. It is believed the new offer will be accepted although it falls short of GATT's expectation that participants cut all tariffs by 33%. Government has indicated that specified tariffs will be dropped over a period of five years, in consultation with industry.

The new offer, once implemented, will have serious implications for SA producers. Non-competitive industries will no longer be able to rely on protection, and government will no longer be able to impose tariffs, surcharges and taxes at will to assist producers.

One of the main fears of many industrialists is the disruption caused by "dumping" — the selling of foreign goods on local markets at prices below the ruling prices in the country of export. The international rules on dumping are contained in the GATT Anti-Dumping Code.

SA is not a signatory to the code. SA's anti-dumping legislation is contained in the Customs and Excise Act of 1964. The government has, however, indicated that SA will be signing the code in the foreseeable future, and that local legislation would be revamped to bring it in line with the code.

SA producers are protected from dumping and low cost imports by "formula duties" or "reference prices". These act to protect industry from dumping by applying high tariffs to low-cost items, effectively creating a floor or minimum price at which imports can enter the SA market. This practice is frowned upon by GATT, and will almost certainly disappear shortly.

It is hoped that in drafting new anti-dumping legislation government will draw on the experiences of others, and ensure that any legislation is effective in practice and adapted to SA's specific needs.

A number of industrialists, however, hold a different perspective. They are starting to question SA's membership of GATT. They feel GATT places unfair demands on SA. Government argues that export-led economic growth is critical, and entry to international markets vital. The argument is that protectionism reduces the competitiveness of business confidence, raises prices, slows investment and hampers growth and development.

While theoretically the benefits derived from freer trade should more than offset the burdens of the cost of market adjustment in the importing country, it is arguable that, in the present SA framework, one cannot merely focus on trade liberalisation of trade without concurrently addressing other issues: political, fiscal, economic, social and constitutional. SA is still hampered by sanctions, high taxation, high inflation and exchange control restrictions.

While SA is in the process of restructuring its economy and its politics, interference with established trade and international economic policy should be approached with caution. It is important that producers become more efficient and competitive, but the effect of sudden liberalised trade may be too drastic if other issues are not addressed simultaneously.

In December 1990, the Uruguay Round collapsed and negotiations were suspended when delegates failed to resolve a disagreement between the US and the EC over the EC's farm subsidies. While these negotiations have resumed, they could still break down, and then the issue of SA's offer to GATT will become irrelevant.

This may be a relief for producers, but it would be a severe blow to SA exporters who are hoping to make inroads into new markets as SA is accepted back into the international trading community.

However, the general view is that the GATT parties will reach a compromise, saving world trade policy from retrogressing to the increasing controls and protectionism of earlier days.

☐ **The author is an attorney with the law firm Webber Wentzel. The article is based on one written for Seifsa News.**

THE WEEK AHEAD by William Richards

Better trade surplus figure expected

B/Day 16/9/91. (74)

ONCE-OFF imports in July and a continued drawing down on oil stocks should boost SA's August trade surplus figure, which should be released on Friday.

July's R1,1bn trade surplus — unchanged from the June figure — was restrained by aircraft imports which will not appear in August figures.

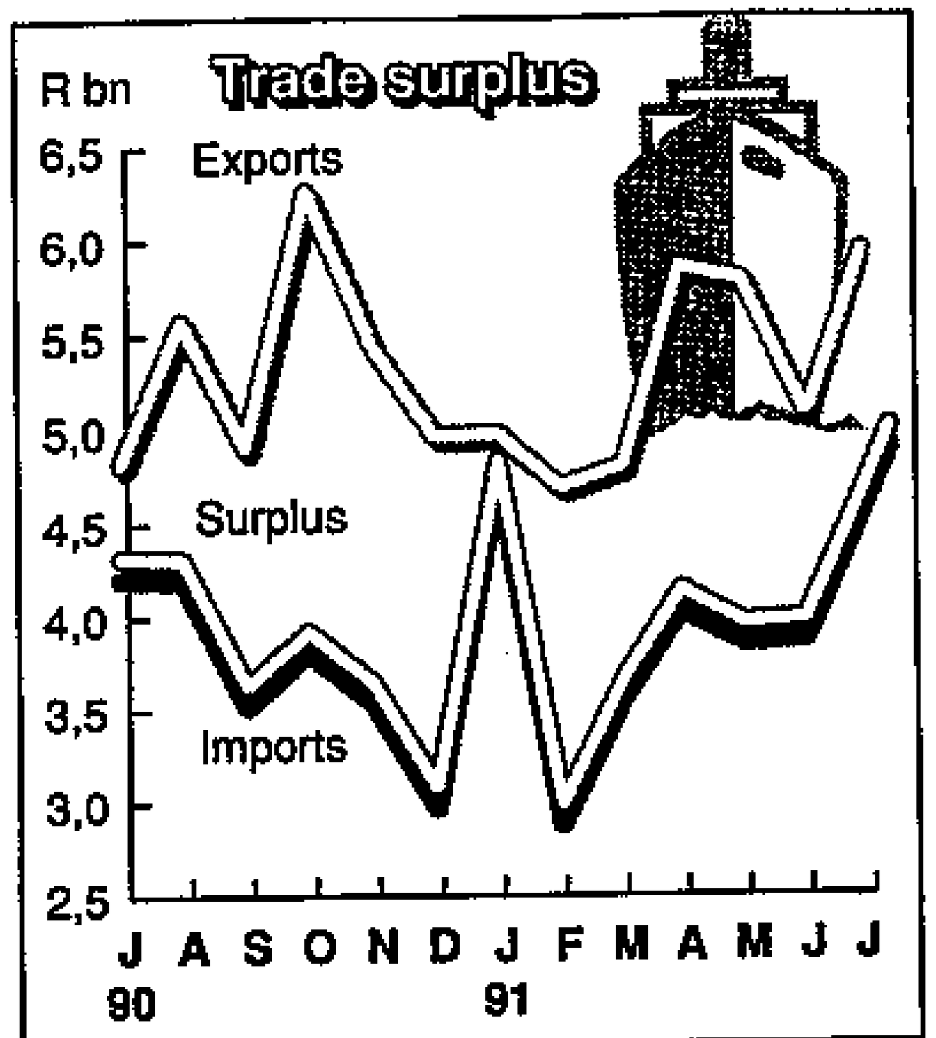
"Unclassified" imports eased in July. These should also be soft in the August figures as oil imports reflect a further drawing down in domestic oil stocks, in line with government's revenue-raising proposals, announced earlier in the year.

Exports should remain buoyant despite signs of weaker world commodity prices.

The fact that the US has cut discount rate half a point to 5% following bad retail sales during August will be positive for consumer spending and credit extension.

However, the move is unlikely to strengthen the dollar in the short term.

The August figures for US industrial production and electricity utilisation



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

are expected to be published tomorrow. They should continue recent trends of showing high levels of output and plant take-up.

Industrial production, which has risen for four consecutive months, has been one of the most powerful indicators of the US economic recovery.

The employment report for August, released at the beginning of this month, has already prepared the market for another uptick in industrial output for August.

The report showed a lengthening in the average US working week, something which is almost always followed by higher levels of factory production.

Nearly all industrial sectors showed increased levels of capacity utilisation in July.

A continued upwards trend is also likely for this variable.

Prospects for industrial production levels in the US continue to look favourable because inventories have continued to fall.

They are at their lowest levels in nearly two years, suggesting that rebuilding of stocks will be a significant contributor to US economic growth in the third and fourth quarters.

On Thursday the US trade figures for July will be released.

The June trade deficit of $4,02bn was the lowest since June 1983.

The recent trend of rising exports and sluggish imports suggests a continued narrowing of the trade deficit.

The short-term outlook for US monetary policy could be swayed by the release on Wednesday of the latest "Tan Book" regional industrial survey conducted by the US Federal Reserve. This will give an updated feel for the pace and durability of the incipient US recovery.

Economic releases from the UK continue to be overshadowed by political considerations as markets believe that a general election could be called before the year ends.

The release today of UK retail sales for August will carry added significance, as the figures will help to show how comfortable British high street shoppers are in the run up to a possible November poll after last week's unexpected fall in the rate of increase in UK average earnings for July.

Good news on the wages front could be in the pipeline when second quarter UK unit wage costs are published today.

The figure could fall to less than 10%, and the improving record of productivity that this would represent would do no harm to the prospects of a government about to seek re-election.

SA bond issue to be launched soon

Bidam 11/9/91

KIN BENTLEY

LONDON — The official launch of SA's first public attempt to raise new money on the international bond market since the mid-80s is expected to be announced next week, European banking sources confirmed yesterday.

Given the expected positive reception to the country's first public debt issue since 1985 — which is likely to total over DM200m — bankers close to the deal believe it could mark the turning point for similar public issues in future.

Significant

After presentations of the deal — which is lead managed by Deutsche Bank — in European capitals last month by the Department of Finance, the bankers say the reaction of institutions is "looking good".

They say the issue is symbolically far more significant than if the DM200m bond issue due in mid-November was being rolled over through private placings, which were used to roll over substantial amounts in recent years.

So as not to flood the market with paper and to obviate the risk of the deal flopping, the bankers say, the SA issue is not expected to total much above DM200m.

If, as seems probable, the bond issue goes smoothly, further government-backed borrowers are expected to bring public bond issues throughout the next year. An estimated $1,1bn of existing debt falls due in 1992.

Next month, the Independent Development Trust is expected to make its European presentations.

Other borrowers, including the Development Bank of Southern Africa, Transnet, Eskom and private-sector companies are expected to follow suit.

Apart from Deutsche Bank, Germany's biggest, other banks playing a role in next week's DM-denominated bond issue are said to include Swiss Bank Corporation, Paribas and Kleinwort Benson.

Groundwork for the bond issue was laid in August, when institutions attended presentations by SA Finance Department director-general Gerhard Croeser in Frankfurt, Zurich, Paris and London.

Since then, according to a report in yesterday's Financial Times, underwriting banks have been pre-selling bonds to investors.

74

Opposition

The FT quotes sources close to the deal as saying they expect the debt to be priced to yield around 2% more than German government bonds, slightly less than the yield spread on small private placements which have been completed for SA borrowers earlier this year.

The ANC has voiced its opposition to the bond issue because it sees it as taking financial pressure off government to share political power.

Taipei may be next for SA cars

74

CT 4/9/91

Own Correspondent

JOHANNESBURG. — The local car manufacturing industry yesterday gave notice that it was about to become a player in world markets with the news of a trade agreement with Taiwan which will see 2 000 locally made cars exported to Taipei.

The move follows hard on the heels of a recent announcement that Pretoria-based Samcor was to export 750 vehicles to the UK. The Taiwan pact could see Nissan, and again Samcor, come into the picture.

A Department of Trade and Industry (DTI) spokesman confirmed the deal and said the agreement entailed Taiwan importing 2 000 passenger cars and SA importing the equivalent value of components and parts.

Nissan and Samcor had indicated their interest but no final decisions had been made yet, the DTI spokesman said.

Nissan chief executive Mr John Newbury said that although there had been much speculation regarding a possible deal with Taiwan, Nissan had not "formally" formulated an export agreement with that country.

However, Sapa reports that Taiwanese Industrial Development Bureau officials said Nissan cars produced in SA would be among the 2 000 to be sent to Taiwan. The officials said Samcor was not expected to export to Taiwan until mid-1992.

An industry source welcomed the agreement and said it was exactly what the local motor industry needed to bolster its plans of becoming a global market player.

However, National Association of Automotive Component and Allied Manufacturers of SA executive director Mr Denzyl Vermooten warned that the local component industry was not running at full capacity and increased component imports could affect the local industry.

Envoy to see FW Mandela

Sowetan 23/9/91

THE French Minister for Industry and External Trade, Mr Dominique Strauss-Kahn, is scheduled to meet ANC president Nelson Mandela and State President FW de Klerk separately today.

Strauss-Kahn arrived in South Africa on a fact-finding mission last week and will leave tonight after a news conference in Johannesburg.

74

He said France wanted to strenghten its economic and political ties with South Africa.

Strauss-Kahn brought a strong trade delegation that investigated business opportunites with South Africa. - *Sapa.*

Exports to lead next upswing

74 CT 2/10/91

Business Editor

THE next upswing is likely to be led by higher exports and rising investment rather than by consumer spending, says Board of Executors Fund Management economist and senior portfolio manager Rob Lee.

"This will mean a more gradual recovery initially," he comments in his Investment Outlook, "but one that has the potential to achieve higher and more sustained economic growth than recent recoveries."

Lee expects VAT to push the inflation rate up to 16,5% or even 17% this year, before falling to below 15% early next year and around 12% by midyear.

He thinks the first cut in interest rates wil be in February or March next year.

"However, consistent application of monetary discipline will mean that the pace of reduction will be very cautious — another reduction in bank rate would probably not follow for several months after that."

Stressing that the next upswing will not be financed by collapsing interest rates, Lee says:"Those companies and individuals still relying on the typical interest rate pattern to reassert itself are in for a rude surprise.

"The Reserve Bank's refusal to counter the recent small increase in prime rate, caused by the value added tax (VAT) proxy tax on banks, is another illustration of a different approach to monetary policy."

Lee says the government's decision to implement value added tax (VAT) "in such a way as to give maximum encouragement to investment and exports was a brave one, aimed at longterm sustainable economic benefits rather than short term popularity.

"It is a pity that what is still a major step forward in reforming SA's taxation system should have had such an agonising birth," with confidence affected by industrial unrest and administrative confusion.

Lee says the Reserve Bank's monetary stance is "another example of a policy that is concentrated on achieving longterm benefits rather than giving short term relief, and one that is coming under increasing pressure as the economic recession continues."

Pointing out that annualised growth in the money supply since February has been only 7,7%, he says:"If this recent trend continues, as seems likely, money supply growth will fall into the target range within the coming months.

"However, given that real growth in the economy is currently zero this would mean that money supply growth is still 'financing' a 12% inflation rate."

He expects Stals to lower the money supply target range next year. "This would be consistent with the aim of gradually squeezing our inflation rate closer to that of our trading partners and, more importantly, that of our trading competitors Australia's current inflation rate is around the 2% level."

Money market

Trading partners to increase aid (74)

Star 3/10/91.

South Africa's three major trading partners — Britain, Germany and Japan — have indicated that they intend stepping up development and other forms of financial aid in the coming year.

A spokesman for the British Embassy said his country's current contribution of some R70 million would be increased considerably next year.

Britain is also expected to bring in development aid specialists and open additional offices to administer the aid effort.

A spokesman for the German Deputy Minister of Economic Aid, Michaele Geiger, who is currently visiting South Africa, said her fact-finding mission could lead to increased aid.

Germany has in the past year contributed about R100 million in development and other aid to South Africa.

A spokesman for the Japanese Embassy said his country's aid programme would in the financial year up to March 1992 amount to some R17 million, more than 300 percent up from 1990, when Japan contributed less than R5 million.

As South Africa moved towards post-apartheid, he added, the emphasis of Japanese aid programmes would shift to the promotion of peaceful negotiations

The US has also announced that it will double its aid package to about R228 million in the coming year. — Sapa.

Ramaphosa's view 'does not reflect official policy'

ANC backtracks on lo

Star 3/10/91

By Esmaré van der Merwe
Political Reporter

114

A new Government would have no choice but to honour foreign loans granted to the National Party Government, the ANC deputy head of international relations Stanley Mabizela said yesterday.

This followed ANC general-secretary Cyril Ramaphosa's remark on Tuesday that a newly elected democratic government would "not be keen" to honour loans granted to the apartheid Government and should have the right to evaluate such loans before deciding whether to repay them.

Mr Ramaphosa last night claimed in a statement that The Star's report regarding his views on honouring international loans did not accurately reflect what he had said at a press conference.

But his explanation (see details below) shows that he was correctly quoted.

Several ANC officials said yesterday that Mr Ramaphosa's view did not reflect official ANC policy.

A senior source said Mr Ramaphosa's remark was probably aimed at "scaring off" international financiers from granting loans to the current Government.

Dodging

The ANC argues that foreign investment should be withheld until an interim government has been set up.

Mr Mabizela told The Star: "Any government succeeding an outgoing one must honour the international commitments of the previous government.

"This may be an unhappy situation, but that is the international law. There is no way of dodging such obligations."

He added that the ANC was "hugely embarrassed" by the Independent Development Trust's efforts to obtain foreign funding for its projects.

The ANC had nominated three IDT board members from the democratic movement because it believed the Government and the local private sector would be the only sponsors of the IDT's development projects.

"Our position remains that foreign funding should be blocked," he said.

Asked to respond to Mr Ramaphosa's remark, a member of the ANC's department of economic planning, Don Mkhwanazi, told an economics conference in Johannesburg that the ANC was not yet convinced that political change had become irreversible.

Re-evaluate

"Once we are convinced — that is, after an all-party congress has agreed on a mechanism through which a democratic government will be reached — our policy will become clear."

He added that the loans issue might be discussed at an ANC/SACP/Cosatu conference on sanctions in Johannesburg tomorrow.

In his statement last night, Mr Ramaphosa said: "I emphasised the right and moral duty of any future democratically elected government to re-evaluate any loans that the apartheid regime entered into and the conditions under which they have been obtained.

"The new democratically elected Government cannot just be a rubber stamp for the actions and undertakings of an apartheid Government, which could have agreed to onerous conditions making it difficult for a new government to achieve its objectives. We will need to carefully evaluate the conditions for each loan.

"Faced with this situation, we are opposed to the granting of any further international loans to South Africa, at least until an interim government is formed."

---

was yesterday esc
the premises of c
sial trucking bo
Coetzee when th
were called after
tened a sit-in u
R46 000 invested i
ing scheme was ref
Jan Brand had spol
Line earlier in the da
Coetzee's Midrand of
ing he would not lea
could confront the bu
and demand a refund.

Business is obliged to guarantee an end to capital flight

B/Day 3/10/91

74

ZAVAREH RUSTOMJEE

A RECENT study in the SA Journal of Economics estimated illegal capital flight from SA between 1970 and 1988 at between $12bn and $22bn. Another study put the figure as high as $37bn at current prices.

Depending on which estimates are believed, this means potential economic growth has been stunted by between 2% and 5% every year since 1970.

Three interrelated questions arise. Firstly, who has been involved in capital flight (the term is used in this article to refer to unlawful flight)? Secondly, how is it possible for up to $37bn to circumvent what are acknowledged to be fairly stringent capital and exchange controls? Thirdly, what impact will this have on future economic policy choices?

Broadly categorised, asset holders include foreign private and corporate investors, private SA residents and SA corporate asset holders. Given the magnitude of flight, it is unlikely private individuals have been involved to any great extent. The flight is more likely to have resulted from actions of a combination of foreign investors and domestic corporate asset holders.

If we were to assume flight capital is largely foreign controlled, then one important policy implication is that future national development is unlikely to be secure if it is based primarily on future foreign capital inflows (assuming that these are forthcoming). This does not imply that foreign investment should be discouraged, but that caution should be exercised in future policy making, particularly in regard to a future investment code.

Since one major objective of such a code would be to provide a framework of stability to all signatories, the code should include specific clauses that, firstly, provide a clear agreed definition of what is meant by capital flight. Secondly, it should outline an appropriate scale of penalties for illegal capital flight.

While the SA economy is but one of many investment options open to foreign capital, this is not the case with domestic capital holders. Assuming that flight has been carried out partly by the latter, what are the implications?

Firstly, capital flight of such magnitude has directly contributed to the stagnation of the SA economy. It would be ironic if domestic asset holders have engaged in capital flight, since they have been the most vociferous opponents of sanctions and disinvestment.

Secondly, the evidence of flight undermines the arguments of many domestic asset holders, who, while not denying that flight has taken place, attribute it to sanctions, inflation driven by state spending and unreasonable wage demands.

It also casts doubt on their solution to the crisis which is to lift sanctions, allow domestic asset holders to invest outside SA and entice capital back to SA by giving favourable tax and capital repatriation incentives, to develop competitive export oriented industries and to raise productivity by working harder and curbing wage demands. The very conditions that are cited as causing capital flight have actually been created and exacerbated by flight.

Furthermore, in view of the fact that the action of flight has significantly sabotaged growth, it places a question mark on the sincerity of domestic asset holders who are participating in debates on future political and economic dispensations.

The question of how $37bn was lost needs to be directed at the relevant regulatory institutions. Laws have been broken but those responsible have largely not been brought to book.

From time to time, there have been glimpses of action — the special committee formed within the Reserve Bank after 1985; reports of foreign exchange investigations being undertaken; and the occasional forex circumvention trial.

It has, however, been left to academics to inform the taxpaying public of the magnitude of the problem of capital flight. These revelations should have a major impact on debates about abolishing the financial rand and lifting exchange controls. Given the past record of capital flight, it would be almost a criminal act to open the floodgates.

Why then has capital flight not drawn more attention from the economics fraternity? This is partly due to the fact that contemporary economists usually explain away the phenomenon of capital flight as "rational behaviour". In other words, the asset holders concerned rationally diversify their portfolios between domestic and international holdings. The process of capital flight, they argue, is determined by a number of factors including perceptions of political and economic risk and state intervention which inhibits the most efficient allocation of assets.

They argue that specific factors that have driven asset holders in SA to indulge in capital flight have been a stagnant economy with few investment opportunities, little prospect for growth, high inflation, a comparatively high tax regime, pressures from organised labour and financially repressive state policies largely in the form of capital and exchange controls.

The same argument is then extrapolated to reassert ideological dogma — that those who control assets should be free to allocate them in accordance with market principles. If present or future governments do not grant this freedom, asset holders will — as they have done in the past — shift their assets into a more liberated environment.

Yet far away from the rarified atmosphere of this economic debate, there exist about 30-million South Africans who are worse off as a result of such "rational behaviour". Investment has stagnated in the '80s. Gross domestic fixed investment in 1981 was higher in real terms than in 1990. Those fortunate to be employed have watched their purchasing power steadily fall while the returns of their corporate employers have steadily risen. From their perspective, capital flight has been nothing more than criminal economic sabotage. A thorough examination and revelation is required of all such past activities.

Today the word "democracy" is on the lips of all, and a vigorous debate is in progress about the future constitution, possible safeguards, and so on. Asset holders, as individuals and through their collective organisations, like Sacob for example, are making major contributions to the debate, committing themselves to a democratic economy. In doing so, they have raised many objections about past state policies and many questions about a future government's economic policy.

This is their right and is an essential component in a democratic economy. However asset holders are not neutral referees, but also participants in the economy. Other essential components include the obligations that participants must uphold. This is particularly important in a future economy which incorporates some form of social accord involving all the major players including labour, state, capital, unemployment and the rural poor.

If adopted, each of the parties involved in such an accord would carry a heavy responsibility to make it work. In such a framework, a major democratic responsibility of capital (domestic and foreign) would be to guarantee that illegal capital flight does not take place.

☐ **Rustomjee is completing a PhD in Economics at London University and is associated with the ANC's economic policy deparment.**

German Minister takes ANC to task

Star 4/10/91

Political Staff

(74)

The ANC has been bluntly warned that its recent spate of remarks about nationalising industries and reconsidering the honouring of foreign loans was jeopardising investment in this country.

This rebuke came yesterday from German Deputy Economic Co-operation Minister Michaela Geiger.

She said during an interview: "This is not a good way if you want capital to come into your country. You must not say these things."

Mrs Geiger was referring to ANC president Nelson Mandela's remark last Friday that the ANC was still considering nationalising mines and financial institutions and secretary-general Cyril Ramaphosa's statement this week that the ANC would "not be keen" to honour foreign loans granted to the apartheid government.

The ANC last night showed further signs of being in a muddle on its official stance on the loans issue.

A statement issued by its Department of Information and Publicity said: "The National Working Committee of the ANC wishes to reaffirm that the secretary-general's statements on the issue of loans accurately reflects ANC position."

Several ANC officials have, however, told The Star that Mr Ramaphosa's view did not reflect official policy and deputy head of international relations Stanley Mabizela said a new government would have no choice but to honour foreign loans granted to the National Party Government.

In its statement last night, the ANC claimed Mr Mabizela "was expressing a personal view which does not reflect policy".

Mrs Geiger said she hoped that Mr Ramaphosa's remark would not discourage other German and foreign banks from making loans. She believed they would in-

● To Page 3

German Minister rebukes ANC

(74) Star 4/10/91

● From Page 1

vestigate the ANC's position further before making decisions.

"But what is worse is (Mr Mandela's statement about) nationalisation. That's already had a negative effect. If you want the economy to grow you must create the right climate for investment."

Mrs Geiger said, however, that Mr Ramaphosa had explained to her that Mr Mandela's remarks were not the ANC's final position on nationalisation.

She said she told Mr Ramaphosa that nationalisation had been the policy pursued by Eastern European countries such as Czechoslovakia and Poland "and all of them had gone bankrupt".

"He understood that word, even in German."

Asked if she had made any decision about further German government development aid for South africa, Mrs Geiger said that she had a problem because SA was not officially defined as a developing country and her ministry was only responsible for development aid.

It was a mixture of First and Third World that she had never seen before. But to overcome this problem Germany was considering joint development projects between South Africa and it welcomed the suggestion.

FW to hit back at Mugabe – claim

Star 5/10/91

(74)

GARNER THOMSON

LONDON — President de Klerk is to release detailed figures about the extent of Zimbabwe's trade with South Africa and its dependence upon economic co-operation.

According to the London-based political bulletin, Africa Analysis, the move is in retaliation for President Robert Mugabe's continued obstruction of SA's drive for friendly ties and increased trade with the rest of the continent.

The publication says in a report from Harare that Pretoria plans to release these figures just ahead of the start of the forthcoming Commonwealth Heads of Government meeting in Zimbabwe. "The aim will be to cause maximum embarrassment for Mugabe, who, as leader of the host country, will chair the conference," the report adds.

It claims the SA Government is "irritated" that the agenda of the summit — being held so close at hand — is loaded with items about apartheid. It holds Mr Mugabe at least partly to blame for this emphasis.

Africa Analysis claims the latest turn of events is "being kept under wraps for the moment".

"Mugabe has been warned that De Klerk insists that he must now make a public visit to South Africa if he wants a renewal of the preferential trade agreement between the two countries.

"The very least De Klerk will accept is an official visit by Zimbabwean Foreign Minister Nathan Shamuyarira as the start of a process 'to normalise relations'."

The bulletin claims that, while the economies of both countries are in a fragile state, experts advising Mr de Klerk believe the Zimbabwean leader is going to have to "blink first".

Foreign investors sell off gilts as yields soften

STimes (Buss) 6/10/91

By DIRK TIEMANN (74)

FOREIGN investors in South African gilts were net sellers for the first time last week since they began buying in October 1988.

Johannesburg Stock Exchange figures show that net sales totalled R13-million. But there was a comeback this week as net purchases totalled R26,8-billion. Gilts worth R41,3-million had been bought and only R14,8-million sold.

Discount House capital market manager Chris Greyling says domestic gilts have become less attractive to foreign investors.

"Yields are back where they were a year ago and profits have been made only on the financial rand discount to commercial rand, and even that has narrowed."

Deutsche Bank vice-president Otto Storf says any remarks about the renegotiation of the terms of South Africa's foreign debt are extremely damaging to investor confidence.

He was commenting on remarks made by ANC secretary-general Cyril Ramaphosa about a new government renegotiating the terms of loans made to the "apartheid government".

Danger

The Deutsche Bank handled the SA bond issue worth DM400-million in September. This issue came after an absence of six years from international capital markets.

Now the danger exists that further bond issues on the German capital market will be met with less enthusiasm.

Reserve Bank deputy governor Chris de Swardt says: "If foreigners take these remarks seriously it will not be good for future borrowing. It certainly could impact on further bond issues."

Dr De Swardt says he cannot see how contractual arrangements of this nature can be renegotiated. "It is important for the country to meet its commitments or there will be grave consequences in terms of foreign investor confidence and the future accessibility of overseas capital markets."

The DM400-million is needed to replace maturing loans (DM200-million) and to finance social expenditure. More loans will be required next year as another DM670-million falls due.

It is now open to question whether the "successful comeback", as traders in Frankfurt called it, can be repeated.

The SA bonds were issued at a premium. The coupon for the bonds issued in September was 10,5%. The SA coupon was initially expected to be 11%.

Ford Motor credit borrows at 9,25% and Japanese companies at 5,87% in the German capital market. The SA premium can be attributed to exchange-rate risk and the debt standstill, among other things.

At the time of the DM400-million bond issue, a major German newspaper, the Frankfurter Allgemeine, said SA's demand for credit had risen enormously and that further bond issues were expected.

It said estimates were that SA would require $5-billion annually from international lenders in the next few years.

CHRIS de SWARDT
'Grave consequences'

SA's international risk rating still not good

Star 7/10/91.

(74)

By Neil Behrmann

LONDON — South Africa's international risk rating has improved since the abandonment of apartheid.

But Botswana is far ahead of it, illustrating that international investors are still cautious about the initial phase of post-apartheid adjustment.

According to the International Country Risk Guide, South Africa ranks 59th out of 129 countries.

With the least risky score at 100, South Africa's political risk is 56, financial risk 30, economic risk 33 and composite risk 59,5.

Botswana, on the other hand, is rated 28th.

Its political risk is 70 (Italy's 72 and the UK's 76). It has a financial risk factor of 42 and a composite risk factor of 73.

South Africa is just behind China and closely follows Poland, Hungary, Israel, Saudi Arabia and Hong Kong (ranked 41st). The Soviet Union is rated 71st.

The major industrialised countries are, of course, in the top twenty, with Australia at number 21.

Top of the list is Switzerland, with political risk of 93, financial risk of 50, economic risk 39,5 and composite risk 91,5.

The US (rated 9th), has political risk of 78, financial risk of 49, economic risk 39,5 and composite risk 83,5.

The clear message from Botswana's much higher rating is its stability and commitment to free enterprise.

Despite its limited resources, Botswana's stable and workable agreement with De Beers is a model for foreign investors who can see that there is a relatively high safety factor in investing there.

Other Southern African states which are far less enthusiastic about the free enterprise culture are way down the list.

Namibia is rated 75th, Angola 83rd, Zimbabwe 90th and Mozambique 113th.

It is thus hardly surprising that foreign businessmen and bankers caution that the ANC needs to pay more attention to the views of potential international investors.

So far, the rumblings of ANC officials about foreign loan re-evaluations and renewed hints about nationalisation have not affected the rating of SA's international bonds.

The five-year 400 million Deutschemark (R675 million) loan is currently trading at 101,10 points, against 100,80 when it was issued a fortnight ago.

As a result, the yield on the bond is a satisfactory 10,39 percent, against the coupon rate of 10,5 percent.

Nevertheless, the bonds are denominated in a strong currency and the yield is two percent higher than AAA German bonds.

So South African issues clearly need to offer a yield premium to attract investors.

Response to South African equities is quite different and possible investors in this market are worried about an ANC that is clearly vacillating between socialism and capitalism.

"The ANC leadership is treading on dangerous ground," says Tim Read, director of South African corporate finance at London brokers Smith New Court.

"They are adopting political postures to keep pressure on the Government, but foreign investors are cautious and any negative stance will discourage them," he says.

Mr Read should know. After a "roadshow" to major European cities, the Old Mutual and Smith New Court failed to raise the minimum investment of $50 million (R141 million) for the first South Africa fund.

Since only half the amount was raised, the launch of the fund was postponed.

"Institutions were clearly impressed with Old Mutual and its presentation," says Mr Read.

"Yet the comment was: 'Either nine months too early or nine months too late'."

It is too early because international investors want to at least see an interim multi-racial government in operation.

They are concerned about continual violence, says Mr Read, and the poorly performing economy.

They are also wary of the ANC's socialist leanings and are not convinced the leadership fully understands the importance of free enterprise.

It is also too late, for the moment. Shares have surged since the lifting of US sanctions. As a result many of South Africa's leading shares are trading at P/E ratios of twenty or more.

The potential reward does not justify the risk, says Mr Read, and equity prices are unattractive when compared with those of the UK and other markets.

So institutions are happy to remain on the sidelines a while longer.

THE WEEK AHEAD

by William Richards

Reserves total should be on target

B Day 4/10/91 (74)

ONE of the few SA economic statistics moving in the direction of stated Reserve Bank targets — gold and foreign exchange reserves for September — is due for publication tomorrow and should continue the consistently stong outturns recorded over recent months.

The reserves total for August moved to a new record high in nominal terms of R8bn, thanks mainly to consistently strong trade surpluses and the refinancing of maturing foreign debt. These factors should continue to support reserves through to the end of the year.

The performance of the reserves is the only bright spot in the scenario again sketched out last week by the Reserve Bank Governor, when he cited inflation, money supply growth and the level of reserves as being among the main determinants of the authorities' overall monetary stance.

Given that the inflation and money supply statistics continue to be well adrift of the various formal and informal targets stipulated by the authorities, reserves are on their own in pointing the way to an eventual loosening of the credit squeeze.

The reserves total is now well over halfway towards the authorities' target of three months' import cover. Given the strongly positive outlook for exports and significantly improving foreign perceptions of domestic political prospects, fat trade surpluses and comfortable foreign debt rollovers should continue.

Internationally, the week is likely to be overshadowed by the looming annual meetings of the IMF and World Bank, which get under way in earnest at the weekend.

Already, last week, rumours about what would arise from the finance ministers of the Group of Seven major industrial countries being in the same town at once began to circulate.

The most significant of these rumours was the one suggesting that the G-7 ministers would agree to accept a sharply stronger Japanese yen as a means of eroding Japan's large trade surpluses with Western countries. As the G-7 meeting proper draws closer, the "strong yen" theory will be subject to closer scrutiny this week and if the markets detect that last week's rumours lack credibility, then the yen's sharp gains of last week could be at risk.

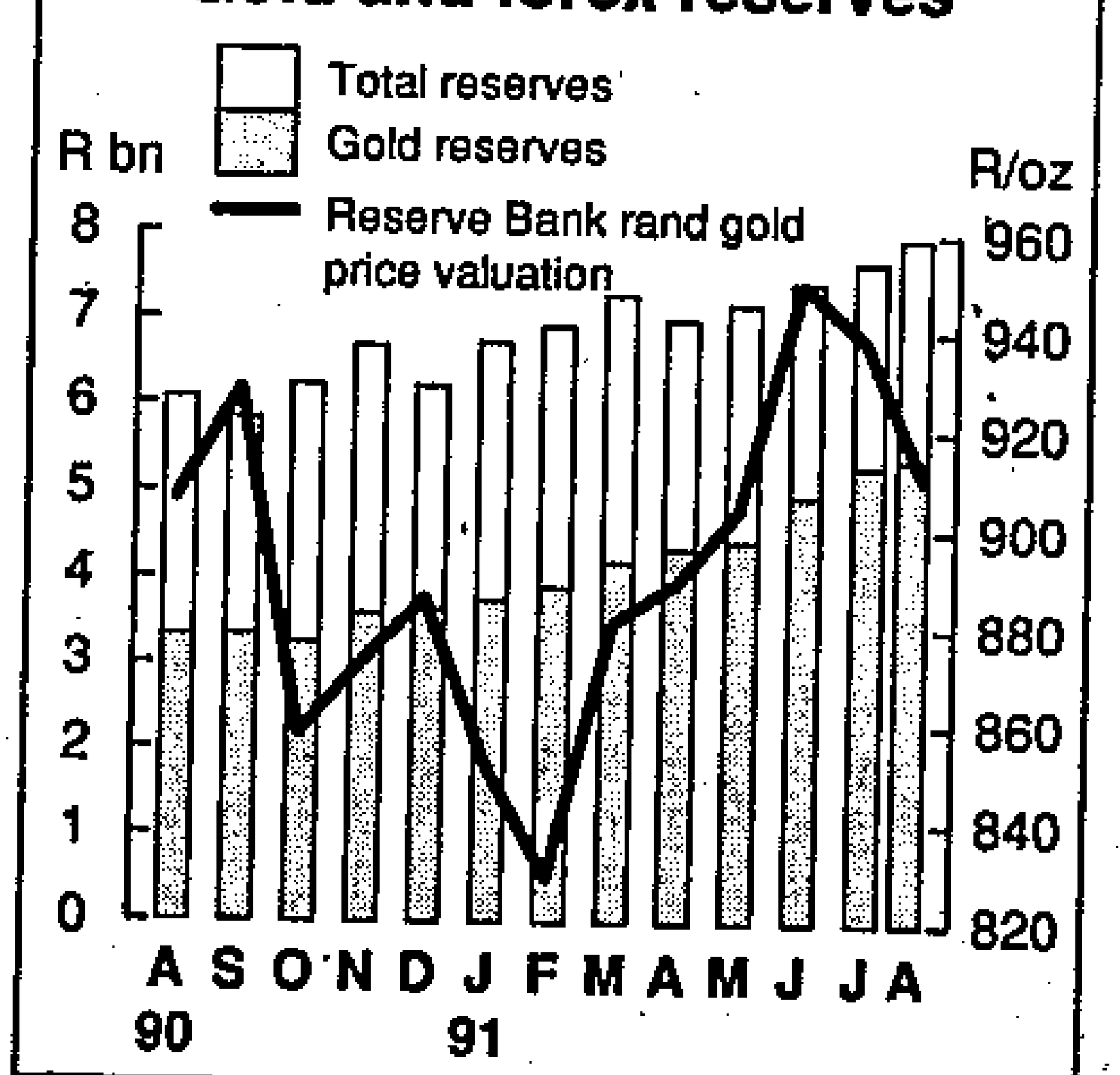
Probably the key US statistic for the week will be money supply growth for September, due out late on Thursday. The weekly readouts of the M2 monetary aggregate targeted by the US authorities have been straddling the bottom of the target range in recent weeks. If, as now seems likely, M2 growth during September turns out to have been flat, this will represent a second consecutive static month for M2 and another persuasive indicator suggesting that the US economic recovery could yet stall.

On Friday, figures for US retail sales in September are published and, after a minus 0,7% outturn for August, will need to be positive again to forestall further action by the authorities to boost the faltering momentum of the recovery.

US producer price growth for September will also be released on Friday and should fall into line with other recent US prices indicators in showing inflation to be low and a marginal issue at this stage in the US business cycle.

The rate of UK inflation in the year to September is due for release on Friday, but its impact has been dampened by the government's effective ruling out of an election before the turn of the year. The British inflation rate has fallen steadily from the threshold of 11% at this time last year to less than 5% in the year to end-August, and the September figure is likely to be close to 4%.

Gold and forex reserves



Graphic: LEE EMERTON. Source: SA RESERVE BANK

Samcor set for huge car export order

74

132

CT 7/10/91

Own Correspondent

JOHANNESBURG. — Motor manufacturer Samcor announced at the weekend another multimillion-rand export order for 2 400 new cars for the UK and Africa.

Earlier this year Samcor exported 750 Sao Penzas (a rebadged Mazda 323) to the UK. Samcor spokesman Dirk de Vos confirmed that a further 1 400 Sao Penza units would be exported to the UK before year-end.

An industry source estimated the value of the exports at around R63m.

African deals

Efforts to market Samcor's vehicles in Africa had also paid off, De Vos said.

He said 1 000 vehicles, representing models across the group's range, would be shipped to various African countries and offshore islands.

At least 400 of these vehicles were earmarked for Mozambique. On exports to Taiwan, he said the group was not party to the trade agreement with Taiwan which would see 2 000 SA-made vehicles exported in exchange for the equivalent value of components.

"If we do ever get involved in the deal, it will definitely not be this year."

Nissan stake

Nissan is reportedly involved in the trade agreement, according to a spokesman at the Republic of China's embassy.

He said the trade office had recently spoken with Nissan and the group had expressed interest in the trade agreement.

An agreement had been reached in principle last year, the spokesman said, but the manner in which the deal would be implemented was still under investigation.

Spokesmen at Nissan would not comment on the trade agreement.

Sacob warns against hasty removal of trade barriers

Star 9/10/91

74

By Sven Lünsche

The SA Chamber of Business (Sacob) has warned against the hasty breakdown of protectionist policies proposed by the Industrial Development Corporation (IDC) earlier this year.

The recommendations of the IDC are set to form the basis of SA's trade and tariff policies and are expected to be unveiled in the next session of Parliament.

The response from Sacob, which represents many companies in sectors currently enjoying tariff protection, could well force the Government to reconsider key aspects of the IDC's landmark report.

But it is unlikely to see a major shift in the emphasis on moving away from protective import tariffs to a broad industrial policy to boost SA's export competitiveness.

The IDC's recommendations include a phased removal of most tariffs over a number of years, applicable to all industries, an end to tax concessions designed to favour exports and significant anti-dumping measures.

While Sacob welcomes the emphasis on export-oriented growth, it sounds a serious warning:

Environment

"If SA industry is to be cut adrift through trade liberalisation in an economic environment of high inflation, an unstable exchange rate, a debilitating tax regime and without protection against predatory pricing, the vaunted efficiency and higher growth of export-orientation will not result."

The chamber says that in order to remove the tariff protection from local industries, a policy has to be in place consisting of appropriate macro-economic measures and a viable industrial development strategy.

"Much more than a decrease in tariff protection is required to launch an economy on the road to export-oriented growth," Sacob says.

It stresses that the newly industrialised countries of the Far East did not rely on trade liberalisation alone to facilitate outward-looking growth.

"If fact, there is evidence that industrial targeting and dirigiste policies that sought to create neutrality in production, with protective barriers initially in place, played an important part in the growth strategies of these countries."

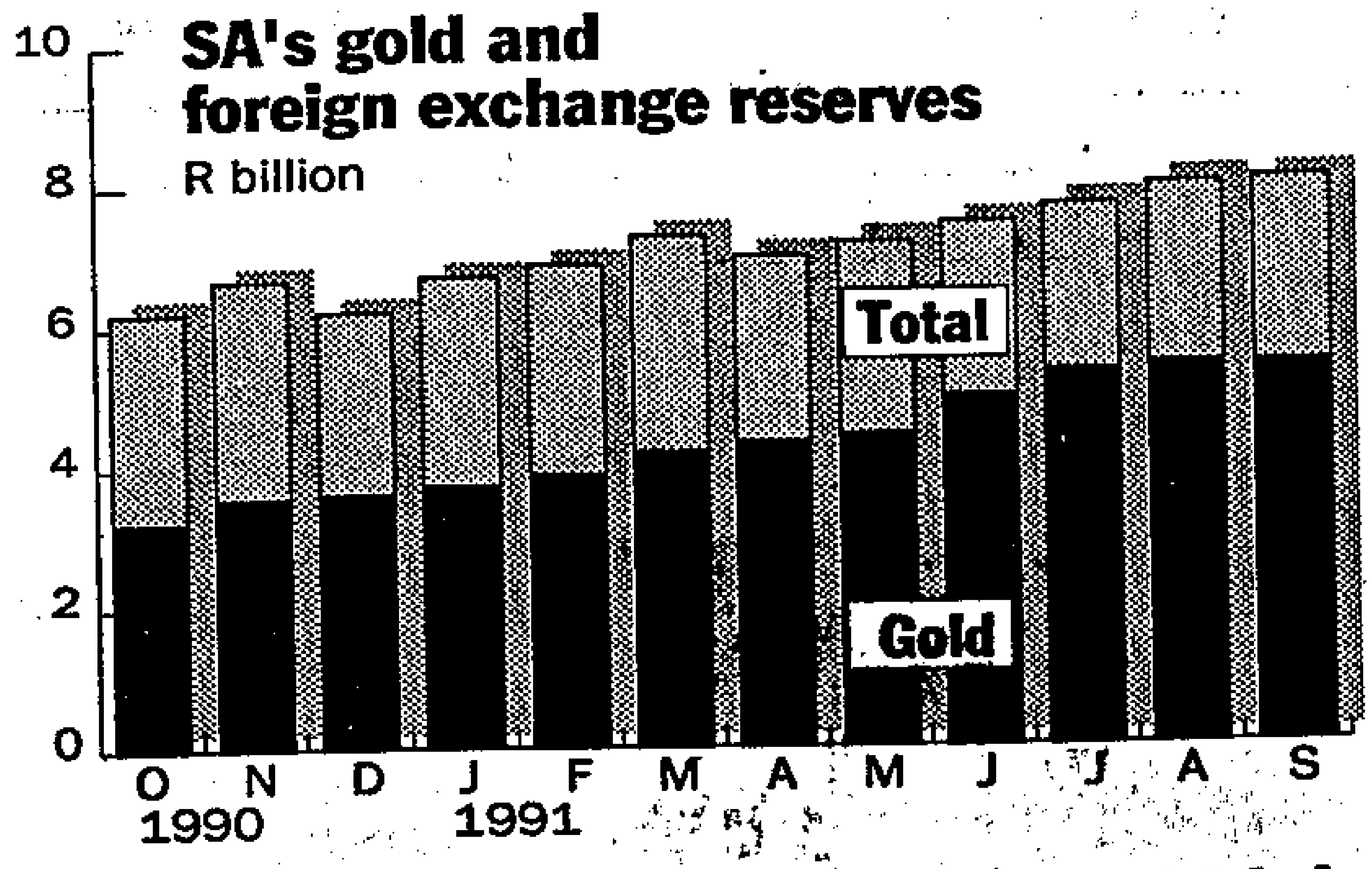
Sacob is particularly concerned about the IDC's proposed removal of selectivity when it comes to removing protectionist measures from industrial sectors.

It says that tariff reform should set overall targets for tariff reductions, "but with built-in flexibility through a system that allows appeals on the basis of selectivity".

Sacob advocates that appeal procedures should be in place to allow for a more selective approach on the extent of tariff reductions and the time scale involved.

The chamber warns that "the spirit of trade liberalisation should not draw attention from the devastating effect dumping can have on SA industry".

"Therefore, effective and proven measures to counter dumping must be in place when protection is lowered and formula duties are removed."



Gold, forex reserves reach record high

Star 9/10/91.

By Sven Lünsche 89/74

Gold and foreign exchange reserves topped R8 billion for the first time in September, despite a substantial drop in the average rand gold price.

The Reserve Bank said yesterday that its total holdings had risen by 6,65 percent to R8,014 billion in September from R7,96 billion in August.

The net gold and foreign exchange reserves have risen steadily since the beginning of the year when they totalled R6,2 billion, boosting gross reserves to R8,7 billion at end-June.

This is equivalent to about seven weeks' imports of goods and services and just over half way to the Reserve Bank's target of three months of import cover.

The reserves are expected to continue improving over the next few months as the Government is succesfully rescheduling a large part of its foreign-debt commitments.

Furthermore, the trade surplus should continue at healthy levels for the remainder of the year as an improving world economy boosts SA's export volumes and lifts commodity prices.

In September, the foreign exchange content of the reserves rose to R2,63 billion from R2,55 billion in August, while gold reserves declined from R5,41 billion to R5,38 billion.

Reserves soar to R8bn new high

BDay 9/10/91 (74)

SHARON WOOD

SA's gross gold and foreign reserves soared to a new high of R8,01bn in September despite a weak gold price, Reserve Bank figures released yesterday showed.

A 6,3% month-on-month rise in reserves from R7,96bn was a result of a 3,1% increase in the foreign currency component, which rose to R2,63bn from R2,55bn in August.

The Bank continued building up its gold holdings, which rose to 6 070 721 oz from 5 934 948 oz. However, the rand value of gold reserves fell by 0,6% to R5,38bn from R5,41bn because the Bank's gold price valuation plunged R24,94 to R886,82.

Economists said the uptrend in reserves was welcome. Reserves were edging closer to the Bank's aim of providing three months' import cover and now provided about two months' cover.

Standard Bank chief economist Nico Czypionka said the improvement probably came from a better capital account and not current account, indicating improved access to international capital markets.

Proceeds from last month's Deutsche Bank-managed SA bond issue had not yet been accounted for in the reserves because the value date was after September 30, a Deutsche Bank source said.

Nedbank chief economist Edward Osborn said the Reserve Bank's policy to accumulate gold was sensible in a depressed market. The gold price declined markedly from an average of $368 in July to $349 in September.

The Bank's "other" liabilities had risen by a substantial 5,8% in September to R10,76bn from R10,17bn. Osborn said this pointed to possible Bank borrowing to meet foreign exchange requirements and to sustain gross reserves.

A new SA begs an answer to the aid question, writes **Jo-Anne Collinge**

How will the great money game be played?

14

Star 11/10/91.

FOREIGN aid will not simply multiply after the installation of a democratic government, argues University of Natal economist Alan Whiteside. There will be significant changes in the source, size and type of aid.

"Donors currently supporting anti-apartheid movements can be expected to withdraw or reduce their commitments," he states in a study commissioned by Deloitte Pim Goldby Management Consultants and published in the journal International Affairs Bulletin.

In counterpoint to this, "one of the big changes will be the establishment of the multi-lateral agencies, most notably the World Bank. Aid to South Africa will have developmental goals and there will be an increase in project aid and loans."

Mr Whiteside states that while "the flow of aid to South Africa is much greater than is generally realised", it is difficult to quantify exactly — partly because of the past hostility of the Government to such intervention.

He suggests that aid reaching South Africa in recent years has been in the region of R600 million.

This excludes aid to liberation organisations outside the country and goods and services received by South Africans abroad.

The Reserve Bank, he notes, recorded R460 million in aid flowing into the country in 1989 and R466 million in 1988.

In contrast to assistance granted elsewhere in the southern African region, aid to South Africa was intended to achieve political rather than developmental goals. "This raises the question as to what will happen to aid flows when apartheid ends."

Mr Whiteside suggests the effect will be uneven, that circumstances favour increases in certain areas and cuts in others.

When it comes to outright development assistance from individual governments and non-governmental organisations, South Africa will be at a clear disadvantage, he argues.

"The reason is quite simply that South Africa is — by African standards — a wealthy country. It has the second highest per capita income in sub-Saharan Africa.

"The income is not equally distributed; an estimated 44 percent of South Africans live in poverty. In general, donors do not look at income distribution as this is regarded as the responsibility of the (recipient) government."

The implication is that governments and non-governmental organisations currently funding South African organisations are likely to scale down aid.

"These bodies are presently giving aid to groups that they feel the Government is ignoring. These donors would assume (one hopes, correctly) that a new Government will set about righting social injustices and helping the poorest groups," he said.

This trend might be mitigated by growing "donor fatigue" with Africa, where 27 out of 44 sub-Saharan countries have experienced declining per capita incomes in the '80s — despite aid.

"Increasingly, donors want to put their money in projects and countries where self-sustained growth will occur," observes Mr Whiteside.

But the real influx of new aid to South Africa is likely to come from multilateral agencies, which (with the exception of the European Commission) have not operated here to date. These would probably include the World Bank, the African Development Bank and various United Nations agencies, such as the Food and Agricultural Organisation and Unicef.

Mr Whiteside expects that "multilateral agencies will replace the bilateral donors as the main funding organisations in South Africa".

There is a basic pre-condition to almost all forms of aid, notes Mr Whiteside, and that is stable government. "The type of government is not of major significance — what is most important is that it be stable and able to absorb the inflow of money." □

The dominance factor

Sowetan 11/10/91

114

By STANLEY UYS
in London

WITHIN the next few years, South Africa's relations with its neighbours will be normalised. But what will the new era hold in store for these neighbours - beneficial economic co-operation, or even more pronounced economic "domination"?

The question of "domination" crops up regularly now. Last year already, the ANC felt obliged to announce that, if it becomes the government in South Africa, regional co-operation will be "along new lines that would not be exploitative."

However, it is easier to pledge undying political friendship than it is to be a good economic neighbour. Economic community schemes look great on paper, but they cannot stop the big boy on the block doing what - economically - comes naturally.

The problem of "domination" was raised at a conference here last week at Wilton Park, the elegant centre in West Sussex which is supported by the Foreign Office. Two sharply different points of view were expressed: one that domination is unavoidable, because of the sheer strength of the South African economy; the other that post-apartheid South Africa will be too weak to dominate the region.

Mr Simba Makoni, executive secretary of SADCC, took the latter view.

The South African economy, he argued, is strong only when measured against its present white base. When the "real South Africa" emerges from its (black) townships, and resources have to be redistributed, a different picture will emerge.

Another Zimbabwean view voiced at the conference was that a post-apartheid South Africa will need its neighbours as much as they need it. "I do not anticipate a conflict situation with South Africa over trade," the speaker said. The PTA (Preferential Trade Area) and SACU (Southern African Customs Union) would have to be rationalised to ensure harmony, but then "We will see a very important trading bloc emerge. We could launch a pan-African economic community, and I would be very surprised if South Africa did not associate itself with it."

Utopian? At another conference, held in Windhoek in July, I listened to the knowledgeable Dr Erich Leistner, director of the Africa Institute in Pretoria, warn against too high expectations.

Referring to "strong fears that South Africa's overwhelming economic strength might damage the smaller economies and lead to South African political hegemony over the region," Leistner acknowledged that the ANC and the PAC had rejected "hegemonic" links with the region. But, he noted, neither had yet presented "even the outline of an alternative relationship."

Leistner is sceptical about the viability of a regional economic community. He doubts, for instance, whether SADCC can offer anything that the PTA does not offer already, and he forsees an equally uncertain future, even for the PTA. He advises South Africa not to push for full membership of either organisation too soon.

The desirability of South Africa joining the PTA is open to doubt, says Leistner, "because the problems posed to the smaller economies by Zimbabwe and Kenya would be vastly magnified by South African participation. In fact, these two countries, in particular, could expect to suffer from South African competititon."

One problem of a common market would be the heavy inflow of skilled and unskilled labour into South Africa from neighbouring countries.

The arrival of the unskilled would annoy unemployed South Africans, and the exodus of the skilled would deprive their home countries of much needed manpower. Similarly, investments and development in general would tend to polarise around the existing South African growth poles to the detriment of other countries.

As for Zimbabwe, if it joined South Africa in a common market, it would probably find that "much of its manufacturing sector would succumb to competition from firms south of the Limpopo." Prospects for industrial development in Malawi and Mozambique, too, would be adversely affected. Leistner detected no political commitment behind a Southern African community similar to the one behind the European Community. He concluded that "a common market was not a viable option for the Southern African region as a whole."

So what is the answer if it does not lie in a particular model of economic integration? Leistner suggested it was to be found in "responding pragmatically to the patent needs, constraints and opportunities to be found in the region." The organisational framework could be an Economic Commission for Africa (along the lines of the OECD), with a permanenbt secretariat (but not the SADCC secretariat).

Main issue is SA trade links

At a third conference, held in Windhoek in September and sponsored by the Africa Leadership Forum (I did not attend it), Professor Prakash Sethi examined in considerable detail South Africa's relative strength in the region, and warned that "South Africa has the economic muscle to exert tremendous pressure, and if it so choses, to throw its weight around the economies of its immediate neighbours in the SADCC countries."

South Africa could easily exert "undue influence" on its neighbours to their disadvantage, influencing patterns of development among them in a way that might not be acceptable.

Sethi does not think any of the traditional models of regional economic alliance are likely to be successful if South Africa is the dominant core and other African countries are on the periphery.

A post-apartheid South African government will want to be as helpful as possible to its neighbours, but - and this is what the experts are telling us - in economic relationships there is not much room for sentiment, even among comrades.

End to Arab oil embargo in sight

B/Day 4/10/91. (14)

MANAMA — SA was seeking trade relations with the Persian Gulf countries and had indications that key states in the region might soon lift official embargoes on oil sales, a senior government official said this week.

Foreign Ministry Middle East affairs head John Sunde, speaking in Bahrain, said the dismantling of apartheid and the lifting of US sanctions earlier this year had encouraged Gulf states like Saudi Arabia to review the long-standing ban on oil shipments to SA.

Pretoria had indications that direct oil purchases from Saudi Arabia and other Gulf states might be possible soon, Sunde said.

But any change would have little effect on the pattern of SA energy imports as the country had been able to cover all its needs even under sanctions.

Oman had been supplying much of SA's needs for several years, Sunde said.

He noted that SA had recently decided to sell R1bn of its strategic petroleum reserves, a sign of confidence about the security of its long-term supplies.

Sunde was attending a financial conference in Bahrain sponsored by Euromoney Publications in his first visit to a Gulf country since taking over the Middle East department at the Foreign Ministry last year.

He said he was not visiting in an official capacity, but added he might make preliminary contacts on setting up a trade office in Bahrain or elsewhere in the region.

He said it was too early to talk about full diplomatic ties with the Gulf states.

SA businessmen were keen to boost exports to the Gulf region as vital markets in Europe became more difficult with the integration of the EC, Sunde said.

Steel and food products were earmarked and SA hoped to take part in the expansion of regional industries like the huge Saudi industrial complexes at Jubail and Yanbu.

Sunde said government was moving to impose curbs on weapons sales to Middle East states, in line with a general move towards arms control following the Gulf war.

He confirmed that SA weapons had been supplied to Oman, Abu Dhabi and Iraq in the past, but denied a recent report of weapons deliveries to Qatar.

Reports said SA had supplied long-range artillery to Iraq in the Gulf war. Sunde said there were indications the Iraqis tried to use the equipment in the later stages of the war.

He said he planned to visit Dubai later in the week, another possible site for a Gulf trade office, and said he planned to fly from there to Iran to negotiate the re-opening of the South African interests section at the Swiss embassy in Teheran.

Sunde said SA had had no difficulty obtaining its oil despite sanctions by Arab states and said he doubted that any Saudi decision to remove sanctions would result in substantial purchases from that country.

He also doubted that any easing of sanctions would result in a drop in the overall cost of energy.

Sunde declined to provide specifics, but oil industry sources said SA probably imported at least 430 000 barrels a day of oil, equivalent to the country's total refining capacity. — AP-DJ.

ANC will issue double warning on foreign loans

W/Mail 11/10 - 17/10/91

By ARTHUR GAVSHON: London

KEY African National Congress envoys will try next week to thwart a strong new bid by President FW de Klerk for early access to world money markets.

The ANC's director of foreign affairs, Thabo Mbeki, and fellow national executive committee member Trevor Manuel have prepared a double warning for delegates assembling in Bangkok, Thailand, for the annual meeting of the International Monetary Fund (IMF) and World Bank, which begins on October 16.

According to ANC officials in London, the American-dominated IMF will be warned:

- Firstly, that any premature lifting of financial sanctions will enable the South African cabinet to stall, and thereby imperil, the peace process. ANC backing for loans from the IMF and other international lending institutions will be given only when an interim government is installed.
- Secondly, that a future ANC government will feel free to renegotiate any foreign loans made to De Klerk's administration if its terms are deemed unduly onerous.

This is in line with ANC secretary-general Cyril Ramaphosa's October 2 statement that an elected, post-apartheid government could not be expected to rubber stamp difficult undertakings entered into by the apartheid regime.

De Klerk has assigned Finance Minister Barend du Plessis and Reserve Bank Governor Chris Stals to do more than press South Africa's case for re-entering the money markets of the world. They are expected to counter ANC arguments that the apartheid system has not yet been dismantled.

For months the De Klerk government has been in secret contact with the United States administration on the issue of regaining access to international credit facilities, a US State Department official reported privately. President George Bush's freedom of action has been limited, however, by the Gramm Amendment, which bars IMF loans to South Africa until the last vestiges of apartheid vanish.

Bush personally may believe this already has happened, but the Democratic majority in the US congress has still to be convinced. According to the influential Black Caucus, reflecting ANC perceptions, it will take a long time for this to take place.

Bush has yet formally to seek congressional approval for the repeal of the Gramm Amendment, said the State Department source. But the US president was portrayed as wanting to do so by early 1992, so that a South African application for IMF credits could be approved by the middle of the year.

The De Klerk government, the source said, has been made aware of this — but only on the understanding that further steps to dismantle apartheid are taken. This is being interpreted as meaning that a start has to be made on all-party constitutional talks.

An ANC team will also be on hand to consult with delegates attending the Commonwealth Heads of Government Conference in Harare, which also begins on October 16.

The issue of continuing financial sanctions will be at the centre of a discussion on the South African situation. A large majority of the 50-nation grouping is expected to endorse the recommendation of a nine-member foreign ministers' committee that the financial sanctions should be continued until the promised democratic, non-racial constitution has been agreed.

Britain, Nigeria, Kenya and Malawi are among a minority which favours the removal of this kind of embargo.

S Times (Buss) 13/10/91 74

Lord looks for the facts

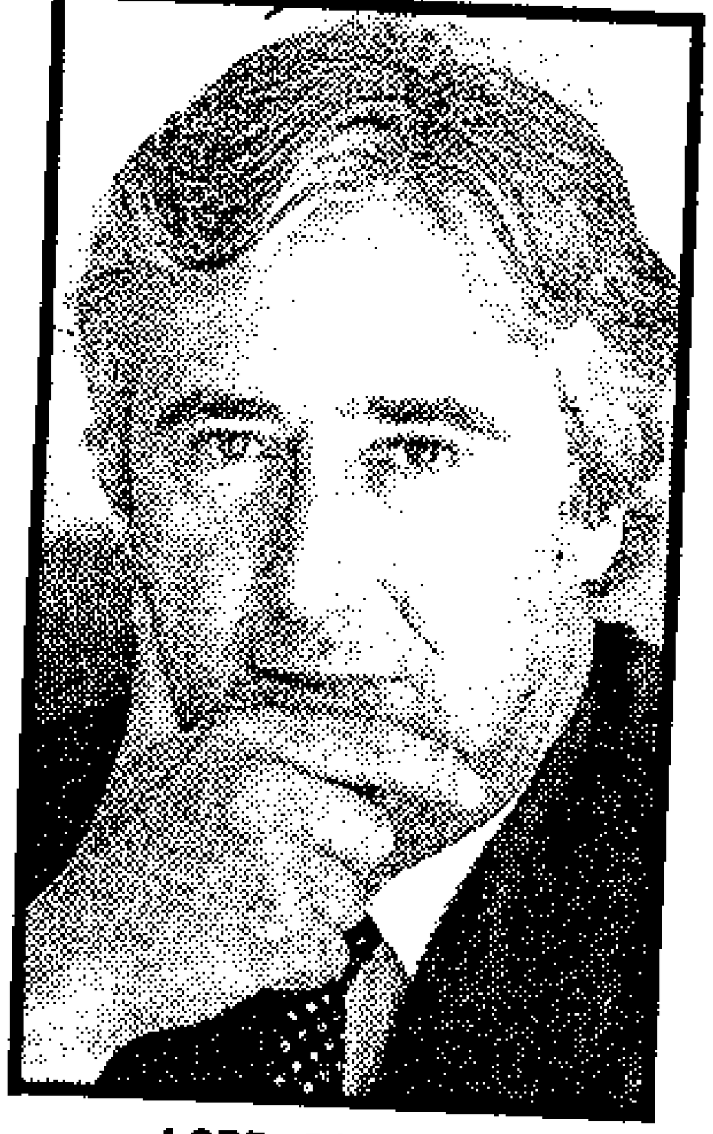
LORD COBBOLD, managing director of the British based currency manager Gaiacorp, believes that South Africa could become an important player in global currency markets.

Lord Cobbold was in SA this week on a fact-finding exercise, fully aware of the country's foreign exchange controls.

When SA companies begin to take opportunities offshore, as well as currently being able to borrow foreign funds, Lord Cobbold believes there will be a greater need for currency risk management.

Gaiacorp has operated successfully for several years. Its secret lies in adhering to a technical forecasting model developed by its owner, Ross Jackson.

"It is a very disciplined model and takes away the gut-feel factor. We always follow the model, even if fundamentals suggest otherwise. Currency management is difficult, but not impossible," says Lord Cobbold.


LORD COBBOLD

Dr Jackson likens currency markets to the tides and currents of the oceans. Currency movements can also be logged, modelled and predicted.

Three main commercial functions require a knowledge of risk management. Least pertinent at present to SA is global asset management. But corporate treasurers and debt managers could benefit.

Corporate treasurers are at risk in three fields: transaction exposure on receivables and payables; translation exposure on profits from investments in foreign subsidiaries and on foreign currency debt; and economic exposure to the currency situation of competitors or to other market factors.

Debt managers can reduce the cost of their foreign loans by switching the debt into more favourable currencies against the domestic currency in the forward market.

Gaiacorp aims to improve clients' returns by an extra 3% a year on total exposure by active risk management.

Lord Cobbold says that advice needs to come from an independent. Banks dealing in the currency markets have a time horizon measured in seconds or minutes, whereas corporations and investors need a longer-term view.

Gaiacorp builds an optimal weighting out of 18 currencies.

Where the model forecasts appreciation in certain currencies, these are bought. Where the currencies are expected to fall against the base, these are shorted in the market.

Gaiacorp has established a representative office in Rosebank, Johannesburg. It will be managed by David Duff.

Before joining Gaiacorp, Lord Cobbold ran BP's foreign exchange operations for eight years and was treasury director at the Trustee Savings Bank.

THE WEEK AHEAD by William Richards

Trade figures have a hard act to follow

74

BDay 14/10/91.

SA TRADE figures for September, due out on Thursday, have a hard act to follow after the soaring R1,9bn trade surplus posted for August.

A large part of the jump in the August surplus was attributable to an unexpected rise in precious stone and coin exports. If, as seems likely, this proves to have been a once-off, one of the other export categories will need to put in a similarly impressive performance to keep the September surplus on the threshold of R2bn.

Non-oil commodity prices remain weak and it is likely this will continue to overshadow the products at the baser end of the export mix. A commodity price index drawn up by a major British bank showed a 1,5% fall in August measured in Special Drawing Rights (SDRs) — the artificial currency unit of the IMF.

Metal prices have been particularly weak during calendar 1991 and, by this SDR index, are nearly 20% lower now than at the same time last year. This, together with the slow and uncertain recovery from recession in two key export markets — the US and Britain — is restraining primary non-agricultural exports. The one consolation is that the under-performing American and British markets point to a potentially even better export performance next year when these two economies resume robust growth rates.

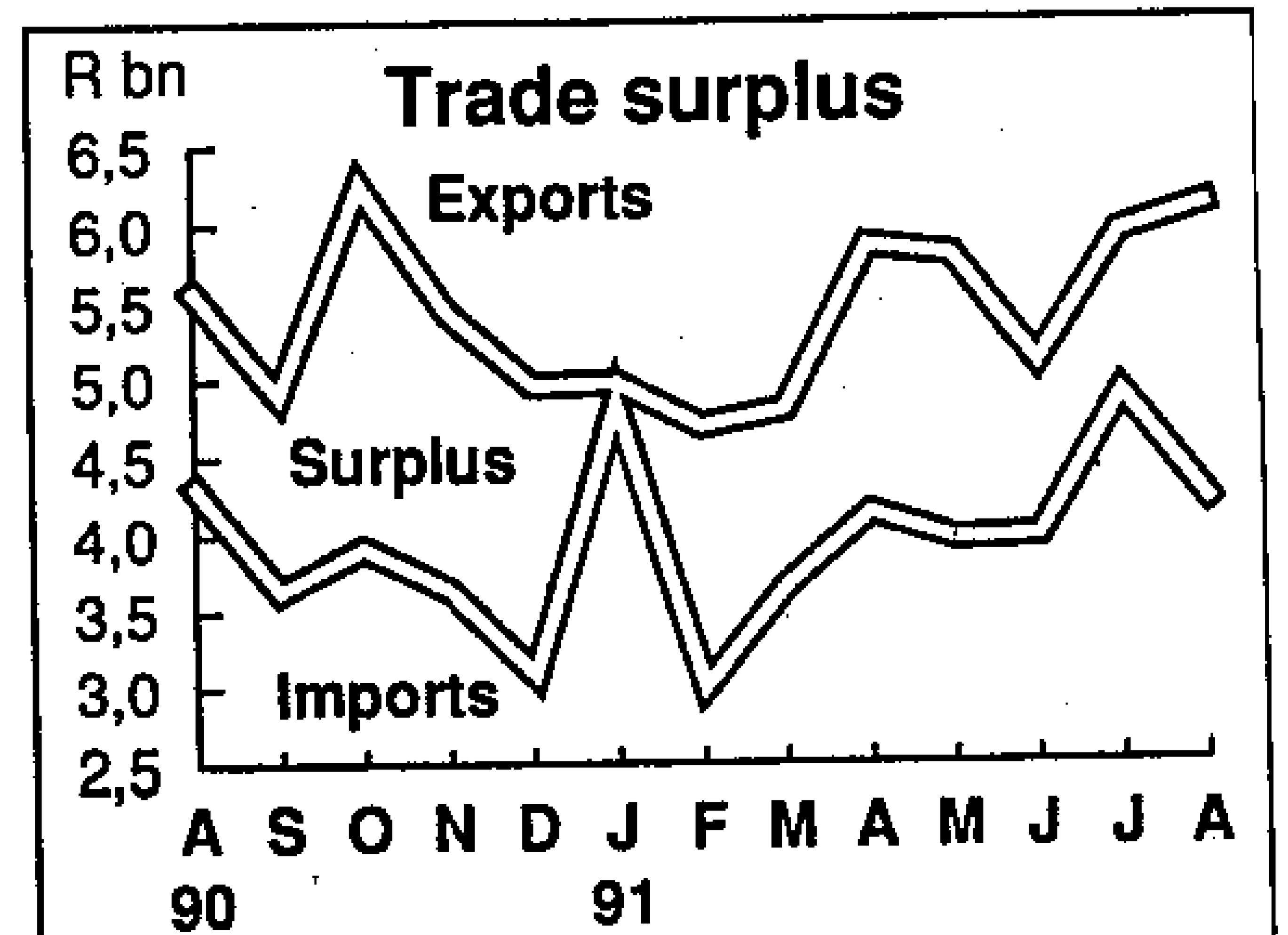
On the import side, the August surplus was boosted by a 14% drop in imports arising from lower oil imports and the absence of the airliner purchase that boosted overall imports in July. Since the draw-down in local strategic oil stockpiles is a publicly-announced move to save on direct crude oil imports, it can be assumed that crude imports will remain at the relatively low levels of recent months. Meanwhile the domestic credit squeeze, far from showing any signs of loosening, seems likely to tighten for the rest of this year.

Under normal circumstances the August Producer Price Index (PPI) would be expected some time this week, but the prospects of either the PPI or Consumer Price Index (CPI) emerging on their regular release dates have dimmed recently as the Central Statistical Service wrestled with revisions and re-basing.

If the August PPI does emerge this week the rate of annual producer price inflation looks set for a dip following the startling jump to 12,1% in July from June's 11,2%. The July rise was partly attributable to the failure of the imports component of the PPI to make its usual disinflationary contribution. The recent performance of the trade-weighted rand has been steadier, so that the import contribution in August should again be helping to slow the overall rate of PPI inflation.

Internationally, financial markets are likely to be preoccupied with this week's annual meetings of the IMF and World Bank which get under way tomorrow in Bangkok. Any further pronouncements or hints about preferred exchange rate ranges and bilateral trade flows probably hold greater market-moving potential than the significant US statistics of the week.

The American figures the markets will be waiting for include the level of industrial production and capacity



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

utilisation for September, due out tomorrow and the consumer price inflation rate, scheduled for release on Thursday. Production and output performance in the US since the second quarter of the year has been rising steadily and tomorrow's figures are not expected to change that profile. The US authorities' concern, however, has been directed at sales and consumption levels, which will still need to show the same strength if the US economic recovery is to gain impetus.

The House of Commons returns from its summer break today and attention will be on the economy in the lead-up to what is likely to be a May or June election. Sterling will probably remain sensitive to the changing fortunes of government and opposition in the polls.

New US trade ban 'is not serious'

LINDEN BIRNS

THE trade embargo prohibiting US companies from trading with SA's armaments manufacturer and procurement corporation Armscor, or any of its subsidiaries, was "no big deal", Defence Ministry spokesman Chris van der Westhuizen said yesterday.

On Friday the US announced it was banning trade between US businesses and the Armscor group after discovering that Armscor had been developing medium-range ballistic missile technology.

Although the Defence Ministry had not yet seen the documents outlining the sanctions, the embargo did not seem terribly serious, Van der Westhuizen said.

According to Jane's Defence Weekly's SA correspondent Helmoed-Romer Heitman, the new embargo will not have any meaningful effect on Armscor.

He said the US announcement was routine, and it appeared as if SA was merely being added to the US's list of countries with medium and long-range ballistic missile capabilities.

"There does not seem to be anything new that is not covered by the two standing UN arms embargos against SA."

It was unlikely that the embargo's objective was to punish SA for dealing with countries which the US did not like, he said.

Weekend reports suggested that the embargo might be a punishment for Armscor's sale of G-5 cannons to Iraq before the outbreak of the Gulf war.

Star 15/10/91

SA seeks trade with China

Staff Reporter (78) (74)

A high-level business delegation leaves South Africa this week to visit China, according to a statement issued by the South Africa Foundation.

The visit comes in the wake of Foreign Affairs Minister Pik Botha's pioneering secret visit to Beijing this month.

The business delegation will be led by Barlow Rand chairman Warren Clewlow.

The visit represents the culmination of contacts between the foundation and China over the past few years.

Trade relations also formed a major basis of discussions during Mr Botha's visit.

It was reported at the weekend that Mr Botha's visit has opened up the possibility of diplomatic relations.

SA envoy heads drive to forge Gulf trade links

DUBAI — A senior SA official has arrived in Dubai on a mission to forge trade links with Gulf countries. (74)

Foreign Ministry official John Sunde, the first senior representative from Pretoria to visit the Gulf for decades, said yesterday: "Our main aim is to start people-to-people contact."

SA, with Israel, is still on top of the Arab countries' list of boycotted states. But Sunde, who runs the ministry's Middle East section, believes this might change as SA moves to abolish apartheid.

"SA is in the process of (attaining) full recognition by the international community," he said. "Trade is important; formal diplomatic relations may follow when necessary."

SA stamps in a traveller's passport are still likely to bar entry to most Arab states, and Sunde said: "We want to facilitate travel and contact by South Africans with every country in the world." B/Day 15/10/91.

SA businessmen, especially Muslims, have maintained a triangular trade with the Gulf via East African states, despite sanctions.

Businesses are preparing for an export offensive to the Middle East once sanctions are lifted. A South African Foreign Trade Organisation (Safto) official said last month the United Arab Emirates, Saudi Arabia, Egypt and Iran could be target markets.

Sunde declined to comment on reports that Pretoria had paid for oil imports from the Middle East with arms.

He said a trade delegation would visit Dubai next month for talks with businessmen, and another would head for Egypt soon. — Sapa-Reuter.

Foreign firms interested in SA Futures Exchange

B/Day 15/10/91. (74) (???)

ROBERT GENTLE

SECURITIES firms from Europe and Australia had expressed interest in joining the SA Futures Exchange (Safex) so that they could deal directly for non-resident clients, CE Stuart Rees said yesterday.

Safex would welcome their presence as it would boost the liquidity and sophistication of the local market, said Rees. The matter was being studied.

Foreign securities firms and investors had expressed "great enthusiasm" about the prospects of non-residents being allowed to trade futures on Safex through existing exchange members.

"Everything is on schedule for the first non-resident trade to take place in the first week of December," Rees said.

The only reservation expressed by non-residents concerned Safex's required registration of clients with the exchange as an added measure of client protection.

Foreign securities firms were worried that this would result in the local market being aware of the identities of their clients, Rees said.

"We are addressing this concern over client anonymity and a satisfactory solution will be proposed shortly," said Rees.

Meanwhile, the exchange's financial position continues to improve after a cost-cutting and rationalisation programme undertaken early this year to combat the effect of falling volumes.

Rees said Safex had run up an operating surplus of R450 000 for the first three months of the present financial year, which started in July. The surplus, the result of improved volumes and the rationalisation programme, enabled the exchange to wipe out a R324 000 net loss recorded at the end of the past financial year.

This loss comprised an operating loss of R96 000, with the balance resulting from write-offs conected with the terminated futures trading floor and the default of Davis Ralph Sadleir (DRS). The exchange was now debt free, recapitalised and on a sound financial footing, Rees said.

"If we continue to generate revenue at the present rate, we should have a surplus of R2m by the end of the present financial year," he said.

However, Safex still had its ups and downs, he said. Friday's overall volume of a mere 594 contracts worth R26,2m was probably the worst on record.

Speaking on the exchange's plans for the coming year, Rees outlined three key areas: the introduction of options on futures, measures to boost liquidity in interest rate futures and an investigation into the introduction of commodity futures.

Govt to back IDT bond issue

BDay 15/10/91

BANGKOK — SA's government would give its guarantee to a planned Eurobond issue for the Independent Development Trust (IDT), Finance Minister Barend du Plessis said yesterday.

"We are exploring the possibility of supporting a loan for the IDT. If guarantees are required then we will certainly be willing," he told AP-DJ.

Du Plessis, in Bangkok for the joint annual meetings of the IMF and the World Bank, said foreign bankers and officials had in private meetings expressed interest in SA's economic development and future borrowing plans.

The IDT issue will be SA's second recent borrowing on the international capital market, with a DM400m bond led by Deutsche Bank that was more than two times oversubscribed.

(74)

Du Plessis said SA's credit rating remained solid, thanks partly to the country's balance of payments surplus over the past six years, and to very rapid restructuring efforts.

The Minister said SA had an "ongoing need" for external financing, particularly for infrastucture and social housing projects. "It's very important for us to maintain the impetus of improving the lot of the poorest sections of our community."

☐ To Page 2

BDay 15/10/91

IDT

BDay 15/10/91

(74) ☐ From Page 1

He noted that SA's total foreign debt had ebbed to only 70% of annual export receipts, compared with 127% in 1985.

There were no plans to discuss eventual borrowings with IMF staff in Bangkok or an eventual normalisation of relations with the fund. The South Africans would discuss their technical relationship with the fund.

Observers said SA might be preparing the ground for an IMF-approved adjustment programme for the day when normal relations between the country and the fund resumed. Although it was a founder member of the IMF, SA had not been able to borrow from the IMF since the US imposed sanctions five years ago.

SA is now keener than ever to persuade Congress to repeal its Gramm Amendment, which forces the US to vote against any IMF loans to SA.

Du Plessis pointed out that SA did not need financial assistance from the IMF as the country had a balance of payments surplus. But the surplus had had a price in terms of growth.

SA planned to lift most of its foreign exchange controls once normal relations were resumed, Du Plessis said. Government would probably keep the administrative structure for the financial rand until stability was achieved.

"It's obvious that there will be an outflow the moment you abolish (the exchange controls) because of the debt standstill that still affects some $6bn," he said. Du Plessis believed that although there would be a big outflow of capital once the controls were abolished, this would be offset by an inflow of foreign capital.

VWD reports that a senior World Bank official said he could not foresee a time when SA would become a borrower from the bank. Wilfried Thalwitz, vice-president for policy planning and research at the International Bank for Reconstruction and Development of the World Bank, was responding to questions on the prospects of IBRD assistance to SA. He and other officials said there was little likelihood of SA qualifying for loans from either the World Bank or the IMF.

● Comment: Page 14
● See Page 15

NE

SA-China links now possible

(94)

Star 16/10/91

By Peter Fabricius
Political Correspondent

South Africa and communist China could establish informal diplomatic relations soon, following Foreign Minister Pik Botha's secret visit to Beijing last week.

Well-informed sources believe the two countries could set up indirect representation in each other's territory, possibly through scientific, cultural or other study institutes.

Mr Botha and his office have steadfastly refused to comment on reports that he secretly slipped into Beijing while visiting Taiwan last week. However there is no doubt the visit took place and that Mr Botha also visited other Eastern countries secretly.

It has also been learnt that Mr Botha was scheduled to visit Japan to pave the way for a visit by President de Klerk early next year.

But his visit had to be called off at the last minute because of the sudden change of premiership in Japan.

International relations experts believe the main significance of Mr Botha's visit to Beijing was that it took place at all.

"In crossing the Bamboo Curtain, (Mr Botha) overcame a vast ideological divide, compounded by China's suspicion about SA's strong relations with Taiwan," one observer said.

Informed sources said SA has made it clear it would not sacrifice its relationship with Taiwan for the sake of improved relations with the mainland.

Mr Botha and Chinese government officials could also have been expected to discuss trade, co-operation in marketing certain raw materials possessed by both countries, and South African technological assistance to China in mining.

Mr Botha's forays into the East mark a growing recognition by South Africa of the importance of the East both as a trading partner and a model for South Africa's development.

In South African diplomatic circles there is a fear that the "awakening economic giant of Asia might become another ship, like Europe, which passes Africa by".

"Our concern is that Africa might be the only Third World continent left in the world in five to 10 years' time," one source said.

South Africa had to learn the lessons of the Asian economic miracle — including the need for disciplined, highly productive labour.

"But it seems that, with its campaigns of mass action, the ANC wants to steer this country firmly into the backwaters of the Third World."

Pik Botha . . . secret forays to the East.

SA businessmen visit Egypt

Star 16/10/91 (74)

CAIRO — A group of South African businessmen has arrived in Egypt at the start of a Middle East tour.

"This is not a sanctions-busting exercise," said David Graham, co-ordinator of the South African Foreign Trade Organisation's mission to Egypt, Bahrain and Dubai. "It's more of a fact-finding mission."

Arab countries broke diplomatic and trade links with Pretoria in 1974.

● South Africa and Italy have agreed on economic and industrial co-operation, said a joint statement issued in Rome yesterday by the Italian Minister of Foreign Trade and the SA Minister of Trade, Industry and Tourism.

Talks between Vito Lattanzio and Dr Org Marais followed a visit to South Africa in August by Mr Lattanzio. — Sapa-Reuter.

TARIFF POLICY FM 18/10/91 (94)

Moving ahead on reform

Trade & Industry Minister Org Marais says a White Paper on a new tariff protection policy should be published by the end of the year.

In addition, he says, new trade and industrial policies, streamlined anti-dumping legislation, a revamped Board of Trade & Industry and a new technology policy will all form part of the package that his department will announce by early next year.

"Our strategy will include policies for small business, industrial subcontracting, tourism, technology transfer to small industrial concerns and joint ventures with foreign investors. But our major focus now is on devising a new tariff protection policy, based on recommendations made in the tariff report of the Industrial Development Corp (IDC), as well as responses received from the SA Chamber of Business and other interested parties."

IDC's senior GM of finance, Malcolm MacDonald, puts the effective average protection rate for industry now at about 45%. Import tariffs constitute about 20 percentage points of this (created by 12 000-plus tariff headings), import surcharges add five points and exchange rate protection through an undervalued rand almost 20 points. "We cannot afford raising tariffs further above these record levels," says Clothing Federation executive director Hennie van Zyl.

Marais says he sees a much broader role for the board than just advising on tariff policy. Industry, trade and small business issues may comprise part of the new board's brief, based on the expertise of the newly appointed members. Outgoing board chairman Lawrence McCrystal will stay on until the end of February.

Board deputy chairman Helgaard Muller says: "The new anti-dumping law should be on the statute books by late next year, while amendments to existing legislation will be tabled as soon as parliament reconvenes in January."

The IDC's tariff report recommended that the existing formula duty mechanism should be replaced by new anti-dumping legislation before the introduction of a revised and liberalised tariff policy regime.

Last week, the chamber published its official response to the IDC report. It shines amber lights on many of the IDC's "green for go" recommendations to reduce tariffs to 15%-30% levels in five to six years.

The chamber recommends neutrality between export promotion and import replacement policies, while it also calls for a built-in flexibility in any new tariff policy that will allow appeals by industry sectors "on the basis of selectivity." The chamber also says a 10-year reform period may be more acceptable to some industry sectors, while government should consider the effects that painful tariff policy adaptations, such as temporary job losses, could have on SA — that is undergoing a sensitive period of political reform.

The chamber underlines the need for an "holistic approach" to tariff reform. This involves a comprehensive economic package, including a realistic and effective exchange rate, reduced inflation and company tax, the scrapping of import surcharges and other measures as recommended by the IDC.

"Treating selectivity as the exception to the rule of uniformity in industrial strategy can also provide a basis for industrial targeting, an approach that the chamber advocates if undertaken with the full co-operation of, and after timeous consultation with, the private sector," it says.

The chamber, in the interest of protecting its members, also warns against the negative effect that tariff reform could have on the economies of the member states of the SA Customs Union.

Understandably, the anti-protection lobby is not happy with the chamber's lukewarm approach to tariff reductions. The chairman of the Cape Town-based Independent Wire Manufacturers' Association, Robin Bosomworth, says protectionism is "the biggest business game in SA." He adds that the chamber is "loaded with big business, vested-interest groups" whose primary aim is to keep on protecting these interests. In his association's case, the steel cartel (under the leadership of Iscor) fights tooth and nail against competition from cheaper raw material imports.

"Should government accede to the steel lobby's latest request for increased protection, small, independent wire manufacturers could be killed off by the cartel and Iscor and its associates would be able to add R100m profits on a short-term basis to their bottom lines."

Bosomworth says a basic problem is government's ignorance of complex industry issues and that it is a virtual captive of "big business lobbying for protection."

Van Zyl says he is worried that the chamber's insistence on a comprehensive economic reform package as a precondition of tariff reform could be a delaying tactic for the imposition of essential tariff reform. "World Bank and UN studies have shown that a unilateral tariff reduction policy, divorced from other economic measures, can be as effective as a combined package."

Responding to the chamber's warning that State revenues lost through tariff reduction should also be considered, IDC senior economist Flip Kotze says a 25% effective drop in tariff rates (from 20% to 15%) would mean a loss of about R450m to the Exchequer. "Current import tariff revenues total about R2,2bn a year." ■

PRIVATE CEMETERIES

One foot in the grave

FM 18/10/91

In a country where cemeteries are often dreary places run by government, privately owned Park Acres Memorial Parks certainly promised something different when it kicked off two years ago.

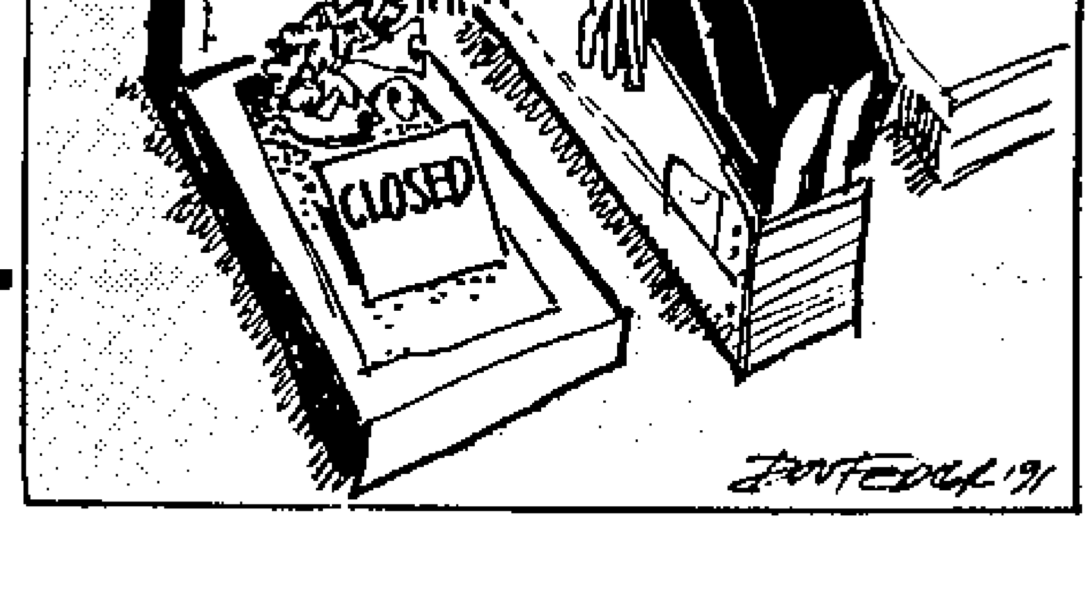
Would-be buyers of burial stands were wooed with pictures of rolling lawns, landscaped gardens, fountains and lakes, while investors were lured by eye-catching returns of at least 38% a year. "The Parks," extolled the ads, could be used for weddings and christenings and would stand as a symbol of the new SA — non-denominational, multiracial and privately owned.

But this week these plans were all but dead and buried as provisional judicial managers prepared to declare Plandev Memorial Parks Ltd — the unlisted public company offering stands in Lanseria and the Strand — insolvent. "Currently, there appears to be no source of finance available to the judicial managers and people are wary of investing because the company is under judicial management," says Barry McLoughlin, an accountant involved in the judicial management of the company.

People also may have got the creeps at the whole idea of picking out a stand and paying for it ahead of time, though it's the norm in other countries. There, private developers run newspaper ads and solicit business by pushing location, perpetual care and "peace of mind."

Park Acres' obituary — before anyone was buried — is bad news for a lot of people. Some 3 500 stands were sold — at R2 500 apiece — and the two sites are bonded for at least R3m with Volkskas and First National Bank. The project is also a footnote to the

continue →



Business must get cracking, or disgrace Africa

B | Day 18/10/91 (74)

TONY MANNING

LIKE Rip van Winkle, SA is now waking up after a long sleep. We are finding our way back into the world, which changed while we were away.

The birth of the "new world order" involves not just nations, but industries and companies too. A massive shake-out is under way and nothing will ever be the same again. Politics, society and economics have become inextricably interwoven, and all are now in the throes of a seminal transformation. Yesterday's winning strategies are almost instantly obsolete. There is no such thing as a sustainable competitive advantage.

Today, economics drives politics. It takes serious money to wage a war. The knowledge that drags a country up by its bootstraps is also costly. So the world's rich get richer and more powerful, while the poor multiply and cry for an equal say. Technology has made the world a global marketplace for ideas, for goods and services, and for labour. It's a jungle out there. Competitors are prepared to fight to the death for capital, market share and profits.

The closing decade of the 20th century will be marked as much by a new level of co-operation between nations as by the intensity of competition between companies. Both these changes threaten the economy of the new SA.

The first is problematic because while countries once struck deals with each other to gain political clout, they now do it for access to each other's markets or labour. And SA is neither a particularly exciting market nor a competitive source of labour.

The second — inter-firm competition — is a danger because SA has few companies that can claim to be world-class competitors. Years of isolation have channelled our energies inwards rather than outwards.

Factors which make a nation competitive — a stable socio-political environment, access to capital, low interest rates, low inflation, skilled labour, high productivity — are the very ones that currently cripple us. We have to get the economy moving to rectify all of them; yet we cannot fix the economy until these critical issues are attended to.

Unfortunately, some of the steps that will be necessary will be very painful. Businessmen and politicians will find them hard to live with, but both groups are in the same boat and it's sinking fast under the weight of social demands.

Three issues — the role of the conglomerates, affirmative action, and the question of jobs versus automation — demand special attention. They affect seriously our competitiveness.

There is no doubt that the conglomerates have suppressed competition in local industries. But as government protection is removed they will feel the heat. Foreign competition will force them to sharpen up and hold down prices.

SA needs its business giants. It is impossible to compete in a growing number of industries except on a global scale. (For example, it costs around $100m to bring a major consumer product to market, $250m to launch a new pharmaceutical product, and $1bn to launch a new motor car.) Also, these firms provide plenty of jobs and put a fortune back into society in a variety of ways.

The second issue, affirmative action, is central to the redistribution of opportunities and wealth. But for decades to come, its single greatest achievement will be to blunt our competitiveness. There is no way to turn a 55% illiterate workforce into a world-class skilled force. Nor can any firm afford the passengers who will have to be carried if strategies like mentoring are adopted.

And that brings us to the toughest issue of them all: whether to create jobs or to replace people with machines. Quite clearly, we need to employ as many people as possible at the highest possible wages. But in almost every industry today firms go "bodyshopping" — using communications technology to buy the best skills at the lowest prices.

Japan exports 30 factories a week in search of a labour advantage. Taiwan is being forced to follow. The average manufacturing worker there earns about $600 a month. But in Jakarta, the minimum factory wage is just $42 a month, including an allowance for food and transport. In Shanghai only one worker in 10 earns as much as $1 a day.

But even with access to cheap labour, automation is essential for competitiveness in many industries. New technologies enable manufacturers to turn out extremely short runs of high-quality customised products. So the unkind reality is that many SA firms will have to destroy jobs in the short-term if the economy as a whole is to grow.

SA is poised on a knife edge. Yet our competitiveness is being compromised by the power games of politicians and labour leaders. And there is a dangerous level of complacency among businessmen.

We are late into the race to become world-class. Other countries and companies are sprinting into the future while we are stuck in the starting blocks. If we don't get moving, we will disgrace all of Africa. For if we cannot do it, no one can.

☐ **Manning is an independent management consultant and author.**

LETTERS

Sisulu puts IDT bond issue back on track

B/Day 18/10/91

LESLEY LAMBERT

THE Independent Development Trust's effort to raise $100m on international bond markets was back on track yesterday after a flurry of contradictory ANC statements and news reports.

The campaign came under strong pressure when the ANC's London office rejected a joint statement which described the organisation's earlier disapproval of the bond issue as a "misunderstanding".

At one stage it appeared the IDT's foreign underwriter J P Morgan would withdraw because of the unwanted attention the bond issue was attracting.

But spokesmen from J P Morgan and the IDT confirmed yesterday that the joint statement was valid and that presentations to drum up foreign support for the five-year issue would continue.

(74)

An IDT statement said ANC deputy president Walter Sisulu confirmed yesterday the joint statement that the ANC's London office had previously rejected as "bogus". Sisulu faxed the confirmation to IDT chairman Jan Steyn in Frankfurt, the venue of one of the presentations which went ahead yesterday.

The confusion appears to have arisen as a result of a statement issued by the ANC on Monday. The statement implied the IDT was passing off the ANC's endorsement of IDT trustee Mamphele Ramphele's inclusion in the capital-raising campaign as approval of the campaign itself.

The statement said: "The ANC is not against the IDT's efforts to raise funds for its projects from funders who are prepared to donate funds. But the letter (endorsing Ramphele's inclusion) was not an endorsement for the IDT to raise loans on the stock market through the issue of bonds. The issue of bonds and loans . . . will undermine financial sanctions which remain the most effective pillar of the sanctions campaign against apartheid."

☐ To Page 2

IDT

B/Day 18/10/91

(74)

☐ From Page 1

J P Morgan is the first US bank to support an SA capital raising exercise since President George Bush repealed federal sanctions laws.

The IDT, which had canvassed and received the support of ANC president Nelson Mandela, then issued the joint statement with J P Morgan in which it said the ANC's disapproval was based on a misunderstanding which would be resolved when the IDT delegation returned to SA.

Confusion reigned yesterday as the statement was rejected by the ANC's London office as "bogus" and later confirmed by Sisulu — but not before a US news service reported J P Morgan had, in the meantime, withdrawn its support.

Steyn said from Frankfurt yesterday he was distressed and concerned at the miscommunication within the ANC's ranks and the potential for damage to J P Morgan, the IDT and the ANC leadership.

"The IDT would never have embarked on an international bond issue of this kind without the support of the leaders of all concerned parties. Support was explicitly canvassed and received from Nelson Mandela, Chief Minister Mangosuthu Buthelezi and President F W de Klerk."

● See Page 3
● Comment: Page 10

74

Getting to grips with the deficit puzzle

Star 20/10/91.

BETWEEN 1980 and its peak in the first quarter of 1985, the trade-weighted value of the dollar rose 67 percent; by 1987 it had fallen back to a value lower than the one it started from (see accompanying chart).

Unsurprisingly, the rising dollar went hand-in-hand with an expanding current-account deficit. By 1985 this was $122 billion, or 3 percent of GNP.

After 1985, despite the currency's rapid depreciation, the deficit simply carried on growing. It was $145 billion (3,4 percent of GNP) by 1986 and $162 billion (3,6 percent of GNP) by 1987.

Economists were puzzled — and worried.

America could not expect to finance such a deficit indefinitely. Yet the link between the exchange rate and the deficit — the "international adjustment mechanism" — seemed to be broken.

A dreadful fate awaited the world economy.

At a meeting of the International Monetary Fund (IMF) and the World Bank, America's deficit and what to do about it often seemed the only topic of conversation.

At this year's meetings, which began in Bangkok on October 11, the subject was hardly mentioned.

Since 1988 the deficit has narrowed.

Last year it was $97 billion (1,8 percent of GNP); this year, according to the IMF's new forecasts, it will almost disappear, thanks to the contributions that America's allies will make to the costs of the war in the Gulf.

In 1992, with that factor no longer at work, the slow downward trend will resume (see table).

IMF forecasts

	Real GNP/GDP % change			Consumer prices % rise			Current-account balance as % of GNP		
	1990	1991	1992	1990	1991	1992	1990	1991	1992
United States	1.0	-0.3	3.0	5.4	4.5	4.0	-1.7	-0.3	-1.5
Japan	5.6	4.5	3.4	3.1	3.4	2.7	1.2	1.9	1.7
Western Germany	4.5	3.1	2.0	2.7	3.5	3.5	2.9*	-0.5*	0.6*
France	2.8	1.3	2.4	3.4	3.3	3.0	-0.7	-0.8	-0.7
Italy	2.0	1.3	2.5	6.5	6.3	5.6	-1.3	-1.2	-1.4
Britain	0.8	-1.8	2.4	9.5	5.9	3.9	-2.6	-1.1	-1.2
Canada	0.5	-0.9	3.8	4.8	5.9	2.8	-3.3	-2.8	-2.3
All industrial countries	2.6	1.3	2.8	4.9	4.5	3.8	-0.6	-0.2	-0.5

* Pan-German figures from July 1st 1990

Popular

In the late 1980s old and new theories to account for the broken link between exchange rates and trade balances became popular.

These ideas will command support even though, at this distance, the events of the past decade no longer seem quite so peculiar.

The new study by Paul Krugman* of the Massachusetts Institute of Technology examines the theories and the evidence afresh.

One group of commentators blamed structural factors for the reluctance of the deficit to fall after 1985.

Some argued that American goods were uncompetitive with Japanese goods at any price.

Others talked of "pricing to market" — the idea that, to maintain their share of the market, foreign producers trimmed profits and held prices down as their currencies appreciated after 1985.

A related theory blamed "hysteresis" or the "beachhead effect" — the idea that a market, once lost, is difficult to recapture.

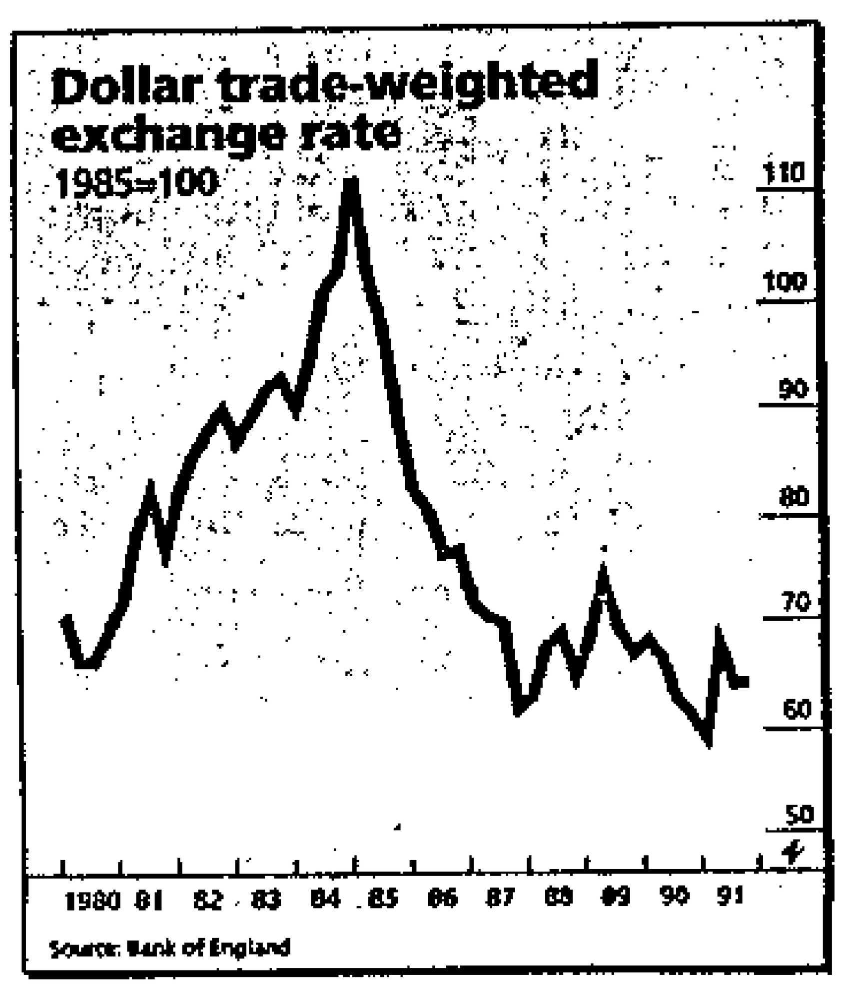
America lost foreign customers when the dollar pushed export prices higher after 1980; a fall in the dollar merely to its level of 1980 would be insufficient to regain them.

Another group of economists had long argued that exchange-rate changes were neither necessary nor sufficient for changes in current-account balances.

In their view, the "adjustment mechanism" had never relied upon shifts in currencies; on the contrary, such changes were nothing but a nuisance.

They saw the 1980s as support for the idea that countries should fix their exchange rates once and for all.

Mr Krugman concludes that the evidence favours neither of these groups.



Instead, he says, it vindicates the mainstream view, which he puts as follows:

(a) exchange-rate changes affect the current-account balance;

(b) this link is stable; and

(c) exchange-rate changes are a necessary part of the adjustment process.

On (a), Mr Krugman's review of the evidence is convincing.

Supplied with correct data, fairly standard exchange-rate models track America's current-account deficit during the 1980s quite well.

("Correct data" means, among other things, excluding computers — a product for which it is notoriously difficult to calculate accurate, quality-adjusted price indices.)

In retrospect, Mr Krugman explains, the delay between the dollar's fall and the narrowing in the current-account deficit was because the economy started with a highly overvalued currency, rather than from a position of equilibrium.

On (b) and (c), Mr Krugman is on weaker ground.

Without knowing anything else, it is hard to see how an examination of one episode could prove that the link between exchange rates and trade balances is stable, or that exchange-rate changes are necessary for adjustment.

In fact, as Mr Krugman himself admits, the European Monetary System (EMS) undermines both claims.

Intra-European trade balances have varied widely despite semi-fixed exchange rates. The Bretton Woods system of fixed exchange rates coped with changes in external balances, and so par excellence, did the pre-1914 gold standard.

Within countries regional current-account imbalances are accommodated with no trouble at all. Whatever else exchange-rate changes may be, they are not "necessary".

Benefits

Perhaps Mr Krugman should have said "desirable" — ie, that the benefits of flexible exchange rates (the ability to avoid imported inflation, the possibility of a devaluation to restore competitiveness) outweigh the costs (the possibility of persistent home-grown inflation, the inefficiency of segmented markets and uncertain relative prices).

Mr Krugman offers no persuasive evidence on where this balance of costs and benefits lies. But note that one of the benefits (eg, a devaluation to restore competitiveness) requires the exchange rate to be a controllable instrument of economic policy. One clear lesson of the 1980s is that an unpegged dollar is no such thing.

(* "Has the Adjustment Process Worked"? Paul Krugman, Institute for International Economics, October 1991.)

— The Economist

R64bn in flight capital 'has left SA'

(94)

S/Times 20/10/91 (CH)

By FRED ROFFEY

SHOCK figures calculated by two University of Stellenbosch academics suggest that more than R64 billion could have left South Africa as flight capital in the past two decades.

In some years the capital flight was greater than that of traditional developing countries such as Argentina and Brazil.

Professor Ben Smit, of the university's economics department, and Mr B A Mocke, of its Bureau for Economic Research, define flight capital as money "that flees from abnormal risks in a country".

Writing in the latest South African Journal of Economics, they say accurate measurement of capital flight is "inordinately difficult" due to a host of conceptual and empirical problems. However, they applied several criteria that indicate substantial outflows in 1974, 1977-80 and 1986-87 in particular.

Process

They comment: "The total capital outflows suggested by these criteria over 1970-1988 substantially exceed the estimates of capital outflows in the 'normal' balance of payments statistics and range from a minumum of $12,4 billion (R35,3 billion) to a maximum of $22,8 billion (R64,9 billion).

Commenting on the report, Mr Johan Louw, Sanlam's chief economist, said he hoped South Africa's repayment of foreign debt and loans was taken into account in the calculations. This was a large part of capital outflows and was a continuous process.

"From 1985 to 1990 South Africa had a net capital outflow of about R30 billion.

"Surpluses of the same order therefore had to be generated on the current account of the balance of payments, and this money could not be spent on local growth, for example.

"In a comprehensive study the International Monetary Fund found that a lack of foreign capital, particularly since 1985, was one of the most important restrictive factors in South Africa's ability to grow more rapidly and to strengthen its labour market," he said.

—Cape Town

Safmarine expects increased seaborne trade for the '90s

B[o..] 21/10/91

SAFMARINE, SA's largest shipping line, expects growing demand for seaborne trade during the '90s and enters the decade with optimism.

The corporation, part of the Safren group, generated an operating profit of about R200m in the year to end-June 1991.

This was 1,1% over the previous year, with profitability of the shipping-line trades being badly hit by the recession.

The Gulf War also introduced lower dry bulk freight rates, which impacted on Safmarine's results.

Performance in the coming year will be constrained by the recession.

However, MD Tony Farr says world gross domestic product is estimated to grow by about 2,5% in 1992 and between 3% and 4% for a five-year period thereafter.

In addition, world industrial production, which has a significant influence on world export and import volumes, is expected to improve.

Expected growth in export volumes is estimated at between 4% and 5% for 1992 and 5% to 6% for the five years thereafter.

In contrast to strong demand, supply will be relatively static.

The world energy demand will increase in line with world industrial production and the soft supply situation will not be able to cope.

Farr says the supply situation will become better organised as time elapses after the Gulf War and parties with the same economic interests regroup.

Globalisation

He says private shipping companies will adopt a policy of "globalisation" whereby alliances will be sought with other shipping companies to increase their world coverage via combined services or marketing.

On the other hand, governments will largely follow a policy of privatisation, which will reduce the capacity on offer.

"The deepsea shipping industry cannot ignore the rapid growth by the dedicated all-freight aircraft fleet employed in intercontinental trading.

"In the early '80s, bankers burnt their fingers when vessel prices declined sharply, and they are experiencing the same pain in the world aircraft market."

Farr says the trend towards globalisation will result in major trades developing along the east-west axis, while niche markets, such as the southern Africa to Europe route, are developing in the south-north trades.

There will development in the information and EDP industries, leading to a greater integration of intermodal services on the liner trades to add value to the sea freight component of the total journey.

"Safmarine will mould its strategy to utilise the opportunities and counter the threats which may flow from these external factors and industry trends.

Young

"It is important to meet a rising market with a relatively young fleet and a good age distribution of assets.

"Our building programme and ten-year fleet planning horizon caters for this need. It is also the time to be relatively long in owned tonnage.

"Our recent R78,5m strategic investment in CMB-Transport of Belgium strengthens and expands our north-south trade position as well as our international links."

Safmarine recently took delivery of a Yugoslavian-built 1800 container ship and a new Romanian built bulk vessel, and has ordered two new reefer ships to be built in Poland.

It has also bought two six-year-old Japanese-built bulk vessels.

Deregulation

Farr says the recent deregulation of the domestic air transport industry and the expected changes to SA's international aviation policy will facilitate the profitable expansion of the group's aviation activities.

"As liberalisation and globalisation take effect, country nationalism amongst consumers will reduce and the best deals will be sought.

"In this process, the customer will be kept informed by an advancing information technology.

"It is, therefore, important for Safmarine to maintain and improve its customer awareness and orientation."

Monetary policy 'is falling apart'

B|Day 21|10|91.

SIMON WILLSON

THE disciplined monetary and fiscal management of the economy over the past two years is starting to fall apart, says Syfrets' latest quarterly economic review.

The review acknowledges that monetary policy has maintained a relatively restrictive stance. Fiscal policy, however, is far more expansionary than two years ago.

"The fiscal side of the divergence is based mainly on a changed political environment and expectations that have been created and which need to be satisfied.

"After a fair amount of fiscal discipline over the last three years, there are clear signs that this will be increasingly difficult to maintain. The off-budget spending is especially disconcerting," says the review.

Addressing those who argue that the SA authorities could emulate the management of the US economy in the early 1980s, the review says the policies of former Federal Reserve chairman Paul Volcker are not applicable to present-day SA.

Noting that the Volcker anti-inflation prescription was a restrictive monetary policy, stimulatory fiscal policy and a strong exchange rate, the review recalls that the result was one of the US's most severe recessions.

SA does not have the option of using a firm exchange rate to bear down on inflation because of the country's sensitivity to exports, the review says. It adds that risking a severe recession would be detrimental to the economy considering the existing high level of unemployment.

Fiscal policy has to contribute to the fight against inflation, the review concludes. "The longer the fiscal authorities follow their current path, the more the private sector is crowded out.

"If the continuous crowding out of private business enterprises is not halted, the inflationary bias will not be cured in the longer term," the review warns.

It advances two possible alternatives to the current policy mix: a "social consensus" between trade unions, the private sector and government in which wages are linked to productivity, and norms for budget expenditure increases being set in a new constitution.

THE WEEK AHEAD by Simon Willson

Trade surplus likely to fall

B/Day 21/10/91. (74)

THE creeping statistical malaise that has recently stricken SA's financial data has spread to the national trade figures.

Publication of the September trade balance, originally due last Thursday, has been delayed until later today or tomorrow. Later in the week, market attention is likely to be focused on the release of the September consumer price index (CPI).

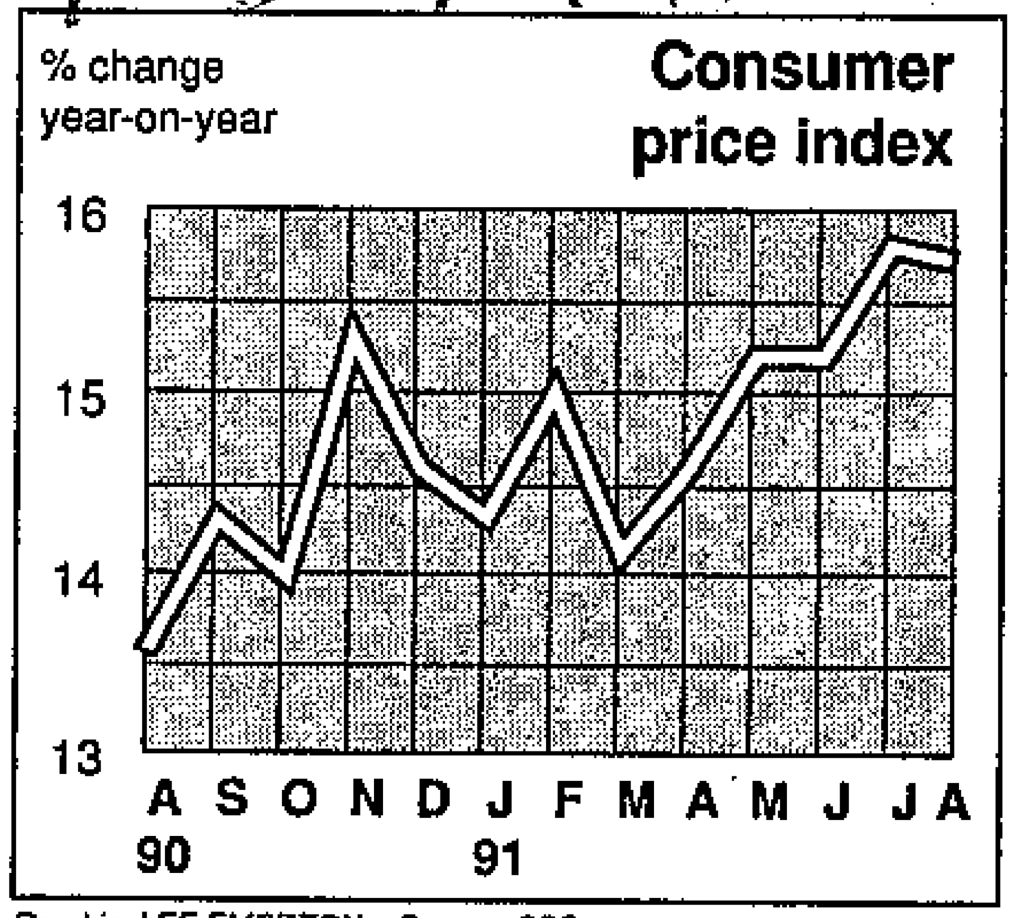
It is unlikely that last month's trade surplus will match the R1,9bn posted in August, mainly because the leap from the R1,1bn recorded in June and July was due to one-off factors. The happy combination of a jump in precious stone and coin exports and of a drop-off in capital and oil imports seems too much to expect for another consecutive month, and a drift away from the magical R2bn level looks probable.

Meanwhile, the domestic market's cold fascination with the unfolding inflation drama should intensify around mid-week when the September inflation rate is due for publication — rebasings and revisions permitting. The auguries are not good, and many are braced for what could be the first of several accelerations in inflation over coming months.

Most of the slowdown in the inflation rate from July's 15,8% to August's 15,6% was the result of a technicality; the advance of more than three percentage points in the month-on-month CPI between July and August 1990.

This gave the year-on-year inflation figure to August 1991 a relatively high base and was the main contributor to the downtick in the last inflation figure.

Technical effects will do little to mitigate the upward pressure on prices that is due to be reflected in the September figure. Without help from a high index base 12 months ago, inflation in September is set to show the petrol price increase of late August and the hikes in excise duties that offset the reduction in the VAT rate.



Graphic: LEE EMERTON Source: CSS

For the second month in a row, however, the inflation calculation will not, strictly, compare like with like.

The index for last month will have used the new, 1990 weightings for the components of the consumer's basket, whereas the September 1990 index number arises from the 1985 basket weightings. The rising general inflationary trend, though, is almost certain to be all too plain through any statistical fog in the September outturn.

September's money supply data are also due for release this week although, again, the release date is shrouded in uncertainty.

Although the year-on-year rate of growth in M3, the monetary aggregate targeted by the Reserve Bank, has recently straddled the 14,5% level, it has been declining more perceptibly when looked at another way. The rolling increase in M3 from a base in the fourth quarter of last year — subject to a Reserve Bank guideline of 8%-12% growth for calendar 1991 — has slowed consistently over the last three months and should have done so again last month.

Internationally, it is a thin week for significant data. The markets themselves are in a reduced state of expectancy about a possible further interest rate cut by the US Federal Reserve following the release of more buoyant economic data last week.

This week, therefore, promises to be the first for at least a month in which markets have not thought daily that a US interest rate cut is imminent.

Opinion seems to be gelling around the view that the US authorities may not look closely at cutting rates again until after the publication of the October US employment report on November 1. Against this background, the sole US figure of any significance — durable goods orders for September, due on Thursday — adopts a lower profile than usual. It should, however, be a positive number following the unexpectedly negative outturn of -3,8% in August.

A cut in Japanese discount rate could be brought closer by the release on Friday of the Japanese inflation rate for September. The Japanese authorities are thought to be waiting for further indications that inflation is tending downward before trimming another half a percentage point from discount rate, currently standing at 5,5%. Increasingly frequent reports of slowdowns in industrial and commercial activity elsewhere in the economy have set the scene for a Japanese rate cut as soon as inflation is seen to be under control.

UK-SA Trade Association mission manager Anne Petherick, right, at the start of a two-week UK trade mission in Johannesburg yesterday. With her were UK Performance Management managing partner Clive McCombie and his wife Beverly. Picture: CATHERINE ROSS

SA highly rated as trade partner

B/Day 22/10/91

SHARON WOOD

THE UK government and businessmen rate SA second only to Japan as the most desirable trade partner, UK-SA Trade Association (UKSATA) mission leader George Campbell-Johnston said yesterday.

UKSATA began its sixth and largest trade mission to SA in the past five years yesterday, with 23 companies from a broad range of manufacturing and service interests taking part.

Objectives of the mission were to do initial market research, to appoint agents and distributors and to seek possible joint venture partners, he said.

Three of the firms had indicated they were interested in setting up joint ventures during the mission's two-week visit to Johannesburg, Durban and Cape Town.

Campbell-Johnston said trade missions to SA were gaining popularity among UK businesses and reflected a rapidly growing interest in the South and southern Africa markets.

The UK government had given priority to trade with SA and the number of applications for trade missions was second only to Japan, he said.

UKSATA mission manager Anne Petherick said violence was the most visible disadvantage when British business considered investing directly in SA.

"One of the most important signs to UK business will be if SA companies start investing, because it will show they have confidence in their own country," she said.

Campbell-Johnson said: "UK business is keen about cross-border trade and would like to work closely with SA in establishing links with countries to the north of SA."

(74) (10)

Partner

The major advantage SA had as a base from which to trade with southern African countries was its "superb" financial infrastructure.

The rapid decline in import surcharges was important to British business because it would accelerate trade, increase growth and reduce unemployment in SA, said Campbell-Johnston. The UK was SA's second largest trading partner, with visible trade in each direction of more than R10bn a year.

In another trade-related development, the Johannesburg Chamber of Commerce and Industry (JCCI) reported yesterday that its trade mission to Europe, which ended this week, had generated between R20m and R30m in immediate business.

Delegates visited Spain, Portugal, France, Belgium and England, said a statement released yesterday. They had succeeded in renewing relationships with long-time partners in a "positive atmosphere of support", it said.

"The bottom line is that there is business out there for SA, but we will not get it unless we go out and fight for it," JCCI president and mission leader Mike Cato said.

"We have to get over there and be prepared to meet international quality, cost and delivery standards."

The JCCI had formalised relationships with various chambers of commerce by signing Agreements of Co-operation, which would be pursued and finalised in the next year, JCCI chief executive Marius de Jager said.

The best prospects for bilateral trade were with Spain and Portugal, he said. Spain had a strongly growing economy which was more or less at the same level of sophistication as SA's.

creased from R10m to R182m and management ...

'Industry could handle huge housing plan'

PETER GALLI

THE Old Mutual/Nedcor housing scenario to kick-start the economy could see an additional 100 000 people employed if it were implemented, SA Building Industries (Bifsa) executive director Neil Fraser told delegates at its annual conference at the Wild Coast Sun yesterday.

One of the proposals in the Nedcor/Old Mutual economic plan was that 200 000 low-cost homes be built a year for three years; that 400 000 plots be serviced and a million houses be provided with electricity annually over the same period.

Fraser said the industry could handle the task.

A Bifsa analysis showed that about 55 000 people would be employed as supervisors, skilled operators, semi-skilled and unskilled workers to provide services and civil engineering facilities.

BDay 22/10/91

In addition, about 90 000 people, including 4 000 supervisors, would be employed on building work.

At least 800 small companies could be established as a result of the programme, he said.

Fraser then detailed what would be involved in such an initiative. Bifsa based its analysis on a house of 42,25m² with two bedrooms, a living room/kitchen and bathroom.

"While such a house is too sophisticated for very low income earners, it is within the affordable levels of many others and thus represents an average demand."

The analysis included a complete programme for the operation, based on the completion of 80 houses countrywide each working hour, Fraser said.

Bifsa has programmed the building of single houses at 18 days a house, not including site clearing and electrical reticulation.

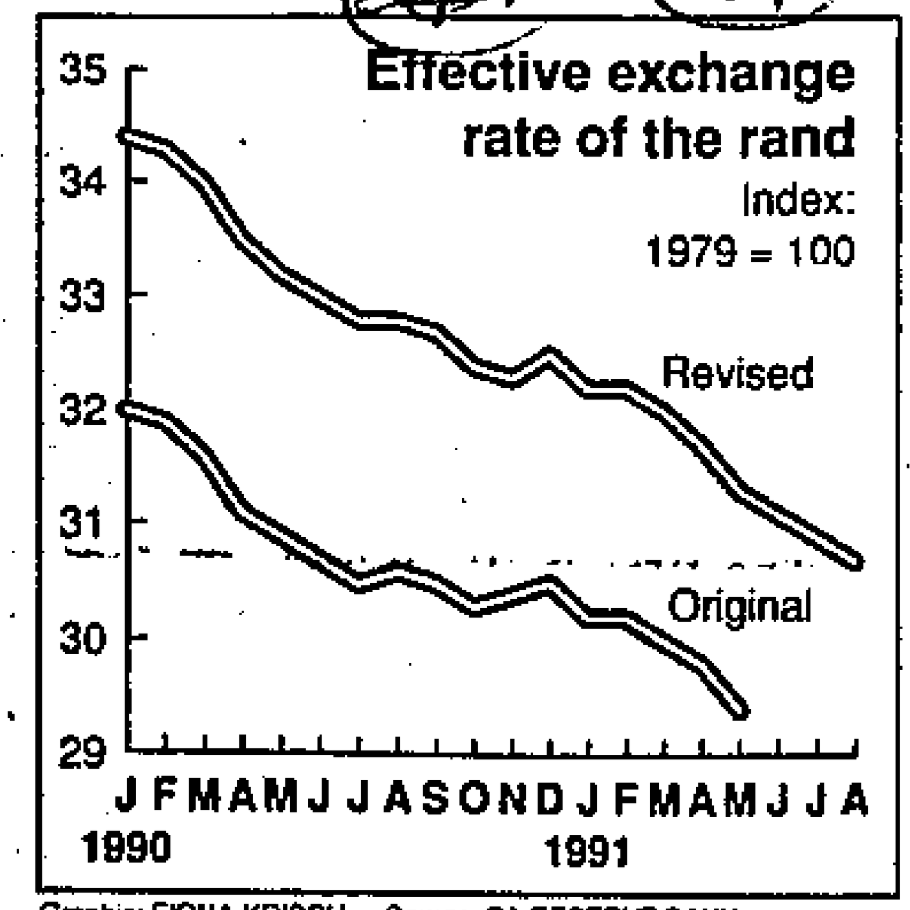
"The manufacture of the materials required would provide thousands more jobs and promote small business.

The 286-million concrete blocks required could be almost entirely produced by labour-intensive small entrepreneurs," Fraser said.

Rand more resilient against 'new' basket

BDay 22/10/91.

SIMON WILLSON



Graphic: FIONA KRISCH Source: SA RESERVE BANK

THE rand is noticeably more resilient on average against a basket of trading partners' currencies since the Reserve Bank's changes to the trade-weighted rand's currency basket.

The trade-weighted, or effective, rand shows the rand's value against a cross-section of currencies weighted by trade flows rather than as a bilateral rate against one or other of the major currencies.

The rand's trade-weighted value is expressed as an index, where January 1979 equals 100.

The basket of currencies against which the effective rand is measured contains the currencies of SA's six biggest trading partners. The top four currencies in the basket have changed little over the years: US dollar, British pound, Deutschmark and Japanese yen.

The bottom of the currency basket ranking is more volatile.

Static

The change enacted by the Reserve Bank during the third quarter was to toss the Swiss and French francs out of the basket and replace them with the Italian lira and the Dutch guilder.

The switch implies a shift in trading patterns over the 12 months since the Reserve Bank last examined the composition of the currency basket. Trade relationships with Italy and the Netherlands would seem to have burgeoned, while those with Switzerland and France have remained static or fallen off.

Official figures detailing SA's trade with individual foreign countries have been classified since the mid-1980s to avoid sanctions pressure. SA Foreign Trade Organisation (Safto) economist Bruce Donald said commercial relations with Italy and the Netherlands had indeed expanded recently.

"Italy stands out as a major growth point for SA exports, and the Italian market has moved up considerably recently among SA's other export markets," Donald said. Precious metals constituted the main SA export to Italy, followed by coal, base metals, metallic and non-metallic ores and hides and skins — highlighting Italy's buoyant jewellery and leather consumer goods industries.

Donald added that the importance of the Netherlands was centred on its role as a gateway to Europe through the giant entrepôt of Rotterdam.

"SA exports to Rotterdam cover a wide spectrum and include huge amounts of bulk minerals and containerised cargo. This traffic can be expected to increase substantially in the years ahead in view of the removal of political trade barriers within the EC."

The growth of SA freight traffic through Rotterdam may also have been helped by the more compliant attitude of the Dutch dockworkers. Trade union sensitivity over handling products of SA origin had been overcome earlier in Rotterdam than at some other European ports.

Donald said the importance of France as a supplier had declined since 1988, while there had been a parallel decline in the significance of Switzerland as a market over broadly the same period.

The dramatic improvement in SA's commercial relationship with Italy seems to have been visible during last week's visit to Italy by Trade and Industry Minister Org Marais.

SA could host futures meeting

(74) ROBERT GENTLE

AFTER years of isolation on world futures bodies, SA is back in favour and is on the list of countries that could be granted "special host status" at an annual Swiss-sponsored international futures conference.

SA Futures Industry Association MD Brenda Greyling, who attended the annual conference in Burgenstock, Switzerland, last month, said SA was on the list for special host status at upcoming conferences. B Day 23/10/91

Although the meeting is always held in Burgenstock, a given country is awarded special host status. This involves the conference organisers, the Swiss Commodity Options and Futures Association, inviting leading futures figures from the chosen country.

Were SA to be chosen, key figures from the regulatory authorities would be flown up to Burgenstock to officiate at the conference. The SA finance minister would give the keynote address.

Greyling said her organisation had also been invited along with bodies from 15 other countries to join the newly-formed Forum of International Futures Associations, which discusses areas of common concern and makes recommendations on key issues.

Foreign capital vital for growth — IDT

B/Day 23/10/91 (74)

LINDA ENSOR

CAPE TOWN — It was essential that capital flows be secured from abroad to create flexibility in the development process, Independent Development Trust (IDT) chairman Jan Steyn said yesterday.

There was not sufficient local capital to provide this flexibility, he told the SA Association of Consulting Engineers' annual meeting in Somerset West.

"The IDT, other non-government organisations, parastatals and the state itself must have the resource availability to move rapidly and on scale once the initial preparatory work has been done. We still do not have this necessary resource availability."

Capital and appropriate technology had to be available in principle at the initial stages of development projects so that planning and community involvement could proceed without the danger of expectations being disappointed.

"The cost of capital is high in SA at the moment. We cannot meet the legitimate needs of communities on scale without running the risk of curtailing normal job creation or contributing to high interest rates. These needs cannot be met without flows of foreign funding."

Foreign Affairs director-general Neil van Heerden stressed the need for political leaders to reach unanimity on key aspects of future economic policy as soon as posible.

"Confidence is vital for economic growth. Investors in Europe and elsewhere will not invest in a country unless they are assured of its stability and economic potential and viability. Investors are less interested in which government is in power" than in that government's economic policy.

SA business was well placed to help meet sub-Saharan Africa's main needs, Sacob technology committee chairman Ted Adlard said.

Priorities were to increase agricultural production, supply clean water and sanitation, beneficiate mining and minerals, and to develop infrastructure.

"In practically every area of need we can offer or develop appropriate technology and services. The challenge for South Africans will be to identify opportunities at an early stage and to live with the projects they develop."

Austrian bank lined up to raise new SA loan

Star 24/10/91.

(74)

By John Spira

VIENNA — Creditanstalt, Austria's leading banking group, is involved in negotiations with the South African Government with a view to raising a long-term loan on the Austrian capital market.

Christian Coreth, the bank's deputy general manager, says that because Creditanstalt has been instrumental in arranging billions of rands in trade credits for South African companies, its prospective role as a facilitator of long-term loans should not come as a surprise.

The credits have not been limited to trade between Austria and South Africa, but also between South Africa and many of its other global partners.

Creditinstalt, Mr Coreth says, has important contacts with several major South African companies, among them Anglo American.

Familiarity

"It is associations such as these that have given us a familiarity with the South African economy — links which have been strengthened by our proximity to Eastern Europe, where South African companies have expressed keen trading interest."

Mr Coreth says Creditanstalt, with total assets of $57 billion, has a trading subsidiary whose objective it is to facilitate trade between Western corporations and Eastern Europe.

"South African companies are beginning to make use of this facility for the very good reason that it remains extremely difficult to conclude trade deals with countries like Hungary, Poland and Czechoslovakia. More often than not, such deals have to be negotiated on a barter basis."

What is Creditanstalt's view of the outlook for South Affica?

"If South Africa is able to solve the violence problem and if a future government is able to achieve political stability, then South Africa is bound to have a very bright future.

Guarantees

"It's difficult to avoid drawing the parallel with the former Rhodesia, when the guarantees granted to the whites of that country weren't honoured.

"I accept that there are different circumstances and I certainly hope that the same piece of history won't repeat itself.

"An optimistic interpretation of the political future would certainly yield economic benefits. After all, South Africa has an excellent infrastructure, an almost inexhaustible source of raw materials and talented business leaders."

Against this background, Mr Coreth believes a South African government loan will be well received in Austria.

He has had several discussions with South Africa's Minister of Finance and the Director-General of Finance.

"The essence of these discussions was that South Africa intended moving slowly into the world's capital markets following the recent success of the D-mark loan, and that the funds so raised would be applied mainly to black upliftment.

Loan flotation

"It is probable that South Africa's next loan flotation will be done on the Austrian capital market — perhaps within the next few months. At this stage I can't tell you the amount envisaged."

Would the granting of access to IMF finance enhance South Africa's ability to raise long-term loans?

"This is problematic in the light of the ANC's recent statement that it might not honour the country's foreign debt obligations if it came to power at the next government. This has done incalculable harm to the perceptions of prospective lenders.

"Quite clearly, a lot hinges on the content of South Africa's new constitution. If it is acceptable to the majority, it should work.

"If it isn't, it won't work. The ANC's economic policy is central to this issue."

Govt slaps hefty increases on steel tariffs

183 74

From BRENT VON MELVILLE

GOVERNMENT has announced hefty increases in tariffs of steel used extensively by the motor vehicle and appliance manufacturing industries, effectively shutting the door to the motor industry's intention to look elsewhere for their steel.

The Government Gazette of October 18 shows tariffs on uncoated cold rolled coil and sheet have been amended to an across-the-board protection level of R1 670/ton free on board (fob).

This is compared to previous rates ranging from R596/ton and R706/ton fob, reflecting jumps of between 136% and 180%. In terms of the revision, any landed steel below the R1 670/ton rate is penalised by the full difference of the price, plus a 5% duty.

This compares to Iscor's current list price of R1 730/ton free on rail for cold rolled sheet. An industry source pointed out that the increase in the protection levels meant an effective import parity price landed on the Reef of more than R2 000/ton.

He added that the current list price also contrasted sharply with market prices in the main industrial countries — the US, UK, France and Germany — ranging from R1 170/ton to R1 270/ton.

The National Association of Automobile Manufacturers of SA (Naamsa) would not comment on the increased protection ahead of its meeting with Iscor tentatively scheduled for November 20.

But according to one motor industry source, the increased tariffs would effectively block the industry from going elsewhere for their steel requirements, and gave Iscor carte blanche to increase steel prices.

"At the same time the tariff levels could well promote the trend towards the import of cheaper and superior electrolytic coated steel plate for cars and components, as is the current trend in the automobile industry overseas," he said. The revision to the tariff structure has not updated the rate of duty on coated steel.

CT 24/10/91

But the decision to increase tariffs on cold rolled sheet had neglected the SA Rolled Steel Producer's Co-ordinating Council's request to increase protection for other locally made steel products, said Iscor spokesman Ernest Webb-Stock.

Asian premier in SA

8/Day 24/10/91 DARIUS SANAI

SINGAPORE's Prime Minister Goh Chuk Tong arrived in SA yesterday for a two-day private visit — the first by a non-African Commonwealth head of government in more than three decades. (74)

A senior SA government source described the visit as a "very good step" for relations between the two countries.

The source said the visit was only the second by the head of a Commonwealth government since Harold Macmillan's trip in 1960. Singapore's economic muscle made it an important potential trading partner for SA, he added.

Capital rates take 10-point tumble

B/Day 24/10/91

ANDREW GILL (94)

CAPITAL market rates fell more than 10 points yesterday as some market players were caught short of stock after a morning of "some strong buying from institutions".

Two camps emerged as rates dropped across the board. Some dealers said the move was a technical one after weeks of climbing rates but others felt it could signal a turning point for the bearish market.

"It was either a big order or a little order badly done," said one broker who had not been part of any buy orders on the day. The fall came despite the violence in Soweto which some dealers felt the market had now hardened itself to.

The benchmark E168 ended the day 13 points lower at 16,81% from 16,94% on Tuesday and a 16,79% low on the day. Government's R150 stock ended 14 points lower at 17,30% from 17,44%.

After weeks of jobbers trying to push the E168 above the 17% level, they were caught short ahead of today's settlement period.

Dealers cite declining money market rates as a reason for possible renewed interest in the market.

Also, with jobbers attempting to breach the 17% level they had tended to ignore any positive developments on the political and economic fronts, a dealer said.

The anticipated hike in the inflation rate as a result of VAT had "mostly been discounted" by the market.

A dealer, who felt the move was a technical one, said he could not see anything bullish about the market.

JAPANESE TRADE

FM 25/10/91

Welcoming the rising sun

(74)

The increase in trade likely to follow Japan's lifting of economic sanctions could spill over into regions surrounding both countries. Says Japanese Consul-General Masatoshi Ohta: "We're not aiming at this country alone; we see SA as the route to the rest of southern Africa." Foreign Minister Pik Botha sees the latest development as an opportunity for other Asian countries to follow suit and open up other markets for SA.

Japan's announcement closely follows the Commonwealth decision to phase out sanctions, starting with the lifting of person-to-person sanctions (**see *Current Affairs***).

There is speculation that the Malaysian and Australian foreign ministers will pass through SA this week. Singapore, Indonesia and Malaysia have decided to drop visa restrictions on SA passport holders.

But trade with these Asian tigers is small in comparison with the potential offered by Japan. Japan had a GDP of almost US$3-trillion last year — second only to the US. It has a population of about 120m. According to *Fortune* magazine, the average annual growth rate in real GDP between 1985-1990 was 4,62% (behind only Singapore 7,93% and Hong Kong 7,58%). It is also one of the strongest economic and technological powers in the world.

Restrictions included a ban on iron and steel imports (this differed from the US, which had a voluntary restraint agreement with SA whereby imports were still allowed but subject to a limit); the suspension of air links; a restriction on investment and financing; and a voluntary restraint on the import of gold coins.

The Japanese statement completes the lifting of sanctions by the three most important regions, economically and technologically. In July, the US lifted the Comprehensive Anti-Apartheid Act introduced in 1986. In April, the EC removed trade sanctions.

Ohta says Japan's move was delayed by Inkathagate, which received worldwide publicity in late July. He says the lifting of sanctions has been in the pipeline for some time and government now believes the timing is right.

There is no doubt Japan was influenced by the US, Japan's largest trading partner, and the EC. It would probably have taken the step sooner if it hadn't been for its bid to become a member of the UN Security Council — it was wary about jeopardising its chances. It was voted on to the Council at the beginning of the month.

The Japanese business community, which has close links to government, has been lobbying for sanctions to be lifted. In April, members of the largest business organisation, Keidanren, visited SA to study local developments. Heading the group was Bank of Tokyo deputy president Tamotsu Yamaguchi and members included representatives from Sony, Mitsubishi, Hitachi and Toshiba. It is believed they lobbied government strongly on their return.

Most believe the lifting of economic sanctions will restore Japan to the top spot as SA's major trading partner, where it stood until it was booted to second place by West Germany in 1988 and third behind West Germany and the UK in 1989.

In 1987, Japanese exports to SA amounted to $1,9bn, imports from SA $2,3bn; 1988 exports were $2,1bn and imports $1,9bn; 1989 exports were $1,7bn and imports R2bn; and in 1990 exports amounted to $1,5bn and imports $1,8bn. First-half 1991 exports were $809m (1990: $708m) while imports totalled $914m ($1bn).

SA exports that hold interest for Japan are mainly primary products needed by its manufacturing industries. In 1989, Japan's largest imports from SA were ferro-alloys ($15m) and iron ore ($11m).

Japan's main export to SA is vehicle parts. These were never stopped but Japanese motor companies were restricted to exporting no more than the 1987 yen value of exports to SA.

Ohta says stronger financial links will depend on whether private institutions see SA as a lucrative investment. Botha says it depends on stability in the country. ■

Europe's free trade plan will benefit SA

Star 25/10/91

By Neil Behrmann (44)

LONDON — The agreement on a 19-nation European free trade zone is expected to benefit South Africa's own dealings with the region.

The pact between the European Community and European Free Trade Association (EFTA) countries paves the way for a super trading bloc which will create a market of 380 million consumers stretching from the Arctic to the Mediterranean.

The move can only help South African exporters, says Nick Mitchell, director of the UKSA Trade Association. He doubts whether the treaty which combines the 12 European Community countries with seven (Switzerland, Austria and Scandanavian) nations that make up EFTA will become a protectionist "fortress".

As a result of sanctions, South African trade with EFTA is minuscule. In the first six months of this year exports to these nations including, Switzerland (by far the largest in the group), Austria, Sweden and Norway totalled around $350 million (R1 billion). Imports from these nations were around $200 million (R5,6 billion).

Inclusive of the Common Market nations where Germany, the UK, Italy, France, Netherlands and Belgium are the largest traders with South Africa in that order, total first half exports to the region were $4,5 billion (R12,6 billion). Imports amounted to $3,4 billion (R9,5 billion).

Barriers will fall

If individual nations ratify the pact, it will progressively abolish many of the barriers, national standards and other protectionist measures. Once formed in 1993, the bloc will account for 40 percent of world trade.

In this vast new market, consumers will benefit from a freer flow of goods, people and services. Goods will be priced more competitively, there will be greater consumer choice and easier travel.

From 1993 individuals should be able to live, work and offer services throughout the 19 countries.

Products, capital and services will be able to move freely, and will avoid customs duties, discriminatory tax and quotas.

This has considerable implications for South African goods. Once passed by a single state, the product should be acceptable to other member states. Its packaging, for instance, can be identical in all 19 nations.

The platinum industry, for example, is already benefiting from European environmental legislation. The EC agreed with Austria to cut truck noxious emmissions by 60 percent.

South African coal, fruit and vegetable and wine producers will be able to market their products aggressively.

Companies can set up representative offices to market their products. Cullinan Holdings and Dorbyl are recent examples.

South African commercial attaches throughout Europe have been inundated with trade enquiries in the past few months. The new pact will only improve prospects.

American and Japanese executives, for example, say that their companies will "reap benefits". The pact will spur economic growth in the region and attract international investment.

On the other hand, European corporations will now find business far more competitive. So South African manufactured products must demonstrate excellence in terms of quality, after sales service and pricing.

Germany seeks stronger SA ties

Star 25/10/91

Germany reaffirmed its interest in strengthening the economy of South Africa yesterday.

The visiting German Minister of Agriculture, Ignaz Kiechle, said after meeting Foreign Affairs Minister Pik Botha in Pretoria that he hoped to intensify good relations between the two countries and develop stronger economic co-operation.

He said later in a statement that favourable political and economic development in SA would have a positive impact on neighbouring countries and could be a driving force for stability in the region.

Demands

Mr Botha said he was pleased Germany would continue to contribute to southern Africa and other parts of the world in need of development despite the tremendous demands that would be made on it in the reconstruction of the eastern region of unified Germany.

This was reassuring and a welcome statement on his part.

Mr Botha said that during their meeting he had explained to Mr Kiechle the difficulties of designing a new constitution and emphasised the necessity of economic growth in southern Africa in order to support whatever constitution was agreed upon.

"Without economic growth there will be no future for any of us in South or southern Africa," Mr Botha said.

Mr Kiechle said southern Africa should pull together economically and politically. Only if South Africa survived would the rest of southern Africa have a chance.

Mr Botha and Mr Kiechle described the meeting as constructive, friendly and straightforward. Mr Kiechle said he would convey the information he had been given to Chancellor Helmut Kohl.

Earlier Mr Kiechle met President de Klerk, with whom he held in-depth discussions on bilateral relations between the two countries.

Mr de Klerk said at a news conference that they had exchanged information on the progress of German reunification and the economic challenges flowing from it.

Said Mr de Klerk: "I also gave him some indication of plans to improve agriculture in South Africa and broaden private property ownership through development schemes."

Agreed

Mr Kiechle said he and Mr de Klerk had agreed that peace was possible in SA only with economic development.

"People can only live peacefully together if there is a sound economic base."

Mr Kiechle will be meeting Agriculture Minister Dr Kraai van Niekerk and representatives from black opposition groups, and agricultural business and research organisations, before departing for Namibia on Sunday. — Sapa.

Economists unfazed by trade surplus dip

74 CT 25/10/91

SA's trade surplus dipped to R1,47bn in September after soaring to R1,89bn in August.

But economists pointed out yesterday that it was still an encouraging figure and forecast that, with the lifting of sanctions and an expected improvement in the world economy, it was likely to remain at a high level.

Figures released by the Customs and Excise yesterday show that exports dipped in September to R5,76bn from R6,10bn in August. But they were nearly R1bn above the R4,81bn of exports in September last year.

Imports rose to R4,29bn from R4,21bn in August and R3,63bn in September last year.

Exports between January and September rose to R48,98bn (R44,82bn). Imports were also higher at R36,94bn (R33,49bn).

The trade surplus for the first nine months of this year was R12,04bn (R11,33bn).

Boland Bank chief economist Louis Fourie said the higher import figures showed there was "more buoyancy in the economy than is generally thought. Import volumes are higher than they were in the 1986 downturn."

He thought the recession in the US, UK and Europe had reached its lower turning point, which meant markets for SA exports would improve.

"I am optimistic about our exports next year, given the opening up of new markets as sanctions disappear."

Old Mutual chief economist David Mohr said: "R1,47bn is still quite a big surplus and our balance of payments (BoP) position is still encouraging."

Amalgamated Banks of SA (Absa) economist Jeremy Sicelmore said the trade surplus in August had been abnormally high. One reason for this was that the Government had released surplus stocks of oil for use on the domestic market, cutting the import bill.

He said the slight decline in exports, month on month, was "either seasonal or a bit of a quirk.

"The figure of R1,4bn is still a very good surplus and we expect it to continue at that level."

Sanlam chief economist Johan Louw said he thought imports had reached "a core level" and were unlikely to come down further. "The dip in exports is not enough to worry about. We can expect fluctuations from time to time."

Safto economist Bruce Donald said there had been a 27% rise in imports of textiles. Imports of footwear and accessories had risen by 71%. But this was "likely to take a knock in future months as the performance of SA's retail sector flattens."

Donald said SA's exports were "improving steadily after a dismal export performance in the first quarter of the year."

BUSINESS

SA companies: Take the money and run?

W Mail 25/10 – 31/10/91.

74

Are the big companies getting their cash out in case they're nationalised? Maybe not, but money has been flowing out of the country.

REG RUMNEY reports

A COMMONLY held belief is that — never mind foreign companies disinvesting — local firms themselves have been "disinvesting" from South Africa.

They have, according to this view of things, pre-empted nationalisation by funneling huge amounts of money into subsidiaries overseas.

Worse, there is a belief that big companies have somehow circumvented South Africa's exchange control regulations to get money out.

One shibboleth has to be disposed of immediately: some South African-owned companies abroad have been there for so long it is fairly pointless asking where the money came from originally. For instance, De Beers has been an international operation since the 1930s. So while its separation into a South African arm and a foreign one was clearly aimed a wrong-footing any sanctions attempts, it does not represent disinvestment.

Economix director Azar Jammine notes that because of the devaluation of the rand over the past 10 years sums held overseas that did not seem large when they were taken out now seem huge in rand terms. This might give some the idea that huge amounts of money were taken out.

But the perception that companies are either ready to ship their money out, or have already started doing so, isn't helped by the culture of secrecy that pervades South African business.

For instance, section 15 a of the Companies Act allows companies to apply to the Registrar of Companies to hide from public scrutiny certain information for strategic reasons.

Companies registrar Mossie Janse van Rensburg admits, though he cannot say how often, this provision is used to suppress information about offshore subsidiaries and associates of South African companies.

Also, permission would be necessary from South Africa's exchange control authorities.

Given that offshore companies about which the public may know nothing have been set up, have these been used to ship large capital sums out of the country to pre-empt nationalisation or in anticipation of a black government coming to power?

Jammine reckons that the moment it became obvious large sums were being moved out the government in power would move to block the exit.

This is not to say money has been taken out of the country. Jammine surmises the reason the wealthier citizens of South Africa haven't emigrated is that they have already feathered financial nests in other countries.

But there has been a big "capital flight" from South Africa during the past 20 years — or rather it is estimated there has been a big flight of capital, for by the nature of the phenomenon it isn't easy to determine.

That throws up another problem: when a company takes money out a country to invest it elsewhere, when is it a commercial decision to maximise profits and when is it capital flight?

Is capital flight caused only by political fears or economic factors?

A paper by BW Smith and EA Mocke, published in the latest *SA Journal of Economics*, discusses the definitions and the measurement of capital flight. They estimate — depending on means of measurement — capital flight from 1970 to 1988 to be between $13-billion and $22-billion.

The authors conclude, through the use of a complex econometric model, that both political and "pure" economic factors are important in explaining capital flight from South Africa.

The economic factors include exchange rate overvaluation, poor macro-economic conditions and the availability of foreign exchange.

"The results also provide for the explanation of 'normal' capital outflows, particularly trade-related flows, included in the capital flight measures."

How to stop capital flight? Thinking in African National Congress circles is that the government hasn't acted purposefully or strictly enough in preventing capital-flight.

But here the focus should shift to individuals and smaller companies.

Anglo economist Gavin Keeton argues outflows from bigger companies are easily traced, because they have to present public accounts. Individuals, he says, have much more latitude to dodge exchange control.

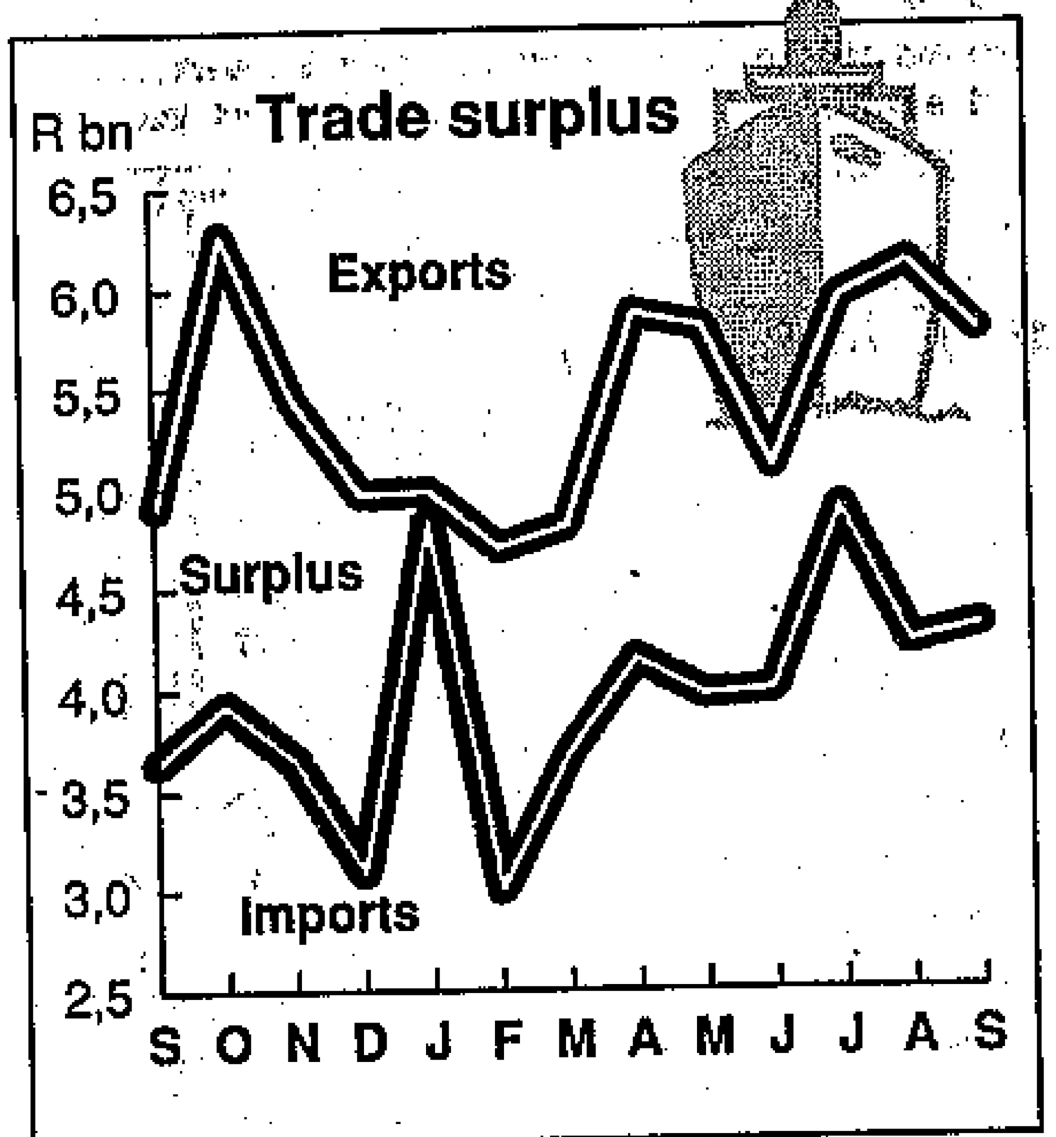
It has been remarked that without exceeding civilised norms of policing it is difficult to act against phenomena such as over and under-invoicing — ie getting a friendly overseas company (or one you own) to charge too much for something you import into the country, and then having that company deposit into your (illegal) foreign bank account the difference between actual worth and amount paid; or charging a company too little for something you export, and once again having that company deposit into your foreign bank account the difference.

Exchange control itself has had bad side-effects.

Jammine reckons it was a mistake for the government not to allow companies to invest funds abroad in the early 1980s when money was flowing in because of the high gold price.

The conglomerates would then not have been forced to buy up local companies, so increasing economic concentration in South Africa.

All of which points up the desirability — the practicality is another matter — of liberalising the investment environment rather than tightening controls again.



Graphic: LEE EMERTON Source: CUSTOMS & EXCISE

Trade surplus still high despite drop

74

SHARON WOOD

PLUNGING gold exports and slightly higher oil imports led to a 22% month-on-month fall in the trade surplus to R1,47bn in September. B/Day 25/10/91.

But economists were still pleased with the size of the surplus, which remained above the R1,34bn average monthly trade surplus for this year and followed an unusually large surplus in August of R1,9bn.

Sharply lower gold exports saw total exports slip by 5,5% month on month to R5,8bn in September from R6,1bn in August. Non-gold exports, however, showed a sound 6,7% rise during the month, figures released yesterday by Customs and Excise showed.

Low international precious metal prices during the month resulted in a 23,3% drop in unclassified exports (mainly gold, platinum and armaments).

Mineral product exports (mainly coal) rebounded during the month, jumping by 41,9% and base metal exports remained stable despite poor international commodity prices.

Imports grew by a mild 2% month on month to R4,3bn from R4,2bn in August.

Sluggish domestic investment was reflected in a 1,2% decline in machinery imports, while transport equipment imports grew by 9,6% during September.

Unclassified imports (mainly oil) rose for the first time in three months, but the 10,2% increase was relatively mild and the

□ To Page 2

Trade surplus

B/Day 25/10/91 (74)

□ From Page 1

R416,8m spent on oil imports in September was still below the R570m average monthly expenditure this year.

Unclassified imports should fall further during the year as government continues to sell off local strategic oil stockpiles.

Bankorp economist Emile van Zyl said lower imports of oil should see the trade surplus improve in the next few months. A very sound balance on the current account could be anticipated for the year, he added.

Safto economist Bruce Donald said imports had been relatively strong during the first nine months of 1991, buoyed largely by higher growth in consumer good imports.

A 10% year-on-year nominal increase in imports to September was surprising considering the local recessionary conditions. Growth in industrial inputs, on the other hand, was significantly weaker. Machinery imports were up only 6% year on year and transport equipment by 12%.

"SA's export performance is improving steadily after a dismal performance in the first quarter of the year," Donald said.

Cumulative exports in the first three quarters of the year rose by 8% year on year. There had been a marked improvement in the trade account this year, with the cumulative trade surplus 6% higher than last year to September.

Donald said annualising this suggested a R16bn trade surplus for the year and a current account surplus around R6bn.

SA exports set to soar

CT 28/10/91 (74)

Own Correspondent

JOHANNESBURG. — Exports are set for their strongest growth in seven years next year, the SA Foreign Trade Organisation (Safto) predicts in a new survey of exporter confidence.

The first in a new series of quarterly surveys of expected export conditions by Safto shows great confidence among exporters that 1992 will be SA's best year for export growth since 1985, when the sanctions era began in earnest.

Barometer

A combination of recovery in some of the world's major economies, the crumbling of sanctions and the benefits of domestic export incentives is poised to boost SA exports by nearly 20% next year, the survey show.

Called the Safto Export Confidence Barometer, it predicts that SA's exports will be worth about R69bn this year, and about R80bn in 1992. The rate of nominal export growth would, accordingly, rise from around 12% this year to 18% in 1992.

Drawing on responses from 90 exporters across a wide spectrum in the manufacturing and export services sectors, the survey forecasts a strong end to the current year through a steady rise in export orders during the fourth quarter.

The survey shows high expectations among exporters that the improvement in the current quarter will gather pace next year.

By growing by 18% next year, exports would not only show their highest rate of nominal growth since the gold-assisted 44,9% of 1985; they would also be a positive basis for real export growth — that is, growth after inflation.

Including this year, real exports will have declined for three consecutive years. If, as Safto predicts, real exports grow by 5% next year, this will also be the best inflation-adjusted export performance since 1985.

Safto economist Bruce Donald believes an export showing of the type forecast by the survey would be an indication that a radical change was taking place in SA's export sector.

"Unlike 1985, next year's improved export performance will probably take place without much of a contribution from gold. The real significance of strong export growth in 1992 is the likely rise in manufactured exports and the continued diversification of the SA economy away from primary exports."

Impediments

Listing possible impediments to increased volumes, exporters in the survey reflect the dismantling of sanctions by the US, the EC and Japan by giving a low ranking to the once troublesome category of political obstacles.

Worried that SA's high inflation rate is not being offset by a fall in the rand exchange rate, exporters cite price competitiveness as the main threat to their bullish view of next year.

Second on their list of concerns is a possible fall-off in demand if expected economic recoveries in key markets do not materialise.

SA group abuzz over Africa talks

Star 28/10/91

History will be made today when a delegation of 180 South African business people leave for Cameroon to attend the first all-African business conference.

The conference starts in Yaounde, capital of Cameroon, and will be attended by business leaders from all over Africa, as well as a number of business and political observers from the US and Europe.

Known as Sidco '91, the conference has been organised jointly by two SA firms, Baird Communications and Network International, on behalf of the Paris-based Movement for Dialogue and Co-operation.

Effective

14

"With all the exciting news the past few days about new trade, sports and cultural links, Sidco could not have happened at a more appropriate time," Baird chairman Jacques Verster said yesterday.

Safair managing director Braam Loots, who will be in the South African delegation, said yesterday: "For South Africans trading in Africa, the conference provides a golden opportunity for bringing key customers and trading partners together in one place at one time.

"This is far more effective than travelling from country to country. I'm really looking forward to a few days of important discussions with business leaders who are gearing up for a new dispensation for this continent." — Staff Reporter.

French bank 'discussing' bond issues by SA

ROBERT GENTLE

BANQUE Paribas was discussing possible involvement in future bond issues by SA, the head of the French bank's Johannesburg office Francois Gelinet said yesterday.

Paribas was involved in the DM400m issue which catapulted SA back into the international capital markets last month.

BD 29/10/91

Gelinet was reacting to a Press report from London which said that SA was planning a new Eurobond issue in ecu that would be lead-managed either by Paribas or Swiss Bank Corporation.

However, Gelinet said the discussions were of a general nature and not necessarily confined to the rumoured ecu issue.

Market observers expect that if the ecu issue does materialise, Paribas will probably play an important role in it. It is considered the leading European bank in ecu issues (mainly by governments and institutions) and has an estimated 40% of the total.

Officials at the Finance Department were tight-lipped yesterday, saying the only person who could comment on the matter was director-general Gerhard Croeser. He is apparently in Geneva and is expected back on Friday.

The head of the local office of Swiss Bank Corporation was not available for comment.

A warning for SA as bankers meet

MBABANE - Uncertainty about South Africa could force Preferential Trade Area governors to reconsider the PTA's monetary and investment strategies for the country, an official has warned.

Secretary-general of the PTA for eastern and southern Africa Dr Bingu Wa Mutharika issued the warning at a meeting of PTA central bank governors in Swaziland this week.

Sowetan 31/10/91

He also said recent developments in global finance, particularly the shift of resources towards the Gulf and eastern Europe, presented serious challenges to eastern and southern Africa.

Dr Mutharika urged central bank governors of the 23 member states to bear in mind "the impact of global developments on our weak financial structures, so as to implement a monetary programme for our survival". - *Sapa.*

Productivity, export focus key for SA

(74)

CT 31/10/91

By ARI JACOBSON

A DRAMATIC improvement in productivity and exports as well as the need for sound foreign lending policies focused on export-orientated projects have been highlighted as essential for a new SA by Bankorp's chairman Piet Liebenberg.

Liebenberg, who has spearheaded the impressive turnaround in the financial services group, was speaking at the University of Stellenbosch Graduate School of Business breakfast held at the Cape Sun hotel yesterday.

He said one fact stood "soos a paal bo water" (like a pole above water) that without growth, especially in exports, and without international partnerships SA business will be unable to provide "what is expected of this sector in the 1990's".

Liebenberg said an optimal solution would fail should political negotiations be unsuccessful or provide a negative solution like nationalisation.

"In addition its inconceivable that the business sector will perform with the restrictive taxes that have been applied over the last ten years."

Further Liebenberg said uncontrolled lending policies (mostly those in the long term) and the rising credit situation abroad would simply deliver the double digit inflation figures presently being experienced.

"The country will also not reach its goals if conflict continues and the lack of integrity persists."

Turning to the strategy for success Liebenberg talked of a favourable world economy "with rising commodity prices and growing markets for exports".

But more essential said Liebenberg "is a positive political policy that does not restrict the business sector and uses the government to provide improved social infra-structures".

"Also essential are long term loans aimed at new export projects — making export growth the most important priority for the business sector in the 1990's."

In this respect, he said the current 20% underutilised industrial capacity will allow for a short term improvement in the export sector without capital outlays.

FOREIGN TRADE

1991

NOV. — DEC.

Africa forges ties

Sowetan 1/11/91

974

From JOSHUA RABOROKO In Cameroon

YAOUNDE - Major African states yesterday resolved to co-operate in promoting trade links and economic growth on the continent.

As a matter of urgency, links will be improved in various sectors including finance, mining, agriculture, informal and formal business.

The resolutions were taken at the end of a three-day conference, which explored business opportunities in a changing Africa in Yaounde, Cameroon.

The conference aimed at encouraging a new dynamism in inter-African cooperation, from Cape to Cairo.

The conference also resolved to encourage the private sector to reverse the order that government played in business; allow the private sector to become generators of wealth; establish factories that must be so developed that they create economic growth; promote inter-state investment and create an African Economic Business Community like the EEC.

In putting these ideas, Mr Abdon Kane from Burkina Faso said a sub-committee has been appointed to study these and other problems and to prepare a paper for Sidco '92.

SOWETAN BUSINESS

African states urged to establish trade links

Sowetan 7/11/91 74

AFRICAN states, including South Africa, have realised the potential of establishing massive inter-African trade links through the formation of an African Economic/Business Community.

By JOSHUA RABOROKO

These links could lift the continent from an economic dependency syndrome which has persisted over the years.

This realisation was voiced at a conference in Cameroon where 11 eastern, western, northern and southern African states converged for four days to discuss and explore business opportunities in a fast-changing continent.

The conference - Sidco '91 - provided the first forum of its kind to businessmen and women in Africa to discuss opportunities at a time when attention was diverted from the economic problems in Africa to the opportunities in Eastern Bloc countries.

Participants at the conference agreed to form joint inter-African partners and ventures in the fields of agriculture, energy, transport and tourism and the development of the small business and informal sectors in Africa.

The problems facing Africa were highlighted by the executive director, Development Centre, Organisation for European Co-operation and Development, Mr Jean Bolvin, when he said most African states were in serious financial debt as a result of interest on loans.

Added to these problems, he said, was the fact that many African countries mismanaged their finances, lacked education and training.

What was worse, he said, was that corruption was rife in most of the African countries.

"Africa has great resources and potential which can be used in the economic advancement of the continent.

"We need to explore these opportunities," he said. "We depend too much on the international communities."

The meeting agreed that Africa should reverse the trend where governments do more business than the private sector; more resources should be pumped into the private sector to allow it to become a generator of wealth; that Africa needed an economic strategy that would lead to the building of many factories; finance be obtained and education and training be emphasised.

Eskom's chief executive, Mr Ian McRae, said it was the corporation's aim to switch on the lights of all Africa. That could be achieved if "we all use our resources."

A delegate from West Africa, Mr Abdou Kane, said Africa should realise the need to form an African Business/Economic Community similar to the EEC.

FW to visit Israel at weekend

SHARON WOOD

JEWISH leaders yesterday confirmed President F W de Klerk and several SA Jewish leaders would begin a three-day state visit to Israel on Saturday.

Speaking at the SA Israel Chamber of Commerce AGM in Johannesburg, chairman Reg Donner delivered a message from Israeli ambassador Zvi Gav-Ari, saying the visit was a historic breakthrough.

"There has been a degree of erosion in trade and co-operation between SA and Israel since 1986," said Gav-Ari.

Donner said the visit showed dedication to forge closer bonds between the two countries. De Klerk would be the first SA head of state to visit Israel since Prime Minister John Vorster.

He said SA was shedding its pariah image and new horizons were opening daily.

"We must create an environment which will entice foreign capital and investment and this will not take place by nationalisation and confiscation of assets," he said.

Guest speaker, Foreign Affairs director-general Neil van Heerden, said, "The visit is long overdue and expresses a real bond of friendship between SA and Israel."

Van Heerden said he was confident relations with SA's neighbouring countries would stabilise andby mid-1992 SA should be out of the sanctions era.

A top priority for the Foreign Affairs department was to re-establish membership with multilateral agencies.

SA had not tried to attend the UN Annual general assembly in New York this year because it might be refused, but there were hopes SA could apply to attend next year, he said.

"But (Finance Minister) Barend (du Plessis) is not happy about next year because SA is R150m in arrears in membership fees," he added.

Two major themes the department wanted to pursue to enable SA to re-enter the international mainstream were joining human rights and environmental movements, said Van Heerden.

COMPANIES

Safex volumes low in Octob[er]

ROBERT GENTLE

THE SA Futures Exchange (Safex) had one of its worst months of the year in October, with daily volumes often sinking below break-even levels.

(74)

On an overall monthly basis, the number of contracts traded was barely 10% more than the 2 000 contracts-a-day level needed for the exchange to break even.

October was the second month in a row that volumes had fallen on a month-on-month basis, breaking the strong trend from April to August, when volumes increased for four successive months.

Safex GM Patrick Birley ascribed the slowdown to a generally quiet period on all markets, with the middle portion of the month particularly sluggish.

A total of 49 455 contracts (50 738 contracts in previous month) worth R1,98bn (R2,14bn) traded in October. Open interest — the number of open contracts and an indication of market activity — rose to 15 461 (13 936). BDay 4/11/91

Birley said that while lower volumes had meant a reduction in booking fees (dependent on the number of daily transactions), overall revenue was maintained thanks to Safex's cut of open interest.

He said a substantial portion of trading activity was now due to the All Share Index futures contracts underpinned by the Elfi, an equity-linked fixed interest debt instrument issued by Transnet. Elfi-related trading accounted for about two-thirds of the total number of open futures contracts.

Generally, the All Share and Industrial futures were trading at substantial discounts to their fair value, which meant investors were able to pick them up cheaply and lock in favourable returns.

The last few days of October produced a resurgence in trading volumes on the back of the mini bull-run on the JSE and the gilt market. Birley said there would be general nervousness in the market in the next few trading days because of the general strike. "There'll be a certain reluctance to enter large positions."

As for the outlook for the rest of the year, Birley said the traditional quietness of the market during this period would indicate that a downturn was likely until February 1992.

Presmed rights issue

(98)

Japanese considering offering bonds to SA

Star 5/11/91 (74)

By Neil Behrmann

LONDON — Several South African international bonds may well be issued in yen in the coming year.

Daiwa Securities, Japan's second-largest securities house, held a closed-doors seminar on South Africa for Japanese institutions last week.

Daiwa executives were secretive about the conference, even though Japan recently ended sanctions.

But players in the Eurobond market, the international capital market, believe Daiwa is testing the market for a South African bond issue denominated in yen.

The house was impressed with the performance of the 400 million Deutschemark five-year bond issued by the Republic of South Africa, dealers said.

Provided the yield is pitched at much higher levels than other quality Euro-yen bonds (currently 6,5 percent), a Republic or para-statal SA yen issue is likely to be successful, especially since currency advisers believe the yen will be the strongest currency in the coming year.

Nomura, Daiwa, Nikko and Yamaichi, Japan's leading securities houses, in that order, have impressive placing power, despite recent scandals on the Tokyo Stock Exchange.

According to International Financing Review, Nomura continues to head the Eurobond book running tables, while Daiwa is fifth, Yamaichi seventh and Nikko tenth.

Between them, they have raised $30 billion (R84 billion) on the Eurobond market this year, mainly for Japanese companies.

But because of the scandal and a sharp drop in profits, the houses are looking keenly for business.

Supra-nationals such as the World Bank and European Investment Bank are steering clear of the Japanese Big Four until they are sure that the houses have fully cleared their names from corruption.

Recently Daiwa sent a team of executives to assess South Africa's political and economic situation.

The seminar covered the economy, business prospects, assessment of SA international bonds and the JSE, Daiwa executives said.

Japanese institutions could have a significant impact on the JSE if they do decide to buy in quantity.

In the Eighties, Japanese insurance companies rushed to buy US Treasury bonds and shares and bought increasing quantities of securities in Europe. Their orders sometimes created market flurries.

Japanese investment in foreign securities is running at an annual rate of $40 billion (R112 billion), compared with $48 billion (R134 billion) last year, says Nomura.

It would be premature to expect a surge of Japanese purchases on the JSE.

For a variety of reasons, Japanese institutions are focusing their attention on domestic markets.

Now that interest differentials are falling and US, European and the South African share markets have risen to all-time highs, insurance companies are less inclined to shop overseas.

Japanese institutions have been buying smaller quantities of US Treasury bonds, generally their most favoured market.

As a result, capital outflows are shrinking.

Japan's long-term capital account is in surplus, the first time in 11 years.

Journalists of Nihon Keizai Shimbum recently interviewed businessmen and officials in SA for a survey on the country.

Japanese companies are planning a significant increase in business with South Africa, says Nihon Keizai.

They are actively examining new contracts to build or renovate factories in South Africa .

SA will eventually become a key market for Japanese high-technology products, such as computers and microchips.

THE WEEK AHEAD by Simon Willson

Build-up in gold and forex reserves likely to continue

44

B/Day 4/11/91

OCTOBER's SA gold and forex reserves, due out on Friday, should show another sizeable improvement and continue the figure's year-long build-up.

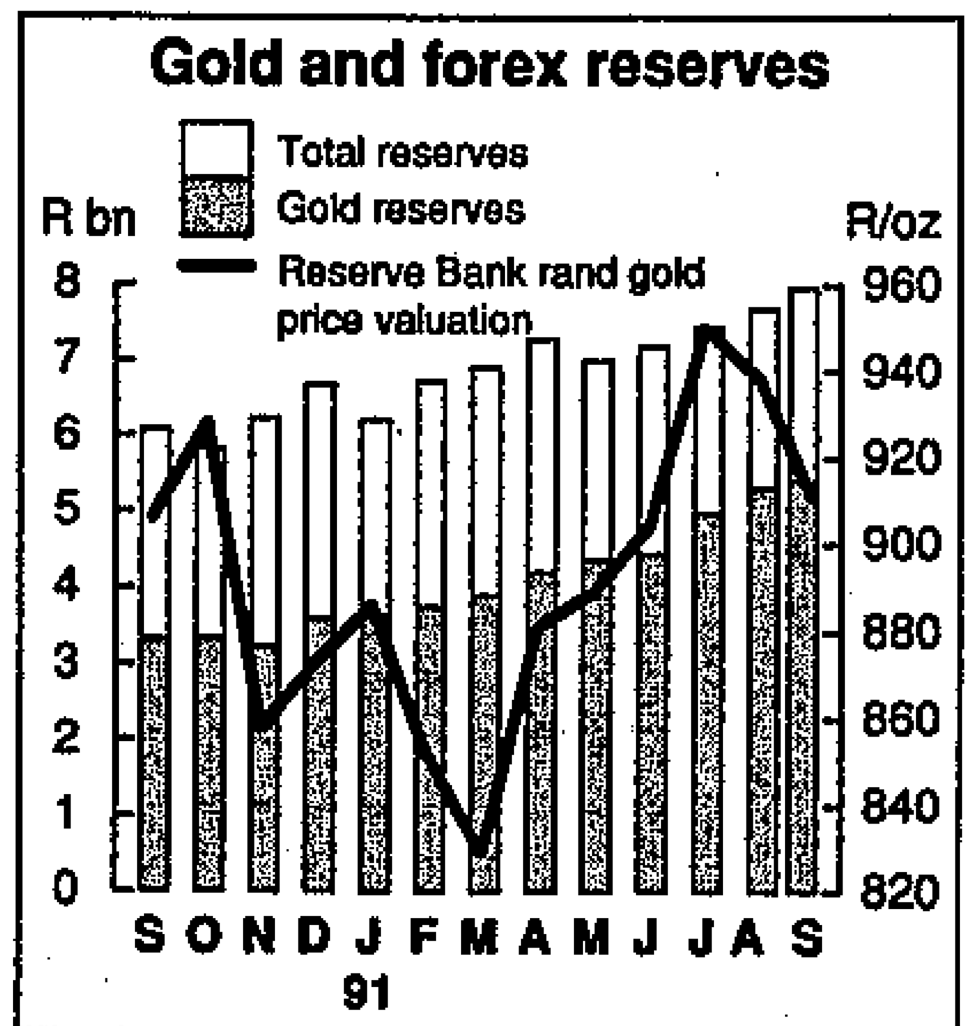
The September reserves level of R8bn was itself a dramatic jump from the R6,2bn level posted 12 months earlier. Indeed, the performance of the reserves remains one of the most tangible signals that the economy is emerging from the bleak years of the mid-'80s.

At R8bn, the reserves in September stood at a record total in nominal rand terms. But, as the Reserve Bank Governor reminded markets last week, the total is still only around two-thirds of the way towards the Bank's target. The authorities' aim is that reserves should cover three months' imports — a common "good-housekeeping" benchmark for the variable that is widely observed as a minimum in many other countries.

The Governor may have needed to raise the profile of the reserves target to dispel any complacency that may have been spreading in the wake of the remarkably steady improvement in the reserves total since mid-1989. But, as the Governor also mentioned last week, the reserves could hardly have gone anywhere but upward in the two years since the dark days of mid-1989. At that stage the meagre total of gross reserves was barely R5bn and was, in effect, already spoken for by the Bank's own outstanding short-term foreign liabilities.

The big difference now is not only the higher reserves total at R8bn but also the fact that there are no foreign liabilities to set against these reserves. Even this sharp turnaround in what used to be a fairly dismal set of figures is not, however, enough for the conservative economic management now being practised by the Bank. The authorities are on a longer-term drive to rebuild reserves and are confident they can do so given the positive outlook for the current account surplus next year.

The Bank is expecting an appreciable increase of about R500m in the October reserves, taking the total for the month to R8,5bn against September's R8bn and R5,8bn in October last year.



Graphic: LEE EMERTON Source: SA RESERVE BANK

Internationally, the US authorities made their move on interest rates in easing the overnight Fed funds rate last week by a quarter of a point to 5%. The cut in US rates, together with the absence this week of any significant US economic statistics, shifts the limelight to Germany as a host of fresh data on the newly unified state is due to hit the market.

Economic activity has been slowing in western Germany since mid-calendar year, and analysts are not as confident as they used to be that there is another hike in German interest rates still in the pipeline. A slowdown in domestic orders has been part of the story, and this may continue later this week when September manufacturing orders are expected to turn negative.

German industrial production for September is also expected to be downbeat. German September retail sales, due at the end of the week, may be only very narrowly positive after August's 2% fall. Western German unemployment in October, meanwhile, is expected to be steady or to tick up from September's 6%.

The net effect of this batch of figures will probably be to cool the keen expectations of a rise in German interest rates before the end of the year. Thursday's meeting of the policy-making council of the the Bundesbank is, accordingly, likely to leave rates unchanged.

The key economic event of the week in the UK is the Chancellor's autumn financial statement to parliament on Wednesday. The Chancellor of the Exchequer will be updating the government's fiscal plans for the second half of the 1991-92 financial year and, as with many of the other recent political events of significance, the statement will be the last before the general election that must be held by next July.

As such, it is another vote-winning opportunity and may take the form of a slightly stimulatory mini-budget to prepare the ground for next year's poll. On Thursday the Chancellor's measures will be subjected to immediate electoral scrutiny in three by-elections which may show whether general election votes are likely to have been won over by the autumn package.

UK trade inquiries flooding in

Star 4/11/91.

By Neil Behrmann

LONDON — The South African Embassy in London is receving about 500 trade inquiries a week, says Kent Durr, South African Ambassador to the UK.

Last year there were about 400 to 500 inquiries a month, embassy officials say.

Speaking at a recent conference organised by accountants Ernst & Young and the United Kingdom South Africa Trade Organisation (Uksata) in London, Mr Durr said: "South Africa is entering a new renaissance.

"Many people compare the events in Eastern Europe and South Africa," said Mr Durr. "However, if one subtracts communism in Eastern Europe, there is very little left.

"Subtract apartheid and there is much left on which to build.

"Their problem is one of construction, ours is essentially one of inclusion."

The seminar of 140 delegates illustrated the growing foreign business interest in South Africa.

Last month, Business International and Standard Bank South Africa held a conference in Frankfurt.

It was attended bu 110 delegates.

The Confederation of British Industry and Standard Bank will hold another conference at the end of next month.

Speaking at the Ernst & Young conference, Max Tlakula, vice-president of the National African Federated Chamber of Commerce, said that foreign investors would do well if they backed the black business community.

He forecast that in ten years' time 30 percent of the directors of JSE companies would be blacks, coloureds and Asians. Forty percent of these companies would be owned by black shareholders.

This appears to be a remarkable prediction, considering the wealth disparity between whites and blacks.

But delegates agreed that there was considerable room for listings of smaller companies owned by blacks. So far there is only one.

Mr Tlakula, who is managing director of Elim City Shopping Centre, noted that the African Bank's assets had expanded to R140 million from R23 million in the early Eighties and there were now 23 branches.

Foreign businesses could approach that bank with propositions, he said.

Colin Hall, chief executive of Wooltru, delivered an almost evangelical speech about prospects for South Africa in the Nineties.

Provided black business leaders and management had the entrepreneural and leadership spirit, they would do well, he said

"It doesn't matter if some only have a Standard Five education," he said.

The speech was well received and delegates were impressed by his dynamism and enthusiasm.

South African businessmen and managers should not sit back and expect President FW De Klerk to carry out all the reforms, he said.

They should do their utmost to make their own companies democratic.

They should listen to opinions of employees, regardless of colour, and do their utmost to help blacks advance in management.

Nick Mitchell, executive director of Uksata, said that Britain's Department of Trade and Industry had designated South Africa as a target market.

The Department of Trade was now able to provide a full range of export services for South Africa, he said.

UK government funding was now available to support trade missions and for participation in trade fairs.

Trade missions to South Africa had risen to nine this year from two a year in 1989 and 1990.

There were applications for 27 missions in 1992 and parties included 20 members against a dozen or fewer previously, he said.

Exporters advised to hedge against yen

Star 4/11/91

By Neil Behrmann M4

LONDON — South African exporters and importers should hedge their exposure against the yen.

Japan's will be the best-performing currency in coming months, according to a panel of leading foreign exchange traders and economists.

While the majority on the panel believes the dollar will tread water before staging a strong rally in 1992, a vocal minority is extremely cautious about the US unit.

Since there is uncertainty about European currencies and the dollar, the yen appears to be the currency that international players will favour.

The panel consists of major banks on the main foreign exchange markets — London, Tokyo, New York, Hong Kong, Zurich and Frankfurt.

Investment Research of Cambridge is a technical analysis consultancy that has many years of experience in the currency markets.

The average prediction of the eight panelists places the yen at higher levels over the coming twelve months.

The Deutschemark and sterling will remain relatively firm in the next three months, but weaken against the dollar and yen in 1992, according to the majority of forecasters.

Even though the Japanese economy is slowing down, growth is expected to be stronger than that of the US and Europe.

The current account surplus is forecast at $65 billion (R184 billion) next year, compared with $50 billion (R142 billion) in 1991, according to Mitsubishi Finance International.

Capital outflows are shrinking as Japanese banks build up their asset base. Local institutions are diverting cash flows to domestic from international markets.

Most members of the panel believe that the dollar is bottoming out and that there could be a sharp upturn when the US economy begins to motor in the spring of 1992.

The minority, notably Standard Chartered Bank and Investment Research of Cambridge, are extremely cautious about the US economy and its currency.

They believe that the Federal Reserve Board (US central bank) will be forced to continue cutting interest rates because the economy will remain lethargic and be weaker than expected in the first half of 1992.

The US government will favour lower interest rates to boost the economy, while it will prefer an undervalued dollar hopefully to raise exports. This policy will not help the dollar, say the bears.

To be sure, it is exceedingly expensive to hold dollars at present levels. Three-month dollar rates are a miserly 5,38 percent compared with yen rates of 6,31 percent, Swiss francs 8,5 percent, Deutschemarks 9,5 percent and sterling 10,5 percent.

Long US Treasury bonds trading on yields of 7,9 percent are better value, particularly when compared with Japanese and Swiss franc bonds of six percent to seven percent.

But yields are below German government bonds (8,4 percent) and UK gilts (9,7 percent).

In the meantime, central banks have succeeded in reducing volatility in the currency markets, says John Cuningham of Investment Research.

The yen, for example is in a tight trading band of 125 to 135 and the same applies to other currencies.

Patterns of charts indicate that the dollar is encountering resistance whenever it rallies.

Dollar bulls such as Brendan Brown, of Mitsubishi Finance International, contend that the US economy has only experienced a mild recession.

In the next three months, the dollar will trade in a sideways pattern, says Mr Brown.

He expects the Fed to cut interest rates once more and that the economy will at last begin to revive in 1992.

Mr Brown expects both the dollar and yen to outgun their European counterparts next year.

He also fears political risk in Europe. A flood of refugees from Eastern Europe and a backlash by right wing parties will increase uncertainty, particularly in France, says Mr Brown.

Continual worries about a Labour victory over the Conservatives ahead of an early summer election in the UK next year will keep the pound under pressure.

Yet currency economists at Barclays Bank believe that the market is unduly pessimistic about the pound.

Certainly, sterling has so far outfoxed pessimists and has held firm, despite poor polls for the Conservatives.

A Labour government would be committed to keeping the pound stable, says Barclays.

Polls may change every week, but sterling could surprise the market and remain steady against the Deutsche mark.

Missions in bid for trade

(14)

S/Times (Buss) 3/11/91.

Business Times Reporter

THE Department of Trade and Industry (DTI) and members of the private sector will undertake two selling missions to the Far East and South America this month.

The party to the Far East will visit Taiwan, Japan and Hong Kong.

The South American trip will include visits to Argentina, Brazil and Chile.

Bert Pienaar, director of export trade promotion at the DTI, says the missions represent a historic milestone in SA's export promotion effort.

"These will be the first selling missions undertaken by the department after the return of SA to the ranks of the international community."

Opportune

Based on feedback received from the department's foreign trade representatives in Japan and Hong Kong, the visits could not have taken place at a more opportune time, he says.

Representatives of the SA Foreign Trade Organisation and the Small Business Development Corporation will join the missions

They will look after the interests of several small to medium export companies.

Private-sector delegates will represent industries such as clothing, food, speciality chemicals, heavy engineering, telephone systems, computer software and electronic products.

The aim is to exploit the excellent trade opportunities these important markets offer SA.

Missions such as these are significant in establishing SA as a global player in international markets, says Mr Pienaar.

Masterbond directors, have not yet been brought under the curators' wing. ■

IDT BOND ISSUE

Next round

FM 1/11/91

The ANC and Independent Development Trust (IDT) were due to meet on Thursday to discuss the IDT's projected US$100m Eurobond issue. This was confirmed by Thabo Mbeki, the ANC's head of international affairs, as the *FM* went to press.

In September, the IDT announced its plan to raise funds to build schools and provide clinics and clean water for rural communities. Director Jan Steyn believed the project had the backing of the ANC. However, on October 16, the ANC dissociated itself from the project because the issue would be backed by government.

The ANC put out a press release disclaiming the "bogus ANC-IDT statement." The press release said ANC secretary-general

continue →

FM 1/11/91

Cyril Ramaphosa "had already advised the IDT that it was opposed to the raising of loans on financial markets." This statement was forwarded, said the ANC, to investment bank J P Morgan, which was to act as lead banker for the issue.

Last week, ANC deputy president Walter Sisulu announced that the ANC had held discussions with the IDT and was "satisfied that a misunderstanding had arisen." The statement said: "The ANC has instructed all its offices, including those in London and New York, accordingly. In the circumstances the IDT will continue with its presentations in Frankfurt and Zurich."

Thursday's meeting is expected to resolve remaining problems and an announcement is expected on Friday.

□ Mbeki was speaking after a World Economic Forum meeting in Geneva to discuss the economic future of southern Africa. Delegates and speakers included Minister of Economic Co-operation & Public Enterprises Dawie de Villiers, Treasury Director-General Gerhard Croeser, Mozambican Finance Minister Eneas Comche, Namibian Minister of Trade & Industry Ben Amathila, Botswana's Minister of Commerce & Industry Ponatshego Kedilikwe, and Isaac Sam, head of the southern African department at the World Bank.

Participants included ANC executive Trevor Manuel, Gavin Woods from Inkatha, African Development Bank vice-president Adewale Sangowawa, NP secretary-general Stoffel van der Merwe, Old Mutual chairman Mike Levett and other businessmen and academics. ■

FM INVESTMENT CONFE

ANC secretary-general Cyril Ramaphosa chats to Mr Justice Cecil Margo during a break at yesterday's FM investment conference in Johannesburg. Picture: ROBERT BOTHA

Govt interference 'will jeopardise gold's future'

BDay 1/11/91 (74) (89)

MATTHEW CURTIN

A FUTURE SA government would jeopardise the prosperity of the gold mining industry as prices improved in the '90s if it did not resist the temptation to interfere in the running of the gold mines, Gengold MD Gary Maude said.

Maude said he was "not downhearted, but apprehensive" of the industry's future.

Demand for gold would overtake supply in the '90s, pushing the price up to $450/oz or more.

However, the interests of all parties involved in the industry would have to be balanced if the gold mines were to survive.

Maude said he was not concerned with who came to power in the new SA, but with how competent the government would be.

Policies aimed at devaluing the rand — Maude welcomed the Reserve Bank's reluctance to do so in recent years — and the imposition of expensive requirements on the industry would be damaging. It was up to the mines to decide levels of spending on education, safety and the environment, as well as controlling employment and rates of pay.

Inflated manning levels, minimum wages and retrenchment pay-outs had typically scuppered mines in the rest of Africa, and they were now approaching SA to help them back on their feet.

Maude said that today he was most concerned about the use of the mines as a battleground for political groups.

The violence and unrest which two mines within the Genmin group, Impala Platinum and Winkelhaak gold mine, had experienced could not be resolved by the companies and were potentially disastrous.

In the past 20 years, the rise in the cost of producing gold in SA had outpaced inflation, whereas there had been a substantial redistribution of mine profits to black mineworkers through improved wages.

Black wages in the industry were "pathetic" before Anglo American took the lead in raising wage rates as the gold price rocketed at the end of the '70s.

One consequence was that in the current times of a low gold price it was harder for the industry to survive.

In 1990 17% of gold production and 22% of gold mining jobs were at risk.

The steps the industry had taken in the past year meant that now only 5% of gold production was in jeopardy, with only 7% of jobs on the line. Many jobs had been lost, but fewer mines were likely to go out of production, so there was a nucleus from which the industry could expand when conditions improved.

"The industry is now in a difficult but manageable position," Maude said.

While he was "bullish" on the gold price in the '90s, Maude said it would have to improve substantially for new mines to be developed.

Liberty share price holding up

By Ann Crotty (74) (223)

Star 1/11/91

The Liberty share price has held up well in heavy volume trade over the last few days. On Wednesday it slipped back to R37 but recovered to R38 yesterday.

For the Liberty team it must be unsettling to see this level of activity so close to the issue of 12 million shares to European investors.

The share started the week at R40 and came under selling pressure on Tuesday and Wednesday when around 1,5 million shares changed hands.

At this stage, it is difficult to determine how much of the selling is coming from overseas, but initial estimates suggest around 800 000 shares.

Liberty sources attribute much of the remainder of the activity to the sale of staff options exercised at end-September.

Local analysts believe that some London traders are selling short into the Johannesburg market in anticipation of the Liberty share price coming under pressure next week.

This sentiment reflects the weakness of the new issue market in London and the generally low levels of liquidity in the European equity markets.

Much of the selling was done at R38, which leaves room for some profit if the issue price is pitched at R37.

Liberty chairman Donald Gordon points out that in the early stages of an issue there tends to be heavy volume trade.

He says that it is difficult to establish the identity of the sellers, but agrees that it could be short sales.

The success of the issue must be decided on two scores — building up funds for Liberty overseas and getting a spread of international shareholders for the group.

The first has already been achieved with the successful underwriting of the full issue. The second will only be known at a much later date.

Mr Gordon believes that if the flow-back of shares — from European to SA investors — can be restricted to 10 to 15 percent, the move will have been a great success.

So far, he says, he's very encouraged by the response from European investors, but stresses that the establishment of solid investor relationships is a long-term exercise — particularly for an SA company operating in Europe.

He also notes that the ability of the Liberty share price to hold up well in heavy volumes should be an encouraging sign for European investors who may have been concerned about the liquidity of the SA market.

'Africa must not expect too much'

By Sven Lunsche
Star Africa Service

Star 1/11/91

74

YAOUNDE — South Africa will have to dampen the high expectations African countries have of the role it can play in lifting the continent's stagnating economies, says Derek Auret, a senior South African diplomat.

Noting that South Africa was already trading with nearly all African countries, Mr Auret, the Deputy Director-General of Foreign Affairs with responsibility for Africa, said talks with various African countries were largely focussed on economic interactions.

"The idea of a more formalised structure for inter-African trade is very much under discussion and there is a lot of talk that South African can be the driving force behind such a configuration," he said in an interview during the all-Africa trade conference here.

"Through the contacts we are having now we must stress the need for bilateral relations and that we have no desire to dominate the region economically."

Mr Auret, who was appointed to his present post a few months ago, is leading a delegation in a visit to four West African countries — Senegal, Ivory Coast, Cape Verde and Cameroon — in what he described as an introductory visit.

Trade plan

In Cameroon he met the foreign minister as well as the ministers handling economic planning and energy affairs. "There is a general understanding that we need to interact economically to advance growth in both countries," he said.

He emphasised, however, that his task was to establish the framework in which private business could start trading without bureaucratic interference.

"South Africa can provide Africa with skills and technology, but trade will eventually have to be a two-way development."

Asked whether South Africa's rapidly expanding contacts with African states was undermining the sanctions stance of the OAU, Mr Auret said that "African countries are realising where their economic interests are.

"It is not an erosion of OAU policy, but with Europe walking away from Africa, we have to turn to our direct neighbours for economic cooperation."

Mr Auret rejected the idea that South Africa should limit economic relations in Africa to states that practice good governance, operate free market economies and allow multi-party democracy — a condition being demanded by many Western aid donors.

SA equity set for Europe

Star 1/11/91

South African stock will be appearing on European markets in the near future says Richard Agutter of accounting firm KMPG Peat Warwick of London.

He said that the general impression was that there was no interest in South African paper in overseas markets.

"However, I can see situations arising in the near future when paper in a South African company is issued to the seller as part of a financial transaction.

"The new paper is then quoted on a European market and this gives a South African company a quote on a European exchange.

"Currently such a route would require SA Reserve Bank approval and this could take time.

"I am not necessarily advocating this route as being a quick one but I believe it will come."

He told the conference that once the debt market had been tapped, then equities could follow.

"Investment cash to SA companies may be expensive and I believe that finance for such an aquisition should be raised on the European capital market."

Mr Agutter said that for a South African deal to be succesful there has to be considera^le added value from the transaction.

He suggested that joint ventures between SA companies and European groups should be considered as a means of operation. — Sapa.

Exchange control 'should be scrapped'

(74)

ROBERT GENTLE

SA SHOULD scrap exchange control if it wants to attract meaningful inflows of investment from the US, Japan and Europe, says James Capel & Co chief investment strategist Alastair Ross Goobey.

Goobey — also advisor to UK Chancellor of the Exchequer Norman Lamont — said yesterday while he appreciated that SA had certain constraints, the UK was in a similar position before it scrapped exchange control almost 10 years ago.

Its move did not spark huge capital outflows but attracted capital.

He pointed to South America as an example of how capital flow liberalisation had attracted international capital.

Earlier in the session, Reserve Bank governor Chris Stals said exchange control was unlikley to be lifted until more progress had been made on the political front, debt rescheduling arrangements had been attended to and relations with the IMF and the World Bank had been normalised.

Goobey said political stability was equally important, pointing to the reduction of capital outflows that had occurred in SA after February 2 1990.

B/Day 1/11/91

Opportunities

Eviction of dictatorial governments in Latin America during the past five years had encouraged domestic and foreign investors, he said.

KPMG Peat Marwick partner Richard Agutter said there were "tremendous" opportunities for SA companies to buy into European businesses in 1992.

"I can see situations arising in the near future when paper in an SA company is issued to the seller as part of the transaction.

"The new paper is then quoted on a European market and this gives the SA company a quote on a European exchange."

Agutter said he expected moves into the debt market (like the recent government Eurobond issue) to be followed by equity investment in Europe by SA companies.

Statistics in the KPMG publication Dealwatch show that there were 13 SA cross-border purchases worth \$1,17bn between January 1987 and June 1991.

Ten of these were in the UK, and one each in the US, Germany and Portugal.

	1990–91 R
Uitgawes/Expenditure	344 865 604
Aankope/Purchases	3 486 290
Administratiewe koste/Administration costs	44 130 144
Diefstal en verliese/Theft and losses	619 984
Ontwikkelingskoste en dienslewering/Development costs and rendering of sevices	168 037 112
Hulptoelaes, subsidies en bystand/Grants-in-aid, subsidies and assistance	29 015 828
Voorsienings/Provisions	99 576 246
Oorskot inkomste bo uitgawes vir die jaar/Excess income over expenditure for the year	**R15 222 505**

Oorgedra na opgehoopte fonds/Transferred to accumulated fund.

Pretoria, 27/9/91.

L. K. VAN GASS,
Direkteur-generaal: Ontwikkelingshulp,
Director-General: Development Aid,
Rekenpligtige Beampte.
Accounting Officer.

ALGEMENE KENNISGEWINGS • GENERAL NOTICES

KENNISGEWING 1044 VAN 1991 • NOTICE 1044 OF 1991

P.5.01A

VOORLOPIGE OPGAWE VAN HANDELSTATISTIEK VAN DIE REPUBLIEK VAN SUID-AFRIKA VRYGESTEL DEUR DIE KOMMISSARIS VAN DOEANE EN AKSYNS

PRELIMINARY STATEMENT OF TRADE STATISTICS OF THE REPUBLIC OF SOUTH AFRICA RELEASED BY THE COMMISSIONER FOR CUSTOMS AND EXCISE

74

Opmerking: Die in- en uitvoersyfers wat in hierdie opgawe verskyn is grootliks aangepas om dit in ooreenstemming te bring met die vereistes wat gestel word vir die opstel van die betalingsbalans.

L.W.: Die oorskakeling na die Geharmonieerde Tariefstelsel met ingang van 1 Januarie 1988 het die indeling van sekere kommoditeite verander. Wanneer die afdelingstotale vir 1988 en later jare dus met dié van vorige jare vergelyk word, moet die moontlike verskille as gevolg van die oorskakeling nie uit die oog verloor word nie.

Remark: The import and export figures reflected in this statement have been adjusted largely to bring them into line with the requirements for the compilation of the balance of payments.

N.B.: The change-over to the Harmonized Tariff System with effect from 1 January 1988, altered the classification of certain commidities. When comparing the section totals for 1988 and later years with those of previous years the possible differences due to the change-over should therefore be taken into consideration.

TYDPERK: JANUARIE TOT SEPTEMBER 1991—PERIOD: JANUARY TO SEPTEMBER 1991

	Invoere—Imports		Uitvoere—Exports	
	1991	1990	1991	1990
Totaal in Miljoene Rand—Total in Millions of Rand	36 936,6	33 489,8	48 977,7	44 816,3

TABEL B: TOTALE IN MILJOEN RAND VOLGENS AFDELINGS VAN DIE GEHARMONIEERDE STELSEL
TABLE B: TOTALS IN MILLION RAND ACCORDING TO SECTIONS OF THE HARMONIZED SYSTEM

Afdelings—Sections	Invoere—Imports		Uitvoere—Exports	
	1991	1990	1991	1990
I. Lewende diere; dierlike produkte Live animals; animal products	187,4	165,7	446,8	329,9
II. Plantaardige produkte Vegetable products	914,9	677,9	1 538,8	1 732,9
III. Dierlike of plantaardige vette en olies en splitsprodukte; voorbereide spysvette; dierlike en plantaardige wasse Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal and vegetable waxes	204,4	265,3	96,5	96,3

Afdelings—Sections	Invoere—Imports		Uitvoere—Exports	
	1991	1990	1991	1990
IV. Voorbereide voedsel; dranke, spiritus en asyn; tabak en vervaardigde tabaksurrogate Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes	762,8	674,9	1 472,8	1 239,6
V. Mineraalprodukte Mineral products	431,8	433,1	5 685,0	5 426,9
VI. Produkte van die chemiese of verwante nywerhede Products of the chemical or allied industries	4 173,4	3 613,9	1 808,2	1 352,8
VII. Plastieke en artikels daarvan; rubber en artikels daarvan Plastics and articles thereof; rubber and articles thereof	1 687,6	1 436,1	410,6	268,8
VIII. Ongelooide huide en velle, leer, pelsvelle en artikels daarvan; saal- en tuiemakersware; reisartikels, handsakke en dergelike houers; artikels van derederm (uitgesonderd sywurmsnaar) Raw hides and skins, leather, furskins and articles thereof; saddlery and harness; travel goods handbags and similar containers; articles of animal gut (other than silk-worm gut)	190,5	202,9	248,4	306,0
IX. Hout en artikels van hout; houtskool; kurk en artikels van kurk; fabrikate van strooi, van esparto of van ander vlegwerkstowwe; mandjiewerk en vlegwerk Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of straw; of esparto or of other plaiting materials; basketware and wickerwork	280,3	258,9	251,0	238,1
X. Pulp van hout of van ander veselagtige sellulosiese stof; afval en oorskiet van papier of papierbord; papier en papierbord en artikels daarvan Pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard; paper and paperboard of paper or paperboard; paper and paperboard and articles thereof	1 040,8	901,0	1 114,5	1 187,7
XI. Tekstiele en tekstielartikels Textiles and textile articles	1 930,5	1 516,0	1 271,2	1 163,5
XII. Skoeisel, hoofdeksels, sambrele, sonsambrele, wandelstokke, sitstokke, swepe, karwatse en onderdele daarvan; bereide vere en artikels daarvan gemaak; kunsblomme; artikels van mensehaar Footwear, headgear, umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair	241,0	140,8	22,6	17,7
XIII. Artikels van klip, gips, sement, asbes, mika of dergelike stowwe; keramiese produkte; glas en glasware Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware	484,5	442,7	202,9	171,0
XIV. Natuurlike of gekweekte pêrels, edel- of halfedelstene, edelmetale, metale met edelmetale bedek, en artikels daarvan; nagemaakte juweliersware, muntstukke Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coin	303,5	349,1	4 698,2	3 948,6
XV. Onedelmetale en artikels van onedelmetaal Base metals and articles of base metal	1 716,1	1 696,5	7 103,4	6 696,4
XVI. Masjinerie en meganiese toestelle; elektriese toerusting; onderdele daarvan; klankopnemers en -weergewers; televisie- beeld- en klankopnemers en -weergewers, en onderdele en bybehoorsels van sodanige artikels Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	10 499,6	9 899,4	1 154,0	1 005,9
XVII. Voertuie, lugvaartuie, vaartuie en verwante vervoertoerusting Vehicles, aircraft, vessels and associated transport equipment	5 129,6	4 561,7	1 082,3	803,6
XVIII. Optiese, fotografiese, kinematografiese, meet-, kontroleer-, presisie-, mediese en chirurgiese instrumente en apparate; uurwerke en horlosies; musiekinstrumente; onderdele en bybehoorsels daarvan Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments, parts and accessories thereof	1 653,5	1 341,8	108,9	99,3

Afdelings—Sections	Invoere—Imports		Uitvoere—Exports	
	1991	1990	1991	1990
XX. Diverse vervaardigde artikels Miscellaneous manufactured articles	444,8	350,9	170,9	116,8
XXI. Kunswerke, versamelaarsstukke, en antieke Works of art, collectors' pieces and antiques	16,7	23,0	13,2	18,4
Ander ongeklassifiseerde goedere en betalingsbalansaansuiwerings Other unclassified goods and balance of payments adjustments	4 642,9	4 538,2	20 077,5	18 596,1
Groottotaal—Grand total	36 936,6	33 489,8	48 977,7	44 816,3

74

(8 November 1991)

KENNISGEWING 1045 VAN 1991

DEPARTEMENT VAN MANNEKRAG

WET OP ARBEIDSVERHOUDINGE, 1956

INTREKKING VAN REGISTRASIE VAN 'N WERKGEWERSORGANISASIE

Ek, David William James, Nywerheidsregistrateur, maak hierby kragtens artikel 14 (2) van die Wet op Arbeidsverhoudinge, 1956, bekend dat ek die registrasie van die Bedding Manufacturers' Association of the Transvaal met ingang van 25 Oktober 1991 ingetrek het.

D. W. JAMES,

Nywerheidsregistrateur.

(8 November 1991)

KENNISGEWING 1046 VAN 1991

PROVINSIALE ADMINISTRASIE VAN DIE KAAP DIE GOEIE HOOP

HERMANUS: VOORGESTELDE LÊ VAN 'N RIOOLPYPLEIDING DEUR DIE KLEINRIVIER-VLEI

Ingevolge artikel 3 (5) van die Strandwet, 1935 (Wet 21 van 1935), word hiermee bekendgemaak dat dit die voorneme is om 'n huurooreenkoms met Hermanus Munisipaliteit aan te gaan waarin voorsiening gemaak word vir die lê van 'n rioolpypleiding.

'n Liggingsplan van die gebied wat deur die voorgestelde rioolpypleiding geraak word, lê ter insae by die kantoor van die Hoofdirekteur: Werke, Provinsiale Administrasie van die Kaap die Goeie Hoop, Kamer 430, Dorpstraat 9, Kaapstad.

Besware teen die voorgestelde verhuring moet by die Hoofdirekteur: Werke, Privaatsak X9078, Kaapstad, 8000, ingedien word voor of op 2 Desember 1991.

(8 November 1991)

KENNISGEWING 1047 VAN 1991

DEPARTEMENT VAN OPENBARE WERKE EN GRONDSAKE

KENNISGEWING INGEVOLGE ARTIKEL 7 (1) VAN WET OP REËLING VAN GRONDTITELS, No. 68 VAN 1979

Nademaal grond soos vermeld in die Bylae hiervan aangewys is ooreenkomstig die bepalings van artikel 2 (1) van die Wet op Reëling van Grondtitels, 1979 (Wet No. 68 van 1979);

NOTICE 1045 OF 1991

DEPARTMENT OF MANPOWER

LABOUR RELATIONS ACT, 1956

CANCELLATION OF REGISTRATION OF AN EMPLOYERS' ORGANISATION

I, David William James, Industrial Registrar, hereby notify, in terms of section 14 (2) of the Labour Relations Act, 1956, that I have cancelled the registration of the Bedding Manufacturers' Association of the Transvaal with effect from 25 October 1991.

D. W. JAMES,

Industrial Registrar.

(8 November 1991)

NOTICE 1046 OF 1991

PROVINCIAL ADMINISTRATION OF THE CAPE OF GOOD HOPE

HERMANUS: PROPOSED LAYING OF A SEWERAGE PIPE IN THE KLEIN RIVER VLEI

Notice is hereby given in terms of section 3 (5), of the Sea-Shore Act, 1935 (Act 21 of 1935), that it is proposed to enter into a lease with Hermanus Municipality in which provision is made for the laying of a sewerage pipe.

A locality sketch of the area affected by the proposed sewerage pipe lies for inspection at the office of the Chief Director: Works, Provincial Administration of the Cape of Good Hope, Room 430, 9 Dorp Street, Cape Town.

Objections to the proposed lease must be lodged with the Chief Director: Works, Private Bag X9078, Cape Town, 8000, on or before 2 December 1991.

(8 November 1991)

NOTICE 1047 OF 1991

DEPARTMENT OF PUBLIC WORKS AND LAND AFFAIRS

NOTICE IN TERMS OF SECTION 7 (1) OF THE LAND TITLES ADJUSTMENT ACT, No. 68 OF 1979

Whereas the land specified in the Schedule hereto has been designated in terms of section 2 (1) of the Land Titles Adjustment Act, 1979 (Act No. 68 of 1979);

IDT BOND ISSUE (74)

Mulberry bush

FM 8/11/91

The Independent Development Trust's projected $100m Eurobond issue appears to be in limbo. No announcement followed last week's meeting with the ANC and neither side was prepared to comment.

The reluctance to comment and the fact that no further meeting is scheduled suggests that differences have not been resolved.

The issue was announced by the IDT's Jan Steyn in September. Soon afterwards, an ANC press release repudiated what it described as "the bogus ANC-IDT statement."

The ANC said it had advised the IDT that it opposed raising loans (though not grants) on financial markets. This was followed by another ANC statement which created the impression that obstacles had been removed. And in the week of October 14-18, the IDT made presentations in London, Zurich and Frankfurt.

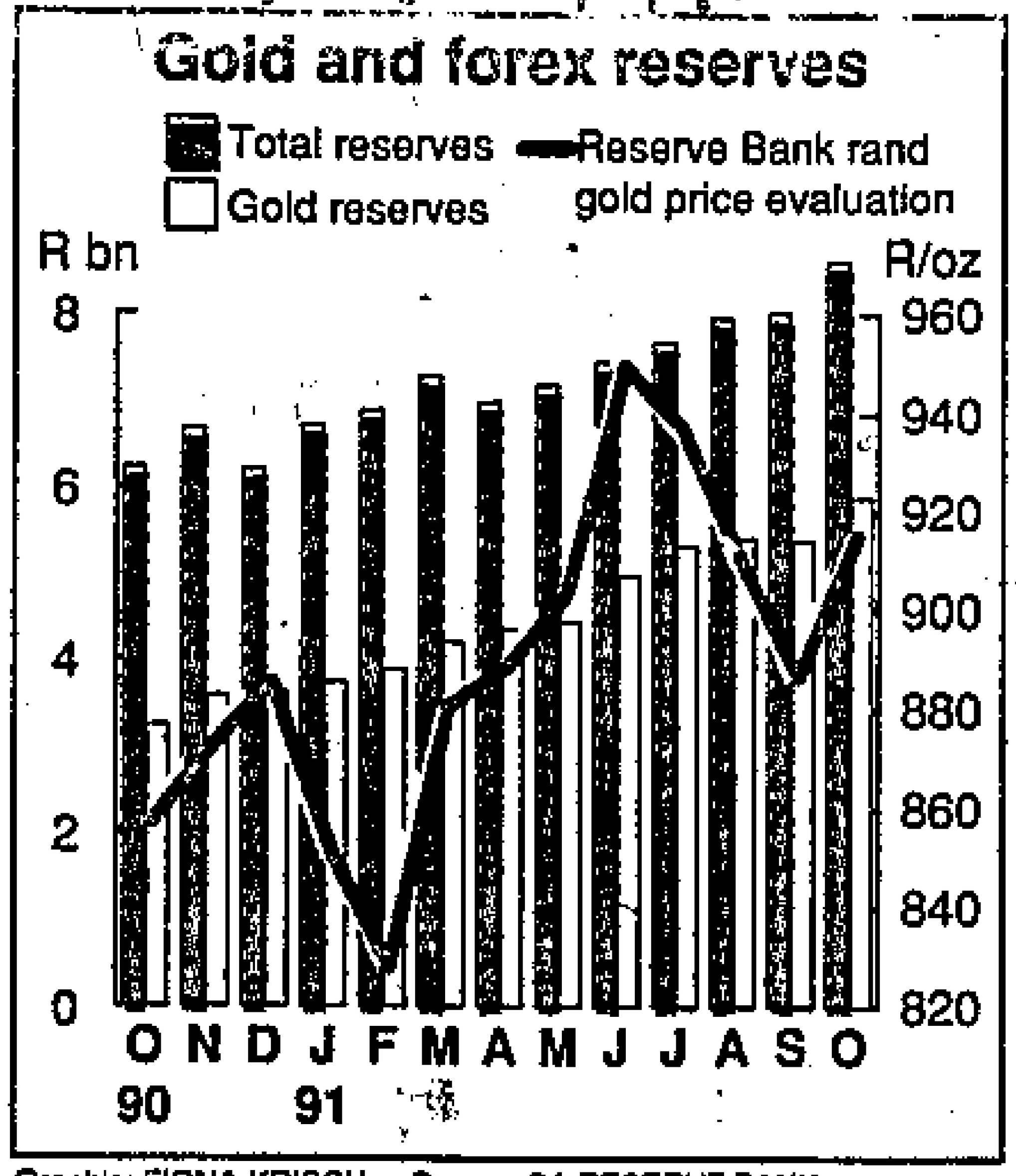
The problem now is that lead banker J P Morgan is not prepared to settle for just a neutral stance on the part of the ANC. The bank is not willing to go ahead without the explicit backing of the ANC — which is not prepared to go so far.

In the circumstances, Steyn might have been tempted to publish a letter from ANC president Nelson Mandela which initially led him to believe the ANC would back the issue. But it seems likely that he will refrain in the interest of future good relations.

There is no immediate pressure on the IDT to follow its presentations with a launch. Now that contact has been established with potential investors, an issue can be initiated in weeks. But eventually, if no way out of the impasse is found, the IDT will have to make new plans and possibly step back in the queue of would-be foreign borrowers. ■

Reserves soar to new high

8 Day 8/11/91 (74) (81)



Graphic: FIONA KRISCH Source: SA RESERVE BANK

ANDREW GILL

THE Reserve Bank's holding of gold and foreign exchange reserves soared to a fourth consecutive new high in October aided by a significant boost from continued restocking of gold.

Total reserves increased by R612m to R8,63bn as gold holdings climbed R504,7m to R5,89bn and foreign exchange reserves jumped R107,3m to R2,74bn.

Reserve Bank Governor Chris Stals said at the recent Financial Mail conference he expected reserves to total about R8,5bn in October.

Physical gold holdings increased 360 869 oz (6%) to 6,43-million oz, representing the Bank's withholding of production. Of the 450 tons produced to the end of September, only 85% has been sold abroad,

☐ To Page 2

Reserves

8 Day 8/11/91 (74) (81)

☐ From Page 1

representing 64 tons of restocking.

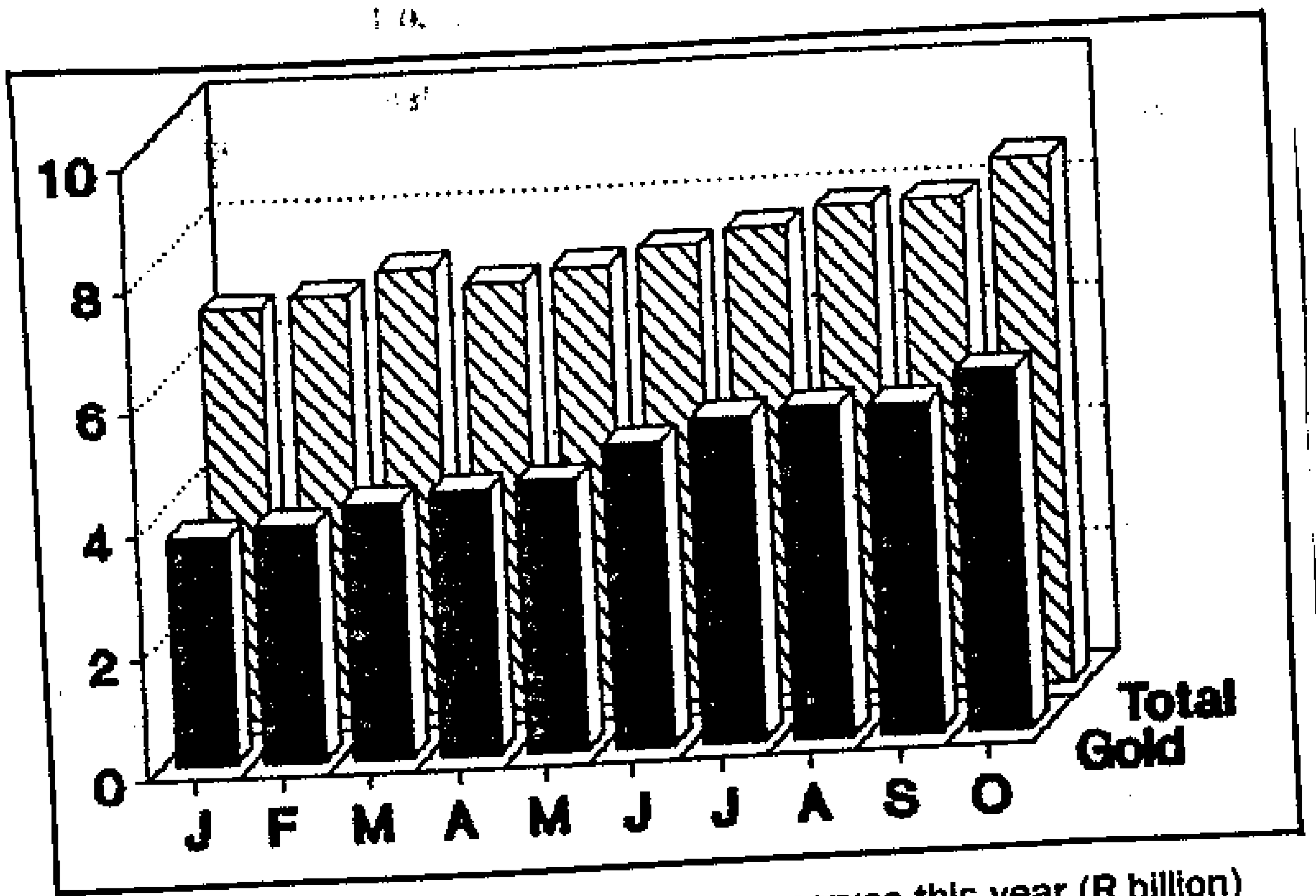
Since the end of 1990 the gold component of the reserves has risen to 68% from 58%. The Bank's gold price valuation (90% of the last 10 London afternoon fixes of the month) was R28,71/oz higher — at R915,53.

Nedbank chief economist Edward Osborn said although the figures were slightly inflated by the weaker rand (R2,832 to the dollar in October), even in dollar terms the rise was significant. Reserves rose $158m in dollar terms.

Reserves now comfortably cover two months' imports, one month short of Stals's three months' target.

Also on the balance sheet were government deposits at the end of October which climbed R1,87bn to R6,6bn, reflecting the Bank's liquidity-draining operations in the flush money market.

Osborn said it was possible that it represented increasing revenues in the wake of the implementation of VAT.



SA's monthly gold and forex reserves this year (R billion)

Gold and forex reserves rise again

By Sven Lünsche (BD) (7/11/94)

SA's gold and foreign exchange reserves showed a further significant improvement last month, rising to a record level in nominal terms.

The Reserve Bank said yesterday the reserves had surged by over R600 million from R8,014 billion in September to R8,627 billion in October.

The gold portion of the reserves showed the largest increase from R5,384 billion to R5,888 billion on the back of an improvement in both the value and volume of gold held.

Gold holdings increased from 6,07 million ounces in September to 6,43 million ounces last month, valued at R915,53 per ounce (September: R886,82 per ounce).

The foreign exchange content of the reserves rose from R2,63 billion to R2,737 billion.

The combined reserves have shown a virtually uninterrupted rise since this time last year when they stood at just over R6 billion.

However, the level of the reserves is still only sufficient to cover two months of imports of goods and services, which is a month short of the internationally accepted guideline of three months.

Nevertheless, the Reserve Bank must be pleased with the strong improvement over the past few months, particularly as the pressure on the country's foreign liabilities is rapidly subsiding.

SA borrowers have six foreign bond issues totalling about $500 million maturing on European capital markets this year, but Director General of Finance Dr Gerhard Croeser is optimistic that all the bonds will be refinanced through new loans.

Financier challenges ANC to lift curbs

Bday 8/11/91

(74)

ROBERT GENTLE

A LEADING American financier has challenged the ANC to endorse publicly the lifting of exchange controls as part of a bold, four-point free enterprise plan aimed at bringing in foreign capital and boosting economic growth.

He is Joel Stern, managing partner of New York strategy and advisory firm Stern Stewart & Co, and advisor to a number of SA blue chip companies.

"The ANC should stop playing defence on free enterprise and start playing offence," said Stern in an interview in Johannesburg yesterday. Previous talk of nationalisation and redistribution had been "disastrous".

Incentive

Stern said contacts with financiers in Europe and the US had convinced him that foreign capital could flow into SA once controls were lifted, reducing unemployment by 50% and boosting annual economic growth rates by 5%-6%.

Experience in other countries had shown that the inflow of new capital exceeded the initial outflow of capital once investors knew their capital flows were no longer restricted.

"The ANC should come out and say it believes that only through a rapidly growing private sector and permanent job creation will there be a future for the unrepresented population of SA."

Secondly, the ANC should support the slashing of corporate and private taxes. This could enable the economy to grow by between 6% and 8%. While the rest of the world was moving towards lower tax rates, SA was going "the other way".

Thirdly, the ANC should also take up the US offer of a Marshall Plan package to boost education and upgrade black skills. "The US would be pleased to pay that money over the next five to 10 years if it was assured a market economy would follow."

Fourthly, private sector companies should grant black employees equity certificates. These could be converted into real equity after 10 years with the company.

"It would give people a stake in their companies and provide stability," said Stern. Similar incentive schemes in the US, whereby occupants were given stakes in the buildings they occupied, had prevented the buildings from becoming slums.

Apart from putting government on the defensive, the plan would restore the credibility of the ANC in the eyes of the international investment community, and spur economic growth.

"World markets are still very concerned about earlier statements by the ANC on nationalisation and redistribution," said Stern. "These have not been withdrawn."

SA 'has an edge' in world capital markets

B Day 8/11/91

SIMON WILSON

FAVOURABLE foreign debt ratios place SA in the most acceptable segment of the international risk spectrum, according to a new book aimed at global investors.

The book — South Africa: the New Beginning — is available today from the publishers of Euromoney, the monthly world capital and money market journal.

Edited by Wits University Economics Department head Merton Dagut, the book analyses SA's international creditworthiness and is aimed at giving foreign investors an updated view of SA's economic development.

74 OAD

Comparative

It portrays an optimistic scenario for upcoming SA issues of Eurobonds, saying SA has an edge over other borrowers as it re-enters world capital markets.

"SA's main comparative advantage in the current climate (given that the (foreign debt) standstill remains in place for several years) is that its regular borrowers have been out of the market for so long.

"Lenders are keen to spread their risk and SA, with its credibility in the marketplace largely intact may, at the right rate for an agreeable period (say three to five years), be a sought-after borrower."

Noting SA's prevailing foreign debt ratios, the book asserts that the country is an acceptable risk in terms of sovereign risk criteria.

Debt servicing costs accounted for only 7,1% of export earnings last year, against the 20% level generally considered reasonable by the IMF.

Similarly, SA's debt-to-export earnings ratio of 70% last year compared favourably with the average for Western hemisphere developing countries of 323% in 1988.

SA's foreign debt, at 70% of GDP, also stood up well against the Western developing countries' average of 255%.

SA had borrowed very little abroad over the past six years and its re-entry into the Euromarkets was expected to be controlled and orderly.

The SA Treasury had sought to control the timing of international borrowing by public entities to ensure that they were not competing directly with one another in the Euromarkets and to ensure as reasonable a cost as circumstances permitted.

"Lenders and investors in the international capital markets ask two primary questions: does the would-be borrower demonstrate a willingness to meet international obligations; and does it have the ability to do so?"

There could be no doubt that SA's record showed its fiscal and monetary authorities met the willingness test, the book says.

NEWS IN BRIEF

SA's aid offer accepted

THE International Trade Council (ITC), a joint UN and GATT organisation which promotes trade in developing countries, had accepted SA's offer of assistance in Africa, Safto CE Wim Holtes said yesterday. B/Day 8/11/91

The ITC assists developing nations to establish export capabilities by providing training programmes and market research. The ITC is backed up by funding from the World Bank and other international development agencies. (44)

Holtes said Safto's first objective in offering its assistance was to help African countries to increase their exports and strengthen their economies.

FOREIGN DEBT

FM 8/11/91 (74) (250)

Now you see it ...

(74A)

A second set of figures on government-backed foreign debt, has been published in the *Government Gazette.* The schedule, published on October 18 (amending figures published a week earlier), breaks down the various currencies in which the debt is denominated. A conversion into US dollars, by UAL economist Dennis Dykes, shows total capital commitments, according to the schedule, fell from $7,1bn on March 31 1990 to $4,6bn at the same date this year.

This debt, which is both in and outside the standstill net, consists of the liabilities of government and public-sector corporations, mainly Eskom, Transnet and the Post Office.

For more than two weeks the *FM* tried to get an explanation for the dramatic fall. Finally, Corrie Pretorius, Accountant-General in the Department of Finance, identified a mistake in Swiss-denominated debt. The schedule shows that the SwFr2,1bn owing in March 1990 fell to SwFr400m in March 1991 (US$1,4bn to $270,8m). A SwFr1,3bn error occurred in the previous year, says Pretorius, which inflated the 1990 figure. Actual paybacks during the year to March 1991 amounted to SwFr434m.

In addition, dollar debt figures were af-

Cont ->

FM 8/11/91

fected by a transfer to the Public Investment Commissioners. The schedule shows an amount of $3,1bn was outstanding at March 31 1990 while only $2,4bn was owing a year later, a difference of $700m. Pretorius says that, of this, $300m was paid to PIC.

This explains $1,2bn of the fall in the global amount as published in the schedule, leaving the amount repaid in the year at $1,3bn. "A plausible figure," says Dykes. "Reserve Bank figures show a fall in public-sector debt (valued at December 1990 dollars) of $1,2bn in calendar 1990."

Spokesmen for Eskom, Transnet and the Post Office confirm that they did not refinance all their maturing debt.

As published in the schedule, debt in other currencies fell from (UAL dollar values at constant exchange rates appear in brackets):

- ☐ DM2,6bn to DM2bn ($1,5bn to $1,2bn);
- ☐ FFr2,5bn to just on FFr2bn ($422,3m to $338,2m;
- ☐ £118,8m to £88m ($206,2m to $152,8m);
- ☐ Y42,2bn to Y33,8bn ($298,9m to $240,1m);
- ☐ BFr442,8m to BFr418,9m ($12,5m to $11,9m);
- ☐ Sch19,2m to zero; ($1,6m to zero) and
- ☐ ECU137,3m to ECU33,2m ($164,8m to $39,9m).

This has come at a time when there is increasing concern about the reliability of official statistics *(FM* November 1). Inflation statistics have recently been revised, big revisions have been made to historical national accounts and figures on manufacturing output have been challenged. ■

SA rates poorly in global creditworthiness test

BDay 8/11/91 (74)

ROBERT GENTLE

SOUTH Africans could be forgiven for thinking that government's recent successful DM400m Eurobond issues means foreign money will come pouring into the country and that foreign lenders will be falling over themselves to finance the post-apartheid SA.

We should think again.

When subjected to international creditworthiness tests, SA comes out looking pretty awful. Of course we steal the show on the African continent; the September 1991 Euromoney rating puts SA at 54%, followed by Botswana (50,8%), Zimbabwe (44%), Mauritius (40,2%) and Swaziland (38,2%).

But on a global scale, SA is way down at position 36 — admittedly better than last year's 51 — but still nowhere near the top. SA is often held up as an economic superpower compared to Eastern European countries, yet it occupies a slightly lower rating than Czechoslovakia, whose "smooth transition into democracy, stable and competitive economy and low foreign debt all contribute to its high rating".

Mexico, the rising star of central America, is also better rated than SA at 55,8%. "Mexico has taken the lead this year; as formal fast-track negotiations for free trade with the US continue, inflation is falling and production increasing," according to Euromoney.

The magazine bases its ratings on the following factors: 40% analytical indicators (political risk, economic risk, economic indicators); 20% credit indicators (payment record, ease of rescheduling arrangements), and 40% market indicators (access to bond markets, availability of short-term finance).

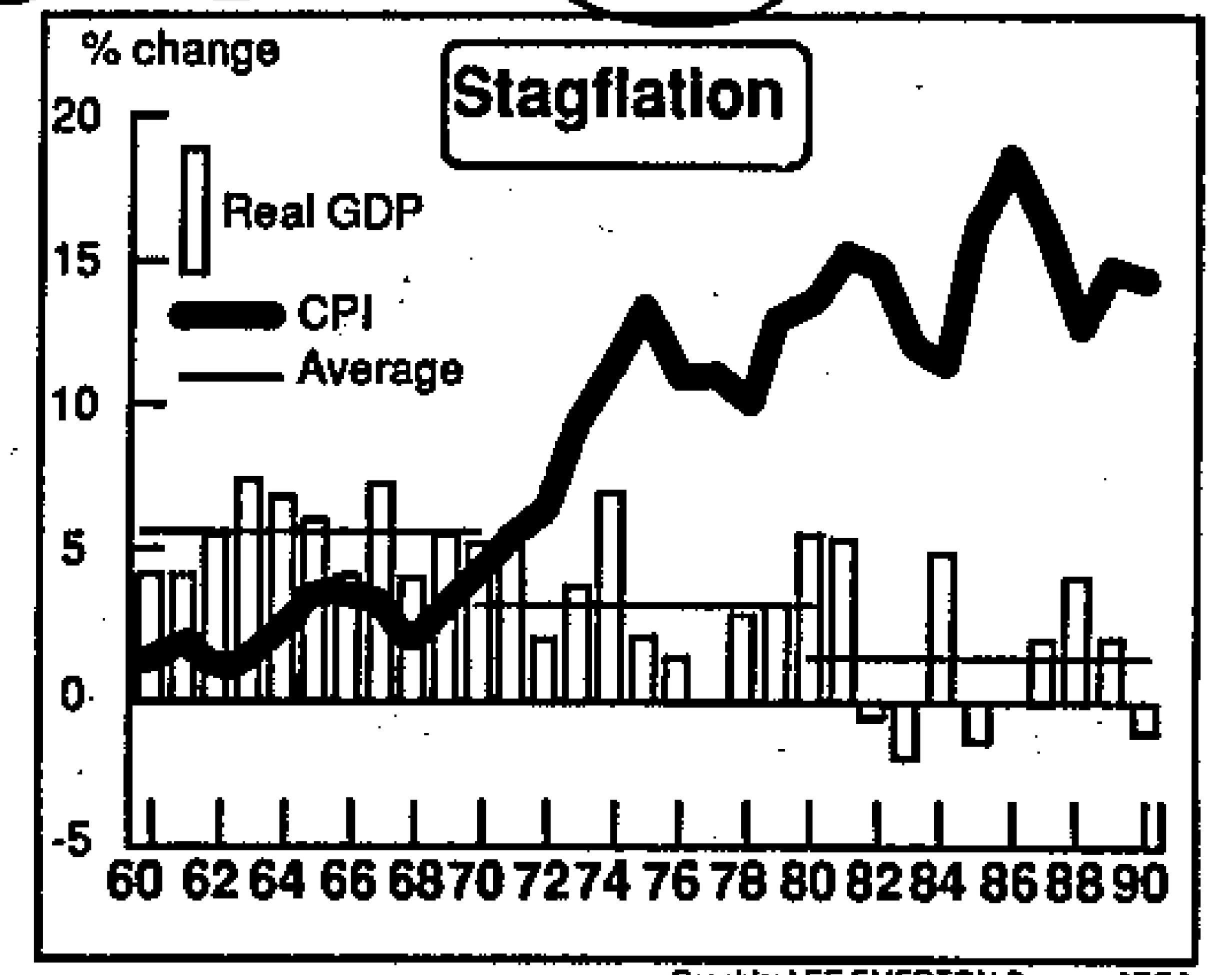
Swiss Bank Corporation goes for a more exhaustive approach, details of which are published in a special supplement which should be required reading for economic planners of a post-apartheid SA.

The report acknowledges the special difficulty of country risk analysis: unlike evaluating say, mortgage loans, it assesses future events under conditions of uncertainty, that is, a state of the world where the probability distribution of default is hardly known.

"The ultimate purpose of country risk analysis is the assessment of a country's ... future economic and political capacity to generate net foreign exchange and relinquish it for debt service. Two sorts of uncertainty must be assessed: whether the borrowing country will be able to come up with the necessary foreign exchange to meet its external obligations (economic risk) and whether the borrowing country will be willing to service its obligations (political risk)."

Swiss Bank Corporation then looks at these uncertainties by way of several key performances, economic and political indicators and relates them to the external environment.

For example, a high investment ratio (gross investment to GDP), especially when related to investment efficiency is a "precondition for high economic growth over the long run". High and stable growth rates of net exports mean rising foreign exchange revenues and an improving debt-servicing capacity.



Graphic: LEE EMERTON Source: ABSA

High inflation, on the other hand, generally distorts the allocation of resources, undermines international competitiveness, overvalues currency, causes capital flight and deters domestic and foreign investors.

"The quality of a country's fiscal policy is extremely important for medium term debt-servicing capacity," says the report.

Stubborn discrepancies between fiscal revenues and expenditures trigger serious side effects. They increase debt servicing costs and cause government debt to spiral. Structural budget deficits decrease the propensity to save. Higher deficits also imply a high real interest level which has negative effects on capital accumulation and therefore curtails economic growth. Growing deficits are accompanied by the danger of those deficits being financed by the printing of money, which fuels more inflation.

Political risk, notably the willingness to pay, can be evaluated "based on indicators that identify the country's vested interest in meeting its external payments". Examples: degree of political and economic integration with other (Western) nations, ideological orientation and form of government. Recorded unemployment related to per capita growth rate can also be a key indicator of political risk.

The Swiss Bank Corporation analysis can be developed further, but the point is already well made: SA is by no means a model student and falls down on many of the key points. Inflation is stubbornly high, money supply is the highest of 15 industrialised countries, labour productivity is low, the ratio of gross investment to GDP is estimated at under 20% (compared to about 25% in leading industrial countries).

Absa economist Adam Jacobs, commenting on the report, says the country has become the victim of stagflation — defined as a combination of stagnation and inflation: "My own analysis is that we are not creditworthy. We have a long way to go before we can sell ourselves as a blue chip country."

He says labour productivity has to increase and government spending (now at around 30% of GDP compared to 20% in the early '70s) must be brought under control, inflation brought down, the dissuasive tax regime sorted out and capital investment increased.

LETTERS

Trust to go ahead with Eurobond issue

44

ANDREW GILL

THE Independent Development Trust (IDT) is to go ahead with its proposed $100m Eurobond issue, IDT chairman Jan Steyn said yesterday.

This is despite unresolved discussions between the IDT and the ANC over the proposed issue. The two had agreed not to comment on the discussions other than to say they were proceeding, he said.

He did not give details about proposed dates for the issue which is being lead-managed by J P Morgan bank, although uncertainty surrounds J P Morgan's role in the issue should the ANC not back it.

The issue has been plagued by contradictory statements about the ANC's stance on the issue.

The IDT went on its investment roadshow in the middle of October, apparently with the full backing of all the major players including the ANC.

However, the ANC later said it was against the issue. ANC deputy president Walter Sisulu followed this with a speech in which he said the misunderstanding could be resolved.

Sources said the IDT had decided to go ahead with the issue with or without the ANC and would not delay its issue and allow other borrowers to make it to the market before them.

City council takes over coloured health services

B/Day 8/11/91

260

VERA VON LIERES

THE Johannesburg City Council is set to take over certain primary health care services traditionally provided by the House of Representatives, Representatives' Health and Welfare Department chief director Dr Eric Jarodien said yesterday.

Jarodien said the parties would sign an agreement in Johannesburg today.

He said the House of Representatives had asked Johannesburg to undertake services on its behalf but had stipulated that these had be rendered on a nonracial basis and "according to need".

Another proviso was that primary health care services in Johannesburg would be coupled to an aggressive literacy campaign to make services more effective, he said.

House of Representatives regional offices in Johannesburg and the City Health Department had identified six sites or centres in Johannesburg to be used as pilot projects, Jarodien said.

The centres, which would be operated on a nonracial basis, would be equipped with computer-driven literacy programmes.

The linking of primary health care to computer-based literacy training would be a first for SA, he said.

A council spokesman said the move was in line with recent statements by National Health and Welfare Minister Rina Venter that more primary health care services should be rendered by local authorities.

Venter signalled last month government was moving towards ending the duplication of health structures created by the own affairs system.

She said the fragmentation of health services had to be eliminated but added that this would have to be done within the limitations of the present constitution.

South Africa needed for reconstruction

Sowetan 11/11/91

(94)

AFRICA expects South Africa to power development on the continent, economists at a conference in Yaounde, Cameroon, have said.

FOCUS

By JOSHUA RABOROKO who attended a business conference in North Africa. In this report he reflects on the mood of the conference.

The dismantling of apartheid and the creation of an equitable order in South Africa are facilitating the country's formal involvement in African ecnomic development.

A liberated South Africa would be a member of the Southern African Development Co-ordination Conference, which is already investigating the possibility of orchestrating resources to enable the whole region to benefit from those pooled resources.

A free South Africa joining the SADCC will develop immeasurable potential and even stimulate economic development in the south-west African Preferrential Trade Area and possibly in Africa.

The future of trade relations with the rest of Africa is positive due to the economic principle of supply and demand, African economists observed at the All-Africa Conference last week.

Participants contended that, because of its knowledge of local conditions and established industrial infrastructure, South African business is able to offer competitive services.

This also applies to South African merchandise, whose competitive prices, comparatively short delivery times and compatibility with African conditions stimulate demand.

There are few African countries which do not have trade agreements with South Africa.

The efficiency and credibility of South Africa's transport system, its technical and research services in agriculture, nature conservation, engineering, construction, transport, telecommunication, water and energy supplies, health, education and training, focus on the specific problems which plague Africa.

As aptly put by the Minister of Foreign Affairs, Mr Pik Botha: "South Africa is part of Africa and must survive or die in Africa. It has a calling to assist in the development of Africa.

"What is needed now is a concerted effort to initiate, co-ordinate and execute an African development programme."

This historic conference was attended by 11 African states including Cameroon, Nigeria, Tunisia, Senegal, Morocco, Guinea and Togo.

The president of the Paris-based Movement for Dialogue and Co-operation, Mr Desire Atangana Onambele, said with the end of the century near, the collapse of communism and thawing of the cold war, Africa was still characterised by a lack of strategy.

"Now is the time to take up the challenge for economic growth. In this regard, the huge disengagement of the Soviets and lack of poliitical interest by the United States now frees Africa from numerous constraints.

"We at the MDC have invested a huge effort in our determination to bring Africans a truly great event and we are very fortunate to have the backing of several distinguished guests, including South Africa," he said.

Speaking on "Finance, Aid and Development in Africa", Mr Jean Bonvin stressed that most African states were in debt as a result of mismanagement of funds, corruption and lack of education and training.

Consequently many African states were in a state of poverty and poor economic conditions seemed to have dealt a heavy blow on any development with unemployment growing at an alarming rate.

One delegate said: "I know of a country in Africa where the state actually borrowed money from the monarchy - a clear indication of the extent of corruption.

"This monarch had obtained money from the international community but it was used for his own needs. He built his own economic empire. This is the reason why there are many *coups d'état* in Africa. Let us stop this," the delegate pleaded.

"Africa must learn that political power must be accompanied by economic power," another delegate said, adding, "Most African leaders are interested in empowering themselves and forget the interests of the people who elected them."

Different solutions were proposed and Mr Joas Mogale, general secretary of the Foundation for African Business and Consumer Services, said: "Southern Africa in particular has the potential to become a prosperous region.

"What is needed is for the nations of Africa to join hands and work together. It is time to put behind all the differences that have separated us in the past.

"There is a changing mood in Africa and also a growing realisation that true independence and a national identity can only be accomplished once economic stability has been achieved," he said.

Seven workshops during the conference came up with possible solutions that could be undertaken to make the African continent economically viable with less dependence on countries like the United States, the United Kingdom and the European Economic Community.

One of the salient points was reached with the appointment of a committee to look at stimulating inter-African developments.

Some of the solutions included:

The creation of an African Economic/Business Community like the EEC - a means through which finance could be channelled in Africa through the use of a unitary currency;

Investments must be directed towards utilising local potential and should include manufacturing, industry, agriculture, food production and rural development;

With the help of South Africans, transport and tourism should be encouraged in Africa and communications improved;

African markets and obstacles towards economic expansion must be looked into as a matter of urgency; and

The development of the informal and small business sectors must be encouraged and joint ventures and matchmaking, finance, aid and development among the African states must be encouraged.

This was backed by the Cameroon Minister of Social and Feminine Affairs, Mrs Yao Aissatou, who encouraged women to improve their agricultural skills.

SA 'can compete in Africa'

B/Day 13/11/91

WITH the disappearance of official trade embargoes, SA was well positioned to replace many of the finished goods Africa imported from Europe and elsewhere, Pepkor chairman Christo Wiese said yesterday at the launch of the Contact Kenya 92 exhibition in Johannesburg.

He said SA could compete effectively in Africa. Not only were its products "competitive in terms of price and quality, they are also better suited to these markets as SA technology has been adapted to African conditions".

"SA, with its sophisticated financial infrastructure and manufacturing ability, is today seen more and more as the key to the prosperity of the whole of the southern African region." — Sapa.

94

US move has currencies floundering

B|Day 13/11/91 74

SHARON WOOD

THE long-awaited cut in US interest rates took the wind out of international forex markets' sails and left the major currencies floundering in existing trading ranges.

The dollar maintained its bearish tone, failing to break above resistance levels at DM1,65 and just below 1,31 yen during the week.

Markets are now anxiously waiting for fresh news, which could come in the form of further global interest rate movements.

A speculated German interest rate cut did not materialise at the weekly Bundesbank council meeting on Thursday. But the likelihood of higher interest rates in Germany intensified when a member of Germany's central bank council, Helmut Hesse, said on Monday that interest rates might have to rise again to curb inflation.

"The Bundesbank must stick to its restrictive course and cannot lower interest rates. An interest rate rise would be more plausible," he said.

Weighing against the Deutschmark at the moment, however, is the acute debt crisis experienced by the Soviet Union. This capped the Deutschmark's upward potential because the level of debt turned out to be much higher than expected, with about $28bn of the total $81bn debt owed to Germany.

The extent of the problem is uncertain, as well as its impact on the Deutschmark, but it did heighten fears that the Soviet Union would default on its debt. This would not seriously affect Western markets, according to Deutsche Bank spokesman Helmut Hartmann, but it could cause a more serious political fallout.

FNB technical analysis shows the dollar remains firmly within its bear trend and found support at DM1,6325. The current consolidation period is expected to continue, with tests of resistance at about DM1,6616. If this is breached, the dollar could move up to DM1,6840.

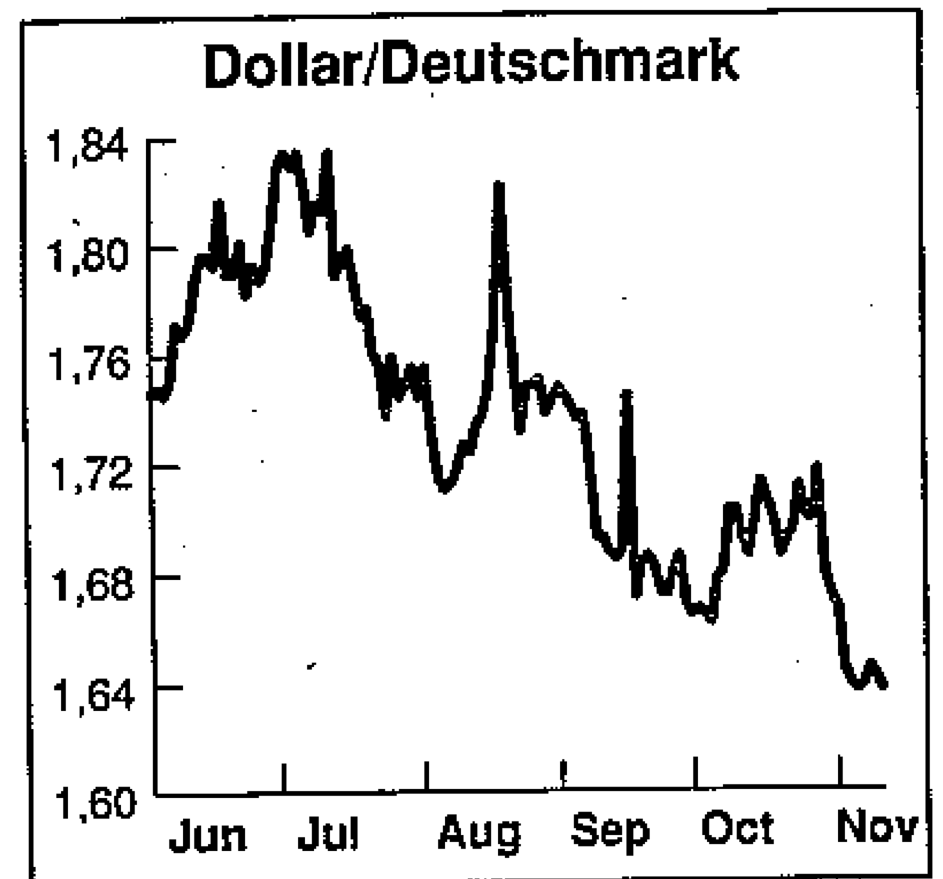
Their forecast range for the dollar this week is between DM1,6325 and DM1,6624.

Japanese interest rates are still expected to come down. Markets expect a rate cut tomorrow, when Bank of Japan governor Yasushi Mieno returns to Tokyo from the monthly Bank of International Settlements meeting.

Union Bank of Switzerland says if this step is taken, the yen is not likely to suffer much, if at all, as the move has been expected for some time.

The economic dilemma in the US persists and the recent interest rate cut may not spur the economy into the type of growth needed ahead of the election next year. The reason for this is that lower interest rates are unlikely to boost consumer spending because of existing high levels of private sector debt.

Standard Bank's International



Graphic: FIONA KRISCH Source: I-NET

Comment says it seems unrealistic to expect that persistent interest rate cuts will stir up a frenzy of sufficient increased spending activity, and that US monetary policy is now "pushing on a string".

But the lack of other tools to stimulate the economy suggests that interest rate cuts will remain the sole means by which US politicians could promote the consumer "feel good factor" in the months ahead, it says. Thus, the latest interest rate reduction may not be the last in the current cycle.

As usual during periods of dollar weakness, the rand moved up against the dollar while losing ground against the major cross currencies, sterling and yen, where the value is determined via the dollar.

The rand finally broke through the key R2,80 level yesterday and was trading at R2,7972 at midday.

Gold broke through its $355 support level during the week. Analysts have pinpointed this as an important level for gold to remain above if the precious metal is to move higher. By midday yesterday it had recovered slightly and was trading at $355,50.

Gold tested $353,73 during the week and is now expected to range, with a probability of retesting its previous support levels, says FNB. The forecast range for the week is between $353,79 and $360,00.

REVIEW

Japanese keen to invest in property

Sowetan 14/11/91

By JOSHUA RABOROKO

THE property market could see an inflow of Japanese capital now that trade and investment sanctions against South Africa have been lifted.

This could result in a bigger demand and subsequent increase in prices for up-market property in particular, according to Camdon's group managing director, Mr Scott McRae.

He said: "The Japanese are ardent believers in the long term investment value of property. Their forays into the United States, Australia and Europe have been professional and astute.

"One hears of mass buying expeditions by Japanese investors. In terms of their strong currency, South African property is absurdly cheap compared to their own, where it is said that a handkerchief dropped on a Tokyo pavement would cover land worth tens of thousands of rands.

"Now it seems South Africa's turn may come and an influx of Japanese buyers could well spur interest among buyers from elsewhere in the world.

"Potential Japanese property investors have been in the country over the past few months, probably in anticipation of sanctions being lifted," he said.

Their interest will be in property from coastal to commercial, provided it has an investment potential. It's fascinating to speculate that, even if a small percentage of Japan's 10 million tourists bought property in South Africa, it would represent a major boost for the market.

"South Africa should avoid the mistakes made by other countries. In Australia, for example," MacRae said, "unbridled Japanese buying had sent prices spiralling, generating great resentment among Australians.

"It is difficult to see how a similar situation could be prevented here, although South Africa could perhaps take its cue from Australia, which introduced a foreign investment control board.

"Inevitably foreign buyers will discover that SA is the best kept secret in the property world." he said.

NCF SEMINAR

'Foreign capital is key to economic recovery'

BDay 14/11/91 (74)

Reports by
LINDA ENSOR

CAPE TOWN — The immediate task facing Reserve Bank governor Chris Stals should be to win the support of the IMF, World Bank and other lenders to help make possible an economic recovery in the short-term, UCT academic Brian Kantor said yesterday at the National Clothing Federation (NCF) seminar.

He said foreign loans would also be required to sustain higher levels of imports as the economy recovered.

Kantor believed the high cost of credit and slow money supply growth, not a lack of confidence, were holding back the economy. He believed it would take no more than a 2% reduction in short-term interest rates to lift the economy.

But he endorsed Stals's policies to reduce inflation and hoped he would stand fast in his determination.

"The recession is a boat caught between the rock of unrealistically high inflationary expectations and the hard place of a tough minded central bank governor. The boat can escape the dangers if either the governor yields and allows money supply growth to pick up or the economic actors moderate their price and wage demands.

"The sooner the price and wage setters take Stals seriously, the better for them and us. The new SA stands to benefit greatly from an independent central bank determined to stick to the task of maintaining the value of the currency," Kantor said.

He believed the economy was set to gather momentum now that VAT had been introduced and that low interest rates would follow lower inflation.

But because the downturn had been mild, the upturn was not likely to be rapid. He said the best sign of an imminent recovery was to be found in the strength of the trading account of the balance of payments.

Kantor expected consumer inflation to fall to about 10% by the end of 1993 and the BA rate to edge down with inflation, maintaining a gap of between one and 2% ahead of inflation.

He said inflow of foreign capital would boost the foreign exchange value of the rand, but the maintenance of this value would require that short-term interest rates gradually fall in line with rates prevailing in foreign currencies.

"Any failure to bring rates in line when the foreign exchange value of the rand is judged to be secure would result in mammoth inflows of speculative short-term capital which in turn would put strong downward pressure on domestic interest rates and upward pressure on the money supply."

Kantor said exchange rate stability and a greater availability of imports would enhance competitiveness and lower inflation.

FM 15/11/91

RESERVES: CURRENCY EFFECT

(94)

Official reserves rose R612m to R8,6bn in October and are now almost 39% up from R6,2bn at end-1990. The increase in US dollars from $2,4bn to $3bn is somewhat lower, at 25%, because of the rand's depreciation against the dollar from $/R2,5634 to $/R2,8315 in the period.

Despite the rand's drop against the dollar and a fall of about 13% against the Japanese yen, the currency has been fairly stable against European currencies, says UAL economist Dennis Dykes. The combined effect of these currency movements is a 7% fall against a trade-weighted basket in the 10 months.

The October rise in reserves was the highest in a month since August last year, when they jumped R639m to R6,1bn ($2,4bn). Exchange rates used to derive the dollar values are those prevailing at each month-end.

"The October increase was due mainly to an increase in gold holdings from 6,1m oz to 6,4m," says Dykes. "Possibly the Reserve Bank is holding back on sales because of the weak price." In addition, the valuation per oz rose from R886,8 to R915,5. This pushed the value of total gold holdings up R107,3m to R5,9bn ($2,1bn).

Foreign assets rose only R107m to R2,7bn ($1bn).

FW optimistic about Arab investment after surprise visit to Oman

Business Day Reporters

TAIPEI — SA wanted to scrap its 60% surcharge on imported goods as soon as possible, President F W de Klerk said yesterday. BDay 15/11/91

"Our goal is to remove obstacles to imports and exports in a responsible manner," he told reporters on the plane before arriving in Taiwan for a state visit.

"If there is one thing that makes other countries unhappy, it is our surcharge on imports," Sapa reported him as saying.

Earlier, De Klerk paid a brief surprise visit to Oman, the oil-rich Gulf nation. After talks with Foreign Minister Yusuf Bin Alawi Bin Abdullah, De Klerk said investment in SA by Arab countries was now a "real possibility". (74)

Shortly after arriving in Taipei, De Klerk moved to reassure potential investors that their money would be safe in the new SA. He said government was "not prepared to accept a constitution which might result in the implementation of unsuccessful and obsolete policies that have failed elsewhere".

It would not agree to "indulgence in economic experiments that have led to collapse, poverty and suffering" elsewhere or a constitution that was unable to safeguard security and stability, he said after receiving an honorary law doctorate at the National Chengchi University.

De Klerk's stopover in Oman came after a visit to the Arab state last month by a senior Safto representative, and was a prelude to a Safto-led trade mission scheduled for February.

The Oman government apparently confirmed its willingness to accept normal relations with SA, and further progress is expected soon.

A full state visit by De Klerk to the Sultan of Oman, Qabcos Bin Said al Said, is also thought to be on the cards.

"No doubt the channels of communication have been cleared," said De Klerk. "There will be contact but it is too early to speculate on fixed things such as diplomatic relations."

Safto's area manager, Middle East, Gyff Fitchat commented yesterday: "The mere fact that De Klerk was allowed onto Oman soil represents a significant shift in attitude towards SA, and could indicate a thawing in relations."

Oman represents a trade market about the size of Kenya.

Fitchat said the move was also an important prelude to December's meeting of the Arab League in Cairo. "The Arabs are not likely to be left behind following the lifting of EC and Japanese sanctions."

☐ Meanwhile, economists in Johannesburg said that although De Klerk said government wanted to scrap import surcharges soon, it was unlikely they would be totally done away with in the very near future.

● Picture: Page 2
● Comment: Page 8

UK pushes for SA access to IMF

Star 15/11/91

74

By Kaizer Nyatsumba
Political Staff

The British Government would continue to press for South Africa's access to the International Monetary Fund and the World Bank, visiting British Trade Minister Timothy Sainsbury said yesterday.

Addressing the South Africa-Britain Trade Association, Mr Sainsbury said it was vital that South Africa dealt with its economic agenda "on a different time scale to the political one".

Mr Sainsbury, the first British Trade Minister to visit South Africa in 21 years, said planning for the future could not wait for a political settlement, and it was therefore important that South Africa gained access to facilities of the IMF and World Bank.

He said it was regrettable that the Commonwealth had decided against the relaxation of trade and financial sanctions against South Africa, saying sanctions were "yesterday's debate".

However, he welcomed the "positive signal" given by the Commonwealth lifting person-to-person sanctions.

Mr Sainsbury told the gathering: "Political stability is a necessary but not sufficient condition for success. The trading conditions must also be the most favourable possible. This means nothing less than a full-blooded commitment to a market economy and the removal of all barriers to trade."

He said South Africa was facing a number of important economic policy choices, one of which was its future relationship with the region.

Mr Sainsbury, who arrived in South Africa yesterday morning on a six-day visit, said the United Kingdom, already South Africa's leading trading partner, was currently experiencing "a further surge of interest" in the South African market. He reported "a sharp increase" in the number of commercial inquiries to both his department in London and its local offices in South Africa.

Star 15/11/91

UK trade minister offers words of encouragement

By Frank Jeans

Export credit for British businessmen looking to the South African market would soon be cheaper, the UK Minister of Trade, Timothy Sainsbury, said on arrival in Johannesburg yesterday.

At a luncheon of the SA Britain Trade Association (Sabrita), he gave encouraging pointers to renewal of trade and investment links between the two countries.

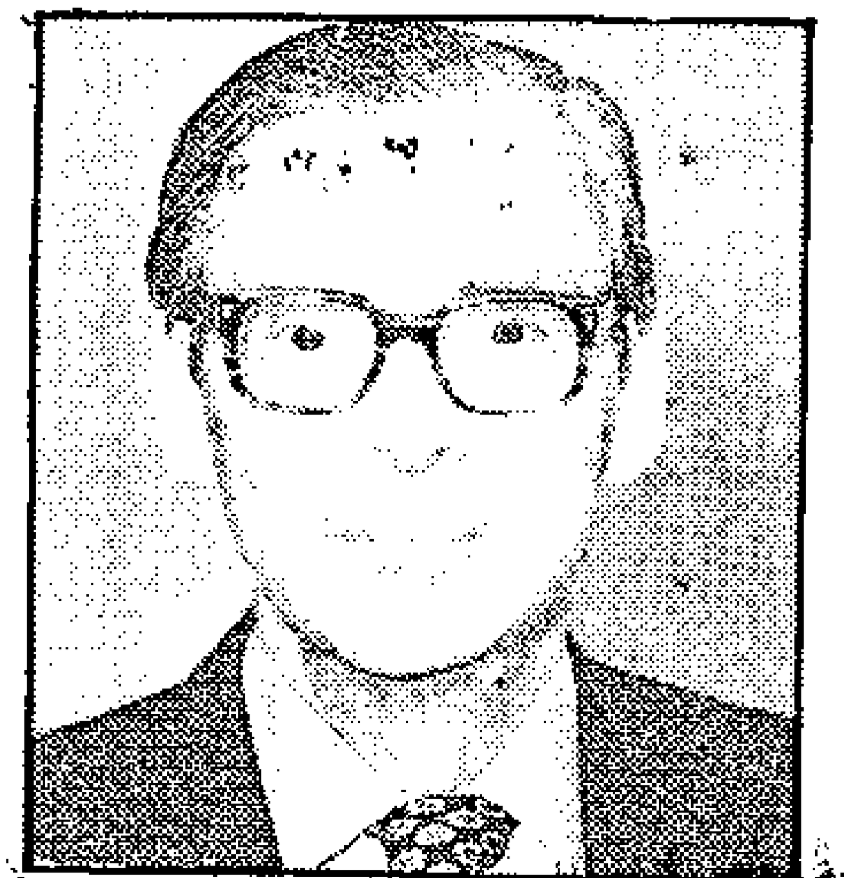
"SA must return to the mainstream of world trade without delay. Planning for the future cannot wait for a political settlement."

Mr Sainsbury, the first British trade minister to visit SA in 21 years, has come to explore new opportunities for trade and investment. He assured businessmen of a further surge of interest in the SA market.

"Here as in Britain, business has a heavy responsibility to help develop imaginative schemes and all other ways of realising the rich potential of South Africa's young people," said Mr Sainsbury.

While emphasising that SA had a sound economic infrastructure on which to build and that in some sectors its industry was fully competitive internationally, he criticised some areas of local business practice.

"In some sectors your technology has become dated, your manufacturing methods need reappraisal and training systems need overhaul," he said.



Timothy Sainsbury . . . return to mainstream without delay

SA buying up debts?

ARG 16/11/91 (74)

'Lucrative' default deal at 'five cents a dollar'

NEIL BEHRMANN
Weekend Argus Correspondent

LONDON. — International bankers are intrigued by rumours surrounding purchases by South African commercial banks of debt owed by Mozambique and Angola.

The total debt, estimated by Africa Confidential to be worth more than $10 billion (R28 bn), was originally owed to the Soviet Union. This money which is owed by Angola, Ethiopia, Mozambique and Benin is now worth only $500 million (R1,4 bn) because these nations have defaulted on their debts.

According to Africa Confidential much of the debt was sold to a group of leading South African commercial banks for five cents in the dollar.

Africa Confidential reports that "a senior World Bank source says he knew about the deal and had encouraged it as a substantial means of debt reduction".

Several London-based Southern African debt traders and banks involved in trade and project finance in the region could not confirm the deal. Moscow Narodny which actively trades debt, particulary East European, also could not confirm the story. The bank was not prepared to comment on rumours that it has bought Nigerian debt, currently trading at 40 cents in the dollar.

Ludgate Advisory Services, which has been active in Mozambique, said the story was interesting and possible but could not confirm whether it was true.

Other bankers said the deal with South African commercial banks could have been a bilateral transaction between the central banks of Mozambique and Angola and the South African commercial banks. The Reserve Bank of South Africa would be aware of the transactions.

If true, the deal would work as follows: The South African banks purchase a portion of the debt in dollars and place it with clients. That money is then exchanged for Mozambique and Angolan currencies. The funds in local currencies are then used for either loan or equity finance in projects based in Angola or Mozambique. At five cents in the dollar, the deals could be lucrative for banks and their clients.

☐ GAME FOR GOLF:

Lir

Mauritius supports drive for trade bloc

CHRIS WHITFIELD

PORT LOUIS — Mauritius is the latest southern Africa state to express interest in the formation of a regional economic bloc.

Sources at the weekend talks between President F W de Klerk and Prime Minister Sir Aneerood Jugnauth said the Mauritian delegation was "enthusiastic" about such a development.

Port Louis was De Klerk's last stop in his nine-day trip abroad. He returned to Johannesburg yesterday.

Sources said the talks had started under a cloud after reports that the Mauritian government had only agreed to receive De Klerk under duress. But Jugnauth denied this. Earlier, a planned protest by a militant socialists was banned by a magistrate.

Foreign Ministers Pik Botha and Paul Berenger also attended the talks. (94)

Sources said the Mauritians had indicated they would join the 11 or 12 countries that have already signalled interest in a regional market. The Mauritians also wanted to become part of a southern African fishing zone stretching from Angola in the west to the Comores in the east.

A strong feature of the talks was trade: Mauritian tea, SA coal and Mauritian textiles, exports of which are being hampered by stringent SA trade barriers.

The Mauritian delegation apparently also inquired about being granted "most

☐ To Page 2

Mauritius

BDay 18/11/91 (94)

☐ From Page 1

preferred trading nation" status by SA. Mauritius has already granted this status to SA. It is believed that SA said it was granted only to countries with full diplomatic relations.

Mauritius insists it will establish such links only when a democratically elected government is in place. SA currently has a trade mission in Port Louis.

On Friday, SA and Taiwan signed an agreement to boost economic co-operation. Consensus was also reached on a joint agricultural programme and an amended air services agreement.

The agreement, signed during De Klerk's visit to Taipei, makes provision for a joint working committee to meet regularly "to explore possibilities of closer co-operation and areas of technology transfer". It also binds the countries to exchanging information on the investment climate and providing this to potential investors.

Polish businessmen visit SA

Staff Reporter 74.

An eight-man Polish delegation arrived in Johannesburg yesterday to promote business and trade between South Africa and the Eastern European country.

During the 10-day visit the delegation will hold meetings with the Department of Trade and Industry and the chambers of commerce of Johannesburg, Bloemfontein, Durban and Maritzburg, according to Polish-South African Chamber of Trade and Commerce director-general Stefan Matthews.

Mr Matthews, who arranged the visit with the help of tour leader Waldek Valkowiak, said the businessmen were determined to establish strong economic ties with local firms.

The visit was the first private and entirely self-financed Polish mission to South Africa, Mr Matthews added. A government-aided private mission to South Africa had taken place in May this year.

Among the Polish visitors is Leszek Molinski, the director-general and governor of Bydgosz, an important Polish industrial and commercial region.

The tour began in Johannesburg yesterday with a visit to the Katyn Memorial, the Warsaw Flight Memorial and the National War Museum.

High rates 'may be here to stay'

B'day 19/11/91

74

ANDREW GILL

INTEREST rates close to 20% could remain a fact of life for years to come, Bankorp warned in its November issue of Econovision.

While lower inflation in 1992 should provide scope for two cuts in lending rates, the accelerating economic recovery foreseen in 1993 — and its pressures on credit creation, imports, the balance of payments and exchange rate — could prevent prime falling below 18%.

Towards 1994, moderate increases were possible from this level, it said.

Next year the economy was likely to be dominated by five important structural features, while undergoing patchy business cycle improvement in the first half and a broader upswing in the second.

The five features were political change, domestic economic co-operation, internationalisation, fiscal expansion and high interest rates.

In response, business should be prepared for ongoing instability while communicating with all political groupings and improving co-operation with labour.

Interest exposure should be limited by strict inventory and cash flow policies, using production facilities to maximum before expanding capacity.

Internationally marketed rights issues for expansion purposes were another consideration.

Business should expand exports and other international involvement and provide for "almost inevitable" increases in certain taxes while finding ways to profit from government's development spending and tax incentives.

Constraints on SA's "re-internationalisation" during 1991 because of the domestic recession on imports and world slowdown on exports should begin falling away next year.

This, the further lifting of sanctions, rising international tourism and the setting up of offices by a growing number of international organisations would add to the "re-internationalisation" trend.

Growth rates of exports and imports should exceed the overall growth rate considerably.

The trend should continue for some years with positive implications for transport, banking, hotel and insurance services. It should also induce fiscal expansion because of increased financial resources at government's disposal.

BUSINESS DAY, Tuesday, November 19 1991

Threat to 'overvalued rand'

SHARON WOOD

AN OVERVALUED rand could see Zimbabwe's exports to the lucrative Botswana market compete strongly with SA's exports, Nedbank economist Magan Mistry said in the latest Guide to the Economy.

Both Zimbabwe and Botswana had devalued their currencies this year, resulting in an overvalued rand against the two currencies in terms of purchasing power parity. BDay 19/11/91.

Purchasing power parity, or the real effective exchange rate, adjusts the nominal exchange rate by changes in the price levels in the two countries and shows whether the currency is overvalued or undervalued.

Over the long term the undervaluation or overvaluation of a currency was likely to have an impact on the pattern of trade, with manufactured products likely to be affected very early, Mistry said.

Two-way trade between Zimbabwe and Botswana was R252m in 1987, while two-way trade between SA and Botswana was R1,76bn.

Zimbabwe devalued its currency by more than 30% against the rand in September and October this year, reaching Z$1,77 a rand on October 2 from Z$1,3425 in mid-September last year. (74)

The devaluation occurred as part of the economic reform programme under the guidance of the World Bank and the IMF.

Botswana followed Zimbabwe and devalued the pula in an attempt to widen the country's narrow export base by specifically promoting manufactured exports. The country's three main commodities accounted for over 90% of export earnings.

Mistry said part of the benefits of the Zimbabwean dollar devaluation would be neutralised as imported inflation started to push up domestic prices. With prices rising faster, further devaluations of the Zimbabwean dollar were possible.

The Botswana pula was unlikely to appreciate further against the rand, he said.

Angola holds top spot for business

Star 19/11/91

By Dale Lautenbach
Star Africa Service

Angola has come out far on top of a survey of African countries in which South African business people were asked to identify their main countries of interest for future opportunities.

According to a survey by the South African Foreign Trade Organisation (Safto) of more than 100 companies, among them some of the most important on the South African scene, Angola was earmarked by 74 as a place where they hoped to develop new markets.

Second on the list was Kenya with 46 points of interest, third Zambia with 26 and next Zaire and Zimbabwe with 22 each.

Paul Runge, manager of Safto's Africa Business Development Group has for some months noted with excitement the growing interest in Angola.

He said the Safto survey bears out all the signals that he has been picking up as South African business people make their way back into African markets formerly denied them in all but the most clandestine dealings.

74

Waiting list

A fourth Safto-organised tour to Angola left this weekend. Mr Runge said visits to African countries by South African business people were proving increasingly popular and there was a waiting list for the Angola trips.

Mr Runge is convinced that South Africa has an important role to play in the development of the mining sector in Angola. Another area of great attraction to South African companies was the infrastructural upgrading necessary now as Angola emerges from 16 years of civil war in which so much of its transport and communications network was destroyed.

He warned that the international competition for work in Angola was fierce and was convinced that South African companies should be positioning themselves in the Angolan market now.

"A number of people feel that they should wait until the political scene in Angola is more stable following multiparty elections expected next September. I feel that would be a mistake, however. We must get in there now."

Much of the financing for big projects would probably come from the World Bank but that organisation was only now beginning to do a comprehensive survey of damage assessment in Angola.

Financing work in Angola was one of the major obstacles, said Mr Runge. He anticipated that South Africans might become involved in joint operations or "piggybacking" with other international companies

The response of the South African business community to the Safto survey bears out opinion that has been catching on in recent months. Earlier this year Neil van Heerden, Director General of Foreign Affairs, said Angola was potentially South Africa's best trading partner in Africa.

The South African and Angolan governments recently agreed to exchange trade missions which is another important step in facilitating the operation of South Africans in Angola.

Finrand surges against dollar

By Sven Lünsche (74)

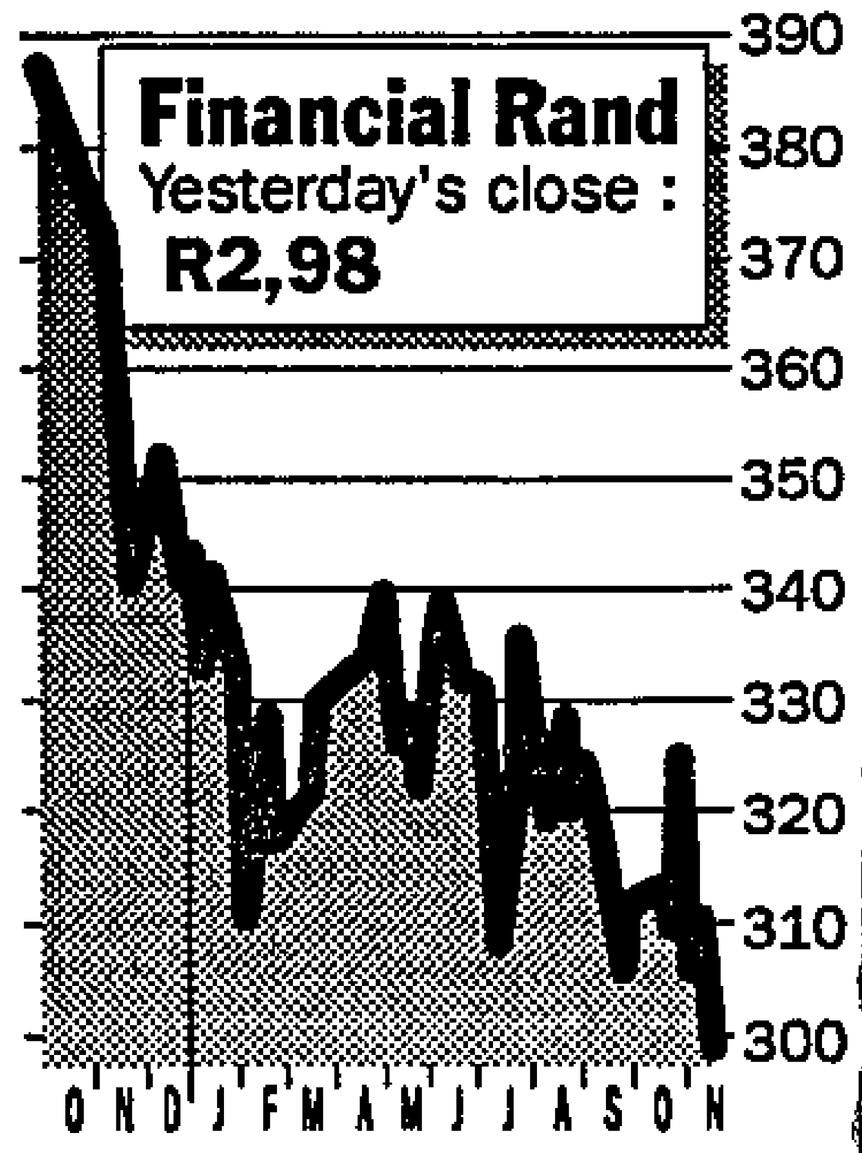
The financial rand surged to record levels against the dollar yesterday, dipping below the R3 level for the first time since its reintroduction in 1985.

At the close the finrand was trading at R2,997, a gain of 4c on the day. Star 19/11/91

While the commercial rand also strengthened — by 2c to a close at R2,78 to the US currency — the discount between the finrand and the commercial rand narrowed to 7,1 percent.

Finrand dealers said most of the demand came from foreign institutions, particularly in the Far East, for investments in long-term government bonds. On the capital market rates eased in bullish trading with the benchmark Eskom 2008 trading at around 16,3 percent at the close.

The dealers added there was little overseas demand for gold counters on the JSE, despite the $5 rise of the gold price on international metal markets.



JSE keeps cool after Wall Street's plunge

By Ann Crotty (14) Star 19/11/91.

The JSE appeared to take its cue from London yesterday and market sentiment held up reasonably well in the face of the plunge in share prices in New York on Friday and in Tokyo yesterday.

The overall index closed 72 points weaker at 3464, dragged down by the 129 point fall (equivalent to 3 percent) in the industrial index to 4204.

A relatively strong gold price supported the gold index enabling it to rise 27 points to 1096.

Damage in the London market was restricted to a 43,7-point fall on the FTSE 100.

After initial hesitation, UK investors gained courage and shook off fears of another stock market plunge along the lines of the October '87 crash.

But it was evident that investors on the JSE were playing a wait-and-see game as they nervously tried to second guess what might happen in New York when the market opened.

In morning trade many of the blue chip shares were marked down. Particularly hard hit were shares with strong overseas interest such as FIT, Richemont and De Beers. Feeling was that if international investors were going to take a beating, as they did in '87, they would rush to liquidate their SA investments.

So local investors moved in to mark down the prices ahead of any possible overseas selling pressure. However this did not materialise and the financial rand made solid gains against the dollar.

Friday's collapse on Wall Street was attributed to concern about a proposal before the US Senate that would have had a devastating impact on credit facilities and on bank earnings.

Little confidence

The proposal was aimed at preventing banks from charging more than 14 percent on credit card finance. (This proposal followed last week's cut in the Fed's base rate to 4,5 percent.) At present, banks are able to charge up to 20 percent on credit card facilities.

A 14 percent ceiling was expected to see the banks cutting back considerably on provision of card facilities.

Such is the widespread use of credit cards in the US that investors feared that restrictions on this front would severely dampen consumer spending. This, at a time when the US economy is throwing out mixed signals and there is little confidence that it enjoys any fundamental strength.

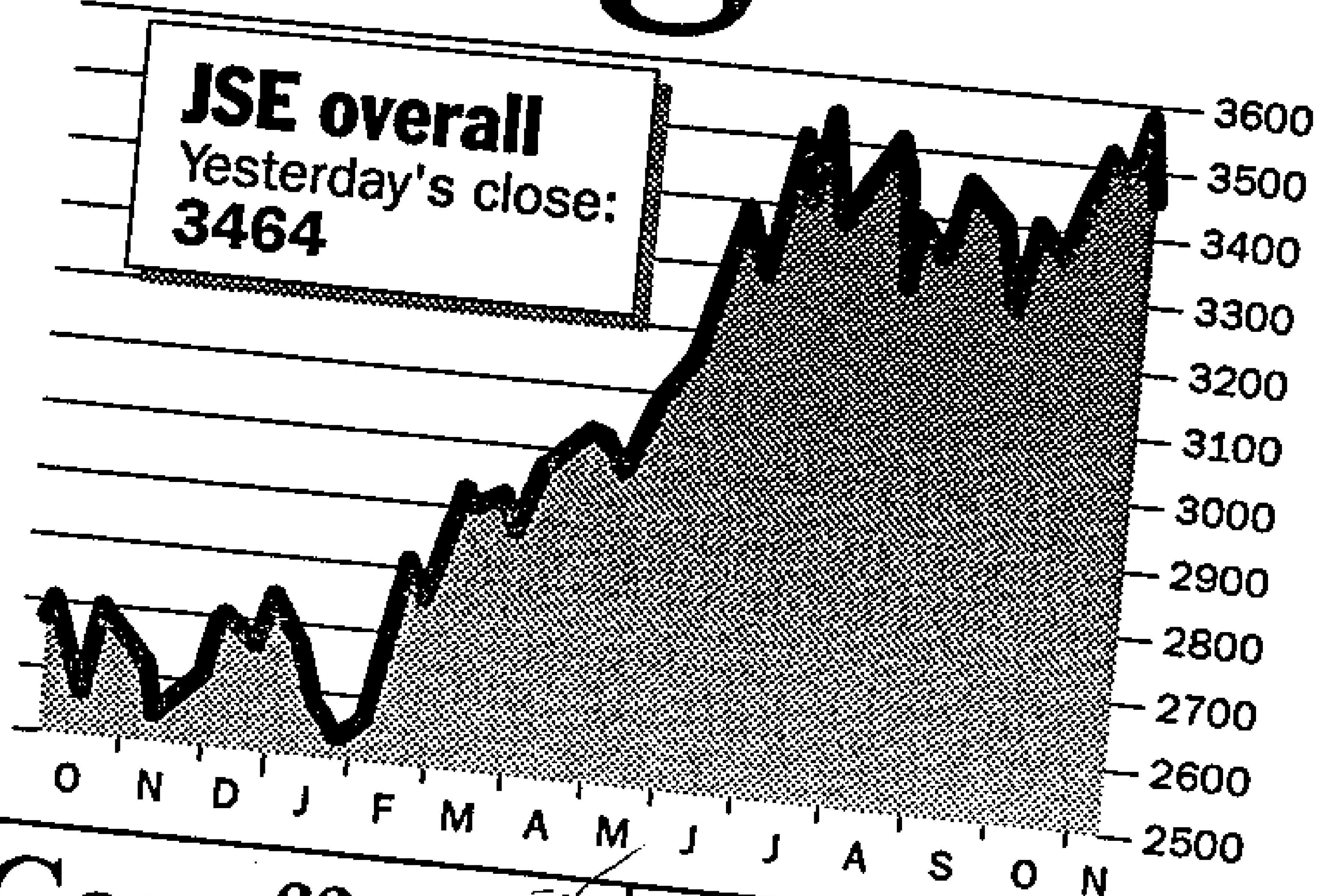
On the bullish side is the realisation that next year is an election year and so the economy is likely to be given considerable support in the months ahead.

Already Republican senators have indicated that they will not allow the credit card proposal to go through.

Early signals from Wall Street indicated that local investors were correct in their hopes that the New York market would not see a repeat of the grim developments of October '87.

Yesterday Wall Street opened 12 points firmer but then slid back 13 points.

The 1987 crash commenced on a Friday on Wall Street and the following Monday share prices in New York continued to plunge and set off a selling spree worldwide and the start of a major bear phase.



Gas offer by Maputo

HARARE — Mozambique is looking to South Africa as an export market for its natural gas as production gets under way, says Mozambican Mineral Resources Minister John Kachamila. Star 19/11/91

"Mozambique is very interested in exporting natural gas and we look for the main market in South Africa," he said yesterday.

Industry sources said SA want...

Dorbyl I...

Dorbyl has posted a 5,8 percent increase in earnings for the year to September, despite tough recessionary conditions.

Improved earnings and confidence in the future have enabled the directors to raise the final dividend to 80c, bringing the total to 108c — up five percent on last year.

Dividend cover has been maintained at 3,4 times.

Turnover was up 1,8 percent...

More trouble ahead say analysts

Sharp rise in US trade with SA

(74) ARGUS 20/11/91

HUGH ROBERTON
The Argus Foreign Service

WASHINGTON. — Trade between the United States and South Africa appears to be rising sharply following the lifting of sanctions by President Bush earlier this year.

The Commerce Department's latest monthly trade statistics, released today, showed a 68 percent rise in the US trade surplus with South Africa between August, a month after sanctions were lifted, and September.

The figures for October are expected towards the end of the year, but officials indicated today the big rise in the trade surplus between August and September appeared to reflect a post-sanctions trend.

This will come as a setback to the ANC and its supporters in the US who have campaigned vigorously for the retention of state and city sanctions against South Africa after Mr Bush's decision to scrap sanctions at the national level.

In August the US surplus on trade with South Africa was only $36,8 million. In September the surplus was $53,6 million. Further details on trade with South Africa were not immediately available.

Today's statistics show South Africa is one of the few countries with which the US has a growing trade surplus.

The US deficit on trade with Japan, China, and Taiwan rose significantly between August and September.

The trade deficit with Japan stood at $4 182,5 million in September (up from $3 736,6 million in August). The deficit on trade with China was $1 461,5 million (compared with $1 307,2 million in August), and with Taiwan $1 028,7 million (from $908,1 million).

‘Stable rand’ policy not compatible with high inflation

M4

B/Day 20/11/91

SIMON WILLSON

FALLING inflation among many of SA's major trading partners is widening SA's adverse inflation differential with the main industrial economies and posing questions about the Reserve Bank's management of the rand.

The authorities' "stable rand" policy already means that the rand is stronger against a basket of trading partners' currencies than it would be if the inflation differential was fully reflected in the exchange rate. If the authorities continue to pursue trade-weighted rand stability as SA's adverse inflation differential widens further, industry will be put under pressure as higher domestic costs are not offset by a weakening rand.

Figures released last week showed continued falls in the US and UK inflation rates. The year-on-year rise in the US consumer price index slowed to a four-year low of 2,9% in October, and the annual rate of UK inflation as measured by the retail price index dipped to 3,7%, its lowest in more than three years.

Last week's figures underscored the most significant feature of current inflation rates among SA's trading partners: they are coming down in unison. In the recent past, average inflation among these same trading partners was higher than it is now because one or two of the countries concerned would always have sharply above-average inflation rates. The spendthrift British, French or Italians could always be counted on periodically to stoke up double-digit inflation to wreck the low trading-partner average created by the more abstemious Germans and Japanese.

In 1980, for example, when SA inflation averaged 13,8%, average inflation among the seven biggest economies in the OECD — which comprises most of SA's main trading partners — stood at 12,1%. All but Japan and Germany of the "big seven" had double-digit inflation, and an adverse inflation differential for SA of less than two percentage points was of little consequence either to exporters or to the exchange rate.

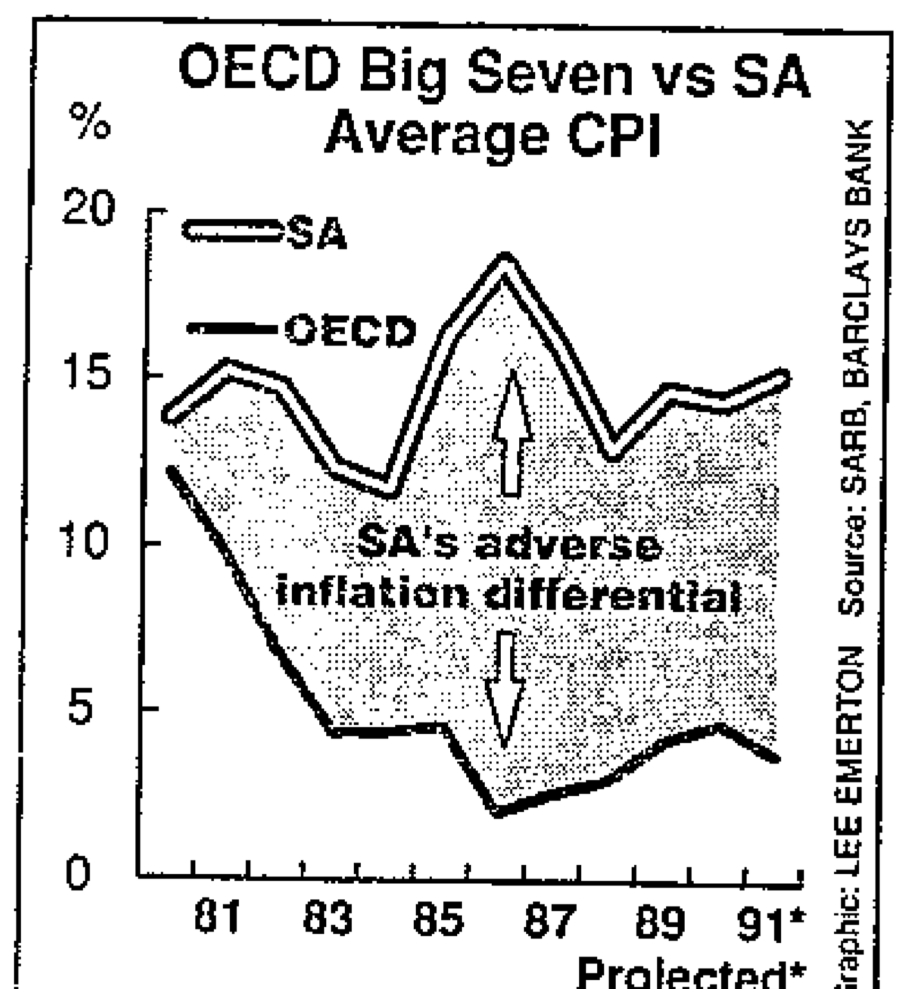
By 1985, when SA inflation averaged 16,3%, the OECD big seven average had fallen to 4,6%. The French, British and Italians weighed in with their inflation rates above 5% that year, saving SA's adverse inflation differential from being even wider. The differential of more than 11 percentage points was partly reflected in a 27,5% plunge in the trade-weighted rand during the same year. SA industry was thus compensated for its sharply rising domestic costs by earning higher rand-denominated export proceeds.

Last year, OECD big seven inflation averaged 4,7% against SA's 14,4%, and the adverse differential was about 10 points. But because the trade-weighted rand adjusted only 7% downwards during 1990, it failed to reflect fully the inflation differential. Exporters were therefore not fully compensated for their higher domestic costs.

This year, average inflation among the OECD big seven will decline further while SA's inflation rate rises again. The difference now from the situation 10 or even five years ago is that OECD big seven inflation is likely to stay down. The era of double-digit inflation rates in the countries that always used to supply them — the UK, France and Italy — is over. SA will no longer be able to count on rogue, double-digit inflation rates among some trading partners to haul the partners' inflation average up and contain the adverse inflation differential.

The watershed for the UK, France and Italy in these countries' own private battles against inflation has been membership of the European monetary system (EMS). Since the EMS is effectively a Deutschmark bloc whose monetary policy is run by the Bundesbank, the German central bank, the system's great attraction is that it offers German-style monetary discipline and the prospect of low, German-style inflation.

When France pitched the franc into the EMS at the beginning of the 1980s the country was in the middle of a nightmare stretch of four consecutive years of double-digit inflation averaging 12,5% between 1979 and 1982. EMS membership has so transformed the French inflation profile that in July this year French inflation dropped below the German rate for the first time since 1973.



Graphic: LEE EMERTON Source: SARB, BARCLAYS BANK

In October last year, as the UK weathered a third consecutive month of inflation above 10%, full EMS membership was conferred upon sterling with the same overall objective: to lower inflation and to keep it low. With the help of some technical factors, UK inflation has also fallen steeply in the months since the pound joined the EMS. The Bundesbank's monetary discipline will probably restrain even UK inflation in the years ahead through the EMS constraints. Indeed, before the end of the year, the UK inflation rate is likely to fall below the German rate for the first time since 1965.

Italian annual average inflation was in double figures between 1973 and 1984. Italy's perennially high budget deficit (about 10% of GDP) makes Italy one of the most inflation-prone of SA trading partners, but the lira's EMS-related constraints have neutralised even that powerful contributor to inflation.

The months prior to sterling joining the EMS at the end of last year are, therefore, likely to be the last in which an aberrant inflation rate among SA's trading partners pulled the partners' inflation average upward and protected SA from either devaluation or swingeing domestic cost-cutting.

The past 12 months have shown what lies ahead for SA's inflation differential with major trading partners. In October last year, OECD big seven average inflation was 5,6%. Last month it is likely to have been barely 3,5% and heading lower — in all likelihood to stay low. UK and US inflation more than halved over the 12 months to October, French inflation dipped by more than half a percentage point and the German and Japanese inflation rates were little changed at their traditionally low levels.

Meanwhile SA inflation, at 14% in October 1990, is likely to have risen by about two percentage points when last month's CPI figures are released later this week.

EMS membership, the breakup of the oil exporters' cartel and the need for the US and Japan to disinflate and remain competitive with the world's largest trading bloc (the EC) form the combination of factors likely to keep inflation low among SA's trading partners for the decade of the 1990s. It is possible that average inflation among SA's trading partners will not again exceed 5% before the turn of the century.

Under the prevailing management of the rand exchange rate, this has far-reaching implications for local industry. The SA authorities are committed to maintaining a strong real trade-weighted rand because it is disinflationary: a falling exchange rate is to be avoided because it generates its own inflation by making imports more expensive. So even if the adverse inflation differential exceeds 10 percentage points, the exchange rate will not, under current management, be allowed to offset the higher domestic costs squeezing local industry.

If the exchange rate does not adjust for a higher inflation differential, then something else must give in order to trim domestic costs to levels that preserve and maintain trade flows. Industry will have to retrench, curb pay increases and/or increase productivity. Either way, if the rand does not adjust, the domestic inflation rate will fall by hook or by crook. SA's trading partners are now securely locked into a low-inflation environment, and this injects added urgency into the Reserve Bank's anti-inflation drive. If industry and wage-earners do not co-operate then they, rather than the rand, will take the strain.

SA trade with Africa 'could double'

CT 21/11/91

Political Staff (74)

A DOUBLING of South Africa's trade with Africa could be anticipated after the abolition of apartheid, UWC's Professor Rob Davies said yesterday.

He also said that with only 0,54% of the world's gross domestic product Southern Africa, including South Africa, would not be a major player in the world.

Prof Davies, a former exile who is co-director of the Centre of Southern Africa Studies at the University of the Western Cape, said at a SA Institute of International Affairs seminar in Cape Town that SA exported goods worth R4 007 million to Africa, almost six times the R713 million of goods it imports from the continent.

In 1980, 6,5% of SA's exports went to Africa and this had increased to 10% in 1990. However, 25-30% of SA's manufacturing exports went to Africa and as manufacturing was the key to the country's future economic growth, these exports were important.

"Apartheid was a barrier to the development of manufacturing exports in Africa.

"One could anticipate a doubling of SA's trade with the continent with the abolition of apartheid," Prof Davies said.

● A deputy director in the Department of Foreign Affairs, Mr J M Sterban, said at the seminar yesterday that SA had the potential to assist in the restructuring of the Southern Africa region, but its resources were limited,

"Our reserves have suffered as a result of sanctions. Low commodity prices, high inflation and emigration of skilled personnel have hurt the economy," he said.

Platinum shines as gold fails to make headway

MERVYN HARRIS

PLATINUM overshadowed gold on bullion markets yesterday with gold failing to make much fresh headway as global stock-markets stabilised to give reassurance to jittery investors. (74)

The rise of platinum to $369,50 from Tuesday's close of $366,50 came on continued speculation that Japan was importing more of the metal than was previously considered, and talk that the Russian Republic would soon release information on its level of stocks.

In Zurich platinum finished $3,50 higher at $369,50. BDay 21/11/91

Analysts said that when official data on Soviet gold reserves was released recently, the figure was much lower than estimated in the West and the same could apply to platinum.

Gold firmed $0,35 to close in London at $363,15 yesterday as the metal inversely tracked the performance of Wall Street and acted as a form of hedge after recent share losses.

On the Hong Kong market gold ended at $362,55 compared with a previous close of $360,35, and New York's Tuesday finish at $363,75, which analysts see as an important resistance level. The upside target is seen in the $373,50 area.

Tuesday's sharp downturn on Wall Street created another nervous trading session on Diagonal Street with attention focused on London, which in turn was waiting to see how Wall Street would perform.

The JSE overall index closed 10 points lower at 3 447 with gold shares again defying the easier trend as the all gold index gained 27 points to 1 140. The industrial index swung from the previous close of 4 195 to touch a low of 4 167 in early trading, then bounced back to 4 190 before easing to close 23 points down at 4 172.

While there was no selling pressure, buyers remained wary with institutions remaining on the sidelines and nibbling at selected shares on a downward trend.

"Everybody is looking over their shoulder to see what is happening on other markets as they wait for a lead," a dealer said.

FM 22|11|91 FOREIGN LOANS (94)

Where angels fear to tread

While this country is substantially under-borrowed (details are on subsequent pages), and a renewed stream of loans would strengthen the balance of payments, bolster the reserves and sweeten the currency, both hopeful borrowers and government must be cautious.

The way markets are approached and the issues' purpose should both be carefully considered.

While international capital markets are opening up again, they remain fragile and could easily react negatively when the inexperienced blunder in.

The German bond market is an exception. SA bonds are sold over-the-counter by local branch managers to individual investors who mostly have invested in this country before and are little influenced by politics.

Eurocapital markets in Britain and the US are different. They tend to be more institutional and are subject to greater social, political and other influences.

Simply put, they represent pools that can easily be muddied by the insensitive or inexperienced. Old Mutual's abortive attempt to sell equity units in London is an example. That has probably set back the chances of South Africans in that market for some time. It was clumsy and contrived.

The Independent Development Trust Eurobond issue could be following suit. The ANC is ambivalent about it and, indeed, whether the IDT should be borrowing at all abroad to finance schools that it plans to lease back to government may be questionable.

If it be succesful, a future education department, without the benefit of growth, is going to have an increasing part of its budget committed to servicing and repaying these loans — an obligation that will most likely be swelled by inflation and a consequent weakening rand. Too high a slice of the education budget could then be committed to finance costs rather than to buying educational essentials.

To hungry issuing bankers, the IDT is probably a gilt-edged innocent. That could be dangerous.

In those circumstances, the ANC's block might prove after all to be helpful. ■

IDT LOAN FM 22/11/91 (74)

More glitches

The Independent Development Trust's proposed US$100m Eurobond issue is becoming far more complicated than chairman Jan Steyn could have imagined.

Not only is the ANC refusing to endorse it, the trampling on some influential bureaucratic toes and a questioning of the need to raise capital abroad could further sour the initiative.

The issue was announced in September, with the backing of all major players, including the ANC — which subsequently withdrew its support.

The IDT and ANC are still negotiating the issue, says IDT spokesman Jolyon Nuttall and both have agreed not to comment further at this stage.

The IDT says most of the money will go into building schools for blacks, to be owned by communities and leased back to the Department of Education & Training (DET). The rents will be used for interest payments.

Using DET funds to lease the schools is apparently not an obstacle to ANC support. Nuttall says that, in any case, the lease arrangements are likely to be under the umbrella of a single education department in the near future, as indicated by DET education Minister Sam de Beer.

The problem lies with the DET. The arrangement undermines an important aspect of DG Bernard Louw's control of DET's budget.

Louw says: "The DET will have to foot the bill for running costs. Therefore, agreements will have to be reached on a number of issues, such as which communities' needs should take priority, as well as the number of new schools whose running costs can be accommodated in the budget."

On why it is necessary to raise a foreign loan, Steyn says there is not sufficient capital in SA to create the flexibility needed by development initiatives.

Finance DG Gerhard Croeser says it is important for the IDT to be exposed to the foreign capital market. The IDT and the Development Bank of SA are the only two new borrowers his department is allowing to raise foreign capital.

"Some people are not particularly happy about the IDT entering the market as an unproven entity, but it is important in the transitionary process and needs exposure."

While there is sufficient local capital to meet SA's current limited demand, there are insufficient savings to fund growth. SA will in future need not only foreign loans but foreign investment as well, he says. ■

Financial Mail

FM 22/11/91

(M4)

THE CRASH OF '91?

Maybe not — but be warned

The illusion that exchange controls and all the other barriers with which we have surrounded ourselves can insulate us from the vagaries of the outside world has again been exposed this week, as the JSE — like its big brothers in Tokyo and London — slavishly followed Wall Street down.

At the same time, the gold price is struggling yet again to break above US$360/oz; and the financial rand discount, after widening on the recent economic scare stories from the ANC, has again narrowed to levels which have seldom been seen since the 1985 reintroduction of a dual exchange system.

On the conventional wisdom that the discount measures foreign perceptions of the political risk of investing in SA, this joins gold as a positive influence (though, in currencies other than the US dollar, gold has not performed so well).

As far as gold is concerned, while an interruption of Soviet sales (if indeed the USSR has run down its stock almost to nil, and its mines are suffering increasing production problems) is insignificant in relation to total stocks overhanging the market, a reduced flow of new supplies is not only influential in itself, but also an indication that the rate of new supplies in recent years was artificially high. It follows that the bullion price may have been depressed below the natural, market-clearing rate of current supply and demand.

None of this, however, can reverse the underlying change for the worse in the fundamentals of the gold market, triggered by lower worldwide inflation, positive real interest rates and the spread of other hedging instruments.

What is more important is whether this is the onset of a new bear market — or, some would say, the resumption of the bear market that never really developed in 1987. Certainly, grounds can be advanced for this fear, and attempts by major markets to return to a positive mood this week have not convinced.

Economic recovery in the US, for instance, is distressingly fragile. In scandal-ridden Tokyo — the one market that never remotely looked like regaining pre-1987 levels — it's a matter of wonder that the system has averted the collapse of any financial institution. And though western Europe remains relatively healthy, the cost of rehabilitating not just the USSR, but ex-socialist eastern Europe, is astronomical.

Neither separately nor jointly is it inevitable that these factors will push the world back into recession. It is still possible that 1992 will bring some advance in world economic growth; but it may not meet optimists' hopes.

The relevance of this is that hopes for a revival of the SA economy based on a pick-up in world commodity prices may also be over-optimistic. In turn, this is bad news for those who argue that redistribution through growth will be more beneficial than attempts to redistribute existing wealth.

There is no need to adopt a doomsday scenario yet; but, at the very least, the events of the past week are a salutary warning not only to investors worldwide, but in particular to us in SA that, even if we arrive at a political settlement, the economic prosperity needed to make a settlement stick cannot be taken for granted.

Let's hope this sinks in even with those whose public utterings rate political point-scoring more highly than the creation of a confident business mood that is another prerequisite of a healthy economy. ■

FOREIGN DEBT FM 22/11/91 (94)

Over the hump

The year of the hump in foreign debt repayments is almost over and the experience has been relatively painless.

A comparison of figures provided nearly a year ago by Reserve Bank Governor Chris Stals at a Euromoney conference in Cape Town, and the prospectus for the recent RSA DM bond issue with a schedule of outstanding redemption commitments, shows Stals was expecting new funds of at least US$600m in 1991. In the event a modestly better circumstance unfolded.

Stals told the conference that at worst SA would have to repay $2,3bn in 1990, $1,6bn in 1991 and under $1bn a year for the rest of the century. (Presumably these are net figures, allowing for new money raised abroad.)

According to the prospectus, redemptions of $1,743bn for public-sector and $2,764bn for private-sector debt were due in 1991 — so-called unaffected debt outside the net. To these must be added $346m due inside the net under the Third Interim Agreement.

So, on the face of it, repayments total a formidable $4,9bn. However, a footnote to the table explains that the private-sector amount includes inter-company trade credit and short-term trade credit through the banking sector. It seems reasonable to assume that the bulk of private-sector debt was trade-related and will be rolled over through normal trade mechanisms.

On this basis, it's reasonable to eliminate the vast bulk of the private-sector item of about $2,7bn and assume that a nominal $100m of it will be repaid this year. So total gross repayments could approximate $2,2bn (private-sector $100m, public-sector $1,75bn, and $350m in the net). To reconcile this with Stals's worst case, $600m new foreign money will have to be raised.

In fact, $700m appears to have been raised so far this year. According to a research paper by Jonathan Garner and Jonathan Leape, of the Centre for the Study of the SA Economy & International Finance at the London School of Economics (*FM* September 20), $450m had been raised by August.

To this must be added the German public issue, which brought in DM400m, or about $250m (according to the Finance Department). This leaves a total long-term capital outflow of $1,5bn.

Unfortunately, it is difficult to square this with other statistics put out by the Finance Department, which cover only government-guaranteed debt. The Bank works with total foreign debt.

Nedbank chief economist Edward Osborn points out another possible discrepancy.

He says a $1,5bn capital outflow is not easy to reconcile with net reserve figures and argues that there is an expected surplus on the current account for the year of some R5,4bn, or $1,9bn — "which, if anything, is likely to be an overstatement because of systematic errors and omissions."

He adds: "If there had been net capital redemption of $1,5bn, the substantial increase in foreign reserves — for the Reserve Bank alone some $500m in net reserves in the first half, and a further $400m in gross reserves in the fourth quarter — would not have been possible."

Osborn believes there is an error in the $1,734bn estimate for public-sector redemptions and that the net capital outflow is more likely to be about $600m. The Finance Department schedule of government-backed foreign debt payments, in the October 18 *Government Gazette*, suggests $850m, about $900m less than the prospectus figure.

Whatever the true position, a greater ability to borrow abroad suggests an easy passage through to 1993, when the Third Interim Arrangement expires.

Gross repayments of $1,437bn inside and outside the net are due next year. To reconcile this with Stals's prediction that worst-case repayments should not exceed $1bn a year for any year after 1991 will need at least $500m fresh money to be borrowed abroad.

As for 1993, we must assume that the balance of debt in the net (down to $5,475bn after a further repayment of $437m that year) will again be rolled over through another interim agreement.

Gross repayments would then total $1,86bn ($1,423bn outside the net). To meet Stals's target. SA would have to raise no less than $900m fresh foreign funds. While ambitious by the standards of recent times, this year's performance makes this attainable.

There is yet another caveat. In analysing foreign debt one must bear in mind that the

Reserve Bank can borrow short-term from foreign banks. But this can distort the picture only for comparatively short periods.

Also, it is reasonable to assume a further attrition of debt inside the net through debt-equity conversions, via the finrand, and conversion to long-term debt outside the net.

A wild guess is that $300m will leave the net in 1991. Stals said last November that $3,7bn had already been removed since debt-for-equity swaps were introduced in 1988 — mainly by conversion to long-term debt but also by debt-equity swaps.

This means debt inside the net may well be down from $6,623bn at end-1990 (as mentioned in the prospectus) to, say, $6bn by end-1991. Non-affected debt was $12,76bn at end-1990. On a $1,6bn total net repayment in 1991 (only $350m inside the net), this could now be down to about $11,4bn.

Of course, depending on economic growth, Eskom will some time in the second half of the Nineties need a new capital programme to finance an expansion of generating capacity in the early 21st Century. If most of this has to be raised locally, the strain will be considerable, so much depends on the possibilities of foreign borrowings at that stage.

A final note of caution: the political future is by no means settled or secure. Any deterioration in the present uneasy equilibrium could cut short the improvement in our foreign creditworthiness.

Robin Friedland

Third World appeal to rich nations

Sowetan 25/11/91 74

NICOSIA - Third-World nations are calling for a "new era of partnership" with industrialised nations, the government-run *Islamic Republic News Agency* said yesterday.

The call by the "Group Of 77"- a loose conglomeration of developing countries - was in sharp contrast with the group's statements in past years, which sometimes blamed the problems of poorer nations on richer countries.

"The Tehran declaration said dialogue towards a new partnership for development must be pragmatic and realistic, non-confrontational and based on a mutuality of interests," *Irna* reported.

The declaration, issued late on Saturday, called for this "new era of partnership" with developed nations to be built around "comprehensive dialogue on all issues affecting trade and development ... in balanced discussions based on the imperatives of genuine interdependence", the agency reported.

But, echoing past policy, the Group Of 77 also urged the industrialised world to provide "special and differential treatment for developing countries," - a reference to development aid, forgiveness of a portion of the Third World's huge debt burden and other preferential treatment.

The group also said it would seek agreement on "halting and rolling back all forms of protectionism by developed countries".

The undeveloped nations, many of which rely heavily on exports of one or few primary goods, have been hit heavily over the past two decades by reductions in the prices of raw materials and increased moves to restrict imports to industrialised nations. - *Sapa-AP*.

29

2

BOOKS

Coldly assessing SA's risk profile

BDay 25/11/91

(44)

SOUTH AFRICA — THE NEW BEGINNING, edited by Merton Dagut (Euromoney Publications, R355)

AS RELIABLE a signal as any of SA's return to international economic respectability is that the country should be the subject of a Euromoney book.

Euromoney, the self-styled "journal of the world's capital and money markets", is a glossy monthly circulated mainly among the western European investment banking community.

Under headlines such as "Time runs out for low-rated swappers" and "The year of the asset-backed Eurobond", its jet-lagged and slightly florid readership find much to marvel at.

Despite its rather foppish air, the journal carries real influence among traders who, through its columns, admire "Deal of the month" and chortle gleefully at "Dog deal of the month".

A book on SA from the same publishing house is, therefore, something of an event in that it raises the country's profile before a receptive audience.

As the latest subject of a Euromoney book SA has, in many ways, "re-arrived" as a realistic investment option among serious international fund managers.

Much of the book is historical, sketching in background for the foreign reader taking his first serious look at SA. Simultaneously, the emphasis is on identifying the new and different features of the country that have helped end its isolation.

Since the reform process of the present government only began in earnest in February of last year, the book does not have much updating to do to its historical material. Part of its brief, though, in addressing potential foreign investors is coldly to assess SA as an investment destination and to offer an analytical opinion after weighing up the evidence.

Credibility

This the book does, setting out its conclusions on SA in the investment banker's vernacular. It portrays an optimistic scenario for upcoming SA issues of Eurobonds, saying SA has an edge over other borrowers as it re-enters world capital markets. Favourable foreign debt ratios, it avers, place SA in the most acceptable segment of the international risk spectrum.

"Lenders are keen to spread their risk and SA, with its credibility in the marketplace largely intact despite the standstill, may, at the right rate for an agreeable period (say three to five years), be a sought-after borrower."

Noting SA's prevailing foreign debt ratios, the book asserts that the country is an acceptable risk in terms of sovereign risk criteria. A controlled and orderly re-entry into the Euromarkets is expected. The SA Treasury is thought to want to control the timing of international borrowing by public entities to ensure that they do not compete directly with one another in the Euromarkets and to ensure as reasonable a cost as circumstances permit.

"Lenders and investors in the international capital markets ask two primary questions: does the would-be borrower demonstrate a willingness to meet international obligations; and does it have the ability to do so?"

There is no doubt, the book says, that SA's record shows its fiscal and monetary authorities meet the willingness test. It adds a less widely held view that recent statements by the political leaders of those disadvantaged by apartheid suggest that they, too, recognise the rules that hold economics, trade and capital flows together.

SIMON WILLSON

Safex 'yes' to foreigners

B/Day 27/11/91 (74)

ROBERT GENTLE

NON-residents have been given the green light by the Reserve Bank to start trading on the SA Futures Exchange (Safex) through the finrand from Monday December 2.

Safex CE Stuart Rees said a meeting had been held at the Bank on Monday to put the final touches to the mechanism of handling non-resident accounts.

Rees said the main problem was that non-resident trades be clearly identified. In markets for other SA securities, this was obtained by simply endorsing the physical scrip as "non resident". As there was no scrip in the futures market, the solution was to register all non-resident clients with the exchange, as is the practice with local clients.

Margin payments and interest flows on non-resident trades would also be standardised so that the Bank was aware of all related cash flows.

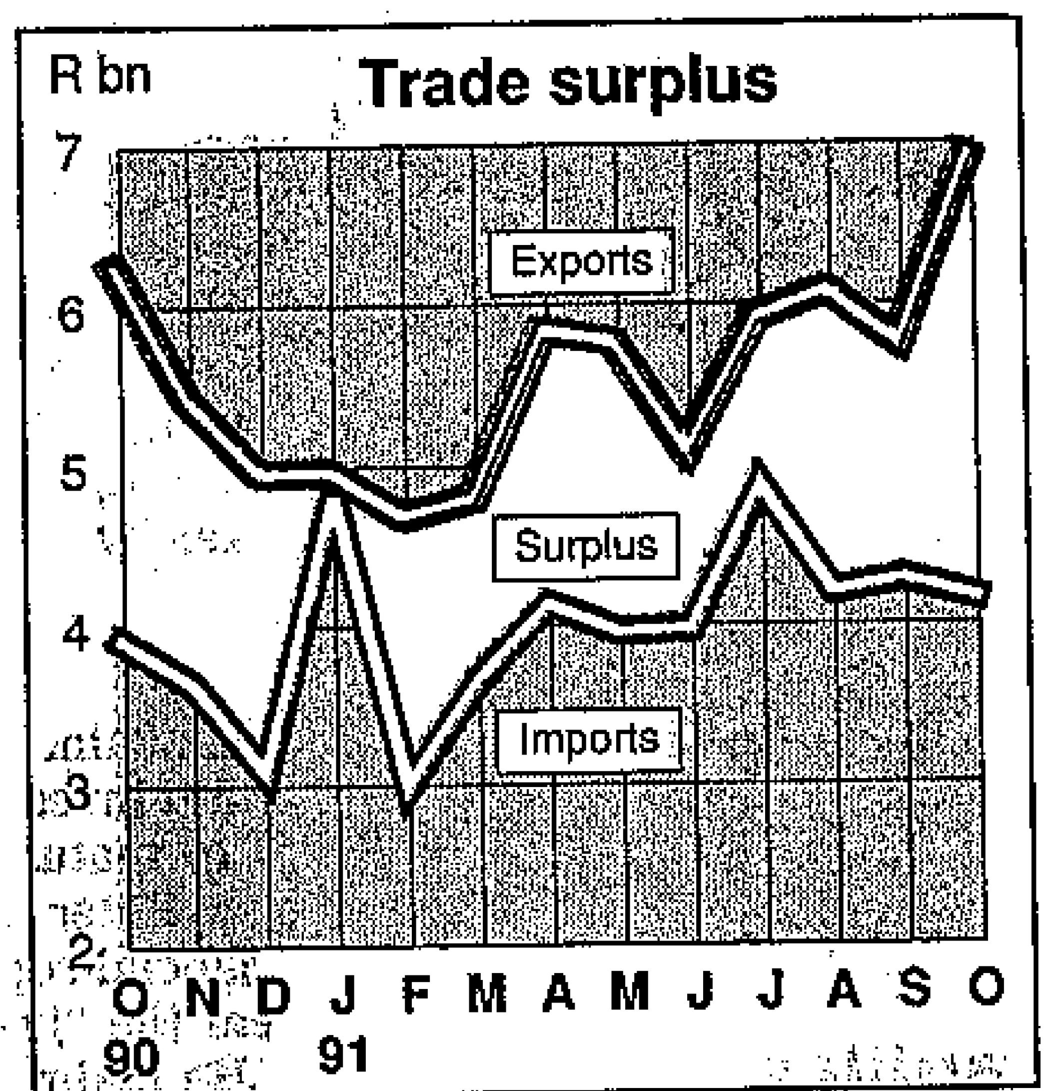
Futures brokers could start registering foreign clients from Monday, Rees said, though he doubted actual trades would start until later in the month.

This was confirmed by National Futures & Options and Greenwich Futures & Options.

Spokesmen from the two firms said that while non-resident clients had been lined up, it would take a while to sort out administrative and other procedures.

Safex expects foreign participation to boost trading volumes by at least a third by the end of the first quarter of 1992. Among the big foreign institutions that have declared intention to start trading on Safex is London-based Mitsubishi Finance International.

Director and head of arbitrage operations Desmond Fitzgerald said at last week's annual futures conference that SA had a "reasonably active" futures market with a good cross section of instruments. Mitsubishi was "looking forward" to trading in SA.



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

Trade surplus surges by 87% 74

SHARON WOOD

SA's trade surplus surged by 87% month on month to a record of R2,75bn in October, figures released yesterday by Customs and Excise show. B Day 27/11/91.

Sluggish international growth had little impact on exports, which bounced up by 20,1% to R6,9bn from R5,8bn in September. The export surge was a result of increases in both gold (up 45,7%) and non-gold (up 7,3%) exports.

Imports fell by 2,3% to R4,2bn from R4,3bn as a result of depressed local economic conditions. A 50,8% rise in unclassified imports (mainly oil) was offset by declines in most other imports.

Rand Merchant Bank economist Rudolf Gouws said the figures were excellent and a R6bn current account surplus for the year was almost a certainty. "The underlying trend in non-gold exports is particularly encouraging because it does not reflect ... the international economic slowdown."

Unclassified imports had not declined to the extent one would have hoped for, he said, but this would probably show up in the next few months.

The sale of domestic strategic oil stockpiles was supposed to reduce the volume of imported oil in the last half of this year.

SA Foreign Trade Organisation (Safto) CE Wim Holtes was optimistic about prospects for the external accounts. A 12% rise in exports in the year to October meant SA could hit an R18bn trade surplus this year and a R7,5bn current account surplus.

Particularly strong growth in manufactured exports showed the General Export Incentive Scheme seemed to be working.

Uncertainty feeds the dollar's bears

B/day 27/11/91 (74)

SHARON WOOD

TALK of using lower taxes to spur US economic growth resurfaced last week, intensifying the recent dollar bear trend.

Particularly hard hit by prevailing bearish sentiment was the dollar's value against the Deutschmark and the US currency breached the DM1,59 support level during the week and was trading at DM1,58 at midday yesterday.

Markets are particularly concerned with the possibility that the US authorities will use fiscal policy to stimulate the economy ahead of the election next year, because it is unlikely that US interest rates will be cut again.

Standard Bank's International Comment says financial markets are unnerved by the fact that there appears to be no appreciation within US official circles that sustained long-term structural adjustment is necessary in order to build a sustainable base for renewed expansion.

This has left the dollar and US stock markets vulnerable to the sort of uncertainty that characterised conditions immediately prior to the crash of October 1987, it says.

US markets are also apprehensive lest US authorities make the classic mistake of overstimulating the economy just as it bottoms.

Talk of renewed fiscal stimulus has reminded international financial markets of how little economic pain the US electorate is willing and able to endure, Standard Bank says.

The dithering of the US authorities is in stark contrast to the situation in Germany, where economic policy is both straightforward and largely immune to the demands of the political process, says Standard Bank. Consequently, capital flows have been directed towards the DM.

FNB technical analysis shows the dollar came to within 30 points of its DM1,5750 objective when it broke through DM1,5900. At current levels it is looking a little oversold, it says, and some ranging may be expected before trending resumes. A new objective for the dollar has now been set at DM1,5610 and thereafter DM1,5500. The forecast range for the dollar this week is between DM1,5610 and DM1,5900.

However, the dollar was not alone in bearing the brunt of international forex market bears. All eyes were on sterling during the week as it replaced the franc at the bottom of the European monetary system (EMS) currency grid floor.

Anglo American foreign exchange analyst May Thouw says sterling's fall against the mark accelerated throughout the week amid political disunity and calls by former prime minister Margaret Thatcher for a referendum to determine the opinion of the electorate on Britain's part in the single European currency.

Graphic: FIONA KRISCH Source: I-NET

The Bundesbank stepped in on Monday to assist the pound. The intervention was reported to be successful and the pound began to strengthen again. Reuter reports the move was expected because there is an obligation on the part of central banks within the EMS to come to the aid of other currencies.

Speculation about an EMS realignment will continue, particularly while the pound remains vulnerable against the strong mark, says Thouw. But the pound's realignment option would constitute a devaluation and amount to political suicide — not likely ahead of the election.

There was good news on the local front when the gold price surged to a four-month high of $365,20 on Friday. The rally was attributed to the news of a possible G-7 aid package to the Soviet Union.

Technical analysis shows gold finally penetrated its three-month level at $364,90 and is now expected to consolidate above the previous resistance level before trying to break the new $374,14 resistance level.

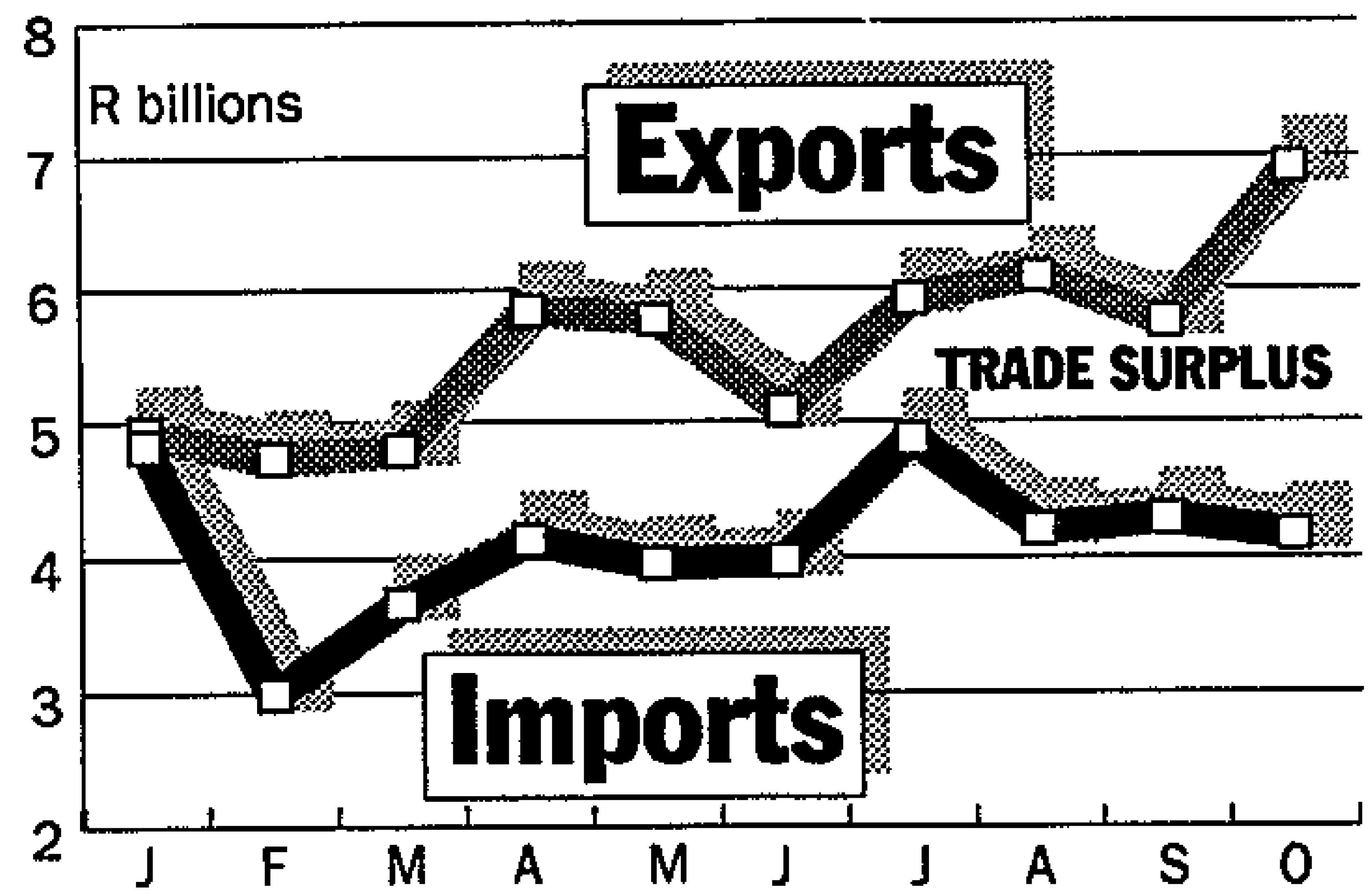
Gold remained above the critical resistance level of $365 yesterday, when it was trading at $366,50.

B/day 27/11/91

Trade surplus hits record level

STAR 29/11/91 (M4)

By Sven Lünsche



The trade surplus surged to a record R2,747 billion in October on the back of a tremendous performance by the country's exporters.

Industry sources ascribe the export boost largely to the Government's export promotion policies, which are benefiting the manufacturing sector in particular.

Figures released by Customs and Excise yesterday show that exports in October surged to R6,916 billion from R5,76 billion in September.

With imports slightly lower at R4,168 billion (September: R4,291 billion) the trade surplus improved by 22 percent from R1,47 billion to R2,747 billion.

This boosted the trade surplus for the first ten months this year to R14,8 billion (January to October 1990: R12,8 billion) and economists predict that the surplus for the whole year could rise to R17 billion.

The strong surplus on the trade account will have major benefits for the economy at large says Bankorp economist Nick Barnardt.

He estimates that the surplus on the current account of the balance of payments could rise to as high as R7 billion, while the gross foreign exchange reserves at year-end should be sufficient to cover two months worth of imports.

Last year most economists forecast a current account surplus of around R4 billion for this year with reserves equivalent to only five weeks of imported goods.

The improved reserves should also boost the value of the rand, but Mr Barnardt believes that the Reserve Bank will hold down the value of the currency to further strengthen the current account surplus.

The strong rise in exports is particularly significant as it was achieved against the background of a recession in the world economy and a fairly steady rand.

The chief executive of the SA Foreign Trade Organisation (SAFTO), Wim Holtes, says that while the lifting of sanctions played its part in opening up foreign markets, export promotion policies had a major impact in boosting exports.

In particular, he says, the General Export Incentive Scheme (GEIS) provided the stimulus for manufacturing companies to explore African and overseas markets.

Sectors that have done particularly well so far this year are chemicals at R1,98 billion, 29 percent up on last year, transport equipment at R1,21 billion (33 percent) and machinery (20 percent).

Among other sectors, exports of diamonds rose by 23 percent to R5,81 billion, while unclassified goods (mainly gold) were up by eight percent to R22,86 billion.

For the first ten months of this year exports increased to R55,89 billion from R50,64 billion, while imports over the same period were up to R41,1 billion from R37,41 billion in 1990.

Illustrating the success of the export promotion policies Mr Holtes says that the motor industry, which is operating under Phase 6 of the Structural Adjustment Programme,had boosted its ratio of exports to imports from 18 percent last year to 21 percent this year.

The same ratio in the clothing industry fell from 75 to 66 percent, as a constructive export policy for the industry had been obstructed by the tariff disagreement between clothing and textile industries.

Other sectors which have made particularly good use of GEIS include the chemical, plastics and rubber industries.

Looking ahead Mr Holtes says it is likely that exports will rise by 18 percent in nominal terms over the next 12 months, as forecast in a survey of the country's 100 leading exporters recently.

He adds that exports to developing countries, such as Africa, the Far East and Eastern Europe, in particular should show good volume growth.

IDT postpones its Eurobond issue

74 (380)

LINDA ENSOR

CAPE TOWN — The Independent Development Trust's (IDT) $100m Eurobond issue has been put off until next year.

An IDT Board of Trustees statement yesterday said it aimed to proceed with the issue "at an appropriate time in 1992". A statement earlier in the month said the issue would go ahead without delay.

The board said the delays and confusion arising from the ANC's initial support and subsequent opposition to the issue had affected "the IDT's capacity to access the markets at this time".

Timing was of the essence, the IDT board said, adding that it was "distressed that poverty and disadvantage are not being addressed with all the means and resources that can be mustered".

It said the ANC regarded the inflow of funds for the school building programme as conflicting with its policy on financial sanctions. Discussions with interested parties, including the ANC, had been set for early next year.

In the meantime the IDT would proceed to establish a National School Building Trust with R300m of its own funds and would seek private sector and community involvement in the project.

The school building programme aimed to confer ownership of schools on community trusts, which would lease them to the authorities or make other arrangements to ensure funding.

BD 27/11/91

Safex 'yes' to foreigners

B/Day 27/11/91 (74)

ROBERT GENTLE

NON-residents have been given the green light by the Reserve Bank to start trading on the SA Futures Exchange (Safex) through the finrand from Monday December 2.

Safex CE Stuart Rees said a meeting had been held at the Bank on Monday to put the final touches to the mechanism of handling non-resident accounts.

Rees said the main problem was that non-resident trades be clearly identified. In markets for other SA securities, this was obtained by simply endorsing the physical scrip as "non resident". As there was no scrip in the futures market, the solution was to register all non-resident clients with the exchange, as is the practice with local clients.

Margin payments and interest flows on non-resident trades would also be standardised so that the Bank was aware of all related cash flows.

Futures brokers could start registering foreign clients from Monday, Rees said, though he doubted actual trades would start until later in the month.

This was confirmed by National Futures & Options and Greenwich Futures & Options.

Spokesmen from the two firms said that while non-resident clients had been lined up, it would take a while to sort out administrative and other procedures.

Safex expects foreign participation to boost trading volumes by at least a third by the end of the first quarter of 1992. Among the big foreign institutions that have declared intention to start trading on Safex is London-based Mitsubishi Finance International.

Director and head of arbitrage operations Desmond Fitzgerald said at last week's annual futures conference that SA had a "reasonably active" futures market with a good cross section of instruments. Mitsubishi was "looking forward" to trading in SA.

Aroma Liquor battles to break even

B/Day 27/11/91

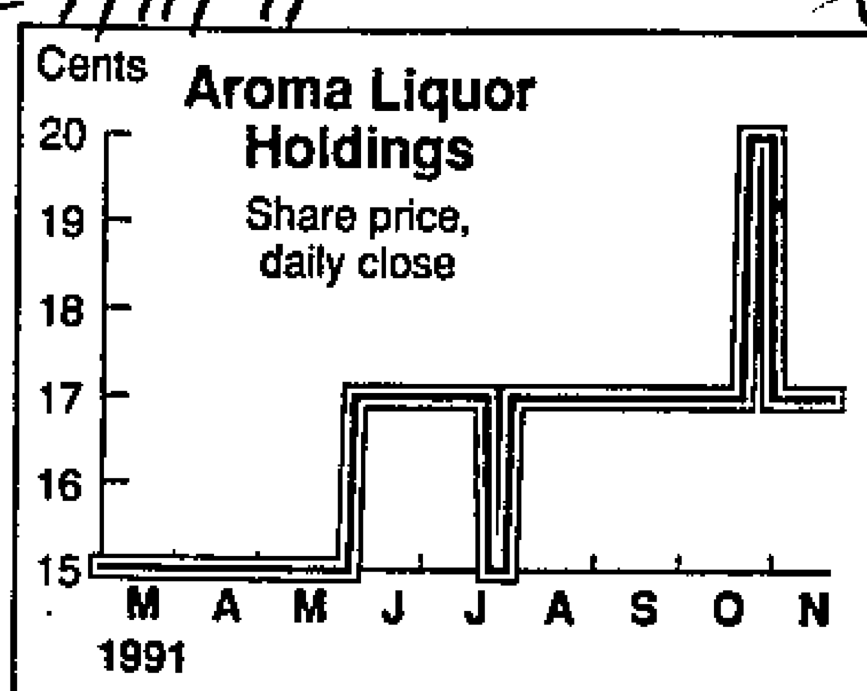
LINDA ENSOR

CAPE TOWN — Aroma Liquor Holdings performed poorly in the six months to end-August, barely breaking even.

Results were dragged down by the low occupancy at the 103-roomed Cape Rendezvous, which suffered the same fate as the rest of the depressed hotel industry.

MD Mike Kovensky said prospects for improved earnings from the hotel were not encouraging.

"The liquor division has performed comparatively well in difficult trading conditions," Kovensky said.



Graphic: FIONA KRISCH Source: I-NET

Attributable income plummeted to R38 000 from R361 000, which was not sufficient to generate any earnings a share. In the same period in 1990 earnings of 2,2c were generated.

Turnover rose 2% but operating income slumped to R300 000 from R764 000. After deducting a R239 000 interest bill and R23 000 for Aroma's share of an associate company's loss, little flowed through to the bottom-line.

Kovensky said trading conditions in September and October were so poor that prospects for improved earnings for the rest of the year were "unpredictable". Much depended on whether hotel bookings picked up. Traditionally, the second half delivers a substantial portion of earnings.

Futures industry has image problem

B/Day 27/11/91

ROBERT GENTLE

AFTER nearly five years during which the futures industry has overcome considerable problems and has established itself as part of the financial landscape, it is still suffering from an image problem.

The private investor is still loathe to put his money into the SA Futures Exchange (Safex) and would rather use the JSE.

Delegates at the annual SA Futures Industry Association conference held at Sun City at the weekend were told the industry's future depended on gaining public trust. (74)

Nedbank senior marketing manager Ivan May said the Unit Trust industry had also suffered from negative public perception previously. "But look at the industry today. The institutions are behind it."

Growth Protected Investments head Trevor Nel questioned how the public could be expected to support futures when banks and other institutions were wary of of being publicly associated with it.

The broad consensus was that one of the main reasons for this negative image of futures was the controversial default and subsequent liquidation last year of futures broking firm Davis Ralph Sadleir (DRS).

Safex legal head Bob Power said the exchange had learned from its mistakes, especially regarding membership. Rules had been modified and discipline tightened up. Eventually, the results of disciplinary proceedings could be made public.

Sowetan Business

Red light for trade links with Africa

(74)

Sowetan 28/11/91

By JOSHUA RABOROKO

SOUTH Africans have given unanimous support to future initiatives to establish inter-African trade links following the recent Sidco '91 all-Africa "business to business" conference in Yaounde, capital of Cameroon.

They also support an annual event to bring businessmen and women together from the Cape to Cairo, amid dissatisfaction from the Pan Africanist Congress, which attended the conference.

Addressing the Press in Johannesburg, Mr Johan du Plessis, chairman of Pro-Africa which co-ordinated conference sponsorships from Southern Africa, said a major breakthrough had been achieved.

More than 100 South Africans attended the conference, where delegates from 21 eastern, western, northern and southern African states met for three days to explore the opportunities in a fast-changing Africa.

Du Plessis said African leaders should now pull together in a concerted effort to build a continent which could become a world economic giant.

He said many South Africans were disappointed by the number of businessmen and women who attended the conference from countries other than South Africa and Cameroon.

"This, however, does not detract from the success of the conference and achievements, many of which are already evident and which have paved the way for strong and lasting trade relationships," he said.

He added: "In our discussions a number of positive and constructive recommendations were made and included requests for shorter plenary sessions, longer workshops, exhibition opportunities and a distinct business-to-business focus."

However, PAC executive Mr Mark Shinners said they found the proceedings totally unacceptable.

He said the PAC had understood that the conference was to be based on inter-African interaction in the economic area.

After the conference they had found out that Sidco '91 was a trade fair as well.

"This comprises the policies and principles of the Organisation of African Unity, particularly by the Abuja declaration which fosters economic links with the settler minority regime, while political power remains untransferred," he said.

"We may have no option but to review our position with regard to Sidco 1992 and the Movement for Dialogue and Co-operation which was co-sponsor of the conference."

Seemingly the PAC raised this issue in the light of the ongoing support for economic sanctions against South Africa.

BUTHELEZI

FW DE KLERK

NELSON MANDELA

IDT is still pursuing Eurobond issue

Sowetan 28/11/91

74

By JOSHUA RABOROKO

THE Independent Development Trust yesterday said that, while it was proceeding with its Eurobond issue - to help fund a national school and clinic building programme - it would do so at an appropriate time next year.

In a statement issued in Cape Town, the Board of Trustees said: "Prior to seeking $100 million (about R300 million) loan, the IDT received explicit support from key political leaders including State President FW de Klerk, Chief Minister Gatsha Buthelezi and ANC Mr Nelson Mandela to raise an international loan for its development programmes.

"The IDT pursued this course of action because it believes that the participation of the communities involved is essential for the success of all its development work."

However, shortly before the first presentation in London was to be made by the IDT in the middle of October in support of this initiative, the ANC claimed that its support was confined to grant funding, not to the raising of loan finance.

It is clear that this statement which was subsequently ascribed to a misunderstanding, was insupportable. Opposition to the presentation was withdrawn and these proceeded on the basis that such misunderstanding as may have occurred would be resolved after the return of the delegation.

Following further discussions, it appears that despite the support originally given to the venture, the ANC now regards the inflow of loan funds for a National School Building programme - to which IDT is to devote R300 million of its own resources - as being in conflict with its policy on financial sanctions.

The delays these events caused and the confusion created by the contradictory statements have affected the IDT's capacity to access the market at this time.

In these circumstances, the board of trustees at its meeting this week, reaffirmed the independence of IDT, and resolved as follows:

It would proceed with the establishment of a National School Building Trust and would apply R300 million of its own resources; and

While it would not be able to enrich with the $100 million loan in the current year, the trustees would in their sole discretion, but with all the support they can muster, aim to do so at an appropriate time in 1992.

In particular - as was always intended - it would continue to seek private sector and community involvement in this programme. In this way it will hopefully be able to limit the damage caused by the delay.

'Western aid drying up'

By Helen Grange
Pretoria Bureau

14 28/11/91

The bad fact is that Africa can expect more moral support than funds from the West over the next decade — as more assistance will be ploughed into the Soviet Union and Eastern European countries, a Nato represtentative said in Pretoria yesterday.

Colonel Rolf Hallerbach, Nato representative for the magazine European Security, speaking at a conference on southern African security relations towards the year 2 000, said that in Europe and America "nobody feels in the mood to spend a single penny for more socialist-type experiments".

"Those who can't stop dreaming should consider the fact".

If countries in southern Africa could establish a self-contained regional trading block, inter-regional trading would be enhanced and a climate created for foreign investment, acting deputy director general of the Department of Foreign Affairs, Dereck Auret, said.

South Africa's trade with the region could also be greatly improved if the buying power of its neighbours could be enhanced through development.

South Africa, he said, currently exported between 25 and 33 percent of its manufactured goods to Africa.

Speaking on methods of integrating the military into a new South Africa, the director of the Institute for Defence Politics, Dr Jakkie Cilliers, proposed that the defence budget be discussed in public and approved by Parliament — thereby determining the manpower, structures and objectives of the forces.

There should also be no restriction on members of the armed forces or police force joining any legal political party. Although the armed forces and police were accountable to the constitution, they should not simply serve the government of the day.

He warned that with the dramatic cut in the defence budget, the SADF could easily end up as a low technology counter-insurgency force, suitable for little else but border control and support to the police.

"This would, in my opinion, not only be a tragic development for our country's stability."

RECORD TRADE SURPLUS (74)

FM 29/11/91

Last month SA recorded a record foreign trade surplus of R2,7bn.

Imports fell marginally from September to R4,2bn while exports rose 20% to R6,9bn.

Nedbank chief economist Edward Osborn suggests October exports may include an adjustment for previous months: "Probably September. This can be seen in the pattern of unclassified exports, worth R2,8bn in October, after dipping in September to R1,9bn, from R2,5bn in the previous two months."

The only other apparent increases, he says, were jewellery, "essentially diamonds, probably originating in Botswana, which went up by R370m to R1,1bn, and base metals, up R170m to R1bn — despite desperately low base metal prices."

The surplus for the first 10 months now stands at R14,8bn. In the period, "if currency depreciation is stripped out," says Osborn, "exports have increased by 4% and imports by 3,6%."

cont →

OFFSHORE FUNDING

FM 29/11/91 (74)

The Independent Development Trust (IDT) has decided to postpone its US$100m Eurobond issue until "an appropriate time" next year after the withdrawal of ANC support. Lead banker J P Morgan was reportedly reluctant to proceed without this. The IDT is to apply R300m in existing funds to the National School Building Trust.

Meanwhile, electricity producer Eskom is to seek R700m offshore (after raising R464m in 1991). Its total programme of R2,4bn for 1992 is modest, compared with R1,6bn raised during 1991 and R4,3bn in 1990.

Foreign bond redemptions in 1992 total only R450m. Other overseas borrowings will have to be repaid on a substantial scale, including export credit finance and direct loans from banks. Extended credit facilities (essentially for the import of capital equipment) remain at much the same levels as during 1991, at R284m budgeted for 1992.

Eskom's Mick Davis says the local capital market will be the source of R1,3bn. Liquidity has been further assured through domestic "pre-funding activities," which have already raised about R600m, at an average rate below 16%.

Monetary policy 'to stay'

LINDA ENSOR

CAPE TOWN — Strict monetary policy would remain in place for a considerable time to come, advisor to the Reserve Bank governor, Roger Gidlow, told a gathering of businessmen recently.

Speaking at a combined meeting of the economic affairs committees of the Cape Town Chamber of Commerce and Cape Town Chamber of Industries (CTCI), Gidlow discounted any suggestion that a boom would occur in 1992. b\Day 29\11\91

Interest rates would remain high and recovery would not be fuelled by a credit boom as private consumption expenditure would remain under pressure.

Gidlow said the upturn would come from new investment spending on stocks and inventories on the one hand and fixed plant and machinery on the other.

Delay in IDT loan bid raises eyebrows

STAR 30/11/91.

POLITICAL STAFF

THE Independent Development Trust's surprise postponement of its Eurobond issue to help fund a national school and clinic building programme has raised eyebrows in international banking circles — and prompted questions about the African National Congress's "reliability".

The IDT this week announced it was calling off until next year a bid for a $100 million loan because it appeared that the ANC had at the last minute withdrawn its support for the venture.

Observers said that if there was not unanimous support in South Africa for the loan, it could make potential investors wary of showing interest next time around.

Saturday Star understands that the IDT decision — announced in newspaper advertisements this week — represents the failure of a 10-month-long process of consultation and preparation.

The IDT, headed by former judge Jan Steyn, said this week that "explicit support" for the venture had been sought — and received — from key political leaders before the loan bid was made.

Statement

These leaders included President de Klerk, Inkatha Freedom Party leader Chief Mangosuthu Buthelezi and ANC president Nelson Mandela.

The IDT said shortly before it was to make its first presentation in London in mid-October that the ANC had suddenly issued a statement "claiming that its support (for IDT fund-raising efforts) was confined to grant-funding, not to the raising of loan finance".

It is understood that the ANC decided that the IDT proposal, if successful, would constitute a breach of financial sanctions — a policy it still adheres to.

Mr Mandela is believed to have said his initial support was due to a misunderstanding of the implications of the ANC's sanctions policy.

The IDT said the ANC's October statement was "insupportable". It had gone ahead with its presentation on the basis that whatever "misunderstandings" had arisen would be resolved after its delegation's return from London.

"It appears that despite the support originally given to the venture, the ANC now regards the inflow of loan funds for a national school-building programme ... as being in conflict with its policy on financial sanctions," said the trust.

Safex trade open to world

'94
S/Times (BUSS)
1/12/94

By TERRY BETTY

FOREIGN investors will have a new investment channel when the SA Futures Exchange (Safex) goes international tomorrow.

JSE liquidity will receive a boost because the risk of investing in equities will be reduced. Foreigners can now establish a futures contract to offset their exposure on the equity market.

Safex assistant general manager Patrick Birley says that since active trading began 19 months ago, about 950 000 contracts for a 1 500-strong client base have been handled.

On average 2 500 contracts worth about R150-million are handled daily. The figures are expected to increase by about 30% with the introduction of foreigners.

Small

But Mr Birley warns the increase will be gradual, taking about six months before gaining impetus.

Foreigners will be able to trade in futures through the financial rand. But this new demand will not have a dramatic effect on the finrand discount, says Mr Birley.

Buyers of futures are required to pay only a small percentage of the value of the contract upfront.

The most common contracts are based on the all-share, industrial and gold indices.

Mr Birley believes foreigners will be particularly interested in the gold index. It is said to be the only "pure" gold index in the world.

Although Safex can deal with up to 17 000 trades a day, Chicago Mercantile, the largest futures exchange in the world, handles 100-million contracts a year.

SA importers and exporters advised to hedge against yen

STAR 2/12/91

By Neil Behrmann

174

LONDON — The majority of foreign exchange experts believe that the dollar and the rand will trade in a narrow range in coming weeks.

From a longer-term perspective, most believe the dollar is bottoming out and will recover with the American economy in 1992.

In these circumstances, the rand will revive against European currencies.

SA importers and exporters, however, must hedge their exposure against the yen.

It is forecast to be the best performer, appreciating slightly against the dollar, but rising sharply against European currencies.

The market is normally choppy in the weeks preceding Christmas.

During this period volume tails off and trading conditions tend to be thin. As a result, rates tend to be volatile and unpredictable.

While most traders and currency forecasters are neutral to slightly cautious about the dollar in the short run, Standard Chartered and chartists, Investment Research of Cambridge, are exceedingly bearish.

To be sure, the dollar was down by nearly 6 percent to Deutschemarks 1,58 at one stage before recovering towards the end of November.

Whilst the Deutschemark was easily the top performer, it dragged other European currencies up with it.

The yen was disappointing, mainly because of concern about the Japanese stock market.

It rose against the dollar, but fell against European currencies.

Economic fundamentals, notably the huge foreign trade surplus, favour the yen.

Yet it is sensitive to stock market moves because of capital flows in and out of Japan.

Mitsubishi Finance International, for instance, notes that foreign inflows into the Tokyo stock market amounted to $36 billion in the first three quarters of this year, against outflows of $13 billion last year.

The yen, for example, was exceedingly weak in the first quarter of 1990, when the share market was under pressure.

The rand was pulled down with the dollar last month, although it rose a little against the US currency.

Standard Chartered is the most bullish about the yen and contends that the Deutschemark and sterling will continue to do well against the dollar.

Standard Chartered has had a good year in the foreign exchange market.

Taking a minority stance, the foreign exchange department advised purchases of dollars early in the year when the unit was grovelling around Dm1,45 to Dm1,50.

Executives became bearish when the dollar was trading above Dm1,75 late last summer. While economists were tinkering with supposedly optimistic statistics on the US economy, groundwork showed that US businessmen and consumers were gloomy.

The conclusion then and now? The US economy is in a fragile state and any weak recovery won't be sufficient to drive the dollar into much higher ranges.

The dollar is rallying in the very short term because bearish traders are covering positions.

Yet Standard Chartered is still advising clients to sell dollars into rallies, particularly against the yen.

To be bullish about the dollar, you must believe the conventional economic viewpoint that the US economy will grow rapidly, while those of Europe and Japan slow down.

In terms of this view, US interest rates will rise, while others will fall. There is no guarantee,however that Germany and Japan will underperform the US.

US three-month deposit rates of 4,87 percent are well below Deutschemark and yen rates of 9,38 percent and 6,1 percent respectively.

US long-bond rates are only 8 percent, while the P/E ratio of leading US shares exceed 20.

There is thus little incentive at this stage for international investors to buy dollars.

European and Japanese portfolio managers who bought dollars from April are nursing nasty losses.

the decision whether to support action taken.

SA now much sought after for its experience

SOUTH Africa's re-entry into international markets and its unique mix of First and Third World elements has made it much sought after for advice and expertise. B/Day 2/12/91

The SBDC is no exception to the flood of queries emanating from both black Africa and Eastern Europe.

The corporation's approach to development technology and hive support is believed to be unique, and many foreign organisations have asked the SBDC for help, says senior GM Toni Kedzierski.

However, the export of development technology is only a dream at this stage.

Senior manager, financing, Kees de Haan says local demand is so vast and resources so limited that the SBDC is unable to afford to withdraw expertise from the local environment. M4

It is, however, not inconceivable that SA may soon be selling its development technology internationally.

Special 10c dividend to mark anniversary

TO MARK the 10th anniversary of the SBDC, a special dividend of 10c was declared at the AGM in November.

This was the third dividend declared by the corporation since its inception in 1981.

A dividend of 8% was declared in 1984 by way of a bonus share issue to all private sector shareholders.

Another of 5% was declared in 1989 and shareholders were given the choice of receiving it in cash or capitalisation of shares.

MD Ben Vosloo says: "It is unusual for a development organisation to be declaring dividends.

"The dividend is proof that the SBDC's structure of private sector control enables it to apply sound business principles and financial discipline, which is the only guarantee for sustainable economic growth."

Development through four main areas

B/Day 2/12/91

THE SBDC, in its quest to stimulate and develop entrepreneurship among all South Africans, operates in four main areas — financing, support services, provision of business premises and the promotion of small businesses in general.

Its involvement in property development makes it different to other development companies and indicates the level of the corporation's commitment to development in SA, says senior manager, development promotion, Dawie Crous.

The SBDC provides basic industrial and commercial premises in areas where specific needs are not being met by other developers; it provides reasonably priced premises in areas where a shortage of suitable accommodation exists; and promotes private ownership of business premises.

The corporation's property portfolio is valued at about R280m (cost) with nearly 700 000m² of lettable industrial and commercial property floor space.

To date, the SBDC has completed 267 buildings comprising 143 industrial projects at a cost of R124m and 124 commercial properties at a cost of R113m.

Approved

A further 36 industrial and 14 commercial property projects are under construction or have been approved, at a cost of R82m.

In the early days, because of the political situation in which white companies were not allowed to buy property in black areas, the SBDC's involvement was often informal.

For example, the transfer of one property bought by the SBDC in Soweto in 1981 was only finalised in 1987.

Assistant GM, property, Kevin Paige says, however, thatdifficulties in buying property in black areas are not restricted to problems associated with the Group Areas Act.

"Much of the land in those areas is unsurveyed, which makes transfer of ownership difficult.

"For a start, how can one identify which piece of land the deal refers to?"

The SBDC's approach to property development has not changed with the shifting political climate.

"We have always insisted that blacks and whites should be able to work together. Our hives of industry have always been nonracial," Crous says.

The SBDC owns about 24 completed hives with a floor space of 102 580m² and comprising 1 207 lettable units.

Clusters

Within these buildings are clusters of workshops in which backyard enterprises are semi-formalised and encouraged to move into the formal sector.

Crous says the advantage of the hive concept is that it provides basic accommodation at reasonable rentals, while tenants are also provided with the SBDC's collective support services such as loans, business and legal advice, marketing assistance and, where circumstances warrant it, bulk buying facilities.

THE WEEK AHEAD by Simon Willson

Gold and forex reserves set to rise

BDay 2/12/91.

CONTINUING its unbroken six-month uprun, the level of SA's gold and foreign exchange reserves for November is set to show another strong rise when the figure is released this week, probably on Friday. Indications are that November reserves will top R9bn against October's R8,6bn as the year-long rise from January's R6,7bn extends into the final quarter.

Ahead of the October reserves outturn, Reserve Bank Governor Chris Stals was confident enough of the uptrend's durability to forecast a R500m increase over September's total a full week before the October figure's release. Optimism has similarly coloured each of the authorities' latest references to the likely reserves trend for the rest of the year.

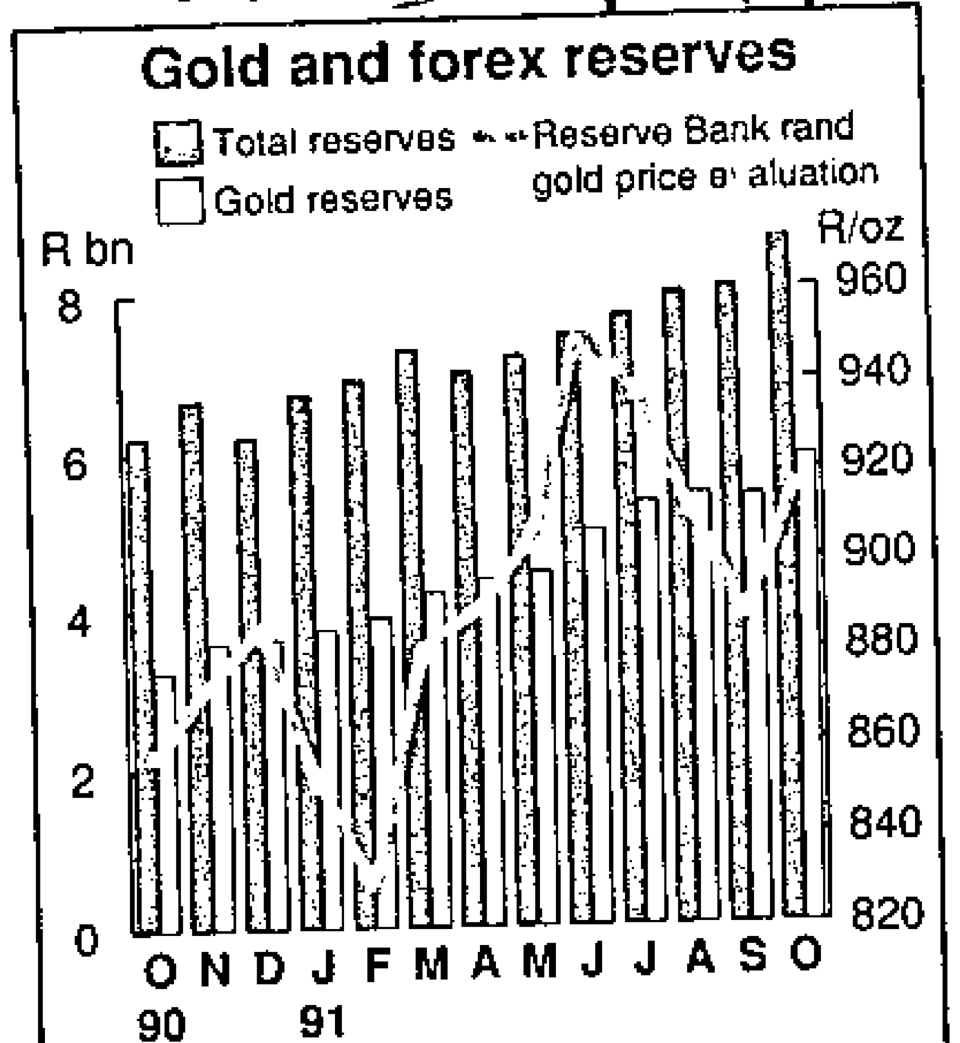
Briefed by the Bank, President F W de Klerk told an audience of businessmen at the beginning of last week that total reserves would probably reach R10bn by the end of the year. Elaborating later on the broad outlook in the president's speech, Stals forecast a rise of about R600m in November's reserves, which would take the total due out this week comfortably above R9bn.

Little let-up can be expected in the Bank's drive to build reserves, even if the total tops R9bn in November and comes close to the projected R10bn mark in December. Last week's pronouncements from the authorities on the prospects for reserves were accompanied by reminders that three months' import cover — reserves of at least R16bn — was only the first benchmark the Bank had in mind.

Additional objectives lie beyond the attainment of this basic minimum reserves level; one is that the reserves are ultimately substantial enough to allow the authorities to contemplate easing exchange control regulations.

Internationally, more US economic indicators emerge this week and may help to show whether the American economy is poised to dip back into recession. After eight successive monthly rises the purchasing managers' index, which measures orders, production and deliveries in US manufacturing, fell in October. Another fall is expected for November's figure, which is due out later today.

A further drop from October's 53,5 level for the index will take the figure close to the 50 level. At levels below 50 the index is held to portray a contracting manufacturing sector, and today's outturn could leave it perilously close.



Graphic: FIONA KRISCH Source: SA RESERVE BANK

US leading indicators are also in the doldrums after a consistently strong showing in the six months following the end of the Gulf War. The figure has been becalmed at 0% and -0,1% for two consecutive months and analysts are expecting no change for tomorrow's October figure either — an outturn that will confirm the view that the US economy is in a stall.

The first revision to the preliminary 2,4% US third-quarter GNP growth rate is released on Wednesday, and is thought likely to push the figure up towards 3%. Market concern, however, focuses on the current fourth quarter and whether it will show a relapse into GNP contraction, so the third-quarter revisions will have limited impact.

The US November employment report is scheduled for publication on Friday and, whatever the movement in the overall national unemployment rate that stood at 6,8% in October, attention will be concentrated on trends in manufacturing jobs. These are measured in the change in non-farm payrolls, which showed a reading of -1 000 in October. Expectations are that non-farm jobs will have shrunk by around another 10 000, reflecting problems in the manufacturing sector.

The policy-making arm of Germany's central bank, the Bundesbank, meets on Thursday to decide whether to change its monetary stance. Although the German inflation rate jumped to 4,1% in November from 3,5% in October, the Germans are thought unlikely to raise interest rates this week ahead of next week's summit on European monetary union. A rise in German rates is still, however, thought likely before the end of the year.

COMMODITIES

Financial markets whisper of gold

(74)

B Day 3/12/91

Own Correspondent

LONDON — Golden the prospect is not. But across financial markets the furtive whisper is of gold — and what could be about to happen to its price.

For we are facing the possibility of an international financial debacle. The super powers are both in deep crisis: their troubles are of different origins, but are combining in a form which could profoundly damage the world economy.

The livelihoods of hundreds of millions of people are being reshaped in an economic upheaval unprecedented for a generation. Not just how we think financially, but how we live, may be undergoing a profound change. On Friday the Soviet Bank for Foreign Economic Affairs placed restrictions on access to hard currency amid growing concern that the country is headed for Weimar-style hyperinflation.

The start of this drama came last month when Russia's Grigory Yavlinsky told the IMF its gold reserves had plunged to just 240 tons from more than 1 000 tons in the mid-1980s. The Soviet Bank for Economic Affairs is suffering a liquidity crisis of such severity the Moscow Narodny Bank in London was spared closure last week only because the Russians said they would provide financial support.

But the overall picture is more serious. So dire is the economy that inflation is running at 200% and foreign currency reserves are close to zero. Russia is facing a collapse so advanced that last week the head of Gosbank said the finance ministry had just three billion roubles in its coffers — enough to cover the budget for two days. A loan from the Bank of International Settlements will be needed to help the Soviet Union service its $60bn foreign debt. To get this sum the Russians would need to put up the equivalent of 216 tons of gold, leaving it a derisory 35 tons. America is opposed to a debt rescheduling and Germany is in no position to countenance one.

With such a supply constraint on the world's second largest gold producer little wonder we have seen a spike in the gold price and followers talking of a scenario more bullish than for many years.

Meanwhile, what is unfolding in the West is a persistent failure of confidence in Europe and America. This is causing investors to sell dollar assets and analysts to scale down hopes of recovery.

It is events in the US that are the proximate cause of recent exchange-rate mechanism jitters. US consumer confidence has fallen below the Gulf war trough and the lowest point in the last recession. Consumer spending fell 0,3% in October, spelling a grim Christmas and orders for non-defence capital goods — a guide to investment intentions — fell 1,9%.

The seriousness of this situation has not yet sunk home. Despite 20 cuts in the Federal discount rate the economy is still weakening with a renewed downturn feared in the fourth quarter.

Three factors suggest something more serious than just the stuttering at the bottom of a cycle. The first is debt aversion — where the reluctance of people to borrow is matched only by the collapse of will (or balance sheet inability) of banks to lend.

The second is the absence of external kick-start to lift the world economy out of what appears to be an L-shaped gloom. The third is the political cycle: US President George Bush faces an election next November and UK Prime Minister John Major an election by June.

Around Washington the air fills with talk of fiscal stimulus.

But against a background of a US budget deficit of $400bn, eight times the level of the previous recession, resort to fiscal stimulus now would be like letting a pyromaniac loose in a kerosene plant.

To slow the flight to security compounding debt deflation, US political pressure is building to stop a slide into depression. It is not just that governments tend to overreact triggering high inflation that makes the case for gold. In periods of deflation it also prospers. — Daily Telegraph.

Austrians keen to open up businesses

(74)

STAR 3/12/91

Austrian businessmen are declaring their intention to open up in South Africa, making a major contribution to rebuilding the economy.

So says Albert Klamert, regional director of Intercont, the Austrian subsidiary of the R5 billion worldwide LEP group.

Mr Klamert, who is on his fifth visit to South Africa, specialises in trade with South Africa in partnership with Renfreight Aircargo.

He says: "Since many imports from Austria are relatively expensive, they will gain only limited market share. But the South African market is too attractive to ignore, so Austrian businesses are aiming to produce here through joint ventures or subsidiaries."

Expectations are high that pent-up growth potential will be unleashed, with South Africa acting as a gateway for the entire sub-Saharan region.

While 1989-90 SA-Austrian trade figures showed an 8 percent decline by value, airfreight volumes increased, especially in the area of spare parts as industrialists sought to extend the life of their equipment.

In addition to machinery and spare parts for industry, Austrian exporters see possibilities for a wide variety of high technology, chemicals, electrical appliances and sporting goods.

In partnership with Renfreight Aircargo, Intercont offers a direct airfreight service to South Africa and is the single largest supplier of cargo for carriage to South African Airways.

Austrian Airlines — while focusing on passengers — has freight capacity that will be increasingly sought-after as trade grows.

Not that traffic is one-way.

"South Africa need no longer rely solely on agricultural produce and raw materials," says Mr Klamert. "The quality of finished goods is improving noticeably."

Intercont has recently helped a South African exporter to gain a major contract for the supply of computer workstations and a container-load is on its way. — Sapa.

Customs union partners could easily form a common market

74

By Des Parker

STAR 3/12/91.

DURBAN — South Africa and its customs union and monetary area partners are likely to become the centre of a regional common market, says Gavin Maasdorp, director of the Economic Research Unit (ERU) at the University of Natal.

He believes SA, Namibia, Botswana, Lesotho and Swaziland are closer to forming a common market than is generally realised.

It would take only formal agreement on the free movement of labour to make a common market a reality.

The ERU is the SA partner in a regional project funded by UsAid and the German Konrad Adenauer Stiftung research organistion to investigate economic integration and co-operation in southern Africa.

The project will culminate in a conference in Harare at the end of next year to present the findings to decision and policy-makers from all countries in the region.

The ERU is running one of five sections into which the study has been divided, that of trade and investment, which Professor Maasdorp says is the most important.

Interviewed after a workshop in Durban this week of economists and officials of the IMF, UsAid and Safer, Professor Maasdorp said political change in South Africa had run ahead of the country's neighbours.

"They have not really started to think about the implications for their economies and politics of the new SA," he said.

"Although SA is the dominant economic power, the major provider of transport and of jobs for migrant labour, it has been frozen out of trade and economic treaties like the SADCC (Southern African Co-ordination Conference) and the African PTA (Preferential Trade Area) for political reasons.

Stressing that Pretoria was likely to leave major policy decisions to a post-apartheid government, Professor Maasdorp said: "Over the next few months we will have to canvass points of view from governments and businesses of the region and at the end produce a document making recommendations about how southern Africa should approach the question of trade and economic integration."

While Malawi and Zambia were unrealistically keen to join the SA Customs Union, trade integration tended to be "very difficult" because it required countries to surrender varying degrees of independence.

Professor Maasdorp said politicians resisted measures likely to reduce their authority or impinge on national unity.

Former British prime minister Margaret Thatcher had contributed to her own downfall in part through her single-minded opposition to aspects of the EC.

Market integration worked best in conditions of civil tranquility and among countries of similar economic persuasion — and even then it did not happen overnight. Even democratic, free-enterprise Western Europe had taken much of the latter half of the century to evolve the EC in its present form.

"There's still a lot of potential and actual political turmoil in southern Africa — which is not reassuring — but there is a strong tendency towards adoption of the mixed economy model.

Brokers bullish about the future

BIDay 3/12/91

AFTER a year in which blue chip industrials remained in the fast lane to surge to record levels, the gold market could be set to experience more exciting times in 1992. Leading stockbrokers look back on 1991 and ahead to next year. **MERVYN HARRIS** reports.

FERGUSSON Bros, Hall Stewart & Co's Paul Ferguson said the market performed exceptionally well in 1991, especially as there were some significant calls on funds due to various major rights issues in the latter part of the year.

Most forecasters expected that these calls on funds would cause a reaction on the market, but they did not.

"One area of concern is the performance of overseas stockmarkets, especially New York. It is very clear that even though we have exchange control, we are not isolated from international trends and if there is any major movement, especially in the New York market, there is little doubt that our market will react in sympathy. There is a close correlation between the JSE and Wall Street.

"However, there is no doubt the US administration's prime aim is to stimulate the economy and a recovering business cycle will be positively perceived by the New York market."

Other than this, Ferguson said, he believed the JSE would perform positively and that, once again, it would be a haven for the raising of finance through rights issues.

"There is a possibility that very little will happen in the capital market due to the obstinacy of the inflation rate. But we believe this is already discounted and will not have any detrimental effect on the performance of equities.

"One also hopes to see a return of overseas interest in our industrial shares."

Senekal, Mouton & Kitshoff's Louis Geldenhuys said the gold market was set to experience more exciting times. "Exciting not only because the gold price is very low in real terms and may well already be in the process of bottoming, but as gold mines stand to benefit handsomely from any recovery in the gold price because of management actions.

"I think, however, that optimism should be tempered in an environment that is unlikely to ensure a sustained rise in 1992. Investors should be prepared for occasional disappointments."

Geldenhuys said that despite question marks, the world economy should exhibit a better shape and inspire more confidence as 1992 progresses. This should start to rub off favourably on exports and shares such as De Beers, Samancor, Sappi and mining houses during the year.

"The industrial market is not cheap. But there are strong reasons to expect a continued rise of industrial share prices. These include the prospect of at least some economic recovery in the course of 1992, which is likely to gather momentum in 1993 and even beyond, lower nominal interest rates, a fairly weak track record of alternative investments, and public sector pension funds entering the field of equity investments.

"The main risks probably centre on the world economy, and world bourses, next year's Budget, and possible changes in exchange control and the local political scene.

"There is also reasonable evidence to suggest that the political negotiation process will remain on track. The coming Budget may, however, hold a few nasty surprises.

"On balance, I would not be surprised to see continued strength in industrials even though some interim sluggishness may not be avoided. I will stick with the proven winners," Geldenhuys said.

(74)

Irish & Menell Rosenberg's Phil Ward said Russian revelations of their declining precious metal stocks would virtually guarantee a fair market for gold and the platinum group metals, as relative supply shortages were experienced from those sources.

"Globally the outlook for 1992 will be largely dominated by signs of economic recovery from the recessionary tendencies of the past three years, and by electoral considerations in the US and the UK, with prospects of a renewal of world inflation a possibility.

"In SA, we will be witnessing the progress of all-party talks and considerable progress will have to be made before there can be major changes in the sanctions position or renewed access to IMF loans.

"These are necessities for the commencement of infrastructural and social developments on any scale."

Ward said there should remain a good number of SA equities which, through the very nature of their activities, remained inflation-proof. But these were seldom contributors to real growth in GNP.

The construction industry was at a low ebb in terms of the level of orders for roads and housing projects, yet it was to this sector that most would look for evidence of the building of the new SA.

Chamber to launch new foreign trade service

(74)

TOM HOOD
Business Editor

ARG 4/12/91

THE number of foreign trade inquiries streaming into the Cape Town Chamber of Commerce has increased more than fivefold and from January the chamber will start a new international trade service.

As sanctions fall away and the negotiation process gains momentum, foreign markets are becoming more and more accessible to South African traders, reports the chamber's weekly bulletin.

"This year the chamber has been inundated with foreign trade missions and trade inquiries.

"Foreign businessmen visit the chamber daily seeking to do business with local suppliers, manufacturers, importers and agents," says the bulletin.

Responding to this new demand for trade contacts and business introductions, the chamber has expanded its foreign trade department and has geared itself to provide an enhanced level of service to visiting businessmen and members engaged in international trade.

By providing subscribers with up-to-date information on foreign trade, incoming trade missions and the latest trade inquiries, maximum benefit from the opening up of foreign markets will be assured, said a spokesman.

The new international trade service to start in January will include:

- A new edition of the chamber's monthly publication Trade Link to include details of all trade opportunities received by the chamber;
- A service to arrange appointments arranged with incoming visitors;
- Inclusion on a new international trade database that will offer a detailed breakdown of the products and services of members; and
- Faxed information on business visitors to Cape Town who are interested in members' products and services.

Forex markets desperate for pointers

B/Day 4/12/91 (74)

SHARON WOOD

FOREX markets are still teetering on the edge of a cliff, having failed to move either way, but US economic releases may provide the push this week — if only to cement further the dollar's bearish trend.

Market participants are desperate for anything that will give them an inkling of where to go, and this was clearly shown last week as they reacted swiftly to rumours and statements by figures who have no real influence over monetary policy.

A rumour of a second Soviet coup sent dealers dashing to the safety of the dollar, and the US currency also got support from a comment by German Economics Minister Moellemann that German exporters would be more comfortable with a $/DM rate of between DM1,65 and DM1,70.

Market participants know full well that the Bundesbank is in sole charge of monetary and exchange rate policy in Germany, says the Union Bank of Switzerland. The relatively sharp exchange rate gains in response to Moellemann's remarks could be seen as a sure sign that the dollar was oversold and due for a technical reaction.

As a result of these factors, the dollar bounced around but ended last week stronger against the Deutschmark and yen. However, early this week the dollar weakened against the Deutschmark and the yen as economic considerations took top spot.

US economic releases last week, durable goods orders and weekly jobless claims, buoyed the dollar, but the overwhelming sentiment is that the US could easily slip into recession again. The Purchasing Managements business activity index released last week reflected this when it fell to 50,1 from 53,5, meaning there had been virtually no growth in manufacturing during October.

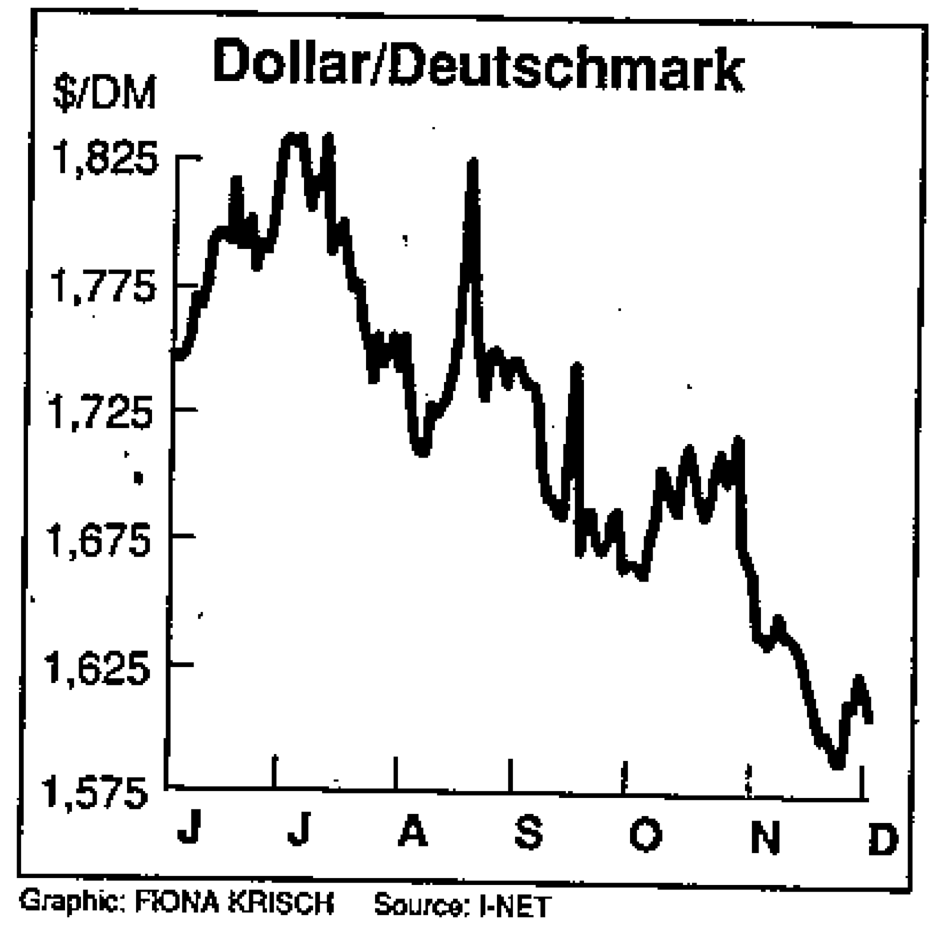
The manufacturing sector has been one of the few bright spots in the economy this year, Reuter reports. But now the sector appears to be sliding back into recession.

On Monday US President George Bush expressed his concern for those suffering from recessionary conditions, but said he was not looking for a "quick fix" and would not do anything "dumb".

Bush ordered a speeding up of aid for the unemployed, including job placement programmes and unemployment checks. He also said he would sign the newly passed transportation bill next week which would pump $151bn into highways and mass transport over five years and create thousands of jobs.

Markets are keenly awaiting the release of two potentially large market moving statistics this week — the Index of Leading Economic Indicators which is expected to be disappointing, and November's unemployment data.

FNB technical analysis shows the dollar forming the right shoulder of a head and shoulders formation, which means the US currency is set to range-trade this week before trying to move up against the Deutschmark. The dollar is expected to test support levels after its recent dramatic surge of strength, it says, and the forecast range for the week is between DM1,5900 and DM1,6360.



Graphic: FIONA KRISCH Source: I-NET

On the local front the financial rand remained steady at about R3,06 to the dollar. Standard Bank's International Comment says the financial rand market last week was characterised by persistent, feverish speculation that the financial rand mechanism was to be dispensed with. But this would be unlikely in the absence of access to IMF funds and definitive arrangements with SA's creditors. Thus, Standard Bank says, despite the recent dramatic narrowing in the discount between the financial and commercial rands, it is not expected that the financial rand will be abolished before 1993.

Gold remained relatively strong but failed to leap the $370 hurdle. Union Bank reported modest producer sales and profit-taking before Thanksgiving in the US was evident at the upper limit of the narrow $365,50 to $369 price range and physical demand provided a solid cushion at the lower limit.

Although there is still not much light at the end of the tunnel in the US, as far as the long-promised economic upswing is concerned, the mood on the gold market may remain characterised by underlying optimism due to the possibility of further interest rate cuts and the disquiet about the political situation in the Soviet Union, it says.

REVIEW

Traders arrive on new Kenyan flight

(74) DAVE LOURENS (290)

THE first Kenya Airways flight to SA landed at Jan Smuts yesterday afternoon, bringing a contingent of leading Kenyan businessmen planning to establish trade links.

Yesterday's flight marked the inauguration of a regular Nairobi-Johannesburg service, which will consist of twice-weekly Kenya Airways flights and a weekly SAA flight.

SAA CE Gert van der Veer said the two national airlines would profit from a route which had previously been exploited by third parties.

"This is an African cake and it is time we got our slice," he said.

Due to political differences the route had been serviced by European airlines, but after an appropriate notification period, their traffic rights would be rescinded.

"We do not have those rights in Europe, so I think it is only fair that the two national airlines should now exploit the route to the benefit of the airlines and their passengers," said Van der Veer. BIDay 5/12/91.

Leader of the business delegation, Kenya National Chamber of Commerce and Industry chairman Frances Macharia, said: "We need to import agricultural supplies, especially fertilisers, pharmaceutical products and spare parts for machinery and motor vehicles. We hope to export coffee, tea and pyrethrum."

New liner service

SA trade links with Russia and Europe will receive a major boost next year following an announcement yesterday that a Russian shipping company will call on SA ports next year. 74 (340)

Rennies Ships Agency MD Fred Payne said the Baltic Shipping Company of St Petersburg had announced the start of a liner service between ports in the UK, western Europe and SA as well as a service between Durban and Australia.

BDay 5/12/91

Business calls Keys right man for the job

174

PAUL ASH ([redacted]

BUSINESS leaders have welcomed the appointment of Gencor executive chairman Derek Keys as Minister of Trade and Industry and Economic Co-ordination.

Sacob applauded government strengthening the emphasis on a number of key economic issues. Keys's appointment would bring "a wealth of business experience to the Cabinet, strengthening existing bridges between government and the private sector".

Sacob deputy director Ron Haywood said: "Using people who have specialised knowledge is always an advantage."

Johannesburg Chamber of Commerce and Industry president Mike Kato said the appointment was a tangible recognition that the future of the country depended on both political reconciliation and the recovery of the business sector.

He said in a statement there was a desperate need for direction from government on the restructuring of the economy from one geared to import replacement to an export-development orientation.

The lack of direction and the collapse of business confidence had resulted in a decline of local investment.

"Mr Keys is the ideal person to spearhead the creation of such a direction and could play an important role in providing SA business with an integrated business development policy," Kato said.

Seifsa CE Brian Angus said he had no doubt Keys's appointment — which he described as an excellent development — would enhance economic and business know-how in government circles.

"Keys understands the problems and realities facing business," he said.

The Afrikaanse Handelsinstituut said it had been in favour for some time of greater co-ordination, which would aid economic growth. BDay 6/12/91

SA Institute of Chartered Accountants (SAICA) executive director Ken Mockler said yesterday: "It is a refreshing change to see senior decision-makers being chosen for their skills rather than their particular party affiliations."

See Page 14

Triad welcomes BTI's TV industry changes

(80) ROBERT LAING (174)

THE Board of Trade and Industry's (BTI) modifications to the TV industry's Phase III programme should make it more difficult for manufacturers to qualify for tariff concessions, Ciskei-based TV maker Triad says.

Breaking ranks with SA's other four major TV manufacturers — National Panasonic, Philips, Tedelex and Tek — Triad financial director Eugene Hofmeyr said the company welcomed the BTI's decision to end the import tariff holiday the industry had enjoyed for the past six months.

Hofmeyr was reacting to National Panasonic's statement that the BTI's new legislation would cause TV prices to soar by more than 20%.

July's legislation gave the biggest savings to manufacturers who imported most of their components instead of rewarding those with high local content, Hofmeyr said. B Day 6/12/91

"Manufacturers who do not have 40% local content will be hit hard by the modifications. July's legislation had two omissions which let every manufacturer claim their sets contained a minimum 40% local content.

"Firstly, the level was defined as 40% of cost of sales instead of component value — allowing overheads to be included as local content which meant the less efficient a manufacturer was, the higher its local content would appear.

"Secondly, the legislation omitted to list duty free components like TV tubes which are not regarded as part of the calculations," Hofmeyr said.

The BTI is expected to gazette the modifications at the end of the month.

Hofmeyr said Triad, the only SA designed and developed TV, could easily satisfy the 40% local content requirement.

Its competitors would battle because their licensing agreements with offshore brands forced them to use imported parts.

When Triad initially set out to manufacture low-cost locally designed TVs in 1984, the BTI refused to grant its founder Monty Dersley a licence because of lack of faith in a product not backed by an international brand name.

Dramatic drop in capital outflow

BDay 6/12/91

(94)

ANDREW GILL

A CAPITAL outflow of more than R2bn in the second quarter was slashed to R97m in the third quarter, despite a R500m foreign debt repayment and decreased inflows from project financing.

The Reserve Bank's December Quarterly Bulletin said long-term capital continued flowing from the country from July to September, but short-term capital movements showed a R3bn turnaround from the second quarter.

Not included in the figures is about R700m raised in September on the German capital market. The physical inflow did not occur until early October and will be reflected in fourth-quarter statistics.

The Bank said a R500m debt repayment, decreased project financing because of the winding down of Mossgas financing, and the end of inflows for SA Airways for the financing of its new fleet, which had buoyed the two previous quarters' figures, had seen long-term capital flows worsen.

A long-term outflow of R1,36bn was recorded in the July to September period, compared with the previous three months' R326m outflow. This was balanced partly by a R1,24bn inflow (R1,75bn outflow) of short-term capital.

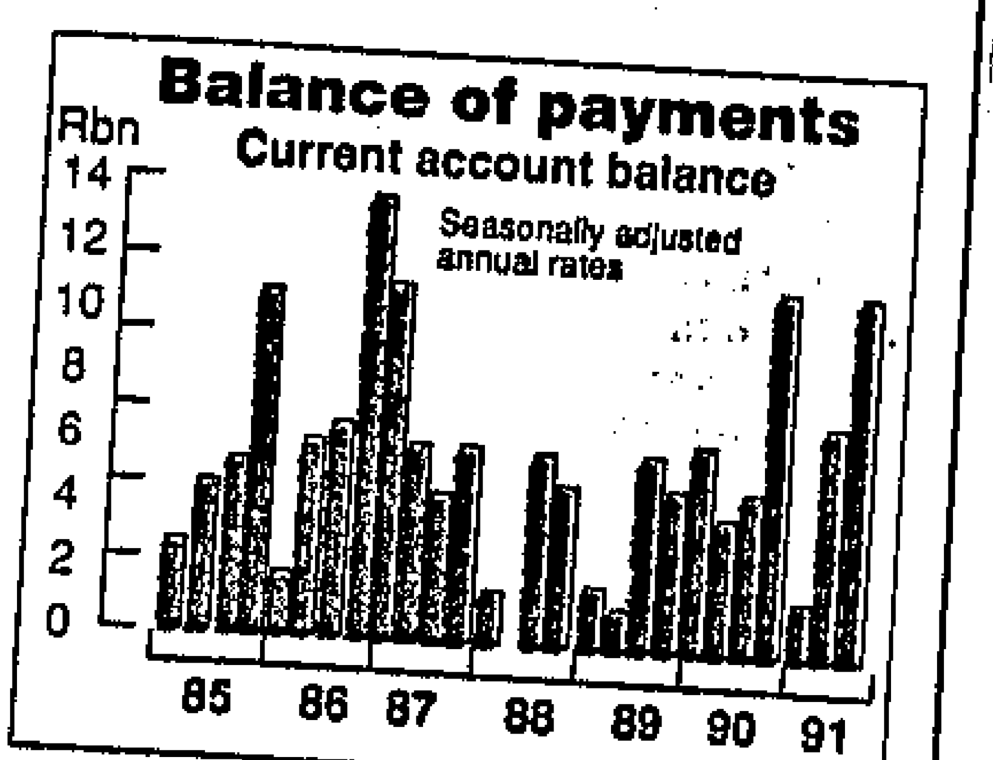
The Bank said the volatility of the short-term movements clearly reflected a more normal behaviour of such movements, which were affected by economic factors such as changes in foreign trade, expected foreign exchange movements and the cost of forward exchange cover.

The current account continued to show a steady improvement in the third quarter, registering its seasonally adjusted 27th consecutive quarterly surplus. The total surplus on the current account for the first nine months was R4,3bn compared with R3,5bn at the same time last year.

The Bank forecasts a total surplus above R6bn for the year — double its expectations earlier in the year.

It was the result of a general improvement in the trade account as merchandise exports rose substantially, imports dropped marginally and net gold exports increased marginally.

Central Statistical Service figures diclosed the total value of exports for the first eight months was up 9,1% over the same period in 1990.



Graphic: LEE EMERTON Source: RESERVE BANK

Gold, forex reserves top R9-bn mark

STAR 9/12/91 (74)

By Sven Lünsche

The record trade surplus in October and generally favourable position of the balance of payments boosted gold and foreign exchange reserves to more than R9 billion last month.

The rise of almost R500 million was forecast by Reserve Bank Governor Dr Chris Stals late last month, showing the confidence the improvement on the external accounts is causing.

Economists say it is now possible that the reserves could reach R10 billion over the next two months because the Bank is not likely to let up in its effort to boost reserves to levels equivalent to three months of imports.

They now cover about two months of imports — a major improvement over the beginning of the year when they were equivalent to about four weeks.

The statement of assets and liabilities released over the weekend shows that reserves rose from R8,626 billion at the end of October to R9,071 billion in November.

The gold portion was little changed, rising from R5,888 billion to R5,897 billion as a higher price of R923,27 per ounce (October: R915,53/ounce) was partially offset by a decline in the physical volume of gold held to 6,388 million ounces (6,432 million ounces).

However, the favourable trade position boosted the foreign exchange portion substantially from R2,738 billion to R3,173 billion.

Zimbabwe, SA trade is booming

Sowetan 9/12/91 (M4)

By JOSHUA RABOROKO

SOUTH African industry is likely to play a significant part in Zimbabwe's economy.

So says the managing director of the Merchant Bank of Central Africa, Mr Frank Read.

Speaking at the launch of trade relations between Alliance Peroxide, a Durban-based company, and Zimbabwe Petroleum this week, Read said the long awaited *rapprochement* with post-apartheid South Africa was at hand, and industrial relations were a natural and logical development for Zimbabwe.

Logistics

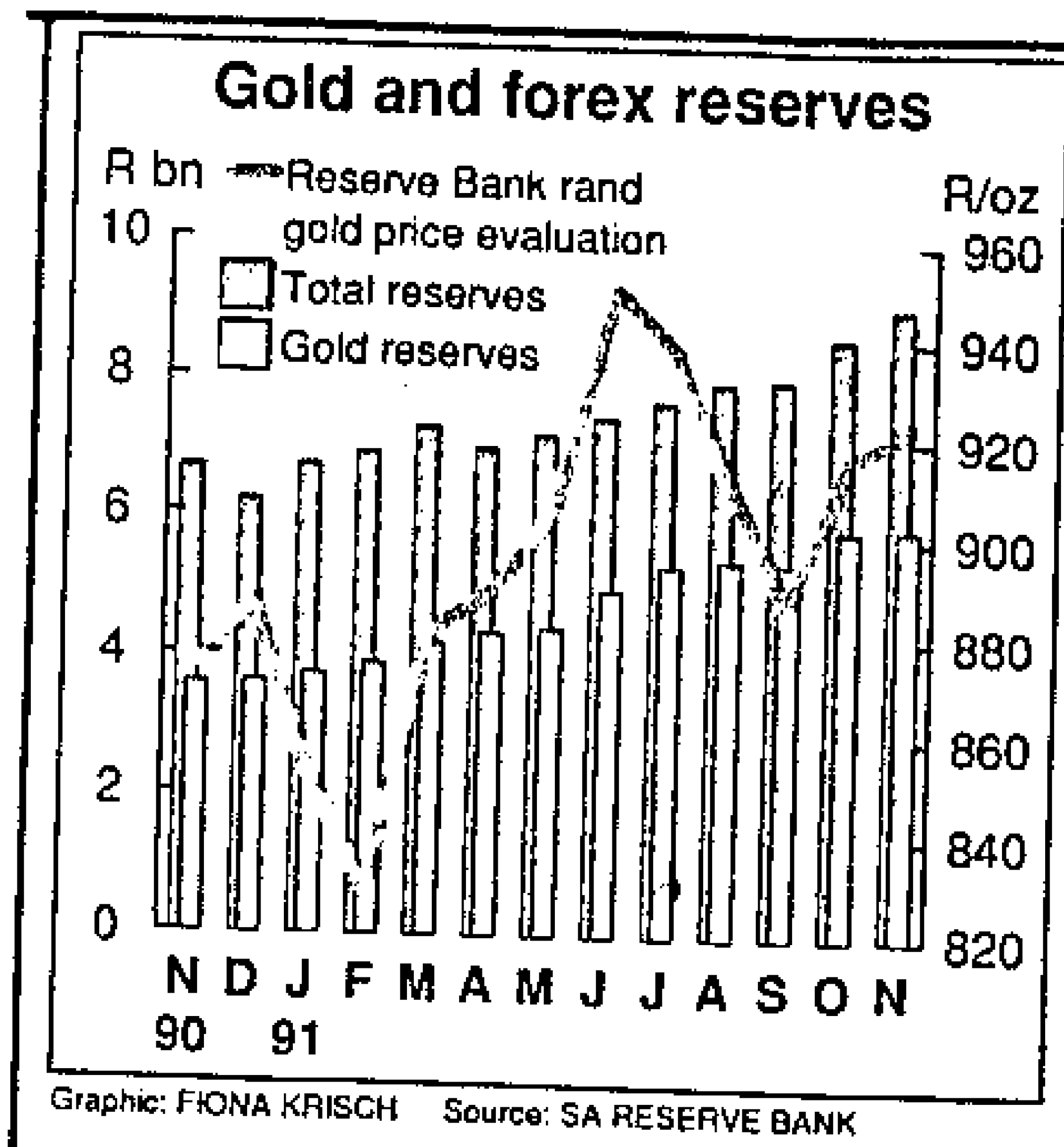
"South African logistics should give rise to a better import parity pricing policy, which per se will save precious foreign exchange and at the same time give reasonable returns to Alliance to the company."

The company, manufacturers of green chemical hydrogen peroxide, has announced that Zimbabwe Petroleum, part of the large Ximet group, had been appointed distributors of their product for Zimbabwe.

Hydrogen peroxide will be used in the textile and mining in Zimbabwe, which together contribute about 1,4 million Zimbabwean dollars in foreign earnings.

Read said that hydrogen peroxide added some 100 percent to the volume of gold which was extractable by other known process.

"I would estimate that for every dollar expended for the import of hydrogen peroxide, about four dollars extra will result in foreign exchange earnings."



Graphic: FIONA KRISCH Source: SA RESERVE BANK

Total reserves rise to R9,1bn

BDay 9/12/91

SHARON WOOD

RESERVE Bank gold and foreign exchange reserves continued steaming ahead in November, rising by 6% to R9,1bn from R8,6bn in October.

Total reserves were boosted by a R425m rise in the foreign currency component to R3,2bn, Bank figures released on Friday disclosed.

The rand gold price rose by R7,74, outweighing a drop of 43 963 ounces in gold holdings, and gold reserves rose by R9,2m to R5,9bn.

The ratio of reserves to imports grew further and covered about 2,2 months in November.

Analysts expect the Bank's three months' import cover target to be reached in about five months' time.

Import cover of three months in reserves is recognised as a comfortable level for meeting import payments.

Notes and coins in circulation shot up by 8,8% ahead of Christmas, after remaining flat from July to October.

But the increase was still lower than the rise of 27% at the end of 1989 and was a good indication that conditions remained very tight, an analyst said.

The Bank said in its latest quarterly bulletin that below-inflation growth in notes and coins could be interpreted as mildly encouraging.

Nedbank chief economist Edward Osborn said gold reserves were virtually unchanged because the higher valuation of gold had offset a lower gold holding.

The Bank had sold all of November's gold production, he said.

Soviet dissolution gives fillip to metals prices

STAR (74)

By Neil Behrmann 10/12/91.

LONDON — The dissolution of the Soviet Union and concern about its future are lifting the fortunes of gold and platinum.

Gold rose to a fix of $370,70 in London, while platinum traded at $374 an ounce, the highest levels since July.

Soviet metals exports are expected to be lower in the coming year, despite the country's desperate need for cash.

Exports will slide because of the crisis in the Soviet Union and attempts by the Russian Republic and others to achieve better prices, say analysts.

"There is a good chance that Soviet metals exports will peak this year," says Thomas Baack, chief economist of Metallgesellschaft in Frankfurt.

Acute energy shortages and problems such as pollution will crimp production, he says.

Moreover, Soviet republics will be wary of exporting surplus raw material stocks needed for domestic industry, he says.

As a result of declining production, poorer quality metals, the severe Soviet winter and transport hitches, smaller quantities of metal will reach the West in coming months, says Edwin Arnold, metals specialist at Merrill Lynch.

He estimates that East European, but mainly Soviet gold exports, will fall to 260 tons next year from 350 tons in 1991.

Aluminium from mines will slump to 600 000 tons from 700 000 tons, he says, while aluminum scrap exports estimated at 300 000 tons this year are likely to be sharply lower in 1992.

Copper exports in 1992 will decline to 210 000 tons from an estimated 250 000 tons this year and 405 000 tons in 1990, he says.

Nickel exports are expected to slide to around 93 000 tons from around 110 000 tons this year.

Some analysts such as Robin Bhar of London brokers Carr Kitcat & Aitken believe the foreign exchange crisis will force Soviet republics to sell large quantities of minerals in the coming twelve months.

Yet initial indications that Soviet metals exports would decline next year came from the announcement last month that the Russian Republic intended suspending licences on oil exports and was studying possible changes in gold, diamond and coal dealings.

Commodity dealers and analysts believe the Russian Republic intends centralising the sale of its commodities to obtain better prices.

For the past two years, international merchants have been swamped by growing numbers of competing Soviet organisations and businessesmen offering commodities at varying discounts.

Soviet republics, however, are unlikely to discard longstanding Western customers when exports are reorganised.

De Beers Centenary, for example, continues to receive its monthly allocation of diamonds from Russia.

Pressure

A proposed Group of Seven nations $1 billion gold-backed loan and deferral of principal debt payments will reduce pressure on Soviet organisations that were dumping gold and other commodities at depressed prices.

The Soviet Union's proposed 104-ton gold swap with the Group of Seven nations allows the Soviet republics to buy time.

The Soviet payment suspension on foreign loans also helps. As a result, there will be less pressure on commercial banks to sell Soviet gold collateral on previous loans.

The gold price has been weak this year, partly because the market has had to absorb estimated sales of 50 tons from original Soviet gold collateral of 225 tons.

Dollar selling floods world markets

B Day 11/12/91. (74)

SHARON WOOD

POOR US economic statistics and another Federal Reserve interest rate cut finally broke the dam wall. A tide of dollar selling has flooded through international forex markets.

This has pushed the US currency to a nine-month low of DM1,5650 and it is now generally seen to be oversold. Some dealers feel the dollar could go as low as DM1,55.

Widespread fears of chaos in the former Soviet Union failed to stir the dollar from its lows, but if worst fears about President Gorbachev's future materialise, the dollar is expected to benefit at the expense of the Deutschmark.

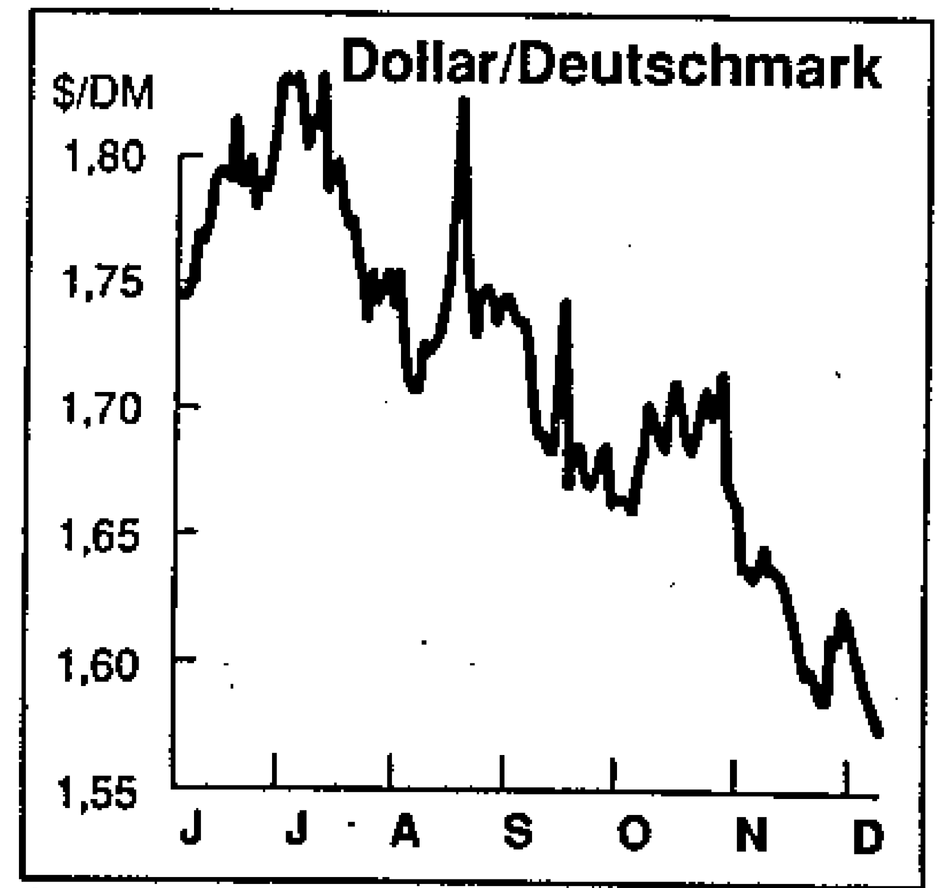
At present, however, looming prospects of a double-dip US recession and the widening interest rate differential between Germany and the US dominate international forex market sentiment. These factors are unlikely to alter in the near future, because US interest rates may fall even further and a German interest rate hike is seen as a firm possibility.

Underlying the dollar's weakness were dismally disappointing November US purchasing managers' index figures and US unemployment statistics. The former fell to 50,1% — fractionally above the critical 50% level which is held as the watershed between contraction and expansion in the US economy. While the overall US unemployment level remained unchanged at 6,8%, non-farm job losses increased sharply by 241 000 compared with market forecasts of about 30 000.

Pronouncements on the economy by officials of the Bush administration served to dampen dollar sentiment further. As White House anxiety rose about the state of the economy barely two months before the start of the presidential primary elections, Federal Reserve chairman Alan Greenspan went on record with concern that the recovery was showing signs of faltering.

The fortunes of the dollar seem set to remain poor until the economy kicks into life again and this is considered unlikely before the end of the year. FNB technical analysis shows the dollar is becoming oversold and a rally or some consolidation can be expected before any further new lows are reached. Objective for the dollar is now DM1,5570, with interim rallies having the potential to reach between DM1,5980 and DM1,6070. Forecast range for the week is between DM1,5570 and DM1,6070.

Meanwhile EC countries gathered in Maastricht to discuss the future of the European Monetary System. Concern was expressed by a number of countries, notably Germany, about forming a single European currency. Concern centred on the need for stability.



Graphic: FIONA KRISCH Source: I-NET

However, it was agreed at the meeting that the merger of EC currencies would take place no later than 1999 and that only those countries meeting strict economic conditions of low inflation and modest budget deficits could belong to the European Central Bank and circulate a common currency.

Uncertainty about the Soviet Union's future propelled the gold price to above the crucial $370 level on Monday, before it slipped back to close at $368,65 in New York. It was trading at $370,30 yesterday afternoon. Technical analysis shows the precious metal to be in a medium-term bull trend and the next objective is $374, where it will probably again find resistance.

The financial rand lost 7c during the week as a result of a local bank's sell order, which was expected to be completed by the end of this week. Dealers said the order was in the region of R200m, which was not considered large. The investment unit was trading at R3,14 yesterday afternoon, down from last Tuesday's R3,07. The commercial rand gained about 1% during the week and was trading at R2,7666 yesterday afternoon compared with last Tuesday's R2,7922 close.

REVIEW

DECEMBER offers an earnest, sol-

just war and, furthermore, has good *reason to doubt that the Day of*

Northern Irish trade mission to come

74

Sowetan 12/12/91.

THE first trade mission from Northern Ireland is due to arrive in South Africa for a two-week visit on January 20.

The latest issue of *British Information Services' Trade with Britain* reveals that some 12 companies from Northern Ireland have already decided to take part in the trade mission.

The mission will be sponsored by the Development Board of Northern Ireland.

New markets

The trade delegation plans to visit Cape Town, Durban and Johannesburg.

And, in February a Sheffield Chamber of Commerce and Industry trade mission is also to visit South Africa.

It is expected that 26 companies will participate in that mission.

Unlike the Northern Ireland mission, which hopes to establish new markets here, the Sheffield delegation's aim will be to re-establish and develop its trading links with South Africa. - *Sapa.*

B/Day 13/12/91

NEWS IN BRIEF

Foreign trade on Safex

THE first non-resident trade on the SA Futures Exchange (Safex) took place this week. (94)

Stockbroking firm Ed Hern, Rudolph said the trade involved 200 contracts in the all share index future for a foreign client using blocked rands.

Safex CE Stuart Rees said: "It was a test case. We still expect it will be a while before foreign volumes really build up."

DEREK KEYS (74)

FM 13|12|91

Where to begin?

Derek Keys will be greeted by a long list of pressing issues when he takes office next month as Minister of Trade & Industry and Economic Co-ordination. Perhaps the most important is the need for Trade & Industry and Finance policies to mesh.

The SA Chamber of Business has pointed out that the high company tax, tariff, interest and inflation rates, combined with surcharges and high labour costs, discourage foreign investment. "SA's financial risk profile remains unattractive for the overseas investor," notes chamber industrial policy expert Paul Hatty.

Most of these policies are the responsibility of the Finance Department, which doesn't have investment and trade as a priority. While Trade & Industry focuses on improving the investment and trade climate, Finance's goal is to maximise tax, tariff and surcharge revenues for the annual Budget.

"Bringing the conflicting views of the two ministries together at Cabinet level is a tough nut to crack — but I believe Keys' long success record in business eminently qualifies him for the job," says AHI executive director Martin van den Bergh. "With

FM 13|12|91. (74)

Finance Minister Barend du Plessis playing a growing role in the constitutional negotiations, Keys may have to carry more weight as far as economic policy issues are concerned."

Says chamber deputy executive director Ron Haywood: "Keys runs a corporation that focuses on being a global player. Genmin, Sappi, Engen, Alusaf and the planned Columbus stainless steel project are cases in point. SA needs this philosophy if we want to maximise export-led economic growth, job creation and investment."

At Trade & Industry, Keys will be taking on a post that has been a revolving door for some time. He will be the fifth Minister in five years, a line that started with Dawie de Villiers and continued with Danie Steyn, Kent Durr and finally Org Marais. Much of the work started by his predecessors must still be completed.

One of the most difficult jobs will be to implement last year's landmark report by the Industrial Development Corp (IDC), which recommended reducing tariffs, introducing new antidumping legislation, slashing company tax to 35%-40%, maintaining a realistic and stable real exchange rate for the rand, and abolishing import surcharges and the general export incentive scheme.

Following the report's advice would mean administering painful medicine to many uncompetitive industries, and taming the special interests that are already lining up in opposition will test Keys' mettle. The combination of trade, industry and finance issues contained in the report underlines the need for economic co-ordination.

In addition, Keys will face a raft of other policy issues in the new year:

☐ The impact of Gatt talks, which should end next year;

☐ The impact of the EC single market in 1993;

☐ Whether to expand the SA Customs Union and whether to join the Southern African Development Co-ordinating Conference and the Preferential Trade Area;

☐ The role of the IDC following the recommendation that it should sell its assets and fund small and medium enterprises and initiate joint venture megaprojects to beneficiate minerals;

☐ Board of Trade & Industry restructuring, which begins in March under new chairman Nic Swart;

☐ Bringing the unions into economic and industrial policy-making. Last month Org Marais invited the SA Clothing and Textile Workers' Union to join discussions on a new development policy for the textile and clothing sectors; and

☐ Creating a forum for government and business to discuss economic, tariff and industrial issues. ■

Gold plummets as investors back off

B/Day 13/12/91 74

ANDREW GILL and
MATTHEW CURTIN

GOLD plunged unsupported on world markets late yesterday as cautiously optimistic investors turned against the metal in a wave of stop-loss selling in New York, London and Zurich.

It ended in New York at $357,10, almost $9 off its previous close and $12 lower than its opening level this week. It ended more than $6 lower in London at $360,20.

Some commission house selling in afternoon London trade, which dealers described as thin, started the drop in the metal and investors liquidated positions speedily in anticipation of heavy losses.

Dealers said early selling of platinum might have triggered the commission house selling. Also, the houses may have been ensuring they sold out at levels higher than they had bought in at, which was said to be about $363.

The fall in gold mirrored nervousness about other metals, including platinum and silver. Silver dropped to $3,86c before making a slight recovery.

Platinum also made dramatic falls, shedding $7 to just above $360.

Rhodium prices have fallen nearly $1 000 or 36% in less than a month, rocking investor confidence in the platinum sector on the JSE.

The metal is trading at a quarter of its price in January this year.

The plunge in rhodium prices this week to the $1 500 level, against $2 350 an ounce in mid-November, knocked the JSE platinum index, which fell to 4 196 yesterday, a 7% drop after rising to 4 511 points last Friday.

Market leader Rustenburg Platinum (Rusplat) has shed 500c in a week, and closed down at R62,50 yesterday. Impala Platinum (Implats) also shed 100c yesterday and ended the day at R49.

Lebowa Platinum led the fall in shares on the platinum board, dropping 10c or 5,6% to close at 170c, after touching its low for the year during the day.

□ To Page 2

Graphic: LEE EMERTON Source: I-NET

Gold

B/Day 13/12/91. 74

□ From Page 1

Only Potgietersrust Platinums rose against the trend, moving up 5c to 625c yesterday, but that was after falling nearly 10% on Wednesday from 675c to 620c.

Although platinum prices have held up well this week, the sagging rhodium price has hit confidence in the platinum producers because of their reliance on rhodium revenue.

Implats derived nearly 30% or R623m of its mining revenue from it in 1991. A market source said yesterday Rustplat derived about 25% of its revenue from rhodium in 1991.

Then, the average prices the companies received for rhodium were $3 700 and $4 601 an ounce respectively.

One analyst attributed falling rhodium prices to the prolonged recession in the US and signs of one in Japan, affecting the fortunes of their motor industries.

Although interim results from platinum producers would be poor, he said, the reaction of investors to the price fall was shortsighted.

Platinum prices were stable, and would rise sharply in the longer term, while rhodium should regain levels of about $2 750 an ounce next year.

Fixed investment upswing forecast

B|Day 13/12/91 74

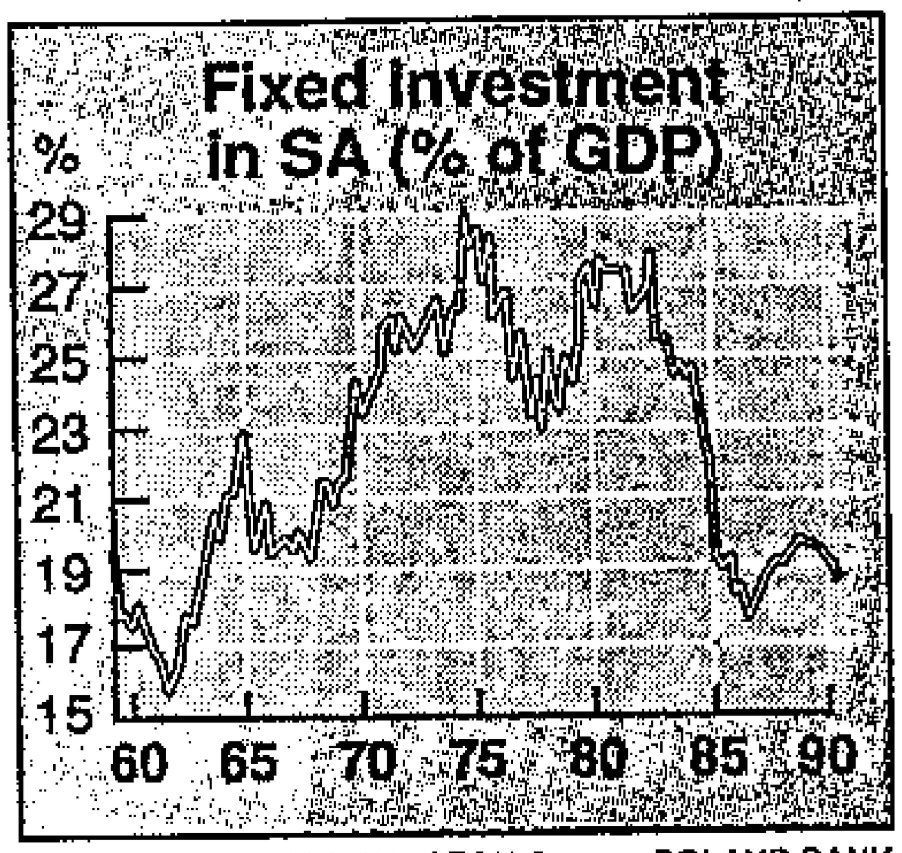
SHARON WOOD

THE stage is set for a steady upswing in fixed investment during the first half of the '90s — reversing the unsound investment pattern of the '80s, Boland Bank says in its latest Economic Review.

Stable and reliable capital prices under the Reserve Bank's current monetary policy approach, which pursued higher real interest rates and a stable exchange rate, will be important ingredients on the road to success.

Sharp cyclical fluctuations in real interest rates in the past decade have disrupted personal savings and discouraged fixed investment.

"Although higher interest rates will initially present great challenges to participants in the economy, and has already done so, a reliable price of capital is at least being established," it says.



Graphic: LEE EMERTON Source: BOLAND BANK

Above-normal credit-based private consumer spending, one of the main culprits of low savings and investment during the '80s, will also be depressed by the stability of the price of capital.

In addition, Boland Bank says, a stable rand will reduce the price of imported capital goods.

Availability of foreign capital will become a major source of finance as domestic savings remain subject to certain pressure points.

Foreign investment capital and domestic savings are the primary sources of financing a fixed investment programme. Foreign capital will have to supplement a shortage of local savings.

Boland Bank says it is optimistic that the availability of fixed investment loan capital will not be a problem during the first half of the '90s.

During the '80s, fixed investment fell from 29% of GDP in 1981 to below 19% in the second quarter of 1991.

Fixed investment had been pulled down by lower personal and government savings, but company savings and provisions for depreciation had performed with relatively stability.

SA seeks Customs Union alternative

S|Times (BUSS) 15/12/91 (74)

By ZILLA EFRAT

THE Department of Trade and Industry (DTI) is engaged in a study aimed at developing a broader and looser structure for economic co-operation to replace the Southern African Customs Union (SACU).

In addition, several other organisations have begun re-evaluating SA's future role in the region.

The DTI study, done in collaboration with other departments, will examine existing instruments for economic co-operation in Southern Africa. African countries will be consulted, says the DTI.

The University of Natal's Economic Research Unit (ERU) is a partner in a regional project to investigate economic integration and co-operation in Southern Africa.

Options

Other partners in the project, funded by US Aid and German research group Konrad Adenauer Stiftung, include the Harare-based Southern Africa Foundation for Economic Research and consultants in Botswana and Malawi.

The World Bank is also believed to be evaluating SA's role in the region.

The South African Chamber of Business (Sacob) is examining options for more regional co-operation.

Sacob deputy director-general Ron Haywood says that given political changes and the need for economic growth in Southern Africa, the question is no longer if SA will become an integrated player in the region, but when.

But before SA does, the best route must be chosen. Options include SA's joining structures like the Preferential Trade Area (PTA) or the Southern African Development Co-ordination Conference (SADCC), the expansion of SACU or strengthening bilateral agreements with countries in the region.

RON HAYWOOD: Africa on its own

However, Mr Haywood says more is required to assess which is the best option, something Sacob will do soon.

After the creation of a common European market, the global movement is to the formation of trading blocs.

With increasing recognition of the need for Africa to stand on its own, representatives from both SADCC and the PTA have spoken about SA's joining their organisations once it has resolved political problems.

SADCC was formed in 1980 to lessen the dependence of its 10 member countries on SA by providing infrastructure like rail links, roads and harbours. The PTA's aim was to facilitate trade and investment in the region.

In spite of the existence of the PTA and SADCC, trade between member countries is only 5%, leaving much scope for improvement, says Mr Haywood.

There has been talk about the duplication of the two organisations and the need for SADCC to refocus its goals.

ERU director Gavin Maasdorp says if the common market approach has merit, the core exists for Southern Africa in the form of SACU and the common monetary area (CMA).

Gradual

Professor Maasdorp says that together these are close to a common market. Their structures have been in place for a long time and have proved successful.

The ERU project is investigating whether the SACU-CMA could be extended to include other countries in the region.

Professor Maasdorp says there is talk that several Southern African countries are keen to join SACU once SA's political problems have been resolved.

Another option is for SA to gradually build up economic relations with countries in the region by signing bilateral agreements on matters of mutual interest.

Professor Maasdorp says there could be different levels of economic integration with SACU at the core and outer rings, consisting of preferential trade areas and sectorial co-operation.

However, economic integration has strong political connotations because it requires countries to surrender some of their economic sovereignty. For this reason it will be a slow process.

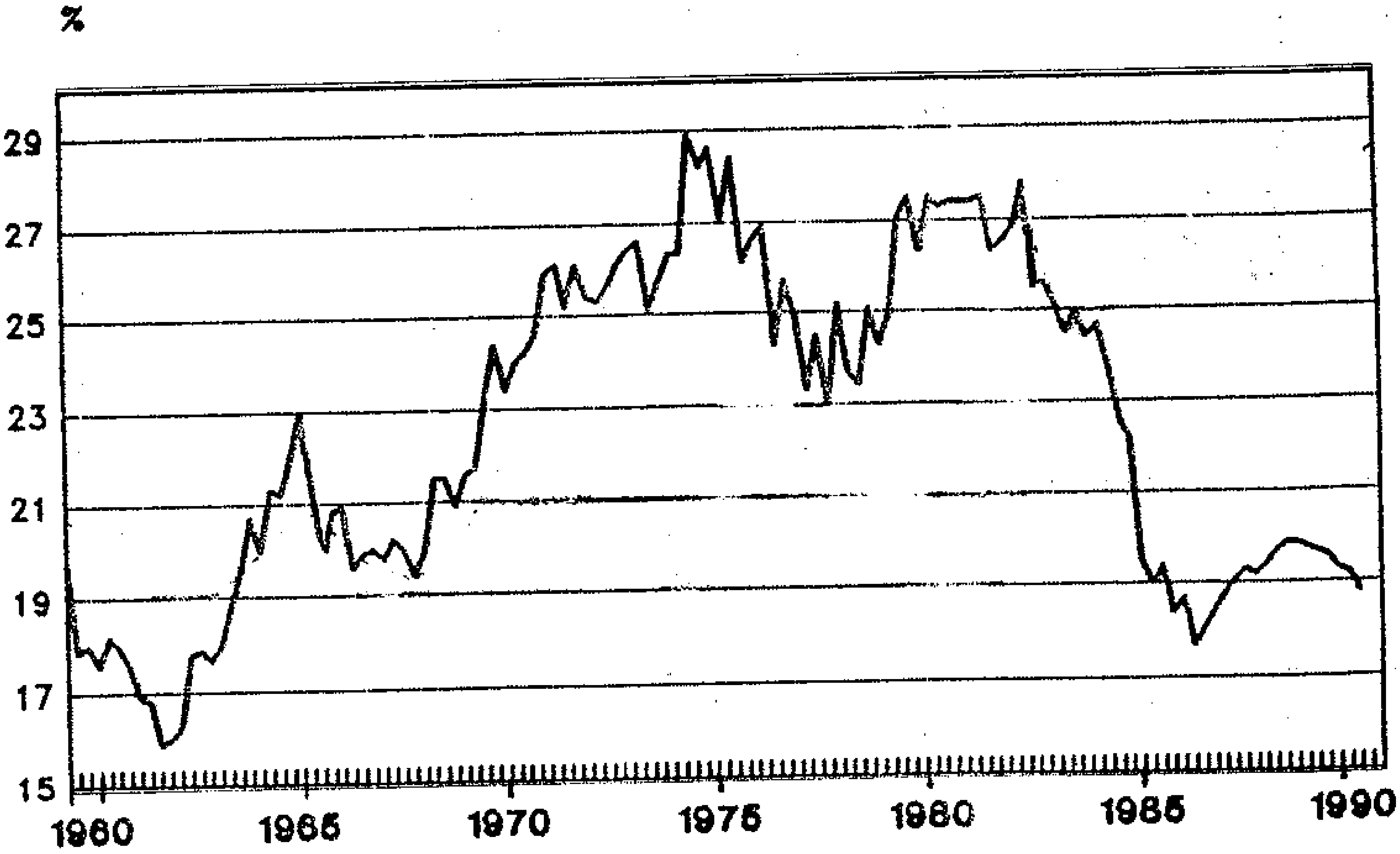
Foreign capital vital for economic survival

STAR 17/12/91

(74)

By Sven Lünsche

FIXED INVESTMENT IN SOUTH AFRICA (% OF GDP)



Stable economic and political policies will have to be pursued for SA to attract foreign investment capital, which is becoming crucial to its economic survival.

As much as R20 billion per annum of foreign investment over the next few years is required to boost the economy to an optimal Gross Domestic Product (GDP) growth rate of four percent a year.

These are the crucial findings of two recent economic reports, which highlight investment spending as the major determinant of more stable economic growth rates in the years ahead.

Downswing

In line with the economic downswing over the past decade, fixed investment as a percentage of GDP has declined steadily from 29 percent in 1981 to 19 percent this year.

"To a large extent, SA's future economic success will be determined by its ability to reverse this negative fixed investment pattern," says Boland Bank in its latest Economic Review.

While Boland Bank is generally optimistic that loan capital will be available for the purpose of fixed investment, it stresses that foreign capital is going to be the major source of finance because domestic savings have been eroded steadily over the past few years.

Components

Analysing the three components of domestic savings — personal, government and company savings — the bank says the medium-term prospects for a marked improvement in SA's domestic savings pattern remain relatively limited.

"The rising trend in government spending will bring sustained pressure to bear on the savings effort of the public sector, while it will also take time to increase the individual's willingness and capacity to save.

"The expected revival of the economy and a continuation of the anti-inflationary interest rate policy should nevertheless prevent a further weakening of the domestic savings pattern," Boland Bank says.

Nevertheless, the emphasis will be on foreign capital to promote spending on capital investment, and in this respect recent political changes have resulted in a major structural shift in the availability of foreign loan capital.

Although a net outflow of capital continues to be felt, its annual extent has declined from a high of R8,3 billion in 1985 to R2,9 billion in 1990.

"This limitation of fixed investment should ultimately disappear completely and, in view of SA's favourable foreign debt ratios, should provide valuable support for the country's fixed investment," Boland Bank says.

Fundamental to strong foreign support for SA's capital projects is socio-political stability and an acceptable risk profile.

To achieve this, the present and any future government must pursue policies that create a stable climate for investment.

In its report "Investment in An Evolving SA" stockbroking firm Davis Borkum Hare highlights a number of political and economic options and their impact on foreign investment perceptions.

"While the violence continues, SA remains an unattractive environment for long-term investment funds.

"There is a massive and growing population of ill-educated people to be provided for by a diminishing population of highly skilled people and there is much uncertainty about a future government," Davis Borkum Hare says.

"Only by attracting investment of money, skills and expertise will this be possible.

"Encouraging investment by slow and relatively small proportionate degrees is one way of setting this in motion."

On the economic front, the firm lists low corporate and individual tax rates, limited exchange controls and the repatriation of dividends and profits as essential to encouraging foreign investments.

To achieve an optimum economic growth scenario of four percent per annum, industrial capacity utilisation will have to be boosted by large-scale investment.

At present, full capacity utilisation will be reached with annual GDP growth of 1,7 percent.

"The low level of gross fixed investment over the last six years will restrict GDP growth.

"It will take at least three to four years of foreign investment in the order of R20 billion per annum to reach full capacity under the optimal scenario of four percent GDP growth," Davis Borkum Hare concludes.

SA links with Africa 'regular'

GERALD REILLY

PRETORIA — Open and regular contact between SA and other African states was increasingly taking place, said newly appointed Deputy Foreign Minister Renier Schoeman.

In the first 11 months of the year 70 official delegations from African states other than the SADCC countries visited SA, he said.

Schoeman said this process would be continued and intensified next year.

Government was eager to meet all other governments in the region in a co-operation and development forum aimed at drawing up a comprehensive and structurally sound masterplan.

Schoeman said SA should place special emphasis on developing interdependence with other countries in the region rather than a one-sided dependence.

SA's credibility on the continent had risen to an unprecedented level.

In the past two or three years trade growth with the rest of the continent had increased by between 20% and 25%.

"Against this background there is no doubt the scene is set for our trade to expand even further, both in volume and in the variety of destinations" he said.

The future lay firmly in consolidating regional economic interests and the World Bank had pointed out that a stable SA would be a great regional asset. 74

Schoeman said there was growing realisation in Africa that a vital element was missing in certain regional structures.

He referred to comments by Tanzanian Prime Minister John Malecela, who said the SADCC had failed in its original purpose in that it had neither reduced economic dependence on SA, nor created regional economic integration.

Attempt to rescue beleaguered dollar

BDay 18/12/91.

SIMON WILLSON

(74)

DECISIONS on monetary policy at this week's two key central bank meetings appear to hold the key to the short-term fortunes of the beleaguered US dollar. Any action at either meeting that has the effect of widening the dollar's already substantially adverse yield differential with the Deutschmark carries with it the potential to produce fresh dollar/DM lows in the days ahead.

Late yesterday, the Federal Open Market Committee (FOMC), the policy-forming arm of the US central bank, the Federal Reserve, was in session assessing the Fed's monetary stance in the light of fresh falls in key US indicators.

Many pundits think it likely that the Fed could act within days to ease leading official US interest rates in an attempt to prompt companies and consumers into borrowing and spending again. General speculation is that the Fed will signal a 25-basis-point cut in the overnight interbank Fed funds rate to 4,25%. Not long afterwards, a further 50-basis-point cut in the US discount rate — that is, the rate at which the Fed lends short-term funds to depository institutions — is expected, taking the rate to 4%.

The FOMC meeting is scheduled to extend into today, so it may be late this afternoon at the earliest before markets can gauge whether the Fed has cut the Fed funds rate. There will be no announcement; traders can judge by checking the Fed's open market operations. A discount rate cut, conversely, is usually announced at the beginning of a day's trading in New York — mid-afternoon SA time.

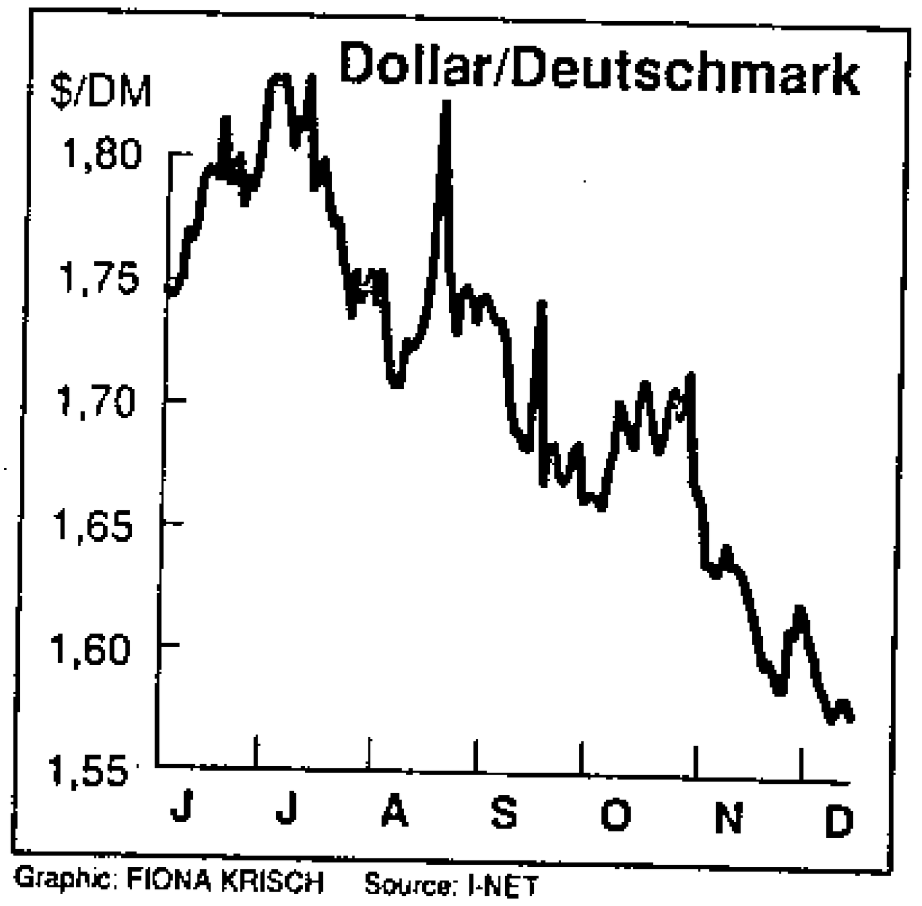
Meanwhile, in Frankfurt tomorrow the policy-making council of the German central bank, the Bundesbank, meets for the last time in calendar 1991. The Bundesbank has been dropping hints for weeks now that German inflation is unacceptably high and that monetary policy will be tightened to head it off, irrespective of the state of the domestic economy. Money supply growth is at the top of its target range and the next round of pay claims by the labour unions is due to start early in the new year.

Markets believe that conditions are ripe for a quarter-point increase in the German Lombard rate — the emergency rate at which the Bundesbank funds commercial banks for up to three months in the German money market. This would take the Lombard rate up to 9,5% and restore its usual two-percentage-point margin over the German discount rate at 7,5%.

The widening of the dollar's existing adverse Deutschmark yield differential from its existing level of over 4,5 points risks triggering yet another "sell" signal in an already dollar-shy market.

FNB technical analysis holds that the dollar is ranging, pending a resumption of trending. FNB sees a longer-term dollar bear trend still intact, and expects an ultimate bearish breach to give the dollar the potential to test its bear channel base at DM1,5440.

UBS fundamental analysis forecasts a strong Deutschmark until the end of the year. The upward revision



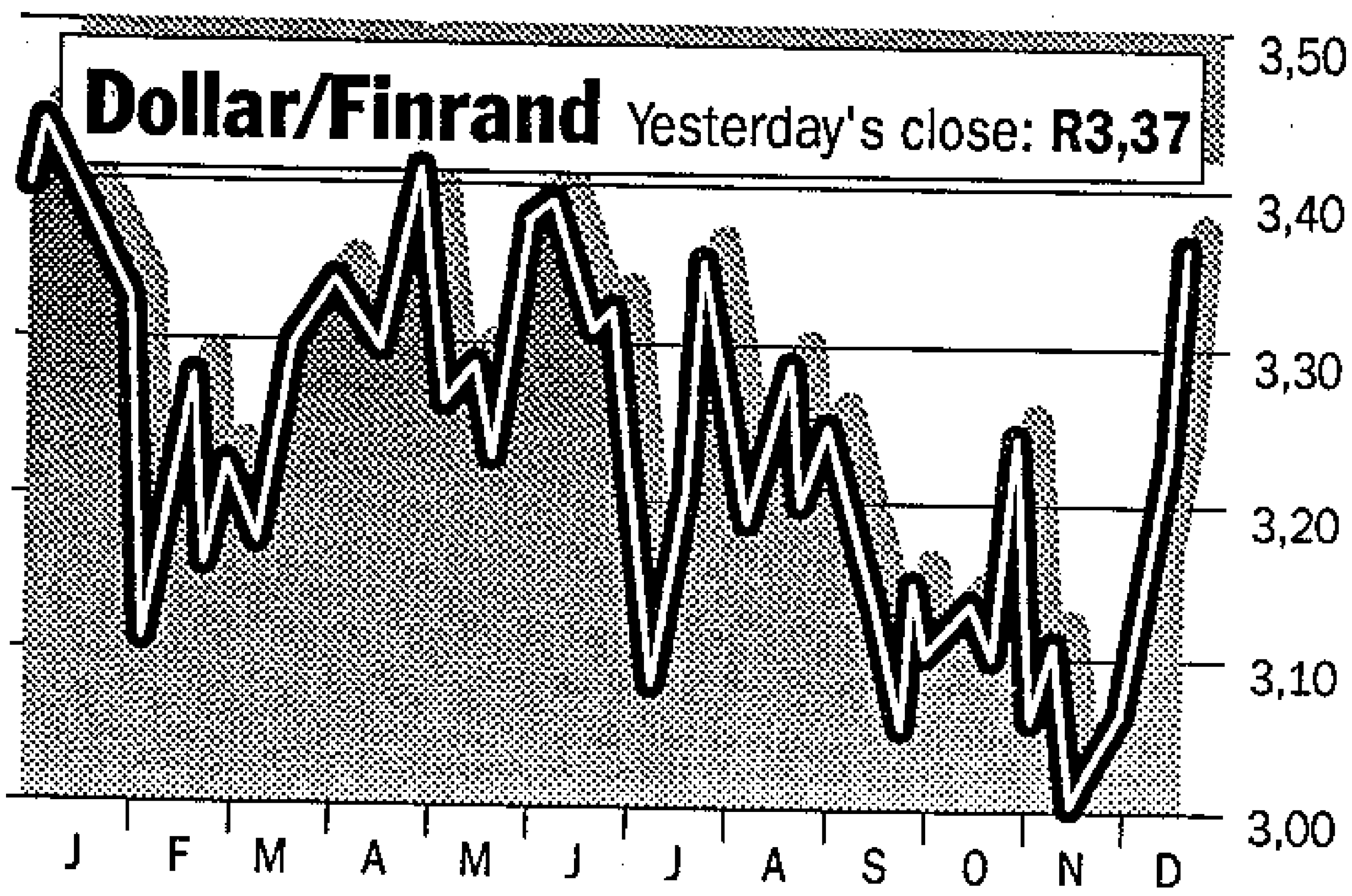
Graphic: FIONA KRISCH Source: I-NET

of November German inflation, UBS says, is another indication of the stubbornness of the inflation pressure which the Bundesbank is vowing to fight with all the means at its disposal. The bank feels, however, that hope for US economic recovery next year may help the dollar maintain current levels and its forecast dollar trading range for the week is DM1,56 to 1,60.

Standard Bank feels that, although yields are likely to move further against the dollar, such an aggravation of the US currency's fundamentals is already priced into its Deutschmark levels. Standard is adhering to its dollar trading range of last week: DM1,55 to 1,59.

Elsewhere in the markets, no immediate change in Japanese interest rates is expected despite another bearish Tankan survey, published by the Bank of Japan. The quarterly survey of industry and commerce indicated that corporate business conditions were deteriorating but, as UBS points out, another survey showed companies were not in favour of an immediate monetary easing. The Bank of Japan is expected to maintain its independence in the face of government calls for lower interest rates.

Action by the Bank of England to ease interest rates and encourage economic recovery is thought to be on hold until sterling's levels in the European monetary system are steadier. This is a frustration for the government, which faces an election in six months and needs an economic revival at least to show signs of beginning if it is to approach the poll with confidence.



Finrand falls sharply after recent sell-offs

(74)

By Sven Lünsche STAR 18/12/91

Financial markets were dealt a double blow yesterday by a sharp drop in the financial rand and a decline in the platinum price to below the $350 level.

The finrand fell sharply by 4,3 percent from R3,23 to the US dollar on Friday to a close of R3,37 yesterday, its lowest level in almost six months.

The financial rand has now fallen by 12,7 percent since it hit its all-time high of R2,99 in mid-November. Over the same period the discount between the finrand and the commercial rand, which closed at a steady R2,77 yesterday, has widened from six percent to 18 percent.

The recent sharp fall follows a number of recent sell-offs of local subsidiaries by overseas companies, including the recent R525 million sale of Glass SA by Pilkington and the sale of Everite by its Swiss-based holding company.

Analyst John Taylor of London-based brokers James Capel adds though that a number of European institutions have also been reducing their holdings in local capital market stocks.

Furthermore, he says, the recent sharp fall in gold and platinum prices has seen a lot of selling of SA equities, such as De Beers, by investors from Europe and the US.

While gold held steady yesterday at $357,40 platinum slid by about $8 to a close of $348,65 in London yesterday.

The collapse was led by selling of the metal on the Tokyo Commodity Exchange yesterday. Mr Taylor says Japanese car manufacturers, who had been buying the metal earlier in the year, were offloading some of their stocks in the wake of recent estimates which show that the Japanese economy will show negative growth next year.

He adds that European banks were also selling off platinum placed with them by the Soviet Union as collateral for future swops, as the Soviets were no longer able to buy back the metal at a later stage. He estimates that up to 20 tons of platinum had been deposited with the banks, compared with 150 tons of gold which had hit the market in a similar fashion.

Finrand plunges on big sell order

MERVYN HARRIS

(74)

THE finrand investment unit plunged 4,3% yesterday from R3,23 to R3,37 to the dollar to bring its losses to almost 11% since the beginning of the month as sellers outweighed buyers in a thin market.

Currency dealers attributed the renewed weakness of the finrand to a big local selling order. Speculation was rife that the sale involved the disinvestment by UK-based Pilkington of its glass division to Plate Glass but some analysts said payment could have preceded the news.

But the downturn of the unit prevented a rout of leading mining shares on the JSE after the gold price was pulled down more than $4 to $356 at one stage in London by plummeting platinum prices.

The falling finrand acted as a prop for mining shares and enabled the JSE all gold index to wipe out an early 23-point decline to 1 170. The index, which has fallen nearly 100 points over the past week, recovered to post a rise of four points to 1 198.

Currency-linked shares such as market leaders De Beers and Anglos also showed a smart turnaround for the overall index to close unchanged at 3 459. However, losses outnumbered gains by 78 shares to 33.

Gold closed at $357,50 in London yesterday and at $357,25 in New York.

Bus Day 18/12/90

FNB ponders start to overseas operations

(74)

By Derek Tommey

First National Bank's plans for 1992 could include the start of operations in the UK and some other countries.

Plans also include a drive to increase share of the home loan business, the bank says in its annual report.

In an overview of conditions in South Africa, chairman Basil Hersov and chief executive Barry Swart are mildly bullish about the middle- and long-term economic outlook. They say the impending upswing could continue well into the Nineties.

But they warn that business conditions could remain difficult in 1992, especially if South Africa continues to be an exporter of capital.

"To be a net exporter of capital is a catastrophic situation for a developing and fast-growing nation," they say.

They are critical of the political intolerance reflected in continued violence, and say it has serious implications for a democratic future.

They call for a more rapid lifting of trade sanctions "to provide the economic stimulus the country needs now" and contribute to a climate "where the process of transition can take place within a more peaceful framework".

While economic conditions overseas are likely to improve, it is not certain this will rub off onto the SA economy, they say.

The high level of state spending is unlikely to lead to a relaxation of tight money policy.

They say current political posturing is restricting access to foreign loans, which could help ease economic conditions.

"Given that change is the only certainty, too much emphasis on economic or political prognostications would be unproductive," they say.

In this situation, the foundation stone of group planning and action will remain "doing the right things right within the banking context".

Although FNB failed in its efforts to take over Allied and thereby increase its share of the home loan market, it remains a vigorous competitor in a market "where the capital risk coefficients stipulated by the Deposit-Taking Institutions Act are favourable".

Since January it has increased its book (actual plus committed) by more than R1,7 billion — an increase of 42,52 percent.

Mr Hersov and Mr Swart hope that the provision of home finance to certain sectors of the community will soon be depoliticised to the point where it will be possible to apply normal risk criteria.

They say that progress in the political area should eventually encourage a greater inflow of capital.

At the same time, South Africa's re-entry into the international economy heralds the beginning of a switch from primary production to manufacturing and the reduction of dependence on primary exports.

South Africa's strategic position in relation to sub-Saharan Africa, although often exaggerated, should create export opportunities.

Because access to foreign capital and IMF facilities will eliminate the need to truncate the recovery phase of the business cycle, "the impending upswing could be sustained well into the Nineties", they say.

R15-bn scheme for development

Sowetan 19/12/91

A DRIVE to create a R15 billion scheme for development is currently being spearheaded by top ANC officials including Mr Nelson Mandela and Mr Thabo Mbeki, with the project possibly coming into existence next year.

To be called the South African Trust for Equity and Development, it would allocate large amounts of money for housing, education and other socio-economic projects.

Sources said it was designed to level the playing field by allowing the African National Congress similar patronage that is currently available to the National Party through the Government in the run-up to constituent assembly elections.

Mandela said in an interview yesterday that the scheme had in the past fortnight received favourable response from leaders of the G7 group of industrial countries, including US President George Bush, Germany's Helmut Kohl and British Prime Minister John Major.

Full details were still being worked out, Mandela said.

"This trust would operate once we have installed an interim government of national unity. And it will be possible to achieve that (the installation of an interim government) much sooner than many people think.

"Once an interim government of national unity is installed, we wouldn't call for sanctions against ourselves," he added.

"The SA Trust for Equity and Development will not handle the whole problem of socio-economic development in South Africa. There have been distortions of the economy on a wide scale over the past 300 years.

"It would take much more than SATED to rectify these problems," Mandela said.

Head of the local technical committee overseeing the trust fund is University of Transkei rector Professor Wiseman Nkuhlu. - *Sapa*.

THE RAND (74) FM 20|12|91

On balance

While the nominal value of the rand has been declining against a trade-weighted basket of currencies, it has strengthened in real terms. "Between January 1-mid-December," says UAL economist Dennis Dykes, "the rand had fallen nearly 7% in the year in nominal terms but had appreciated more than 4% in real terms against the basket.

"The inflation differential between SA and its major trading partners is about 12 percentage points, so depreciation of the same magnitude was needed in the nominal rate to keep the real rate constant. As the nominal rate didn't fall by the full extent of the inflation differential, the real rate rose."

There are two consequences: purchasing power rose but exports got less competitive.

A big discrepancy between the market exchange rate and purchasing power parity emerges in a recent Union Bank of Switzerland publication — *Prices & Earnings Around the Globe*. In February-March 1991, when the survey was made, the rand was worth US34,55c in the currency market, but could buy US56,33c worth of goods.

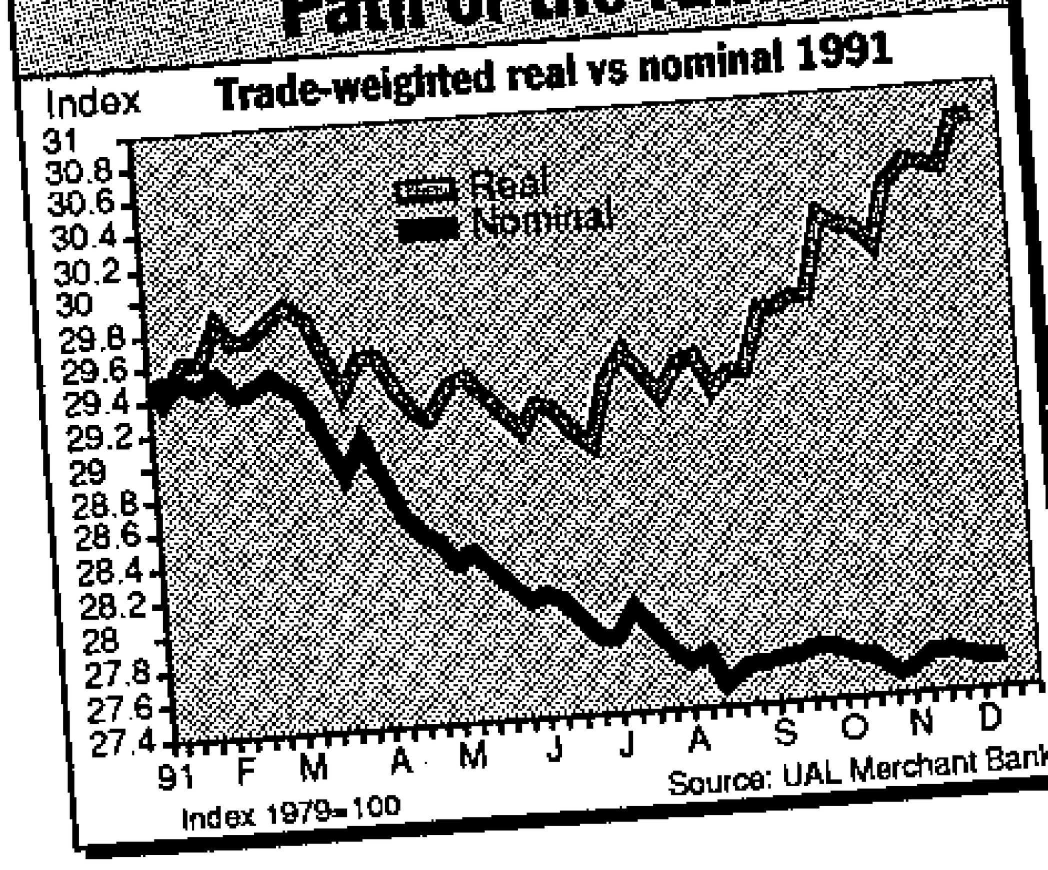
Of course, the exchange rate depends largely on traded or tradeable goods and services — not, for instance, on house prices, which are relevant only to purchasing power parity. But in this case, the discrepancy is largely the result of a political discount which opened in the mid-Eighties.

Explains Dykes: "Historically there was a close correlation. But there was a steep decline in the nominal value of the rand in

Continue →

FM 20|12|91 (74)

Path of the rand



1984-1986 when large capital outflows occurred. Since 1986, the nominal value of the rand has not fallen in line with the inflation differential, but this has not yet eliminated the full effect of the 1985 plunge."

The exchange rate in the market reflects a number of factors, including:

- Official intervention to manipulate the rate — this is limited in time and extent as a currency's inherent strength or weakness eventually asserts itself;
- A surplus or deficit on the current account of the balance of payments;
- Capital flows that are influenced by factors such as interest rate differentials, political stability or official exchange rate policy — thus a powerful economy such as the US can attract capital, that more than neutralises a current account deficit; and
- The rate of inflation, that implies future purchasing power parity.

While exchange rates and purchasing power parity may differ, there is usually a strong correlation between changes in them.

Dykes says long-term forecasts of a currency's strength are generally based on purchasing power.

But with the rand at the moment, a short-term forecast would depend more on official exchange rate policy — provided reserves are strong enough to give the central bank the ability to manipulate the market. "The Reserve Bank is committed to keeping the rand stable in real terms."

Once the balance on the current account begins to fall, much depends on the strength of capital inflows at the time.

Says Dykes: "If there are no major political problems the rand will remain stable in real terms for the next 12-24 months. Thereafter, there are too many political and economic imponderables to forecast." ■

ANTI-DUMPING LEGISLATION

FM 20/12/91 (74)

A new weapon for protectionists?

Can government's proposed new anti-dumping policies — as a precursor for lower tariffs — help to undo the damage that past protectionist policies have inflicted on the fabric of the economy?

Or is the new anti-dumping legislation merely a smoke screen for a more refined, sophisticated — and harmful — form of protectionism?

After all, says Robin Bosomworth, chairman of the Cape Town-based Independent Wire Converters' Association, the now-disgraced formula duty mechanism — that distorted prices and protected vested interests — was originally instituted as a "reform" after the abolition of import control.

But, says Ruel Heyns, of the Board of Trade & Industry (BTI), which would administer the new policy, it is an advance on the blunt formula duties that created floor prices across the board for industry.

"Anti-dumping action is far more specific because it will be aimed at exports sourced from a specific country and even a specific manufacturer. And the disciplines surrounding anti-dumping action will be stricter in order to ensure that only unreasonable competition will be eliminated."

And, Heyns adds, the proposed new policy will not only follow the general guidelines of Gatt's anti-dumping policy, it also will be administered by a separate body. "Anti-dumping actions will be far less interventionist than formula rights."

Good intentions aside, the question of whether the new measure would still be protectionist is of vital importance — if SA ever hopes to rejoin the world economy by embarking on export-led growth and reducing its stubborn inflation rate, which thrives on the lack of imported competition.

According to the IDC's 1990 tariff policy report, the burden of increased costs of tariff protection (institutionalised over the past 70 years and driven along by the misplaced ideals of import replacement and strategic self-sufficiency) equals a massive 12% of GDP.

This calculation is based on the "hypothetical situation that would have prevailed had it been possible to produce at world prices." And, notes the report, if the cost of import surcharges is added to the equation, "the total cost burden is 14% of GDP."

The IDC underlines the point by adding that "a reduction of tariffs can therefore counter inflation, particularly by lowering the import parity price level of local production, and thereby benefiting customers."

Producers of basic raw materials (mostly metals and farm produce) charge their local customers the dollar or sterling price that customers pay in New York or London, with the hypothetical transport costs back to SA added on. This is the destructive import-parity-price effect of having huge tariff walls to "protect" producers against "unfair" import competition. This obviously undermines the global competitiveness and growth of the downstream manufacturers — and not only caps economic growth, but also makes it more difficult to bring down inflation.

Sectors such as primary steel, textiles, wheat, maize, red meat, metals and minerals have thrived for decades behind cosy protectionist walls, with local consumers (and fabricators) having to pay the heavy price for their comfort. While government protects these primary sectors in the local market, most combine their soaking of consumers with two-tier pricing — exporting surplus production at far lower prices than what prevails locally.

The issue is, Bosomworth says, "whether government can create an environment conducive to the healthy development of manufacturing without interference from the powerful big-business interest groups.

"Government should be protecting the individual, the consumer, downstream industries and the economy against exploitation by monopolies and cartels, and not the other way round, as it appears at present." And, he adds, by doing away with protectionism, imported competition will not only increase local efficiencies and drive down prices, but it will also allow industry to add value and export competitively priced goods.

Not only tariffs are responsible for pricing many SA goods way out of the global market — if the effects of tariffs and surcharges are added to an undervalued rand, SA sits with effective import parity price level protection of almost 45% — to which must still be added the natural protection of this country's distance from world markets.

No wonder many companies have grown fat and lazy under such shelter — and that they scream and demand government protection against alleged dumping, as soon as competitive imports threaten their cartelised and monopolised comfort zones. Iscor's action against the perceived threat of competitive imports (*Business & Technology* December 13) is a case in point.

The IDC, in its report, acknowledges the damaging effects to the economy of protectionism — it suggests across-the-board tariff reductions to maximum levels of 15%-30% in the next five years. The IDC also recommends that the anti-dumping measure must be operational before tariffs are reduced. It also says:

- ☐ SA should sign Gatt's anti-dumping and subsidies codes. "Signing the codes would, however, require SA to end the present system of fairly overt export subsidies." IDC suggests that, as SA gradually reduces export subsidies, it will eventually be in a position to sign the codes; and
- ☐ Senior and expert personnel would be needed to administer the complex anti-dumping policy, backed by the necessary facilities and updated information systems on import statistics and prices in order to assess speedily and determine whether goods are being imported at dumped prices. Manpower and funds would therefore be needed to administer the new system. In other words, a bigger bureaucracy is needed to protect local companies from the most efficient, lowest-cost overseas producers.

Last year, Trade & Industry Director-General Stef Naude reduced BTI staff by 70-odd, so there is a question of whether a revamped BTI, under the chairmanship of incoming chief Nic Swart, has the staff and expertise to administer one of the most complex areas in international trade.

More important, Bosomworth says, in the case of Iscor: "Its anti-dumping indignation is about pricing, profits and privileged position — cartel preservation — and not about the 2,5% market share in SA for imports compared with Iscor's 47% of production exported at dumped prices (less than the local price). The purpose of the hypocritical anti-dumping campaign is to remove the ability of downstream industry to import, for example, the motor industry."

Seen in this light, the question of the revamped BTI's level of expertise to assess properly and handle future anti-dumping applications from powerful vested interests becomes important.

And, with the interest of consumers (and, hopefully, an attack on institutionalised inflation) now becoming part of government's new economic focus, the application of its new anti-dumping policy will be closely watched. ■

Insurer warns of foreign trade pitfalls

BDay 20/12/91

NINA SHAND

AS NEW markets open up to SA businesses seeking export trade to boost recession-hit local profits, SA's largest credit insurer has warned that foreign trade is fraught with risk.

Credit Guarantee GM Mike Truter said in a statement yesterday while opportunities for exporters seemed to abound, this perception needed to be tempered with an awareness of the possible pitfalls. Credit Guarantee has paid out more in commercial export claims in the past year than throughout the past decade.

In the past many SA exporters regarded political risks as primary, but with changing political conditions the threat of sanctions had begun to recede. Commercial and transfer risks had now become a major problem.

Truter said the recession was biting not only SA, but also some of its major trading partners.

There was also very little information available on new markets, like Eastern Europe, though many SA companies were exploring these possibilities.

And many exporters have had their fingers burnt by trading in Africa.

74

Gatt throws cat among farm pigeons

STAR 23/12/91

(14)

GENEVA — Bidding to force agreement on a world trade pact, Gatt chief Arthur Dunkel has laid down his package plan for an accord that could put European farmers on the warpath.

The 450-page document, delivered at the weekend to negotiators from 108 countries involved in the trade watchdog's Uruguay Round, would cut agricultural supports.

It looked certain to upset West European farmers who get subsidies, and Japan and South Korea whose farmers want their rice markets kept firmly closed.

Mr Dunkel said his package sought "to strike the best possible balance across the board" of proposals that have emerged in the five-year-long talks, known as the Uruguay Round.

Just hours earlier, and facing possible collapse of the talks which negotiators hope will boost the limping international economy, he had appealed to world leaders and governments to study his plan urgently.

The package covers all seven areas of the talks — including market access, trade in services, textiles and clothing and intellectual property rights — but diplomats said the sector dealing with farming could make or break an accord.

Mr Dunkel's proposals, turned down sight unseen by European Community Agriculture Commissioner Ray MacSharry, went to the heart of the dispute that brought the talks to collapse last year and now has them on the brink of final failure.

He said that government cash support for farm export subsidies should be cut by 36 percent between 1993 and 1999 and the volume of subsidised exports should drop by 24 percent against average figures for the period 1986-90.

Domestic support, or money paid to farmers to maintain and expand production, should be slashed by 20 percent between 1993 and 1999 from a base of the average figure for the years 1986-1988, Mr Dunkel proposed.

The subsidy issue has been at the centre of a fierce struggle between the EC and the US, which argues that markets should be opened up so that supply and demand can fix prices across the world.

On Friday, an EC official in Brussels said talks there during the day between Mr MacSharry and US Agriculture Secretary Edward Madigan had collapsed after failing to achieve any breakthrough on the issue.

Farmers in much of West Europe fear an end to the subsidies would leave them unprotected against cheaper produce outside the EC and push them towards extinction, a view echoed by Japanese and Korean rice-growers.

Some 500 Swiss farmers besieged the Geneva headquarters of Gatt, the General Agreement on Tariffs and Trade, as senior trade diplomats were gathering to hear Mr Dunkel's plea for his plan to be approved more or less as it stood.

The only formal reaction after the plan's release came in a prepared statement in Brussels by US Trade Representative Carla Hills who said it was "an earnest effort to resolve many difficult issues".

Watching anxiously were representatives of developing countries and former communist states who say they need easier access to the vast EC market for their products to bolster their fragile economies and drive to democracy.

Analysts fear that if Mr Dunkel fails to stave off a final collapse of the Uraguay Round, the world will plunge into protectionism and trade wars that would devastate the poorest countries and end hopes for a lasting economic recovery. — Sapa-Reuter.

Hard times abroad unfortunate for SA

STAR 23/12/91.

74

Finance Staff and Sapa-Reuter

Recent news that Pilkington and Colman Foods were moving out of SA came at an unfortunate time in terms of local political and economic developments.

Both moves reflect the current tough times facing the major international economies much more than any local developments.

As far as local politicians and businessmen are concerned, the weakness of the international economy could not have come at a worse time.

The recent political initiatives need the support of a healthy economy that is in a position to generate wealth and employment.

The state of the major world economies indicates that in the short term there is unlikely to be much external impetus on this front.

Corporations in each of these economies are battling to survive tough trading conditions.

Recent dismal news about the slump in IBM's profits, combined with last week's news about the closure of a number of GM plants in the US, empha sise the difficulty in kick-starting the American economy.

On Friday, the US Federal Reserve Board took its boldest move in years to try and stimulate business activity, cutting the discount rate by a full percentage point to 3,5 percent, the lowest level since 1964.

In so doing, the central bank responded dramatically to criticism by some observers of the gradualist approach it had been taking for the past year towards the mission of promoting recovery from the recession.

At the same time, it rejigged the numbers in the political calculations shaping up for early 1992 over possible tax and spending measures by the US government and Congress in an election year.

"We think this will make a very significant difference," said Samuel Skinner, President George Bush's chief of staff, after the Fed had made its move.

The Fed's "Christmas present" came wrapped in the kind of vague rhetoric that is customary whenever the monetary authorities speak.

It said its move, "together with the cumulative effects already in train from previous actions, should provide the basis for a resumption of sustained economic expansion."

What that signalled, analysts said, was a conclusion by Federal Reserve Board chairman Alan Greenspan and other Fed policymakers that business conditions had deteriorated in recent weeks to the point where strong measures were called for.

Among stock and bond analysts, some saw an effort by the Fed to dampen momentum in the White House and Congress for fiscal-policy action — in the form of tax cuts, spending increases, or both — to try to revive the economy.

Mr Greenspan had warned as recently as last Wednesday about what he described as the dangers of a quick fix.

"Only in the context of prudent, non-inflationary expansion of money and credit are improvements likely to be lasting," he said.

When the Fed moved on Friday, it said it had concluded that present inflationary pressures were subdued enough to permit a more aggressive strategy.

Analysts say the reduced inflation rate, which has been a consistently stated aim of the Fed's decisions, stands as an important plus for recovery prospects.

And in Japan on Friday the government revised downwards its estimate for economic growth for the year to end-March 1992 amid widespread evidence of an economic slow down.

The government's Economic Planning Agency set a new estimate for real growth of 3,7 percent, down from 3,8 percent. It also fixed a target of 3,5 percent for growth in 1992-93.

The Japanese government's latest admission that the economy is slowing will lead to further demands for stimulative measures, including interest rate cuts and pump-priming public spending.

President Bush is expected to press for such action when he visits Tokyo next month.

Japanese officials believe the president will argue that Japan has the capacity to help a recovery in growth in the industrialised world.

Many private economists believe that even domestic considerations will eventually persuade the Japanese government to resort to stimulative action.

Trade surplus reaches record R16,7-bn

STAR 24/12/91 (174)

By Derek Tommey

South Africa had a record trade surplus of R16,7 billion in the first 11 months of this year, figures issued last night show.

This is 13,6 percent higher than the R14,7 billion surplus in the same 11 months last year.

The continued strengthening in South Africa's trading account, despite depressed demand overseas for precious metals, minerals and base metals, indicates a fairly healthy and basically strong economy.

It suggests that South Africa's ability to service foreign loans has greatly improved, with the result that they should become easier to obtain, if they are needed.

Exports in November were R5,5 billion.

This was down on October's R6,9 billion, but 7,3 percent up on November 1990's R5,1 billion.

November's imports amounted to R3,67 billion, which was slightly higher than November 1990's R3,66 billion, but well down on this year's October figure of R4,2 billion.

The monthly trade surplus was R1,8 billion, against R2,75 billion in October.

Exports for the 11 months ended November totalled R61,4 billion, which was 10,1 percent ahead of the R55,8 billion for the same period last year.

Imports for the 11-month period were R44,7 billion.

This was an 8,8 percent increase on the R41,1 billion a year ago.

Safto economist Bruce Donald said yesterday the improved trade figures were the result of higher exports of manufactured goods.

Exports of plastic materials were up 46 percent on last year, chemicals 24 percent, prepared foodstuffs 17 percent, transport equipment 32 percent and machinery 18 percent.

He said the increase in exports of manufactured goods perhaps reflected the impact of the Government's Geis incentive scheme.

Rand gains against battered dollar

BRENT VON MELVILLE

THE rand strengthened against the struggling dollar yesterday as the US currency continued to reel from Friday's cut in the key US discount rate to 3,5%.

(74)

The rand closed at R2,7442 compared with the previous close of R2,7582, although dealers said it was likely the dollar would firm again in January. The finrand closed firmer at R3,25 from R3,27.

Gold in London strengthened to just under $360, but fell back slightly to close at $359,45, up from Friday's close of $358,25.

Germany's move on Thursday to raise its key discount rate by half a percentage point to 8% also prompted a rush by EC countries to protect their currencies.

France and Spain upped key lending rates by between 0,25 and 0,5 percentage points, following Italy's cut on Sunday and others before the weekend.

The Bundesbank president was quoted as saying other European nations were "still autonomous" and free to decide whether they had to raise interest rates as well, but it was clear that most could not afford to ignore the Germans' lead.

Economists said forecasts for growth in Europe's economies would have to be cut back now that the cost of credit had risen.

The dollar's retreat after the Bundesbank move became a snowball effect after Friday's unexpectedly sharp one percentage point drop in the discount rate. Economists said the devaluation would hurt Europe as it made Europe's goods more expensive but gave competitors better chances to sell products in Europe.

Reuter reports US President George Bush said the cut ended the year on a good note, but still with a sluggish economy.

Incentive schemes fuel growth

Trade surplus soars amid export boom

B/Day 24/12/91

(74)

ANDREW GILL

SA's trade surplus continued its upward spiral in November, hitting its third highest level this year and prompting speculation of a record R7bn current account surplus for 1991.

The surplus of R1,84bn was lower than October's record R2,75bn but well within the recent positive trend, Customs and Excise figures released yesterday show.

Even more encouraging, economists said, was the strength of manufactured exports, which had shown the strongest growth of any sector this year.

Among the best was plastics, which was 46% higher, followed by chemicals, machinery and transport. SA Foreign Trade Organisation economist Bruce Donald said it reflected the export drive and the effect of export incentives for high value-added products.

However, this also reflected the lower domestic demand for these products and manufacturers' moves to sell their surpluses overseas.

Exports for November were R5,5bn (from R6,9bn in October) and imports R3,67bn (R4,2bn). The cumulative surplus was up a strong 11% in a month to hit R16,62bn.

The strong export performance has come about despite static performances or even declines in most primary sectors. Only diamonds with 26% growth over 1990 bucked this trend.

The only export sector not showing real growth was vegetable products, which had been hit by the drought and the consequent need to import, Donald said.

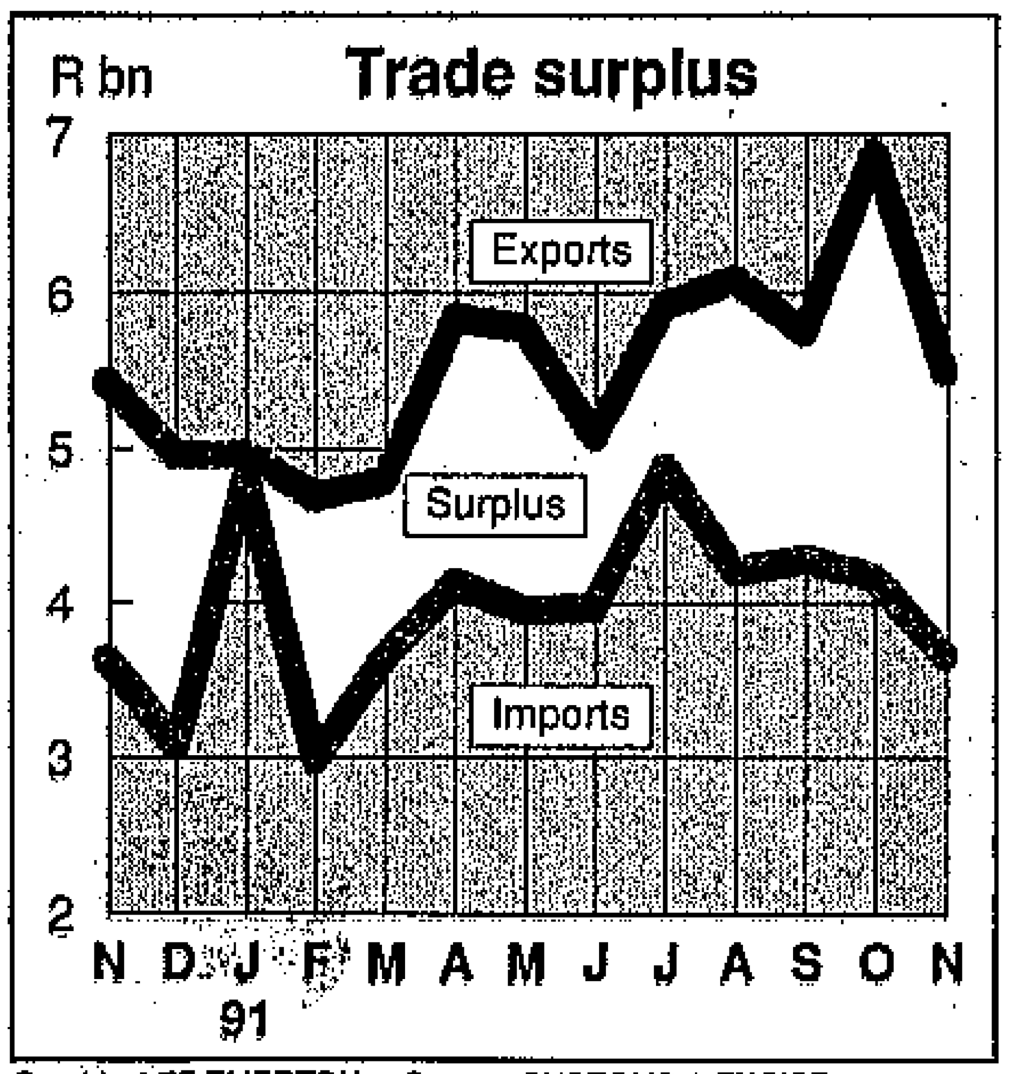
The real decline in imports over the year reflected recessionary conditions, although it was surprising how resilient they had been in the face of the lengthy downturn.

SYLVIA DU PLESSIS reports Bankorp chief economist Nick Barnardt said the figures confirmed the strength of the trade account, despite the lower gold price and weaker world economy, and could mean a current account surplus of about R7bn.

The forecast compares with predictions earlier in the year of a surplus of between R3bn and R4bn.

First National Bank group economist Cees Bruggemans said the drop-off in imports had been far from the substantial

□ To Page 2



Graphic: LEE EMERTON Source: CUSTOMS & EXCISE

Trade

B/Day 24/12/91 (74)

□ From Page 1

decline in 1985, despite the current depressed state of fixed investment and stock levels. The figures reflected the continued positive trend but, he warned, were only "one bright star in the firmament".

In November imports of unclassified goods (mostly oil) declined to R192,4m from October's R628,6m, possibly reflecting the use of local stockpiled crude.

Unclassified exports (mostly gold and arms) were down from October's high R2,78bn to R2,03bn.

Cumulative figures show imports from January to November increased by just more than R3bn (9%) and exports increased by just under R6bn (just more than 10%).

Exploding the myth of America's free market

Business Day 24/12/91

(74)

SIMON BARBER in Washington

AS SA well knows, Washington likes to use trade to enforce its will on those of whom it disapproves. A perhaps less appreciated fact is that Washington's disapproval, and the commercial penalties that so often accompany it, extend to any country or company that attempts to compete in the American marketplace.

The US thinks of itself as the champion of free trade, its markets the most open in the world. Like so many stories it tells about itself, this one simply is not true. South Africans who think the repeal of the Comprehensive Anti-Apartheid Act means vast new horizons of transatlantic trading opportunity would do well to read The Myth of Fair Trade, a new study by James Bovard of the Washington-based Cato Institute.

The US may not be the most protectionist nation on earth, but it is surely among the most hypocritical, bludgeoning others to remove their barriers to US exports while erecting an increasingly byzantine set of its own.

Aside from the American consumer, who has to pay higher, effectively state-set prices for everything from milk to television sets, the major victims are Third World countries whom, it would seem, the US Congress and trade bureaucracy are conspiring to keep permanently mendicant. Indeed, it appears the US government would rather hand out aid, free food and taxpayer-subsidised credit to such countries than see them succeed on the very free market principles it preaches.

Washington, Bovard reports, currently imposes more than 8 000 different taxes on imports, with tariffs ranging as high as 458%. This is on top of a system of import quotas that would be hilarious if it did not impose such burdens on producer and consumer alike. Mexico is allowed to sell Americans only 35 292 bras a year, Poland just 350 tons of alloy tool steel, Haiti a mere 8 020 tons of sugar. Americans may purchase only 970 gallons of Jamaican ice cream.

Rule one for any exporter wishing to market his products in the US is: thou shalt not price thy merchandise competitively. To ignore this stricture is to risk falling down the black hole of so-called anti-dumping laws, a body of legislation that empowers the commerce department quite literally to decide the price at which a foreign company may sell its wares in the US.

A company is deemed to be dumping when it charges a lower price for its product in the US than it does in its home and other markets. This means that for exports, the standard business practice of differential pricing to accommodate demand and market conditions is illegal and subject to heavy penalties if practised in the US market. In other words, for a foreign seller and an American buyer to agree voluntarily on a price — surely the essence of market transactions — is a crime.

An exporter can be convicted for a difference as small as 0,5% between its US and non-US prices, which means, among things, that the slightest currency fluctuation can suddenly put the seller afoul of the law. "Naturally," notes Bovard, "the number of dumping convictions has soared as exchange rates have become more volatile."

The manner in which the commerce department determines "fair price" is even more outlandish. In 1987, a Brazilian firm was nailed for dumping orange juice in the US on the grounds that it was charging 1,96% less than it should have been. Commerce reached this conclusion by subtracting the 40% US tariff on orange juice from the firm's US sale price and ignoring both the 3,5% Brazilian export tax and the firm's shipping and insurance costs, thus neatly obscuring the fact that the company was selling its juice for nearly 45% more in the US than in Brazil.

A Japanese company was required to raise the price of its television sets in the US because it made the unwise decision to give unsold sets to charity. Egregiously, commerce took the view that the firm had sold the sets for $0, an unfair trade practice. Avesta, a Swedish company, was hit for the standard practice of giving discounts for volume. It priced small orders of steel it filled at home higher than the extremely large orders it was receiving from the US.

Foreign firms may also be hit if commerce decides they are not making sufficient profits on their exports to the US. The required margin is at least 8%. This despite the fact that 13 of the 15 largest Fortune 500 US companies had smaller margins in 1989.

Companies suspected of cutting margins are liable to be served with 100-page, single-spaced questionnaires to determine their cost of production, which commerce bureaucrats go to Talmudic lengths to calculate. A recent case involving Canadian raspberries involved a prolix debate on how to amortise the cost of a raspberry plant, and whether it should be depreciated over 10, 15 or 25 years.

Commerce is often entirely capricious in determining relevant costs. Two Korean clothing firms were penalised in 1990 because they had failed to factor in charitable donations as part of the cost of making sweaters. Suzuki had a similar problem over its all-terrain vehicles, whose roadworthiness it had been obliged to defend in a suit brought by the consumer product safety commission. Commerce argued the company was dumping its vehicles on the grounds that it had not included the court expenses as a production cost.

Even if foreign concerns escape the anti-dumping net, they may still be hit with countervailing duties if commerce decides they have benefited from subsidies offered by their home government.

Argentinian wool was subjected to the duty in 1983 after Buenos Aires instituted a regional development programme under which it offered a 6% bonus to exporters who shipped their products from the country's southern ports. Commerce officials chose to disregard the 17% tax the Argentinian government was simultaneously imposing on wool exports. They also ignored the fact that in the same year, the agriculture department was giving American wool growers direct payments equal to 150% of the value of the wool they produced.

Nowhere is this kind of hypocrisy better illustrated than in the use of Section 301 of the 1974 Trade Act, which has been called the "nuclear deterrent" to unfair foreign trade practices. Section 301 entitles the US trade representative to determine that a foreign subsidy or barrier is unfair and then inform the government concerned that unless it cleans up its act by a certain date, it faces wholesale US retaliation.

Time and again, the US government has targeted countries for practices and policies which it wholeheartedly engages in itself. Steel producing nations have been subject to 301 threat because they subsidise their industries. So does the US. Seven 301 cases have been launched against foreign tariffs on shoes, a product on which the US itself imposes tariffs of up to 67%.

At the root of all this lies a deep-seated xenophobia — a fear that foreigners are ganging up to destroy American jobs and corner America's markets. Expressed as protectionism, such xenophobia has a price tag.

According to the Institute of International Economic Affairs, trade barriers erected by Washington's politicians, bureaucrats and the rent-seekers who feed off them are costing American consumers $80bn a year, more than $1 200 per family.

Unfortunately, such figures are unlikely to reverse the trend to more protectionism. With recession biting and the presidential election season moving into high gear, trade Luddism is all the rage.

East Europeans seek SA capital for joint ventures

Business Day 27/12/91

(74/298)

DARIUS SANAI

CZECHOSLOVAKIA, Poland and other former Soviet satellite states are embarking on a drive to encourage SA businessmen to invest in what they call "the dual gateway to the EC and the Soviet commonwealth".

Ravaged by 40 years of command economy — commanded by Moscow and often geared to meeting the needs of the Soviet Union — the economies of the central and East European states are not in a state to tempt many investors.

But the economic revival has started, and trade experts from Czechoslovakia — industrially the most developed of the states — Poland and Hungary say that now is the time to invest there, before German firms take over completely and while start-up costs are much lower than those in the EC.

Czechoslovak charge d'affaires Franticek Dhlopolcek says that monthly inflation in his country has been running at 0% for the last four months, and that the Czechoslovak crown-dollar exchange rate has been constant, providing stable opportunities for foreign firms.

He adds that German firms have been arriving in droves, snapping up profitable ventures.

The main opportunity for SA firms, he says, will be in the form of joint ventures. Various sectors of the engineering industry in Czechoslovakia were advanced, but the local firms lacked the funds to realise their ideas. "We have found in the Japanese a great market for our ideas," Dhlopolcek says.

However, the problem facing SA firms with an interest in investing in East Europe is the perceived lack of funds in these countries, he says.

But Czechoslovakian laws introduced recently now allow foreign firms to export their earnings in foreign currency. This is where Dhlopolcek believes Czechoslovakia and some of its neighbours have something to offer foreign investors: a recent agreement signed between Czechoslovakia, Hungary and Poland on the one hand and the EC on the other grants the eastern economies protection against the import of EC goods while removing trade barriers on the export of their products to the EC.

"This means a firm can take advantage of the low start-up costs in eastern European countries, while earning their profits from exports to the rich European community countries," Dhlopolcek says.

Polish Trade Commissioner Wojzek Tomasewski agrees, and adds that the expertise gained by Eastern Europe in trading with the former Soviet Union during the days of the Comecon economic pact puts them in an ideal position to start up trade with the new republics emerging from Soviet ashes.

Demand

He points out that the East European economies are more advanced and stable than those of the former Soviet states. And, sometime in the future, there will be a huge demand for goods by the hundreds of millions of people in Russia, Ukraine and Byelorussia

"The infrastructure and contacts are already there, between Poland and the former Soviet Union,"

But why should East Europe be an enticing prospect for SA investors in particular? Austrian trade commissioner Leopold Birstinger, whose country has gained intimate knowledge of both the EC and eastern economies from the outside, says that the other southern African countries offer much more immediate propects for SA firms, as local companies have the advantage over the rest of the world in knowledge of the southern African nations.

And the immediate risks involved are similar, Birstinger says, because the fragile state of East European economies should not be underestimated. But the long-term prospects are far greater: in two or three decades' time, the former Soviet republics and East European countries could be among the world's leading economic and consumer forces.

Fears are voiced for preferential trade area

74

LUSAKA — The preferential trade area (PTA) for eastern and southern Africa is threatened with collapse because inter-regional trade is not consolidated, says secretary-general Bingu wa Mutharika.

The threat of collapse was now more pronounced following the shift of Western aid to the war-ravaged Gulf and Eastern Europe, coupled with the impending EC. B/Day 27/12/91

"Constraints on regional trade is hogwash. Our markets will be swallowed by emerging giant markets. Which markets are we looking for?" he asked.

The 18-member PTA, with 200-million people, had a problem in competing favourably with the international market through small and medium-scale enterprises.

But the region recorded a decline in economic growth because of lack of information, among other things. To redress the situation a media liaison officer had been appointed.

Other ills cited included poor transport infrastructure and lack of competitive goods.

The PTA would give priority attention to transport, information and customs in 1992, Wa Mutharika said, adding the regional body hoped to achieve its goal of removing trade barriers by the end of next year.

He said the forthcoming summit to be held in Lusaka on January 30 and 31 would examine and give priority to transport, customs and information.

Wa Mutharika admitted the transport sector needed streamlining to remove hitches that hindered free and easy movement of people in the region.

In the information sector, which was vital in the selling of the PTA, Wa Mutharika said several measures had already been taken to ensure a smooth flow of information about the goods produced. — Sapa.

Foreign investors buck trend and sell gilts

ANDREW GILL

FOREIGNERS were net sellers of local gilts last week for only the third time this year, latest JSE statistics show. (74)

They sold R90,4m worth of capital market stock in the week ending December 20 compared with R15m the week before, defying the year-long trend of continued buying by foreigners. They bought R81m, resulting in net sales of R9m.

The figures are not strictly representative as they reflect only those deals that pass through the JSE. B Day 27/12/91

A possible reason for the sell-off was the relatively low yield foreigners were receiving on their stock, which is sharply below levels seen in recent years and offers a minimal real rate of return.

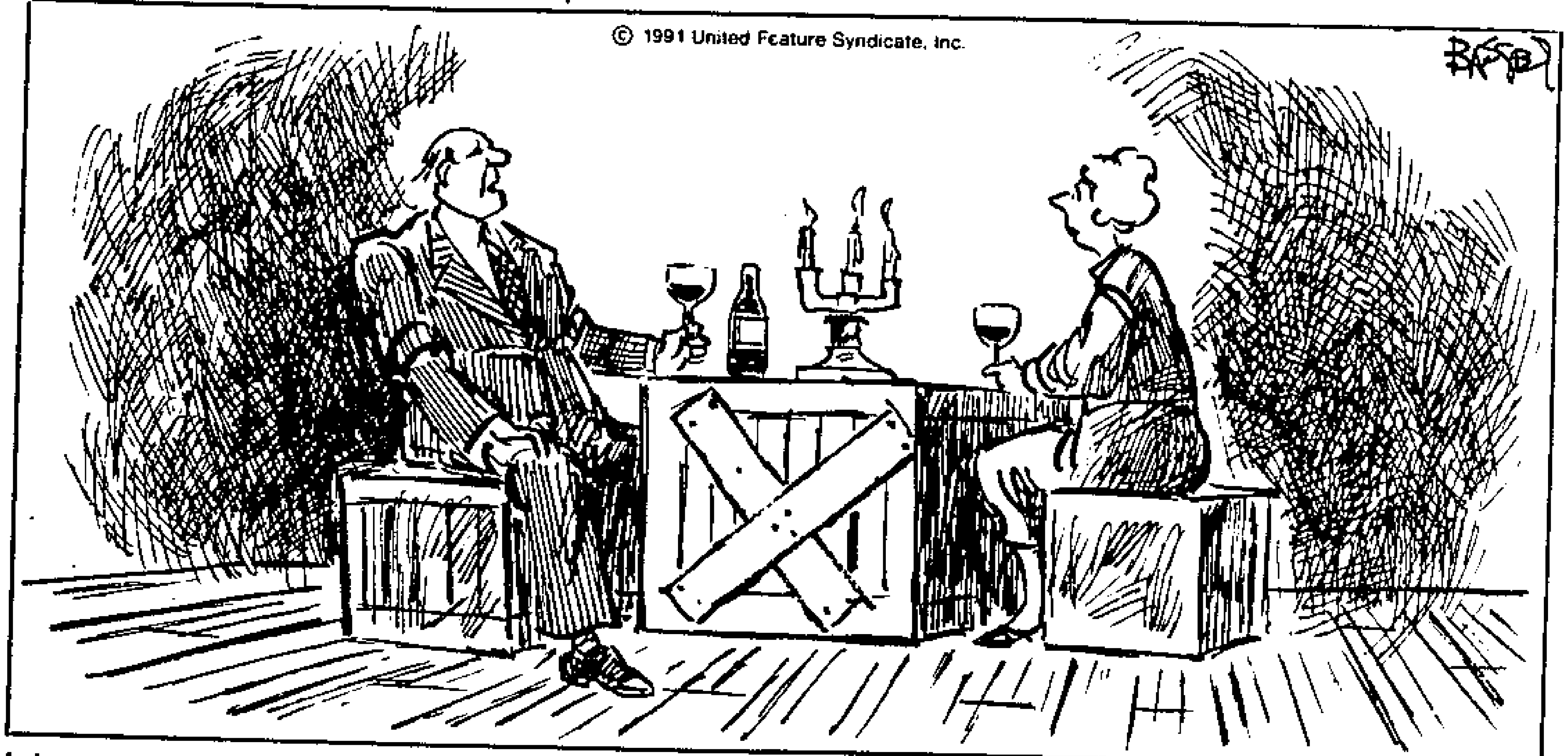
This has been a worrying factor in the market for months but had so far failed to deter foreigners, dealers said, who added that it was too soon to tell whether the sell-off was indicative of a new trend.

Equities were under less pressure as only R67m worth were sold compared to the previous week's R183,8m in a market that saw turnover of R448,8m that week.

A dismal 1991, a hopeful 1992

(74) STAR 28/12/91.

DEREK TOMMEY



I know, my dear, that our situation may seem dreadful, but console yourself with the thought that there's nothing left for Barend to take from us.

FEW will regret the passing of 1991, which has been a year of considerable hardship: for many.

It was a year, says Standard Bank, of "rising retrenchments, evaporating overtime, increasingly conservative wage settlements, combined with diminishing access to finance for many consumers, aggravated by outbreaks of violence in some black residential areas".

On top of this we have had to live with extremely high interest rates, continued high inflation, an increase in the real rate of income tax and the introduction of VAT on many foodstuffs previously tax-free.

However, this is the bad news. The good news is that there now appears to be a light at the end of the tunnel and that by this time next year economic activity and employment should be substantial greater than it is today.

The level of activity next year will depend on the amount of money injected into the economy. And evidence is mounting that this will be significantly more than was the case this year.

This money is expected to come from:

- Increased exports;
- Government deficit-financing;
- New investment; and
- An increase in bank credit.

Figures issued this week show that exports are booming, despite the recession overseas and the sharp fall in prices of many of SA's major foreign exchange-earning commodities.

Exporters sold goods worth R61,4 billion to foreigners in the 11 months to November. This was R5,6 billion more than a year earlier.

Although some of the increase was the result of a drop in the exchange rate of the rand, most of it came from a rise in the physical volume of goods sold.

The increase helped create jobs in the export industries and offset the effect of layoffs elsewhere.

Economists say that next year exports should make an even bigger contribution. For a start, the lifting of sanctions is opening many more markets to exporters.

Then there is the expected upturn in international economies, which was strongly indicated this week by a rise in US share prices to a new peak. These improved conditions overseas should also give SA exports a major boost.

Another major stimulus to development in 1992, at least in the early months of the year, is expected to be the huge Government deficit.

Tax receipts so far this year are lagging badly behind budget. By the end of November they showed an increase of only R2 billion, against a projected increase in government spending of R10 billion.

In view of the depressed economy, it seems unlikely that tax revenues will reach anywhere near the Government's target.

The result is that the Government is already having to borrow substantial amounts to meet its expenses, and it seems likely it will have to continue doing so for some months to come.

This means it will be putting more money into the economy than it is taking out — which is good for business.

The third source of additional money will be new investment in factories and plant. The lifting of sanctions has provided a huge incentive for exporters to produce goods for overseas.

Work is almost certain to start in 1992 on the R4 billion Columbus stainless steel plant and the R4 billion aluminium smelter plant.

Together these should provide a substantial number of jobs and new business opportunities for the engineering and construction industries.

The motor industry is likely to continue its large investment programme, which is partly aimed at supplying foreign markets.

Fourthly, banks are likely to play a major role in 1992's business upturn. Stocks of raw materials and of manufactured and partly manufactured goods are low.

Because of the high degree of businss uncertainty, firms have not been replacing the merchandise they have sold.

At the first sign that the economy is moving out of recession, they are likely place orders for all sorts of goods. The new orders, which will probably have to be financed by bank credit, should expand factory activity and create many more jobs.

Altogether, it looks like 1992 should be a much better year than 1991.

If foreign investors start to think the same way and begin reinvesting, 1992 could ultimately turn out to be a very good year indeed.

Lies by the score from apostles of free trade

S/Times (BUSS) 29/12/91 (74)

JOHN CAVILL in LONDON

TO read the utterances in the past fortnight by trade ministers of the most advanced economies in the world is to be filled with a sense of preposterous irony.

Five years ago everyone agreed it was time to take another great step to bringing down international trade barriers.

Member nations of the General Agreement on Tariffs and Trade (Gatt), who now number 103, launched the Uruguay Round of multilateral trade negotiations.

It was the eighth such round of talks since Gatt was founded in 1947 and was hailed as the most important yet.

It is common cause that trade is a vital ingredient for economic growth. The interdependence of the world is now greater than at any time in history.

Without the Third World's propensity to consume, the industrialised nations would stagnate. If the First World blocks imports from the developing economies to protect its own farmers, textile workers or shoe makers, it stultifies the very markets it needs, especially when they are labouring under heavy debt burdens.

Recognition of that over the past 44 years has seen the average level of tariffs fall from 40% to 5% while global trade in goods has climbed from \$57-billion to \$3 500-billion, to which must be added services worth \$800-billion annually.

In tandem with the single European market, which is due to open at the end of next year, the Uruguay Round was aimed at enhancing the process.

It should have been settled 12 months ago, but was stymied by the obduracy of the European Economic Community and the United States, principally over the subsidies they pay to their farmers and the wall of protection which surrounds them.

No Natal cane grower needs reminding of the fact that without Europe's subsidised beet surplus the world sugar market would be a lot healthier.

Equally rice farmers in the US and Far East know the cost of the impenetrable barrier Japan has built around its own high-cost paddy fields which employ fewer than 8% of its working population.

For many it is revolting that the rich industrial economies should pay \$300-billion a year — close to \$400 for every man, woman and child — on protecting their farmers who therefore produce mountainous surpluses to be dumped on world markets. The US and Europe each dole out \$50-billion.

Textiles and clothing are in a similar position. Tariffs and quotas in the US cost American consumers \$27-billion a year. Without them, according to Gatt, import prices could be up to 50% lower.

Clothing is a basic need so the cost hits the poorest. In addition, textiles — a relatively low-technology industry — are the first stepping stone in industrial development in the less-developed countries.

Undeterred by the failure in five days of haggling in Brussels last year, Gatt director-general Arthur Dunkel last month tried to speed things up.

Mr Dunkel, the amiable Swiss public servant who will step down after 11 years as the world's trade referee, launched what he called the "final sprint".

At the opening session Gatt chairman Rubens Ricupero of Brazil warned that having missed the chance of opening up trade in the boom of the 1980s — when protectionist pressures were kept at bay — the 103 nations must not fail this time.

"Trade remains the single most important factor in restoring prosperity, employment and economic growth," he said.

The point was heightened by a sea change in favour of market economies in the former communist countries, Latin America, Asia and Africa.

Thriving, they offer enormous potential, but face economic and political disaster should they fail.

There was no Christmas gift in the world's stocking this year.

Mr Dunkel proposed that domestic subsidies to farmers should be cut by 20% by 1999 while those on exports were reduced by 36% — with a matching fall in import tariffs on agricultural products.

France — fearful of the political clout of its farmers — and Ireland rejected that outright. Japanese Foreign Minister Michio Watanabe told the US: "I am a supporter of free trade, but rice represents a political problem."

While backing lower subsidies, the Americans bickered over dates and items, such as the rights of French wine producers to have exclusivity over names like Burgundy and Champagne.

In a weasel-worded statement the EEC said: "A further opening up of markets is an indispensable element in the strategy to remedy the threat of world economic recession."

But it went on effectively to say, "As long as it doesn't hurt our farmers", of whom there are 10-million.

A despairing editorial comment in the Financial Times, headlined On the brink of disaster, said: "The differences that divide the parties are trivial while the potential gains from success remain immense. If they do not rethink the round will collapse."

Gatt has set yet another deadline, of January 13, for agreement to be reached — and there is a whole raft of objectives on which there is consensus.

But the Europeans are talking of "several more months" of haggling.

Meanwhile, those burgeoning market economies of Central and Eastern Europe, Africa and elsewhere must find the spectacle bizarre.

For decades they have heard the "West" preaching the doctrine of free markets with their self-correcting virtues and promise of growth.

What are they to make of what looks like blatant, politically motivated and, ultimately, self-defeating attempts to preserve artificial and distorted markets by the world's so-called apostles of free trade?

Rand slips to new low against sterling

STAR 30/12/91

By Tom Hood (74)

Recent hikes in US interest rates, ahead of the presidential election next year, have given the rand a boost against the US dollar.

However, the currency is plunging to record lows against other major Western currencies such as the pound sterling the Deutsche mark and yhe yen.

The cut in American interest rates signalled cheaper credit for everyone and pushed the price of industrial shares to record levels on Wall Street.

On Friday the US stock market marched further into record territory as the Dow Jones industrial average passed the key 3 100 level to set a new closing high. The index closed 18,56 points higher at 3 101,52.

Dollar hurt

South Africans conditioned to interest rates above 20 percent can only drool at the dramatic cut in the American equivalent of South Africa's Bank rate to only 3,5 percent from 4,5 percent previously.

But the move, which gives foreigners lower returns on their investments in the US, also hurt the value of the dollar as it crashed against major currencies such as the D-mark and the yen, while it also fell slightly against the rand.

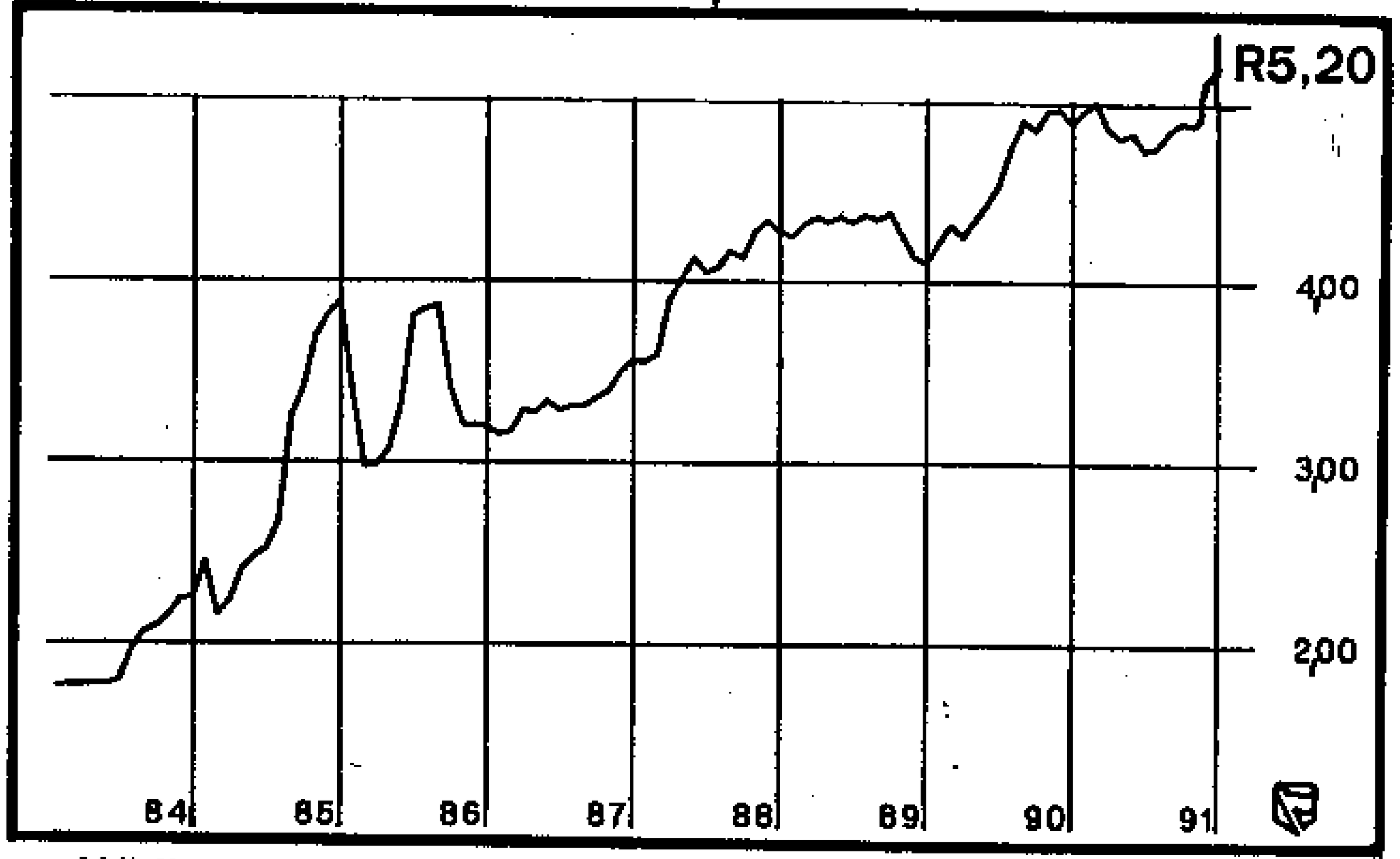
The rates cut increased the interest rate differential between the dollar and European currencies to a huge 5,5 percent.

A week-long battering by a number of European currencies that appreciated against the dollar left the rand standing at an all-time low of R5,20 to the pound on Friday.

A week ago South Africans paid R5,07 to buy £1, then R5,18 on Christmas Eve and R5,20 on Friday. Four months ago a pound cost R4,88.

The rand also began the year worth 39 US cents and fell to just under 35 US cents by midyear. But the second half decline of the US currency has pushed the rand back up to levels of about 36,5 US cents.

After a week-long retreat against other currencies, the rand last night was worth only D-mark 0,55, down from 0,58 at the beginning of the year. The rand also slid from 52 to 46 Japanese yen, and from 1,99 to 1,89 French francs.



While the rand has held fairly steady against the dollar this year, it has crashed against the major European currencies, especially the pound.

Commercial banks calculate the rand next year could go down to about R5,28 to the pound, to 0,47 from 0,49 Swiss francs, to 0,53 from 0,54 marks and to 44 from 45 yen.

The only success story has been against the Zimbabwe dollar, which now costs about 55 cents against more than a rand last January — a dramatic gain which must be seen against the background of a rapid devaluation of the dollar by the Zimbabwe government.

All this adds up to dearer European holidays and, more importantly, dearer imports — including essentials such as petrol, computers, heavy machinery, spares for industry, vehicles and other manufactured goods as well as consumer goods such as Scotch whisky, television, video and photographic equipment.

And that could add more pressure to South African's inflation.

Export boost

The silver lining to this cloud is that exporters of fruit, minerals, clothing and other goods can expect to earn more rands from their efforts. The gold mines will also benefit provided world gold prices do not fall.

However, South Africans can expect no help from the Reserve Bank to prevent the rand from appreciating. If anything the authorities prefer to keep the rand low to help the country's export industry and earn foreign exchange.

But it also cannot allow the rand to slump too much against the mark and sterling because most consumer and manufactured imports are denominated in these currencies and this would stoke up inflation.

PTA faces collapse as Western aid dries up

(74)

LUSAKA — The Preferential Trade Area for Eastern and Southern Africa is threatened with collapse because inter-regional trade is not consolidated, secretary-general Dr Bingu wa Mutharika said here.

He said the threat of collapse was now more pronounced after the shift of western aid to the war-ravaged Gulf and Eastern Europe, coupled with the expanding European Common Market.

"Constraint of regional trade is hogwash. Our markets will be swallowed by emerging giant markets. Which markets are we looking for?"

The 18-member PTA with 200 million people had a problem of competing favourably in the international market through small and medium scale enterprises.

But the region recorded a decline in economic growth because of lack of information among other things. To redress the situation a media liaison officer had been appointed.

Other ills cited included poor transport infrastructure and lack of competitive goods.

The PTA would give priority attention to transport, information and customs in 1992 and the regional body hoped to have achieved its goal of removing trade barriers by the end of next year.

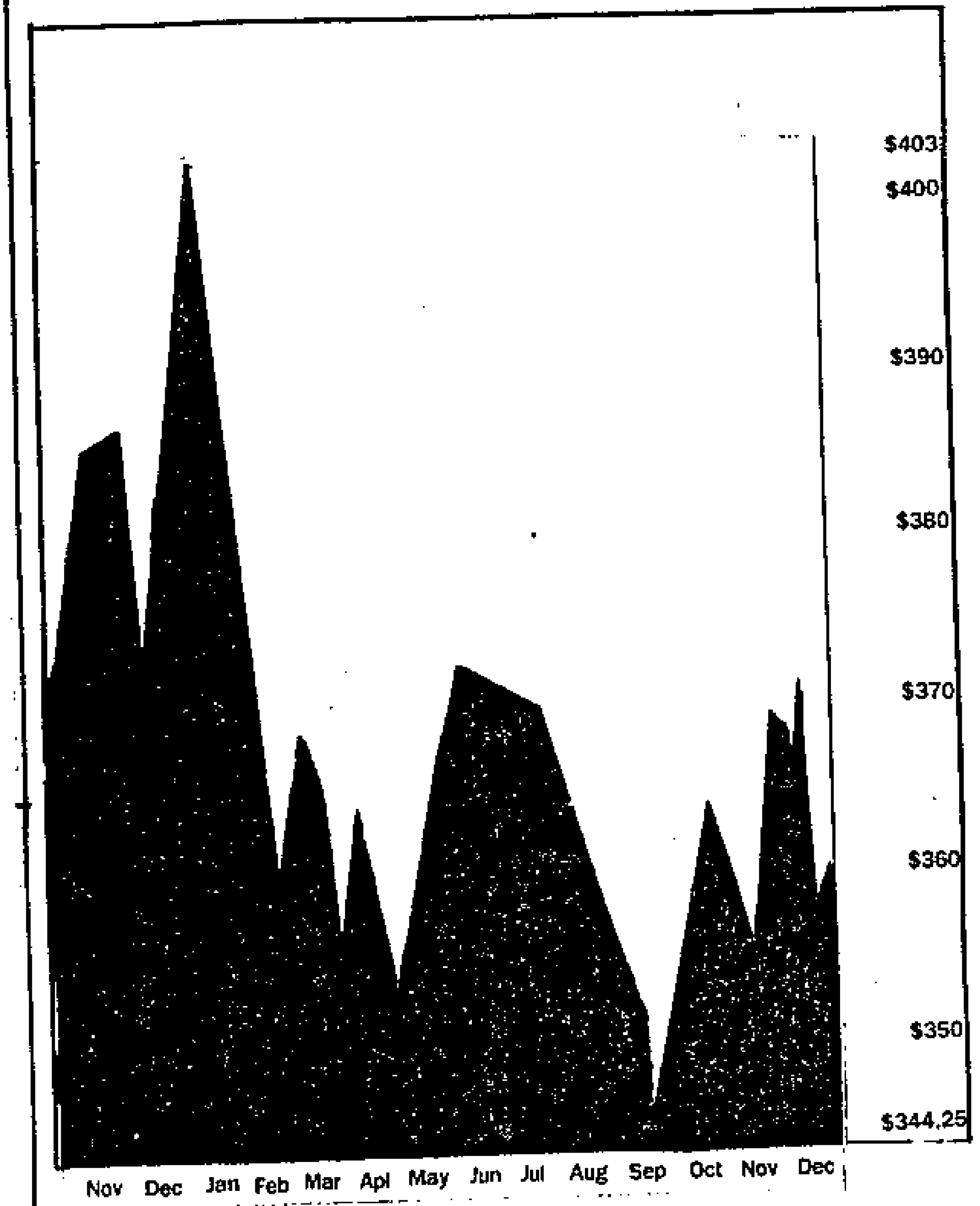
The forthcoming summit to be held in Lusaka on January 30 and 31 would examine and give priority to transport, customs and information.

Dr wa Mutharika admitted that the transport sector needed streamlining to remove hitches that hindered free and easy movement of people in the PTA region.— Sapa.

STAR 30/12/91

A year to forget for commodity futures traders

STAR 31/12/91. (74)



Gold price this year in US dollars.

LONDON — By the end of the Gulf War early in the year all trace of price gains had been wiped from the oil and gold markets, while the collapse of the Soviet Union has added to the bearish pressure on world commodity markets from the continuing recession.

Once again commodity producers must be wondering just when the prices they get for their raw materials will begin a sustained improvement.

The close of the year sees most base metal stocks at record highs on the London Metal Exchange and in view of the level of world stocks after eight years of overproduction, price rises of base metals will be limited at the most.

The precious metals market, which has seen several false dawns, reached its peak only a fortnight into the year, when the platinum price rose to just above $420 an ounce and the gold price closed at just over $400.

Confounding the forecasts of most pundits, the gold market then plunged on the opening of the Gulf war as the allies swept all before them. Gold appeared to have relinquished its role as a haven for funds in times of trouble.

By the end of February as a swift conclusion to the war seemed certain the gold price dipped below $360, the level around which it fluctuated throughout the remainder of the year.

Analysts said at the time that investors had become jaundiced about the yellow metal so that it reacted to events just like any other metal.

Speculation curbed

In the past 10 years a multitude of gold-backed financial instruments, such as gold options, have eroded the importance of the physical gold market and helped to curb the price volatility which used to attract short-term speculators.

Gold producers have also become increasingly proficient at using the complex financial markets to hedge their output, locking in certain profits but taking the steam out of any rallies.

Nevertheless there have been sharp movements, several connected with moves by a Middle East syndicate operating through the National Commercial Bank of Jeddah.

A wave of selling by the syndicate in September helped to push the price on London bulion market, increasingly nervous about the implications of the Soviet Union's break-up, to the year's low of $345,25, the lowest level for five years.

By October, however, fears that the Soviet disintegration would lead to heavy sales of gold were beginning to subside as a respected Soviet economist revealed that after vast sales in 1990, reserves totalled only 240 tonnes, roughly equal to the annual production rate.

This figure was greeted with some scepticism, as most analysts had been talking of reserves between 2 000 and 3 000 tons.

However, the World Gold Council soon accepted that figures below 1 000 tons for total Soviet gold holdings were credible.

The last rally to just over $370 earlier this month was undermined by weakness in the price of silver, now seen as an industrial metal and vulnerable, like platinum, to the continuing recession. Gold is currently trading at just over $353.

Platinum lost its premium over gold in July as disillusioned Japanese investors decided to take losses on contracts for future delivery.

The price had already plummeted in May when Nissan, the second biggest Japanese car maker, said it had developed an exhaust catalyst which used neither platinum nor rhodium, but the cheaper palladium.

Discount to gold

Exhaust catalysts are the main use for the white metal. Bearish sentiment was further influenced by soaring exports from the Soviet Union in the first half.

The market hit the year's low of $331,50 in August when industrial disruption ended at Impala of South Africa, which produces nearly 40 percent of the world's platinum. — Financial Times

Thin markets help to support rand

(74) B|Day 31|12|91

SIMON WILLSON

THIN markets and a seasonal imbalance in the local foreign exchange market combined to support the rand yesterday, although dealers and analysts warned that a resumption of normal trading patterns after the holiday season would probably dissipate the rand's support.

Dealers said a trickle of exporter dollars continued to enter the market over the holiday period while demand from the big importers for foreign currency dried up as heavyweights in domestic commerce shut down for the summer break.

This resulted temporarily in lower but continued demand for rands with almost no offsetting selling of the local currency.

Last Friday, for example, the dollar was drifting close to its Deutschmark support level of DM1,50 after the near simultaneous rise in German interest rates and the cut in US rates. The rand opened at R2,7360 against the dollar at DM1,5066. By the end of the day the dollar had rallied by almost a pfennig from seemingly oversold lows to DM1,5145.

The rand, however, edged only narrowly lower to close at R2,7410 against the US currency — thus failing to reflect fully the dollar's rebound from its lows.

Yesterday, as the dollar rally extended into a second day, the US currency firmed further to start the local day at DM1,5180. The rand still looked firm, however, opening at R2,7465 against the US unit.

Analysts attributed the rand's resilience to the absence of significant importer demand, but stressed that the rand's adjustment to the higher dollar was probably still in the pipeline.

FOREIGN TRADE – GENERAL

JANUARY — MARCH

World markets may not have it so good again

STAR 2/1/92 (74)

NEW YORK — World markets ended the year on a buoyant note, taking the cue from Wall Street where stocks soared to dazzling new heights during 1991.

But prospects this year look less promising with Wall Street fighting to preserve its gains against a sick economy, indecisive Washington officials and international turmoil.

Stocks started a year-end rally when the Federal Reserve signalled on December 20 that it was nervous about the precarious state of the US economy.

The Fed, the US central bank, cut its benchmark discount rate a full point to 3,5 per cent, the lowest rate in 27 years. The discount rate is the interest the central bank charges commercial banks.

Investors reacted by rushing into the market, pouring money into mutual funds that managers then transferred into stocks.

"Nothing means anything for the market except the market going up right now. It's a kind of stampede," said Philip Roth, chief technical analyst at Dean Witter Reynolds, on Tuesday.

The Dow Jones index of industrial stocks set new records. By the final day of trading, gains for December were nearly 270 points, or 9,3 percent. The previous best December on record was 1924 with an 8,4 per cent rise.

Historic year

Larry Wachtel of Prudential Securities agreed that investors were buying solely on the back of the dizzying year-end rally. "Success is breeding success," he said.

"No matter what this market does now, this has been an historical year and a year when we were taken by surprise. We got the action we needed from the Fed to show us they were serious about jump-starting the economy," Ron Doran, head of institutional trading at C L King and Associates, said on Tuesday.

Hopes for a quick end to the recession and euphoria over a swift end to the Gulf War had already propelled key US stock indexes to a string of record highs this year.

The Standard & Poor's 500, another closely watched index, has risen more than 24 percent from its 1991 starting point.

But the stagnant economy has pummelled corporate earnings and forced a round of cutbacks at American industry giants, including IBM and General Motors Corp. Pan American Airlines closed its doors and American Airlines announced severe cutbacks for 1992.

With little sign of a sustained recovery in the economy or company earnings, investors scrambled to take profits. Washington has produced few workable growth-spurring ideas, adding to investor concerns.

Corporate profits

"The year started off with the Mideast (Gulf) War and great hopes and expectations for the future. It seems to have ended on a rather 'down' mark," said First Boston's chief market strategist, Carmine Grigoli.

Standard & Poor's forecasts the economy to grow at a three percent rate next year, compared with an estimated 0,5 per cent decline for all of 1991.

Corporate profits next year could rise 15 to 20 percent, compared with the 30 percent rise more characteristic of a first-year economic recovery, S&P said.

President George Bush has said he will outline economic proposals in his State of the Union address on January 28.

But his proposal in November for a cap on credit card interest rates threw financial markets into turmoil, and the bond market is especially sensitive about any proposals that would increase the budget deficit, including some tax cuts.

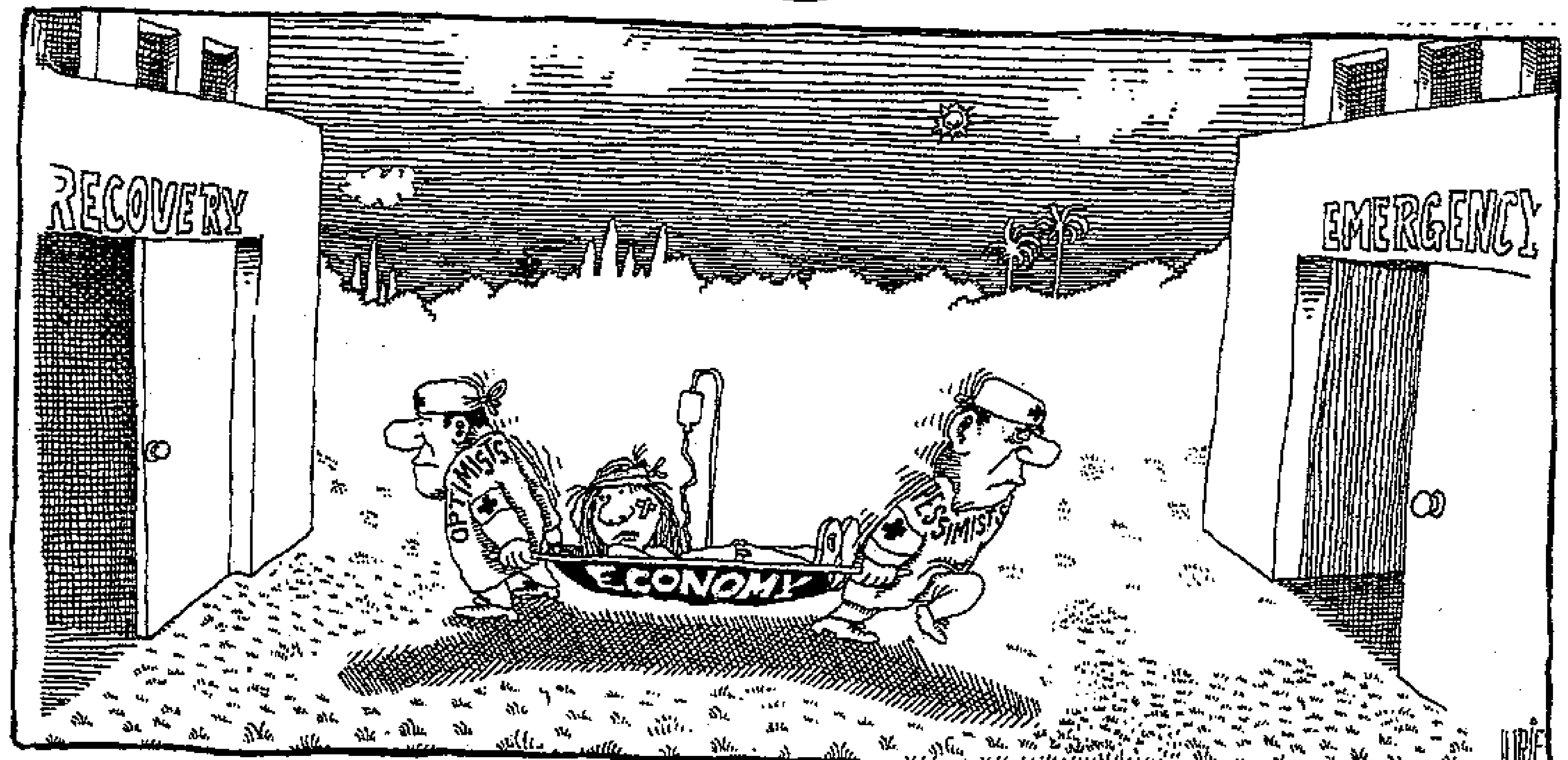
Merrill Lynch & Co predicted in its annual investment outlook that stocks could fall 15 percent or more in early 1992.

Adding to the uncertainty is the disarray in the former Soviet Union.

"Hard as it is to keep cool in the face of today's fluctuating markets and volatile international politics, investors shouldn't let the heat force them out of this bull market's rich kitchen," said Jon Fossel, chairman of Oppenheimer Management Co.

He predicts the Dow will rise to 3 600 by the end of 1992.

"Somewhere in the year, we'll begin to have a durable economic recovery and the market will switch from one driven by falling rates to one in which interest rates and earnings are rising," said Stefan Abrams, chief market strategist at Kidder Peabody & Co.



Anerican cartoonist Lurie reflects the divided outlook on the state of the US economy.

Elsewhere investors went on a year-end buying spree in Sydney, driving the market sharply higher. The All Ordinaries index closed 38,9 points up at 1 651,4.

The Tokyo market was closed for the New Year holidays and trading will resume on January 6. On Monday the Nikkei average closed at 22 983,77, a rise of 546,45 points.

In Hong Kong the market closed at a record high in half-day trading at the end of the year. The Hang Seng index ended 22,13 points up at 4 297,33.

The market finished the year on a stronger note in Singapore with the Straits Times Industrial index closed 13,72 points up at 1 490,70.

On the Frankfurt market the DAX index ended Monday at the day's high of 1 577,98, up 14,39 points.

The Zurich market reopens tomorrow with the SPI index at 1 052,8, 15,9 percent higher than at end 1990. — Sapa-Reuter.

21/...

DIA

Busin
Recor
Anal

FOREIGN TRADE FM 3/1/92 (74)

Classified information

At R16,6bn, the accumulated trade surplus in the 11 months to November was 13,2% up on the comparable period the previous year. Exports at R61,4bn were up 10,1% and imports at R44,8bn up 9%.

In the month of November a R1,8bn surplus was down on October's record R2,7bn. Exports of R5,5bn were down 20% month-on-month while imports of R3,7bn were down 12%.

The dip in imports was due to the sharp fall in unclassified imports, mainly oil, from R629m in October to R192m. This indicates use of the domestic oil stockpile.

"But for this decline," says Nedbank economist Magan Mistry, "total imports in November would have remained almost at October's level. Without knowing official policy on the stockpile one cannot predict whether it will continue to be run down for some time or whether this will prove a temporary phase — and thus whether unclassified imports will pick up again this year." ■

Continue

Zimbabweans set record in SA visits

MICHAEL HARTNACK

HARARE — A record number of Zimbabweans visited SA in 1991, the head of SA's trade mission in Harare, Nico Nel, said this week. Bday 3/1/92

Visas issued to Zimbabwean businessmen fell to 73 000 last year from 237 000 in 1990 as a result of new procedures, but Nel estimated the number of visitors to SA rose by up to 20%. (74)

The steady flow of business between SA and Zimbabwe also prompted a Zimbabwean trade delegation to visit Pietersburg in October. A Northern Transvaal Chambers of Commerce delegation will pay a return visit to Bulawayo and Harare from January 18-20 to meet the Zimbabwe National Chambers of Commerce and the Confederation of Zimbabwean Industries.

Zimbabwean sources have also confirmed the arrival in Bulawayo of the first, 1 200-ton consignment of SA maize, brought by rail at a landed cost of R560 a ton to avert food shortages in February and May.

Due to "disincentive" prices to local growers — just over R130 a ton — Zimbabwe's once mountainous maize stockpile has been flattened.

Bureaucratic delays at the Zimbabwean Finance Ministry threatened to cancel the Grain Marketing Board's purchases of 200 000 tons of SA maize.

THE WEEK AHEAD by Simon Willson

Progress in reserves put to the test this week

BDay 6/1/92

GOVERNMENT and Reserve Bank confidence that SA's gold and foreign exchange reserves would hit the R10bn mark by the year-end will be put to the test this week — probably on Wednesday — when the reserves level for December is published.

The gap from the R9,1bn posted in November seems, however, to be too big a span to be vaulted in one month's figures alone.

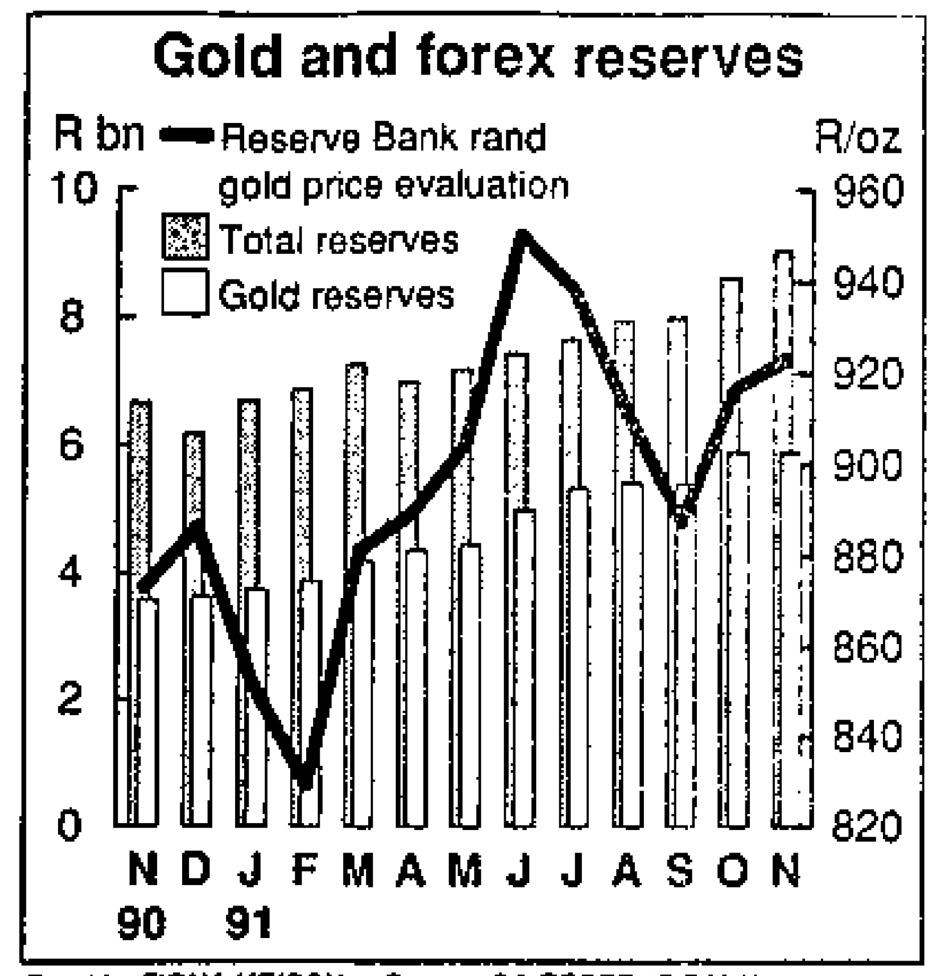
The biggest increase in reserves during 1991 was the R612m added during October, and several other monthly increases during the year of R500m-R600m would seem to indicate that an increase of R900m for December is too much to expect. Extrapolating the precedents of last year, when the reserves total began 1991 at barely R6bn and will have ended it at least 50% higher, it may be January before the magical R10bn level is hit for the first time.

But the Reserve Bank has been unusually cocky about the reserves for the past few months, and presumably briefed F W de Klerk when the President went on the record in a speech during November in envisaging R10bn in the reserves by the end of the year. There are other economic factors hinting that a R900m jump in December is not out of the question.

The uninterrupted reform process has kept foreign perceptions of SA's prospects rosy enough to continue — even accelerate — refinancing of maturing foreign debt outside the standstill net. Irrespective of rollovers, non-standstill debt repayments are easing anyway as the long-feared 1990-91 "hump" of maturities has largely passed.

The last inside-the-net debt repayment was made in August 1991, and the next is not due until next month. The foreign debt issue is not, therefore, a threat to continued improvement in the reserves.

The other factor boosting reserves is the spectacular series of trade surpluses recorded in the second half of the year, and the substantially better than expected current account performance for 1991 as a whole. A year ago the Reserve Bank was thinking in terms of a R3bn current account surplus for 1991, but the current account was running at an annual rate of R9,7bn in the third quarter and, net of debt repayments, will have been feeding the reserves.



Graphic: FIONA KRISCH Source: SA RESERVE BANK

Even if the December reserves outturn hits R10bn it is still short of the Reserve Bank's informal target of three months' import cover, which implies a level around R15bn. In the third quarter of 1980 the reserves totalled only about R6,5bn but covered more than five months' imports. The R10bn will, if and when attained, be a record nominal total for the reserves but only a staging post on the road to a more prudential total for this variable.

Internationally, the week's most important data are probably the December US employment figures, due on Friday. The potential impact on short-term US monetary policy has been dulled by the aggressive, one-point cut in US discount rate by the Federal Reserve just before Christmas. The authorities have, for the time being, made their move.

Additional changes in the economic policy mix are also effectively on hold until after the White House has had a chance to ease fiscal policy in the president's end-January state of the union address to Congress. President George Bush was forthright about its likely content during his visit to Australia last week, when he said it would contain fiscal concessions designed to help consumers and corporations start spending again.

The picture of conditions in the US real economy transmitted by the employment figures is being distorted by unusually slow growth in the overall national labour force over the past year. A stalling in the expansion of the labour force means there are fewer than expected workers eligible to be jobless.

US unemployment in December is expected to remain at the 6,8% of the workforce posted in November, even though recruitment outside the agricultural sector is likely to have fallen again last month after November's steep decline of 241 000.

Keys to decide on IDC proposals

B/Day 7/1/92

LESLEY LAMBERT

NEW Trade and Industry Minister Derek Keys will have the final say over whether the IDC's proposals for a new tariff strategy are approved by government.

The IDC report was submitted to government in 1990 and released last year for comment from the private sector. It will be presented to the Cabinet for final approval this year, if Keys gives it the go-ahead after he takes office on January 20, Trade and Industry deputy director-general (Trade) Gerrit Breyl said yesterday.

The report's main proposal is the reduction of import duties. But it also addresses a broader industrial strategy, recommending the simultaneous implementation of a range of other measures which will help certain industries to adapt to the removal of protection and enhance SA's performance on international markets.

M4

These include a reduction in corporate tax, inflation and interest rates; the removal of import surcharges and adjustments to exchange rate policies.

The IDC's recommendations are in line with international trends and have received wide support in SA, although the tariff reductions pose a threat to industries which have benefited from protection.

GATT members are awaiting the outcome of the Uruguay round of negotiations. It has been proposed that members cut their tariffs by a third.

SA, a founding member of GATT, has undertaken to comply with the Uruguay round to the best of its ability, Breyl said.

Denmark poised to lift curbs on imports from SA

STAR 8/1/92 (74)

COPENHAGEN — Denmark is ready to lift a veto on imports into the European Community of South African iron, steel and gold coins and to scrap some of its own sanctions, opposition politicians said yesterday.

The minority Danish government wanted to go along with other EC nations when they voted to lift the ban in April.

But the three opposition parties made it retain the veto until now.

"The three parties agree developments (in South Africa) have been positive ... moderate political forces have begun talks on a new democratic constitution without apartheid ... and the first phase of the Danish sanctions should be lifted," a statement by the three parties said.

Denmark must retain its own ban on goods trade with South Africa until the three parties are satisfied the country is firmly on the road to democracy, said Social Democrat MP Pernille Forchhammer.

President de Klerk's demand for a referendum among the white minority on planned constitutional changes "creates doubts over the strength of the Government's commitment to create a new constitution that removes all racial separation," the tripartite statement said.

"We'll look at the position after the next Codesa meeting," Mr Forchhammer said.

Denmark's parliamentary Foreign Policy Committee will approve the scrapping of the sanctions tomorrow. — Sapa-Reuter.

Upward indications in dollar's direction

BiDay 8/1/92 (74)

SHARON WOOD

AS INTERNATIONAL forex markets enter the new year, the most compelling question is: "Where will the dollar go?"

In a world where uncertainty has become the watchword, it is not surprising that market views are mixed and hesitant. It is, however, generally accepted that the dollar will bottom out early in the year and will move out of its recent recession-induced bear trend.

But the timing and factors causing a turnaround are under debate, with some analysts saying it will depend on US economic recovery and others saying external influences will give strength to the dollar prior to an economic recovery.

An economy-based recovery in the dollar is the more popular view and has a sound base in the events of last year, when US economic performance dominated international currency movements.

The outlook for the US economy remains uncertain and fears of a double-dip recession continue. Interest rates are at their lowest level in 27 years and debt-strapped Americans have to date remained unmoved by cheaper credit, thus failing to provide the desparately needed boost to the economy.

The pressure for an economic recovery in the first half of the year will become even more intense than last year in the run-up to the general election. It is generally believed that, in the last resort, US authorities will look towards tax relief to provide the impetus, despite a massive budget deficit.

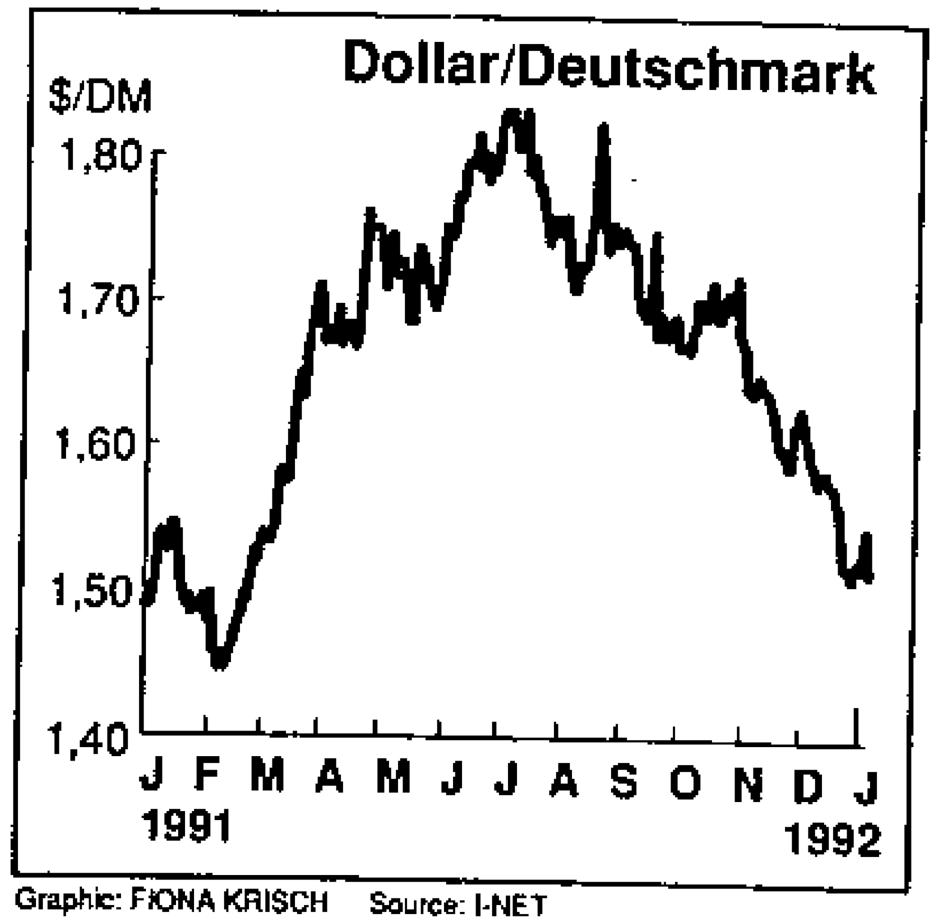
US President George Bush's State of the Union address later this month is expected at least to neutralise bearish dollar sentiment. Analysts think the dollar will probably move lower prior to the address.

Standard Bank's view for the year ahead is that the dollar is not far from bottoming but will remain weak in the first quarter of the year until the economy begins to recover. The US currency will strengthen in the second half of the year but will not take off suddenly, as it did last year as a result of the crisis in the Gulf, it says. Standard Bank expects the dollar to peak at between DM1,70 and DM1,75.

Anglo American forex analyst May Thouw breaks with the common view, saying that factors other than US economic growth prospects will see the dollar strengthen to DM1,77 by mid-year. A re-test of the DM1,50 level is a strong possibility in the short-term, she says.

The factors which could break the dollar's bear trend include:

- President Bush's current visit to Japan to persuade the Japanese to open their markets to US goods. This has met with a quick and positive response from the Japanese Prime Minister, who said Japan should co-operate with the US to boost the US economy;
- The economy-stimulating measures expected to be announced by Bush in the State of the Union address;
- A slow-down in the German economy, exacerbated by the recent sharp increases in interest rates;
- Rising civil unrest and political and economic instability in the former Soviet Union and increasing ethnic conflict; and
- Central bank intervention could be seen at just below DM1,50.

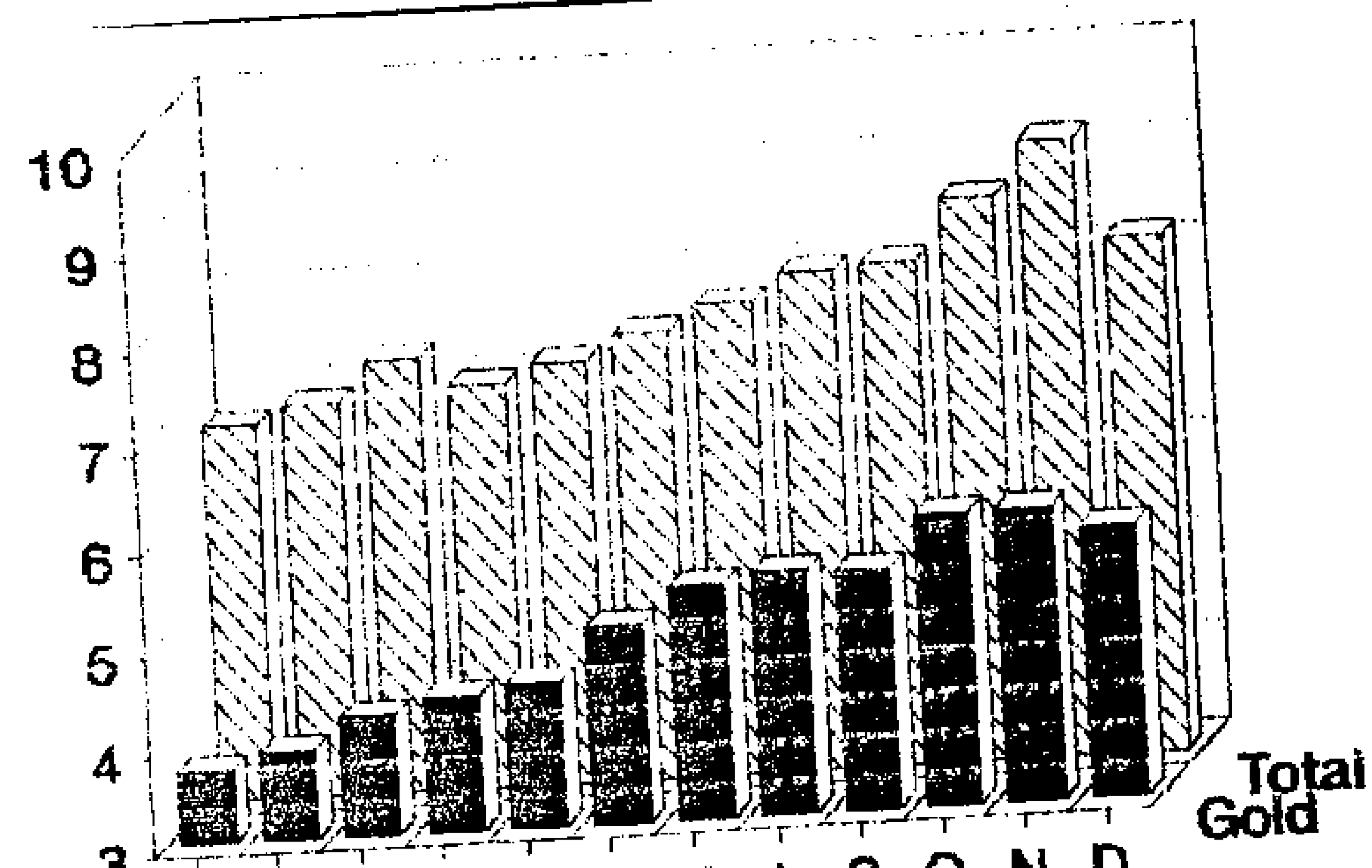


Graphic: FIONA KRISCH Source: I-NET

Until now, the breakup of the Soviet Union has failed to move currencies but it is generally agreed that political and economic developments in the former Soviet republics this year have the greatest potential to wreak havoc on currency forecasts.

Last year markets were dealing with the known — the Soviet Union, says Standard Bank. This year they are dealing with the unknown and any deterioration in economic and political conditions in the newly created independent republics would knock the Deutschmark, due to its geographical proximity.

All in all, it seems the dollar will again dominate international forex markets this year and the key words in the markets promise to be: US economy, elections, Soviet Union, Japanese trade balance and political and economic uncertainty.



Gold and foreign exchange reserves (R-billion).

Reserves dip for first time in eight months

STAR 10/1/92

By Sven Lünsche (94) (WP)

Gold and foreign exchange reserves fell by almost R1 billion in December, reversing an eight-month rising trend, which saw them soar from just under R7 billion to R9,07 billion in November.

However, economists say it was mainly seasonal factors that reduced the level to R8,15 billion last month and that the rising trend would resume in January.

The Reserve Bank's statement of assets and liabilities shows that the gold portion of the reserves slipped from R5,9 billion in November to R5,8 billion last month, while the forex reserves fell from R3,17 billion to R2,47 billion.

The decline in gold reserves was mainly caused by a R284 million revaluation resulting from a R44 slump in the gold price from R923,27 an ounce to R879,36.

The volume of gold holdings, however, showed a slight increase from 6,39 million ounces to 6,47 million ounces.

The Bank says the relatively large fall in forex reserves was due to two factors:

- The practice of many foreign banks of reducing to a minimum their outstanding claims on other countries at year-end.
- Large seasonal transfers of interest, dividends and profits in December before the close of the financial year.

Nedbank economist Edward Osborn estimates that the equivalent of up to R300 million in foreign debt outside the standstill net left the country during the period.

He says the firmer rand in December (R2,74 to the dollar, compared with R2,84 in November) added to the lower valuation of reserves.

The Reserve Bank statement shows that "other" liabilities fell by almost R3 billion to R7,14 billion as a result of a decline in dollar deposits held by the Bank for SA banking institutions.

This, in turn, was due to a sharp reduction in the Bank's rand-dollar swop transactions for money market purposes as liquidity remained tight on the money market in December.

WORLD STOCK EXCHANGE OUTLOOK

(74)

Running in place

FM 10/1/92

Forecasts agree mainly in the uncertainty of their tone

The world's leading stock markets ended a turbulent, improbable 1991 with the bulls triumphant. Playing the Pied Piper for the rest, the New York market danced over forecasts of a double-dip recession and swung into the new year with a run of six consecutive record closes on the Dow Jones Industrial index.

Doomsayer doubts about the strength and timing of the economic recovery expected from the US Federal Reserve's Christmas gift — a full point cut in the discount rate to a 27-year low of 3,5% — were swept aside. If Wall Street's 10% surge was a sucker's rally, owing much to the closing out of huge short positions, then it was a powerful example of the genre.

Smaller issues ran even faster. The NASDAQ index of over-the-counter stocks leapt by 57% during the year.

Wall Street proved an irresistible force. Tokyo, arguably the only equity market to reflect the real economy last year, proved a little tardy in its initial response to the Bank of Japan's surprise half-point discount rate reduction to 4,5%. The final trading day saw the Nikkei Dow index close 1991 some 3,6% lower on the year — making 1990-1991 only the second time it has registered consecutive annual falls since World War 2.

But after the four-day new year holiday Tokyo returned rampant with a 3,5% gain in the Nikkei on Monday to leave the index just a hair's-breadth short.

The euphoria was infectious even in the high interest rate European markets which perforce tracked the German Bundesbank's disinflationary credit squeeze just before America's opposite move. The consensus view was that the only way for European interest rates this year is down as German growth contracts sharply while the stimuli applied in the US and Japan bode well for exports.

It was altogether a remarkable year. Junk bonds came back into favour in the US — with $10bn worth issued against $1,4bn in 1990 — and, showing investment returns of 35%, were top performers in a strong bond market.

So too did seemingly junk equity markets. Argentina's *bolsa* took pole position with a 323% climb, while the biggest Latin American market, Mexico, moved up by 127% as specialist US funds moved in. Other hot streakers were Colombia, up 141%, Brazil 100% and Chile 87%.

South Asia's minnows tended to follow Japan's wobbles — with some gains more than halving from the 1991 highs. Even so, Filipino equities closed a net 97% better with Taiwan up 37%, Thailand 22% and Malaysia 18%.

In broad-brush terms the year produced four phases for global equities. The flush of victory in the Gulf War set off a strong rally. Oil prices and inflation rates fell and the general assumption was that recession, chiefly in the US, would bottom out in the first half with growth coming through in the final quarter.

But after that shares paused or declined. Wall Street trod water for nine months in a narrow range close to its peaks just above 3 000 on the Dow Jones Industrial average. London roller-coastered, hitting a new high in September. Tokyo topped out in March, slumped to a low in August as the asset value crisis deepened — notably the property slump — and rallied following the first of three Japanese half-point interest rate cuts and cheapening credit in the US. Frankfurt stumbled from its May best as the cost of German unity began to bite.

Then came the November crack. Amid a litany of woeful corporate news, US investors foresaw economic recovery petering out. Japanese and German output fell while the upward pressure on European interest rates remained. And the OECD projections for the main industrialised nations (*Leaders* January 3) pointed to a slow, weak improvement in the global economy.

Finally, there was December's gallop which left the *FT*-Actuaries World equity index up 16,4% on the year — and 20,3% better if Japan's heavy weighting were excluded.

Japan apart, it was a bonanza year for the securities industry and no more so than in New York. While takeovers fell by almost a third to $146bn, a flood of new equity issues — $24bn against only $10bn in 1990 — and debt saw $580bn worth of paper hit the market, 86% more than the year before.

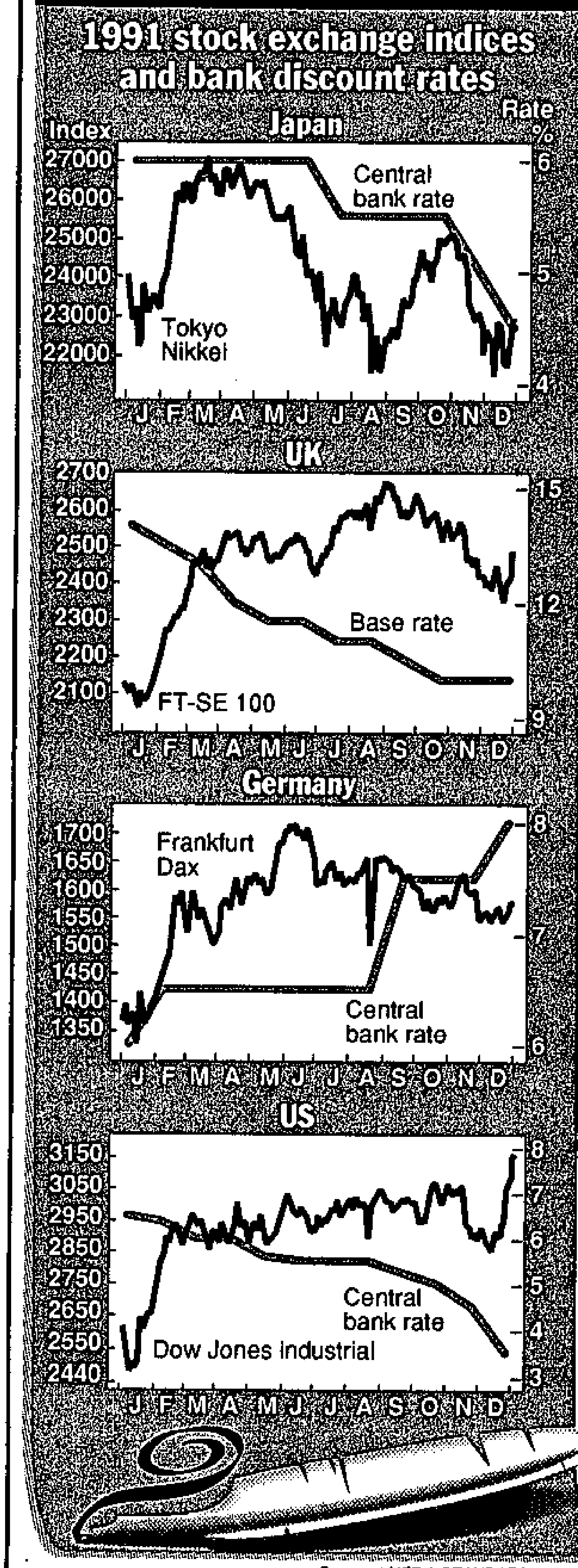
Wall Streeters rolled up underwriting fees of $4,6bn and profits on trading for their own account were even better. From an overall loss of $50m in 1990, the 300-odd broking firms in New York ran out with pre-tax earnings of $5,5bn, almost equalling the 1986 record.

Goldman Sachs, the richest investment house, was expected to split $1bn among its 146 partners. And with numbers down sharply after the bloodletting of the past two years, overall profit per capita was about $17 000, some 45% higher than the 1986 level.

Fat bonuses may be one good reason why the bulls are loudest in New York, even though short-term interest rates are probably as low as they can go and their impact on consumer confidence is as yet unproven. Worries about the US debt burden abound: the boom years lifted the total from the long-term level of 130%-140% of GDP to 190%.

President George Bush may be forced to add tax cuts to cheaper money if he wants to win the November presidential election. That will add to the Federal budget deficit in the short run and underpin long-term interest rates — the yield on the benchmark 30-year Treasury bond has fallen by only 0,8 points to 7,4% even though bank prime rate

A flourish at the end - but now what?



Source: I-NET & STANDARD BANK

has dropped 3,5 percentage points to 6,5% in the past year. It is estimated that the US, after a capital inflow of $252bn in the four years to 1990, suffered a $52bn loss in 1991 and needs to borrow $8bn-$10bn a month now.

However, the optimists maintain that it is worth waiting for the recovery now expected for the second half of the year and with it a boost to corporate profits. They argue that the historic price earnings multiple of 25 on the Standard & Poor industrials is irrelevant because it accounts for one-off restructuring costs and write-downs.

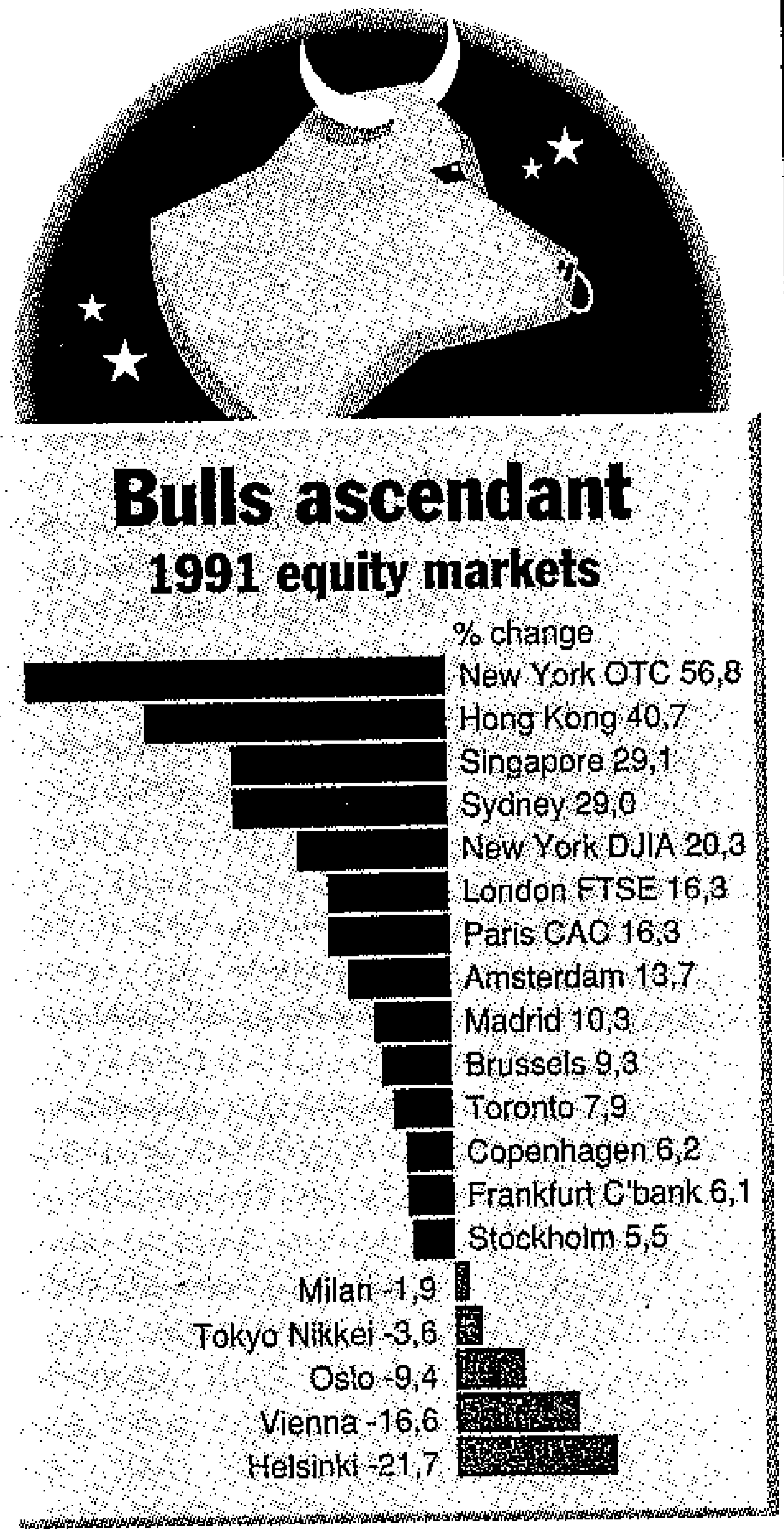
In addition, 1991 was the worst year for dividend increases since 1955 and matters can only improve.

Recovery will also bring a stronger dollar, especially if, as expected, German interest rates slide. And even if dollar rates have bottomed out, inflation is well under control and it will be well into 1993 before they gently rise again — by which time the economy's momentum will be able to absorb the pressure.

Yet even the optimists do not see Wall Street equities ending the year much more than 10% up while bonds have had their year.

There is less hope in Tokyo where the asset crunch is still hurting after the bursting of the credit balloon and, with profits falling, no sign yet of the big corporations again putting money into equities. This is the key to the future of the Nikkei Dow and, according to Japanese analysts, will need interest rates to fall much further accompanied by reflationary public spending by government.

Investor confidence was also blighted by the scandals involving the four big securities houses — over compensation for portfolio losses suffered by large clients — and a record number of bankruptcies linked to the property slump. Foreign interest in Japanese shares is growing, fed by hopes for export growth in 1993, but Tokyo analysts have set a short-term range of 20 000-25 000 for the Nikkei Dow (a level it reached in Monday's surge) with possibly 29 000 if the US economy bounces back.



America, a peaceful transition in the former Soviet Union, and lower German interest rates are the levers which will move the European markets.

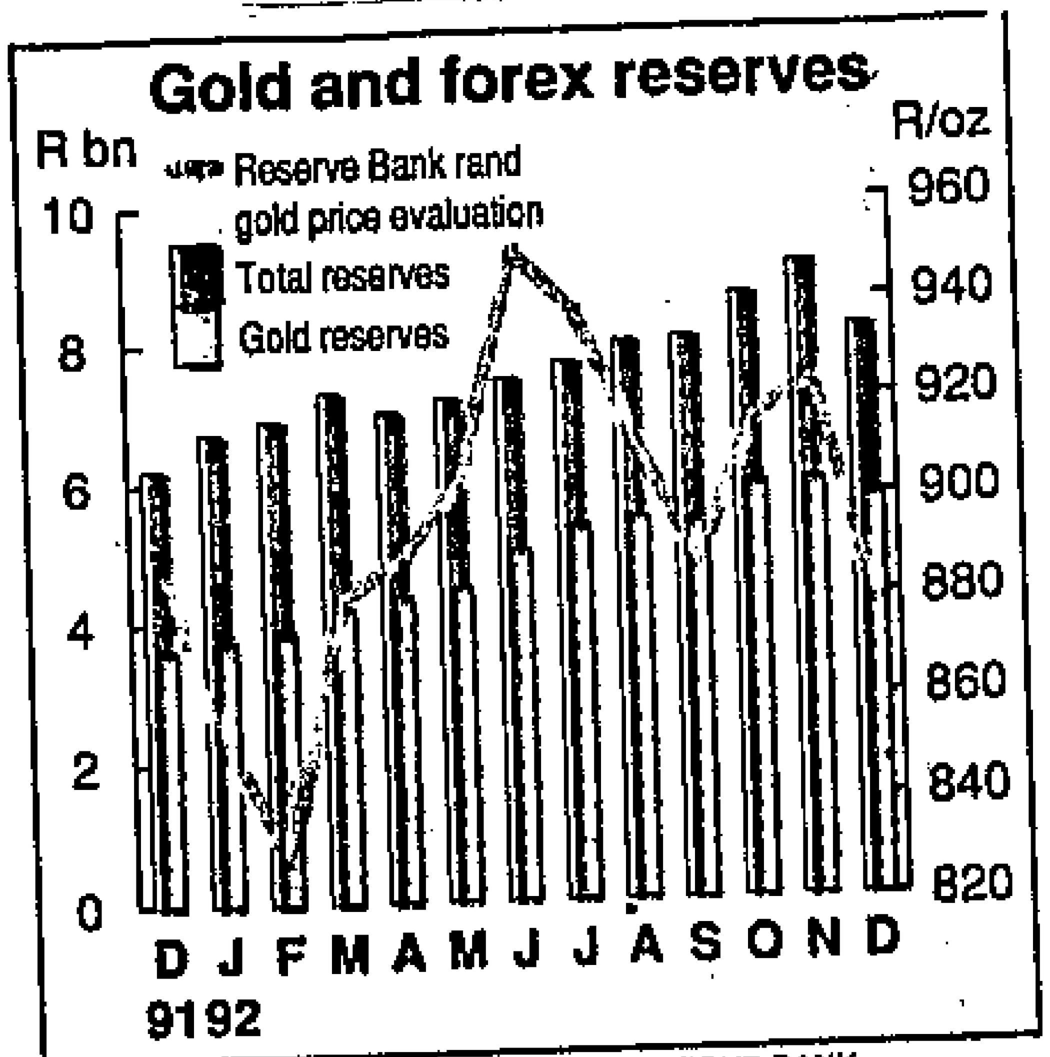
Most analysts are confident the Bundesbank will ease up later this year and that once the 7,5% unification surcharge on income and corporate taxes is lifted in July, Germany will move back into growth. Yields on German bonds are expected to fall, though there is wide divergence of opinion over whether they will be down from 8,25% to 7% or 8%.

In Britain the outlook is murky and there is little sign of early recovery. Attempts by the Conservative government to convince the electorate that the worst of the recession is over are given little credence. Market forecasts are factoring in the possibility of a Conservative defeat in the general election, haunted by shades of 1964 when Labour ended "13 years of Tory misrule."

With the pound the weakest currency in the European Monetary System, because the UK did not follow Continental interest rates, any monetary pump-priming is virtually impossible without devaluation. Tax cuts will only make matters worse.

The uncertainties are such that one leading investment group is urging clients to reduce equities to 50% of their portfolios, increase bonds to 40%, and hold 10% in cash.

If 1991 was a year in which hope triumphed over experience — as Samuel Johnson would have said — 1992 has started with mixed hopes for world equity markets. Little confidence is to be detected in forecasts of trends during the next 12 months. The word *if* predominates in the preface of predictions. ■



Graphic: FIONA KRISCH Source: SA RESERVE BANK

Gold and forex reserves down

BDay 10/1/92

74

SHERIDAN CONNOLLY

THE Reserve Bank's gold and foreign exchange reserves fell by R918m in December to R8,2bn despite official hopes they would reach R10bn by end-1991.

The value of gold holdings fell R284m on the decline in the gold price, although gold holdings rose to 6,5-million ounces from 6,4-million in November.

The Bank attributed the rest of the decline to seasonal transfers of interest, dividends and profits and to year-end book-squaring by foreign banks. The Bank was confident last year's rising trend in foreign reserves would resume in the January figures to be released early next month.

Absa chief economist Adam Jacobs agreed that the fall would only be temporary, with the upward trend continuing from January onwards. Gold reserves should eventually reflect expectations of a stronger gold price in 1992, he said.

Nedbank chief economist Edward Osborn said that in light of year-end interest payments, a dip in reserves was to be expected. He attributed the rise in gold holdings to the Reserve Bank withholding gold from the market due to a lower price.

The reserves data also showed a R3bn decline in Reserve Bank "other liabilities", a sign of a fall in dollar deposits held by SA banks with the Reserve Bank. A statement accompanying the reserves figures confirmed that the Bank had sharply reduced rand/dollar swap transactions in the money market during December.

Development Bank needs further R1bn

BDay 10/1/92 (74)

LESLEY LAMBERT

THE Development Bank of Southern Africa (DBSA) needed an extra R1bn and planned to raise part of it on foreign capital markets this year, former DBSA chairman and CE Simon Brand said yesterday.

Speaking from hospital after being forced by a sudden deterioration in his health to relinquish his tasks at the DBSA, Brand said he was confident more foreign funding would soon become available to SA development agencies and institutions.

SA borrowers' access to international capital markets had been renewed, and it appeared likely that concessionary financial assistance from foreign funding institutions would soon become available.

"My impression is that multilateral institutions like the World Bank and the bilateral development assistance agencies of individual countries are keen to get involved in SA," he said.

This, coupled with additional foreign commercial funding, would enable SA development agencies to make greater progress in their efforts to address SA's pressing socio-economic needs. Evidence that something concrete was being done to address the backlogs of apartheid would help resolve the violent conflict in SA.

The process of redistribution could be sped up if government agreed to formulate the national Budget in consultation with other major participants in the negotiation process.

While he believed government wanted to continue using the Budget as one means of redistributing wealth this year, Brand said strong demands from the business sector and other interest groups might water down attempts to do so.

Brand was confident SA would be able to negotiate widely acceptable political and economic settlements.

"Those who are not involved in the process now will realise that they will be left behind if they do not join in.

"On the economic side, there is tremendous potential to meet realistic expectations, provided that future leaders are sensible in their efforts to meet these expectations and do not try to buy public support by making extravagant promises which are economically unviable. Although private investors are holding back, SA's access to foreign funding is being renewed. When the major institutions such as the World Bank become involved, the private sector will follow, provided ... we are able to resolve the violent conflict."

BUSINESS

Is the rand slip-sliding away?

(74) W Mail 10/1-16/1/92

Bad news for consumers and importers but good news for exporters — that's the effect of double-digit inflation and a shrinking rand,

reports **REG RUMNEY**

THE value of the rand will once more slide this year against other major currencies.

Greasing the slide is South Africa's double-digit inflation rate. This stood at 15,5 percent in November, around 10 percent above the inflation rates of South Africa's major tradng partners.

Inflation in the European Community countries rose in November to 4,8 percent compared to November 1990. The October figure was 4,4 percent.

Inflation over the same period in the United States stood at 3,0 percent and in Japan 3,5 percent, acccording to Eurostat. Year-on-year inflation dropped in Britain, down to 4,3 percent from 9,7 percent in October.

Late last year the then-chairman of one of the country's biggest conglomerates, Gencor, noted in the annual report: "Gencor has the worst of all possible worlds: weak markets and a currency which generally maintains its external value while depreciating internally at 15 percent per annum. Thankfully, this cannot be a stable situation but it may be some time before economic logic reasserts itself."

Chris Stals

Derek Keys

Since then Derek Keys has had to relinquish the chairmanship of Gencor to become Trade and Industry Minister.

Sanlam's latest economic bulletin notes that in the last part of last year the rand stayed relatively stable, weakening against the British pound, the Deutschemark and the yen, but appreciating against the dollar.

"In order to limit inflation, it is the policy of the SA Reserve Bank to keep the real effective exchange rate of the rand (ie the trade-weighted exchange rate adjusted for the differences between South Africa's inflation rate and the average of those of its most important trading partners) more or less stable."

This implies the rand will devalue, but not by more than the differences in inflation in South Africa and an average rate of inflation in those countries South Africa trades with.

Sanlam believes the effective value of the rand, on a weighted basis, will drop by about six percent this year.

"As a weakening of this extent will be less than the relevant differences in inflation, it will mean that there will be a limited appreciation in the real effective rand during the next year."

This turn of events is linked, in Sanlam's view, to the following developments on the international currency markets:

- A firming of the US dollar against the mark and the yen.
- A moderate weakening of the pound within the "exchange rate mechanism" after the British general election, expected in July 1992.

So Sanlam expects the rand will:

- Weaken against the dollar by about 10 percent.
- Drop by about 6 percent against the yen.
- Depreciate by about 4 percent against the mark.
- Remain stable against the pound.

Sanlam's report already looks out of date, although it was only written before the year end. As it happens the pound has already appreciated against the rand sharply, and the dollar has weakened against the rand.

Standard Bank treasury division GM Chris Kenny points out the rand is already trading at historical lows against major currencies like the yen and mark — despite the present weakness of the dollar against the rand.

Should the dollar appreciate the rand may weaken even further against the other major currencies.

Kenny believes the rand could depreciate by 10 percent against major currencies during the year.

However, First National Bank group treasurer Ken Russell believes that while the rand will eventually reflect the inflation differential, it will not go into free fall this year.

Reserve Bank governor Chris Stals, he points out, has made it one of his tasks to maintain the stability of the external value of the rand. So the Bank would "manage" a gradual deterioration of the rand.

A lower rand would be a relief for South African commodity exporters such as Gencor.

The gold mines, for instance, at an exchange rate of \$1 = R2,74 get only R959 for an ounce of gold, as opposed to R1 060 in the middle of last year.

Russell reminds that Stals has said the mines should be assisted by fiscal policy, not, as in the past, by devaluation of the rand.

At the same time as making exports cheaper a lower rand makes imports more expensive. This will hurt consumers, of course, but not only them. To boost exports capital intensive machinery has to be imported. So what benefits the commodity exporters, eg gold, to a certain extent hurts the exporters of value added goods. Also a depreciation in the currency boosts inflation, so it is to be avoided.

Enough of an improvement in domestic inflation will, of course, reverse the necessity for devaluation. But nobody is expecting South African inflation to drop to the levels of our main trading partners — not for quite a while, anyway.

Safto chief optimistic about year's growth prospects

Lifting of sanctions will not bring about a dramatic increase in exports, but growth of 18 percent in nominal terms is nonetheless possible this year, says the South African Foreign Trade Organisation (Safto).

Executive director Dr Wim Holtes says this would represent a growth rate of five per cent in real terms, which should have a positive impact on the economy.

Dr Holtes believes all sanctions will crumble by the end of the year.

South Korean state corporations and other companies now have permission to establish branches in South Africa and to invest in other ways.

The lifting of sanctions by South Korea follows hard on the heels of Denmark clearing the way for the European Community to lift its ban on imports of SA iron, steel, coal and gold coins. — Sapa.

STAR 13/1/92

74

Growth options in sub-Sahara

Sowetan 13/1/92.

74

SOUTH Africa believes it has what it takes to become the engine for growth in much of sub-Saharan Africa, but not without help from the rest of the region.

FOCUS

"Unless African countries get their act together, drop trade barriers and create conditions more conducive to investment, growth is going to be the one-way affair that everyone fears," said Mr Andrew Maggs, manager of the Johannesburg-based Africa Trade Intelligence Programme.

With trade opportunities opening up daily in a potential market of 150 million people, local businessmen are criss-crossing borders.

Likewise, delegations from at least 23 African countries visited South Africa last year. But they were looking less for markets than pitching for investment, particularly in manufacturing and mining.

South African officials are keen to see a cohesive economic community evolve in Southern Africa, but other countries fear its domination of the weaker, less developed markets.

Sensitive to the resentment that would cause, South Africans see joint venture projects, even in the services sector, as a logical means of sharing economic benefits in the long term. But it is not going to happen on its own.

Standard Bank's group economist, Mr Nico Czypionka, sceptical of grand ideas such as a common market, says South Africa cannot do anything by itself and "can only act as a catalyst".

He said African countries seeking growth would have to offer incentives such as attractive tax and investment codes, stable currencies, attractively priced labour and less bureaucracy.

"The fastest growth in the EC (European Community) is in Portugal because it has created a desirable environment for location," Czypionka said.

For South Africa to assume a pivotal role in regional economic growth, it will have to meet its own challenges.

These include access to world capital markets, fiscal discipline in the face of high expectations among the five-to-one black majority for greatly enhanced living standards in a post-apartheid society, and a return to health of its own sanctions-bled economy.

Mr Ron Haywood, deputy director-general of the South African Chamber of Business, is optimistic, saying the country is already becoming part and parcel of the regional economic scene.

"The agreement late last year between (South Africa's state power company) Eskom and Namibia, Angola and Zaire to start feasibility studies for the western leg of the proposed Southern African electricity grid is of critical importance to manufacturing capabilities."

Haywood said South African representatives are likely to attend the annual conference in Zambia in January of the 18-nation Preferential Trade Area of Eastern and Southern African countries.

South Africa's entry into the mainstream of other economies and the PTA's own, but slim, hopes for a common market are expected to be discussed.

Meanwhile, the Africa Trade Intelligence Programme has targeted Nigeria, Uganda, Angola and Kenya for special investigation this year, having already covered Mozambique, Madagascar and Cameroon.

But Maggs said South Africa cannot secure many business contracts overnight, although the foreign exchange savings it offers through shorter supply lines and the relatively depressed rand give it an advantage over European countries and others.

Angola, for instance, has for years imported most of its goods from Portugal on open account, which requires no prior bank guarantees on payment. The best route for South Africans there would be via reconstruction, in which it has specialist civil engineering expertise, he said.

Because of a regional shortage of funds, Maggs is advising companies to tap into World Bank aid projects, which involve services as well as development contracts.

Deputy Foreign Affairs Minister Mr Renier Schoeman spoke for many in summing up South Africa's hopes for future ties on the continent. "Its destiny is linked to Africa," he said.

Africa, analysts say, must help South Africa to help them.- *Sapa-Reuter*

Monetary policy to remain tight

SA to seek final deal on foreign debt

B/Day 15/1/92

74

SHARON WOOD

THE Reserve Bank would push for a final debt arrangement to deal with the outstanding $5bn when the third interim debt arrangement ended in 1993, Reserve Bank Governor Chris Stals said yesterday.

In an interview, Stals said there would have to be another arrangement to deal with outstanding debt because SA could not afford to repay the whole amount in 1993. The $5bn owed was not big by world standards and SA always acted in accordance with the arrangements.

● STALS

"I hope the political process will make enough progress this year, making it easier to come to a more permanent arrangement next year with SA's creditors.

"This will be extremely difficult if we do not have normal relations with the IMF and the World Bank, but I do not think it will be too difficult to get co-operation."

If SA managed to secure the agreement with international creditors, it would no longer be a country with an outstanding debt problem. SA's foreign debt has been subject to three interim debt arrangements since the debt standstill in 1985.

The $1bn debt due this year was relatively small and the foreign reserves position was fairly comfortable, he said. This year would be an easy year for the balance of payments, when the current account surplus would again exceed capital outflows.

Stals warned the balance of payments would be a big problem in the future, when imports soared on the back of renewed private and public sector fixed investment. But this would not occur in 1992 because the economy was too depressed.

On the inflation front, Stals said he was confident that inflation would fall this year but not to single digits. "Single-digit inflation is still achievable and the Reserve Bank will have to go on fighting inflation until it reaches that stage, which will certainly not be this year."

Monetary policy had been successful in a number of areas, particulary in reducing money supply growth and bank credit extensions, but it would remain restrictive this year. Money supply had grown at 9,5% seasonally adjusted and annualised since February last year, which was acceptable, but there would be a shift in monetary policy stance only if the rate of growth

☐ To Page 2

Debt

B/Day 15/1/92.

74

☐ From Page 1

dropped to between 2% and 3%.

A rough estimate showed that money supply growth would not be inflationary if it grew at three times the rate of real growth, he added.

Stals said the reason inflation had not fallen despite more than two years of restrictive monetary policy was because of built-in structural factors and not as a result of government spending.

Correcting these would take priority in the fight against inflation in the future, he said. Monetary policy had gone as far as it could and would now be used to contain inflation rather than reduce it.

Stals believed a social accord between business, government, trade unions and the Reserve Bank, was necessary to address the structural component of inflation.

He was confident this would be more easily achieved in a new SA and under a new government because there would probably be a different relationship between labour and employers which would make it easier to break down structural inflation.

Monetary policy would not be used to restimulate the economy because the severe problems experienced by the various sectors of the economy did not stem from restrictive monetary policy, but rather from the climate of uncertainty that prevailed in SA, he said.

Trade flow secrecy has rand-watchers groping in the dark

(74)

SIMON WILLSON B/Day 15/1/92

RAND-watchers will have had a perplexing year-end in 1991. Any attempt to examine the effective strength of the currency by looking at its trade-weighted value will have yielded a bewildering range of measurements from official and private sector sources.

The various published calculations of last year's effective rand in the market are so divergent that they appear to be dealing with totally different currencies.

Last month, for instance, the professional rand-watcher will have received at least two respected and authoritative publications containing a carefully calculated trade-weighted index for the rand during 1991: the December edition of the Reserve Bank Quarterly Bulletin and the December edition of Standard Bank's Economic Review.

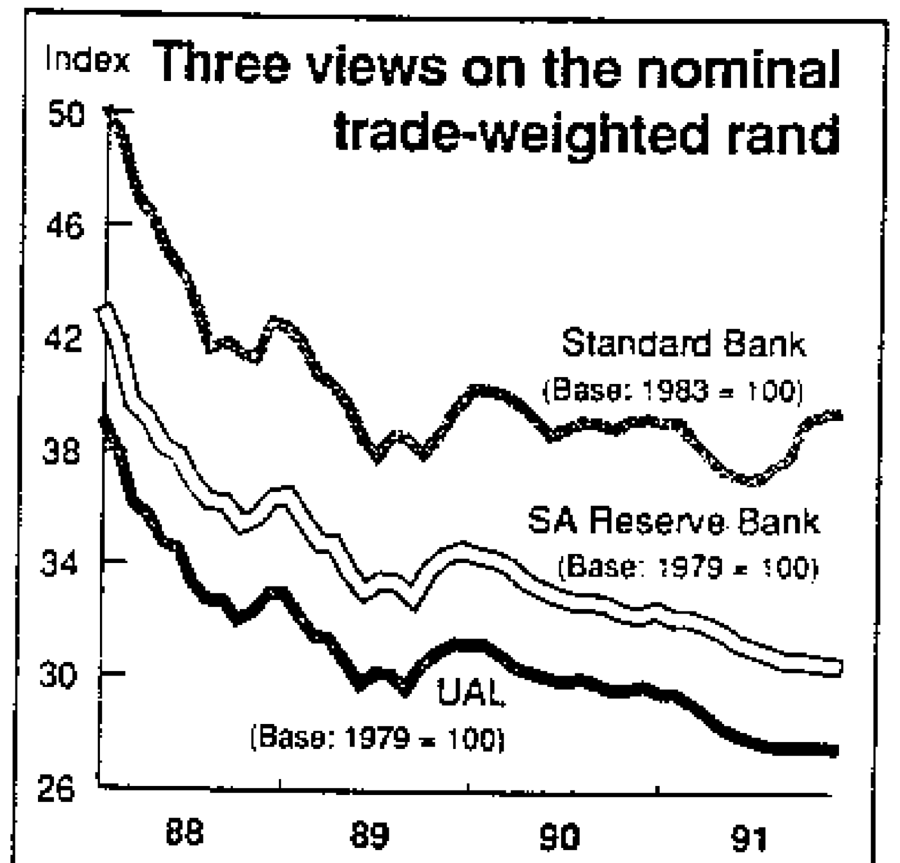
But our diligent observer will have been little the wiser as to the rand's true effective value after reading each of these estimable publications. The Economic Review will have told him of the "fairly stable trade-weighted rand exchange rate, which declined by just 1,6% from December 1990 to November 1991".

The Quarterly Bulletin, on the other hand, will have confused our anxious professional by declaiming: "The nominal effective exchange rate of the rand has now declined by 5,5% from the end of 1990 until the end of October 1991." Reference to the bulletin's accompanying tables will have shown the Reserve Bank's calculation of the December 1990-November 1991 fall in the effective rand to be 5,4% against Standard's 1.6%.

Which of these sharply contrasting figures is the earnest rand-watcher to believe? Does the true figure lie, instead, in the range between the two published figures or, indeed, outside it?

The confusion has its source in the authorities' decision in 1985 to withhold SA's official trade figures from the public domain to reduce the country's vulnerability to sanctions. Calculation of the trade-weighted, or effective, rand relies on the revelation of bilateral trade flows with major trading partners to determine the weight in the effective "basket" of each of the trading partners' currencies.

Among the traders in the rand market, only the Reserve Bank currently knows the size of these trade flows, which enables it to calculate the official trade-weighted rand index published in the Quarterly Bulletin. The essential official data for assembling the trade-weighted index of the national currency are secrets not disclosed to the rest of the financial sector.



Three views on the nominal trade-weighted rand

Graphic: FIONA KRISCH

The main scheduled dissemination of this crucially important measure of the rand's value is carried out through the Quarterly Bulletin, which updates the table of the trade-weighted rand's value at — for traders of the rand — frustratingly infrequent three-month intervals.

The Bank also releases monthly figures on the financial economy, which include updates of the effective rand index. But for institutions which trade the rand in the foreign exchange market, the change in the trade-weighted rand over 30 minutes can abruptly reverse trading sentiment and, unsurprisingly, they find a minimum 30-day wait for an effective rand level a shade beyond their preferred dealing horizon.

Many of the nation's financial institutions therefore distil their own trade-weighted rand indices from various mixtures of currencies and weights.

The effective rand recipes are jealously guarded for, in the absence of an official set of currencies and weights, many institutions like to believe they have a version that parallels the one deployed by the Reserve Bank.

Thus, the rand-watcher looking for the change in the trade-weighted rand over calendar 1991 before the official data were released by the Reserve Bank would, earlier this month, have had a variety to choose from: FNB -7,1%; Old Mutual -6,4%; Sanlam -7,1%; Standard -2,3% and UAL -7,5%.

The official Bank index has not been published yet but will be around -6,3%, probably leaving Old Mutual's as the nearest proxy index for last year.

The wide range of changes in the effective rand measured by the institutions arises from their different methods of calculating the rand's trade-weighted index. Standard's basket of trading partners' currencies contains 12 currencies: the Reserve Bank's basket holds six and UAL uses four. The Bank and most other institutions use 1979 as the base year for the index: Standard uses 1983.

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Jan.9	Previous
8.30 am	91.2	91.5
9.00 am	91.2	91.4
10.00 am	91.2	91.5
11.00 am	91.2	91.5
Noon	91.2	91.5
1.00 pm	91.1	91.5
2.00 pm	91.1	91.5
3.00 pm	91.1	91.4
4.00 pm	91.0	91.4

CURRENCY MOVEMENTS

No secrets: The Bank of England calculates sterling's effective index nine times a day, and the results are published in UK newspapers

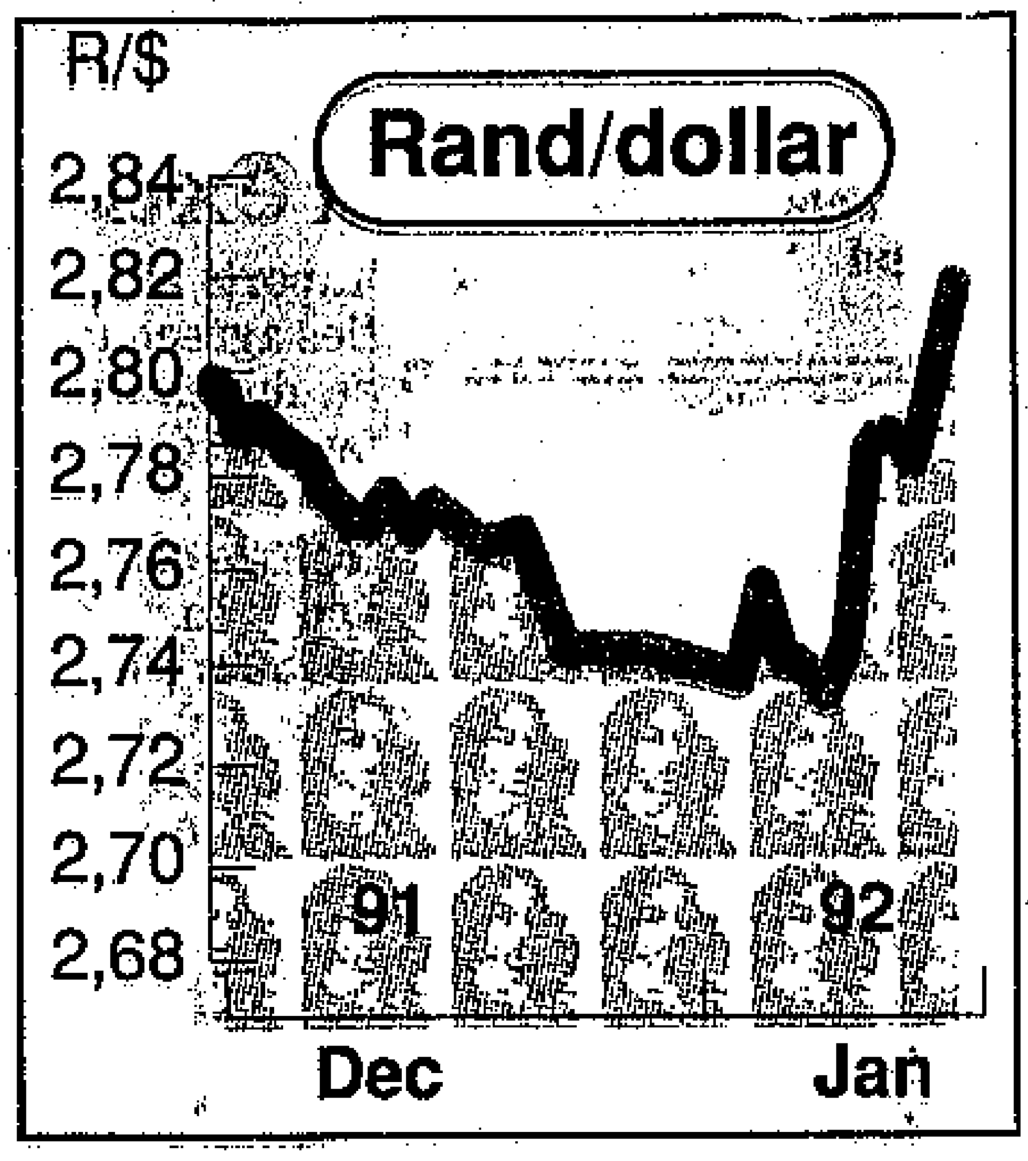
An accurate and constantly updating trade-weighted rand index is more than a badge of respectability in the foreign exchange market: under certain circumstances it may allow rand traders in the market to second-guess possible Reserve Bank intervention to support or restrain the rand, depending on its strength or weakness.

Indeed, perhaps mindful of the old saying "information is power: prior information is wealth", economists like Sanlam's Eric Coetzee feel there is a thin dividing line between second-guessing the level of the effective rand and actually anticipating it.

"When you have a secret trade-weighted rand then you create the opportunity for people to profit from it. If the currency weightings are secret, no one can check what is really going on."

Coetzee says the authorities could make the effective rand's weightings public without giving much away about SA's bilateral trading relationships. "So much trade is denominated in dollars anyway that the weightings won't give a true picture of who our main trading partners are. Although we give a 53% weighting to the dollar in our index, our trade with the US is definitely less than 53% of our total trade."

Sanlam economists plan to visit the Reserve Bank later this year to lobby for more openness in the calculation of the trade-weighted rand. Specifically, Sanlam will be speaking for many in the foreign exchange market in asking that the weights accorded each of the trading partners' currencies in the Bank's effective rand basket be made public.



Graphic: LEE EMERTON Source: I-NET

Dollar demand puts rand at 10-week low

SIMON WILLSON

74

SURGING demand for dollars on the foreign exchange market yesterday knocked the rand to a 10-week low against the US currency.

Early in the trading session the rand/dollar rate tumbled through the R2,80 level for the first time since the beginning of December. As dealers fought to buy more dollars, the rand continued its dive and quickly pierced the R2,82 support level — a dollar price not seen since November 1.

By the end of a whirlwind session, the rand was off its day's low of R2,8260 and closed at R2,8195. B Day 16/1/92

Dealers said the Reserve Bank was active on both sides of the market yesterday, putting in prices at each end of the trading range in an attempt to smooth the volatile

☐ To Page 2

Dollar

B Day 16/1/92

74

☐ From Page 1

market. "It's just as well the Bank was around to stop the market going mad. It kept a few traders off their window ledges," one said.

Analysts attributed the sudden scramble for dollars to a combination of technical and fundamental factors.

At the beginning of this week technical charts showed a double-bottom on the dollar/Deutschmark rate at around DM1,5020, and pointed to a short-term target of DM1,60. The dollar's bullish technicals were reinforced by a turnaround in previously adverse fundamentals, and triggered the frenzy of dollar-buying.

Once the DM1,60 level gave way, the dollar's rise became self-sustaining.

The new record high on Wall Street on Tuesday fuelled the positive dollar sentiment, as dealers caught up with the market's perception that last month's cut in US interest rates meant US economic recovery could be just around the corner. Expectations that the White House would announce a fiscal stimulus for the economy in a key presidential speech at the end of this month helped to whip up recovery hopes and yesterday the Dow set its sixth record this year with a 12 point rise to 3 259.

The rand's sharp dollar losses were offset by gains on the cross rates, as major third currencies also gave way before the dollar's advance. The rand jumped to a close of DM0,5745 after opening at DM0,5640, against levels only a week ago of DM0,5550. Similarly, the rand's sterling rate hardened to end at R4,95 from an opening R5,10 and R5,13 a week ago.

Report favours Taiwan's model

Govt studies free trade zone proposal

B/Day 16/1/92

(74)

LESLEY LAMBERT

GOVERNMENT departments are studying confidential proposals by the private sector for a free trade zone to boost SA exports and attract foreign investment.

The proposals, which emphasise the need to develop an economic environment conducive to exports, have been drawn up by a joint committee of the regional development advisory councils (RDAC) and an independent consultant.

An initial draft of the report has been submitted to the departments of Trade, Industry and Economic Co-ordination and Regional and Land Affairs, sources said yesterday.

Up to now, government has rejected recommendations for free trade and export-processing zones, choosing rather to assist exporters by exempting them from duties on imported plant, equipment and other manufacturing inputs.

However, the proposals indicate a strong renewal of interest in free trade areas. Factors such as the perceived inadequacy of the duty rebate system and the lifting of sanctions, coupled with tough competition on foreign markets, have lent support to the renewed interest.

Evert van Dijk, the consulting economist who played a major role in drawing up the proposals, said yesterday he could not comment until the report had been accepted by the joint RDAC export promotions committee and made public.

However, sources said the report examined the pros and cons of a closed approach, in which a separate free trade zone is established as in Taiwan, and an open approach, such as the one in Mauritius.

The report is understood to favour the closed approach because it attracts manufacturers, offers mass benefits in specific areas, facilitates better customs control and supports nearby related industries.

One of the major reservations, expressed by the union movement, is that free trade areas encourage low wages in cases where existing labour laws are relaxed. International research indicates that this is not necessarily the case and that they often pay higher average wages because of additional skills training.

The report also appears to recommend that the location of a free trade area should be based on proposals submitted by the nine development regions rather than a decision from central government.

Joint RDAC export promotions committee convener Chris Proctor said a final draft of the report would be approved by

☐ To Page 2

Free trade zone

(74)

☐ From Page 1

B/Day 16/1/92

the committee in February. He said the committee was consulting government and non-establishment groups.

Free trade zones have succeeded in many developing economies. They are demarcated areas in which normal economic and trade regulations are suspended.

Investors benefit from incentives such as tax and duty rebates, cheap infrastructure and services and exemption from foreign exchange controls.

Participants are compelled to export 100% of their output. Distribution in domestic markets would distort market forces because of their competitive advantage.

Free trade zone plan under scrutiny

(74)

From LESLEY LAMBERT

GOVERNMENT departments are studying confidential proposals by the private sector for a free trade zone to boost SA exports and attract foreign investment.

CT 16/1/92

The proposals, which emphasise the need to develop an economic environment conducive to exports, have been drawn up by a joint committee of the regional development advisory councils (RDAC) and an independent consultant.

An initial draft of the report has been submitted to the departments of Trade, Industry and Economic Co-ordination and Regional and Land Affairs, sources said yesterday.

Up to now, government has rejected recommendations for free trade and export-processing zones, choosing rather to assist exporters by exempting them from duties on imported plant, equipment and other manufacturing inputs.

Sources said the report examined the pros and cons of both a closed approach, in which a separate free trade zone is established as in Taiwan, and an open approach, such as the one adopted by Mauritius.

The report is understood to favour the closed approach because it attracts manufacturers, offers mass benefits in specific areas, facilitates better customs control and supports nearby related industries.

Reserve Bank damper on the rand

S/Times (BUSS) (74)

19/1/92.

By DIRK TIEMANN

THE Reserve Bank has been buying foreign currency for many months to build up reserves and dampen the rand's growing strength, which has been underpinned by strong current account surpluses.

The foreign asset component of the reserves reached a 1991 high of R3,2-billion in November.

The Reserve Bank intends keeping the rand's real effective exchange rate "on an even keel", says Deputy Governor Jaap Meijer.

Fall

This means allowing the rand to depreciate by the inflation differential between SA and its major trading partners.

The real effective rand exchange rate gained in October. It rose 0,7% on September on the Reserve Bank's real rand exchange index to 92,4 points. The index started the year on 92,5%.

The increase came after a 5,5% fall in the nominal rand exchange rate in the first nine months of last year. This drop was greater than the inflation differential, causing a 0,6% decline in the real effective rand exchange rate.

Dr Meijer says the bank faces a dilemma: "On the one hand, a strong rand assists our fight against inflation. But on the other, we have to consider a weak economy and do not want to disadvantage our exporters.

"We are happy to see our exports and our reserves rise and do not want too firm a rand."

Dr Meijer warns that the rand could "become an integral part of the inflation process" if allowed to depreciate by the inflation differential for too long.

The December figures should show that in nominal terms the rand has fallen at least another 10% against all major currencies.

The real average effective exchange rate for the year will probably be slightly more than 92 points — about the same as for 1990. This overall stability in the real exchange rate is maintained in spite of the huge losses the rand has posted against the yen, mark and pound.

These losses are balanced by the rand's gain against the dollar.

Test

In 1979, the Reserve Bank's exchange rate index was 100. At slightly above 92, the rand has weakened by about 8% more than can be attributed to the inflation differential between SA and its trading partners.

This is due to political factors. The index for 1985 was 74,9 and it remained about this level until 1989.

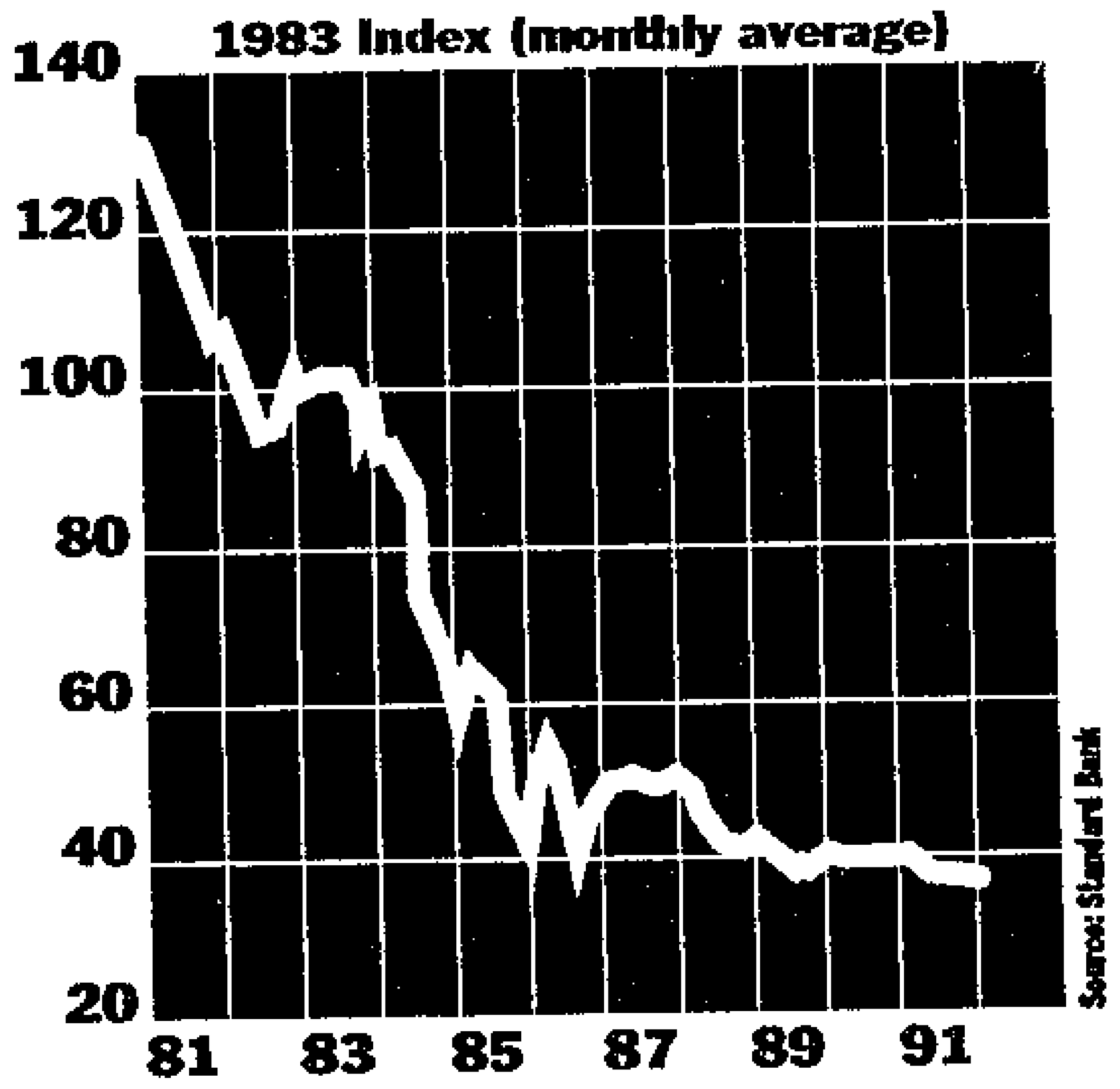
Sanlam forecasts a slight appreciation in the real rand exchange rate in 1992. The nominal effective exchange rate is expected to drop 6%, which is less than the inflation differential.

Standard Bank treasury assistant general manager Willie Potgieter says the rand could test R2,70 to the dollar while weakening to R5,20 to the pound and R1,88 to the mark in the first quarter of this year.

Mr Potgieter says the US economy is not picking up and the dollar is weak. But he expects White House intervention by the end of the second quarter to strengthen the dollar and reduce the wide interest rate differentials between Europe and the US.

He expects the exchange rate to be R3,00 to the dollar by the end of 1992.

TRADE WEIGHTED VALUE OF THE RAND



High hopes for Keys in Cabinet

BDay 20/1/92

LESLEY LAMBERT

FORMER Gencor chairman Derek Keys today steps into his new role as Minister of Trade, Industry and Economic Co-ordination. He has the mammoth task of bringing order to economic policy, and creating an industrial framework within which wealth can be generated.

Keys, who bowed out of the corporate world at Gencor's AGM last week, assumes immediate responsibility for the creation of a new industrial policy which could make or break SA's ability to compete on foreign markets and generate jobs and wealth at home.

The portfolio of Economic Co-ordination gives him added influence over economic policy decisions, making him one of the most powerful members of Cabinet.

A senior official in his department said recently that Keys had a number of plans in mind, but did not want to pre-empt other Cabinet Ministers by disclosing them ahead of the Budget. The official added that once Keys was ready to discuss his plans, he would take on a higher profile than his predecessor in Economic Co-ordination, the late Wim de Villiers.

Keys has a reputation for restructuring and restoring ailing companies.

During his five years as chairman of Gencor, SA's second largest mining house, Keys produced 142% growth in the capital base on compound earnings of 21% a year. The restructuring of the gold division and industrial interests under Malbak focused the group's activities and resulted in the re-rating of Gencor shares which rose by more than 100% during his term.

The majority of capital projects currently under way in SA are linked to Gencor.

Keys' earlier restructuring of Malbak produced similarly impressive results.

There is great hope within government and the private sector that he can work the same magic on the macro-economy by bringing entrepreneurial vitality and creativity into the rigid structures of government and the public sector.

His predecessor, Org Marais, whose new portfolio is Productivity, Tourism and Administration, has established the basis for much of Keys' work.

The Industrial Development Corporation tariff report, which recommends the reduction of protective tariffs and the creation of an environment conducive to exports, is expected to be considered by Government early in the parliamentary session.

The technology report, which, together with the IDC report, is likely to dovetail with a broader industrial policy, is also before Cabinet.

There has been progress in efforts to resolve the conflicting demands of the clothing and textile industries. A task group, appointed by Marais to investigate a new policy to help the industries adapt to lower levels of protection, has submitted its recommendations.

The Board of Trade and Industry has been restructured and a new chairman has been appointed to implement the IDC proposals and new anti-dumping measures. The BTI's investigation into food prices has yet to report its findings and it is possible that a similar investigation will be conducted into building materials.

Marais was also responsible for the introduction of section 37E of the Income Tax Act, an incentive programme which allows for accelerated tax write-offs on mineral beneficiation projects that add value to local minerals and export at least 60% of production. Anglo American and Gencor's joint Columbus project is likely to be one of the major beneficiaries of the programme.

Keys' biggest task is likely to be the co-ordination of all these policies into comprehensive industrial policy, interwoven with economic policy.

Kenyan pact could open gate to Africa

WHILE official trade statistics pitched the value of trade between Kenya and SA at about R25m during the sanctions era, the SA Foreign Trade Organisation (Safto) believes the figure could be doubled.

Safto Africa area manager Paul Runge says the figure could reach R50m, but it will be difficult to come up with a precise amount as trade statistics are in a mess. BIDay 20/11/92

After Safto announced on Friday that a mutual co-operation agreement had been signed between itself and the Kenyan Association of Manufacturers, Runge said it was an "open secret" that trade between the two countries had been conducted for years through Mombasa. (74)

The new agreement paved the route for formal trade links and would provide accurate statistics of trade between the two countries.

Commodities had made up the bulk of trade, despite the highly organised nature of Kenya's small industrial sector. Although there were no joint ventures under way, he indicated these could be expected soon. Access to multilateral funding would help to speed up the process.

Trade between the two countries — expected to reach between R40m and R80m for 1992 — was expected to rise by between 300% and 500% in 1993.

The agreement would also provide SA businessmen with a gateway to other African countries.

Kenya was sensible choice of entry for local businessmen as it had a good infrastructure, was English-speaking and was getting its house in order in accordance with IMF demands.

Runge said Kenyan authorities were acting fast to break down bureaucratic structures and corruption which hindered trade development. — Sapa.

Time not right for open market

Finance Staff (74)

Barlow Rand chairman Warren Clewlow has expressed doubts whether SA companies are ready for an open market now that the country has re-emerged in the world economy.

Addressing the Johannesburg Afrikaanse Saakekamer last night, Mr Clewlow said: "The stakes in international trade have been raised enormously and I have to question whether the majority of businesses are ready for free trade both within SA and internationally."

He stressed that the country's competitiveness and productivity, when measured in international terms, were both extremely low.

"We no longer fit into the category of cheap labour countries and our other competitive advantages are shared by at least one or two other competitors around the world.

"We have got an enormous amount of work to do to look at every aspect of our business, find out where in the world somebody is doing it better and set ourselves the target of being the best," Mr Clewlow said.

Mr Clewlow called on the business sector and organised labour "to create a consensus about the economic process and to work together to achieve their mutual goals".

This would be a key factor in promoting an effective tripartite alliance of business, unions and state.

STAR 21/1/92

SA launches ecu public bond issue

(14)

BDay 21/1/92

SHERIDAN CONNOLLY

SA IS back in the European currency unit (ecu) market for the first time since 1984 with the successful launch of a 250-million ecu public bond issue yesterday,

Yesterday's 250-million ecu issue (roughly R890m) is a follow-up to a DM400m bond issue last September which catapulted SA back into the international capital market.

Finance Department director-general Gerhard Croeser said in a statement yesterday the ecu issue was being lead-managed by Banque Paribas and Swiss Bank Corporation.

Paribas, France's largest private banking group, is considered a leading European bank in ecu issues and has an estimated 40% of the total market.

The bank was also involved in the issue of SA's five-year DM400m loan last year.

Croeser said the issue would play an important role in strengthening the country's level of reserves. This should pave the way for a slightly less restrictive policy enabling the economy to achieve a higher growth rate.

The statement said the ecu issue, which represented "new money", would contribute towards the financing of the national Budget, the thrust of which "is increasingly the upliftment of the less advantaged part of the community through the provision of physical and social infrastructure".

"SA's renewed access to foreign funds will also play a significant part in achieving economic stability and further normalising SA's relations with its foreign creditors," Croeser said.

Leading financial institutions from various European countries make up the group of underwriters. The bond issue matures on February 10 1997 and has a coupon of 10,375%. The bonds will apparently be listed in Luxembourg in denominations of 1 000 and 10 000 ecus.

Croeser said SA could be considered underborrowed in international terms — total external debt as at December 1990 totalled only $19,3bn, which was equivalent to 70,2% of annual export earnings.

The ecu is the unit of account of the European monetary system and as such, is more stable than any individual currency, making it a popular borrowing medium. In 1990 it was ranked third as the currency of international bond issues.

SA raises R890 million of 'new' money in Europe

STAR 21/1/92

(79) (40)

Finance Staff

South Africa successfully launched a R890 million five-year European Currency Unit (ECU) issue in Europe yesterday, hard on the heels of its successful return to the international capital markets last September.

The money will be used to finance the shortfall in revenue, which is expected in the current fiscal year, the Director-General of Finance, Gerhard Croeser, said yesterday.

"Unlike the previous Dm400 million issue in September, which was used to re-finance a maturing issue, the latest move represents 'new' money which is aimed at contributing towards the national budget," he said.

Mr Croeser said the thrust of the national Budget was increasingly directed to the upliftment of the less-advantaged segments of the community.

"It will also play an important part in strengthening the reserves, which should pave the way for a slightly less restrictive monetary policy and enable the economy to achieve a higher growth rate and alleviate unemployment."

Mr Croeser said the ECU250 million issue, the first ECU issue since 1984, carried a coupon rate of 10,375 percent and was redeemable in 1997.

It was lead-managed by France's Banque Paribas and the Swiss Bank Corporation, while the underwriters were leading financial institutions from a number of European countries.

Paribas was also involved in South Africa's D-mark issue in September, which was largely placed within Germany, mainly with retail investors.

Banks involved in the deal stand to lose the business of some Canadian state borrowers, which have a strict policy on the matter, the Star's London Bureau reports.

A $200 million Eurobond for the government-funded Independent Development Trust had to be pulled last November when the ANC refused to back the deal.

The ANC's approval for this offering had not been sought, banking sources said.

Meanwhile, the End Loans to South Africa pressure group in London has condemned the launch of the ECU bond issue.

Canada drops export restrictions to SA

STAR, 22/1/92.

(189)

74

By Hugh Roberton
Star Bureau

WASHINGTON — Canada has relaxed sanctions against South Africa and will permit the export of a range of industrial and strategic products which it previously prohibited.

The only restriction is that the end users of the goods may not be the South African Defence Force, the police or security organisations.

In a notice, the Department of External Affairs and International Trade said civilian aircraft, helicopters, aircraft parts and engines, electronic and telecommunications equipment are among the goods which can now be sent to South Africa.

Restrictions still apply on munitions, atomic energy goods and technology and related goods.

The notice said the change in policy was " in keeping with the United Nations Security Council Resolutions 418 and 591 and with commitments made to Commonwealth heads of government and the Commonwealth Committee of Foreign Ministers".

ANC again warns on foreign loans

STAR 22/1/92

By Sven Lünsche 74

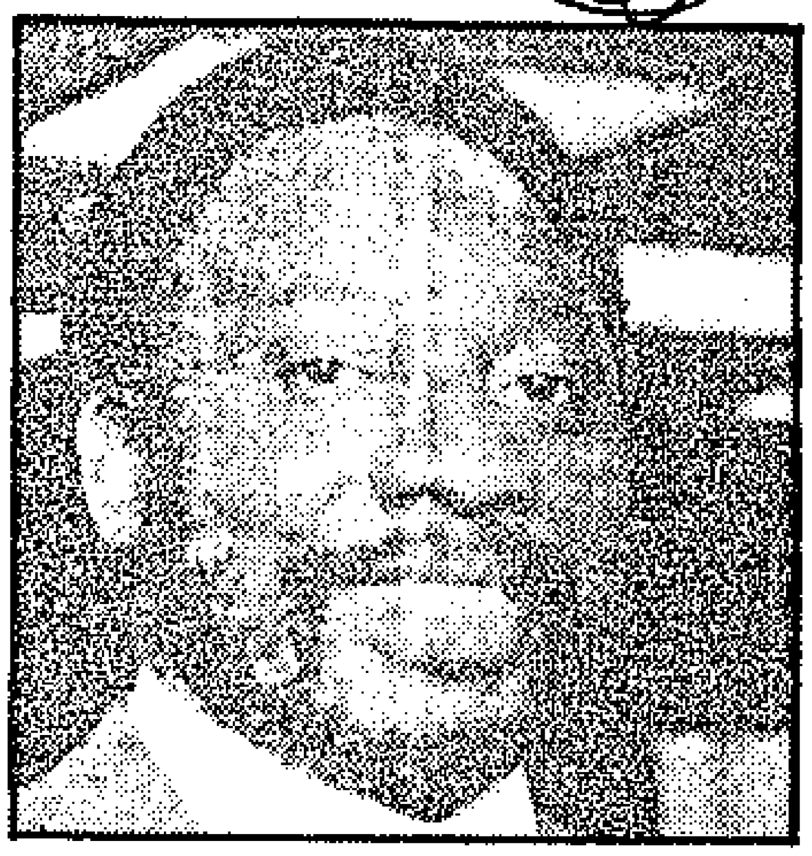
The ANC has once again warned that a future government could renege on the debt repayments of foreign loans entered into by the present Government.

In reaction to South Africa's latest R890 million loan issue on the Eurobond market, the ANC said in a statement yesterday that foreign loans were in gross violation of financial sanctions on Pretoria.

ANC general secretary Cyril Ramaphosa caused an outcry among local and overseas bankers in October when he warned that a future government would "not be keen" to honour past international loans.

After a flurry of contradictory statements by various officials, the ANC said it reserved the right to evaluate loans to the "apartheid Government".

In its statement yesterday, the ANC said: "We are bound to declare that a democratic government will carefully assess its obligations to service and take responsibility for debts contracted by the SA Government and its various agencies prior to the formation of an interim government and the formal request for the lifting of economic sanctions by such a government."



Cyril Ramaphosa . . . caused an outcry.

Gerhard Croeser . . . defending latest loan issue.

The ANC also hit out at the Government for "curbing the economic options of a future democratic government through the imposition of a costly burden of indebtedness on the economy".

The bond issue of 250 million European currency units (ecus) carries an interest rate of 10,375 percent for five years — an extremely attractive rate for international investors as it is 2 percent above the normal interest rate charged on Eurobond loans.

Since South Africa's foreign loan repayment record is excellent, the higher yield more than compensates for a country that still has the "political risk" classification.

Last year's DM400 million bond by SA was also pitched at a much higher yield than comparable issues, and the bond was snapped up by mainly German retail investors.

In its statement the ANC alleged that Transnet was also planning to issue an equity-linked financial instrument to foreign investors which could provide a rate of return of as high as 25 percent.

"These onerous interest rates represent a heavy burden on the SA economy," the ANC said.

Defending the latest loan issue, Director-General of Finance Gerhard Croeser said the money would be used to finance the national Budget, "which is increasingly directed to the upliftment of the less advantaged segments of the community".

● Ecu bond attractive — Page 18

Australia poised to scrap ban on trade, says envoy

B/Day 22/1/92

(220) 74/9

LINDEN BIRNS

AUSTRALIA was likely to lift trade sanctions once agreement on an interim government for SA had been reached, Canberra's ambassador to Pretoria Colin McDonald said yesterday.

He was speaking after a news conference held by Qantas to mark the resumption of the Australian airline's services to Johannesburg after a 14-year interval.

"We are fairly confident Codesa will lead to an agreement on interim government and that trade sanctions will go during the course of this year," said McDonald.

He described the reinstatement of Qantas flights as "a symbolic moment for the restoration of normal relations" between SA and Australia, and praised the SA cricket team's decision to travel to Australia with Qantas.

"That will ensure they get there in good shape, although I am quite sure they are in for a couple of hidings," he said.

Despite the official ban, Australian/SA trade was worth between R600m and R700m a year, with the recent balance of trade being more or less equal, McDonald said.

"In the past the trade surplus was in Australia's favour by give or take A$30m," he added.

The major import items from Australia were bauxite and alumina, most of which was shipped to Alusaf in Richards Bay. McDonald said there was probably room for Australian wines on the SA market.

SA's major exports to Australia were fish, special papers and some special alloys. Technology, agricultural products and mining processes were common items traded between the two countries, he said.

He said the reintroduction of Qantas flights would open the way for increased business and trade collaboration and travel. The airline's Africa manager Jeff Murdoch said that in the short term Qantas would rely on "visiting friends and relatives" travelling on its Sydney-Johannesburg route.

A Qantas Boeing 747-400 carrying 303 passengers touched down at Jan Smuts Airport shortly after 5.15am yesterday. The red-and-white aircraft took off from Jan Smuts on its nine-and-a-half-hour return flight at about 2.15pm.

Murdoch said advance bookings were healthy and that there were few discount tickets left for seats on flights in the period immediately prior to the World Cup cricket tournament, to be played in Australia and New Zealand from mid-February.

He said criticisms which he raised last week regarding Jan Smuts's immigration facilities were not aimed specifically at the airport.

"Any airport having to cope with the introduction of nine airlines' services in six to eight months will experience a strain on its facilities," Murdoch said.

Ecu bonds now the popular way to tap money markets

STAR 22/1/92

By Neil Behrmann (74)

LONDON — South Africa's 250 million ecu (European currency unit) Eurobond — equal to R890 million — has been issued at extremely attractive levels for international investors.

The yield of 10,375 percent on the five-year bond compares with returns on triple A ecu bonds of between 8,35 percent and 8,7 percent.

Since South Africa's repayment record is excellent, the higher yield will more than compensate for a country that still has the "political risk" classification.

Last year's Dm400 million bond was also pitched at a much higher yield than comparable issues and the bond was snapped up by mainly German retail investors.

The latest issue will test the international market's response.

Banque Paribas and Swiss Bank Corporation are the joint lead managers and the group of underwriters involve other European banks. So most of the investors will come from Switzerland, France, Germany and Britain.

Ecu bonds have become extremely attractive for international portfolio managers and more Governments are issuing bonds denominated in the currency. In February last year Britain issued a 2,75 billion ecu bond which is trading on a yield of 8,35 percent.

The ecu is a basket currency comprised of specified amounts of currencies of the 12 European Community member states.

Within the basket, the German mark has a weighting of 30,1 percent, followed by the French franc at 19 percent, sterling 13 percent, Italian lira 10,15 percent, Dutch guilder 9,4 percent and Belgian and Luxembourg franc 7,9 percent.

In Maastricht in November, the 12 EC members voted for a single currency by 1999. That currency is likely to be the ecu.

The ecu has yet to be made legal tender. But the markets are increasingly convinced that the transition will come.

Eddie George, deputy governor of the Bank of England, said at a foreign exchange conference this week: "The area of exchange rate stability will tend to expand as more countries peg their rates to Europe, whether via the mark or ecu."

Dr Wolfgang Rieke, a director of the Bundesbank, said that in terms of the Maastricht agreement the ecu would be a currency in its own right when the transition towards a single European currency took place between 1997 and 1999.

Regardless of government policies, the explosion of new ecu bond offerings shows that the market is preparing for the new currency.

A report by Salomon Brothers says that in theory, the ecu rate should merely mirror movements in the underlying basket.

In practice the ecu is deviating significantly from that basket.

Mr George of the Bank of England said the main market for the ecu was in London. Daily ecu payment clearing was settled in Basle at the Bank For International Settlements.

The Bank of England had offered to make secured lending facilities available to ecu clearing based in London and elsewhere so as to ensure the smooth functioning of daily clearing.

public service. He previously headed Free ... partment's most senior ...

Move 'undermines' interim govt

ANC sounds warning on bond issue

(74)

BIDay 22/1/92

SHERIDAN CONNOLLY and TIM COHEN

THE ANC has criticised government's 250-million ecu (R890m) public bond issue and warned that a "democratic" government would "assess its obligation" to service and repay debts contracted by the present government.

The ANC said in a statement yesterday the bond issue was in gross violation of financial and investment sanctions in force against SA, and of UN resolutions.

It implicitly criticised — without naming — lead managers Banque Paribas and Swiss Bank Corporation.

The ANC said it was "bound to declare, once again, that a democratic government will carefully assess its obligations to service and take responsibility for debts contracted by the SA government and its various agencies".

The ANC statement said it was particularly critical because the issue took place just before the formation of an interim government and such a government's formal request for the lifting of economic sanctions.

One ANC source said, however, that the ANC's anger was more a "shot across the bow" than an outright refusal to honour all new foreign loans, although ANC members insist the threat had to be taken seriously.

The ANC's concern derived from its impression that government was engaged in a cynical attempt to buy votes in a future election and to present itself as the champion of the poor for political purposes, the source said.

Finance director-general Gerhard Croeser said in a statement the money raised would contribute to the financing of the national Budget, "the thrust of which is increasingly the upliftment of the less advantaged part of the community".

In its statement, the ANC said it was significant that the ecu loan carried onerous interest rate charges. This represented a heavy burden on the economy and the people of SA.

"The ecu bond is for five years, and was launched at 10,375%, and is selling at par. This is some 3% higher than straight market rates of interest," the ANC said.

But a senior analyst rejected this claim, saying the interest rate was not unreasonable considering it was the country's first major entry into the ecu bond market.

In addition, considering the political risk involved, interest rates normally charged to developing countries were at a premium to those charged to developed countries, the analyst said. In any event, the 10,375% rate was only marginally higher than benchmark issues in the ecu market.

The ANC said it had learnt that Transnet planned to issue an equity-linked financial instrument to foreign subscribers which has the potential for providing investors with a rate of return of as high as 25%. A Transnet spokesman declined to comment.

The ANC said: "It is clear that the SA regime remains bent on a course of curbing the economic options of a future democratic government through the imposition

□ To Page 2

Bond issue

BIDay 22/1/92

(74)

□ From Page 1

of a costly burden of indebtedness on the economy."

Cosatu spokesman Neil Coleman said his organisation fully supported the ANC's position that a future government would have the right to review loans raised by the current government.

Coleman also rejected Croeser's statement that the loan was raised to help finance the Budget which was increasingly orientated towards social upliftment, adding that the loan was raised unilaterally.

"In whose judgment are they benefiting the majority?" he asked, criticising what he said was government's "top-down" approach and its reluctance to enter into negotiations on the issue.

In response to the proposition that European banks had indicated the ANC and Cosatu were bluffing when they suggested a new government would not repay the debts, Coleman said: "Their bluff may be called."

Comment: Page 6

Port business 'on the rise'

CT

By AUDREY D'ANGELO
Business Editor

A DROP in both imports and exports through Cape Town harbour in December was due to seasonal factors, a spokesman for Portnet said yesterday.

Figures released by Portnet yesterday show that the port is getting busier, with a total of 2 154 vessels calling between April and the end of December compared with 1 956 in the same period the previous year.

Imports during the nine months totalled 1 370 759 tons — 11,9% more than the 1 224 474 tons in the same period in 1990.

Exports totalled 1 932 330 tons — 2,3% above the 1 889 760 exported in the same period in 1990.

Imports in December fell by 23% to 110 152 tons compared with 143 041 tons imported in November.

Exports were down by 3,7% in December to 111 438 tons compared with 115 684 tons in November.

Leon van Deventer, corporate communications manager for the Port of Cape Town, said it was normal for trade to slacken off while firms were closed for the holiday.

"Many companies import their required commodities in advance before closing for the holiday season.

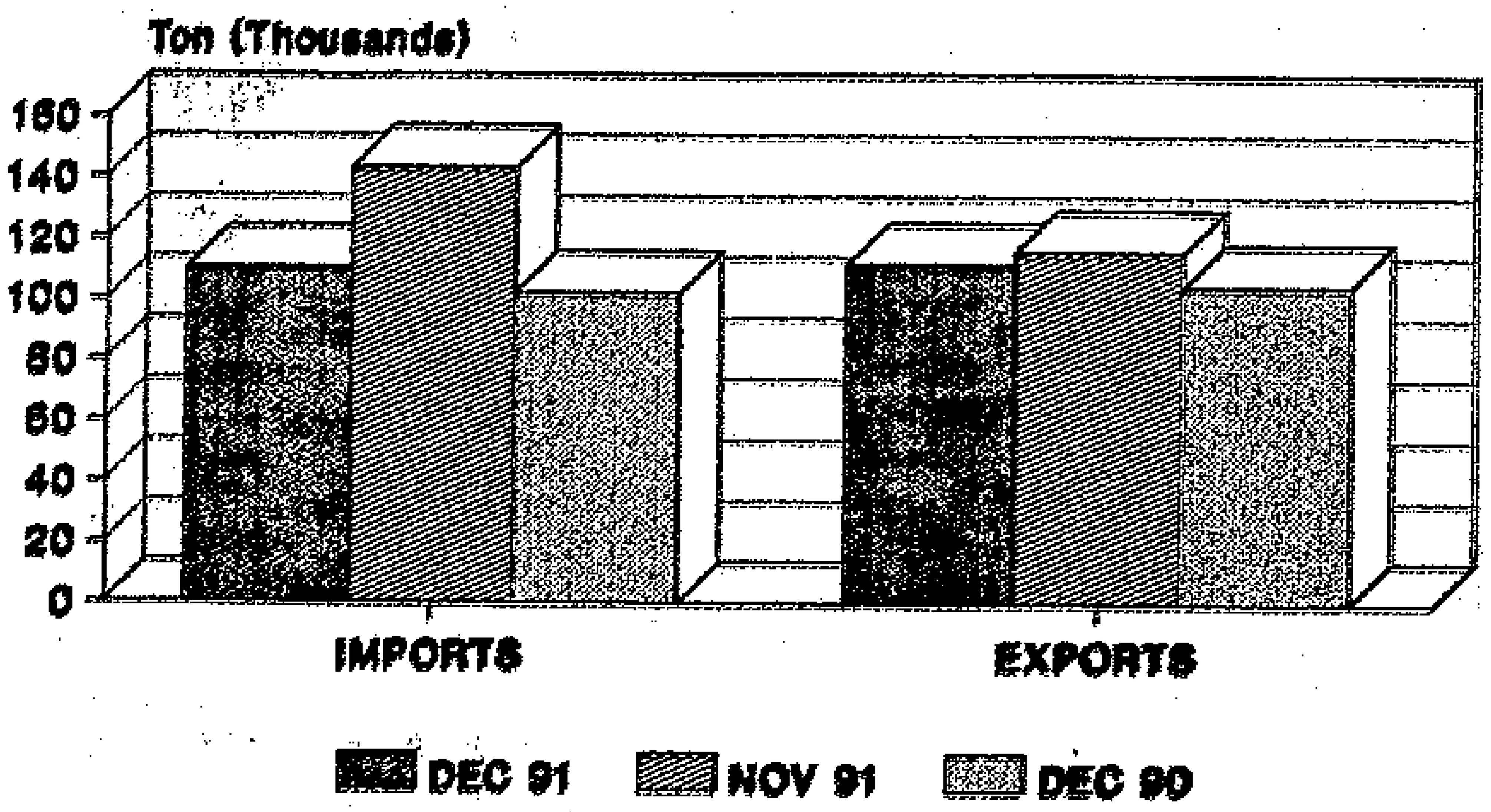
"This is a normal trend in shipping circles."

But imports in December were 8% higher than in the last month of 1990 and exports 6,6% higher.

Coastwise cargo landed in December totalled 40 455 tons, 35,1% lower than in November and coastwise cargo shipped totalled 14 614 tons, 35,2% lower than in November.

The port was busier in December with 205 vessels calling compared with 186 in November and 175 in December 1990.

Portnet: Imports and exports at Port of Cape Town

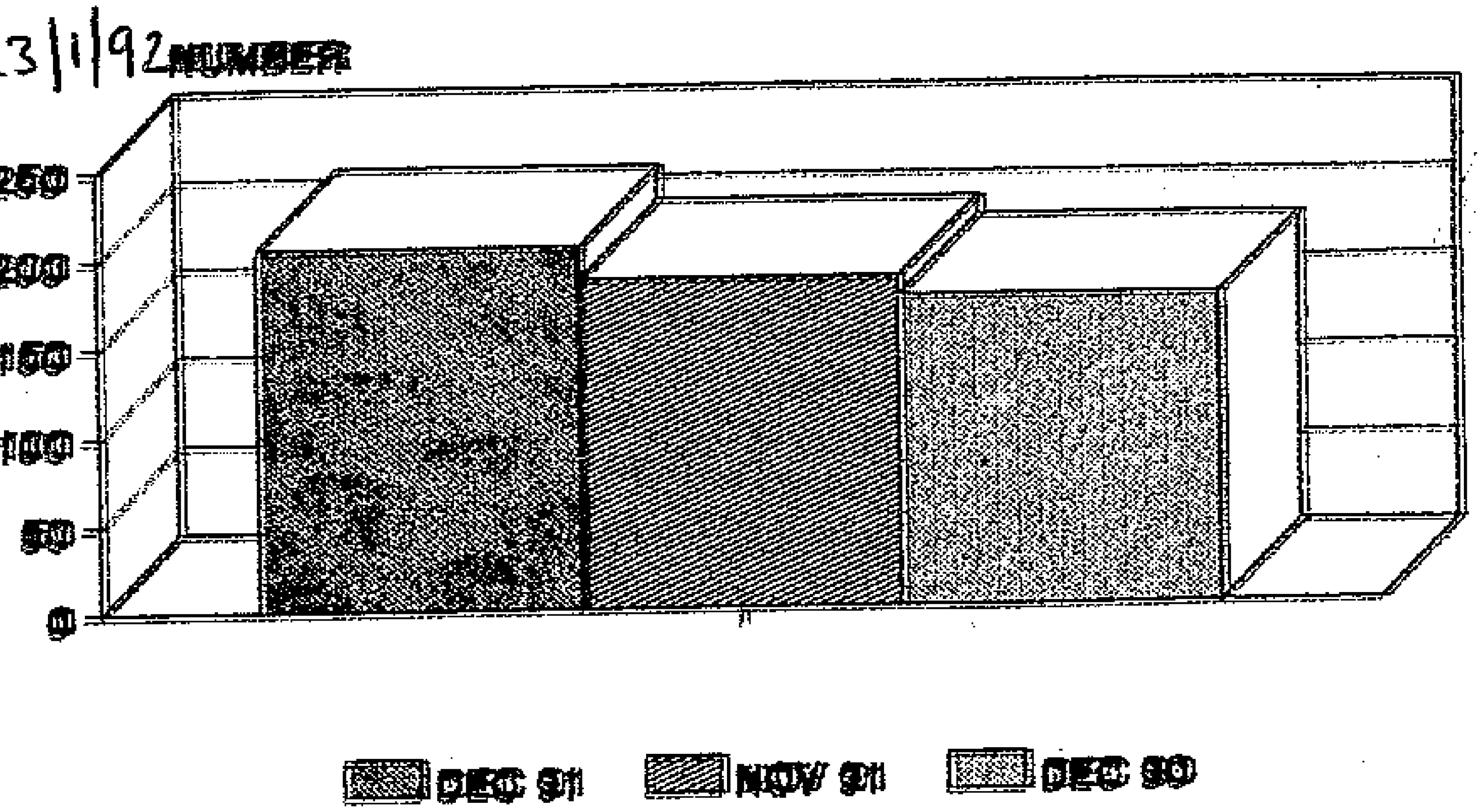


Cape Times, Thursday, January 23 1992 11

(74)

Portnet: Vessels called at Port of Cape Town

- 23/1/92



A gift of millions (14)

THE government smashed through the foreign loans barrier, raising R890-million from European banks. It may use the money as it pleases, but largely for "the upliftment of the less advantaged part of the community". The ANC, which said the loan carried a punitively high interest rate, called it a gross violation of financial and investment sanctions.

W/Mail 24/1/- 30/1/92

Concern over economic ties

LUSAKA — The head of a 20-nation trade group of eastern and southern African nations yesterday cautioned member states against rushing into bilateral trade pacts with SA without careful study.

Preferential Trade Area (PTA) secretary-general Mbingu Wamutarika said reforms in SA had long-term implications for the trade group.

But he said he was concerned at the pace at which SA was moving to establish bilateral economic ties with PTA members.

"This is not a very healthy move because there are a lot of things we do not know about the SA economy, or the strength of our own vis-à-vis SA.

BDay 24/1/92

"We need to make a very sober and thorough assessment of the SA economy and those of the PTA countries to see where we stand and assess the benefits for us," Wamutarika said.

The PTA, formed in 1982 to boost trade and development among its members, holds its 10th annual summit in Lusaka at the end of the month. The PTA council of ministers starts a five-day session today ahead of the summit.

The meetings will assess progress so far and adopt a strategy for the 1990s aimed at a common market by the year 2000. (74)

Meanwhile, the SA Foreign Trade Organisation said in Johannesburg yesterday that the first official invitations to SA businesses to exhibit at international trade fairs in Angola and Zimbabwe had been received and that the trade organisation had been approached by the Zambian trade fair organisers to encourage exhibitors to participate in their show.

The value of exhibiting in key African markets was demonstrated at last year's Kenya International Trade Fair where SA exhibitors made excellent contacts and sales. — Sapa-Reuter.

'Tentative' upswing likely

SHARON WOOD

SA's long-term growth prospects are encouraging but the international climate suggests that the upswing this year will be tentative at best, Investec says in its latest Economic Focus, released yesterday.

Despite the credible performance of non-gold exports and the improved access to foreign markets, recovery in the US will not be strong enough to support vigorous domestic growth, it says.

However, the strong performance of the current account of the balance of payments and the build-up of gold and foreign exchange reserves point to an increased capacity for growth in the longer term.

Investec is confident that commodity prices will improve from their current all-time lows before the mid-1990s, at least supporting the later phases of the domestic upswing.

The low level of real fixed investment is a critical problem, it says. "It seems unlikely that world economic conditions will be buoyant enough to inspire a major investment drive during 1992."

A genuine recovery in investment is dependent on a resurgence of confidence in the economic future of SA.

"Although the violence and the uncharted political waters into which Codesa is leading the country naturally give rise to fear and trepidation, there are a variety of forces at work within the SA political economy which provide grounds for guarded optimism," Investec says. These include the easing of sanctions, the potential involvement of the IMF and the World Bank in SA and the regional "peace dividend".

In addition, a new realism has started to emerge on the labour front which has promoted frank debate on the crucial socio-economic problems confronting SA.

SA unlikely to switch allegiances over China

B/Day 24/1/92 (74)

DARIUS SANAI

THE recent exchange of "unofficial" visits between Foreign Minister Pik Botha and his Chinese counterpart Qian Qichen suggests that relations between SA and mainland China are thawing after a protracted cold war that has lasted as long as the rule of the Chinese Communist Party.

But any SA government will face a sticky problem if it wants China to follow other former arch-enemies in the defunct Soviet bloc by establishing diplomatic ties with Pretoria.

The problem is Taiwan — or the Republic of China as it is known by the 29 countries which recognise it. Taiwan and China are mutually exclusive diplomatically: both claim to be the legitimate bearers of the title of the Chinese state, neither recognises the other's right to exist, and the People's Republic of China will not allow any country it has diplomatic ties with to recognise Taiwan.

Over the past 40 years, SA and Taiwan developed a relationship, both political and commercial, as two countries increasingly isolated from the political scene. SA was isolated because of apartheid; Taiwan, even while building itself into an economic power, found itself losing diplomatic recognition in favour of its communist neighbour because of global politics.

President F W de Klerk said in Taipei late last year that the two countries' relationship would not change as long as he was heading the government. At the same time, Botha was making his historic visit to Beijing, in the mould of Henry Kissinger's "secret trips" there on behalf of former US President Richard Nixon.

A senior Foreign Affairs source said that in spite of the friendly relations between Qian and Botha, and of the "unofficial" interest offices being set up in Pretoria and Beijing, no diplomatic ties were likely to develop between SA and mainland China for fear of offending the Taiwanese. "It is a fairly concrete policy matter: we will maintain diplomatic ties with Taiwan in order to keep our excellent trade links."

There would be no political gain, he says, in "taking sides": establishing ties with China would anger Taiwan and result in little material gain for SA. The high politics which dictated the transfer of US loyalties to mainland China in the '70s do not exist in the SA context, and trade relations with mainland China can improve without diplomatic relations.

The source said one of his department's main aims was to promote foreign trade with SA, and that there would be far more to be lost than gained on this front by "ditching Taiwan for mainland China".

Senior Taiwanese diplomats concur, saying they have no objections to SA trading with mainland China — Taiwan has itself invested heavily in China in recent years — but they doubt whether the SA government would switch allegiances after years of close links.

Yet the "unofficial offices" to be set up next week by the SA and Chinese governments in Beijing and Pretoria are effectively consular offices, although Foreign Affairs will not admit it. The offices will "facilitate the issuing of visas for business and other travellers (visas will be issued on notice of less than 24 hours) and ease the flow of information between the two countries" — which are precisely the functions of a consulate.

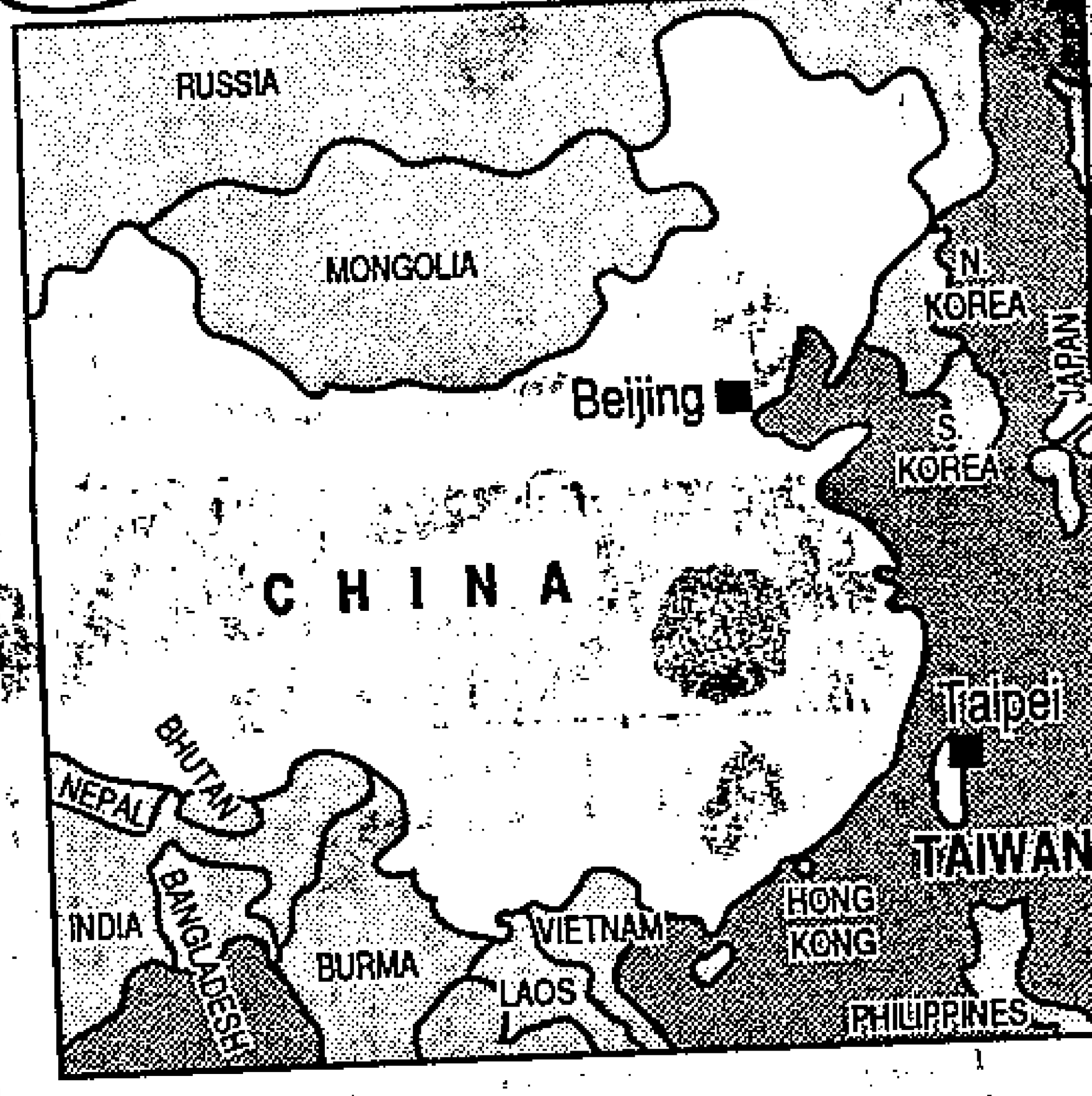
The main purpose of this is the perception by Foreign Affairs that China is a potentially huge market for SA goods — and that there are many opportunities for Chinese specialist firms to invest in joint ventures with SA firms to tap the southern African market.

Mainland China has strong ties with many "socialist" African countries because of ideological links, but knows SA has the best economic infrastructure and potential as a trading base, the source says.

Foreign Affairs agrees with general political opinion that the main reason for the survival of Chinese communism is the relaxation of state restrictions on the economy and the creation of "special enterprise zones" in the south of the country — effectively, the Communist Party in China has created a capitalist economy, kept under tight administrative rein. (Most political analysts, however, also cite brutal political repression as another reason for communism's longevity in mainland China.)

The Foreign Affairs source says SA companies can sell products to China and also learn utilisation techniques from the Chinese. "They (the Chinese) are particularly well-placed in making small machinery and handtools, and some of the quasi-governmental corporations are particularly interested in joint ventures in SA for selling to markets in southern Africa."

But there is one problem for the carefully moulded policy of Foreign Affairs: the new SA. Both the ANC and PAC have repeatedly announced that they would recognise mainland China, and not Taiwan, and nothing in their recent policy statements suggests otherwise.



The PAC has been armed by the Chinese, who resemble the French in their lack of scruples about who or what they sell weapons to. And while the ANC retains its left-wing bent, and Beijing insists, in spite of growing evidence to the contrary, that it rules a unitary Marxist state, ties between SA's biggest political group and the world's most populous country seem set to remain. Pragmatism may take over if the ANC comes to power — the Taiwanese ambassador was recently seen at an ANC function — but activists are unlikely to forget Taiwan's staunch support of apartheid SA.

For Foreign Affairs, SA's China policy is just one of the many mysteries to be unravelled as this country undergoes its transition to democracy.

HOGARTH

Sorry, Cyril, you've ruined your chances

S Times 26/1/92

74

AMONG American and European bankers, the name of Mr Cyril Ramaphosa has been tainted ever since the ANC repudiated his signature on a document that cleared the way for the Independent Development Trust to raise money in Europe for low-cost housing.

According to insiders, the sponsoring bank, Morgan Guarantee, is unlikely to accept his assurances if he ever comes a-borrowing for the new South Africa. He's not improved his chances much by threats to renege on loans undertaken by the "old South Africa".

Bankers are funny that way — they like people who understand that one's word is one's bond. And that goes for countries, too.

'Massive' investment needed

74

SOUTH Africa needed massive investment to open up the country as a gateway for the development of the whole of Southern Africa and beyond, the Chief Minister of KwaZulu and president of the Inkatha Freedom Party, Chief Mangosuthu Buthelezi said on Friday. C/press 26/1/92

Opening a luxury hotel in Paarl, he said he found it inexplicable that "when the needs are so vast among my people", the ANC still said financial sanctions must remain in place.

"There is grinding poverty in our black communities which can only be countered through the rolling of huge bank loans to the government," said Buthelezi.

Reports by CP Correspondents, Sapa, Reuter, AP.

Graham Linscott discusses the bid to join 'poor nations club'

No place like Lome - if SA can make it

STAR 27/1/92 (74)

PIK Botha now and then rumbles about South Africa's right to be admitted to the Lome Convention. Foreign Affairs have established a mission at Lome (capital of Togo) at least partly to lobby for admission, while it also lobbies in Brussels.

Everyone agrees that admission to Lome would be an excellent thing because it would give us preferential access to the markets of the European Community for our manufacturers and agricultural producers.

The Lome Convention is a kind of relic of the colonial era. French, Belgian and British former dependencies in Africa, the Pacific and the Caribbean have preferential access to the European Community in a way other, stronger former dependencies such as Australia, New Zealand and Canada do not.

However, almost everyone agrees that Pik Botha has a fat hope. Lome was not designed for the likes of us.

But all our neighbours are signatories. What happens as trade and other barriers disappear?

A United Nations agency in fact suggests South African admission to Lome as the most likely among a set of possible scenarios.

A briefing paper of the UN's Africa Recovery programme suggests that market-led regional integration is likely to lead to a regional customs union. This would consist of the present Southern African Customs Union (SACU) — South Africa, Botswana, Swaziland, Lesotho and Namibia — and the countries of the Southern African Development Co-ordination Conference (SADCC) — Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe. Note the already existing overlap.

The paper is by economists Colin Stoneman and Carol Thompson and it opens up the exciting prospect, for South Africa and its neighbours, of a dynamic relationship with a burgeoning Europe.

"The main bargaining parties would be Europe, South Africa and the SADCC countries," the economists say. "Europe would offer South Africa Lome membership (or similar terms) in exchange for making concessions to SADCC countries in transitional arrangements during their entry into an expanded SACU.

"Non-SACU members would initially be attached through bilateral trade agreements which would have escalation causes towards free trade and then full customs union membership." □

STAR 27/1/92 (74)

Safex trading ahead of target

The volume of trade at the South African Futures Exchange (Safex) was well ahead of budgeted targets in the six months to December, Safex said on Friday.

In reaction to a sharp decline in volume of trade in November 1990, Safex cut costs to operate at a breakeven of 40 000 contracts per month.

"However, so far this financial year, trade volumes have been comfortably ahead of this figure at an average of 53 000 contracts per month. In addition, open interest more than doubled to 16 000 contracts," it said.

Income from clearing and margin management was 41 percent ahead of budget, while expenses were contained to within five percent of budget, resulting in a surplus of R735 000.

Since the rationalisation last March, Safex has turned in a profit each month and has generated a surplus over that period of close on R1 million, which is significant when compared with the R3 million cost of the exchange.

So far in January, trade volumes have been good and last Thursday record daily contracts of 8 500 were recorded.

Safex is confident the exchange will continue to out-perform its budgets and that it will be able to redeem the preference share capital injected by its clearing members, while funding the development of a new options and futures clearing system out of operating income. — Sapa.

Export growth lifts 1991 trade surplus

B/Day 28/1/92 (74)

SHERIDAN CONNOLLY

ENCOURAGING trade figures released by the Department of Customs and Excise yesterday showed SA's exports grew 9% in nominal rand terms, topping R66,2bn in 1991 compared with R60,9bn in 1990.

Total imports in 1991 were slightly higher at R48,3bn as against R44,1bn in 1990.

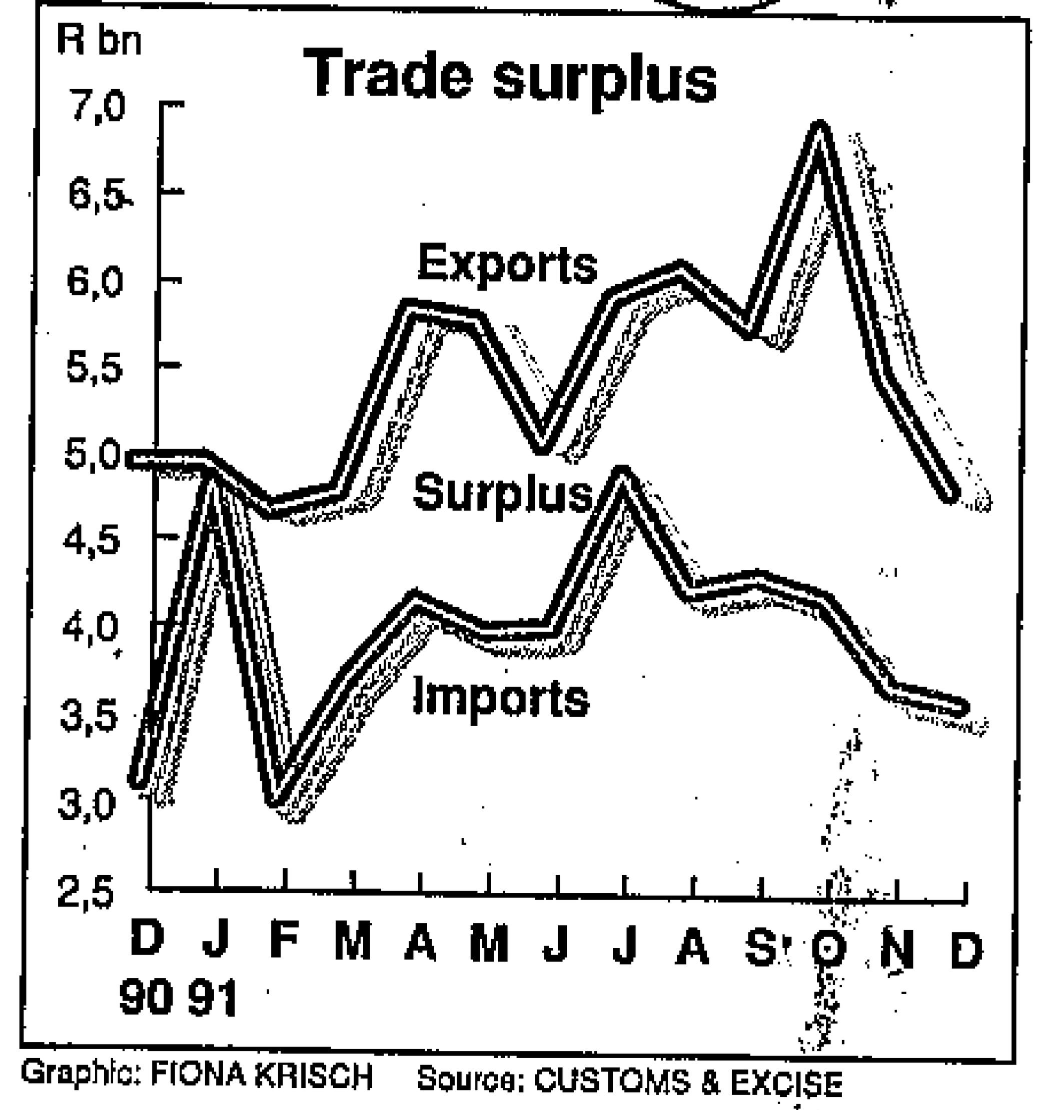
Despite a drop in SA's trade surplus to R1,27bn in December from R1,84bn in November, the cumulative trade surplus increased 6% to R17,89bn in 1991 compared with R16,80bn in 1990.

Trade figures showed a sharp increase in unclassified imports (consisting mainly of crude oil) to R3,8bn in December from R1,9bn in November.

SA Foreign Trade Organisation (Safto) chief economist Bruce Donald said yesterday a services and debt transfers deficit of R11bn in 1991 implied a current account surplus of close to R7bn which would allow SA to meet its foreign debt obligations.

"SA exports of manufactured products were resilient against a backdrop of a weak international economy and pedestrian growth of international trade in 1991."

Top export performers in 1991 were plastics, chemicals, prepared foods, machinery and transport equipment. Vegetable products performed particularly badly, showing a 10% decline in exports.



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

Donald said basic commodities, which still make up the bulk of SA's exports, were hard hit by falling international commodity prices in 1991. Mineral products grew only 7% and base metals only 6%.

Safto predicted a higher rate of economic growth in 1992, with an upswing in the second half, and a nominal 18% increase in export growth (5% in real terms) this year.

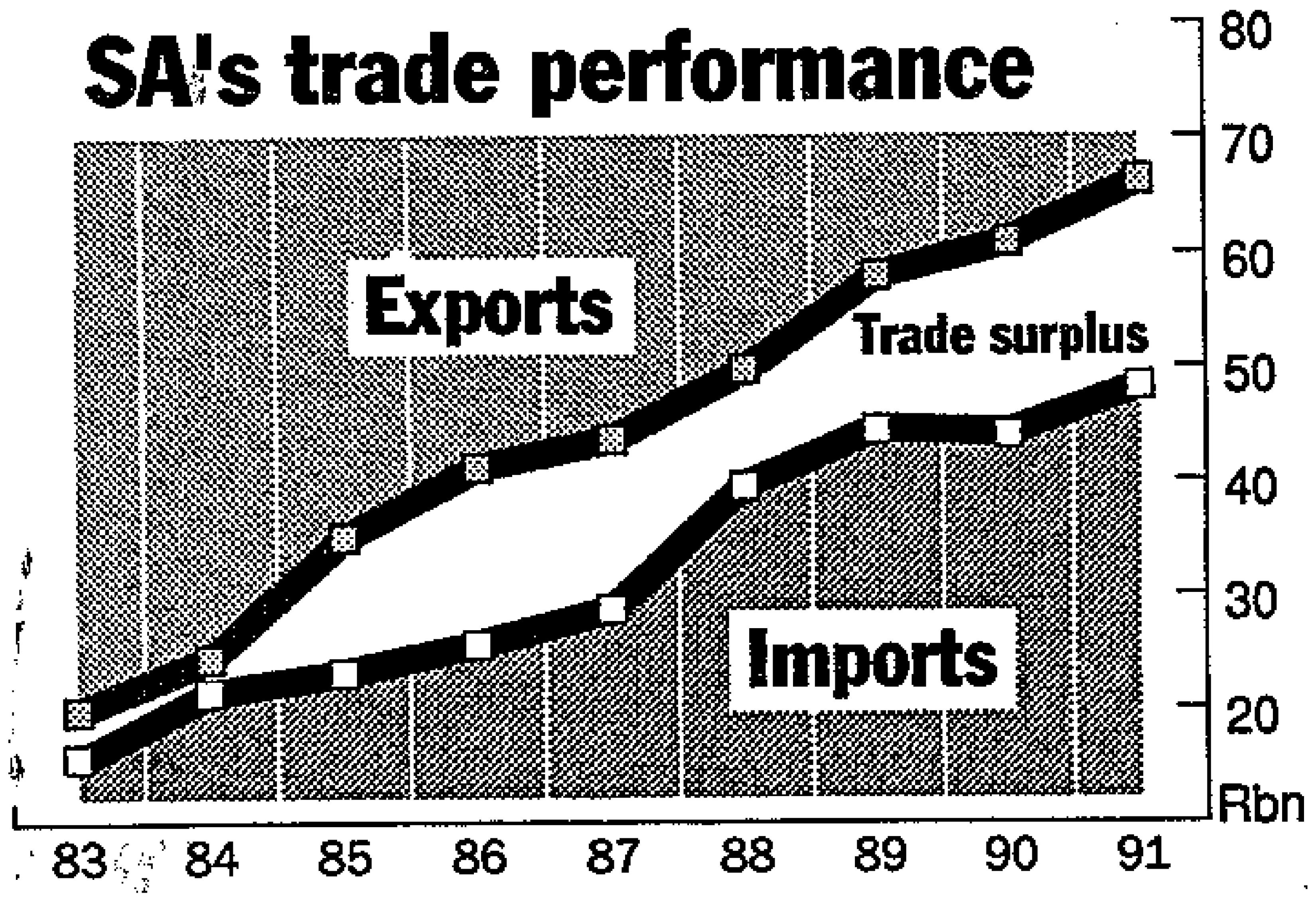
The OECD, which predicted a 3,3% growth in world trade in 1991, has forecast a 5,7% increase in the volume of world trade in 1992.

Trade surplus at record R18-bn

STAR 28/1/92

74

SA's trade performance



Receipts from many exports showed big increases in 1991 on 1990. The following table shows the various export categories, their export value, and the percentage increase in their export value on 1990.

Plastic items:	R576,4 million (42,1 percent)
Misc. manufactured goods:	R240,5 million (41,0 percent)
Vehicles, transport equip:	R1 520 million (32,3 percent)
Animals, animal products:	R640,2 million (29,8 percent)
Footwear, headgear, feathers:	R32,8 million (29,6 percent)
Animal, vegetable fats and waxes:	R154,9 million (26,3 percent)
Prepared foodstuffs and tobacco:	R2 044 million (19,2 percent)
Chemical products:	R2 303,9 million (21,5 percent)
Precious metals and diamonds:	R5 778,3 million (17,7 percent)
Stone, cement, asbestos, mica:	R288,8 million (13,9 percent)
Textiles:	R1 777,2 million (9,6 percent)
Optical, photo, medical, musical goods:	R147,6 million (9,9 percent)
Mineral products:	R7 753,1 million (6,8 percent)
Unclassified (gold and oil):	R26 737,2 million (6,4 percent)
Base metals:	R9 626,7 million (6,3 percent)
Wood and articles of wood:	R336,7 million (5,3 percent)
Wood pulp and paper:	R1 454,9 million (—8,5 percent)
Vegetable products (maize):	R1 831,4 million (—10,4 perccent)
Hides and skins and leather goods:	R345,1 million (—15,3 percent)
Works of art and antiques:	R19,5 million (—17,4 percent)

By Derek Tommey

South Africa's exporters have had another record year.

Sales of goods abroad fetched R66,2 billion, the Department of Customs and Excise reported yesterday.

This is R5,3 billion — 8,7 percent — higher than the 1990 export figure.

However, some individual exporters did much better than this, increasing their foreign sales by up to 40 percent.

This is an outstanding achievement in view of the severe world recession.

The South African Foreign Trade Organisation (Safto) is predicting an 18 percent increase in exports in current money terms (plus 5 percent in real terms) this year, with the upswing occurring in the second half of the year.

The estimate is based on bullish expectations among exporters revealed by a Safto survey and forecasts of improved growth in world trade this year.

Imports also rose in 1991, but by the comparatively small amount of R4,2 billion — 9,5 percent — to R48,3 billion.

With imports rising less than exports, South Africa increased its trade surplus to R17,9 billion — another record.

The surplus is 6,5 percent greater than last year's R16,8 billion, and opens the way for the Government to re-stimulate the depressed economy without worrying too much about balance of payments problems.

Equipment

The trade figures show that exporters of manufactured goods and what can be termed "non-traditional" products were extremely active in 1991.

Exporters of plastic and rubber products increased their foreign sales by 42,1 percent, or R170,9 million, to R576,4 million.

Suggestions of greatly increased sales to the rest of Africa are contained in the strong rise in exports of "miscellaneous manufactured articles" by 41 percent to R170,6 million, and the 32,3 percent rise in the sale of transport equipment by 32,3 percent to R1 5 billion.

Gold sales

Despite these increased sales of non-traditional products, it is clear from the figures that South Africa is still heavily dependent on traditional exports for the bulk of its export earnings.

Of the R66,2 billion earned overseas, "unclassified goods", mainly gold, but which could include some oil, accounted for R26,7 billion.

"Precious stones and precious metals", which covers platinum and diamonds, realised R6,8 billion in sales, while mineral products (mainly coal) brought in R7,7 billion.

Base metals (iron and steel, iron ore, chrome and manganese) fetched R9,6 billion.

All these traditional exports had to face low prices in 1991.

Export sales revenue could be substantially higher this year if prices start to improve.

Bruce Donald, Safto's economist, said yesterday the trade surplus would allow South Africa to meet its foreign obligations comfortably.

Assuming services and net transfer deficits of R11 billion, this implies a current account surplus of close to R7 billion for the year.

Resilient

Exports of manufactured products were resilient against a backdrop of a weak international economy and the pedestrian growth of international trade.

Mr Donald said it was likely that the strong performance of some of the manufactured goods categories was partly attributable to the introduction of the General Export Incentive Scheme (GEIS).

Exporters should note that this and other export incentive packages will be discussed at a high-level conference in Johannesburg on February 13.

Finrand to remain 'for now'

BI Day 29/1/92

SHARON WOOD

THE Reserve Bank could not abolish the financial rand until the debt standstill was finally resolved, Reserve Bank Exchange Control GM John Postmus said yesterday.

Speaking at an International Tax Institute exchange control seminar in Johannesburg, Postmus said exchange controls could not be lifted until the Reserve Bank was confident that it would not result in a huge outflow of capital, which the country could not afford.

"Under the present uncertain political and economic scenario it will not be easy to abandon exchange controls in SA." (56) (74)

If a final negotiation was reached with international creditors it would hopefully lift foreign banks' risk exposure limits to SA and the country would not be perceived to be in the category of bad debtor anymore, he added.

SA had serviced its debt consistently but had only repaid capital in tranches as agreed with the foreign creditor banks since the debt standstill in 1985.

Bush's address fails to move markets

BDay 30/1/92 74

SHARON WOOD

US PRESIDENT George Bush's eagerly awaited state of the union address on Tuesday night failed to supply an expected fiscal stimulus and the dollar immediately slipped in international forex markets yesterday.

It fell to DM1,5878 by midday from New York's Tuesday close of DM1,5995.

Expectations that Bush would deliver a meaningful package which would propel the US economy out of recession and give forex markets direction were disappointed. The package, which would slash military spending by $50bn and pump $25bn into the economy through lower income tax withholdings, was seen to be merely a juggling act which would not increase the overall wealth of the economy.

It is clear that Bush decided to adhere to the 1990 budget agreement, when he promised that all new measures would be deficit neutral.

Not only will their probable impact come long after the recession is over, but measures that are deficit-neutral can hardly stimulate the economy. They will simply give rise to a redistribution of wealth among segments of the population without increasing overall wealth, which is the ultimate objective, says Standard Bank's International Comment.

This could encourage renewed expectations of an interest rate cut, to the detriment of the dollar, because of expectations that the economy will not strengthen sufficiently ahead of the November presidential poll. Concern over a continued adverse interest rate differential was given further weight by Bush's announcement that he would support a monetary policy that kept interest rates and inflation down.

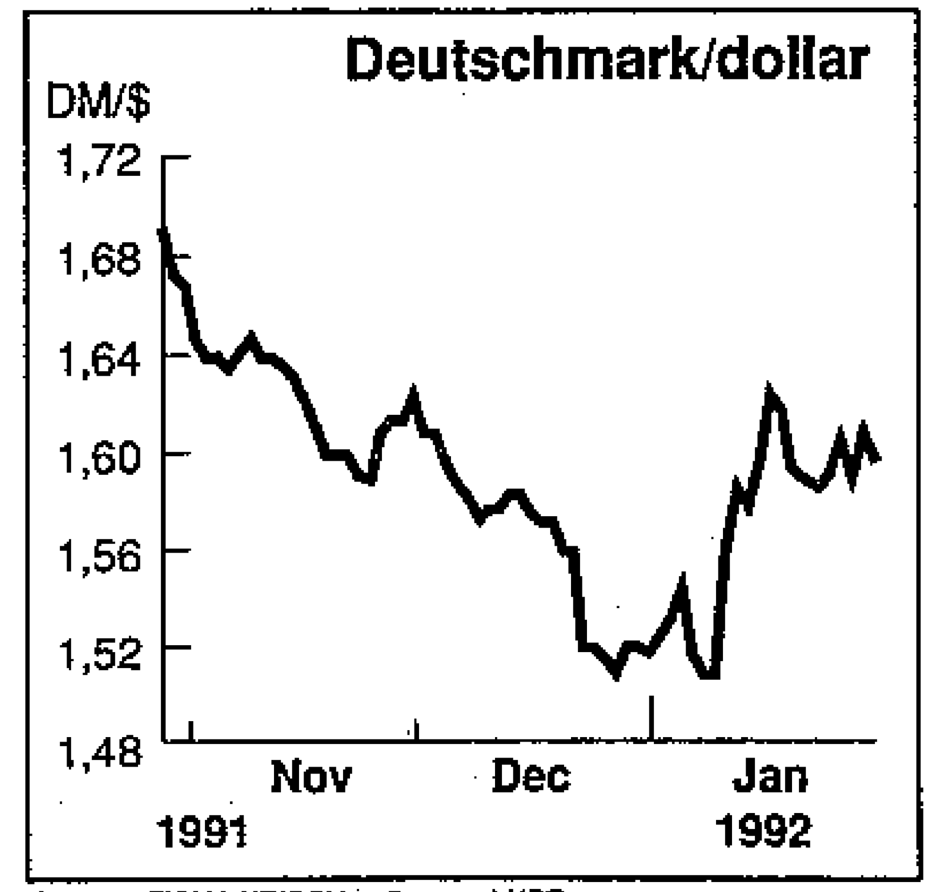
The address followed a week in which currency markets were left hanging in limbo when the G-7 meeting failed to come up with a currency stance over the weekend.

Recent patterns within international forex markets have been highly inconclusive, providing a reasonable reflection of market sentiment, says Standard Bank. Matters last week were not helped by the dearth of US economic data, giving little incentive for dealers to pursue direction with any enthusiasm.

Although the market as a whole did not appear to expect anything substantive from the G-7 deliberations, some form of currency statement on the part of the G-7 group would have been warmly welcomed by markets desperately anxious for some form of guidance.

Union Bank of Switzerland says that although nothing has been said by the G-7, the yen rate remains a political gambit. The Bank of Japan is unlikely to allow the yen to drop far below 125 yen to the dollar.

The Japanese economy is stagnating and a further reduction of interest rates cannot be ruled out. Nevertheless, the difference between the shaken US economy and the Japanese economy is striking. Japan's foreign trade is flourishing, which rules out a downturn in the yen and augurs a slight recovery after the G-7 disappointment, the bank says.



Graphic: FIONA KRISCH Source: I-NET

Economic data to be released this week will have a role to play in the dollar's direction in the wake of Bush's address. These include the advance estimate of US GDP, personal income data, leading indicators and home sales.

Union Bank of Switzerland said while personal consumption expenditure would have declined during the fourth quarter, net exports should improve markedly. Therefore, the real GDP should have decreased only slightly or could even have expanded slightly.

These figures will underline the importance of exports for the US economy and will explain why the administration can't accept a stronger dollar, says Union Bank. Against this background, fear of central bank intervention will cap the dollar's upside and the dollar should move sideways this week.

FNB technical analysis shows the dollar is ranging within a triangle formation and is expected to break out of the range this week, when it will give an idea of its new direction. The forecast trading range for the week is from DM1,5750 to DM1,6200.

Bank to launch Eurobond

SHERIDAN CONNOLLY

THE Development Bank of Southern Africa is to launch its first international bond in February. The bond will be lead-managed by Germany's Bayerische Landesbank Girozentrale. (SS) (M4)

Reuter reported yesterday that the Eurobond would be denominated in Deutschmarks and raise about DM100m with a six- or seven-year maturity.

It would be guaranteed by the SA government and could emerge as early as the first week of February. B|Day 30|1|92

A bank spokesman yesterday confirmed "most" of the substance of reports in international markets, which said the Development Bank was due to make presentations in Frankfurt and Zurich early next month.

"All interested parties", including the ANC had, over the past two years, been informed of the bank's intentions to enter the international capital market, he added.

The spokesman said money raised by the issue had been earmarked for development projects in underprivileged communities. The bank planned to spend R1bn a year over the next few years to finance development projects in SA, the homelands and some neighbouring countries.

The Development Bank first entered the local capital market in 1990 with a R700m issue.

'Let's give investors confidence in SA'

STAR 30/1/92.

By Peter Fabricius
Political Correspondent

74

New Minister of Trade and Industry and Economic Co-ordination Derek Keys said in his maiden speech in Parliament yesterday that his greatest challenge was to give the private sector the confidence to invest in the economy.

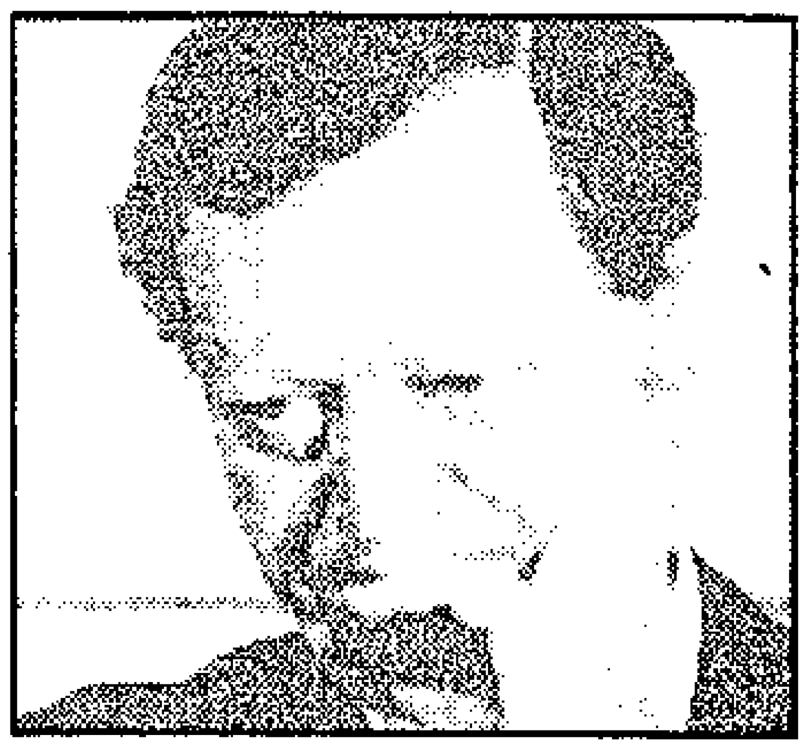
Speaking in the debate on the State President's vote, former Gencor chief Mr Keys gave the first inkling of his basic approach to his new job.

"How do we get more private-sector firms to decide to venture on more fixed investments?" he asked.

"It's the question that I'm prepared to become obsessed by. It could not unfairly be described as the question that brought me to this place."

He said that before an entrepreneur decided to invest, he had to reach a certain level of security.

In a luke-warm world economy, South Africa now had to enter two important new investment fields where the risk/profit relationship for the private sector was less promising than before.



Maiden speech . . . new Minister Derek Keys.

The first was the export market for manufactured and intermediate products and the second was the socio-economic field internally.

The export market was a "jungle" and SA still had plenty to learn about this area. In the socio-economic area, SA had not developed a satisfactory mechanism to fully enlist private-sector participation.

To achieve the necessary security level for entrepreneurs to enter these fields, confidence had to be inspired. The State had a crucial role in this.

Mr Keys said that because he had been talking about entrepreneurs, this did not mean he underrated the critical importance of labour's contribution to growth.

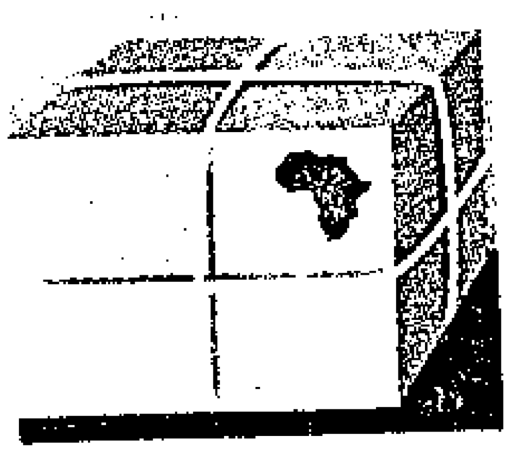
In all examples of superior economic growth, such as Germany, Japan and Korea, there was one common factor — "the Golden Triangle (Business, Labour and the State) joined in a consensus carefully and consciously aimed at economic growth".

Mr Keys said he wanted to become the "confidence-channel" to the business world, but the source of this confidence had to be Parliament.

TRADE WITH AFRICA FM 31|1|92 74

Don't presume too much!

African trade doors are opening wider but the big uncertainty is payment



Heart of darkness or pot of gold? Contemplating modern Africa — with poverty and debt spread pretty evenly across most of the territory, and an infamous reputation for corruption on top of that — businessmen and investors tend quietly to choose the first description and look elsewhere with their merchandise. But for SA, there is a fresh understanding of the opportunities and complexities of the continent of which we are a part.

Capitalising on this requires the fortitude of a latter-day Livingstone.

The facts speak for themselves. Of the 45 countries in sub-Saharan Africa, 32 fall into the category of low-income nations which, according to World Bank ratings, means a per capita income of fewer than US$500 a year. In 1990 the continent owed $234bn in long-term external debt — 98% of its GDP.

For all that, in its 1991 *World Economic Outlook*, the bank predicts a modest improvement in economic growth for Africa as a whole during 1992 — despite rising inflation and a decline in GDP growth in sub-Saharan countries. The current account deficit for the continent will narrow by $1,5bn.

At trade level, that provides a gap. After all, since President F W de Klerk rejoined the world in February 1990, African countries have been opening their arms to South Africans both as tourists and businessmen. Of the major markets all except Nigeria, Libya and Tanzania trade in some way or other with SA and direct air links between Kenya and SA are already in place. Others are in the pipeline.

The process began before De Klerk. Sanctions closed important world doors to our manufacturers but a to-and-fro of trade links with Africa actually expanded during this grim period. For understandable reasons, Customs & Excise does not yet release trade figures between individual countries; however, it says exports from SA to the whole of Africa have risen from R3,4bn in 1989 to R4bn in 1990 and to R5,1bn, according to preliminary figures, for 1991. This trend is expected to increase significantly this year.

Scepticism remains over the depth of the African potential. The central problem is of course: how do they pay? Most often, the answer is not reliably — not without a helping hand. So a confirmed letter of credit is essential.

Obviously, countries where others will finance imports and trade generally are those with the greatest potential for SA businessmen. At the same time, such dependence indicates too often a record of default and political instability. With whom do you do business if an elite is displaced? This applies not only to countries which have to endure coups.

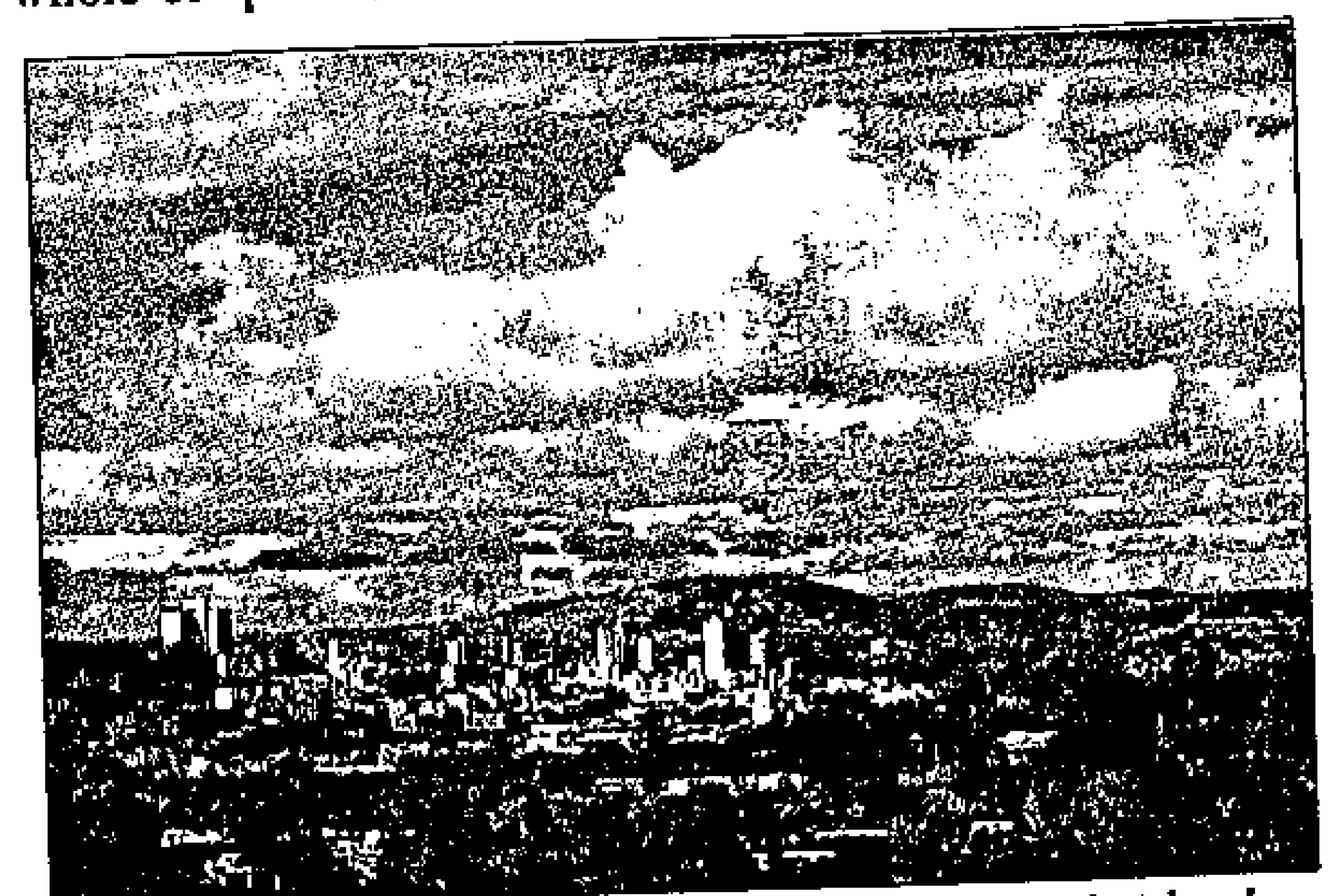
Spreading democracy, as in Zambia, is displacing long-time rulers whose followers, over the years, became firmly entrenched in powerful bureaucratic positions.

Nonetheless, in 50% of Africa's countries, development assistance makes up more than 15% of their GDP. For some, it's much more. Investments and imports of low-income countries are financed 100% and 75% respectively by aid. Can this possibly undeserved good fortune last?

The World Bank, for one, is becoming more selective about which countries it chooses for aid. The quantum of aid to Africa has fallen in the wake of revelations of squandering and spending with minimal controls. Strings are now attached to assistance — recipients have to be moving towards democracy, more human rights and environmental protection.

With renewed world legitimacy, we are in a position to help spend what aid flows remain — productively. Safto manager Andrew Maggs comments: "South Africans are well poised to win World Bank tenders for projects north of our borders. They can offer shorter lead times than Europeans and the Japanese; cheaper prices because of the weak rand, close proximity to the countries and technology consistent with the requirements of Africa."

But that means familiarity with the operations of the World Bank — how it is organised, in what lending activities it is involved and how it develops projects.



Kampala, Uganda ... *cultural divisions bridged*

"There is a set format for bidding for World Bank projects," Maggs says. "People have to identify projects which could use their products or services and learn the tendering techniques."

He reckons there are enormous opportunities for South Africans in the preparation phase of projects. For a start, consulting engineers can design projects which could benefit SA suppliers. The World Bank project cycle moves from identification through preparation and appraisal to negotiations and board presentation, implementation, supervision and evaluation. Maggs reckons South Africans have a place in all stages.

But the emphasis of the World Bank has shifted from basic infrastructure and industry to more comprehensive programmes aimed at growth, provision of basic services and improvement of income distribution. According to a World Bank document, *The Project Cycle*, "lending for agriculture and rural development, oil and gas, urban sites and services, water supply and sanitation, small-scale enterprises, education, health and nutrition has been introduced or greatly expanded." The bank produces a monthly summary of its projects.

Would-be exporters of products and services to Africa also need to know what type of lending the World Bank does. Within the bank four institutions all provide multilateral lending with different objectives:

☐ The International Bank for Reconstruction and Development lends funds to creditworthy developing countries, with relatively high per capita income, at variable interest rates;

☐ The International Development Associ-

Kenyan cars ... *new demand for components*

Protectionist policy a factor in inflation

(74)

By Derek Tommey

STAR 31/1/92.

South Africa "is still stuck with a sanctions mentality" which was seriously hindering economic growth, says Wayne Mitchell, executive director of the Centre for Promotion of Foreign Investment in South Africa.

In a press release yesterday he said the Government should lower its high import duties to make the manufacturing sector more competitive and better able to compete in world markets.

Mr Mitchell said many countries were eager to trade with South Africa and investment funds were banking up. But South Africa so far had done little to make itself ready to conduct normal international trade.

"We haven't begun to break down our own considerable sanctions barriers — or even adjusted mentally to the new scene."

Manufacturers needed to be able to compete at home before they can expect to be competitive internationally. This meant that high import duties, which were restricting open trade and competition, must be reduced.

The protectionism afforded industry had led to extreme price hikes and to inflation.

He highlighted areas where extreme gaps existed between South African and European Comunity import duties.

One area was cars. Although the price of cars had risen alarmingly, there was still a 110 percent import duty plus a 12 percent ad valorem duty plus a 20 percent surcharge on imported cars. The EC duty was 10 percent. In addition, most EC countries had well organised and efficient commuter services, he said.

Clothing made of 100 percent cotton carried a 30 percent import duty and a 15 percent surcharge, yet the textile and clothing industry was calling for further protection. The EC imposed a surcharge of 14 percent.

Wayne Mitchell . . . high import duties restricting competition.

South Africa's high level of illiteracy made radios and TV sets crucial for communication and education. Yet radios carried a duty of 25 percent, a surcharge of 40 percent and an excise duty of 37,5 percent. The EC imposed a duty of 14 percent.

Imported TV sets carried a 90 percent duty and a 38 percent excise duty. In the EC the duty was 14 percent.

Other areas where extreme gaps existed included educational toys, electrical appliances and computers.

Mr Mitchell said that if the surcharges were scrapped and a move made to bring in a duty-free or a flat-rate duty system by a certain date, South Africa would be demonstrating to the world that it had confidence in its industries and products and this would benefit the rand.

He said that taken together, a lowering of import duties, an improvement in the exchange rate, the ending of the import surcharge and a one percentage point cut in interest rates would give the economy the boost it so badly needed.

Tax jitters sparks dive in the finrand

B/Day 31/1/92

MERVYN HARRIS

JITTERS among foreign investors about tax on their investments in SA sent the finrand tumbling yesterday in one of the biggest freefalls seen on the currency market in a single session.

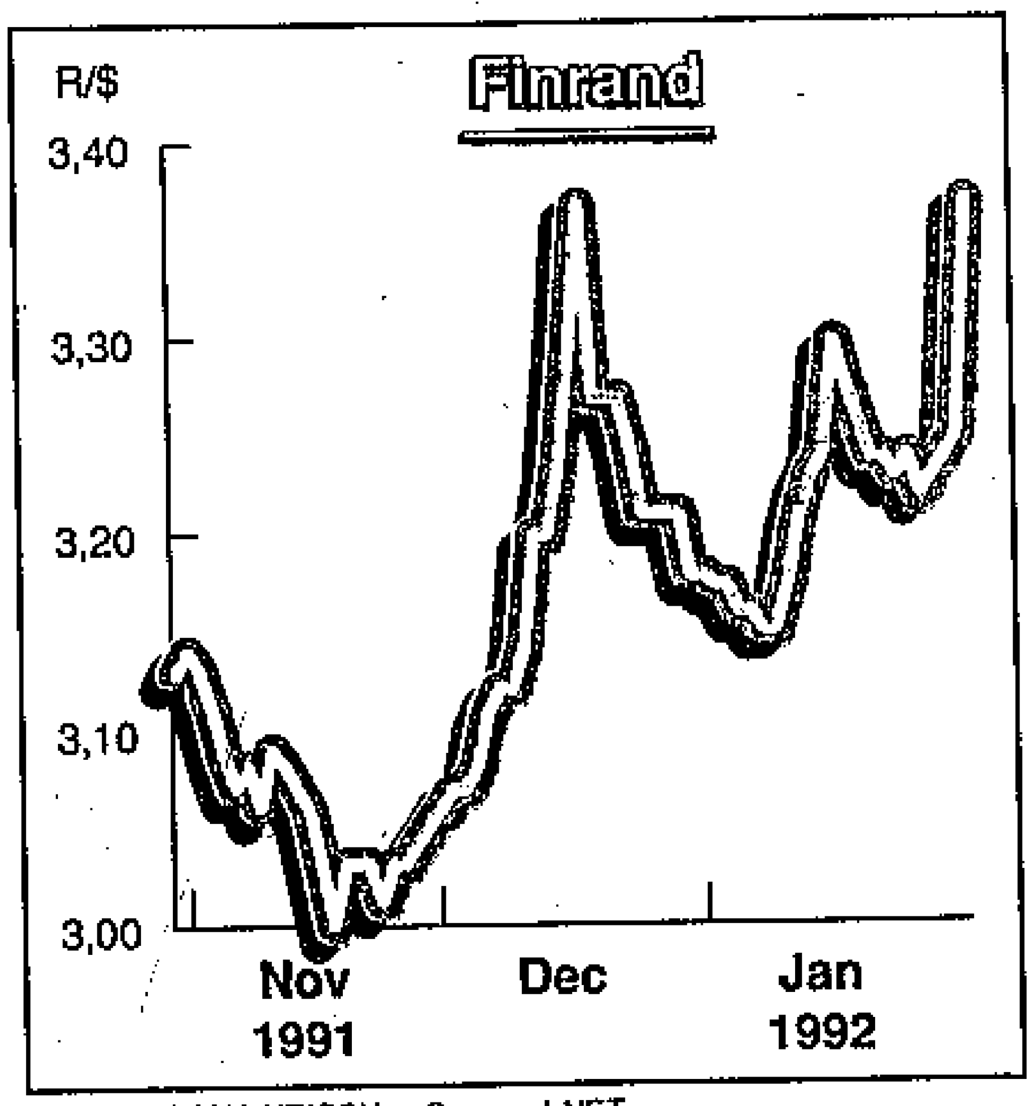
The unit plunged from R3,25 to the dollar to touch a low of R3,48 before attracting buyers at the softer levels. It closed 4,4% down on the day at R3,38 to the dollar.

This was roughly in line with the low of R3,38 last July when the unit began an uptrend which took it to a high of R2,99 to the dollar in November.

Dealers said the sell-off could have been sparked by a weekend report that foreigners' income would be taxed.

Inland Revenue chief director (legislation) Hennie Smit said yesterday the tax department was preparing a statement to clarify the tax treatment of foreign investments in SA. The statement would reinforce existing legislation which says dividends received by foreign investors are subject to non-resident shareholders' tax, while interest earned from SA investments is subject to income tax. The onus was on investors to declare income from SA investments to Inland Revenue, Smit said.

Standard Bank assistant GM foreign exchange Willie Potgieter said this could have negative implications for foreign deposits in SA as it effectively reduced the yield on those finrand deposits.



Graphic: FIONA KRISCH Source: I-NET

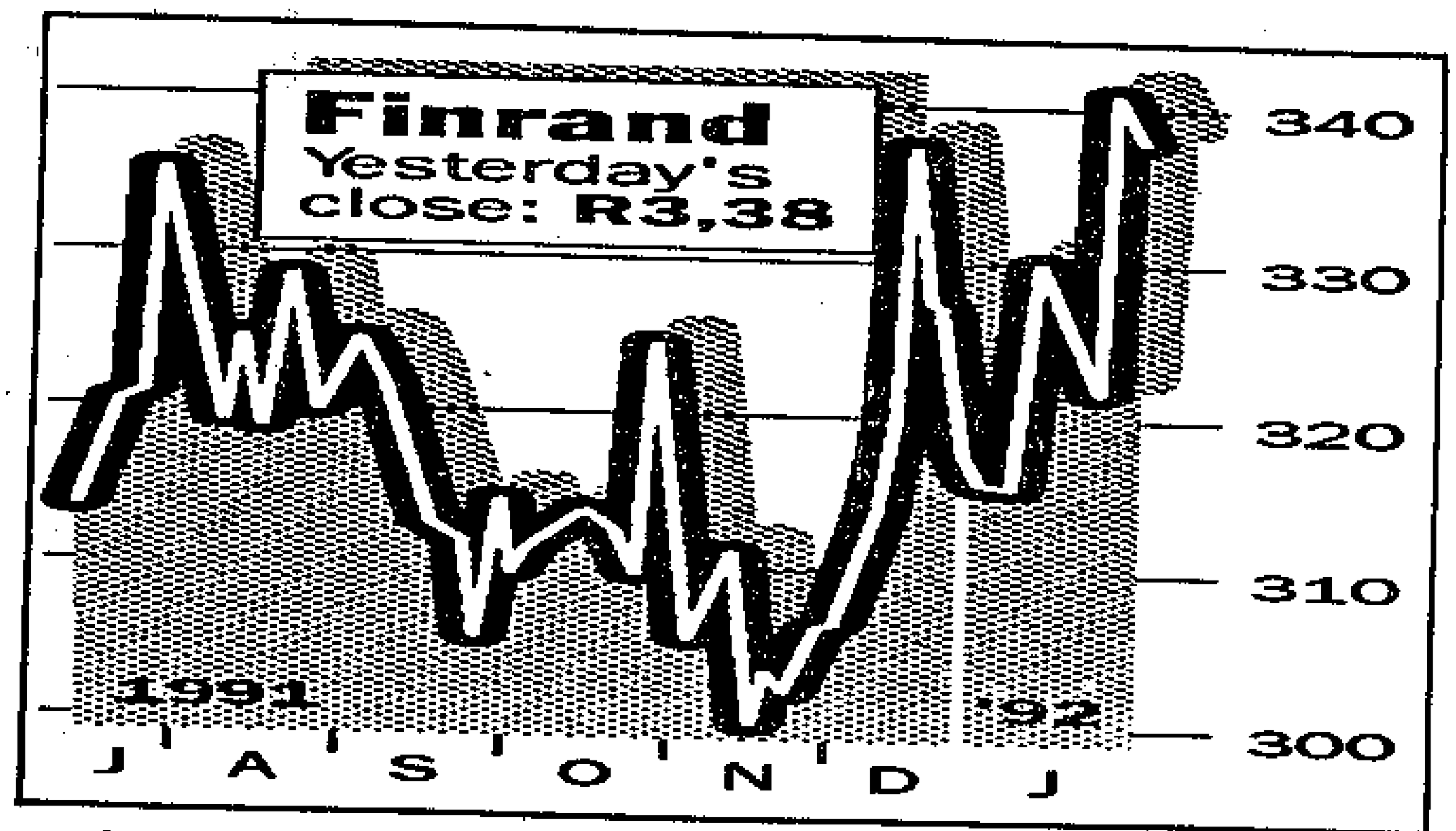
A currency dealer said: "There are numerous stories doing the rounds but . . . it is difficult to estimate the amount of finrands involved."

Some finrand dealers said the sell orders were between R150m and R200m. They named two institutions, one in the Far East and one in Germany, as possible sellers.

Heavy selling depresses finrand

STAR 31/1/92 (74)

By Ann Crotty



Heavy selling from Europe, uncertainty about the tax position of financial rand deposits and a reduction in Eskom rates combined to knock the financial rand to its lowest level in several months.

It dropped sharply in early trading yesterday, but managed to recover half of these losses to close at R3,38.

This was well down on Wednesday's level of R3,25.

Dealers reported that at the opening yesterday there was heavy selling from Europe, mainly Germany.

The sort of large sell order that came from Germany could normally be absorbed by the market without making too much of a dent on prices.

As one dealer pointed out, usually when the finrand came under heavy pressure, it was knocked to a level that attracted other investors.

But apparently in yesterday's market the uncertainty surrounding the tax position of finrand deposits and the reduced attractiveness of Eskom stock kept potential investors on the sidelines.

The major banks have recently been discussing the tax issue with the Reserve Bank.

They are keen to establish whether or not a tax on finrand deposits will be introduced and, if so, when and what form it will take.

The withholding tax that was previously imposed on finrand deposits was abolished a few years ago.

One dealer pointed out that last week's reduction in the Eskom 168, which is very popular with overseas investors, had an adverse impact on the demand for finrands.

An additional negative factor the market is currently contemplating is the recent Consumer Price Index figures.

Ugandan leader rejects SA links

Star Africa Service STAR 31/1/92

LUSAKA — Ugandan president Yoweri Museveni has openly opposed the proposal by President Frederick Chiluba of Zambia that South Africa be admitted as an observer to meetings of the Southern and East African Preferential Trade Area (PTA).

Mr Chiluba's suggestion was made in his opening address yesterday at the PTA conference, of which he is chairman.

He said many African countries, including PTA members, had opened diplomatic ties with South Africa.'

Mr Museveni responded, saying the PTA countries would be putting themselves in danger by opening up too much to South Africa because apartheid was still in place there.

● Afro-market on cards — Page 15

Afro-market on cards

STAR 31/1/92 (714)

Not one, but two, conferences are discussing how a regional African trade bloc could be formed that would harness South Africa's economic powerhouse, making the Republic an ally instead of a threat.

DESPITE worries about domination by South Africa, the countries of southern and east Africa are going ahead with efforts to form what could be the continent's largest common market.

The concept, which would join about 20 countries with a combined population of 240 million people, is being promoted at two different conferences — the southern and east African Preferential Trade Area (PTA) meeting in Lusaka, and the Southern African Development Co-ordination Conference (SADCC) in Maputo.

It is envisaged that the two organisations would be merged in the new common market.

South Africa would almost certainly be the nucleus of the market, which is hoped to be in existence by the year 2000 at the latest.

But measures are being discussed to ensure that South Africa does not come to dominate the grouping at the expense of the other members.

A key element proposed at the SADCC meeting is that the common market should be based on free enterprise economic policies and multiparty political systems.

South Africa is likely to be drawn into the moves to form the market even before the Republic has settled on a new system to replace apartheid.

Opening the 18-nation PTA's meeting yesterday, President Frederick Chiluba of Zambia proposed that South Africa be allowed to attend future PTA meetings.

He said the issue of South Africa's participation in regional economic developments must be faced "if we are to gain the benefits of her membership and avoid the dangers".

Already many African countries, including some PTA members, had forged ties with South Africa, and developed countries had upgraded their links "while we are waiting on the sidelines, once again marginalised".

"Yet we have a more vital interest in what happens in South Africa than any other country. The scale and magnitude of the South African economy is such that it can destroy us as much as it can uplift us."

In an interview with The Star Africa Service in Lusaka this week, President Chiluba said Zambia would open a trade mission in South Africa soon.

Before he opened the formal session today, the PTA countries' trade ministers had recommended that the organisation merge with the SADCC.

And at the SADCC, a keynote document calls for the creation of a single regional market in which there would be free movement of people, services and investment capital.

The document calls for economic integration of the region to be speeded up so that when South Africa joins the regional economic community the infrastructure will be largely in place already.

This could well be decisive, says the document, "in determining whether it will be South Africa that joins SADCC, or SADCC that joins South Africa."

It warns that economic integration is no longer merely desirable, but has become "imperative for growth, development and, indeed, survival."

The document says the framework of regional co-operation must provide for "common economic, political and social values and systems, such as free enterprise, free elections and multiparty systems, respect for the rule of law and guarantees of human rights." — Star Africa Service. □

SA must couple its engine to Africa

STAR 1/2/92 (74)

A MAJOR shake-up in economic relations in southern Africa is expected as South Africa comes in from the cold. FRANS ESTERHUYSE spoke to Africa specialist Professor Willie Breytenbach of the University of Stellenbosch about the emerging new economic scenario.

DECISIONS that could affect the lives of hundreds of millions of people are facing leaders of 10 southern African states who met in Maputo this week.

They attended a crucial session of the Southern African Development Co-ordination Conference (SADCC), formed nearly 12 years ago to reduce the region's economic dependence on the hated apartheid regime.

With apartheid on the way out, the future of the SADCC in its present form is in the balance, as the very purpose of its existence falls away.

At the same time it faces the challenge of new directions in Western economic policy towards Africa, and a potentially powerful role for a new democratic South Africa.

One of the first positive moves the conference made this week was to endorse the Commonwealth position of the phased lifting of sanctions on Pretoria.

However, there is much more than meets the eye in the latest developments and in the challenges and options facing not only the SADCC but also South Africa, according to Professor Willie Breytenbach of Stellenbosch University's department of political science.

He said in an interview this week that even after apartheid, conditions in the subcontinent could get far worse before they get better.

He envisages a future economic order based on a free-market system and private enterprise — with socialist dreams dumped overboard.

'The signs are clear that the days of socialism in Africa have gone. Foreign funds are not going to be attracted by the old ideas'

Increasingly the message coming to Africa from the West and from powerful institutions such as the International Monetary Fund, the World Bank and the European Community is: go for a free market and private enterprise; go for better financial management and development.

Professor Breytenbach says the signs are clear that the days of socialism in Africa have gone.

Foreign funds are not going to be attracted by countries adhering to the old ideas.

The thinking among Western powers and world economic institutions is increasingly that a new democratic South Africa could be the hub of the subcontinent, even the Japan of Africa.

Some even say Johannesburg-Midrand could become the Hong Kong of southern Africa.

A powerful economic role for a new democratic South Africa in the subcontinent is on the cards — but political stability will be an important consideration.

Professor Breytenbach says outside forces, such as the Euromarket and Western economic institutions, are likely to prefer to deal more directly with a post-apartheid South Africa with its stronger economy.

One issue that looms large in the reshaping of subcontinental relationships is that of economic inequality.

The enormity of this problem is shown by the fact that South Africa's gross domestic product is almost 3½ times that of the 10 SADCC states together.

This huge imbalance of economic power — in itself a major issue — creates much uncertainty.

For example, the dependence of neighbouring states on South Africa's stronger economy — long a source of contention — could remain as important as before, or even become more important.

Also worrying to many members of the 10 is the spectre of Africa's marginalisation in the international context deepening as South Africa becomes politically more acceptable to the world.

Pulling continent out of morass a priority

Africa is being abandoned economically because of its own internal crises and because of the new opportunities for Western capital, technology and trade in the Pacific Rim and Eastern Europe.

The issue is this: will these outside donors and dominant trade partners focus on the region as a whole or on South Africa as the "springboard" into Africa?

An important decision awaits South Africa's first genuinely post-apartheid government: will it promote regional interests, or will it make full use of its new-found attractiveness to further its own interests?

The disappearance of apartheid, and better prospects for growth in South Africa, could attract millions of workers from marginalised African neighbours.

This could be helped by Africa's many crises — weak states, unemployment, mass movements of refugees, high population growth, collapsing commodity prices, rising debts and, worst of all, food insecurity.

Professor Breytenbach notes that for the ANC the most urgent priority must be South Africa's 7 million — mostly black — unemployed.

With apartheid and destabilisation apparently a thing of the past, South Africa seems certain to rejoin the African fold.

A basic question is: will South Africa join the SADCC — or will the SADCC in fact join South Africa?

Another important development towards peace and stability in southern Africa is expected to be the formation of security accords.

'Conditions in the subcontinent could get far worse before they get better — and the future economic order will based on a free market'

Professor Breytenbach suggests that the legacies of a decade of destabilisation (the 1980s), decades of militarisation (since the 1960s) and high levels of violence in South and southern Africa (well into the 1990s) will make such accords more or less unavoidable.

One way of curbing this will be to let a new South African Economic Community, involving South Africa and the SADCC states, acquire a security dimension in the post-apartheid, post-destabilisation era — an institution similar to the Council for Security and Co-operation in Europe, established in 1990 after the end of the Cold War.

Bid for united African economy

STAR 1/2/92

KATONGO CHISUPA

LUSAKA — The heads of state meeting of the Preferential Trade Area (PTA) of eastern, central and southern Africa has resolved that it should merge with the Southern Africa Development Co-ordination Conference (SADCC).

The meeting agreed that this should happen within the context of the Ajuba Treaty for the Africa Economic Community.

President Frederick Chiluba, the new chairman of the organisation, is expected to transmit the resolution to all heads of state and government of the SADCC for their consideration.

Member states also agreed that the PTA secretary-general should carry out a study of the relations between member states and South Africa.

On the basis of this study, a collective decision would be made at the next summit.

President Chiluba and Ugandan leader Yoweri Museveni differed on the approach to South African membership of the organisation. Mr Chiluba suggested that South Africa become an observer member and join at a later stage, but the Ugandan leader insisted that apartheid must first be eradicated before the PTA could accept SA.

Leaders from the 18 member-nation organisation adopted the PTA trade and development strategy and agreed that measures should be taken to transform the PTA into a common market.

President Chiluba, hosting the first international conference since he took office in November, described the meeting as successful and urged all member countries to work hard in promoting the PTA.

See Page 13

Building a new super power

ST Times 2/2/92

CHARLENE SMITH reports on South Africa's options in the wake of this week's SADCC conference 74

SHOULD South Africa belong to a southern African regional parliament?

Proposals for such a regional parliament were mooted at this week's meeting of the Southern African Development Co-ordination Conference in Mozambique.

Not only is the idea receiving favourable consideration from the government and the ANC, but plans for such regional co-operation are already far advanced.

Whether the idea will result in a southern African equivalent of the European parliament or a powerful trading bloc remains to be seen.

There is already talk between SA and its neighbours of a regional defence force, economic integration, including a regional development bank, and the melding of laws that would generate regional growth and stability.

Although SA and the subcontinent are advancing along a road that will entrench regional co-operation — in part as a response to the powerful new economic blocs created in Europe, the Pacific Rim and the Americas — southern African states are not keen to begin full negotiations with SA until a democratic constitution has been negotiated and elections are either under way or have been held for a new government.

Ugandan President Yoweri Museveni told a Preferential Trade Agreement meeting in Lusaka this week that trading with SA now would strengthen the white-led government and slow the shift to democracy. Similar views were expressed at the SADCC.

But the issue is further complicated by the fact that both the PTA and SADCC are jostling for sub-regional economic control. Ironically, the prize will go to whichever secures South African membership. SADCC is against linking its forces with the PTA.

The PTA would be the more natural victor — unless plans for a regional parliament are accepted, this would exclude the PTA, which is an economic bloc extending as far as East Africa.

It was formed in furtherance of the Lagos Plan of Action which envisages an African economic community by the year 2000. SADCC could find the Organisation of African Unity resisting plans for a southern African regional political and economic super power at the expense of the rest of the continent.

At present, the continent is divided into approximately 11 regional economic zones. Comparatively, Europe and Asia have only three economic blocs, the Pacific Rim has one and Central and South America share four.

SADCC, by the nature of its formation, is also considered to have a short life expectancy. It was formed as a response to SA regional destabilisation with the aim of economically isolating SA.

Those against it say a democratic SA will remove SADCC's *raison d'etre*. Member states are Angola, Namibia, Botswana, Zambia, Zimbabwe, Tanzania, Malawi, Mozambique, Swaziland and Lesotho (which all also belong to the PTA).

This week's SADCC conference called for a "development integration approach" (with reference to "when SA joins SADCC"), which would promote greater mobility of investment capital within the region, create a single regional market and progressively remove barriers to allow the free movement of people within the sub-continent.

They want inter-state organisations such as regional railway, airline and power authorities. Moves are far advanced for such integration.

Eskom has large power grids that will come on line before the end of the century to electrify the subcontinent, Transnet and Spoornet have advanced plans for enhancing regional rail and air links.

A suggestion for regional integration not covered by this week's SADCC conference, but already receiving close attention — particularly from the SA Department of Foreign Affairs, which believes it is important to foster trust — is the creation of a regional defence force.

Carlos Cardoso, a former Mozambican government figure, suggests: "If modelled along the lines of the Helsinki Accord, which established the Conference for Security and Co-operation in Europe, a multilateral structure may be established for co-operation on economic and security issues."

It is unlikely a future SA will agree to free movement of people across the subcontinent until regional economies have dramatically strengthened, reducing pressures to migrate.

Robert Davies, of the centre for southern African studies at the University of the Western Cape, said: "The post apartheid era will spawn one of the most important African migrations of modern times in which perhaps millions of people will be drawn to SA."

Safto helps firms to win aid work

STimes 2/2/92 STimes (BUSS) 2/2/92 74

BY CIARAN RYAN

THE South African Foreign Trade Organisation (Safto), with the support of the Department of Finance, is launching initiatives to help SA companies crack the lucrative world development aid market.

One initiative could result in the formation of a trust account at the World Bank.

Foot

It could be used by the bank to pay SA companies to carry out consulting work on its behalf.

The department is encouraging firms to register as consultants with the World Bank in Washington.

Various forms of financial assistance for companies involved in feasibility and prefeasibility studies are also contemplated.

Several European countries provide financial assistance to companies tendering for aid work on the premise that a successful tender has a marked benefit for their economies.

SA companies are forced to foot the cost of tendering, submitting as many as 20 tenders before a contract is awarded.

Safto says it is launching a training and consulting unit to introduce SA companies to multi-lateral agencies, such as the World Bank and its private-sector arm, the International Finance Corporation (IFC), United Nations Development Project (UNDP), African Development Bank and the various EEC institutions.

SA companies may tender only for World Bank and IFC projects.

Paul Runge of Safto's Africa desk says: "Many SA companies appear ignorant of the fact that they are entitled to tender for World Bank and IFC work. Other African countries believe SA is banned and therefore excluded from these agencies."

Last year the World Bank pumped $4-billion into Africa. Total aid to Africa is said to have exceeded $15-billion.

A mere handful of World Bank-funded projects have benefited SA companies, notably Eskom's technical assistance contract to rehabilitate the Maputo power station, the Botswana soda-ash project and the Lesotho Highlands water project.

Climate

Mr Runge says Safto will provide consulting work for companies and help to identify projects for which a company is qualified to tender. It will keep a database on the economic sectors of each country so that firms can initiate and motivate aid projects to the multilateral agencies.

Safto will help companies to register with aid agencies, train them in the procedures of filling out tender documents and provide information about multilateral agencies.

"The World Bank is trying to promote private-sector growth and acknowledges that many of its development projects could have been more successful.

"It prefers to appoint consultants in the area in which it works. That is positive for SA, which has a generally high standard of goods and services, adapted to African conditions."

The Economic Development Institute of the World Bank recently visited SA to investigate the financing of training schemes.

Jeremy Shearar, deputy director general for multilateral relationships at the Department of Foreign Affairs, says financial help is likely to materialise only when SA has a new constitution or satisfies some other political conditions.

Mr Shearer says: "This is not to say that we have not made some useful headway internationally. My department aims to create a climate in which the investment and development communities can come together.

"We can help to establish contacts and lay the groundwork for SA's re-entry as a player in these multilateral agencies."

Ivory Coast openings for SA

B 10 ays 3/2/92 74

THEO RAWANA

Ivory Coast business consultant Honore de Sumo, in his Sandton office, says he is organising a trip to his country next month. Picture: BRIAN HENDLER

THE Ivory Coast is in the process of privatising 150 companies, thereby opening avenues for SA expertise and business to bid for trade in that country, says Ivorian business consultant Honore de Sumo.

De Sumo, who has set up an office in Sandton, said at the weekend that he would take a group of SA businessmen on a week-long tour of his country in March to help them establish contacts in markets opening up in Francophone countries.

Over the past year De Sumo has brought three groups of businessmen from Francophone countries to SA — one from the Ivory Coast and two from Cameroon.

Markets were opening up for SA in Africa and President Felix Houphouet-Boigny of the Ivory Cost had recently appointed a youthful technocrat, Alassane Ouattara, as prime minister, De Sumo said.

The new man was a former governor of the Reserve Bank and the Africa director at the IMF.

More than 150 companies in all sectors — big and small, including electrical and water operations, were being privatised in Ivory Coast, and SA expertise was needed in many fields.

"There is scope for interesting ventures in the Ivory Coast, and the country is a mirror of the Francophone region," De Sumo said. "Products manufactured in SA are priced competitively, and this puts them in good stead in African countries."

He added that the business trips were aimed also at long-term relationships and benefits. "The benefit of the trips will be realised in time, because it will take time for SA business to find their feet in Africa. It took Europe 30 years to establish itself in Africa after independence . . ."

De Sumo warned SA business against trying to emulate the Europeans in trade links with Africa. "We seek to trade as equals, no longer as underlings with a begging bowl intent on giving away raw materials in return for money, only to buy finished products after they have been processed."

De Sumo said visiting African businessmen had held discussions with government officials, ANC and Inkatha leaders and Safto.

He understood the Ivory Coast government was considering opening an embassy in SA.

FW, Mandela in harmony

STAR 3/2/92 74

ANC chief nearly upsets the applecart

By Peter Fabricius
Political Correspondent

DAVOS (Switzerland) — An extraordinary public clash between ANC president Nelson Mandela and the chairman of the World Economic Forum came close to wrecking a carefully co-ordinated approach by the Government and the ANC aimed at inspiring investor confidence.

In an important breakthrough for South Africa's hopes of attracting foreign investment, President de Klerk and Mr Mandela — for the first time — presented a united front to the world's most powerful economic and political leaders.

But the moment was marred when Mr Mandela complained — before his illustrious audience — that he had been given less speaking time than Mr de Klerk.

Forum chairman Professor Klaus Schwab smoothed over the potential row, but Mr Mandela remained stony-faced as he left the podium. (See other report on this page.)

Before that the South African leaders had deliberatly put aside their local differences to speak as South Africans to the 1 300 industrialists and politicians in the World Economic Forum — one of the world's biggest concentrations of economic and political muscle.

Inkatha Freedom Party leader Chief Mangosuthu Buthelezi joined in the new spirit of accord with a speech of conciliatory gestures.

All three leaders sounded a common plea to the world's economic giants to divert their development funds and energies to South and southern Africa.

SA trio . . . President de Klerk, Mr Mandela and Chief Buthelezi listen to World Economic Forum president Klaus Schwab yesterday. Picture: AP

They were addressing the forum on South Africa's place in the new world order, before taking part in a panel discussion with Cosatu secretary-general Jay Naidoo, National Peace Committee chairman John Hall and Lebowa Chief Minister Nelson Ramodike.

In an extraordinary dual performance which suggested they had compared notes beforehand, a conciliatory and moderate Mr Mandela often sounded like Mr de Klerk, and vice versa.

Mr Mandela took his softest approach to nationalisation so far, assuring the industrialists that their investments would not be endangered by nationalisation.

He was responding to Professor Schwab, who said that the one question which most industrialists at the forum were asking was "was the ANC still committed to nationalisation".

Mr Mandela said that to the ANC, nationalisation was an appropriate alternative but it was aware of the great concern about the issue and was therefore trying to reach agreement with employers and unions.

"Give us time," he said.

When Professor Schwab pressed him for clarity on whether new foreign investment would be menaced by nationalisation, Mr Mandela said the ANC was well aware that a political organisation unable to co-operate with business would never succeed in generating growth.

He was quite sure ANC discussions with business would achieve a decision that would attract investment.

The ANC would like to create an environment for investors that would assure them that their investments would not be nationalised and that their profits could be repatriated.

Mr de Klerk complained — as an African — that the continent was suffering because of the West's trade protectionism, while Mr Mandela joined him in arguing the Government's familiar case for southern African economic co-operation and integration, and for economic discipline and a safe investor climate.

"Despite our differences, we stand here today, my compatriots Dr Mandela, Dr Buthelezi and I, together with distinguished political business and financial leaders from South Africa, with one message to the world: we are overcoming the antagonisms of the past; we have the desire and the will to face the future together, and together we will build a new South Africa," Mr de Klerk said.

Like Mr Mandela, he warned the industrialised world that it could not simply write off entire continents such as Africa. He raised the spectre of rich nations being swamped by refugees from the poor nations.

Mr de Klerk said South Africa was looking to the international community for "constructive involvement" because it believed it could play a constructive role in its region.

"SA would have to fight tooth and nail to win a place at the international trade table. It needed loans and investment, not as hand-outs, "but because we are a sound economic and financial proposition".

Mr Mandela struck several conciliatory notes which chimed with Mr de Klerk's address and offered assurances to the industrialists about the security of their investments in a future South Africa.

In an earlier press brief-

● To Page 3

Alpine pique over minute detail

STAR 3/2/92

DAVOS — Nelson Mandela clashed yesterday with the World Economic Forum chairman, claiming he had been given less speaking time than Mr de Klerk.

After the overall discussion had been shortened because Mr Mandela spent 47 minutes in his opening remarks — instead of the 15 he and Mr de Klerk had been allocated — Mr Mandela complained he had been given only a minute to reply to a panel discussion while Mr de Klerk had got five.

While Professor Klaus Schwab was closing the panel discussion, Mr Mandela complained that by giving Mr de Klerk extra time, he may have given the impression he had not been fair in appointing time-limits.

Mr Mandela said Professor Schwab had given the understanding that each panellist would have five minutes.

"I didn't expect you to give anyone one minute."

The professor pointed out: "It was also our understanding that the introductory remarks should be for 15 minutes only. Yours were 47."

Forex players ponder volatility

74

By Carole Mason, International Economist, Standard Bank

STAR 3/2/92

As last week drew to a close, forex market participants reflected on a period notable for its extraordinary volatility.

Symptomatic of a market that lacks conviction, trends in the major currencies were characterised by swift changes in direction, a number of false starts and several up and down price spikes (i.e, sharp fluctuations in very short time periods).

This was nowhere better represented than by trends in the dollar where much improved market sentiment sporadically encourages substantially higher prices, the sustainability of which, however, was frustrated by a lack of fundamental justification.

The week opened amid market expectations that the weekend G7 gathering in New York might result in some form of explicit commitment from the group (which comprises the seven leading industrial nations — the US, Canada, the UK, France, Italy, Germany and Japan) towards defined currency objectives.

After President George Bush's recent trip to Japan, for instance, it was speculated that the two countries had agreed to measures whereby a strengthening of the yen against the dollar would contribute towards a reduction in the size of the Japanese trade surplus with the US.

Since Mr Bush's trip was followed by intervention by the US Federal Reserve Board and the Bank of Japan to push the dollar lower against the yen, forex markets had factored into expectations the possibility that the G7 would define desired target ranges for the major currencies.

However, other than to repeat the age-old cliche that the group would continue to co-operate on currency matters, nothing of substance emerged from the meeting, leaving the forex market none the wiser about potential near-term currency direction.

Having hurdled the barrier represented by the G7 deliberations, international forex markets focused on what was expected to be a key address by Mr Bush last Tuesday.

For weeks US officials had been indicating that charges that Mr Bush had neglected domestic priorities would be effectively countered by his State of the Union address, since this would contain specific proposals to encourage renewed vigour.

Since it was thought that these remedial measures would be fiscal in nature (US interest rates have fallen to 27-year lows), it was felt that increased recourse to fiscal policy stimulus would be dollar positive (a) on the expectation that US economic recovery would be hastened by the combined use of fiscal and monetary policy and (b) on the view that the adverse influence wielded by the dollar's negative interest rate differential in recent months would be greatly lessened on perceptions that US rates had stopped falling.

As in the case of the G7 meeting, however, forex markets once again proved that it is much better to travel in hope than to arrive.

Mr Bush's address failed to generate much market enthusiasm, since his proposals did not include anything of which the market was not already aware.

In addition to the fact that Mr Bush did not for one moment suggest that the pressure for lower US interest rates had lessened, market perceptions that he had failed to deliver anything other than hopes for US economic recovery when forex markets were desperately looking for concrete evidence of same encouraged immediate profit-taking in the dollar.

From earlier highs of Dm1,6150 and R2,8070, the dollar was sold back towards Dm 1,58 and R2,78.

However, rather than settle at the lower levels implied by disappointment that US interest rates might have to fall again, the dollar once again began to re-test the extent of underlying market demand.

Indicative of a firm lack of market conviction that the dollar should remain depressed, the dollar quickly strengthened back towards Dm 1,6050 and R2,8000, this time in response to a statement on Wednesday by Federal Reserve chairman Alan Greenspan that no further policy stimulus (whether fiscal or monetary) was needed in order to revitalise the US economy.

However, Thursday's release of disappointing US durable goods numbers prompted renewed self-doubt on the part of dollar bulls and the currency retraced about 50 percent of the previous day's gains before rumours of a possible coup in Russian sent the dollar right back from whence it had come.

Notwithstanding news on Friday that the US leading indicator index had fallen for the second consecutive month in December, the dollar closed the week at its highs.

Although trends in the other major currencies took a back seat to the wild gyrations in the dollar last week, some interesting developments nonetheless occurred.

Sterling, for instance, staged a recovery against the mark within the European Monetary System (EMS) on the back of opinion poll results placing the Conservatives ahead of Labour.

Long the victim of market anxiety over domestic political developments, last week's improvement in sterling's relative position within the EMS encouraged market speculation that the UK might now engineer an interest rate cut to consolidate recent opinion poll gains.

ANC assurance on foreign debt

FW, Mandela unite to sell SA at Davos

B/Day 3/2/92

74

BILLY PADDOCK

DAVOS — President F W de Klerk and ANC president Nelson Mandela this weekend worked according to a joint strategy to sell SA to some of the world's most influential businessmen and political leaders at the World Economic Forum.

Both men gave optimistic views of SA's prospects, and Mandela gave new assurances on foreign debt repayments and nationalisation under a prospective ANC government.

Present at the Forum were 35 heads of state and the chairmen, MDs or other senior personnel of many of the world's major corporations.

Speaking yesterday at a media briefing at this luxury ski resort in Switzerland's Alps, Mandela said he had met Foreign Minister Pik Botha on Friday, and they discussed a co-ordinated stategy.

Senior government sources confirmed this and said the arrangement would be of great benefit to SA.

Mandela said any statement from ANC spokesmen that a future ANC government might renege on loans transacted under the present NP government represented only their personal views and not those of the ANC, whose executive had not discussed the issue.

"We are obliged to honour these loans or else we will be in a great deal of trouble, and we are still dealing with this issue."

In his address to the Forum, Mandela called on businessmen to investigate business opportunities in SA now.

On nationalisation, he said the ANC envisaged a mixed economy in SA in which the private sector would play a central and critical role.

For the new SA to succeed in creating wealth and jobs for its people, future economic policy would have to address such questions as security of investments, the right to repatriate earnings, realistic exchange rates and the rate of inflation.

De Klerk told the Forum the industrialised world was deluding itself if it believed whole continents could be written out of the international scenario. "Ignore the plight of Africa at your peril," he said.

Referring to Codesa, he said he was convinced "that from this will emanate an accord on which we shall build a stable and greater SA".

Despite their differences, De Klerk said, he, Mandela and Inkatha president Mangosuthu Buthelezi, who was also present, had a message for the world: "We are overcoming the antagonisms of the past . . . together we will build a new SA."

SA could play a constructive role in its region and, in so doing, make a positive contribution to global advancement.

The reason for this was that SA was faced within its borders by the same problems that confronted the international community on a global scale.

These problems included:

- ☐ The need to develop all-embracing strategies to reduce backlogs for less priviliged communities;
- ☐ Finding resources to provide better housing, education and health services for all its

☐ To Page 2

Davos

B/Day 3/2/92

74

☐ From Page 1

people;

- ☐ Stimulating rapid and sustained economic growth; and
- ☐ Ensuring that differences were resolved by negotiation.

The country had achieved and would achieve success in providing solutions to providing low-cost housing, electricity to rural communities and agricultural assistance to smallscale farmers.

De Klerk argued that emphasis on Africa's economic decline tended to obscure the continent's enormous potential.

Mandela said he held a long talk with AHI president Attie du Plessis at the conference, and they had arranged a further formal meeting to deal with the issue of nationalisation in greater depth.

In the private discussions they were having with businessmen and leaders, both government delegates and the ANC were "concentrating on putting forward views and presenting a picture of those things that are uniting us rather than our differences", Mandela said.

"We expect an interim government in six months time and then all sanctions except for the oil and arms embargoes will be lifted," he said.

It took time to plan investment, and companies should not wait until sanctions were lifted before investigating the possibilities. He told delegates that in consultations with SA businessmen they were required to come up with alternatives to nationalisation as a means of redistributing wealth, and these discussions were continuing in depth.

"It is quite clear this matter has not been properly addressed and many SA businessmen have agreed here that this is so."

The ANC had no ideological attachment to nationalisation but there were problems it seemed could be addressed only through some form of nationalisation.

A democratic government which did not try to win the support of the business sector as well as the masses stood no chance of surviving, Mandela said.

Sub-Saharan trade in focus

SHERIDAN CONNOLLY

SUB-Saharan trade and investment will come under the spotlight when high-level speakers from as far afield as Kenya, the Ivory Coast, Angola and Namibia meet in Johannesburg in March for a first regional conference.

The organiser, the South African Foreign Trade Organisation (Safto), said the conference would take place alongside the 1992 Southern African industry and technology fair.

Safto said delegates would explore opportunities for expanding trade and investment in sub-Saharan Afica and would discuss ways of motivating project work and the infrastructural pre-conditions for economic growth in the region.

B Day 3/2/92

"SA's role as the springboard into southern Africa and the engine for growth on the continent will be of particular interest to the European delegates who will be on the lookout for opportunities to fund joint ventures in Africa," it added.

(74)

A senior executive from the World Bank in Washington as well as representatives of major multilateral Aid bodies would attend.

Safto said a private sector conference of this magnitude would mark a new era, as previously such conferences had been held beyond SA's borders to protect political and trade sensitivities.

No surprises expected from January reserves

BDay 3/2/92 (74)

THE WEEK AHEAD
by SIMON WILLSON

FAR from hitting double figures for the first time, the January reserves, due for release later this week, are unlikely to make it even to R9bn from the December level of R8,2bn. Since the bigger monthly increases in last year's reserves build-up were about R600m, it may be at least the end of the first quarter before the R10bn level is reached.

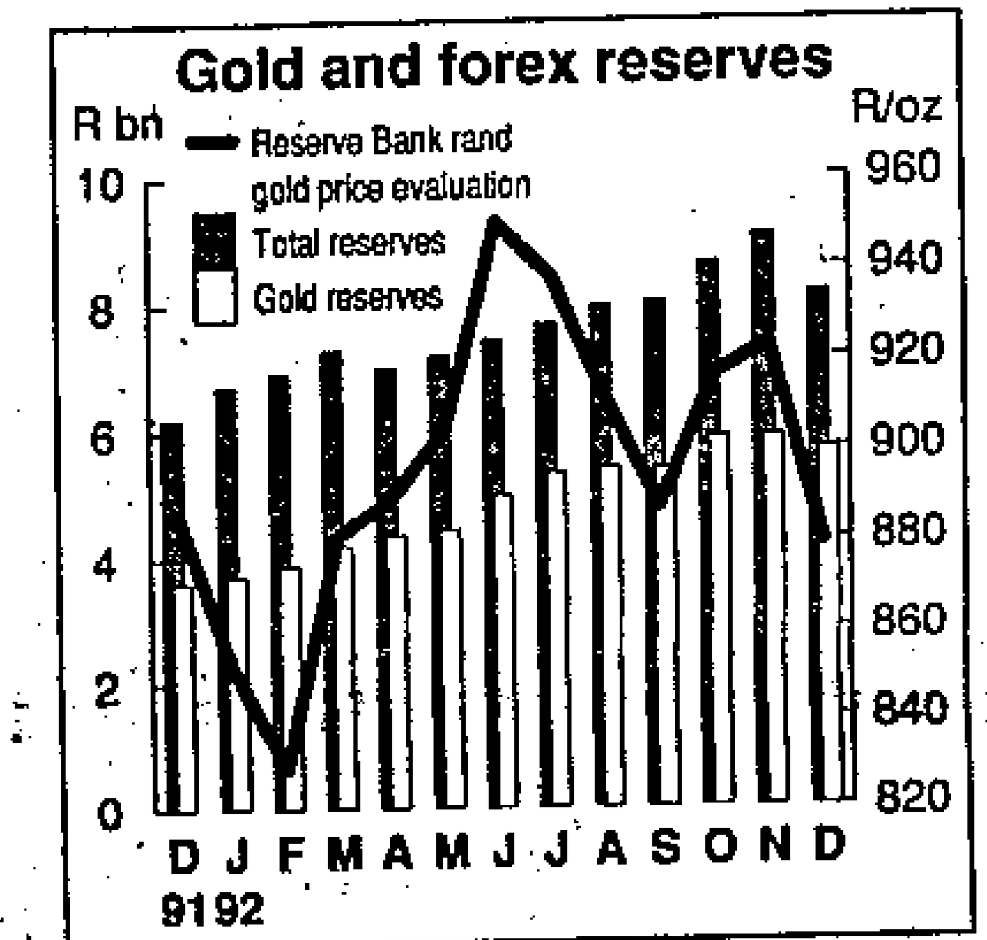
This deflates government predictions in the fourth quarter of last year that reserves would hit R10bn for the first time by end-1991. The reserves may take two months to recoup the unusually large drop for a single month of more than R900m in December. An inside-the-net foreign debt repayment also has to be absorbed in the February reserves total, leaving March or, more likely, April as the month in which the elusive R10bn level is reached.

The R918m slump in December's reserves was undoubtedly a once-off event, arising mainly from seasonal interest, dividend and profit payments abroad and from year-end book-squaring and window-dressing by foreign banks. None of these malevolent influences would affect the January outturn. Given the continued strong performance of the external sector, the main rogue variables would seem to be the level of gold holdings and the end-January gold valuation. The gold price last week — when the valuation took place — was in a range similar to that it occupied at end-December — the mid-$350s.

The rand, however, was weaker at about R2,80 to the dollar against levels of about R2,74 a month previously. On the reasonable assumption that physical gold holdings are still being built up to help support the shaky bullion price, an uptick in holdings and a slightly better rand-gold price should ensure the gold component is not a drag on the January reserves figures.

Internationally, the broadly neutral fiscal thrust of President George Bush's proposals to stimulate the US economy in last week's State of the Union address means short-term US monetary policy will still be determined largely by the regular flow of economic variables. The National Association of Purchasing Management (NAPM) index, which crashed through a critical benchmark in December's figure, is updated for January later today.

In December it fell below 50 for the first time in six months. At levels below 50 the index — which measures new orders, production and deliveries in the manufacturing sector — signals declining manufacturing output. The NAPM's return to the sub-50 danger zone was all the double-dip recession bugs needed to crawl out of the woodwork. Whether the index slides further in January from its precarious 46,5 in December or whether it closes the gap on 50 could swing short-term credit policy expectations. It fell all the way to a low of 37,7 in the first dip of the 1990-91 (-92?) US recession.



Graphic: FIONA KRISCH Source: SA RESERVE BANK

Tomorrow the policy-making arm of the US central bank, the Federal Open Market Committee (FOMC), starts what is slated as a two-day meeting. The FOMC can change the US credit stance but, unlike the German Bundesbank, makes no announcements after the meeting.

It seems a little too soon after the relatively drastic one point cut in US discount rate to a 24-year low of 3,5% to contemplate further monetary tinkering by the authorities, and it is unlikely the Fed governors will need the second day. Besides, the FOMC will, like the rest of the market community, be waiting for Friday's January US employment report.

Overall US unemployment rose to a six-year high of 7,1% in December — a number that had a lot to do with the subsequent discount rate cut. But there are signs the unemployment rate could be levelling off. The four-week moving average of weekly new claims for unemployment benefit is heading downwards again, and the December average work week lengthened in both the non-farm and manufacturing measurement.

BOOKS

Taxman reassures foreign investors

74

Finance Staff STAR 4/2/92

The recent bout of volatility in the financial rand market is expected to subside after yesterday's statement by the Commissioner for Inland Revenue that non-residents are not likely to be taxed on interest earned in South Africa.

Rumours to this effect last week caused a sharp sell-off of the financial rand, with the finrand dropping to as low as R3,47 against the dollar at one stage.

The Commissioner for Inland Revenue said yesterday the impression which was recently created that all interest paid or accruing to non-residents was now taxable was not correct.

He said in a statement the long-established rules still applied.

As far as interest is concerned, the general principle, contained in the Income Tax Act, was that income tax was levied if interest was received by or accrued to a taxpayer from a South African source.

The commssioner said the source principle applied to all taxpayers, including non-residents, and meant that the actual source of interest was determined by the place where the credit was made available by the creditor to the debtor.

However, the commissioner said there were various exceptions to the principle, including interest payable to non-residents on capital market stock and some double taxation avoidance agreements entered into by South Africa and other countries.

Non-residents who derived interest from a South African source had the same obligation as South African residents to render income tax returns and to pay the taxes owing on assessment, the commissioner said.

The Department of Inland Revenue was presently obtaining information from financial institutions and others to ensure that taxes which were properly due were collected, the statement said.

Russians head for Rand show

EDWARD WEST 74

AVAILABLE space at this year's Rand Easter Show is fully booked and visitors will be treated to a record number of foreign exhibitors.

National Exhibition Centre marketing manager Johan Theron said yesterday all 1 500 individual exhibition stands at Nasrec had been taken up by 850 exhibitors for the show, to run from April 3 to April 20.

A marketing campaign to 2 500 foreign companies had attracted 36 exhibitors from South America, the US, Canada, Europe, the Far East and Africa. BDay.

Six Russian export/import-oriented companies had also secured exhibition space. Theron said these companies would give the expected 850 000 visitors their first exposure to Russian products, services and trade opportunities. 4/2/92

The companies are involved in the export of timber, domestic electrical appliances, mineral fertilisers and other agricultural chemicals and textile and industrial sewing machines.

Last year 20 foreign exhibitors were lured to Nasrec by SA's improved trade relations with the rest of the world while in 1989, only nine foreign companies exhibited.

Another country to exhibit its products and services is Italy. At an address to students at the University of Salerno last week, SA ambassador to Italy Glenn Babb described Italy as SA's largest trading partner using 4-million tons of SA coal and about 300 tons of SA gold annually.

Italy has been an importer of SA raw materials for its predominantly manufacturing-based industry, while exports to this country include cars, car parts, telecommunication equipment, office, textile and other machinery and metal equipment.

SA still out in the cold for investors – poll

(74)

STAR 5/2/92

By Shaun Johnson
Political Editor

Those who believe that international businessmen are queueing up to invest in the new South Africa had better think again, according to the results of a Gallup poll commissioned by the London office of the South Africa Foundation (SAF).

In spite of the optimism expressed in South Africa after President de Klerk and ANC leader Nelson Mandela addressed the Davos World Economic Forum, British investors are not convinced of this country's attractions — and there is no reason to believe that their European and American counterparts think any differently.

In influential British circles, South Africa is regarded as being an investment prospect only marginally more enticing than Russia, Czechoslovakia and Brazil, the survey reveals.

The survey, conducted among influential UK fund managers, MPs and journalists, is cause for "considerable concern regarding UK-SA investment and trade", according to the SAF.

"Not only are the levels of ignorance about South Africa surprising, but when it comes to matters of trade and investment it is very clear that SA has not come in from the cold.

Some 25 fund managers, 50 MPs and 25 media figures were polled. Their attitudes suggested a worrying level of indifference towards South Africa — a sentiment which, observers note, could be even more debilitating than active hostility.

Some of the key findings are:

- Nearly half of all respondents believe much of or most apartheid legislation is still in force.
- Close to 40 percent said it would take 10 years or more for South Africa to correct current social, political and economic imbalances.
- Nearly half believed a future South African government would have an economic policy of "free market with partial State intervention".
- South Africa was regarded as a "medium risk" investment.
- Just less than 70 percent of respondents cited "political instability" as the greatest disincentive to investment.
- "Violence" was cited by close to half of those polled.

The SAF interpretation of the results is that, in spite of the freer climate created by the negotiations process, British decision-makers are not expressing marked interest in investing in South Africa. It is pointed out, for example, that the current generation of fund managers was trained in an environment in which there were little or no dealings with South Africa.

Market ignores unfavourable data

BDay 5/2/92 (74)

SHARON WOOD

DOLLAR bulls are nervously waiting on the sidelines of the international forex market for the event which will break the dollar's recent well-established trading ranges.

While market confusion about future dollar direction continued, participants ignored last week's spate of unfavourable economic data.

The dollar firmed slightly against the yen, and remained steady against the Deutschmark in the wake of President George Bush's midweek state of the union address.

Forex markets are again eagerly awaiting US employment data, which should provide some impetus for the range-bound currencies.

Economic fundamentals are still working against the US unit.

Last week US growth figures showed the economy had contracted 0,7% during 1991 — less than during the 1982 recession when GDP fell 2,2%, Standard Bank reported in its International Comment.

This suggested the expected recovery would not be as pronounced as the one following the 1982 recession.

Other US economic figures released during the week also indicated the recovery would probably be mild.

The consumer confidence index fell to 50,4% in January from 52,5% in December, durable goods orders fell 5% in December and the composite index of leading indicators dipped in the same month.

Events outside the US added to nervousness later in the week, but failed to affect the markets significantly.

In Germany, the focus was on the steelworkers' strike ballot.

Trading was nervous before and after the ballot, said Anglo American forex analyst May Thouw.

While the market attempted to analyse the effect of a strike on the economy, the dollar gained a pfennig and then lost two in an hour's trading.

On Monday, union and industry negotiators agreed on a compromise pay rise of 6,35% across-the-board and a one-off bonus payment, averting the strike.

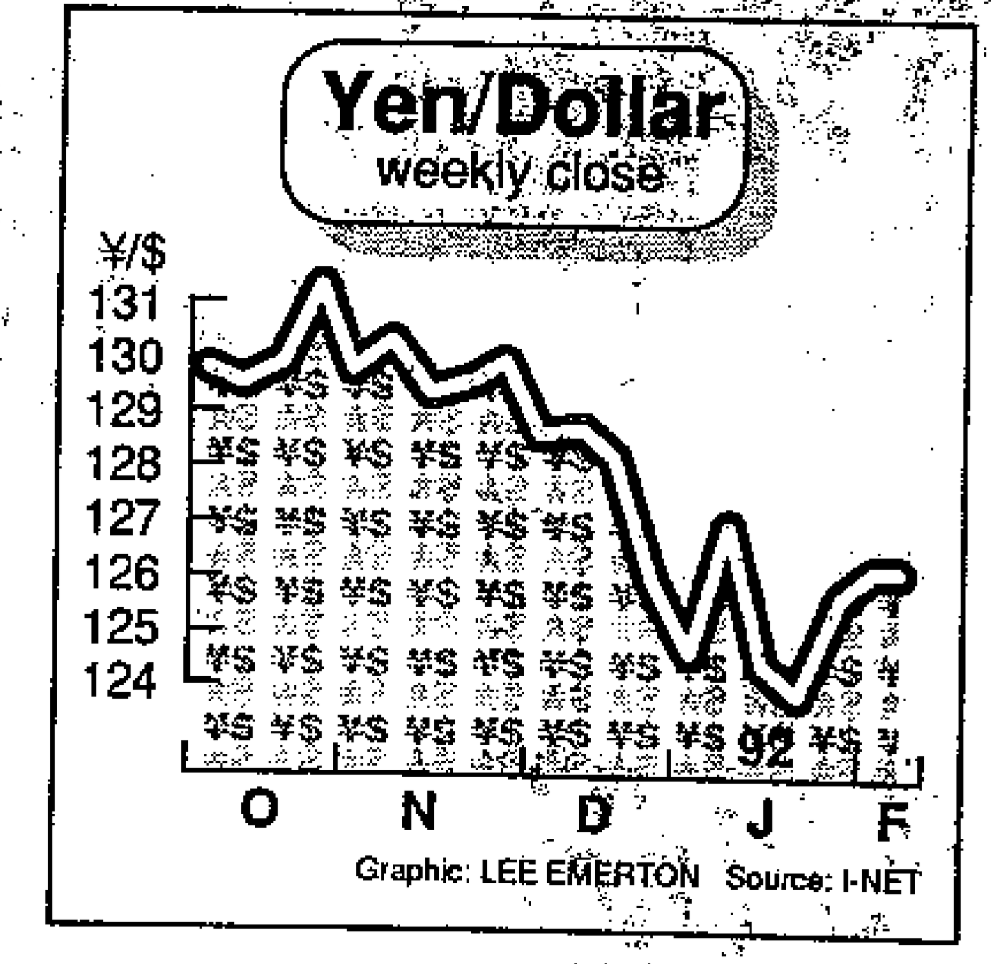
The strike threat had only a slight effect on the Deutschmark, with interest rates remaining firm, said the Union Bank of Switzerland.

It felt a rapid easing of interest rates was unlikely at this stage because the German inflation rate of 4% remained well above the Bundesbank's 2% target.

FNB's technical analysis showed the dollar briefly broke above its resistance at DM1,6000. Further tests were expected this week at DM1,6190.

However, short-term daily indicators suggested the development of a mildly overbought situation, said FNB. A decisive and sustained breakout would be needed to satisfy dollar bulls.

The forecast trading range for the week is between DM1,5750 and DM1,6200.



Graphic: LEE EMERTON Source: I-NET

The yen lost ground against the dollar on the back of renewed rumours of political scandal, and industrial output figures which showed the Japanese economic growth continuing to slow.

Pronounced yen weakness was curbed by fears that the Bank of Japan, and possibly the US Federal Reserve, would intervene in the markets. Consequently the dollar traded at about 126 yen.

Union Bank said it could be assumed the yen would remain under pressure for the time being.

Standard Bank said if the widening trade balance was sustained it would do little to appease US-Japanese trade tensions. Indeed, it would probably increase pressure on the respective authorities to try to boost the yen against the dollar.

The rand ended the week firmer against the dollar, trading at R2,7883 yesterday afternoon, up from last Tuesday's close of R2,8000.

The local unit remained steady against the major third currencies, the pound, Deutschmark and yen.

Most of the domestic forex market's attention was focused on the financial rand, which fell to a low of R3,48 to the dollar on Thursday last week. The sell-off began when foreign investors heard they would have to pay tax on interest if they held deposits at SA institutions.

The finrand continued its cautious rally this week, ending yesterday at R3,31 from Monday's closing R3,36.

REVIEW

Patience with GATT negotiators running out

B/Day 5/2/92.

74

DAVOS — GATT, often belittled as the "general agreement to talk and talk", has just about used up the world's patience.

Business and government leaders gathered in this Swiss resort town for the annual World Economic Forum are increasingly expressing exasperation and anger that the five-year talks seem to be chronically close to collapse, the Wall Street Journal Europe reported on Monday.

With stagnation in most of the world's richest industrial economies and an economic meltdown in the former Soviet Union, a crack-up on the trade front would batter economic confidence at an already fragile juncture. Long term, the breakdown of the talks would weaken the existing system under the General Agreement on Tariffs and Trade, and would make it easier for a variety of trade barriers to stifle global commerce.

Germany's Economics Minister Juergen Moellemann called for a special Group of Seven summit if the trade talks remain stalled in the spring. Others said that might be too late. Harvard professor of international economics Richard Cooper said he doubted that yet another G-7 endorsement (there have been five since the marathon talks began) would help much, unless the heads of state threatened to complete the intricate negotiations themselves. "The threat of having heads of government close this deal would be enough to goose the negotiators," he reasoned.

Behind the joking, however, there is considerable anger over the logjam, and much of it is directed at European farmers, widely perceived to be the chief impediment to compromise.

"The money we earn on industrial trade is used to pay for subsidies for unacceptable agricultural policies," said Germany's Moellemann. "We are paying subsidies for the production of a surplus, and we are paying subsidies for the storage of a surplus, and we are paying subsidies to sell it at below-market prices. If our international trading system is the victim of this, it's really ridiculous."

This and other statements of exasperation suggest that even if Europe's vocal farm lobbies manage to hang on to their generous supports at the expense of the GATT talks, they will have lost an immeasurable level of goodwill and patience.

During one discussion about the trade quagmire, a European businessman in the audience said, "I think this is the most disgraceful exhibition of inaction we have seen in modern times."

And while farmers, representing less than 5% of the EC economy, have dominated the trade debate so far, other businesses are getting involved, although at the 11th hour. Procter & Gamble Europe president Harald Einsmann said he had launched a letter-writing campaign to businesses his company deals with in hopes they will work to offset the farmers, who have mounted periodic demonstrations against the GATT trade deal, which would bring about deep cuts in trade-distorting farm subsidies. "The farmers are better organised," said Einsmann. "But they are just 5% of the economies in Europe, or less, and they are hurting the other 95%."

It is estimated that the European Community devotes about 1,5% of its GNP — the total value of output of goods and services — to farm subsidies. The EC's common agricultural programme does not just cost EC taxpayers and consumers billions of dollars, but it chokes off farmers from places such as Argentina, New Zealand and Poland.

But business leaders at Davos felt that European farmers were not the only threat to expanding global trade. Many are equally worried about US politicians, some of whom have taken to blaming the US recession on other countries, like Japan. Their isolationist, America-first rhetoric has sparked fears elsewhere in the world that if Europe cannot stop extending favours to farmers and the US turns inward, international trade could stagnate.

US senator Bill Bradley acknowledged the protectionist voices in his country, but the Democrat made an impassioned pitch himself for the negotiators to close the GATT trade deal, which would not just affect farms but would bring under the multilateral trade system services, as well as intellectual property such as patents and drug formulae.

"Time is running out," Bradley warned. "This GATT negotiation will play the same role that the Bretton Woods agreement did after the Second World War; it will set the path for the next generation." (The Bretton Woods pact provided for the formation of the International Monetary Fund.)

Asked about the protectionist rhetoric creeping into US politics, Bradley conceded his own party housed a protectionist faction. But he advised: "Don't panic; inevitably the politician walks up to the edge of the abyss, looks over and says, all things considered, I don't think I'll leap."

Government and business leaders also focused considerable attention on the formation of trade blocs — a European bloc; the US, Canada and Latin America; and Japan and the fast-growing Asian states. Increasingly, business leaders seem assured that a world arranged in trade blocs is not necessarily a world shackled by protectionist rules. None of the blocs views itself as even potentially self-sufficient, and each needs relatively open trade with the rest of the world.

But global companies are counting on GATT to keep the blocs from reverting to the exclusionary tendencies that, say, the German-East European-South American bloc practised in the 1930s. — AP-DJ.

ANC, Mandela differ on loans

STAR 6/2/92

74

● From Page 1

signed to impose a costly and heavy burden of international indebtedness on a future democratic government and the people of South Africa.

"This in turn, in our view, has the purpose of severely restricting the economic policy options available to such a government to overcome the effects of apartheid on our people, and the policies required to advance their living standards."

The ANC remained opposed to international loans and once again wished to remind international banks and foreign capital markets that borrowing by Government agencies was in gross violation of financial and investment sanctions still in place.

"We appeal to prospective investors to desist from collaborating and participating in unilateral restructuring of our economy by the outgoing apartheid regime," the DIP said.

Mr Mandela has used his public appearances with Mr de Klerk in front of influential audiences in Switzerland and France to calm investors' fears that their money would not be safe in South Africa and that their assets might be nationalised.

However, in Denmark on Tuesday, he reiterated the ANC's view that trade sanctions should not be lifted before blacks had the vote.

The National Party yesterday labelled the ANC leader's sanctions stance as "unpatriotic", reports **Esther Waugh**.

In a sharp attack, NP spokesman Sheila Camerer said Mr Mandela's remarks deserved the outrage and criticism of his countrymen.

She noted that Mr Mandela had acknowledged that the negotiations process was irreversible and that the ANC was an enthusiastic participant at Codesa.

"Why, then, does Mr Mandela still cling to old-style liberationist rhetoric, unless he has a double agenda?"

She added: "If Mr Mandela is so intent on continuing to damage the economy, which has resulted and continues to result in the deprivation and suffering of our own underprivileged compatriots, perhaps he could arrange for the ANC to donate some of the money contributed to ANC coffers by Colonel Gaddafi of Libya on Mr Mandela's recent trip to that country, to assist the Government's Food Relief Fund for the needy."

Angolan team to explore SA trade, investment ties

(74)

STAR 6/2/92

By Gerald L'Ange
Star Africa Service

Only two weeks after signing an agreement to restore diplomatic relations with South Africa, Angola has sent a delegation to explore the possibilities offered by trade and other exchanges with South Africa.

The visit is historic in that it is the first formal visit by an Angolan government delegation since relations were severed in 1975 at the time of the SADF invasion in support of the Unita and FNLA movements.

The delegation, headed by the MPLA government's roving ambassador, Miguel Neto, nominally represents the MPLA rather than the opposition parties South Africa supported during the civil war.

But the delegation is, out of necessity, looking ahead beyond the election in September that is to put the seal on the ending of the 16-year civil conflict.

It is looking to promote the interests of the country under whichever government is elected to office.

Thus the delegation's main preoccupation is with trade, investment and Angola's development prospects.

The group includes representatives of the ministries of agriculture, fisheries, health, construction and finance.

The speed with which the authorities in Luanda have followed up the restoration of relations is seen to reflect their anxiety to exploit the opportunities it has opened up.

South Africa is expected to play an important role in the post-war reconstruction of Angola, which is likely to offer lucrative opportunities to South African commerce and industry.

Much of the delegation's three-day visit has been taken up with meetings with the South African Foreign Trade Organisation, the South African Chamber of Business and other business organisations in SA.

Besides investigating business and development matters, the delegation sought South African co-operation in lifting the many thousands of landmines laid across Angola during the war.

ANC slams bank's Eurobond issue plan

74 BDay 6/2/92

SHERIDAN CONNOLLY

THE ANC yesterday strongly condemned the planned DM100m Eurobond issue by the Development Bank of Southern Africa.

In a statement, it repeated its view that a future democratic government would be compelled to weigh its obligations to service and take responsibility for debts contracted by the present government.

The ANC's criticism contradicts a statement by ANC president Nelson Mandela at the World Economic Forum in Davos, Switzerland, on Sunday in which he gave the assurance that a future ANC government would not renege on government loan repayments.

"We are obliged to honour these loans or else we will be in a great deal of trouble," he said.

Mandela also said any statement from ANC spokesmen that a future ANC government might not honour loans transacted by the present government represented their own views and not those of the ANC.

Yet in the official statement yesterday, the ANC said bond issues were "designed to impose a costly and heavy burden of international indebtedness on a future democratic government and the people of SA".

European bankers expect the issue to be launched tomorrow.

The ANC statement said government, which had an 84% capital interest in the Development Bank, was pursuing a systematic programme of foreign borrowing with a view to breaking existing economic sanctions, and in particular financial and investment sanctions.

The ANC appealed to prospective investors to desist from collaborating and participating in "unilateral restructuring of the economy by the outgoing apartheid

☐ To Page 2

Eurobond

BDay 6/2/92 74

☐ From Page 1

regime".

Plans for the bond issue were made known at the end of last month. The bank said then that the ANC and all other interested parties had, over the past two years, been kept informed of its intention to enter the international capital market.

A Development Bank spokesman said the bank had noted the ANC's criticisms. It would issue further details of the bond issue at an appropriate time.

The ANC recently condemned government's 250-million ecu bond issue and also said it had learnt that Transnet planned to issue an "equity-linked financial instrument to foreign subscribers which has the potential for providing investors with a rate of return of as high as 25%".

Transnet said this 25% referred to Transnet's equity linked financial instrument (Elfi) III issued in April last year.

The Elfi instrument consisted of a 4,5% bull tranche and a 25% bear tranche, and as the instrument was issued in combinations, the average cost of funds for Transnet was 14,75%.

This was significantly lower than comparable two-year SA rates, Transnet said.

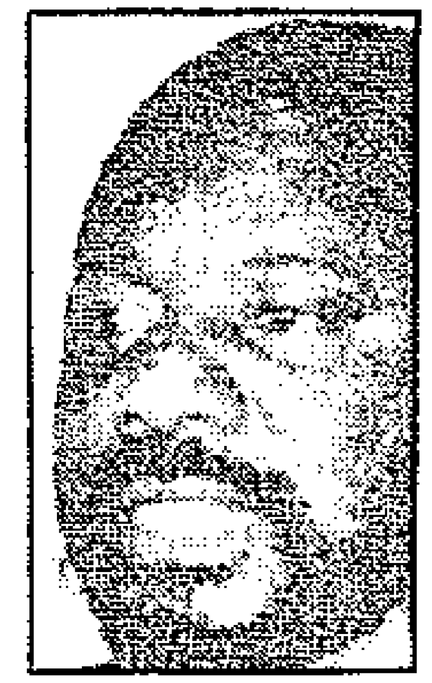
Transnet said the Elfi issue was primarily aimed at domestic investors but foreigners were, of course, welcome to invest in it through the financial rand.

Because Elfi was an SA-registered loan stock, denominated in rands, the coupon interest rate could not be compared with the ecu placement in the European capital market, Transnet added.

● Comment: Page 16

Another shock warning to overseas financiers

Ramaphosa . . . created rumpus last year.



Loans: ANC, Mandela differ

STAR 6/2/92 (74)

By Esmaré van der Merwe

The ANC yesterday again warned world financiers that a future democratic government would not be obliged to honour loans granted to the De Klerk administration — pouring cold water over ANC president Nelson Mandela's efforts this week to boost investor confidence in the country.

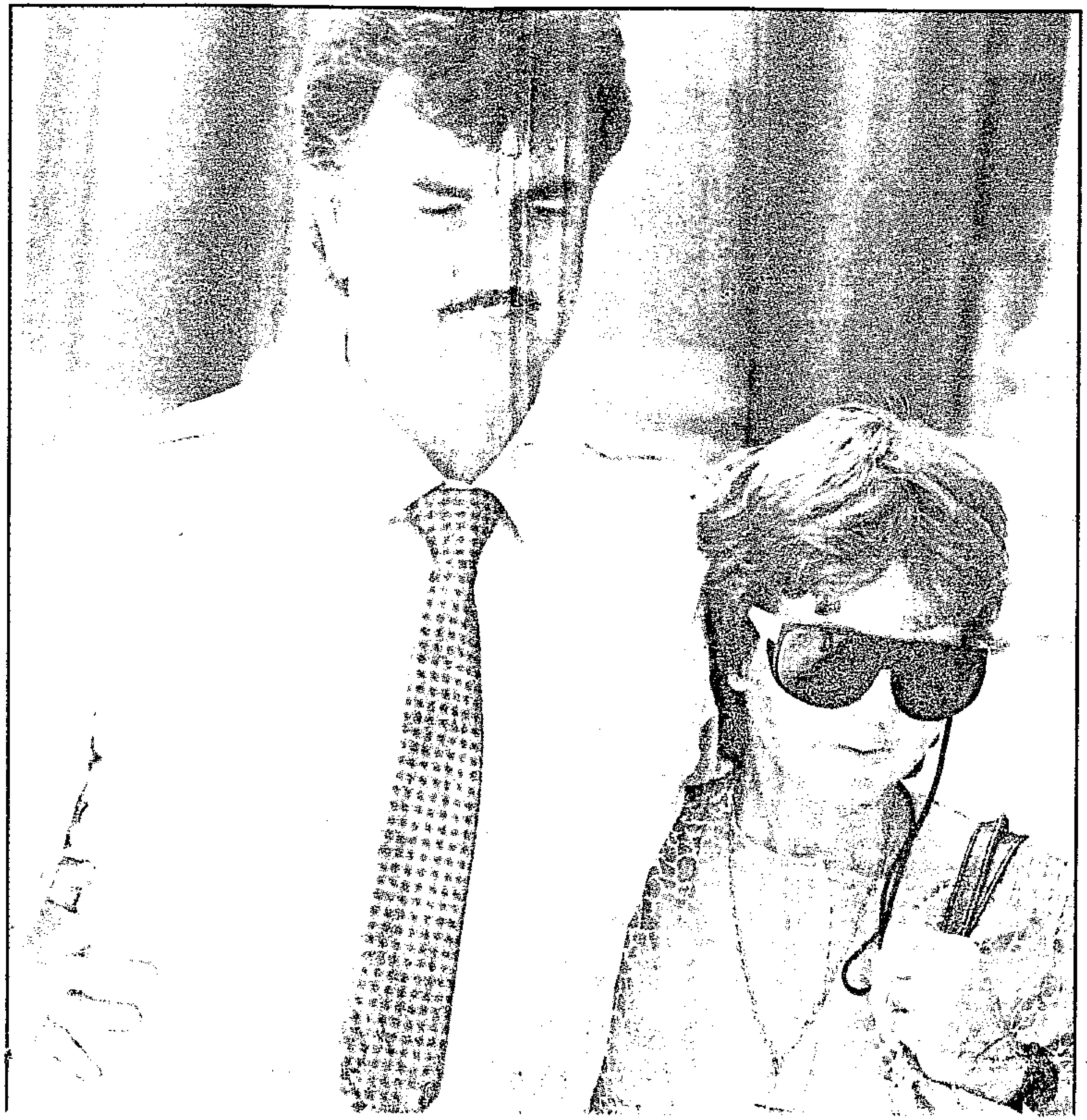
The organisation's department of information and publicity (DIP) said in a hard-hitting statement that a new government would, before the formation of an interim government and a formal request by a transitional government for the lifting of sanctions, be "compelled to weigh with great care" its obligations to service and take responsibility for the debts contracted by the present "illegitimate" Government.

On Sunday, Mr Mandela told a prestige World Economic Forum gathering in Switzerland that threats by some of his colleagues to review the repayments of loans granted to the present Government were merely the opinion of individuals.

"We can get into serious problems if the image we project is one of a country which is not prepared to honour its debts," Mr Mandela said in Davos, where he shared a platform with President de Klerk.

A senior ANC source yesterday expressed surprise at the DIP statement, describing it as highly irresponsible.

The ANC's first warning ...



Judge finds Laurent guilty of slaying boss

By Susan Smuts and Jacqueline Myburgh

A callous, cold-blooded woman killed her boss the day he was going to expose her R2,3 million fraud, a judge said yesterday as he found Nicolette Laurent guilty of murder.

Wendy, the widow of murdered Omnimed financial manager John Royce Fernandez, sobbed after her husband's killer was convicted.

Laurent (51), dressed in a turquoise crepe dress, was expressionless as she listened to Mr Justice L Weyers delivering judgment in the Rand Supreme Court. She looked down at her folded hands when the verdict was given.

Her husband, Jean-Michel Laurent, who has been her only supporter throughout the trial, sat silently behind her as the judge spoke.

Laurent, of Ruimsig, Roodepoort, had "every reason to do away with" Mr Fernandez on January 2 1991, said Mr Justice Weyers.

Mr Fernandez had said Laurent had been "bullshitting" Omnimed.

... her lavish lifestyle was over."

Mr Fernandez was not an office-wanderer, had an appointment to see Mr Pule, and "would hardly pop out for a little drink", he said.

The probabilities were strongly against Laurent having had an affair with Mr Fernandez, and "her claims were a scurrilous attack on the reputation of a dead man who could not defend himself, and a grave and unjustified embarrassment to his widow and children".

Laurent had formed the intention to murder Mr Fernandez when she visited the office on January 2 last year and Mr Fernandez told her that her time had run out.

"She then lured him to her house where she tried (to offer him) money, probably offered him sex and, when all else failed, she used a firearm."

The judge said everything pointed to a discovery of the fraud at the end of 1991, which had "excited suspicion and ire" in Mr Fernandez.

Laurent claimed she had "paid" Mr Fernandez with money and sex for his silence about her theft, which she said he discovered in ...

boost investor confidence in the country.

The organisation's department of information and publicity (DIP) said in a hard-hitting statement that a new government would, before the formation of an interim government and a formal request by a transitional government for the lifting of sanctions, be "compelled to weigh with great care" its obligations to service and take responsibility for the debts contracted by the present "illegitimate" Government.

On Sunday, Mr Mandela told a prestige World Economic Forum gathering in Switzerland that threats by some of his colleagues to review the repayments of loans granted to the present Government were merely the opinion of individuals.

"We can get into serious problems if the image we project is one of a country which is not prepared to honour its debts," Mr Mandela said in Davos, where he shared a platform with President de Klerk.

A senior ANC source yesterday expressed surprise at the DIP statement, describing it as highly irresponsible.

The ANC's first warning on the repayment of loans was issued by its general-secretary, Cyril Ramaphosa, in October. It caused a local and international rumpus — and much confusion in ANC ranks, with senior officials claiming Mr Ramaphosa had either been misquoted or had acted contrary to formal policy.

However, the organisation has, on several occasions, reiterated its stance that it might renege on the present Government's foreign debt obligations once in power.

Yesterday's DIP statement was issued in response to the Development Bank of Southern Africa's reported plan to issue bonds worth 100 million Deutschmarks on the European capital market.

This bond issue, the ANC said, followed two earlier issues last month — one of 400 million Deutschmarks and one of 250 million European Currency Units.

"It is clear that the South African authorities are pursuing a systematic programme of foreign borrowing with a view to both breaking the existing range of economic — in particular financial — and investment sanctions," the statement said.

"The ANC further believes these borrowings are de-

● To Page 3

New government may not honour loans, says ANC

Sowetan 6/2/92 Sowetan

THE African National Congress yesterday again warned world financiers that a future democratic government would not be obliged to honour loans granted to the De Klerk administration.

This move poured cold water over ANC president Mr Nelson Mandela's efforts this week to boost investor confidence in the country.

The organisation's department of information and publicity said a new government would be "compelled to weigh with great care" its obligations to service and take responsibility for the debts contracted by the present "illegitimate" government.

But on Sunday, Mandela told a critical World Economic Forum gathering in Switzerland that threats by some of his colleagues to review the repayments of loans granted to the present Government were merely the opinion of individuals.

"We can get into serious problems if the image we project is one of a country which is not prepared to honour its debts," Mandela said in Davos, where he shared a platform with President FW de Klerk.

A senior ANC source yesterday expressed surprise at the statement, describing it as "highly irresponsible".

The ANC's first warning on the repayment of loans were issued by the organisation's general secretary, Cyril Ramaphosa, in October last year.

However, the organisation has subsequently reiterated its stance that it might renege on the present Government's foreign debt obligations once in power.

Yesterday's statement was issued in response to the Development Bank of Southern Africa's reported plan to issue 100 million worth of Deutschmark bonds on the European capital market.

"It is clear that the South African authorities are pursuing a systematic programme of foreign borrowing with a view to both breaking the existing range of economic, in particular financial, and investment sanctions," the statement said.

"The ANC further believes that these borrowings are designed to impose a costly and heavy burden of international indebtedness on a future democratic government and the people of South Africa.

"This in turn, in our view, has the purpose of severely restricting the economic policy options available to such a government to overcome the effects of apartheid on our people, and the policies required to advance their living standards." - *Sowetan Correspondent.*

PTA and SADCC having communication problems

BDay 6/2/92 (74)

HARARE — Two major economic groups in eastern and southern Africa are apparently locked on a collision course, mainly because government ministers seem unable to communicate with each other.

The 18-nation Preferential Trade Area (PTA) of eastern and southern Africa called last week for a merger with the 10-state Southern African Development Co-ordination Conference (SADCC). But the latter shows no intention of accepting this idea, despite a nine-nation overlap in membership.

Dependence

"Ministers don't talk to each other within the same government, let alone communicate adequately with other governments," one diplomat observed.

SADCC, comprising Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe, was formed in 1980 to lessen economic dependence on SA.

Almost two years later the PTA, which includes the SADCC members except Botswana, plus Burundi, Comores, Djibouti, Ethiopia, Kenya, Mauritius, Rwanda, Somalia and Uganda, was set up to promote trade and lead to a common market.

Diplomats say relations between the two groups have been rancorous at times, particularly on the part of the PTA which appears to resent SADCC's ability to raise development funds.

Western donors have reacted coolly to a PTA proposal for a $50m revolving development fund, while SADCC has helped to co-ordinate about $3,5bn in foreign development funds for its region in the past 12 years.

In an embarrassing clash of dates, the PTA held its annual summit in Lusaka and SADCC its important annual donors' conference in Maputo on the same days last week.

PTA members pledged to seek a quick merger with SADCC, which in turn received an endorsement to push ahead with a policy of regional integration for its own members.

PTA secretary general Bingu Wamutharika said in Lusaka that SADCC had lost its reason for existence because of SA's political reforms.

"SADCC was established as a result of apartheid, which is already on its way out, and the question that the leaders of SADCC cannot postpone any longer is: what is the reason for SADCC's continued existence?" he said.

SADCC officials agree there must be greater co-ordination and co-operation between the two groups, but say there is no suggestion SADCC will disappear.

Initially a loose co-ordinating body for regional development, SADCC has set itself on the path to regional economic integration with plans for a formal treaty arrangement at a summit in August.

Problem

Western donors, who were looking for a new direction for SADCC in the post-apartheid era, and a better definition of its future relations with SA, expressed satisfaction at the future mapped out for regional integration.

SADCC officials and diplomats say the problem with the PTA lies in the member governments.

"What we see as a problem is the member states themselves. But I don't think there's a conflict between the two because we have not reached the stage that countries find themselves choosing," SADCC spokesman Kgosinkwe Moesi said in Maputo. — Sapa-Reuter.

Ivorian trade mission to be aided by guides

BDay 6/2/92 (74)

WILSON ZWANE

SA BUSINESSMEN need not baulk at the invitation to take part in next month's trade mission to the Ivory Coast as guides and interpreters proficient in English will be provided.

Ivorian business consultant Honore de Sumo said yesterday he had been inundated with requests from SA businessmen who were keen to join next month's trade mission to the Ivory Coast.

It is understood that three prominent black businessmen, including Richard Maponya, were among those who had expressed a "desire" to join the mission and establish contacts in Francophone countries.

De Sumo, who has set up an office in Sandton, said he was expecting to take at least 60 SA businessmen on a week's tour of his country from March 17.

He said the privatisation of 150 companies in the Ivory Coast, including water and electricity operations, opened up avenues for SA business to bid for trade in that country.

Language would not be a problem as English-speaking guides and interpreters would be provided.

However, SA businessmen should be warned against emulating the Europeans in trade links with Africa.

"We seek to trade as equals, no longer as underlings with a begging bowl intent on giving away raw materials in return for money, only to buy finished products after they have been processed," De Sumo said.

During the past year De Sumo has brought three groups of businessmen from Franchophone countries — one from the Ivory Coast and two from Cameroon.

The visiting businessmen held discussions with government officials, ANC and Inkatha leaders and the Safto.

SA bond issues 'not necessary'

B/Day 6/2/92 (74)

SHARON WOOD

SA's two recent foreign bond issues were very expensive and not necessary because local borrowing was sufficient to finance the 1991/92 Budget, Nedbank chief economist Edward Osborn said in the bank's latest Guide to the Economy.

Borrowing abroad could be extremely expensive measured in rand terms in a situation of chronic weakening of the rand.

"Foreign borrowing ... is thus an unnecessary burden on the finances of the state and should be approached most circumspectly and not as a triumphant test of financial vigour and creditworthiness."

Osborn calculated that if the expected rate of rand depreciation was an average 5% a year and the coupon rate was 10,5%, as was the case with the recent DM issue, the rand cost could average 17,7% a year over five years. A rand depreciation of 10% a year, in line with inflation differentials, would push the cost up to an average 26,3% a year.

"This is very expensive money by any standard," he said.

The European borrowing had been defended on the grounds of adding to foreign reserves and thereby paving the way for a less restrictive monetary policy.

"This is shifting foreign debt policy into the realm of short-term monetary policy, and clearly is not paying due regard to the costs to the exchequer and the country.

"The argument is not compelling," Osborn said.

In addition, the issues were not necessary for financing the state revenue account because the Finance Minister had disclosed that more than enough local borrowing had been raised to meet the requirements of the current financial year.

Normally the loan requirements of the state should be available on the local market and if there was a threat of crowding out the local capital market, there should be a radical re-examination of the structure of the finances of the state, he said.

More pros than cons for regional trade blocs

BDay 6/2/92

74

DAVOS — The emergence of regional trade blocs, long feared as a harbinger of resurgent protectionism, offers more opportunities than drawbacks, say businessmen and trade officials attending the annual conference of the World Economic Forum.

This consensus represents a dramatic change of heart for leaders who for years warned that a failure of the Uruguay Round of world trade talks would have dire consequences for the multilateral trade system carefully crafted since the Second World War, the officials predict.

However, since the talks stalled more than a year ago, many nations have begun to push ahead with the regional blocs, and businessmen and officials say now that the pattern appears more prone to free trade than to block it.

"I used to be part of the 'doomsday school', thinking it would be protectionist," said R T McNamar, MD of Oppenheimer & Co Inc of the US. "But it hasn't turned out that way."

McNamar and other business leaders said that rather than escalate protectionism, the emerging trade blocs might be the building blocks of a future, even more liberal global trade system.

Trade negotiators recently set a mid-April deadline for finishing the Uruguay Round. But similar deadlines have come and gone several times during the past five years, and most nations are not waiting for the results of this last-ditch effort to forge new trade strategies.

The Uruguay Round seeks to strengthen the multilateral trading system by broadening the scope of the 108-nation General Agreement on Tariffs and Trade (GATT). It has been snagged by a dispute between the EC on the one hand and the US and other farm exporters on the other over rules for agricultural trade.

To be sure, no one at the forum recommended abandoning the Uruguay Round. But the routine calls for a successful outcome were not accompanied by the usual shrill warnings of protectionist disaster in the event of failure.

Partly as a form of insurance in the event of the failure of the Uruguay round, nations in North America, South America, Southeast Asia, and South Central Asia have already moved to form regional blocs they hope will assure their companies markets large enough to attain the economies of scale needed to compete globally. Most are patterned loosely on the EC.

The EC itself recently signed a free trade pact with the European Free Trade Association (Efta) to widen its common market.

Instead of relying on protectionism to delineate their markets, nearly all the new blocs are beginning from the principle that their success depends on their ability to compete, which requires openness.

This is partly because most nations viewed the blocs as launching pads for the global trade arena, officials said. By lowering barriers among themselves, groups of nations would become better prepared for world markets.

Venezuelan Development Minister Ismelda Cisneros said her country would like to begin negotiating a free trade pact with the US, similar to the North American free trade agreement (Nafta) being negotiated between Canada, Mexico and the US.

Eventually, trade blocs forming in North and South America could forge links to become a hemispheric trade zone, as proposed by US President George Bush, officials from Latin American countries say.

In Europe, meanwhile, the creation of nearly 20 new states has also triggered calls for new trade blocs. Jacques Attali, president of the European Bank for Reconstruction and Development (EBRD), called for the formation of a 50-nation "continental common market" which would include the republics of the newly formed Commonwealth of Independent States.

Seven commonwealth leaders who attended the conference told businessmen here that their top priority was to form a mechanism to trade among themselves and with the outside world.

In East Asia, the five members of the Association of Southeast Asian nations (Asean) agreed last month to form an East Asian economic area, also aimed at promoting trade among its members and with the outside world.

Eventually, Japan could join the bloc, officials say.

According to former Japanese prime minister Noboru Takeshita, an Asian trading sphere, including Japan, the Asean nations and other newly industrialised countries such as South Korea and Taiwan, would have 510-million people, compared with 360-million in the Nafta and 380-million in the greater Europe formed by the EC and Efta.

Gross national product was $6,2-trillion in Nafta, $6,5-trillion in greater Europe and $3,7-trillion in East Asia, Takeshita said.

"Asia has very close trade relations with the US and Europe, so much so that it could not possibly be to Asia's advantage to become a closed economic bloc," Takeshita said in a speech. — AP-DJ.

LETTERS

Dear Sir —

Southern African economic union is on the horizon

BDay 6/2/92

TIM COHEN

74

A FAVOURITE jibe about the Southern African Development Coordination Conference (SADCC), established to decrease the Frontline states' dependence on SA, has been that its efforts were consistently toasted with SA wine.

The jibe reflects SA's past relationship with countries in the region; a commitment to trade, under the table if necessary, combined with a cynical and dismissive attitude to the SADCC's reason for existence. At times, dismissiveness approached arrogance. SA politicians boasted about SA's economic prowess compared with its neighbours, while overlooking SA's own shortcomings.

In his address at the SADCC 12th consultative conference in Maputo last week, ANC deputy president Walter Sisulu referred to this smugness, pointing out that terms like "powerhouse of the region" continued to recur in official discourse.

But, for better or for worse, the simple truth is that SA does dominate the region. The GDPs of all 10 members of the SADCC (Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe) combined was $27,2bn in 1989, only a third of SA's $80,4bn. More damning for the SADCC, though, is another simple truth — SADCC states are more dependent on SA now than they were when the organisation was formed, academics have found.

The SADCC counters by claiming that it was never just an anti-apartheid organisation, pointing out that its founding statement, the Lusaka Declaration, included the aim of the "reduction of economic dependence particularly, but not only, on SA".

But even here, the organisation has failed. To the extent that the SADCC member states may have lessened their dependence on SA, they increased their dependence on other regions, especially the Nordic countries and the EC, admits the UN department of public information briefing paper, Africa Recovery.

The SADCC has gained substantial funding for a range of projects. Its 1989/90 Annual Progress Report shows that more than $3bn has been secured, although $4,5bn is still being sought. Of the funds secured, $2,4bn has been concentrated in the transport and communications sectors, "showing that success has been rather unbalanced", the study says.

One would have thought that the SADCC would have been humbled by this less than stunning report card, but at last year's summit it decided on a course of action which constitutes a dramatic quantum leap for the organisation. In the context of moves toward economic blocs in other regions of the world, but more particularly because of political changes in SA, the organisation has embarked on a programme aimed at economic integration.

At the conference, the SADCC spelt out in its theme document what is envisaged. The goal is nothing less than a form of political union, complete with regionally co-ordinated monetary and fiscal policies, the phased reduction and eventual elimination of internal tariffs, freer movement of capital and labour, and a regional parliament.

In the light of the SADCC's record, one might be tempted to dismiss the aim of economic integration as another extravagant and overambitious plan destined to fail, or get no further than the drawing board. But there are several reasons why the aim is not only desirable, but also necessary and possible.

The first is that, although Western nations and institutions might have been sceptical about the SADCC's past aim of decreased dependence on SA, the conference demonstrated they are enthusiastic supporters of economic integration Former US assistant secretary of state for African affairs Chester Crocker called the SADCC "the triumph of ideological economics" at its inception. But the mood has changed dramatically. At the conference, speaker after speaker from Nordic countries to Japan, from the EC to the World Bank, endorsed the aim with a vigour that transcended diplomatic-speak.

The second is that the SADCC's main success has been its creation of a regional identity among member states. In fear and awe of the monster down south, the SADCC members put aside their many differences and huddled together for warmth. The effect was that they began to feel like allies. The SA establishment may not be well aware of this. But the ANC and PAC have always had observer status at the SADCC meetings, and the ANC, particularly, apparently feels more closely allied to the SADCC than to other regional groupings.

Thirdly, the concept of regional economic integration makes good sense for all the countries involved. Although the SA political and military threat has all but disappeared, the perception of the SADCC countries is that this has been replaced by a threat of SA economic hegemony. They feel the need for a forum to regulate relations between member states and SA, and the SADCC appears best to perform this function. To this end, the SADCC is now courting the ANC almost desperately, and representatives speak of when rather than whether SA will join it.

For SA's part, local manufacturers need to use SA proximity to countries in the region to give them an edge over international competitors. In addition, negotiations over the movement of labour to SA will be necessary to prevent SA being flooded. And, in the long term, SA shortages of water and power could be remedied by the SADCC member states. The natural advantages of economic bloc formation would also apply here. Economies of scale can be achieved and unnecessary duplication can be scrapped. Particularly, military overspending could decrease with a joint security plan.

But, for all the advantages, there are serious obstacles to overcome. The most tricky problem relates to the 18-nation Preferential Trade Area (PTA), which held its summit in Lusaka at exactly the same time as the SADCC held its conference, reflecting an element of competition between the two organisations.

The PTA appears better equipped than the SADCC to deal with economic integration as it has long aimed at a free trade area, while the SADCC is involved more in project co-ordination. At its summit, the PTA recommended the organisations merge. But the SADCC officials and the ANC, attached to the idea of a southern African regional bloc, seem less than enthusiastic.

The SA Customs Union, which has four SADCC members, is less of a problem. ANC representatives in particular are toying with the idea of including it in the SADCC's integration plans, perhaps extending a restructured union to the whole region. Perhaps unwittingly, this demonstrates a politically unpalatable truth: rather than SA joining the SADCC, the SADCC will in fact be joining SA.

The more fundamental problem with regional economic integration relates to the type of integration envisaged. The SADCC theme document defines the philosophy as a "development integration approach". This comes down to a regional co-ordination approach. Traces of commandist economic theory still recur and, given the ANC's bias toward commandist economics, these are likely to increase.

Instead of allowing trade to drive economic integration, the SADCC members tend to see the proposed new SADCC as principally a regulatory body. This has the potential to render the new SADCC merely a group of bickering bureaucrats, arguing about who should get compensation for what. Market-led integration is not favoured, but the SADCC is coming under strong pressure from the World Bank and the EC particularly to adopt this method.

There was no SA wine at the SADCC Maputo conference, but everything from the cars that took delegates to the conference to their conference identification badges had distinct "Made in SA" odours. Perhaps the most positive thing to come out of the conference was that this just does not matter any more.

Govt must drop protectionism, says foundation

BIDay 6/2/92

THE southern African branch of the International Freedom Foundation has slammed SA's "protectionist" economy, criticising its maintenance in a report released yesterday. (74)

The report from its Johannesburg branch argues that protection of local industries and products has led to spiralling prices, inflation, unemployment, misallocation of resources, skewed economic development, creation of monopolies, and to a generally sluggish economy.

It cites as an example an agreement between the SA Tea Council and local packers — requiring local packers to take 54% of their requirements from local crops — which has increased the price of a cup of tea for the consumer from 3,5c to 5c; and says that while protectionism has led to South Africans paying R2 800 a ton for PVC polymers, the world average price is R1 300 a ton.

Because the local economy has failed to substitute many items despite government's efforts to make SA self-sufficient, both industry and the consumer are often forced to buy imported goods, which, because of import tariffs, are more expensive than they need be, it says.

Indirectly, the consumer also has to pay more through high taxes to subsidise local industries.

"In short, the consumer ends up paying twice, and sometimes even more — particularly when an already protected, high-priced product is used in the manufacture of other items," the report says.

It recommends that SA abandon attempts to compete with cheap foreign products, and says it should rather develop a niche in those areas of the market in which it has a comparative advantage. — Sapa.

Emergency water supply on tap for eastern Cape

BIDay 6/2/92

PAUL ASH

THE drought-stricken eastern Cape could be supplied with water from the Orange River within six months, says the Water Affairs and Forestry Department.

While the PWV was under no threat of a water shortage, the eastern Cape and northern Transvaal would need good rains soon to avert a crisis.

The Paul Sauer Dam, which supplies water to Port Elizabeth and Uitenhage as well as irrigation to farmers in the Gamtoos Valley, is 18% full, while the Njelele Dam in Venda is only 10% full.

Crops cultivated below the 53-million cubic metre Njelele Dam needed constant water and the dam level had dropped rapidly.

The department said under an emergency scheme first proposed for Port Elizabeth and surrounding areas in 1989, water was to be pumped from the Orange River into the Sundays River to replenish the Paul Sauer Dam.

The temporary pumps and treatment works were still on standby and could be installed at short notice.

However, as the cost of running the scheme was carried by end-users, the measures would be implemented only if the water supply worsened "considerably".

At the moment, the most cost-effective measure was the imposition of water restrictions.

Meanwhile, a permanent scheme to supply water from the Orange River was expected to be completed later this year.

Water supply to the PWV area was assured by the 2 617-million cubic metre Sterkfontein Dam. It supplies water to the Vaal and Bloemhof dams, which are currently about 53% and 47% full.

The deep Sterkfontein Dam, fed largely by run-off from the surrounding Drakensberg, had a smaller surface area than the Vaal Dam and lost less water through evaporation. It is 97% full.

Rainfall for the PWV during January was 113mm, down on the long-term January average of 131,9mm.

Water consumption on the Witwatersrand has not increased significantly, Rand Water Board PR Louise Fourie said yesterday.

"We are not really worried at this stage," she said, although a protracted drought could affect the board.

Drought to be debated in Parliament

BIDay 6/2/92

CAPE TOWN — The drought in large parts of the Republic is to be debated in the House of Assembly today as a matter of public importance.

The House's Order Paper showed the debate was proposed by CP chief whip Frank le Roux.

Agriculture Minister Kraai van Niekerk is scheduled to visit the drought-stricken summer grain-producing areas early next week.

He expressed concern about the critical situation in the Free State and Transvaal in particular.

The SA Agricultural Union is to discuss the gravity of the situation with the Ministry of Agriculture at a meeting scheduled for February 14.

The Red Meat Producers' Organisation warned producers could face serious problems unless it rained soon. — Sapa.

'No contradiction' says ANC on loans row

STAR 7/2/92

74

Political Staff

The ANC has attempted to avert a fresh controversy over warnings that it might not honour foreign loans negotiated by the present Government — but the organisation has not withdrawn the threat.

General secretary Cyril Ramaphosa yesterday rejected claims that a statement issued in Johannesburg on Wednesday by the ANC's department of information and publicity (DIP) ran counter to remarks on the repayment of loans made by ANC president Nelson Mandela at the World Economic Forum in Switzerland on Sunday.

Mr Mandela told his international audience that threats by some of his colleagues to review the repayments of loans granted to the present Government were merely the opinion of individuals.

"We can get into serious problems if the image we project is one of a country which is not prepared to honour its debts," he said.

However, Mr Ramaphosa yesterday maintained there was no contradiction between the two positions. There was no contradiction as the DIP statement referred only to the Development Bank loan, he said.

DIP spokesman Gill Marcus echoed this view: "I see no contradiction and have nothing further to add to the statement."

Asked on whose authority the statement had been issued, Miss Marcus said it — like all other statements released by the DIP — came from the organisation's national executive committee.

But The Star has learnt that at least one senior NEC member was not aware of the loans threat.

Another ANC source described the statement as highly irresponsible.

There is still confusion about the position — both within ANC circles and outside — and sources say the matter will in all likelihood not be cleared up until Mr Mandela's return from a trip abroad. Attempts to contact him in Denmark proved unsuccessful.

The statement followed reports of a 100 million Deutschmark bond issue being planned by the Development Bank of Southern Africa in the European capital-market.

It condemned the planned issue as a breach of financial sanctions, noting that loans should not be granted before the formation of an interim government and a formal request for the lifting of sanctions.

This is the second time that ANC warnings on the repudiation of international loans has caused a controversy. The first warning was delivered by Mr Ramaphosa in October.

It caused a local and international rumpus — and much confusion in ANC ranks, with senior officials claiming Mr Ramaphosa had been misquoted or had acted contrary to policy.

Major sell-off weakens finrand

(74)

Finance Staff STAR 7/2/92

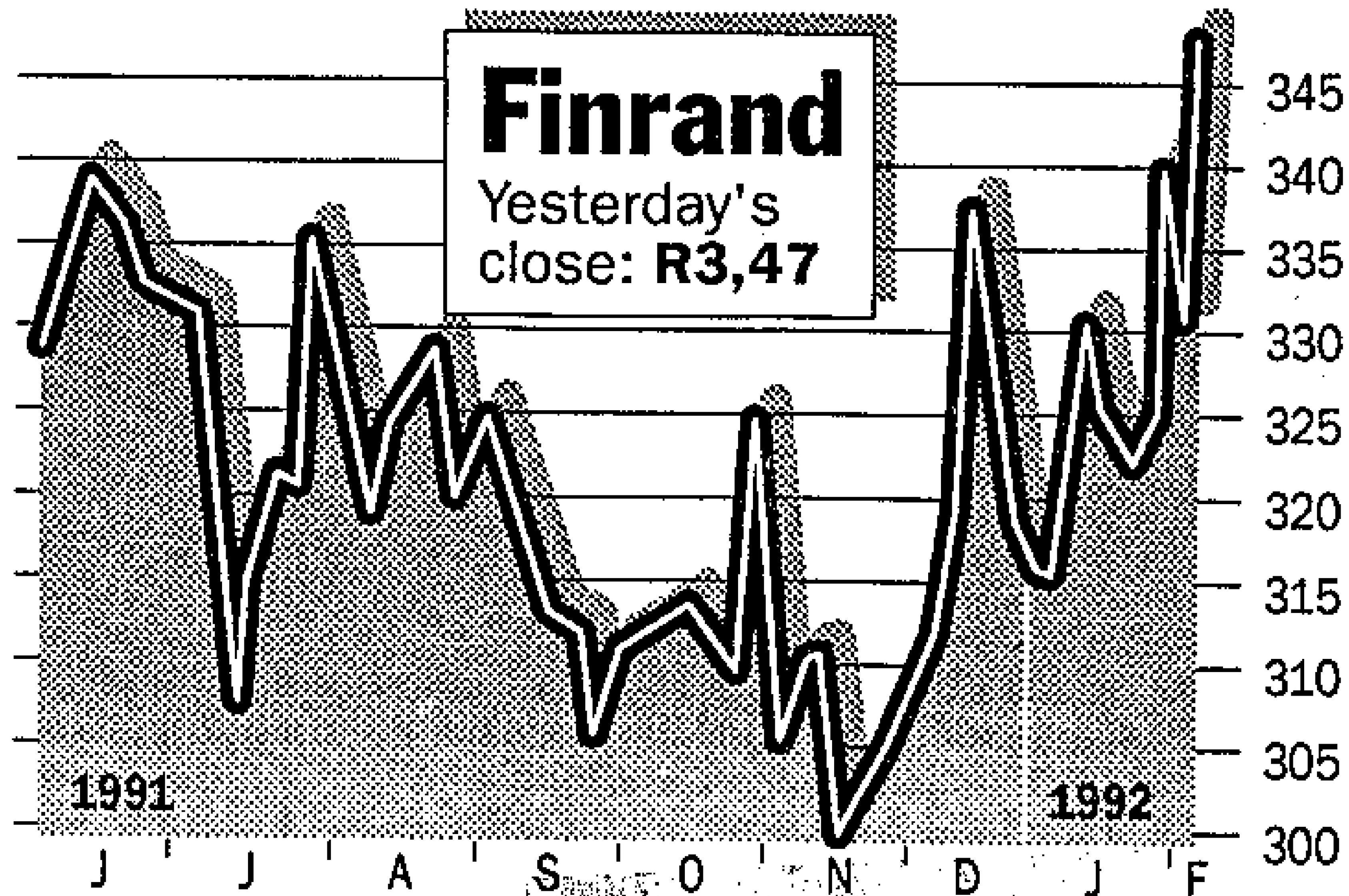
The finrand plunged 12c to R3,47 against the dollar yesterday when a large Swiss corporate investor sold finrands after liquidating its local deposit holdings.

Dealers said the sale was in reaction to this week's announcement by the Commissioner of Inland Revenue that interest on deposits held by foreigners would be taxed.

The 12c fall came on the back of a 5c decline in the investment currency on Wednesday.

At yesterday's lower levels, the finrand attracted some buyers, but sentiment remained bearish, dealers said.

As the commercial rand rose further against the dollar, closing at R2,774, the discount between the finrand and the commercial rand widened to just over 20 percent after reaching 21 percent in early trading.



ANC conflict over foreign loans

BDay 7/2/92

ALAN FINE (74)

ANC sources said yesterday a sensitive situation had been created by the conflicting statements from ANC president Nelson Mandela and the ANC's information and publicity department on the repayment of foreign loans granted to government.

"It is difficult to explain. It is one of those things," said one. Both said the issue probably would be discussed by the national executive committee (NEC) on Mandela's return to SA at the weekend.

Mandela told the World Economic Forum at Davos on Sunday that an ANC government would be obliged to honour the loans. On Wednesday the department said the organisation would weigh its obligations to service and take responsibility for foreign debt incurred by government.

One of the sources, an NEC member, insisted that the department's statement reflected official ANC policy. The issue had been dealt with when secretary-general Cyril Ramaphosa and official Stanley Mabizela expressed divergent views on the issue last year. Ramaphosa's view, as again reflected in the latest departmental statement, had prevailed.

The source said this did not mean that foreign debts would not be serviced. "We are not being reckless. In practice we would be bound to meet our obligations. But it is necessary to make the point that loans should not be granted to a government representing 5% of the population."

The second source said there were obviously different views on debt repayments and on matters like nationalisation, and these would have to be debated.

Mandela "is saying he has been abroad and has experienced certain things. We will have to consider them".

Balancing the probabilities

(74)

FM 7/2/92

Just how big have capital losses been in the three decades we've been subject to exchange controls? The problem is that no-one knows how large illegal transfers have been. One serious effort at measurement (by UCT economics lecturer Brian Kahn) has been challenged on methodological grounds by Nedbank chief economist Edward Osborn.

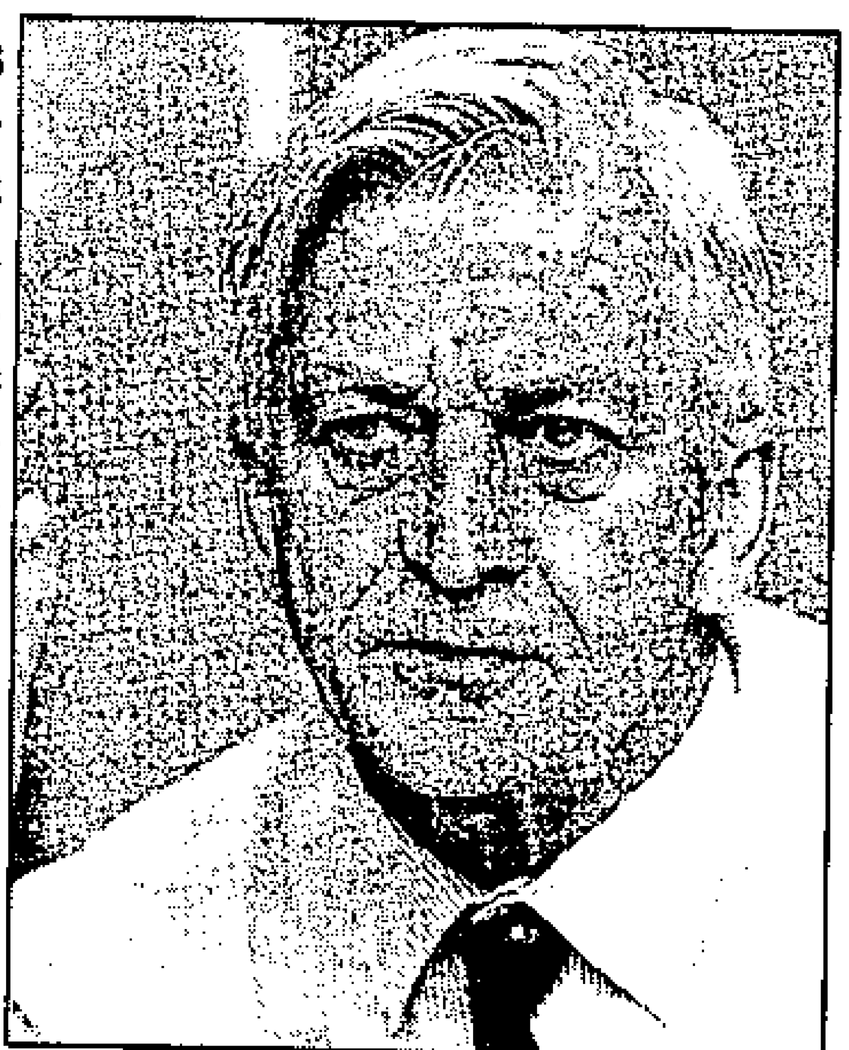
Kahn, writing for the LSE Centre for the Study of the SA Economy & International Finance, concluded the cumulative outflow in 1970-1988 (excluding any outflow through over- and under-invoicing) had been US$12,4bn, or about R34bn at the current exchange rate.

Kahn employed three different methods to measure outflows:

☐ The balance of payments approach uses flows of resident capital, as recorded in Reserve Bank statistics. Amounts for errors and unrecorded transactions are added to these, on the assumption that these are primarily short-term capital movements that evade exchange controls;

☐ The residual approach takes inflows in the form of increases in external debt and net foreign direct investment and subtracts the current account deficit, together with the increase in official reserves. This, says Kahn, represents the increase in net foreign claims in the hands of the private sector;

☐ The partner trade approach recognises that a major channel for capital flight is over-invoicing of imports and under-invoicing of exports. This analysis looks at an additional form of capital flight. So these estimates should be added to amounts calculated using one of the first two methods. Double invoicing could have cost SA $20bn.



Osborn

Hence the aggregate outflow from all causes since 1970 could have been $32bn (around R90bn at today's exchange rate).

But Osborn says Kahn "employed wrong methodology." Kahn, while acknowledging he had made a first attempt, says he used standard methodology — applied in particular to Latin America, which has had serious problems with capital outflow.

Osborn suggests the wrong inference has been drawn from errors and omissions. All countries have the problem — the world in aggregate has "a capital flight to Mars."

The IMF has spent many years analysing these flows and concludes errors arise primarily in the merchandise account. This is likely in SA's case, says Osborn.

Analysis of balance of payments estimates must begin with merchandise trade for the customs union. Subtract from this aggregate direct exports of remaining members of the union to the rest of the world and add SA exports to these members.

This raises technical reporting problems. Imports should be valued at the exchange rate on the day they are cleared. But much reporting is done at the valuation in the forward contracts.

Alternatively, imports are valued at the time of despatch from the foreign country rather than the time of clearing. Either way, imports tend to be undervalued when the rand is declining. Osborn points to a strong correlation between the extent of errors and omissions and exchange rate fluctuations.

So SA could be substantially overestimating surpluses on current account and thus over-estimating the capital outflow.

Exports are not hard to evaluate because precious metals, which form an important part, have a spot value.

Errors and omissions in the merchandise account are more likely to stem from timing, valuation and reporting problems.

Osborn disagrees with Kahn's use of IMF trade statistics to compare, in dollar terms, SA exports to its seven major trading partners with their imports from SA. He says Kahn does not take into account the full implicatons of large special categories of exports for which no country analysis is available.

For example, of total exports of $16,4bn in 1985, $7,4bn fell in special categories with no country breakdown. Only $5,5bn was identified as exported to the seven major trading partners. Yet they recorded $9bn imports from SA.

Osborn argues that respectable quoted companies would not under-invoice exports. SA exports are dominated by a limited number of large companies that have nothing to gain from such malpractice.

Over-invoicing of imports is more likely. The courts have found proof of this. But Osborn says it does not occur on a significant scale because import duties are based on declared values and because of the danger of prosecution.

Osborn cannot quantify the outflow but insists it is not on Kahn's scale.

But both agree the outflow has been caused by investors' fears of socialist policies, taxes on wealth, expropriation and internal disorder.

☐ Stellenbosch University professor of economics Ben Smit, in a recent article in the *SA Journal of Economics*, estimates the outflow for the period at $12,4bn-$22,8bn.

'Sanctions-busting' loans anger ANC

W/Mail 7/2-13/2/92.

(74)

Economists say the ANC dare not renege on foreign loans, reports **REG RUMNEY**

THE African National Congress dare not renege on foreign debt entered into by the present government — even if the loans are expensive and politically motivated.

That is the opionion of economists canvassed by *The Weekly Mail*.

At the same time the government was criticised by a bank economist for raising expensive foreign loans instead of raising the money domestically.

The ANC threatened this week to reconsider foreign loans. It believes the government is systematically borrowing abroad as a sanctions-busting exercise.

It also believes the borrowings are designed to impose a costly burden of international indebtedness on a future democratic government. This in turn would limit economic policy options for overcoming the effects of apartheid and hamper policies required to advance living standards.

The cause of the ANC's anger is a proposed new Development Bank of Southern Africa Deutschemark loan. The DM100-million issue, with a tenure of six to seven years, is lead-managed by the German Bayersiche Landerbank on the Euro-capital market, the ANC says.

It adds that this bond issue follows two earlier issues — a DM400-million issue in September 1991 and a 250-m European Currency Unit (US $315-million) five-year bond issue last month.

Reneging on foreign loans would mean South Africa would probably be blacklisted by foreign institutions and would never be able to borrow abroad again.

Nedcor economist Edward Osborn points out that independent Zimbabwe, for instance, repaid all loans but one. This was a tax levy to pay for the bush war.

"Modern convention is that you accept the liabilities of the past."

It would be especially difficult not to repay public bond issues, such as the ECU bond issue. These were excluded from the South African debt standstill.

An ANC source says that while an ANC government might be forced to repay loans the ANC is probably considering other punitive action against banks lending money or underwriting loans.

That a future government may have to service and repay all foreign loans does not exonerate the government. Firstly, the loans are arguably expensive, and secondly the money could have been raised in South Africa.

That foreign loans to South Africa carry a poltical premium for lenders is not in doubt. They are a few percentage points higher than other issues. This could happen even to a new ANC government.

In an article in Nedcor's latest economic review Osborn also looks in detail at the desirability of all foreign capital inflows and expectations of what these will do for the country.

In passing, he questions the economic value of direct borrowing by the state, pointing out that domestic inflation makes foreign loans more expensive than they appear. He says that if the local market can accommodate the loan the money should not be borrowed abroad.

"Foreign borrowing by the state in a situation of chronic currency decline is thus an unnecessary burden on the finances of the state and should be approached most circumspectly and not as a triumphant test of financial vigour and creditworthiness."

PIONEERS . . . bringing South Africans and Russians together at a high-level conference in Moscow next month are Jill Wiggill, South African representative for Intourist (Germany); Frank Hildebrand, managing director of Cape Town-based Central & Eastern European Travel & Trade (Ceettra); and Minnie Venter, marketing director of Ceettra

Closer look at Russian style of free enterprise

S/Times (CM) 9/2/92. (74)

SOME hard-nosed South African business people are about to disprove the old saying that a Russian entrepreneur is a contradiction in terms.

They will fly to Moscow next month to meet men and women who have struggled and built up successful businesses since the recent Russian reforms — despite 70 years of attempts by the authorities to crush free enterprise activity.

The South Africans will also meet high-tech experts, bankers, stock exchange officials, financial consultants, industrialists and business leaders.

With the support of the Russian government, South African business people have been invited to join a conference on "The New Russia" to be held in Moscow and St Petersburg from March 23 to 27.

The conference is organised by a Cape Town organisation, Central & Eastern European Travel & Trade (Ceettra), which also has offices in Berlin.

"The South Africans will be able to get first-hand knowledge of various fields such as food products, mining equipment and the building industry, while exporters will be able to offer clothing and agricultural products," says Minnie Venter, marketing director of Ceettra.

"Delegates will be accompanied by Frank Hildebrand, managing director of Ceettra and former acting East German Ambassador to Namibia.

"Mr Hildebrand speaks fluent Russian, having done his five-year post-graduate course at the Moscow State Institute for International Affairs."

Ms Venter points out that the conference is being convened in conjunction with Intourist (Germany), the former Soviet state tourism agency.

"What we read about Russia in the media are the hard facts regarding the needs, disasters and shortcomings of the society.

"For South African trade and business, Russia is and has always been a mystery.

"Without knowing how the system fits together and without talking to credible experts in their respective fields, South African business people run the risk of misinterpreting the fast-emerging markets.

"The seven-day conference will give them the opportunity of exploring new markets and getting to know people in Russia concerned with similar business activity.

"Five-star facilities are guaranteed for all people going to the conference.

"Numbers are limited, so we ask interested persons to do a firm booking as soon as possible."

Mission goes east (74)

S/Times (BUSS) 9/2/92

SAFTO is to take another group visit to Poland, Czechoslavakia and Hungary in May.

The move follows the positive response received by President De Klerk on his Eastern European tour, says Safto business development executive Pam Murray.

She has been swamped with inquiries from these countries.

European investors rush to buy SA foreign bond issues

STAR 10/2/92

(74)

FRANKFURT — South Africa on Friday chalked up a victory in its struggle for acceptance by investors abroad with the successful launch of a Deutschemark-denominated bond by a state-controlled investment bank.

South African borrowers are still paying a premium for political instability, but the bond issue follows signs that the country is becoming an attractive investment option as it moves towards government with black participation, financial analysts say.

Appetite

Investor appetite for a six-year issue of Eurobonds by the Development Bank of Southern Africa (DBSA) was so great that the issuer decided to raise the amount to Dm200 million from the original Dm150 million.

"The issue is selling fine, in fact so well that we were able to increase the volume.

"It is almost a roaring success," said an official at Bayerische Landesbank Girozentrale, which brought the loan to the market for DBSA.

He said the bulk of the issue had been snapped up in Germany, but that investors from other European countries had also shown interest.

The bond's relatively high 10 percent coupon had helped to attract investors to the issue.

"Private investors just love these high coupons, they do not worry too much about apartheid," a German banker said.

Bond issues by the German government or state-controlled institutions pay around eight percent interest.

"Of course, the coupon is a reflection of political uncertainty in South Africa, but only that. It has nothing to do with its economy," said the banker, speaking on condition of anonymity.

The ANC has repeatedly denounced buyers of South African issues as transgressing sanctions and has threatened not to acknowledge debt contracted by Pretoria.

Nevertheless, SA issues carry coupons comparable with those on bonds by Brazil, a less developed economy, or Hungary, a former communist country struggling to adopt market economics.

Polls of more than 100 European investment managers show that South Africa is rated a lower investment risk than Brazil, Mexico, Argentina, Czechoslovakia, Russia and Hungary.

Fund managers in London praised the quality of leadership in all economic sectors in South Africa, its sound infrastructure and the vast potential local consumer base, extending to the rest of Africa.

After years of being boycotted, apartheid reforms have enabled Pretoria to make a discreet but successful re-entry into world capital markets since September last year.

Loyal

"Investors in Europe and Britain have been very loyal to South Africa... consistently requesting paper," said a syndicate manager.

But he stressed that the bonds were heavily guaranteed.

The Government owns 84 percent of DBSA, which was founded in 1983.

The remaining 16 percent is in the hands of regional governments countrywide.

The continued success of South African issues is expected to encourage other SA borrowers to issue bonds.

Bond market sources say the next issue is likely to be a Deutschemark150 million bond for Eskom. — Sapa-Reuter.

Gold and forex reserves surge higher

STAR 10/2/92

By Sven Lünsche (74)

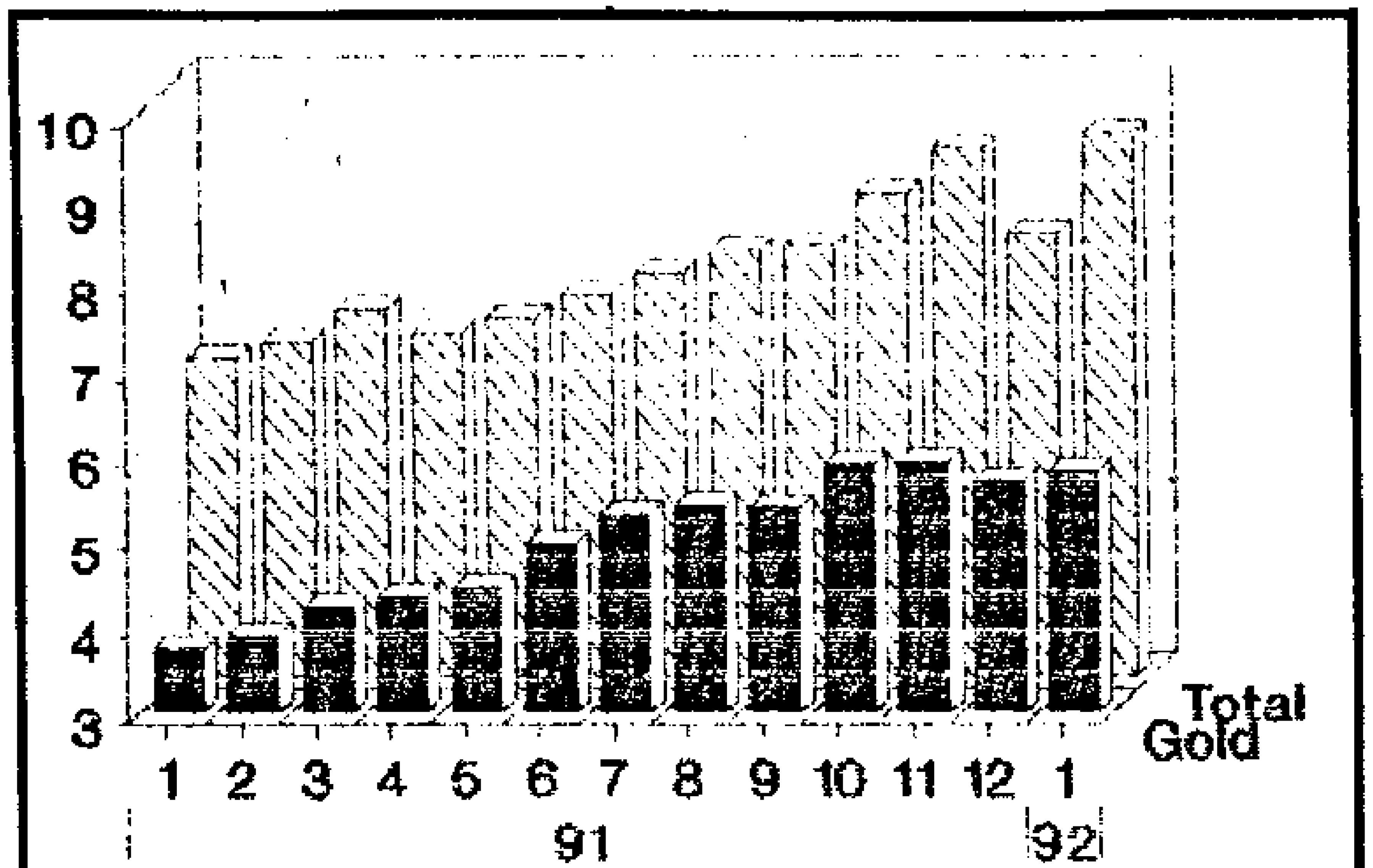
After dropping sharply in December as a result of seasonal dividend, debt and interest payments, SA's gold and foreign exchange reserves resumed their strong upward trend in January, surging to a record level.

The Reserve Bank said on Friday that the reserves had risen by 14 percent in January to R9,36 billion from R8,15 billion in December.

The largest jump was in the foreign exchange component of the reserves, which increased by a hefty 44 percent, or R1,09 billion, from R2,46 billion to R3,55 billion.

The change in gold holdings was minimal, with a rise of two percent to R5,81 billion from R5,69 billion in January.

This follows on a improvement in the rand value of gold, which rose by R18,79 per ounce from R879,36 to R898,15 per ounce, largely on the back of the weaker rand/US dollar exchange rate in January — the average rand exchange rate was R2,80 to the US currency last month, compared with R2,74 in December.



Gold and foreign exchange reserves (R billion)

The physical volume of gold holdings was largely unchanged at 6,47 million ounces.

In December last year the reserves took a sharp R920 million drop, the first monthly decline since April 1991, in what was described as one-off seasonal payments abroad.

However, the drop has delayed the rise in the reserves to the magical R10 billion level, which Reserve Bank officials had expected to be achieved by December.

It is doubtful whether this mark will now be achieved by March becasue a large foreign debt repayment, inside the debt standstill net, is due in February.

Nevertheless, the strong rise in the level of the reserves proved to be one of the few economic highlights last year.

They are now equivalent to just over two months of imports.

A rise to R10 billion over the next few months would bring the reserves closer to the desirable level of covering the cost of three months of imports.

Coupled with the renewed access to overseas capital markets, this could certainly facilitate an easier monetary policy if it were coupled with a concurrent fall in the inflation rate.

Gold, forex reserves rising

B Day 10/2/92 (74)

SHERIDAN CONNOLLY

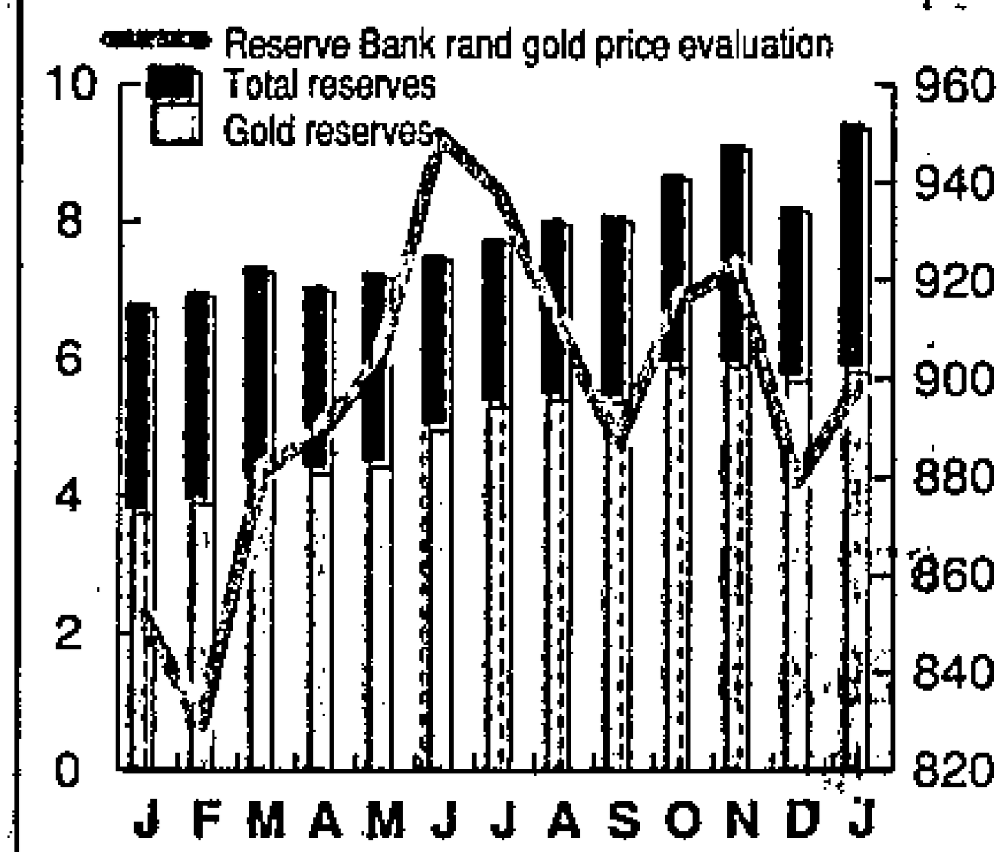
GOLD and foreign exchange reserves resumed their upward trend with a R1,2bn increase lifting total reserves to R9,364bn in January from R8,152bn in December, figures released by the Reserve Bank on Friday showed.

Foreign assets were R1,091bn higher in January at R3,553bn compared with R2,462bn in December.

The bank's gold holdings were little changed at 6,469-million ounces in January from 6,470-million in December, while the value of gold reserves rose by R121m to R5,810bn in January as against R5,689bn in December.

The average price of the metal was

☐ To Page 2



Graphic: LEE EMERTON Source: SA RESERVE BANK

Reserves

B Day 10/2/92 (74)

☐ From Page 1

only slightly higher at R898,15 in January from R879,36 in December.

Nedbank chief economist Edward Osborn said the sharp rise in foreign assets of R1,1bn was substantially high for the beginning of the year. Foreign assets rose only R500m in January 1991, he said. Osborn attributed this increase to short-term capital movements stemming from the lengthening of foreign indebtedness.

He said a R1,3bn increase in government deposits to R9,668bn in January was indicative of further net borrowing by the Reserve Bank from the banking system as part of efforts to maintain control over liquidity in the market.

It was unlikely that February's figure would see a similar jump because a substantial debt payment was due, he said. Osborn said he expected total reserves to top the R10bn mark around April.

Bankorp economist Jacques du Toit agreed that an inflow of short-term capital had contributed to a substantial increase in total reserves.

The increase in gold reserves was attributable to a higher physical volume of gold and not to the gold price which was largely unchanged, Du Toit said.

A satisfactory trade balance and a current account surplus of about R5,5bn in 1992 would lend support to a gradual upward trend in reserves, he added.

Reserves of R10bn were in sight and could be reached within the next three months, Du Toit said.

With SA's exports likely to come under pressure from the struggling world economy, and with the depressed domestic economy limiting imports, the Reserve Bank's target to have the level of reserves covering three months imports would be more easily attainable, Du Toit said.

Loans:ANC speaks

THE ANC said yesterday it accepted that any future government had an obligation to repay foreign loans made to the present administration. (74) (40)

However, and as general policy, the next government could re-negotiate the repayment of foreign loans. Sowetan 10/2/92 (19).

In a statement, the ANC denied suggestions that discrepancies existed between the organisation and its president, Mr Nelson Mandela.

The statement followed Mandela's assurances to investors in Europe last week which were said to be in conflict with remarks made on debt repayment by the movement's secretary-general, Mr Cyril Ramaphosa.

"The articles create an impression that the ANC secretary-general issued a statement on the loans issue in relation to the Development Bank of Southern Africa to raise funds in international capital markets.

Foreign investor tax jitters knock finrand

BDay 10/2/92 74

SHERIDAN CONNOLLY

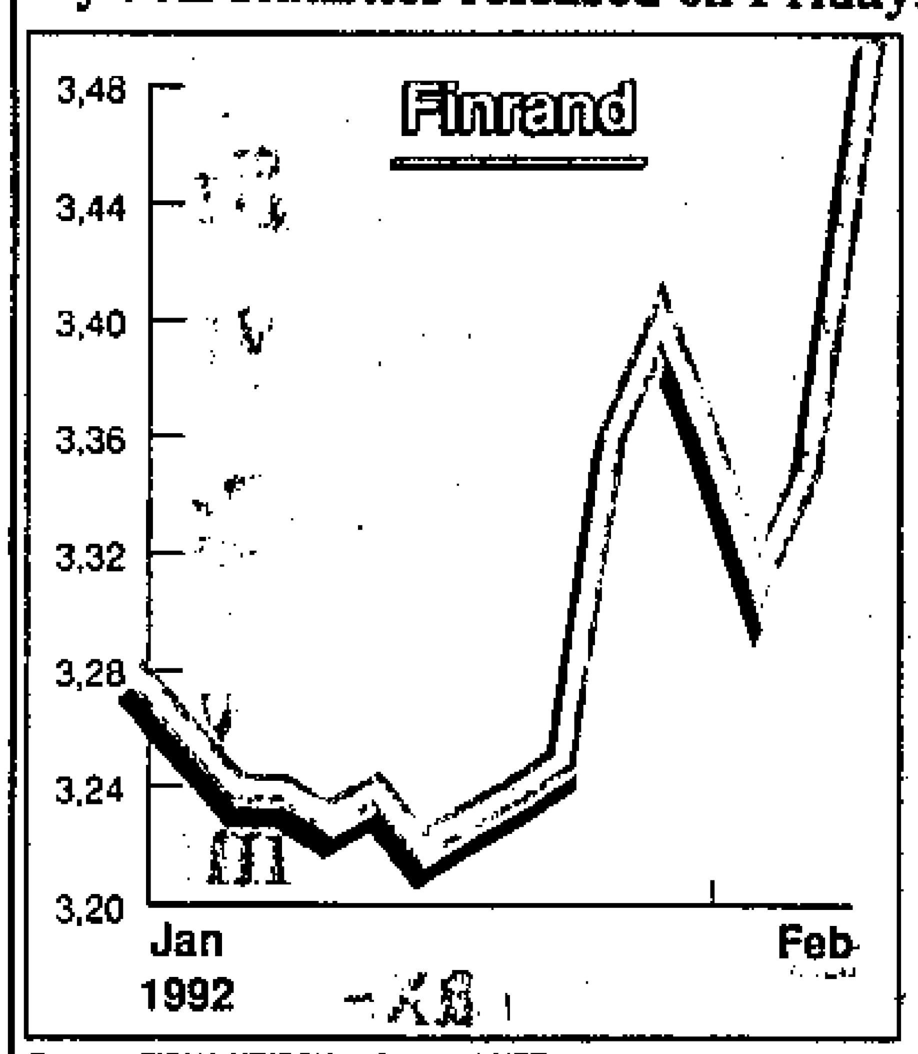
THE finrand took another knock on Friday, plunging to a 13-month low of R3,58 to the dollar as foreign investor uncertainty over tax on interest payments continued to undermine the market.

The investment unit recovered slightly from its Friday low to end a volatile week's trading at R3,48 to the dollar. Thursday's close was R3,44.

Dealers said the foreign investment unit came under pressure from another major bout of European selling.

They said that it could take a few days for the market to recover from the recent volatility as a major sell-off always "hung over the market for a while".

SYLVIA DU PLESSIS reports that the surge in the sale of gilts by non-residents, following confusion over the tax position, has been confirmed by JSE statistics released on Friday.



Graphic: FIONA KRISCH Source: I-NET

In the week ended January 31, during which the financial rand fell to a low of R3,40, non-residents' bond sales, as recorded on the exchange, more than doubled to R62,849m from the previous week's R26,168m.

Foreign investment unit jitters were triggered by reports that foreigners had to pay tax on interest earned. Although Inland Revenue moved to clarify the situation, pointing out that not all interest paid or accruing to non-residents was taxable, nervousness persisted on talk that the Reserve Bank was probing non-resident clients' investments for tax purposes.

The JSE statistics, which reflect only that portion of the financial rand market where non-residents transactions are executed through the exchange, reflect gilt purchases of R74,395m from R57,999m as other offshore investors took advantage of the cheaper financial rand.

Senekal, Mouton & Kitshoff partner Neels Heyneke said there had been renewed foreign interest in SA gilts ahead of the weekend and a little buying as the financial rand fell further, but large foreign investors remained wary.

"The institutional money will be watching the political process here very carefully."

He added that if the Eurobond issue announced recently by the Development Bank of Southern Africa was successful, it would attract an improved buying surge from overseas.

Demand boosts bank's bond issue

B/Day SEAN VAN ZYL 10/2/92

THE Development Bank of SA's Eurobond issue, launched in Frankfurt on Friday, has been lifted by 33% to DM200m following strong investor demand.

Development Bank spokesman Frans van Rensburg said at the weekend the value of the issue was increased due to an oversubscription for the six-year paper.

Although the issue had been increased by DM50m the issue's lead manager, Bayerische Landesbank Girozentrale, said the issue terms would remain unchanged.

The Eurobond issue offers a coupon rate of 10% and the bonds will mature on February 27 1998. They will be listed in Munich and Frankfurt in denominations of DM1 000 and DM10 000.

Meanwhile, the ANC has reiterated its opposition to the bond issue and has denied there is conflict between the organisation's publicity department and ANC president Nelson Mandela on the issue.

A statement said the ANC accepted a "future democratic state" had an obligation to pay foreign debts incurred before financial sanctions were imposed.

However, the terms of repayment of such loans might be renegotiated, it said.

"What is totally unacceptable to us is the attempt by the SA regime, acting in concert with certain foreign financial institutions, to bust financial sanctions adopted by the international community." Most financial sanctions against SA came into force in the mid-1980s.

Poor US employment figures help push up rand

BDay 11/2/92 (74)

SHERIDAN CONNOLLY

DISAPPOINTING US employment figures over the weekend hit the dollar and helped the commercial rand reach a four-week high against the US currency yesterday.

The rand firmed to its day's high of R2,7630 in early trading yesterday and, although it ended at R2,7698, remained comfortably above its close last Friday of R2,7758.

Dealers sold the dollar after the release, late on Friday, of the January US employment report, which showed an unexpected drop of 91 000 in US non-farm jobs. Analysts expect the US Federal Reserve to react to the deteriorating employment figures by cutting interest rates further and eroding dollar yields.

Dealers said trade in the commercial rand was subdued, with dollar buying at lower levels. Trading was wary on apprehension about possible intervention by the Reserve Bank, but the authorities were not seen in the market.

Uncertainty in the finrand market continued yesterday with the foreign investment unit closing unchanged from its opening level of R3,47 to the dollar after dipping to a 13-month low of R3,58 on Friday.

Dealers said nervousness stemming from tax uncertainties continued to affect investor confidence and this was depressing the foreign investment unit.

The finrand weakened following a big sale in the morning but recovered later in volatile trade.

Top fund managers explore local links

LINDA ENSOR

CAPE TOWN — Leading fund managers representing 39 of the world's top financial institutions are in the country assessing investment possibilities and increased trade and financial links.

A team of fund managers, organised by UK brokers Smith New Court, and a delegation representing major financial institutions under British Invisibles, were in Cape Town yesterday. BI Day

The party of 14 from Smith New Court is to meet President F W de Klerk today. This follows meetings yesterday with Trade and Industry Minister Derek Keys and representatives from Pick 'n Pay, Pepcor, Wooltru and Sanlam. 11/2/92

For the rest of their 10-day stay they have lined up meetings with key political and business leaders, including Deputy Finance Minister Theo Alant, Reserve Bank Governor Chris Stals and senior ANC and Inkatha members. They also plan talks with the chairmen of Anglo American, Gencor and Barlow Rand.

The second party, organised by British Invisibles, represents major financial institutions in the UK. British Invisibles chairman Sir Hugh Bidwell said last night a seminar for 250 people would be held in Johannesburg tomorrow. This would encourage trade and financial links.

Among the institutions represented on the visit are Morgan Grenville, Hill Samuel, Hambrose, Standard Chartered and Barclays de Zoete Weld.

SA can sustain growth rate from 1995 — bank

(74)

B/Day 11/2/92

SHERIDAN CONNOLLY

SA stands a good chance of regaining a momentum of rapid economic growth in the second half of this decade, provided all South Africans are allowed to take part in income generation and distribution, a recent study by the Development Bank of Southern Africa showed.

The study on SA's international creditworthiness showed that a 4% growth rate may be structurally sustainable from 1995 onwards.

Job creation should grow at a rate of 2,5% and capital structure at 2,3%.

It said it saw the net outflow of domestic savings through the balance of payments now coming to an end.

As a result of this, the gross domestic savings propensity should return to about 25% from its present low of 20%.

According to the bank's study, greater levels of participation in the processes of production, income generation and distribution should result in an improvement in the output productivity of capital.

A marked shift in black and white population groups' relative shares in national income should produce a national income level of about 33% greater in real terms at the turn of the century than the 1991 level, the bank added.

The bank said international sanctions had placed unprecedented contraints on the domestic economy to finance capital outflows from current account surpluses.

In so doing, the integrity of SA's currency and its international creditworthiness had been protected.

It stressed the need to restore the country's economic domestic growth potential, which was necessary to prevent the further impoverishment of the rapidly growing SA population.

Last week the bank launched a highly successful Deutschmark bond in the European capital market.

Investor demand for the bond proved better than expected and the issue was lifted 33% to DM200m.

Money raised through the issue would be used to finance development projects in underprivileged communities.

The bank said it planned to raise a further R500m in borrowings on local and overseas capital markets.

The launch of an Eurobond issue by the bank follows two earlier SA issues — the government's 250m ecu bond in January and government's DM400m issue in September last year.

SA can sustain growth rate from 1995 — bank

B/Day 11/2/92

SHERIDAN CONNOLLY

SA stands a good chance of regaining a momentum of rapid economic growth in the second half of this decade, provided all South Africans are allowed to take part in income generation and distribution, a recent study by the Development Bank of Southern Africa showed.

The study on SA's international creditworthiness showed that a 4% growth rate may be structurally sustainable from 1995 onwards.

Job creation should grow at a rate of 2,5% and capital structure at 2,3%.

It said it saw the net outflow of domestic savings through the balance of payments now coming to an end.

As a result of this, the gross domestic savings propensity should return to about 25% from its present low of 20%.

According to the bank's study, greater levels of participation in the processes of production, income generation and distribution should result in an improvement in the output productivity of capital.

A marked shift in black and white population groups' relative shares in national income should produce a national income level of about 33% greater in real terms at the turn of the century than the 1991 level, the bank added.

The bank said international sanctions had placed unprecedented contraints on the domestic economy to finance capital outflows from current account surpluses.

In so doing, the integrity of SA's currency and its international creditworthiness had been protected.

It stressed the need to restore the country's economic domestic growth potential, which was necessary to prevent the further impoverishment of the rapidly growing SA population.

Last week the bank launched a highly successful Deutschmark bond in the European capital market.

Investor demand for the bond proved better than expected and the issue was lifted 33% to DM200m.

Money raised through the issue would be used to finance development projects in underprivileged communities.

The bank said it planned to raise a further R500m in borrowings on local and overseas capital markets.

The launch of an Eurobond issue by the bank follows two earlier SA issues — the government's 250m ecu bond in January and government's DM400m issue in September last year.

BUSINESS DAY, Tuesday, February 11 1992 3

Gibraltar sees SA as partner

BDay 11/2/92 (74)

PETER GALLI

MARBELLA — The government of Gibraltar has targeted SA as a future trading and investment partner. A delegation of government and business people will visit SA in April.

Gibraltar's Chief Minister Joe Bossano said in an interview in Gibraltar at the weekend that SA had been targeted as a source of investment capital and that areas such as banking, insurance and light manufacturing had been identified.

"We are seeking expansion in Gibraltar in three main areas. Purpose-built warehousing for light manufacturing and cargo handling, headquarters for banking and insurance operations, and accommodation for high net-worth individuals are the primary areas identified," he said.

Gibraltar offered a territory from which SA companies could enjoy the free movement of capital, services and people into the EC, while it retained its own laws and fiscal system.

Tax incentives for companies using Gibraltar as a base were being introduced. Semi-processed goods brought into Gibraltar would be exempt from duty provided they were then processed further and exported. Only a 2% tax on the profits received from the finished product would be levied, giving companies a 6%-10% duty advantage.

However, under the EC classification system, semi-processed goods would have to be processed into a new product in Gibraltar, thereby undergoing a change of tariff heading, so as to gain entry into the EC. For example, a sheet of steel that was turned into cutlery would qualify, but motor parts that were merely processed further and remained motor parts would not.

"Gibraltar is small enough to look at the needs of the individual company and we can examine the implications of each deal on its own merits," he said. It was also more flexible legislatively.

Gibraltar has had about £500m in investment used for the upgrading and development of its infrastructure in preparation for future expansion.

"We have shown economic growth of 11% a year over the past four years, which we conservatively expect to drop to 6% over the next four years given world recessionary conditions," Bassano said.

The Gibraltar delegation is scheduled to arrive in SA on April 6 for a five-day visit.

Forex markets in low gear

STAR 11/2/92 (74)

By Carole Mason,
International Economist,
Standard Bank

CAROLE on CURRENCIES

As if to compensate for the volatility of recent weeks, international forex markets last week were rather subdued.

Without appearing to follow any specific direction, major currencies drifted aimlessly, with activity confined to proprietary, professional trading.

Towards week's-end, however, a distinct bias towards dollar weakness had emerged.

Until the release of last Friday's disappointing US employment data, there was no particular reason for the dollar's softer undertone, except for a sentiment among traders that since the unit had failed to gather any upward momentum, it was time to probe its downside.

Dollar weakness was thus initially technical in nature. However, the pretext of widening interest rate differentials against the US unit soon provided fundamental justification for renewed dollar sales.

Concern about potential moves in international interest rates (and consequently in currencies) had two main sources.

News that the German IG Metall union had accepted a 6,4 percent wage settlement (well above levels deemed consistent with the control of inflation by the Bundesbank) quickly encouraged the view among market participants that not only would German interest rates prove much slower in falling than originally hoped, but that they might actually increase (as evidenced by the release last week of huge increases in unemployment in both East and West Germany) appear to confirm that the economy is in worse shape than either the government or Bundesbank wants to admit.

The possibility that the IG settlement will be used as a benchmark for other wage negotiations will underscore Bundesbank determination to maintain its tight monetary policy.

Since US monetary policy, on the other hand, is expected to remain predisposed towards further easing, trends in international interest rates will remain a powerful disincentive against sustained purchases of dollars.

With the German/US interest rate differential currently at its largest since 1931, any hopes for dollar recovery this year must be based on an eventual narrowing in this spread.

Since German rates are unlikely to come down anytime soon, the only possible means by which a more favourable rate differential for the dollar can be generated is if US rates go up or, at least, are perceived to have stopped falling.

This unfortunately is not yet the case. Given US economic weakness and moderate inflation, there is currently no justification for higher US rates.

On the other hand, there is every reason to believe that rates will have to fall further if the economy is to pick up.

Last Friday's US employment data provided the second source of market anxiety regarding international rate trends because, in contrast to hopes that US consumer confidence would gradually recover on evidence of recovery in employment growth, last week's data failed to provide even the faintest of hopes that a rebound in consumer confidence was likely anytime soon.

With an additional 91 000 people losing their jobs in January (against market expectations of a modest increase in employment of 21 000), expectations that US interest rates would be forced lower saw the dollar break through key support at Dm1,57000, to close the week below Dm1,5600.

Although the employment data did not prompt an immediate cut in US interest rates, in the absence of hard and fast evidence of US economic recovery and ongoing market expectations of further US policy ease, there is little justification for traders to forgo the returns available on the Dm (despite the fact that the Dm's fundamentals are not uniformly bullish).

Huge aid package for SA planned

(74)

STAR 12/2/92

Political Staff

South Africa may, as soon as an interim government is elected, become the largest recipient of World Bank funds in Africa.

Over the past two years, the World Bank has been working on an intensive aid package for South Africa that would exceed the R17 billion presently allocated to Nigeria.

The World Bank was waiting to see an interim government elected before it disbursed the funds, a top Washington laywer, John Chettle, told a South Africa Foundation Forum in London on Tuesday.

He said the World Bank had had 80 staff professionals engaged in "economic and sectorial analyses" of the South African economy over the past two years.

"South Africa is seen as the dynamo for the South African region, and even for much of Africa, bringing hope for a renewal of economic progress in a deeply disappointing area."

He cited the visit to South Africa of the president of the World Bank, Lewis Preston, as an example of the importance attached to this country.

The sums mooted for South Africa were huge, and the opportunities for local companies unprecedented, Mr Chettle said.

Indian visit may mean resumption of SA ties

(74)

STAR 13/2/92

Own Correspondent

DURBAN — Plans have been set in motion for an official trade delegation from India to visit Durban in March or April, signalling a possible early resumption of trade and diplomatic ties between the two countries.

The initiators of the move see the recent lifting of certain sanctions against South Africa as an ideal opportunity for India to establish an early commercial presence here.

The establishing of consular offices would be a first step, followed by the opening of Indian tourist offices.

India was one of the first countries to impose sanctions against South Africa in 1948.

Momentum

A pivotal figure behind the moves is Praful Patel, an influential London-based businessman and adviser to the Indian government on economic affairs, investment opportunities and foreign trade.

Mr Patel wrote recently to the Indian Prime Minister, P V Narasimha Rao, proposing an early resumption of ties with South Africa.

Mr Patel has already invited the heads of six Indian industrial and commercial federations to join the mission.

Motivating his proposal, he said South Africa was now recognised by the international community, and more importantly, by the so-called Frontline states.

The momentum towards the international recognition of South Africa was proceeding so fast that ultimately India might be the real loser by lagging behind the rest of the world.

"Unless we move very rapidly towards the normalisation of relations with South Africa, any diplomatic gesture at the end of the queue is likely to be seen as 'too little, too late,'" Mr Patel warned in a recent letter to the Indian Prime Minister.

Mr Patel went on to list several strategic and geo-political considerations he believes would argue the case for re-establishing early ties.

These included co-operation in monitoring and containing proliferation of nuclear weapons; sharing information on terrorism and counter-insurgency; and the political benefits of linking up with a country likely to become the leader of black Africa.

On the economic front, the presence of a large and economically stable Indian community here provided India with an "ideal springboard" for penetrating South African markets.

As one of the largest exporters of diamonds, India needed to ensure that all aspects of this industry are fully safeguarded against possible sabotage and protectionist pressures. As a major producer, South Africa was an obvious partner.

Mr Patel also saw the "huge pent-up" demand for tourism from the local Indian community as a possible boon to the Indian economy.

Stals urges repeal of US block on SA loans

(74)

STAR 13/2/92

By Derek Tommey

Governor of the Reserve Bank Dr Chris Stals appealed yesterday to the United States to repeal the Gramm Amendment which, he said, was seriously limiting South Africa's economic growth.

The Gramm Amendment stipulates that any appliciation by South Africa for loan funds from the World Bank and IMF has to be submitted to the US Congress for approval.

Dr Stals was addressing a seminar in Sandton arranged by British Invisibles, a trade body which is in South Africa to promote London's financial services.

He said the Gramm Amendment placed an immediate restriction on the expansionary monetary and fiscal policies South Africa could follow at this stage, and also acted as a deterrent to potential foreign investors.

Dr Chris Stals ... Gramm Amendment placing restriction on expansionary policies

"It is therefore a matter of urgency for South Africa that these restrictions should now be repealed, as the American government has already done with the Comprehensive Anti-Apartheid Act.

"The process of economic development must be stimulated if we want to benefit from a more rapid rate of economic expansion downstream.

"The restrictions on South Africa from making normal use of IMF and World Bank facilities still places a major constraint on the ability to prepare for more rapid economic growth in a new political environment with a new constitutional dispensation.

Dr Stals made it clear that although the balance of payments had improved, South Africa's economic growth would have to be restrained as long as the country could not attract foreign capital.

Any increase in the rate of economic growth led to a rapid rise in imports, he said.

Even if imports were to rise by only 10 percent, this would wipe out the trade surplus within a year.

In the past it had been known for imports to jump by 35 percent in a year.

It could be assumed that any substantial increase in domestic expenditure would be accompanied by a sharp rise in imports and the emergence of substantial balance of payments deficits.

Dr Stals warned that South Africans must be modest in their expectations about foreign borrowings and foreign capital inflows.

The world today was very different from what it was before sanctions were imposed.

The debt crisis of the Third World had had a far-reaching impact on the willingness of financial institutions to make loans to developing countries.

This meant that South Africa must become more attractive to foreign investors.

"Only those countries that can offer security plus reasonable yields on investments will be able to draw capital from foreign markets.

"In the case of South Africa, apart from the need for further progress in the political process of reform, we will have to present to foreign investors a stable and sound financial environment.

"This requires a continuation of the a policy of guarded financial discipline," Dr Stals said.

Hugh Roberton reports on US views of ANC naivete

Bankers amused by debt threats

STAR 13/2/92

74

A recent dinner party in New York brought with it a surprising revelation. Contrary to popular belief, big bankers do little more than smile patronisingly at the periodic threats from ANC officials that a future government might renege on debts incurred by the country's present rulers.

Bankers blame the politicians for doing most of the huffing and puffing about the issue, and question their motives, saying most politicians privately agree that the ANC's threats are pretentious and unenforceable.

One of the bankers explained why it is that the only awe which the world's banking community has of ANC general secretary Cyril Ramaphosa is awe of the naivete and ignorance which he and others display when they speak on matters financial.

International law unambiguously requires all governments to honour the debts incurred by their predecessors and there has been no recent instance of a government renouncing this obligation.

But what if a future South African government should do so and, as Mr Ramaphosa and some others in the ANC have suggested, should refuse to repay debts incurred by the present government or delay paying them?

First, they would have to change an unchangeable fact of life in South Africa — no matter who is running the country, the economy is of such a nature that it cannot grow vigorously without significant infusions of foreign investment and aid.

Then they would have to face another irreversible reality — in the new world order, foreign investment and aid comes almost exclusively from those creditors on whom Mr Ramaphosa and others in the ANC threaten to renege.

Furthermore, bankers point out, since a future government in South Africa would have no financial record, its only means of winning the confidence of foreign lenders and investors would be by establishing a solid reputation for financial wisdom and responsibility. Not exactly the ANC's strongest suit right now.

There was an example this month of political rhetoric collapsing in the face of the cold-eyed realities of banking.

The city authorities of San Francisco, in seeking to extend their magnificent underground railway system, sought $520 million (R1 445,6 million) in loans at home and abroad.

Credit Suisse came up with an offer, but the naughty boys of Credit Suisse do business in South Africa and, at the behest of the ANC, San Francisco has adopted some of the toughest sanctions against all manner of people who fall into that category of sinners. Frisco's board of supervisors declined and waited for alternatives.

None was forthcoming. So they appealed to Credit Suisse to stop doing business in South Africa. Credit Suisse refused firmly and publicly. The city waited.

Then, as a softener, the bankers said they had always disapproved of apartheid. That was the opening which a desperate board of supervisors wanted. They grasped the Credit Suisse offer with both hands, ignored their own clearly stated policy, and the deal was done.

But sitting sullenly on the sidelines, bankers say, were several US and European banks who did not even bother to make an offer because of San Francisco's long standing policy on South Africa and who now are looking with envy, admiration — and no small measure of encouragement — at the chutzpah of the Swiss. □

COMPANIES

UK trade finance house to focus on SA

JOHN CAVILL

LONDON — A new trade finance house with a special focus on SA has been set up in London by two former SA businessmen.

Backed by an initial £7,3m in capital, Burdale Holdings was launched yesterday by Dennis Levine and Brian Gitlin. Both have experience of running trade finance businesses. BDay 13/12/92

Levine, a former executive with Commonwealth Shippers in SA, who came to London 11 years ago, was the founder of D Q Henriques, leaving that group in 1989.

Gitlin was chief executive of the confirming house Conance. 74

"Basically we want to service and develop small to medium size businesses with growth potential," said Levine. "This is an ideal time to launch a new company with specialist focus on SA-UK trade.

"There is enormous potential for increasing trade between the two countries."

Govt in talks with African trade partners

(74) **BILLY PADDOCK** [redacted]

GOVERNMENT was involved in discussions with its African trading partners to save the continent from further marginalisation and continuing economic degradation, Foreign Affairs deputy director-general Derek Auret said yesterday.

The 11 southern African states, including SA, could not "go it alone" in building a strong economy. But by forming regional economic units, they had more than a 50% chance of becoming viable.

In an interview, Auret said the West, donor countries and the world's strong economies had a responsibility to assist Africa because of its colonial legacy.

"It is important to say to them it is no longer good enough to use African countries to achieve political successes for their own purposes. What they now have to do is have some economic successes in Africa. The potential is there to a far greater extent than the former East European countries, in terms of natural and human resources," he said.

It was important for Africa to establish regional economic units to spur development and to compete with the world. And it was vital for SA that such a unit was successful in southern Africa. Economic co-operation would stimulate confidence.

He said the notion of regional development centres had become generally accepted; the Southern African Development and Co-ordination Conference had discussed the issue, which was accepted by all its members. B|Day 13/2/92

The SADCC has proposed economic and political integration along the lines of a united Europe. At its meeting two weeks ago it had accepted the inevitability of the new SA being incorporated.

Auret said the four main cent[illegible]egional development could have Nigeria, Egypt, Kenya and SA as their economic hubs. These countries were already the strongest in their regions.

He insisted that co-operation had to come through intensive consultation.

There still had to be discussion on the structure needed to facilitate co-operation.

☐ To Page 2

Trade talks

B/Day 13/2/92 [redacted] (74)

☐ From Page 1

It had been suggested that the SADCC could be adapted for the task, but Auret pointed out that the Development Bank and the SA Customs Union could make important contributions and should be included in any new body.

He said it was in West's interests to help bring about economic change in Africa as the continent supplied resources. Involvement would ensure supply at a fair price.

Europe might be investing in Eastern Europe to prevent mass migration to Western Europe, but there was also a real possibility of mass migration to Western Europe from the African countries.

If Africa did not move quickly, it risked marginalisation.

The idea would be to develop the hubs into economic units which could compete with other international units. Individual countries would be far better off within a strong economic unit.

Auret said establishing regional units had many implications: customs tariffs and barriers, currency matters and technical matters would have to be dealt with.

NEWS IN BRIEF

Hong Kong trade mission

A HONG Kong trade mission will visit SA for the first time in 16 years at the end of February. The mission has been organised by the quasi-government body Hong Kong Trade Development Council (HKTDC) and will be co-sponsored by Nedbank, through its Hong Kong subsidiary NedFinance. (74)

HKTDC Africa regional development manager CT Leung, who arrived in Johannesburg this week to make final arrangements for the mission, said the HKTDC had made SA a top priority.

The mission was oversubscribed and 46 companies were selected.

B/Day 13/2/92

Foreign loans could help poor this year

Sowetan 13/2/92.

74

By JOSHUA RABOROKO

THE Industrial Development Trust is to acquire financial loans from foreign sources as well as the World Bank and from the private sector to "aggressively invest" in providing homes for the poor this year.

It will consult with political organisations, the Government and a wide range of actors and interested parties, according to IDT's communications director, Mr Jolyon Nuttal, in Cape Town this week.

IDT chairman Mr Jan Steyn met a group of the World Bank representatives who visited South Africa on a fact-finding mission last week.

Nuttal said: "We will pay a lot of attention on providing funds not only for homes, but instead of a roof over people's heads, the trust has gone for ground under their feet."

More than a third - R750 million - of IDT funds has been allocated to a capital subsidy scheme under which 100 000 serviced sites would be given to the very poor.

About 700 000 people - an average of seven families - will benefit from the security that land title brought.

Dwellings

"We believe that the people who receive the sites will build dwellings on them, he said. "Some may start with shacks which they will gradually improve. Using the land as surety, others will borrow money to build more substantial homes."

"Yet we know that 100 000 sites are only a beginning, we have in fact received applications to subsidise 640 000. More money must be found," he added.

Referring to education, Nuttal said a model of how community control, and therefore community protection, could be obtained in school management has been developed through a national school building initiative that will see 50 000 additional classrooms constructed in the next three to four years.

"The challenge is to establish community learning centres which could function up to 14 hours a day, seven days a week.

Facilities

"Given proper administrative facilities and inexpensive community halls, the centres would - in terms of the model - provide primary school facilities until early afternoon, and cultural activities and adult education thereafter.

In rural areas, it could be used for primary health care as well, he added.

IDT chairman Mr JAN STEYN

Harry O argues for closer economic ties

B Day 13/2/92 (74)

HARARE — Political and economic changes in southern Africa are a step in the right direction but will not result in an attraction of foreign investors overnight, mining magnate Harry Oppenheimer said yesterday.

Briefing journalists after meeting President Robert Mugabe at Zimbabwe House Oppenheimer, retired chairman of Anglo American Corporation, said he saw prospects of "positive new reactions" in business activities in the sub-region.

But he said this would not happen quickly, Ziana national news agency reported.

Oppenheimer said investors might look in other directions such as eastern Europe, because of favourable changes also taking place there.

If the economies of southern Africa could be integrated more strongly, then he did foresee them attracting more foreign investment.

"For instance, if Zimbabwe can work together with SA and SA also works together with Zimbabwe, they could attract more foreign investment."

He said because SA was an economically strong country, its existence in the sub-region would help boost trade.

Oppenheimer said he and Mugabe had talked about the political changes in SA. They had agreed events were moving in the right direction and that a democratic and free SA would emerge soon.

Oppenheimer is in Zimbabwe for a five-day visit. He will tour Anglo operations and address senior staff of the Corporation in Zimbabwe at a dinner in his honour.

□ Anglo CE Roy Lander said yesterday the drought in Zimbabwe had threatened the corporation's business activities in the Lowveld with certain projects being suspended.

Speaking to reporters at Zimbabwe House, Lander said his organisation was supportive of Zimbabwe's economic structural adjustment programme.

"However the current drought is threatening our activities, particularly in the lowveld."

Lander said Anglo had recently pumped millions of dollars into Bindura nickel mine in order to upgrade and modernise its operations.

Anglo was also involved in various sectors of the economy in line with the objectives of the adjustment programme, he said. — Sapa.

Switzerland vows to support blacks

(74)

CAPE TOWN — Swiss deputy foreign minister Klaus Jacobi yesterday pledged continued financial support for blacks and urged Pretoria to strengthen ties with the rest of the region. B Day 13/2/92

Addressing the SA Institute of International Affairs, Jacobi called for broader political dialogue between Switzerland and SA.

"Taking into account what has been achieved already, I believe that the time is now ripe for enlarging the agenda of co-operation between our two countries.

"Because in the past we did not participate in economic sanctions against SA but limited ourselves to the control of detour movements in capital transanctions, we still have a solid basis for expanding economic relations."

Citing SA's high economic potential, he said the country would have a special responsibility of promoting regional co-operation to strenghten the position of southern Africa in global forums.

He said security arrangements, economic co-operation and respect for human rights should progress in parallel.

Acknowledging political developments, Jacobi said there was no longer a need for external pressure for the promotion of dialogue. "But support for those people suffering from the consequences of apartheid must certainly continue and will have to continue for quite some time."

Jacobi touched on how federalism had functioned in Switzerland.

"Caution is advisable in applying a model from one society to another."

All possible ways of distributing power between the central government and regional or local bodies would be ineffective if the political will to remain together in one country was lacking, he said.

On minorities, he said the hurdle was to find "justified measures for protection of minorities and unjustifed priviledges for them. In Switzerland we tend not to give minorities special group rights but to protect individuals extensively". — Sapa.

Talks with France and Hungary

SA seeks new tax deals to lure investors

BDay 13/2/92

(74)

LESLEY LAMBERT

SA is negotiating new tax agreements with its trading partners in an effort to attract foreign investment.

Inland Revenue director Ian Meiklejohn confirmed yesterday his department was negotiating double tax agreements with countries where no agreements existed.

Inland Revenue commissioner Hannes Hattingh and leading tax officials were in France and Hungary last week to start negotiating the agreements, which would be more attractive to foreign investors than the current taxation method, he said.

A similar agreement with Taiwan was near finalisation. Negotiations with other major trading partners, including Eastern nations and the US, which terminated its double tax agreement when it imposed sanctions on SA, were likely to follow.

"SA is getting back into international traffic and we need to negotiate agreements which will encourage foreign investors to come here," Meiklejohn said.

He declined to comment on the terms of the agreements because these would have to be approved by Cabinet.

Most double taxation agreements are based on the standard OECD model where the signatories agree to limit the taxation of foreign investors' income to a certain percentage of that income.

While SA has maintained tax agreements with some countries — such as the UK, Israel, Germany and the Netherlands — during the sanctions years, investors from other countries have to pay normal income tax on interest earned from SA investments other than gilts.

On dividends, foreign investors pay non-resident shareholders' tax of 15% or less if there is a double agreement with the investor's home country. In most cases they are also taxed in their home countries.

Recent warnings that the tax authorities would continue to enforce the existing method of taxation sent the financial rand plummeting as disgruntled investors became bulk sellers of the currency unit.

The pending Taiwanese agreement is based on the standard OECD model but others, particularly those with European countries, may follow the more recent international trend in which the sole right of taxation is limited to the resident country.

If this is the case, foreign investors will not be taxed in SA and South Africans investing in foreign countries will not be taxed abroad on investment income.

Responding to concern that this could give foreign companies an unfair advantage over local companies, Meiklejohn said this could happen where the rate of tax imposed by the foreign investors' resident country was lower than SA's.

In the past, SA had a 10% withholding tax on foreign investors' interest income. But it was merely granted as a credit on assessment if the interest was subject to normal income tax.

Some tax experts say Inland Revenue should reinstate a low fixed-rated withholding tax on foreign investors' local investment income but exempt it from normal income tax.

This would make it easier for investors, many of whom are not disclosing their investments, to submit returns. The fiscus would then collect more revenue, they say.

Finrand falls to a two-year low

(94)

SHERIDAN CONNOLLY

THE financial rand plunged to a two-year low yesterday as nervousness about tax levies on foreign investors continued to plague the market.

The finrand weakened sharply, following Swiss and German sell orders, to close at R3,62 a dollar compared to Wednesday's close of R3,53. The finrand last traded at R3,60 in January 1990.

Dealers said although there had not been any sell orders of the same magnitude as last week's Swiss selling, the market had seen "a lot of disinvestment from Europe and the UK". BDay 14/2/92

Disgruntled foreign investors were still unsure of their tax liabilities and this was depressing the market and scaring off potential investors, dealers said. The lack of clarity on foreign investors' tax and on the ANC's nationalisation policy was not helping to boost investor confidence.

An analyst said the weaker finrand initially pushed mining shares higher, but prices slipped back on a retreat in the gold price. The weaker levels of the foreign investment unit encouraged overseas buying of SA mining-related shares, he said.

News that Inland Revenue officials were negotiating new tax agreements with SA's trading partners in an effort to attract foreign investors to the country failed to boost investor confidence. The commercial rand also weakened against the dollar, closing yesterday at R2,8088 a dollar compared to its previous finish of R2,7993.

Zheng Hongye, leader of the high-level Chinese trade delegation currently visiting SA, and delegation member Huang Shaobo with Nedbank assistant GM I Menzies at a function hosted by Sacob in Johannesburg yesterday. Picture: BRIAN HENDLER

SA to send trade mission to China

74

DARIUS SANAI

SA WOULD be sending an official trade delegation to mainland China in April, Chinese sources said yesterday.

A trade delegation from China arrived in SA yesterday on a week-long, fact-finding visit, and sources close to the delegation said plans to organise a similar visit by an SA delegation to China were advanced.

BDay 14/2/92

At a lunch hosted by Sacob, delegation-leader Zheng Hongye, who is chairman of the China Council for the Promotion of International Trade — effectively the country's foreign trade minister — said SA was an unknown quantity to most Chinese businessmen.

"We are here to see the country, to meet business leaders and ministers, and to assess the situation," he said.

Hongye is accompanied by senior government businessmen, including Jiao Zhi, deputy director of the State Gold Bureau of China; Ouyang Zhongmou, president of the China National Electronics Import and Export Corporation; and Bai Baohua, president of the China National Metallurgical Import and Export Corporation. Other members represent the iron and steel and textile industries.

The Department of Trade and Industry would not comment yesterday.

RESERVES BACK UP

FM 14/2/92 (74)

Gold and foreign exchange reserves jumped 14,9% from R8,15bn (US$3bn) at the end of December to R9,36bn ($3,3bn) at the end of January. Growth in foreign assets accounted for the entire increase. They were up 44% on the December figure to R3,6bn ($1,3bn).

There was little change in the Reserve Bank's gold holdings last month. Total holdings decreased slightly from 6,470m oz in December to 6,469m. However, the value of gold holdings was little changed: R5,69bn ($2,076bn) in December and R5,81bn ($2,075bn). The value per ounce rose from R879,36 to R898,15.

A Reserve Bank spokesman says the sharp rise in foreign assets over January should be assessed in the light of December's decline. At that time, a number of foreign banks withdrew short-term finance in a bid to boost their year-end figures. It is likely that the January rise was merely a readjustment to reverse that, he adds. Taking the two months together, growth in reserves in the latter part of 1991 continues in 1992.

FOREIGN LOANS (74)

Forked tongue

FM 14/2/92

The ANC's commitment to honour the repayment of foreign loans, should it form the next government, does not automatically apply to loans raised since the imposition of international financial sanctions against SA in the mid-Eighties.

The status of those loans will have to be reviewed, says ANC spokesperson and national executive committee member Gill Marcus. She says this is in line with the organisation's existing policy and does not conflict with statements made in Europe recently by ANC president Nelson Mandela.

Such a review could affect the repayment of loans raised successfully in Europe recently by government and the Development Bank of Southern Africa.

It's clear that the ANC is becoming increasingly concerned about the crumbling of financial sanctions and what it sees as the "unilateral" raising of foreign capital and economic restructuring while constitutional negotiations are under way.

In a statement to the London *Financial Times* at the weekend, Mandela said while there was no question that an ANC government would honour loans taken out by the current government "before financial sanctions were imposed by the international community," it was "totally unacceptable" to the organisation that government was working with "certain foreign financial institutions" to "bust" sanctions.

The effect on foreign investors of the ANC's threats is difficult to gauge. Just after his return to SA this week, President F W de Klerk said it had a negative influence on important sectors of the foreign investing

Continue →

FM 14/2/92 (74)

community, which was adopting a "wait and see" attitude.

But he pointed out that "hundreds of millions" in foreign capital was coming into SA to increase production capacity in existing undertakings. However, De Klerk conceded that the "large stream" of foreign investors would only start flowing when they felt a sense of security.

On the other hand, the Development Bank's bond issue in Germany last week, when the loan repayment controversy was raging, was so successful that it was increased from an initial DM150m to DM200m.

It is understood that the two investor information meetings in Frankfurt and Zurich were well attended and that possible problems with future repayments did not feature.

There can be little doubt, however, that conflicting signals from the ANC on economic issues are confusing potential foreign investors and could point to a widening division between the organisation's pragmatists and ideologues.

At the World Economic Forum at Davos in Switzerland last week, Mandela reassured international business leaders that the ANC wanted an amicable working relationship with businessmen and was willing to rethink its nationalisation policy.

Later, in Copenhagen, he said that though nationalisation was the ANC's policy, it would have to be reconsidered because it was so unpopular with potential investors whose perceptions could not be ignored.

But it is not the line followed by other senior officials, who continue to emphasise the supreme importance in future economic policy of "growth through redistribution" — seen by many as a euphemism for nationalisation — rather than through new investment.

Clarity from the ANC is now essential, particularly in the light of recently reported findings by London stockbroker James Capel that SA's future economic policies now override future political policies as the most important criterion for potential foreign investors. ■

REVIEW: *Trade with Africa*

Trade on sanction's end

W/Mail 14/2-20/2/92. 14

As the sanctions walls come tumbling down businessmen look north. But what are the prospects? REG RUMNEY reports

SOONER or later South Africa will join the regional economic club from which apartheid for so long kept it blackballed.

At the recent annual Southern Africa Development Co-ordinating Conference the organisation's executive secretary told the closing press conference that once a non-racial constitution was adopted in South Africa, the country would automatically become a member of the SADCC.

So what? sceptical businessmen will ask.

Look behind the lofty rhetoric. The SADCC was established by southern African governments to lessen dependence on a South Africa ruled by a racist regime.

Some of those southern African states are also linked to South Africa by the Southern African Customs Union. Some are linked to the Preferential Trade Area, which includes 10 other East African countries.

Whatever else the SADCC did, it demonstrably failed to significantly weaken South Africa's economic grip on the region. The PTA, too, has not managed much better to influence trade flows within the region, according to the Nedcor February *Guide to the Economy.*

Nedcor comments on southern African countries' trade patterns: "Excluding South Africa, and to some extent Zimbabwe, the principal exports of individual countries are limited to a few primary commodities, most of which are directed beyond the continent."

"Angola exports crude oil, Zambia exports copper and its by-products. These account for more than 90 percent of exports by these countries.

"Except for South Africa, most of these countries have little to offer one another in terms of manufactured products even for domestic consumption."

The share of manufacturing in total economic wealth as measured by the gross domestic product of these countries has remained very small. Manufactured exports as opposed to primary commodities accounts for an average of 11 percent for the nine southern African countries, compared with South Africa's 25 percent or so.

"The nine southern African countries' imports from South Africa accounted for 45 percent of their total imports in 1987.

"If SACU members are excluded then the remaining countries' imports from South Africa accounted for about 20 percent or $0,8-billion of their total imports of $3,9-billion.

"South Africa imported less than five percent of its total imports from the nine countries, or $0,6-billion. If South Africa's imports from SACU members are excluded, the imports by South Africa from the remaining countries other than Zimbabwe, are insignificant."

Nedcor believes the pattern of trade did not change much after 1987.

What goes for southern Africa goes for the rest of Africa.

To quote from the Standard Bank SA's January report: "Africa's political support for sanctions since the 1960s and its official unwillingness to have any dealings with South Africa are not reflected in the most recent trade figures.

"South African exports, particularly of manufactured goods, to the rest of the continent flourished for most of the 1980s.

"Admittedly from a very low base, exports increased by almost 250 percent between 1980 and 1990, with a surge in activity in the second half of the decade.

"By contrast the share of imports from Africa has remained at a stable average two percent for the same period, mainly because Africa cannot meet South Africa's requirements for manufactured goods.

"In the last decade South Africa has conducted trade with 49 African countries; the major markets being Zimbabwe, Zambia, Zaire, Mozambique and Malawi."

South Africa remains the region's economic giant.

But the SACC has set an important precedent. It could form the basis of a regional customs union. Aside from increased trade, for South Africa there is the prospect of being granted membership of Lomé, which guarantees duty and levy-free access to European markets. For infant industries in southern African states the danger is that they would be swamped by the might of South African industry. However, some protection terms could be negotiated and South African economic domination may be curbed to some extent by domestic economic pressures. Also the export focus of South African industry is likely to be outside Africa, because of foreign exchange shortages in many African countries.

A host of other problems such as bureaucracy and inefficient transport systems provide a form of deterrent to trade.

However, integration of South Africa in the SADCC could provide a free-trade zone of around 150-million people. Combined with the PTA it could be a market of 21 African countries and 240-million people. It must be an exciting prospect, even if it is still some way in the distance.

First from China

(74) ST Times (Buss)

A DELEGATION from China is in South Africa to investigate bilateral trade and investment opportunities.

The 12-man mission is the first from China. It represents the China Chamber of International Commerce and the China Council for the Promotion of International Trade.

The mission is led by Zheng Hongye, chairman of both organisations. 16/2/92

Its first meeting was with the SA Chamber of Business.

Peter Fabricius comments on the Government's turnabout on foreign pressure

Looking to others to temper ANC

STAR 17/2/92

74

ONE of the more enjoyable ironies of President de Klerk's trip to Europe last week was the way the Government suddenly became an enthusiastic advocate of foreign meddling in South Africa's domestic affairs.

The main purpose of the trip was to mobilise foreign governments and industrialists to pressure the ANC into dumping the vestiges of its socialist economic policies.

It was not too long ago that this same Government was berating the world for interfering in South Africa's affairs. The Government's philosophy then was that apartheid was purely an internal matter.

The new approach to foreign involvement — most sharply mani fested at the World Economic Forum at Davos — dramatically gave the lie to this old argument.

It revealed the truth of the NP position all along, that foreign pressure is fine, as long as it not applied to you.

Even as late as last week a slight contradiction in the Government's approach underscored the truth of this observation.

When President de Klerk received the Unesco peace award in Paris, he took the opportunity to warn Unesco that while it should encourage change, it should not "interfere". This warning was apparently issued for fear that Unesco might "interfere" on the wrong side — the ANC's.

Davos was an intense crucible of free market pressure, one of the most concentrated gatherings of world political and economic leaders ever. Under that pressure, ANC president Nelson Mandela offered important assurances to foreign investors which could prove crucial for the success of a post-apartheid economy: he promised their investments would be safe from nationalisation.

And in an earlier press briefing at Davos, he had made it very clear that he disapproved of ANC statements threatening to review foreign loans granted to the present Government. Mr Mandela said he did not think it would be wise to acquire the image of an organisation that "did not honour its debts" — implicitly repudiating his hardline colleagues.

On his visits to Hungary, Czechoslovakia and Poland, Mr de Klerk also tried to mobilise these governments against ANC economic policy. In nations which had just shrugged off the shackles of 40 years of oppressive communism, it was not hard to find endorsement for the free market.

The trip, and Davos especially, showed how in the future SA might come to be very grateful for foreign pressure — as it should have been grateful for the role which foreign pressure played in the past in persuading the Government to abandon apartheid.

But it is by no means certain that that all white South Africans are grateful. Witness the quiet but persistent rumblings in the National Party establishment about Mr de Klerk's foreign excursions, similar to the criticisms of Mr Gorbachev and Mr Bush. The line is that instead of currying favour abroad, he should have been fighting the Potchefstroom by-election.

That surely shows a misunderstanding of the purpose of the mission, to win support for critical policy decisions.

"A few years ago we had little support outside the country, now we probably have more than the ANC," a senior government source said.

"If you strip away the personal reputation of Mr Mandela, the ANC is being slowly destroyed by its exposure to the world."

That is putting it much too strongly, but the general drift is right. The ANC is not so much being destroyed as moderated. Thank God for world pressure. □

Finrand discount widens sharply

B/Day 17/2/92 (74)

SHERIDAN CONNOLLY

THE weakening in the financial rand over the past few weeks, in a market increasingly influenced by rumour and speculation, has sharply widened the finrand's discount to the commercial rand.

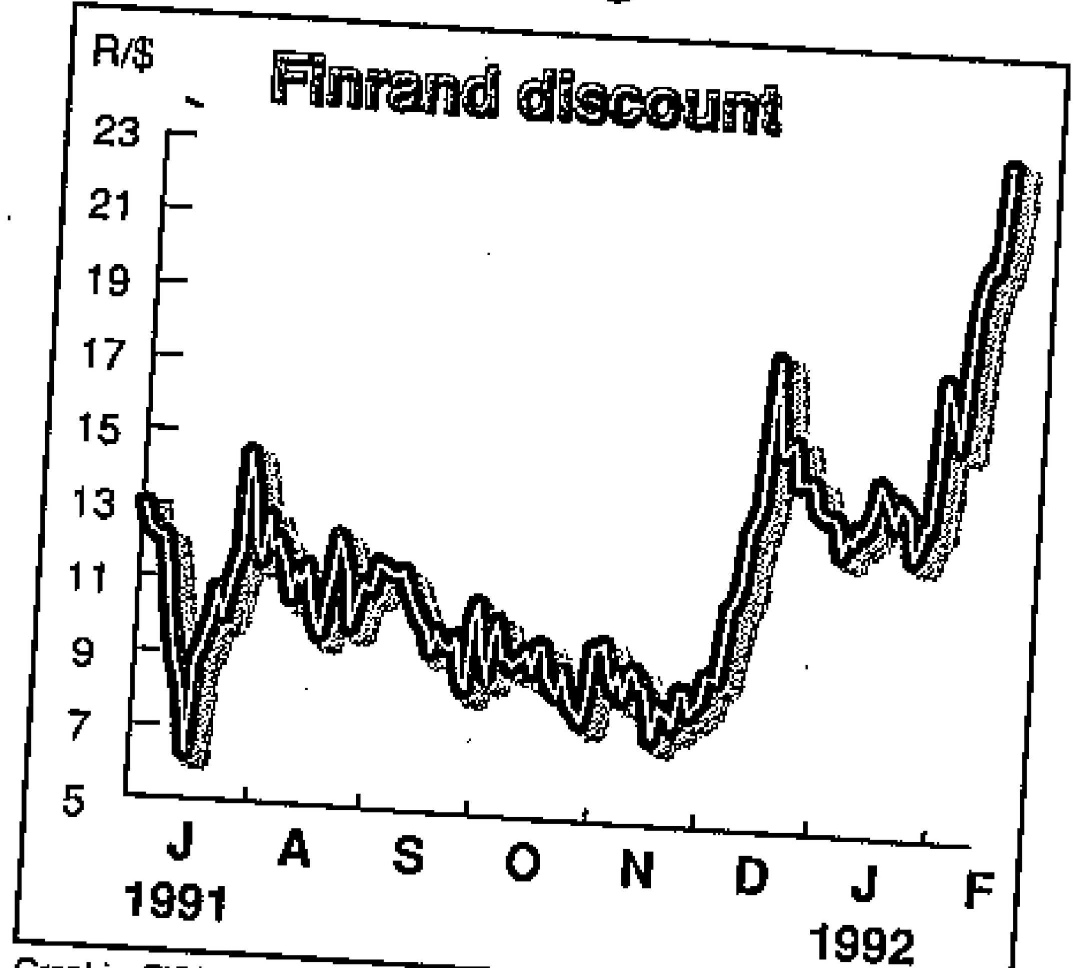
The finrand closed on Friday at R3,71 to the dollar, after hitting a low for the day of R3,82. The investment unit stood at R3,25 at end-January, before anxiety about non-resident tax changes and disinvestment drove it lower.

The finrand discount reached 25% on Friday compared with levels of around 13% at the beginning of the year. In July last year, the discount dropped to 6,2% — its lowest level since the reintroduction of the finrand in September 1985.

Tax authorities acted on Friday to end confusion over tax on income from non-residents' investments and said they had not introduced any new measures.

"It must be stressed that no new form of taxation of income of non-residents has been introduced, nor have any amendments been made to existing legislation that specifically affects non-residents," Inland Revenue said in a statement.

The financial rand began its decline after a declaration by the department that, with the exception of investments in stocks and securities, non-residents who derived interest on loans and investments from an SA source had the same obligation as South Africans to pay taxes.



Graphic: FIONA KRISCH Source: I-NET

Analysts said most non-residents had been unaware of their tax liabilities, and the announcement immediately scared off existing and potential foreign investors.

In Friday's statement, Inland Revenue commissioner Hannes Hattingh said deposits made with SA financial institutions by non-residents were not exempt from income tax. If the credit on the investment

☐ To Page 2

Finrand

B/Day 17/2/92 (74)

☐ From Page 1

was made available in SA, then the interest would be taxable.

Because SA did not have a withholding tax on interest, interest not derived from an SA source would not be taxed, he said.

The income tax payable would depend on the personal circumstances of the creditor, the amount of income derived from SA sources, and the expenditure allowable as a deduction from income.

Hattingh said interest received by or accrued to any creditor in respect of debts covered by the terms of the third interim debt standstill arrangements would be exempt from all taxes.

"Certain of the double taxation agreements entered into between SA and other countries limit the rate of tax SA may impose on interest accruing to non-residents," Hattingh said.

Towards the end of last week, concern about alterations to non-resident tax legislation was superseded by a flurry of rumours about disinvestment pressure on the finrand. Speculation centred on the recent selling by UK group Blue Circle Industries of its 42,3% stake in the local Blue Circle enterprise. This was the third disinvestment move in the past three months, and was one of the factors adding to the supply of finrands in the market.

Analysts fear another possible source of downward pressure on the investment currency could be wholesale disposals by the embattled multinational group Lonrho. Reports in European markets suggest that Lonrho, which is reputed to be weighed down with debts of more than £1bn (R5bn), is planning asset sales of at least £500m this year and is examining almost any offer from prospective purchasers.

Lonrho CE Roland "Tiny" Rowland is reported to have visited SA in recent weeks, allegedly for talks with possible SA institutional buyers of Lonrho assets.

The finrand market had recently seen substantial sell-orders coming in from Europe, the UK, and the Far East, which had made trading increasingly nervous, analysts said at the weekend.

International markets on the verge of collapse — analysts

74

STAR 17/2/92

By Jacques Magliolo

MAGLIOLO on the MARKET

International markets are on the verge of collapse, according to stockbrokers and analysts, who warn that "when they go, ours will follow suit".

World markets were erratic during the past week and ended lower on Friday.

After last week's confusion on Wall Street (the transport and Dow indices moved in opposite directions), all eyes were on the Dow Jones.

Representing the top American companies, the Dow fell 30 points to 3246,6.

The Dow transport index followed suit, falling 15 points to 1386,2.

Says one stockbroker: "If it reaches the magical level of 3223, we'll see an almighty crash on Wall Street and on our market."

He believes the Nikkei index is also headed the same way; it fell to 20,888, near its support level of 20,222.

Trends on world markets have forced all the main JSE actuaries indices to end the week lower and "make our market," he says.

Friday's closing indices were:

● The industrial index, which constitutes about 36 percent of the overall index, fell by 51 points on the day to 4462.

However, bulls believe this is temporary as the index should correct itself during the week.

After all, they point to a weekly gain in the index — from Friday February 7 to Thursday 13 — of 28 points.

● The industrial and financial index, which makes up about 45 percent of the overall index, fell by 42 points on Friday to 4991.

● Gold. Dealers point out that gold has an emotional value and any decrease affects general market sentiment.

While the gold price remained unchanged at \$356 for most of the week, it closed slightly lower at \$355.

● Platinum seemed the exception during the week.

Unlike the other indices, it remained unchanged at \$369.

Kevin Kartun, mining analyst and a director at Frankel Max Pollak Vinderine, says the metal is in a consolidation phase and that a number of factors are holding the price at current levels.

These include the reentry of speculators into the market, thereby pushing up the world spot price; production cutbacks in the Commonwealth of Independant States; and substantial tightening up at Impala.

These factors, together with Impala's buying and leasing of 70 000 ounces of platinum, have caused the metal to trade at a premium to gold.

One institutional analyst disagrees.

He says Impala's platinum purchases must be seen as a short-term venture in view of limited cash flows.

"The company needs money and is expected to approach shareholders with a rights issue soon," he says.

This is because of strikes, high debt and problems with its plant.

The platinum price is thus expected to fall within the next few weeks.

● The overall index, an indicator of general market sentiment, deceased by 24 points to 3673.

However, the week to Friday had seen the index climb by 23 points.

One broker believes that, while weekly gains were lost in a single day's trading, it is "nothing to what we can expect this year".

The drought is expected generally to increase prices and thus cause the inflation rate to climb.

This could negatively affect investor sentiment.

It might, indeed, be the factor to make our market terminal.

Dollar performance confounds bears

STAR 17/2/92. (74)

By Carol Mason,
International Economist,
Standard Bank

CAROLE on CURRENCIES

The dollar last week confounded all those of a bearish predisposition who, on the basis of the previous week's very poor US employment numbers, had expected a return to new dollar lows.

Although broad-based market expectations of a further US interest rate cut were expected to keep the dollar subdued, the unit found strong market support around the Dm1,55 level and, from there, began a stealthy return to levels above those which had prevailed prior to the release of January's employment data.

Last week's somewhat surprising strength in the dollar was motivated by a number of factors.

Initially prompted by an improved technical background and consequent short-covering, what at first appeared to be a correction of previous weakness quickly took on the appearance of something more meaningful.

Building on improved sentiment, the dollar quickly advanced beyond Dm1,58 when a statement by US Federal Reserve chairman Alan Greenspan reflected his opposition to any official policy of dollar devaluation as a means of generating US economic recovery.

Coming just weeks after concerted central bank intervention to depress the dollar against the yen, his statement initially took the market by surprise since it appeared flatly to contradict earlier official policy.

However, while his comments singled out the yen for specific mention, by implication the other major currencies were included as well.

Markets took heart from the reduced prospect of official dollar sales which his statement appeared to imply, and the stage was then set for further dollar gains.

Towards mid-week, these were provided by rumours of yet another potential coup in Russia.

A German interview with Eduard Shevardnadze (who, on the basis of earlier prescient predictions, retains much credibility within international forex markets) revealed his belief that the dangers of another coup in Russia, and elsewhere within the new Commonwealth, were now considerably higher than they were on the eve of the failed putsch last August.

To a forex market hungrily looking for justification for sustained purchases of dollars, his statements, while containing nothing new, served as a timely reminder of the dollar's safe-haven virtues, enabling the unit to advance past Dm1,60.

By last Thursday, the dollar had strengthened from lows of Dm1,55 on Monday to levels above Dm1,60.

Notwithstanding the ongoing belief that one final US interest rate cut was still to come, sentiment towards the dollar had improved immeasurably.

However, in the absence of more fundamental justification, it was felt that further dollar gains would be difficult to generate.

Fortuitously, Thursday's release of better-than-expected US retail sales data provided the first tentative sign of recovery in the US economy and the dollar immediately strengthened beyond Dm1,62.

Subsequent less-than-friendly industrial production data prompted some profit-taking, but the unit's decline proved short-lived, with many taking the view that the dollar's retreat from earlier, loftier levels merely represented an attractive opportunity for renewed purchases.

Testament to healthy international demand for the US currency, last week's impressive dollar performance resulted in gains of about four percent against European currencies.

Gains against the yen (about two percent) were more modest, however, since official Japanese statements leave no doubt that, if deemed necessary, the Bank of Japan will intervene on behalf of the yen.

Kenyans seek to nurture SA links

B/Day 17/2/92

SHERIDAN CONNOLLY

A FOUR-man delegation from Kenya's Investment Promotion Centre (IPC) and Export Processing Zone Authority (EPZA) is in SA to establish high-level contacts and broaden the base for commercial interaction between Kenya and SA.

Group leader and IPC chairman Joseph arap Letting yesterday said Kenya had a lot to offer the SA investor, including a well-established market economy, efficient public and private sectors and well-developed infrastructures. (74)

"Now that SA has emerged from its isolation, Kenya's track record and its consistent business acumen can offer SA investors opportunities second to none."

The IPC was established to promote investment and help investors in Kenya. It offered a "one-stop" approval system, quickly processing project applications and obtaining relevant approvals on behalf of the investor, and provided information on investment opportunities and incentives offered by Kenya's authorities.

EPZA CE Silas M'Njamiu Ita said yesterday that investors who produced 100% for the Kenyan export market would be relieved of exchange controls and import duties. Investors would operate within a liberalised system and would be given the neccessary support and advantages to export competitively.

Trade mission visits are showing results (74) – Holtes

B/Day 17/2/92

DARIUS SANAI

THE recent spate of fact-finding visits by trade missions to SA was yielding positive results, Safto director Wim Holtes said at the weekend.

Holtes was responding to rumours that the more than 40 trade missions which had visited SA during the past year had had little effect on SA's foreign trade.

French- and German-based multinational firms had established themselves in SA during the period, primarily to restart distribution networks which ceased to function during the sanctions era.

Holtes estimated 70% of the trade established by the foreign missions involved the import of foreign goods to SA.

Another 20% involved the establishment of "hidden services", including foreign banks and insurance companies.

Holtes said SA business should not be impatient about foreign investment: "These deals, as every businessman should know, take months, often years, to complete."

Some of the trade missions were examining opportunities for the first time, others came explicitly to establish specific links with SA companies for future trade, and a third sort came to conduct business deals, leaving with contracts signed and money changing hands.

Sapa-AFP reports from Brussels that EC commissioner Martin Bangemann arrived in SA from Brussels at the weekend.

During his nine-day visit, he is scheduled to meet several Cabinet ministers and senior officials of the ANC and Inkatha.

Sapa reports that the first official delegation from Zambia's new government arrived in SA yesterday for a week-long visit. Its six members, led by Zambian Local Government and Housing Minister M C Sata, are to hold discussions with government, the ANC and business leaders.

Also in SA at the moment are a team of Spanish businessmen, a top-level Israeli delegation and a French parliamentary delegation. The Spanish businessmen, representing 12 major energy companies, will meet Eskom, Engen, Sasol and Chamber of Mines representatives.

ANC is still undecided on a trade policy for SA

B/Day 18/2/92

(74)

THE ANC has no trade policy, its economic adviser on international economic relations, Alan Hirsch, told a trade briefing in Johannesburg yesterday.

"The ANC's general economic policy documents have very little to say about trade policy, if anything," he told about 100 businessmen, manufacturers and exporters who expected to hear whether a new government would support changes being made to the country's trade policies.

He attributed the lack of a policy to the ANC's reasoning that it was an adjunct to central economic questions, "many of which we are still grappling with".

He was confident his views were broadly in line with ANC economic policy in the making; the ANC and Cosatu ("though I cannot speak for Cosatu") accepted exports of manufactured products and services to be vital for medium and long-term economic growth. However, "it is true that most ANC advisers expect economic concerns in the first few years of transition towards democracy to focus internally on providing for the basic needs of economically deprived South Africans."

SA's existing trade policy was in dire need of reform, and protectionist tariffs were being abused by manufacturers who priced products according to import parity rather than to cost or demand.

He warned against Industrial Development Corporation proposals that tariffs be homogenised and lowered to World Bank standards for a strongly outward oriented policy.

This assumed, he said, that exposure to world prices would make manufacturers more competitive because it would force them to allocate their resources efficiently.

Strategise

"This may be fine in the abstract world of neo-classical economics, but in the real world many other factors impinge on the ability of a country to compete internationally." Among these were access to technology, terms of relationships to foreign buyers or sellers, and the role of foreign investment.

The ANC felt it necessary to "think deeply and strategise carefully" about restructuring SA's relationships with trading partners and international bodies such as GATT, PTA, the EC and Lome. However, it would be necessary to move quickly.

Government's reluctance to reposition SA as a "developing country" rather than as a "developed country" was due to pride, and it was losing economic advantages as a result.

He said "government had made no attempt to even consult the ANC, let alone negotiate with it, over revisions to trade policy.

Replying to Hirsch, Trade and Industry director-general Stef Naude said export incentives had been changed because they had been abused.

The government was aware of the possible advantages of joining trade groups such as Lome, but until now this had been politically impossible.

No mechanism existed at GATT for the reclassification of SA as a developing nation and pride had nothing to do with the issue.

In his earlier briefing, Naude rejected any idea of a "big bang" move away from protectionism, saying SA had a responsibility through the Customs Union to some of the poorest countries in the world. But tariff levels would have to be reduced. — Sapa.

Negotiate trade and industrial policies, says ANC

(74) ARG 19/2/92

The Argus Correspondent

JOHANNESBURG. — The ANC has called on the government to negotiate trade and industrial policies with all major parties, to avoid a revision of these policies when a new government comes to power.

Outlining the ANC's trade and industrial policies this week, ANC economic adviser Alan Hirsch said the government "was trying to rush through major economic policy changes in order to lock an incoming government into a policy straitjacket".

Mr Hirsch said that unless policies were based on consensus the trade and industrial policy environments would continue to be ruled by uncertainty — "the cardinal enemy of investment".

He admitted that the ANC had not yet formulated detailed policies on trade and industrial strategies but gave an outline of ideas on the subjects which enjoyed popular support within the organisation.

Addressing a seminar organised by law firm Webber Wentzel, Mr Hirsch said the fundamental focus of trade policy should be to raise domestic productivity and therefore increase the wealth of the nation.

"An additional objective of trade policy is to try to strengthen the balance of payments," he said, adding that both trade and industrial policies should be integrated into a broader economic strategy.

He emphasised that existing trade policy was in dire need of reform as protectionist tariffs were being abused by manufacturers who priced products according to import parity rather than to cost or demand.

He warned against the outright implementation of proposals by the Industrial Development Corporation, which called for all tariffs to be homogenised and lowered to match World Bank standards for a strongly outward oriented policy.

This assumed, he said, that exposure to world prices would make manufacturers more competitive because it would force them to allocate their resources efficiently.

"Just because protectionism was a major cause of uncompetitiveness in domestic manufacturing does not mean that simply doing away with tariff protection will make manufacturers competitive."

He said that wholesale tariff reform in the economy was potentially "suicidal" and that a gradual reduction of protective measures would be more appropriate for the local economy.

Turning to export promotion policies, Mr Hirsch said the government could play a major role in contributing towards companies' export competitiveness through policies which supported skills training and research and development activities.

While he agreed that a realistic exchange rate policy based on a stable rand was essential to boost exports, he questioned the IDC proposal calling for lower corporate taxes on profits.

"Across the board, tax cuts on profits might simply create the space for uncompetitive, inward-looking firms to continue to operate."

On international trade relations he said the government's reluctance to reposition South Africa as a developing country rather than as a developed country was losing major economic advantages.

No more 'security prisoners'

THE category "security prisoners", describing those who had committed crimes against the security of the state, had been abolished in the wake of the Pretoria Minute, the Minister of Correctional Services, Mr Adriaan Vlok, said in a written reply tabled yesterday.

Answering a question from Mr Dave Dalling (DP Sandton) he said that on December 31 last year 413 prisoners under 18 and 72 801 over 18 were serving sentences in South African jails. — Sapa.

China to follow up SA trade mission

LINDA ENSOR (74)

THE recent visit to SA by a Chinese trade delegation would lead to further missions from mainland China, Sacob said yesterday. B| Day

The delegation from Beijing's Council for the Promotion of International Trade had expressed interest in investment and joint ventures with SA businessmen, said Sacob, at whose invitation the delegation visited SA.

The visit was a forerunner to specialised missions planned for the near future, Sacob said. 19|2|92

"Trade links are expected to include light industrial products such as vacuum cleaners, washing machines and the like, electronic and telecommunications equipment together with trade and technological co-operation in iron, chrome and gold mining technology. The Bank of China also intends to establish a network in SA," Sacob said.

The delegation met Foreign Affairs Department director-general Neil van Heerden, Tourism Minister Org Marais and Trade and Industry Minister Derek Keys.

STMENT CONFERENCE

Climate of certainty 'needs to be created'

(74)

B/Day 19/2/92

EDWARD WEST

NEW investment was the most effective way of achieving economic growth, Anglo American Industrial Corporation (Amic) deputy chairman Leslie Boyd said at the Frankel Max Pollock Vinderine investment conference yesterday.

Speaking during the industrial strategy session, he said apart from increasing investment in new industrial facilities, SA needed to curb population growth and improve productivity.

To encourage new investment, Boyd said Reserve Bank Governor Chris Stals's policy of tight money supply needed to be supported.

Tax incentives needed to be tailored. Extended tax free holidays were commonplace in other countries and such avenues should be explored.

Boyd said a climate of certainty needed to be created. Government could no longer keep changing the "rules of the game" or the "level of the playing field" as it had done over the past 10 years.

Industrial Development Corporation (IDC) MD Carel van der Merwe warned the conference that distribution of wealth through redistribution of privately held assets would have negligible effect on economic growth.

High economic growth would enable the present or a new government to distribute wealth through the budget via an equitable tax system to fund socio-economic development.

ANC representative Alan Hirsch pointed out that though the ANC had not yet committed itself to a detailed industrial policy, it was developing a broad economic framework which would include an industrial strategy.

Hirsch distanced himself from traditional industrial policy mechanisms such as tax rebates, duty relief, depreciation allowances and, sometimes, subsidised interest rates.

He said potentially competitive firms might be more usefully served by agencies supported by government, but directly responsible to boards in which those receiving help were strongly represented.

PAC representative Sipho Shabalala saw the increasing participation of the marginalised black majority in the mainstream economy as critical.

He said future economic policy should not necessarily maximise the returns of investors, nor maximise equity, but should be a satisfactory balance between employment creation and the need to redistribute means of social consumption and production.

ECONOMICS

Devaluations in Africa back trading rand

74

B\Day 19\2\92

SIMON WILLSON

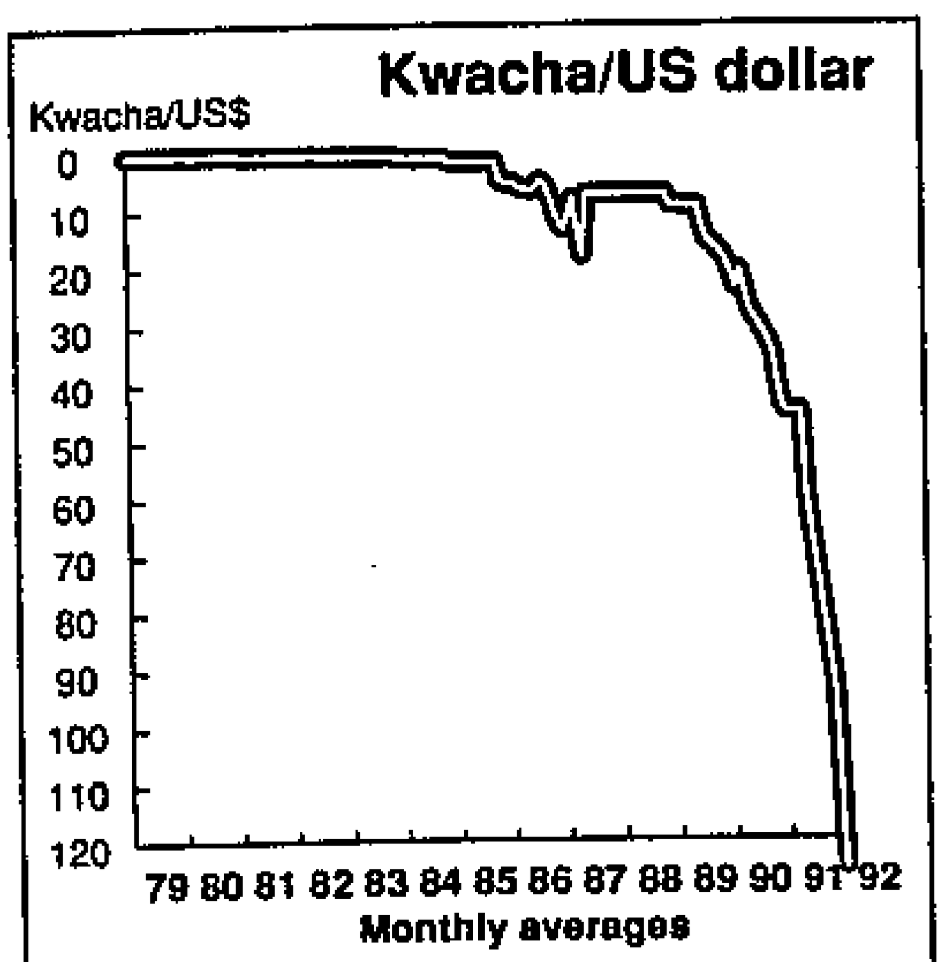
WHOLESALE devaluation of several of southern Africa's currencies is set to lend further support to the trade-weighted rand as SA trade with the countries of sub-Saharan Africa rises.

States in the sub-Saharan region have, in the past 12 months, embarked on an unprecedented and almost co-ordinated round of free market-oriented reforms. Some countries have initiated the reforms as part of a general, national economic liberalisation following the overthrow of long-esconced dictatorships; others have freed their markets in a careful campaign to appease and encourage creditors. But a common thread running through the reform measures in the sub-continent has been the devaluation of national currencies.

Devaluation, as the term is commonly understood in the Western industrial context, is hardly adequate to describe the collapse in the values of several southern African currencies recently.

Devaluations in the 5%-15% range that cause such remarkable political and economic turbulence in advanced industrial countries are barely measurable on the scale of southern African currency devaluation.

Three months ago Angola devalued the kwanza by 50% overnight. Last month Zambia devalued the kwacha by 25% at a stroke. At times towards the end of last year the Zimbabwe dollar was allowed to slide in an officially sanctioned devaluation by around 15% a week. The Zimbabwean dollar has now fallen by 56% in the past six months.



Graphic: FIONA KRISCH Source: BARCLAYS BANK

Even at its fastest rate of descent, the depreciation of the Rubicon rand looks pedestrian in this company. In absorbing the impact of disinvestment from and loss of confidence in SA in the mid-'80s, the rand took a year to fall 22,5% against the dollar.

The plunging parities of neighbouring countries' currencies is of minor but growing significance to SA and the rand. Before February 1990, SA's sub-Saharan trading volumes were prominent among those hampered by political constraints. SA's domestic reforms have, however, transformed the country's potential commercial relationships with its immediate neighbours. Trade is now increasingly open and, from the SA authorities' point of view, is an ideal avenue for the promotion of basic manufactured exports in the quest to diversify out of primary products.

An avalanche of devaluations north of the Limpopo therefore means more, these days, than it ever used to. As trade volumes increase between SA and its neighbours to the north, the impact on the rand of the tumbling values of trading partners' currencies becomes significant. The rand's effective, or trade-weighted, value is increasingly affected by these more minor currencies as SA's trading relationships diversify away from the relatively few traditional partners retained during the days of commercial isolation.

Weighting

Tacit acknowledgement of the rand's increased trade-weighted exposure to other currencies is carried in Standard Bank's measurement of the effective rand. The basket of trading-partner currencies against which the rand's value is measured now includes the Zimbabwe dollar, both to account for the rising levels of trade with Zimbabwe and as a proxy for other leading southern African currencies.

The Zimbabwe dollar carries a 3,28% weighting in Standard's rand basket — a reflection of what the bank says was R1,06bn in SA exports to Zimbabwe in 1990 (the last year for which complete figures are available) and R0,44bn in imports. Trade with Zimbabwe comprises 2,7% of SA's total external trade.

"The Zimbabwean dollar started to depreciate sharply against the rand last August," a bank study of the effective rand said recently, "and, despite its relatively low weight in our index, the strong appreciation of the rand against the Zimbabwean dollar dontributed significantly to the rise in our effective exchange rate index."

When SA's political, commercial and cultural relations with the rest of Africa were either non-existent or covert, the sharp movements seen in African currencies over the past year were of little significance. Today, however, African currency movements of the kind depicted on the chart in respect of the Zambian kwacha can no longer be ignored. They affect the trade-weighted value of the rand already and, as the members of the southern African subcontinent forge closer links in the years ahead, are likely to influence the rand even more.

First major international trade conference in SA

B/Day 20/2/92 SHERIDAN CONNOLLY (74)

TRADE and investment in southern Africa will come under focus next month at the first major international private sector conference to be held in SA.

The conference, organised by the SA Foreign Trade Organisation (Safto), will focus on opportunities for trade and investment in the subcontinent and will coincide with the Southern African Industry and Technology Fair '92.

High-profile speakers from Africa, Europe and the US will address issues such as trade, investment, tourism and projects in Africa.

Safto Regional Manager (Africa) Paul Runge said yesterday the conference would assist in cementing SA's trade links with the rest of Africa. With many new trade links developing, it was necessary to address key issues relating to the flow of trade in Africa, Runge said.

He said the conference was being promoted throughout sub-Saharan Africa and in Europe. Its primary aim was to bring together top European companies involved in Africa, as well as key representatives of major multilateral aid organisations.

There was growing interest in the business potential of southern Africa, particularly in view of the possibility of SA's integration into the Southern African Development Coordinating Council and the Preferential Trade Area, he said.

SA was now perceived to be the springboard for business into Africa as a whole, Safto said.

One of the speakers is Kenyan Export Processing Zone Authority CE Silas M'Njamiu Ita, who is part of a Kenyan trade delegation in SA.

Finrand continues its upward surge

(74)

B/Day 20/2/92

SHERIDAN CONNOLLY

THE financial rand continued its resurgence yesterday, climbing six points to end the day at R3,55 to the dollar, compared with its finish of R3,61 on Tuesday.

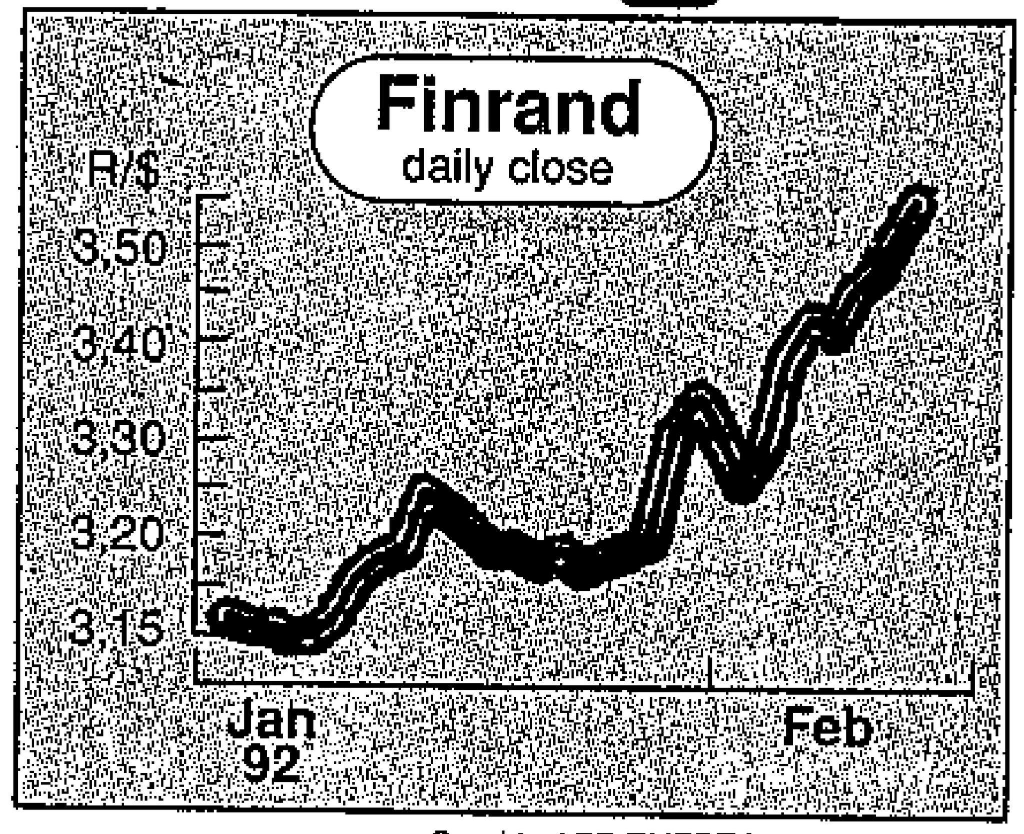
The foreign investment unit climbed to a high of R3,50 on intra-day trade yesterday on the back of a statement by Finance Minister Barend du Plessis that tax on foreign residents was being reviewed. There was also strong speculation the rise could be attributed to a big buying order from the Far East.

Analysts said the strengthening in the finrand showed renewed confidence in the currency. In recent weeks the finrand dipped to as low as R3,82 on intra-day trading.

The commercial rand, however, weakened against the dollar yesterday after bullish sentiment buoyed the US currency. The rand finished at R2,8322 a dollar yesterday, compared withR2,8277 on Tuesday.

In the local money market yesterday, strong downward pressure on the 90-day liquid BA rate continued and saw the rate fall to its lowest level in three years.

High liquidity levels and strong investor demand were driving forces behind downward pressure on the BA rate. The BA dipped to 15,90% yesterday from its recent 16,00% level. The rate was last at levels of around 15,90% in February 1989.



Graphic: LEE EMERTON Source: I-NET

Dealers said comments made on Tuesday by Reserve Bank Governor Chris Stals that a reduction in the rate of consumer inflation would allow room for some easing in official interest rates, had brought market expectations of an imminent rate cut into line. The market was eagerly awaiting the outcome of this week's consumer inflation data, they added.

Because of downward pressure on market rates and high levels of liquidity, the Reserve Bank yesterday called a special five-day Treasury bill tender for R800m which, dealers said, was favourably received. Applications for the allotted tender amounted to R1,330bn, with a lower average rate of 16,28% received.

STAR 21/2/92

January trade surplus falls sharply

74

By Sven Lünsche

The monthly trade surplus fell sharply in January as exports continued to drop in the wake of the poor economic conditions among SA's major trading partners.

Figures released by Customs and Excise yesterday show that the surplus fell to R700 million from R1,27 billion last December.

The surplus has declined steadily since it hit a peak of R2,75 billion last October.

January's surplus is less than half of last year's monthly average of nearly R1,5 billion.

While imports over the past four months have held steady at around R4 billion — they totalled R4,12 billion in January — exports have been falling.

From October's peak of R6,9 billion, exports dropped to R5,5 billion in November, R4,83 billion in December and R4,82 billion last month.

The decline was led by a fall in exports of precious and base metals.

Compared with January 1991, exports of unclassified goods (mainly gold) slumped by 17 percent to R2,52 billion.

Given that the rand gold price was only marginally lower in January 1992 (R985,08 per ounce) than in January 1991 (R986,35), Safto economist Bruce Donald speculates that there was a significant drop in gold export volumes over the period.

The other contributors to poor export performance in January were some of the major commodity categories — minerals (-3 percent) and base metals (-17 percent) — reflecting the current poor conditions prevailing in international markets and the associated downward trend in commodity prices.

Ferroalloy producers, some of whom have cut back production to a fraction of capacity, are currently facing oversupply conditions related to declining world steel and stainless steel output, Mr Donald says.

Manufacturing exports, however, continued their recent strong performance, led by an annual growth of 54 percent for plastic goods and 26 percent for chemicals.

Exports of jewellery and precious stones (mainly diamonds) rose by 95 percent and vegetable products by 163 percent over the year, but this trend is unlikely to continue over the next few months.

Particularly hard hit will be agricultural products in the wake of the drought, which will force SA to import food products, particularly maize.

On the diamond market, analysts are expecting a sharp slowdown in sales, judging from the poor sales at De Beers site in January.

Imports declined sharply by R700 million in January, compared with January last year, but the figures are distorted by the fact that SA imported about R1 billion worth of oil in January 1991 ahead of the Gulf war.

Imports of unclassified goods, which comprise oil and arms, were thus 71 percent lower in January at R370 million.

Some of the other remaining major categories of imports showed strong increases over the year, led by machinery (16 percent), prepared foods (49 percent) and textiles (39 percent).

Mike Siluma reports that investors should observe certain guidelines

An economic balancing act

STAR 21/2/92 (74)

DURING his appearance recently at the World Economic Forum in Switzerland, Nelson Mandela went out of his way to reassure potential investors, promising a review of the ANC's policy on nationalisation and debt repayment.

But the other side of the investment coin, he might have added, relates to growing concern in his constituency that any new investments, while ensuring returns for investors, must also lead to visible material benefits for the majority.

The imminent restoration to full membership of the world economic community has galvanised the ANC and the Congress of South African Trade Unions into urgently considering the critical issues of when and how foreign businesses should be allowed to invest.

In Davos, Mr Mandela called on the world's investors not to pour in their money now, but to hold off at least until an interim government had been installed.

In Johannesburg last week, after a church-sponsored conference on investment, SA Council of Churches general secretary Dr Frank Chikane used even stronger language to emphasise the point made by Mr Mandela, declaring that to invest in South Africa now would be tantamount to collaborating in the oppression of the majority of South Africans.

The issue of the terms on which foreign investment should flow back into South Africa is not so straightforward. It is being examined with renewed urgency by both the ANC and Cosatu.

While mindful of the fact that international investors, despite their growing interest in South Africa, are not exactly scrambling to do business in the country, the Johannesburg conference warned that "foreign investments must be regarded with caution".

"Investors," it argued in its communique, "should only operate within the framework of control mechanisms which make it most advantageous for them to enhance a life-sustaining economy."

Delegates to the conference — representing the SACC, the Institute of Contextual Theology, the Southern African Catholic Bishops Conference and the funding group, Kagiso Trust — all commited themselves to co-operate with the liberation movements, the trade unions and other groups to draw up a code of investment and corporate conduct.

So far, debate on the issue of an investment code has tended to focus on the following areas:

- The need to stimulate economic growth with the objective of raising the standard of living of disadvantaged communities through, for instance, the provision of housing and electricity.
- Ensuring that the influx of new investments does not encroach upon the rights of workers and that all employers (including local companies) adhere to the International Labour Organisation (ILO) conventions.
- Encouraging employers to play an active part in improving living conditions in the disadvantaged communities through social responsibility programmes.
- The necessity of affirmative action within companies to advance the position of those previously discriminated against.

In addition, companies investing in South Africa would be asked to adopt responsible policies towards the natural environment.

Whatever form the code eventually takes, those who draw it up will have to do a delicate balancing act of ensuring that South Africa remains attractive to foreign investors (without too stringent an investment code) while at the same time striving to redress the injustices of apartheid and breathing new life into the stricken economy. □

TARIFF POLICY

FM 21/2/92 (74)

Is government caving in to industry?

In June 1990, the Industrial Development Corp, in a landmark report, recommended drastic cuts in SA's import tariffs to make local industry more competitive, boost exports and help bring down inflation. The report was by no means the work of free-trade purists — it recommended only that tariffs come down to a maximum of 15%-30% over a five-year period. But even this partial measure would provide a much-needed economic spark, it argued.

The report was prepared in a mere three months at the urgent request of the then Trade & Industry Minister, Kent Durr. Durr largely concurred with the recommendations but, five months later, it was announced that he was leaving to become ambassador to London. The report was finally made public after another five months by the next Minister, Org Marais. But action was delayed as a long list of industry groups was given a chance to pick over the findings.

Now we have another Minister, Derek Keys, and the momentum towards tariff cuts apparently has ground to a halt. The signs are clear.

In December, Trade & Industry Director-General Stef Naudé told Cape Town business leaders that "the phased reduction would probably begin early in 1993, provided that the necessary package of (economic) measures was in place by then." This means that two-and-a-half years after receiving the report, government would "probably" begin implementation over the following five years — stretching the reforms to almost the end of the century.

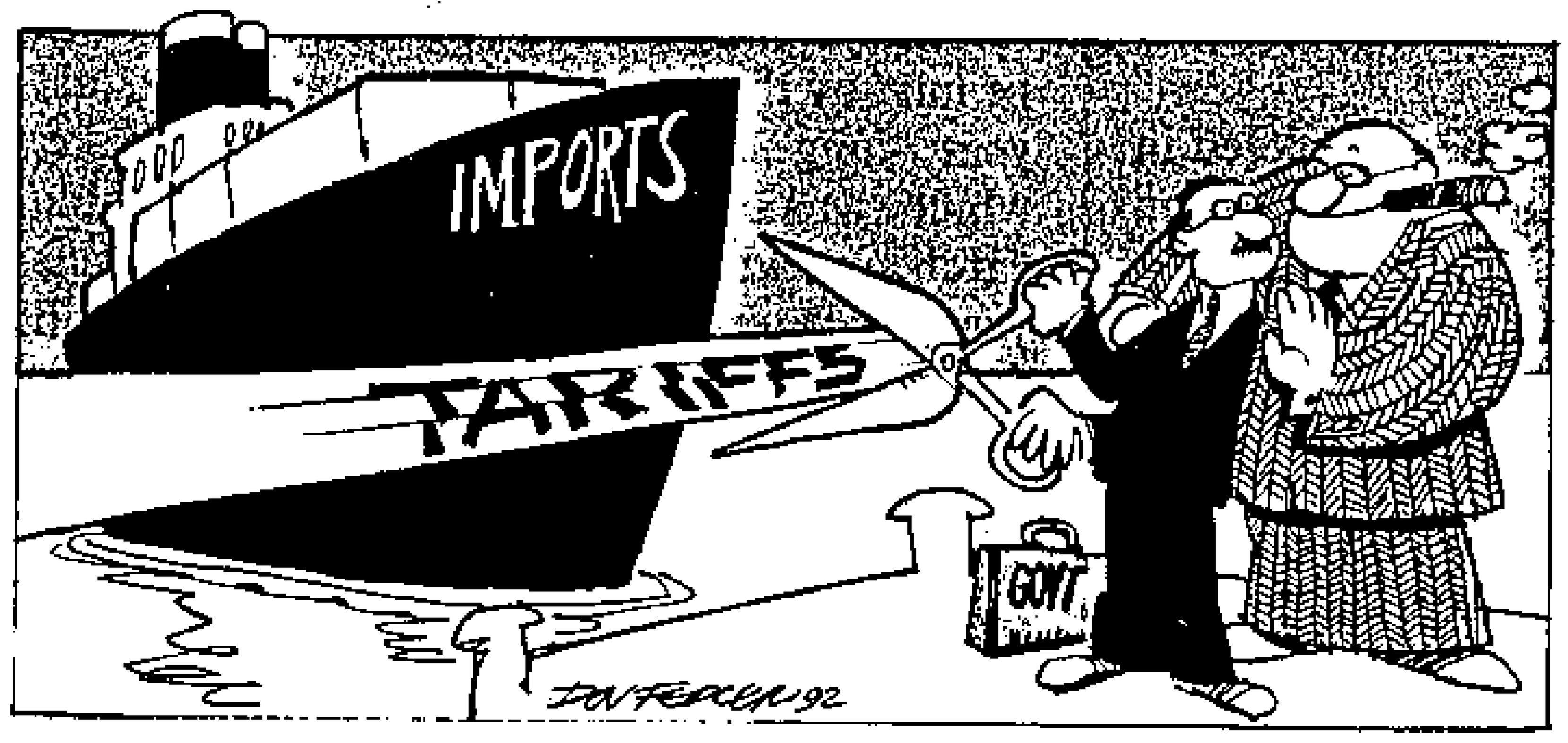
In office for just a month, Keys declines to be interviewed until after the Budget on March 18. But this week Naudé reiterated his belief in "gradualism" and told business people at the Webber Wentzel international trade briefing in Johannesburg that he does not believe a "big bang" tariff reduction package would be right for SA.

Then came the excuses: "We will have to keep to our tariff undertakings to the General Agreement on Tariffs & Trade — but we are also busy with a difficult political reform process. Economic reform and political reform should go hand in hand. And, as we move out of the protectionist sanctions era, remember that what we decide on tariff reform would also have a direct impact on our Customs Union partners."

He added: "There is no way that we can move overnight from a position of sinfulness into purity. The issues are too complex."

But this is exactly what Argentina, Mexico, Vietnam, eastern Europe and many other of SA's competitors are doing. While government has dithered for 20 months now, many Third-World countries are deciding to make an overnight dash for the First World.

Government's inaction flies in the face of a growing chorus of small businessmen, consumer organisations, economists and others urging immediate tariff cuts. But in recent weeks, it's become clear that these groups are no match for the country's powerful big business interests who demanded, and got, the high tariff walls in the first place and are now lobbying fiercely to keep this protection secure.



Says Independent Wire Converters' Association chairman Robin Bosomworth, who successfully fought an Iscor tariff increase application last year: "Do we have to prop up fat-cat primary-sector interests operating two-tier pricing structures (high prices in SA, low prices for the same product when it's exported) behind protectionism and contend with the monopolies and cartels that such protectionism breeds? If SA industry, with all its natural resources, cannot have access to world prices for raw materials, it stands to reason there can be no future for manufacturing, employment, investment and economic growth — and inflation will continue."

He adds: "The weakness of the Department of Trade & Industry — it's too easily exploited by big business — leads to over-regulation, over-protection, untenability of investment, lack of competition and economic malaise. The perception exists that government and big business operate as one."

Wits economist Frank Vorhies says: "Government should target its economic policies more on the needs of consumers than producers. Protectionism adds to costs — pharmaceuticals and cars are cases in point. In 1776, Adam Smith wrote that the wealth of nations is increased by freeing trade, not by protecting industry against competition. It's about time we learnt this simple lesson."

Adds Standard Bank group economist Nico Czypionka: "By coupling tariff reform with a suitable monetary policy and measures to improve efficiency, a comprehensive package approach will ensure that the shock of tariff reductions would be limited."

Cape Manufacturing Engineers executive chairman Ewald Wessels says Taiwan's economic miracle was made possible by combining tariff cuts with a big currency devaluation, while positive real interest rates created the savings pool to fuel its investment surge. "We should follow suit if we want to become a successful world player."

Jan Dreyer, chief of government's Central Economic Advisory Service, says his department is working on a new Economic Development Programme, which would look at tariff policy. "Tariff reform is part of the IMF's structural adjustment programme approach. But for SA to grasp the nettle, we would also need the assurance that IMF funding would be available if our balance of payments go into the red."

Meanwhile, as SA struggles to make up its mind and its economy continues to stagnate, former basket-case economies are racing ahead.

Argentina is a case in point. One of the world's five richest countries in the Thirties, Argentina plummeted to banana-republic status with decades of over-regulation, out-of-control inflation, nationalisation and exorbitant protection. Now, in the 30 months since President Carlos Menem took office, tariffs have been slashed, privatisations launched and inflation tamed. Argentinian inflation has dropped from an annual 4 900% in 1989 to a monthly 0,6% in December.

Menem followed the "big bang" approach with, for example, a dizzying array of measures announced all on one day — last October 31. But SA remains too timid to follow suit.

In 1986, former President P W Botha made his famous "adapt or die" speech in Upington, urging South Africans to face the realities of the "new SA" or go under in the process. Maybe the time has arrived to spell out the same message to the local business and industrial community — either it faces the reality of real economic reform or the economic slide will be irreversible.

Arnold van Huyssteen

SYNTHETIC FIBRES FM 21/2/92

A new plant for Sasol

Last year, Sasol said it would build a plant at Secunda to make the chemicals for acrylic fibre. This week, Sasol outlined the second

continued

Trade surplus falls on lower exports

BDay 21/2/92 (74)

SHERIDAN CONNOLLY

LOWER "unclassified" exports — mainly gold — and a decline in other commodity exports pulled SA's trade surplus down almost 45% to R700,6m in January from R1,27bn in December, figures released yesterday by the Customs and Excise Directorate show.

This was sharply lower than 1991's monthly average of nearly R1,5bn, although January's surplus was significantly higher in year-on-year terms.

Exports fell for the second month in a row, to R4,81bn in January compared with R4,97bn in January last year, on the back of a 17% decline in "unclassified" exports.

Imports dropped to R4,11bn in January from R4,82bn in January last year due to a massive 71% drop in "unclassified" imports — mainly crude oil.

SA Foreign Trade Organisation (Safto) economist Bruce Donald said yesterday the decline in exports and imports in January 1992 in year-on-year terms was an indication of the poor economic conditions in world markets, together with substantial fluctuations in the unclassified category of exports and imports.

Donald said with the rand gold price only marginally lower at R985,08 in January 1992 as against R986,35 last January, it could be speculated "... that there was a significant drop in gold export volumes between these two periods".

Exports of minerals and base metals performed poorly while manufactured exports of chemicals, plastics, jewellery, precious stones and vegetable products maintained an "outstanding performance", Donald said.

He warned that the drought conditions facing SA farmers would put enormous pressure on exporters. He said the assistance to exporters provided through the general export incentive scheme (GEIS) would be critical.

On the import side, the 71% year-on-year decline in "unclassified" imports was attributable to the unusually high base.

The Gulf crisis last year was characterised by huge oil purchases by SA which stabilised soon after the end of the war, Donald said.

Imports of machinery, prepared foods and textiles performed well in nominal terms while transport equipment showed a significant decline, he said.

Bush's nod on exports to SA 'a positive step'

B/Day 21/2/92.

74

SEAN VAN ZYL

US PRESIDENT George Bush's announcement earlier this week freeing the Export-Import Bank (Eximbank) to underwrite US exports to SA was regarded by the local business community as a positive step towards re-establishing trade relations between the two countries.

SA Chamber of Business (Sacob) economist Bill Lacey said Bush's announcement served as a signal to American businesses that SA was once again an acceptable market in the international trading arena.

However, Lacey did not expect the Eximbank's financial participation in US export trade to SA would result in a flood of imports. "With the present position of the SA economy, local business is unlikley to start building up inventories."

The Evans Amendment, introduced to US legislation in 1978, barred the Eximbank from participating in export deals to the SA government or its parastatals until the US President certified to Congress that "significant progress towards the elimination of apartheid has been made".

Safto senior manager, international division, Mike Veysie said increased imports to SA would be determined also by the country's needs and its being able to afford imported goods. Furthermore, Bush's authorisation of the Eximbank's participation mostly benefited US firms as the bank's financial guarantee applied only to one-way trade from the US to SA. As a result, US firms would not able to rely on the Eximbank for financial guarantees on goods imported from SA.

However, SA's indirect benefit from Bush's decision would be cheaper access to imported capital goods, aircraft and machinery.

Although the Eximbank's participation in US-SA trade was unlikely to significantly boost trade volumes, Veysie said, it was "a positive step" which could in the long run promote increased two-way trade between the two countries.

American Chamber of Business of SA executive director Michelle Cohen said the move would also allow SA greater access to new technology previously denied by sanctions.

CCB's financial situation stays under wraps

LINDEN BIRNS

AUDITOR-General Peter Wronsley declined yesterday to detail the financial situation of the Civil Co-operation Bureau (CCB), an SADF covert unit in the throes of being disbanded. B/Day 21/2/92

He said he was barred from commenting on the issue in terms of Section 6.3(a) of the Auditor-General Act and an agreement between himself, President F W de Klerk and Finance Minister Barend du Plessis.

On Wednesday Wronsley told Parliament former Defence Minister Gen Magnus Malan and Du Plessis had authorised payment of more than R28m to the CCB during the past two years.

Yesterday he refused to say whether further payments were being made to the CCB. The R3m pension given to one former CCB member was a problem for the insurance company concerned and not the Defence Ministry, he said.

Investment returns of trust 17,8%

LINDA ENSOR

CAPE TOWN — The Independent Development Trust (IDT) had achieved an average return on its investments of 17,8% since August 1990, IDT communications director Jolyon Nuttall said yesterday.

Nuttall was commenting on a note in Auditor-General Peter Wronsley's report for 1990/91 — tabled in Parliament this week — which said IDT trustees had not formally minuted the criteria used to select the initial seven portfolio managers. The managers were given responsibility to invest the R2bn granted to the IDT by government.

Nuttall said the overall return achieved had been very good. B/Day

Portfolio managers selected were FNB, Rand Merchant Bank, Senbank, Standard Merchant Bank, Volkskas Merchant Bank and Syfrets Managed Assets. 21/2/92

The Auditor-General's report also noted that no certificates had been obtained from the institutions to the effect that no commission on the investments had been paid to intermediaries. Each portfolio manager had, however, submitted a certificate in this regard.

Nuttall said there were practical difficulties attached to getting certificates, but stressed that no commissions had been paid.

US pledges its aid to SA

74

SIMON BARBER

WASHINGTON — In the wake of government's Potchefstroom by-election defeat, the Bush administration yesterday pledged to be "as helpful as possible" in promoting SA's economic growth.

The State Department issued a formal statement encouraging Pretoria to apply for IMF credits and urging use of US Export-Import Bank facilities which could substantially reduce the price SA must pay for capital goods from the US.

This means that aside from the arms embargo, the last significant federal sanctions on SA have been effectively removed.

"SA's economic conditions will have a direct and decisive impact on the success of the new democracy which emerges from the current negotiations... In this regard, we want to be as helpful as possible," the statement read.

Reiterating what President George Bush had already indicated privately in a letter to President F W de Klerk, the statement said the US was now "prepared to consider an IMF facility for SA subject to the terms of the Gramm Amendment".

Assistant Secretary of State for Africa Herman Cohen has said repeatedly in recent weeks the US believes all those terms have been met except one, which requires SA to have "an imbalance" on its balance of payments current account.

That condition is redundant. The existence of such an "imbalance" — caused by the use of foreign currency reserves to help reflate the economy — would be SA's principal reason for applying to the fund in the first place.

The statement also stressed that the Export-Import Bank (Exim) was now open for SA business and would provide guarantees and credits for imports by the public and private sectors.

SA access to Exim facilities has been restricted since passage of the Evans Amendment in 1978, which barred the bank from supporting exports to SA government-controlled entities unless the president certified Pretoria had made "significant progress towards the elimination of apartheid". Bush issued the necessary certification on Wednesday.

"We are also encouraging US exports to non-government SA importers who have

☐ To Page 2

BDay 21/2/92

US pledge

74

☐ From Page 1

endorsed and proceeded towards the implementation of fair labour standards," the statement noted.

While Exim's function is to facilitate US exports, the guarantees, credits and insurance it issues to exporters enable importers to borrow the purchase price of goods on more reasonable terms than might otherwise have been available.

For SA, whose growth and capacity to create new jobs will be heavily dependent on imports of new capital equipment, this could mean an important reduction in likely capital costs.

"Assisting US exports to SA ... will demonstrate our commitment to the agreement reached at the (July G-7) summit that the industrialised nations find ways to help SA," the statement said.

● See Page 4

BDay 21/2/92

FINRAND FM 21/2/92

Hints of change

(74)

A change in the tax law might soon afford relief to non-residents who draw interest from local balances in the banking system. This was read, by the financial markets, into the response of Finance Minister Barend du Plessis, to a question from the floor at the Frankel, Max Pollak, Vinderine investment conference. Du Plessis reportedly said, now SA was part of the world again, the universal taxability of income from a local source in the hands of a non-resident investor should be reviewed. The matter would be referred to Revenue for re-evaluation.

His remark caused an immediate surge in the finrand — moving the discount to the commercial rand from 26,3% to 21%. The sharp rise in the discount from a mere 8% to recent highs — has been widely attributed to the withdrawal of funds placed in interest-bearing accounts by non-resident investors (especially from East Asia) lured into placing money in SA via the finrand in the belief that the interest would not be taxable locally.

When this erroneous belief was shattered by recent announcements by Revenue, the finrand market panicked. The panic was aggravated by stop-loss selling by speculators in the finrand who saw the market moving against them.

This development has evidently placed government in a dilemma. The need for every cent of revenue from all sources has to be balanced against the damage inflicted to still-fragile foreign investor sentiment. ■

Markets cool off after panic wave

By CIARAN RYAN in Johannesburg and JOHN CAVILL in London

ALTHOUGH foreign investors are expected to remain wary of committing new funds to South African securities until after the referendum, London investment analysts do not expect a big sell-off.

There was a rush of non-resident gilt sales on Thursday, totalling R53,2-million. Purchases totalled R17,2-million on Wednesday.

On the share market, the value of foreign deals was R10,6-billion on Thursday, half that of Wednesday, as foreigners started off-loading shares. (74)

Dive

London analysts say the financial rand had already been undermined by the disinvestment of large British groups, such as Pilkington Glass and now Blue Circle, and by the taxing of interest on short-term deposits with SA banks.

Responding to foreign selling pressure, the finrand dived from US28,2 cents to a low of US27,3c before recovering to US27,5c on Friday, widening the discount between it and the commercial rand to 27%.

Ironically, this widening discount is likely to arrest — and possibly reverse — a decline in share and gilt prices in spite of political uncertainties as foreign investors return to pick up bargains.

The fall in the finrand failed to prevent a 24-point drop in the JSE all-gold index to 1 214 and a 25-point decline in the overall index to 3 526. But the industrial index recovered 32 points to 4 652 at the close on Friday.

Crises

Fund managers said investment strategies would not be changed much in the weeks leading up to the referendum.

This reaction supports the view that SA investors are relatively insensitive to political crises. In fact, any decline in share prices would present excellent buying opportunities in a market generally seen to be overpriced.

One portfolio manager told Business Times: "We are likely to see more foreigners switching in and out of the market. This is a luxury they are entitled to.

"Our investment strategy is determined by fundamentals more than short-term hiccups in the market.

"One of the effects of the referendum will be to slow down the number of rights issues."

The enthusiasm for the Gencor rights issue, pitched at 1 000c, looked a little faded on Friday as the share price dropped to 1 050c. The discount between the rights and the market price narrowed from about 15% a few weeks ago to 5%.

Head of investment at Sanlam, Ronnie Masson, said the share market was likely to drift slightly downwards in the coming weeks. But high-quality scrip would be picked up by bargain hunters.

Benchmark gilt Eskom 168 shot to 16,55% before retreating to 16,45% on Friday.

Rand-hedge shares, such as Richemont, De Beers, Charter and Minorco, as well as golds are likely to suffer volatile swings in price.

The finrand is expected to suffer violent swings as buyers hold off.

S Times (BUSS) 23/2/92

Clock

A London currency dealer said: "At the low the effective yield on Eskom 11% 2008 was getting close to 22,5% — six points more than inflation. That is highly attractive to investors.

"People who follow SA developments know that even a Conservative Party government would not be able to turn the clock back to apartheid. They also believe the odds are in favour of President De Klerk winning the referendum, even if it is a close-run thing."

He said trading volume in the finrand had shrunk: "The fall was more due to buyers holding back than selling pressure. There was a lot of marking down by market makers in the finrand and it

● To Page 3

● From Page 1 S Times (BUSS) 23/2/92 (74)

Panic's over

brought in buyers."

Investment analysts briefing jittery clients have been telling them that President De Klerk's move will force white South Africans to focus on stark options — chiefly the risk of sacrificing all the gains made in the past two years and returning the country to isolation.

"Nobody can believe they will opt for that or even something which will delay the pace of reform and the economic stagnation that would result," said one.

SA in bid to open new trade route

S/Times (B4SS) 23/2/92. 74

By CHARLENE SMITH

SOUTH African businessmen are involved in a R5-million project to cut a trade route through Central Africa that will benefit the entire subcontinent.

Travelling time for goods to Central Africa from Southern Africa is as long as three months, using sea and rail routes up the east coast.

Angela Self, the SA Foreign Trade Organisation manager for its regional trade centre, says that if the route through Mpulunga in the south of Lake Tanganyika (Zambia's inland port) is improved, it will reduce transport time of goods to 15 days.

Mpulunga handles 75 400 tons of freight a year.

Exports will travel up the inland lake to Bujumbura in Burundi, an excellent port which was recently opened. It is operating at half capacity because of bottlenecks at Mpulunga.

The European Economic Community has examined ports on the lake.

Miss Self estimates that improvements will improve handling capacity to at least 100 000 tons a year.

An initial problem is that trade will be in one direction only — from the south. It is hoped that a dual flow will develop.

The port handles cement, sugar, steel and food from Zimbabwe, Zaire, Malawi and South Africa. The goods are sent to Burundi, Rwanda, Uganda, eastern Zaire and the Sudan.

All trade sanctions between SA and Africa have not been lifted.

Miss Self says the Zambian Government is enthusiastic about the project. She is forwarding management proposals for the project before seeking funds.

"It is possibly too small to get investment finance, but I hope that aid agencies will look at it favourably."

SA businessmen see Zambia as a major trade centre and African clearing house.

SA recently signed a flyover agreement with Burundi.

Big potential for world's 'hot money' to flow into SA

STAR 24/2/92 (74)

By Neil Behrmann

LONDON — The major part of foreign exchange deals is still "hot money, moving from one part of the world to another in search of speculative investments".

So says Rolf Willi, senior general manager, Dresdner Bank, and president of the Forex Club Deutscheland.

Daily foreign exchange turnover on world markets is a mammoth $700 billion (R2 000 billion).

But foreign trade in goods and services accounts for only $15 billion (R42 billion), or only two percent of the volume.

The estimates which update statistics of the Bank For International Settlements are significant, when measured in terms of potential capital flows into South Africa.

The biggest foreign exchange market in the world is London, followed by New York and Tokyo.

In the second league are Zurich, Singapore and Hong Kong. But Australia's share is around five percent of world foreign exchange trade, 10 times the size of South Africa.

Maelstrom

It is thus not difficult to divine the potential growth of the SA foreign exchange market if exchange controls are lifted.

The bulk of foreign exchange trading is the result of inter-bank transactions and arbitrage. In this maelstrom, sentiment for or against a currency changes swiftly.

So much so, that at a recent conference organised by Telerate, Mr Willi contended that the random walk theory applied to foreign exchange rates.

He said empirical evidence showed there were only very short-term correlations that could be exploited, if indeed these trends could be recognised at all.

Liberalisation

Despite his scepticism about forecasting, however, Mr Willi is bitten by the bug.

"Behind a good dealer and arbitrageur is a good researcher," he said.

At the same conference, Dirk Morris, chief international economist at J P Morgan Investment Management, said removal of controls over international capital flows and liberalisation of pension fund regulations were rapidly transforming the foreign exchange market.

As institutions spread their portfolios in world bond and stock markets, their currency managers were taking positions in foreign exchange markets.

Currency trading of these institutions had grown from almost nothing three years ago to between $10 billion and $20 billion today.

This business could be worth hundreds of billions within a few years.

Fund managers were becoming more dominant than corporate players, he said.

The name of the game for forecasters and central banks, therefore, is to guess future changes in sentiment of the growing band of pension and insurance companies, asset managers, investment funds and leveraged foreign exchange trusts.

At the beginning of the year, for example, a panel of dealers consulted advised against excessive dollar pessimism.

Too many currency traders were bearish, indicating that a marginal portfolio shift would boost the dollar.

Since then the dollar has rallied, but is still well below its highs of last year. Sentiment in the market is divided and traders say that their positions are neutral.

Members of the panel believe the dollar will trade in a narrow range in the next three months.

Now that it is a member of the European Exchange Rate Mechanism, sterling is holding firm against the dollar, despite the depressed economy and political uncertainty.

Hongkong Bank sums up market feeling: "The US recovery has proved elusive, but there is a growing belief that monetary and fiscal stimulus will generate a revival over the next few months."

This hope may again lead to disappointment in the coming three months, says the bank, leading to more dollar weakness.

US recovery

From the northern hemisphere spring onwards, a sustained but gentle US recovery should ensure some modest improvement in the dollar.

Five out of the eight panellists predict the dollar will be between seven and 10 percent higher by the year-end.

Most expect the yen to be stronger, so currency strategists might take advantage of political scandals and Tokyo stock market uncertainty and buy the yen whenever it dips against the deutschemark.

Dollar still defying all the odds

STAR 24/2/92

By Carole Mason,
International Economist,
Standard Bank

74

CAROLE on CURRENCIES

For the second week running and, in the face of what in more normal circumstances would have represented considerable adversity, the dollar displayed substantial strength last week.

Whereas central bank intervention against the unit, official statements that German interest rates were not likely to fall anytime soon and a poor showing by President George Bush in the first primary of the election campaign ought to have been sufficient justification for a weaker dollar last week, this simply did not happen.

The lack of a dollar reversal in fact underscored what has now become a familiar phenomenon on international forex markets — the re-establishment of long dollar positions on the premise that, by most standards, the dollar is under-valued.

For weeks, the Bank of Japan has indicated its belief that dollar strength against the yen is not reflective of underlying fundamentals.

It also indicated that the sustained dollar strength would force it to intervene on the yen's behalf.

It therefore came as no great surprise to market participants when the Bank of Japan and the US Federal Reserve intervened to prop up the yen.

However, while early intervention efforts succeeded in pushing the dollar back to Y126 from Y128, yen gains could not be sustained and the dollar quickly moved back towards Y129.

Whereas previous central bank intervention efforts have sought to capitalise on the element of surprise usually afforded by their clandestine, almost surreptitious, intervention activities, recent Bank of Japan intent has been so well signalled in advance that the desired result has simply not been achieved.

In effect, all that the Bank of Japan has accomplished through recent intervention activity is a substantial running down of its domestic foreign currency reserves.

The perception that last week's central bank intervention was largely defensive in nature thus prevented the dollar from weakening to the degree normally associated with market awareness of potential central bank dollar sales.

Likewise, statements from Germany indicating that there was no scope for lower German interest rates also failed to depress the dollar, in large part because these were issued at much the same time as economic data showing that Germany had just experienced its third consecutive quarter of negative growth.

Growing market appreciation of the fact that the German economy has entered a period of contraction (the underlying severity of which is not yet clear) suggests that German interest rates have peaked, just as US rates have troughed, thereby affording the dollar the prospect of reduced adverse interest rate differentials in the months ahead.

Finally, although the results of the New Hampshire primary underscored the potential problems faced by the administration in seeking re-election (President Bush only captured 58 percent of the Republican vote, against 49 percent for alternative candicate Pat Buchanan), forex markets chose to dismiss the worse-than-expected outcome as symptomatic of desire on the part of the electorate to register a protest vote.

Since current voter discontent stems in large part from uncertainty regarding medium-term economic prospects, the overriding market belief that US recovery will soon become apparent largely explains why the dollar gave such short shrift to last week's negative political news.

Market focus thus remains squarely on the dollar and the expectation that favourable dollar sentiment will be sustained.

Having broken through strong resistance at Dm1,6350 with relative ease last week, the dollar's technical position now suggests continuing progress towards Dm1,70-1,73.

Although the possibility of concerted central bank intervention to depress the dollar remains, little indication that intervention from any source other than the Bank of Japan and the US Federal Reserve is likely over the near-term suggests that intervention will likely be frustrated by what remains strong underlying demand for the US currency.

Usko shareholders should take the cash

STAR 24/2/92

By Derek Tommey

Dorbyl is offering Usko shareholders a choice of cash or Dorbyl shares for their Usko shareholdings. They should have no difficulty deciding to take the cash.

Dorbyl is offering 35c in cash for each Usko share, or one Dorbyl share for every 240 Usko shares.

Dorbyl shares closed on Friday at R29. On this figure the share offer is worth 12c for each Usko share, which is only a third of the cash offer.

Dorbyl is offering holders of Usko preference shares 59c in cash for each share, or one Dorbyl share for every 240 Usko preference shares.

Here again, the cash offer is the one to be preferred. The greater cash payment for the preference shares arises from the existence of arrear preference dividends.

Dorbyl intends acquiring all Usko shares and delisting the company.

The offer to Usko shareholders is dependent on a number of factors, including the successful completion of a due diligence exercise, the successful completion of arrrangements with Usko's bankers and the ratification by shareholders of the sale of Usko's steel and vanadium divisions.

Mauritians reconsider ties with South Africa

(74)

STAR 24/2/92

Star Africa Service

PORT LOUIS — The government of Mauritius is having second thoughts about its refusal to open diplomatic relations with South Africa, according to government sources.

The official attitude is that Port Louis will not exchange diplomats with Pretoria until apartheid has gone. But government sources are now saying Mauritius should not lag behind Botswana, Namibia, Angola and other African countries which had decided to establish diplomatic links with South Africa.

"In the absence of an ANC veto, Port Louis has felt encouraged in its endeavour," one official said.

"The situation between Port Louis and Pretoria is ripe for important decisions."

Observers think a first step might be a visit to South Africa by Mauritian Foreign Minister Paul Berenger in acceptance of the invitation issued by his South African counterpart, Pik Botha, when President de Klerk paid a "private" visite to Mauritius last year.

Mr Berenger has, however, accused Mr de Klerk of running away from his responsibilities by holding a white referendum on reform and threatening to resign if he lost it.

Mr Berenger said over the weekend that he would discuss the matter with the ANC representatives at the Organisation of African Unity ministerial meeting in Addis Ababa next week.

Top US companies streaming to look at SA

DARIUS SANAI

EXECUTIVES from top US firms are streaming to SA to investigate investment opportunities, says a leading industry analyst.

The analyst, who asked not to be named, said at the weekend that the list of names of the US firms sending high-ranked executives to SA read "like something out of the Fortune 500".

He said the firms were not just looking around, as some trade delegations have done during the past year: they were preparing to invest in SA as soon as an interim government, signalling greater political stability, was installed.

The analyst said the referendum called by State President F W de Klerk could have a beneficial effect on investment. "It will clear the air, as these people want to be confident De Klerk has a mandate for change", he said.

But he said a referendum victory by the CP would have disastrous effects on investment.

"If SA loses this window of opportunity (for investors), it may be a permanent turn-off for them."

He said the political uncertainty that would accompany the pre-referendum period would have little effect on prospective investors: "they won't stop coming here, but the referendum does throw one more uncertainty into an equation which already contains general uncertainty about the future, violence, a depressed economy and concern about labour unrest".

But a referendum win for De Klerk would have a positive and stabilising effect in the long run, he said.

A senior European diplomat said at the weekend that the uncertainty about the future during the run-up to the referendum would have little effect on potential investors.

"The major parties have not yet declared their economic lines, so investment is all quiet for the moment in any case," he said. Most European potential investors were adopting a "wait and see" attitude.

Meanwhile, a spokesman for Sacob said the trade delegation from mainland China, which went home on Friday after a 10-day visit, was "very postive" about the future of trade between the two countries.

The spokesman said the delegation showed great interest in the SA mining industry.

companies

$15bn a year in African aid projects now in reach of SA

BDay 24/2/92

(74)

MATTHEW CURTIN

SA's improving political standing on the continent is opening the way for SA companies to tap into at least $15bn a year of multilateral aid to Africa.

SA Foreign Trade Organisation (Safto) executive Paresh Pandya said yesterday that as many as 100 local consultancies and the consulting arms of large companies had registered as consultants with the World Bank in the past year.

He said the bank was just one of several multilateral agencies which were spending billions of dollars a year on development projects in Africa.

Pandya said: "This money is not aid for SA itself, but aid for the rest of the continent which SA companies can tap into for business opportunities."

He said the lifting of sanctions and SA's newfound political acceptability in many parts of Africa meant that local companies could compete for tenders for development projects on at least an equal footing with overseas competitors.

The expertise of SA construction, engineering and mining companies in dealing with African conditions, SA's proximity to the developing countries, and the weak rand made their tenders for aid-funded projects particularly competitive.

Pandya said Safto advised companies to treat multilateral aid agencies as an alternative source of funding and a market for SA goods, works and services in the same way they might investigate opportunities in another country.

The leading aid agency spenders in Africa are the World Bank, which spent $3,3bn on the continent in 1991, and the EC, which has committed $8bn a year until 1995.

However, Pandya said, there were equally good opportunities for SA companies on projects financed by the Abijdan-based African Development Bank.

The African Development Bank group — the bank itself, the African Development Fund and the Nigeria Trust Fund — spent $3,3bn on African aid projects in 1991, of which nearly a third, or $890m, was spent in central and southern Africa. Pandya said the bank worked very much as an African version of the World Bank, often acting as a co-financier with the bank of projects such as the Lesotho Highlands Water Project.

The projects the bank financed included rural health services in Lesotho, small- and medium-scale farmer support programmes in Angola, livestock rehabilitation in Mozambique, and water services rehabilitation in Zambia, although it was paying more attention to industrial development.

In April last year, Development Bank of SA GM Andre la Grange said the African Development Bank was set to expand its

☐ To Page 2

African aid

(74)

☐ From Page 1

activities in southern Africa.

These, he said, included joint financing of projects with the Development Bank. In 1991 La Grange was the first SA representative to attend an African Development Bank general meeting. BDay 24/2/92.

La Grange would not comment at the weekend about developments since the meeting last year, but it is understood African Development Bank and Development Bank of SA representatives will meet next month.

Pandya said other sources of multilateral aid included the Opec Fund — which spent $1bn in Africa last year — and UN agencies. Once UN sanctions were dismantled, SA companies stood to gain access to the $5bn a year agencies such as the UN Development Programme, Unesco, the UN Industrial and Development Organisation, and the World Health Organisation spent in Africa.

And, he said, a significant proportion of bilateral aid was not tied to the donor countries, and with the lifting of sanctions, SA companies would no longer be debarred from winning tenders for such projects.

MONEY MARKETS by Sheridan Connolly

Rates ignore referendum news

B/Day 26/2/92 (74)

PRESIDENT FW de Klerk's call on Thursday for a whites-only referendum wreaked havoc in the currency and capital markets, but left the money markets largely unaffected.

Dealers said there was still good demand for short-term paper and high liquidity conditions prevailed, so there was "no reason to push up rates".

The 90-day liquid BA held out at 15,90% last week — its lowest level since February 1989 — and dealers said they saw a good chance for rates to drift further downwards this week.

Mopping-up operations by the Reserve Bank continued last week with two special Treasury bill (TB) tenders worth R800m on offer. The Bank received R1,33bn on a five-day TB and only R827m on a seven-day issue.

The average rate on the special TBs was marginally higher at 16,30% on Thursday than on Wednesday, when it stood at 16,28%.

With February's reputation as a spending month, cash inflows are expected to rise substantially in the next few days. This could exert downward pressure on market rates.

Dealers said the Reserve Bank should be kept busy this week as liquidity conditions would allow room for rates to drift downwards. Tenders falling due on Monday and Thursday this week would probably be rolled and more special issues could be on the cards, they said.

At the end of last week, the Bank quoted the money market shortage higher at R1,21bn on Thursday from R1,03bn on Wednesday.

Capital market rates "shot through the roof" at the end of the week following news of a planned referendum. Dealers said the CP's win in the Potchefstroom by-election and news of the referendum caused alarm and uncertainty among investors, pushing rates higher.

Towards the end of the week the benchmark Eskom 168 was sharply higher at about 16,53% from 16,30% at the beginning of the week. The RSA 150 stock was also up, at 17,05% on Friday from 16,97% earlier.

Dealers said capital market rates and currency rates were particularly susceptible to foreign investor uncertainty.

Nervousness and uncertainty over political stability in the country would continue to scare off potential investors, they added.

BUSINESS DAY, Monday, February 24 1992

No tax break due in Budget

LINDA ENSOR

CAPE TOWN — Finance Minister Barend du Plessis is likely to give a moderate impetus to economic recovery in his March Budget, but will have little scope for tax concessions, Sanlam chief economist Johan Louw says in the latest Economic Survey. BDay 24/2/92

The current Survey is largely devoted to a preview of the Budget.

Louw expected tax revenue to rise by about 13,5% in the 1992-93 financial year, with government expenditure increasing by a budgeted 12,5%. This would result in a fairly large budget deficit of about R15,6bn — or 4,5% of GDP — which would act to stimulate the economy.

Louw's expectations include a drop in the top personal tax rate to 42% from 43% and a drop in tax rates at lower income levels; a further reduction in the rates of import surcharges; increases in the fuel price levy and excise duties and an extension of investment allowances.

No change is foreseen in the company tax rate, but Louw said company profits should improve as a result of the budget.

The Budget's moderate stimulation of the economy should enable the monetary authorities to follow a less strict policy and a 1% reduction in bank rate by the end of March was forecast. The prime overdraft rate was expected to fall to 17,5% by year end while inflation should fall to 14,5% from 15,3% in 1991. (74)

Louw said the drought could delay the recovery, but he expected improved economic activity later this year and predicted an average real economic growth rate of about 1% for 1992 (minus 0,6% for 1991).

Lower exports of agricultural products, continuing weak commodity prices and an expected uninspiring performance of the gold price would mean the excellent export performance of the past few years would not be repeated in coming months.

Merchandise imports would increase as the recovery gained momentum. Louw predicted a current account surplus on the balance of payments of R4bn this year compared with the estimated favourable R7bn in 1991 and R5,8bn in 1990.

The increase in foreign loans would compensate for the decline in the surplus on the current account.

Absa knocks R100-m off price for Bankorp

Finance Staff STAR 25/2/92

Absa has chopped R100 million from the price it is prepared to pay for Bankorp.

Absa said yesterday that as a result of valuations based on its own accounting practices and policies it had reduced its offer from 312,5c to 288,5c for each Bankorp share — a reduction of 7,68 percent. This will reduce Absa's offer price from R1,31 billion to R1,21 billion.

Bankorp' shares are currently trading at 250c.

Absa will finance the takeover by issuing 107,5 million new Absa shares at 1125c.

Bankorp ordinary shareholders will receive 100 Absa shares for every 390 Bankorp shares, and not 360 as previously decided.

The scheme is subject to approval by Absa and Bankorp, sanction by the courts and approval of the additional shares by the JSE.

Analysts said that the reduction followed a "due diligence" exercise.

While it will be a blow to Bankorp shareholders to receive less than the original offer, the comparitively small reduction suggests Bankorp is not in such bad shape as had been thought.

Keys sees partnership role for EC in new SA

STAR 25/2/92 74

By Neil Behrmann

LONDON — South Africa and other Southern African nations should negotiate a trade agreement with the European Community, Minister of Trade and Industry Derek Keys suggested yesterday.

At a Business Research International conference in London, Mr Keys said that South Africa would become the "economic flywheel" for sub-Saharan Africa.

The world cannot stand idly by and see the other sub-Saharan countries be delinked from world economic growth and consigned to some kind of "too-poor-country scrapheap", he said.

There was thus a need for the developed world and South Africa to form a partnership, which would see South Africans playing crucial economic roles elsewhere in Africa, Mr Keys said.

This would have a favourable impact on trade within the region and with the rest of the world, he said.

"In this connection, one would also wish to contemplate some arrangement of linkage to existing economic power concentrations."

Probably the EC would be the best economic power bloc, said Mr Keys.

Either Southern Africa should enjoy some existing EC trade arrangement or negotiate a separate arrangement for the region, entailing corresponding benefits and obligations, he said.

"South Africa's prospects for increasing exports are quite

Derek Keys . . . to everyone's benefit

promising," he said.

"We have a stream of products heading north and a stream of products to which value can be added," he said.

Exports were typically between 25 percent and 32 percent of gross domestic product, he said.

There were four basic determinants of any SA government's trade and investment policy, said Mr Keys.

Firstly, it should encourage internal markets to grow for decades ahead.

Secondly, it should develop the industry so that it could supply internal markets, while lowering tariffs for goods that could not be made locally.

Thirdly, businessmen should be encouraged to stimulate exports by developing value-adding plants.

"Like all governments, we would like to see income per capita growing by at least one percent per annum, implying growth close to four percent a year," said Mr Keys.

"This may be beyond us, although I don't think that it is, but just maintaining per capita income still implies real growth of around three percent," he said.

The greatest growth would be in demand for the basics of living, notably food, shelter, clothing and education, he said.

"We are starting to get some good quantitative advice from a number of sources, which is helping to define the limits of the possible," said Mr Keys.

"Just how much in the way of resources is it feasible to apply to socio-economic ends and to what cost?" he asked.

"Nobody wants to even mildly inconvenience the golden goose, let alone kill it, if its egg production can be stimulated to everyone's benefit.

"I think it's Mr Mandela himself who said he doesn't care what colour the cat is, as long as it catches mice."

Mr Keys predicted that President FW de Klerk would win the referendum hands down and that Codesa would swiftly negotiate an interim government.

"As the political pressure gets transferred to the right quarters and the economy gets into higher gear, inflation should decline.

"Once capital flows swing from outwards to inwards," he said, "the rand will appreciate and reduce inflation by a point or two," he forecast.

Defence cutbacks hit Grinaker

By Derek Tommey STAR 25/2/92

Tough conditions in the construction industry and a cutback of defence orders for electronic equipment hit Grinaker Holdings in the six months to December.

Attributable profit dropped by 57 percent from R14,5 million to R6,2 million and earnings dropped from 41,5c to 17,8c a share. The interim dividend has been halved from 10c to 5c a share.

Grinaker's electronic subsidiary, Grintek, fared rather better. A reduction in defence contracts affected Grinaker Electronics, one of its two operating companies. But its second operating company, Siltek, managed a 15 percent rise in earnings.

This helped limit the drop in Grintek's earnings in the six months to 11 percent from R13,8 million to R12,3 million, and the decline in earnings a share to 10 percent from 7,1c to 6,4c.

Nonetheless, the interim dividend has been cut by 29 percent from 2,4c to 1,7c a share.

Grinaker chairman Jan Robbertze said yesterday the construction company's earnings were 62 percent lower and similar results were expected for the second half.

He said the construction group had suffered from decreasing margins, particularly in civil engineering and related activities. Order intakes declined in real terms.

Protectionist policy must go, says top UK industrialist

STAR 25/2/92

By David Canning

DURBAN — British business is encouraging South Africa to become economically-competitive on a world scale and to move away from protectionism.

This was the message delivered by Sir John Banham, director-general of the Conferation of British Industry, at an SA-British Trade Association (Sabrita) lunch in Durban yesterday

He said protectionism in general "is bad news for business, consumers, competition, international trade and investment".

Paying his first visit to the Republic, Sir John described SA as being of "great importance" to the UK as it was among its top five overseas markets, outside the OECD.

Developments in SA, including the outcome of the referendum, were being closely watched by British business, he said. This flows from wide-scale links between the countries and "self-interest" flowing from the UK's huge existing stake in the country and the potential for future trade.

He said potential British investors in SA were weighing up the risks and returns obtainable in the Republic with those of countries like India, Pakistan, Israel and in the Pacific Rim.

The lessons of countries like the former East Germany were pertinent. As a result of the command-type economy which had existed there, "eight hours of work" generally meant two hours of actual work and "six hours of waiting for the electricity to come back on or for parts to arrive."

Ex-Soviets target SA for joint projects

74

Bizday 25/2/92

WILLIAM GILFILLAN

THE former Soviet Union is targeting SA as a market for its manufactured exports and as a base for joint production ventures.

Currently visiting SA from the Commonwealth of Independent States (CIS) to explore business opportunities are two representatives from Techmashexport, one of the CIS's import/export agencies.

Deputy director-general Evgeniy Volgov and director Boris Golikov said they were not only looking for local agents to represent Techmashexport in SA but were also seeking joint venture opportunities to set up assembly and manufacturing plants here.

Among the goods they are exhibiting are cameras, bicycles and hail-breaking equipment, claimed to turn hailstones into rain.

During this visit, their first, much time has been spent setting up stands for the Rand Show where some of the goods they represent will be exhibited.

Although Techmashexport acts as the representative for a multitude of products, one they hope will succeed in SA is the hail breaking equipment.

Volgov said the equipment, which is extensively used in Brazil and Argentina, consists of a small missile which, fired more than 10 000m into the sky, converts the hail into rain through the use of chemicals.

"But the chemicals present no problems for the ecology," he hastened to add.

However, refrigerators, bicycles, cameras and optical equipment, watches and drilling equipment for mining and other industries are a few of the CIS goods that will shortly be available in SA.

Golikov said the people in SA had been good to them, adding: "It is very important for us to establish strong contacts with SA as we have had so little contact in the past."

He said they also wanted to trade with the African hinterland from bases in SA.

B/Day 25/2/92

Refunds on overseas VAT

(74)

WILLIAM GILFILLAN

A LOCAL company formed recently to help SA businesses claim back VAT paid during business trips to the UK and other parts of Europe, has been inundated with inquiries.

"Most South Africans had been unaware that they could obtain VAT refunds on expenses such as hotel accommodation, car hire, and office accommodation," Vatclaim International MD Tony Bates said.

He added VAT refunds could also be obtained on expenses for professional and secretarial services, exhibition costs, training, and warehousing.

Vatclaim — which has been backed by Safren and Safto — prepares and submits claims on behalf of SA businesses to the relevant overseas authorities.

It takes 25% of the VAT refund as its commission.

Delegation from Chinese mining industry to visit

BDay 25/2/92 (74) (25)

EDWARD WEST

A HIGH-level mining delegation from mainland China will arrive in SA on February 29 to foster mining technology co-operation between the two countries, said Batemans spokesman Dawid Dawes yesterday.

The five-man Chinese delegation will be headed by Jiao Zhi, deputy director general of China's state gold bureau. He has been in SA since February 13 as part of a delegation hosted by Sacob investigating potential trade between the two countries.

Although the itinerary has not yet been finalised, it is understood that the delegation will meet representatives of SA's gold mining industry including representatives from Shaft Sinkers, Gold Fields of SA, Cementation Group, Boart, JCI, Eimco, Mintek and the Chamber of Mines research and development department.

It is believed that the delegation will investigate SA's deep gold mining technology and its latest exploration and gold refining techniques.

The delegation was to have arrived today but Dawes said the visit was cancelled two days ago due to communication problems between the Chamber of Mines, Nedbank subsidiary Nedfinance Asia and the Chinese themselves. Chamber of Mines spokesman Peter Bunkell confirmed the Chamber's invitation to the Chinese yesterday.

SA is to send a trade mission to China in April.

Meanwhile, the first trade delegation from Hong Kong in 16 years will arrive in SA on Saturday.

The 80-man delegation from Hong Kong represents 46 companies.

Internal markets, exports to grow — Keys

JOHN CAVILL

LONDON — Internal markets which will grow for decades as living standards improve and the potential for exports provide powerful reasons why foreign companies should invest in SA, Trade and Industry and Economic Co-ordination Minister Derek Keys said here yesterday.

In his first overseas appearance since taking office five weeks ago, Keys was speaking at a conference on Investing in SA organised by Business Research International with the SA Foundation.

Keys was confident reform would continue with President F W de Klerk winning the March 17 referendum.

He listed four growth imperatives to which any future government would hold. "Nobody wants to even mildly inconvenience the golden goose, let alone kill it, if its egg production can be stimulated to everyone's benefit."

Government wanted to see per capita incomes growing by 1% annually, implying expansion of 4% a year.

SA's large population of young people promised "big and growing markets ... (which) won't even approach saturation for decades to come," Keys said.

To reduce unemployment government was likely to maintain the encouragement of local production. At the same time it was necessary to generate competition "and a careful lowering of tariffs" would encourage this.

In many export markets, especially for intermediate and manufactured goods, SA was "small beer", he said. "There is room for us in the world supermarket of industrial goods." B/Day 25/2/92

Here SA's proximity to sub-Saharan Africa gave it an advantage. While sub-Saharan Africa was not "much of a prize" at present, Keys said the world could not stand idly by an see the region "become effectively de-linked from world economic growth".

There was a need for partnerships between SA and the developed economies which would play crucial roles elsewhere in Africa. These would benefit SA exports to the rest of Africa and boost the region's two-way trade with SA and sales to the rest of the world.

Russian visit heralds full diplomatic ties

STAR 26/2/92

By Helen Grange
Pretoria Bureau

Full ambassadorial relations will be agreed upon between South Africa and Russia on Friday — a move seen as politically, rather than economically, significant.

A Russian delegation, including Foreign Minister Andrei Kozyrev, arrives in South Africa tomorrow and will sign an agreement with Foreign Affairs Minister Pik Botha on Friday to establish full diplomatic ties, a Foreign Affairs Department source confirmed yesterday.

The agreement would be the most significant in a series of diplomatic breakthroughs between South Africa and Eastern bloc countries, he said.

Assessing the benefits of the new bond, Jan du Plessis, an independent political adviser specialising in Russian policy, said trade links between Russia and South Africa would be uncertain because Russia was in a state of flux.

"Russia is looking to countries which could help improve its infrastructure. It needs to upgrade its oil technology, for instance.

"However, it would not be able to export oil to South Africa as oil production in the country has dropped by 10 percent every year over the past few years," Mr du Plessis said.

One benefit is that South Africans will be able to visit Russia.

Stagnation in other economies boosts dollar

B/Day 26/2/92 (74)

SHARON WOOD

DOLLAR strength continued to dominate the markets last week, despite the continued ambiguity of US economic data. Further gains for the US unit will be determined by the outcome of the influential consumer confidence index which will show if the economic recovery will be sustainable.

Concern about the economic recovery has abated and pressure on the Federal Reserve to reduce interest rates has diminished. This bodes well for future fundamental dollar strength because, with an anticipated drop in Japanese interest rates and German rates likely to remain unchanged, the narrower international interest differential will ultimately benefit the dollar.

Standard Bank's International Comment says evidence of gradual stagnation in other major economies provided motivation to buy the dollar during the week.

The rise in the dollar after the ineffective Bank of Japan intervention during the week prompted operators, spearheaded by Middle Eastern players, to purchase what had become relatively cheaper dollars, it says. This resulted in widespread panic and stop-loss buying which boosted the unit even further.

While the dollar paused for breath on Thursday, mainly because of weaker than expected US trade figures, upward momentum resumed on Friday to take the dollar back above DM1,65.

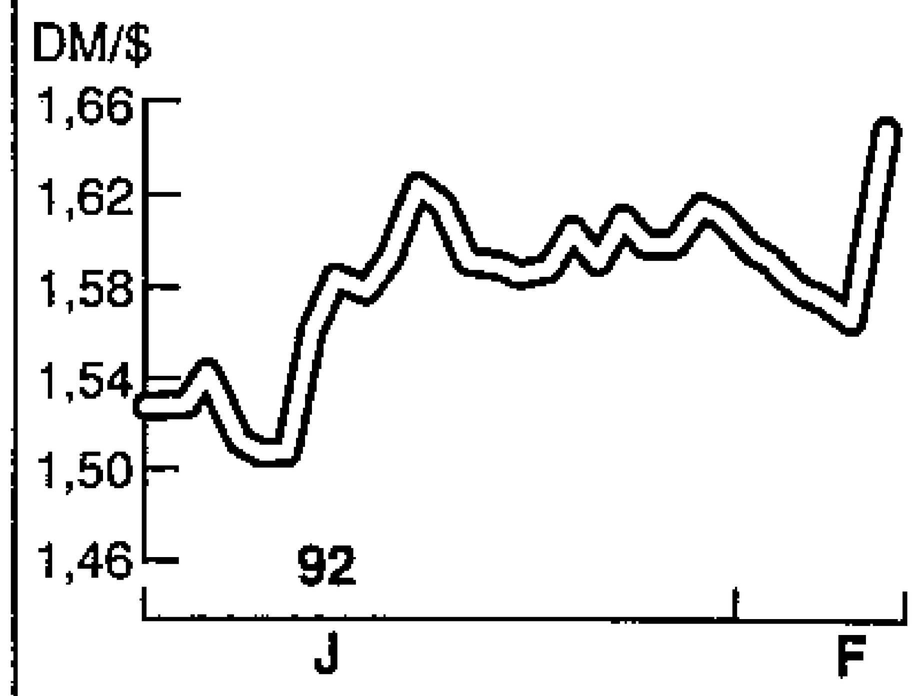
In the US, economic releases last week showed mixed economic activity levels in the economy. Housing starts were encouraging and inflation remained modest, but the US trade deficit widened dramatically to \$5,94bn in December from \$4,17bn in November.

The larger deficit was caused by both a fall in exports and a rise in imports, raising fears that a rise in consumption will be satisfied by rising imports at the expense of increased domestic production, says Standard Bank. This would undermine the positive effects on economic growth of higher consumption expenditure.

Standard Bank says in the absence of clear evidence of recovery in the US economy, some potential for dollar weakness remains. Recent developments in the dollar suggest that the dollar's downside is limited, with a probable low of DM1,55 in the current cycle. It anticipates a near-term test of resistance at about DM1,68 or DM1,69, followed by a period of consolidation at those levels. The dollar was trading at DM1,6507 yesterday afternoon.

Anglo American forex analyst May Thouw says although overall

Deutschmark/dollar
weekly close



Graphic: LEE EMERTON Source: I-NET

sentiment towards the dollar remains bullish, some correction may be expected after the sharp gains of the past two weeks. The nature of a correction, if any, will determine the direction of the dollar over the next few weeks, she says.

If mild, the dollar will continue to strengthen to establish the next leg of this trend, eventually consolidating at between DM1,68 and DM1,72, possibly at the end of March. If a correction turns out to be deeper, consolidation will probably occur between DM1,60 and DM1,65.

The upward climb in the dollar dented rand strength and the local unit lost 1,2% of its value from Tuesday last week when it closed at R2,8278 compared with yesterday afternoon's trading level of R2,8628.

The financial rand was given a further knock by the results of the Potchefstroom by-election and President F W de Klerk's referendum announcement. The investment unit was trading at R3,70 yesterday afternoon compared with a close of R3,61 on Tuesday last week. Standard Bank says the wider discount between commercial and financial rands aided a small recovery late on Friday, as foreign investors institut-ed buy orders for consi[illegible] cheaper financial rands.

REVIEW

Poll result crucial to future investors

B/Day 26/2/92

WILLIAM GILFILLAN

THE outcome of the referendum will play a major role when international companies assess the political risk of making an investment in SA, director-general of the Confederation of British Industry (CBI) Sir John Banham said yesterday.

Speaking at a lunch hosted by the South African Chamber of Businessin Johannesburg, Banham said SA's transport and general infrastructure and the large home market provided great potential for foreigners to invest in SA.

But political instability and a command economy would dissuade people from investing here.

Banham humorously illustrated the inefficiencies brought about by a command economy by noting that piles of rubbish left over after the last world war could still be found on side streets in eastern German cities.

He said the Pacific Rim countries, India and the Gulf states would all compete with SA in vying for foreign investment by UK firms.

India was becoming increasingly attractive considering it was currently deregulating its economy and also it had an instant market of 200-million middle class consumers.

And the Gulf region was excellently located as it was so central, he believed.

"But SA also has attractions for foreign investors. These include a world class transport infrastructure and — if the economy develops — a potentially large home market," he said.

The opportunity to serve the many other markets in southern Africa increased the attractiveness, Banham added.

"But businessmen don't like uncertainty, either political or economic. And therefore CBI members will be watching out closely for any portents on both the political and economic fronts," he stated.

Sacob president Hennie Viljoen, left, meets Confederation of British Industry director-general Sir John Banham at a lunch hosted by the SA Chamber of Commerce in Johannesburg yesterday.

Picture: ROBERT BOTHA

Discretion to mark foreign borrowing

BDay 26/2/92 (74)

SA WOULD remain prudent in its foreign borrowing in spite of keen interest to lend to the country since it re-entered world capital markets last September after a six-year absence, a top finance official said.

Finance Department director-general Gerhard Croeser said: "We are going to remain discreet."

He noted the Finance Department co-ordinated local activity in international capital markets via a formal queuing system. "International underwriting banks and investors can thus expect a well co-ordinated approach by SA institutions."

Croeser was responding to reports abroad that the latest triumph, the recent DM200m issue by the Development Bank of Southern Africa might trigger a flood of new issues in 1992.

The six-year issue, with a 10% coupon and 101,25% issue price, was raised from an original DM150m as a result of strong demand.

It followed a 250-million ecu bond issue in January by government which last September launched a DM400m bond — raised from an original DM300m.

In spite of such interest, along with widely held views that SA had become relatively underborrowed since foreign banks cut off new credit in 1985, and its reputation for reliable repayments, Croeser said 1992 funding would focus largely on rollovers, plus some new money.

Interim

New money would include government's ecu issue, the Development Bank issue and perhaps one issue each by Telkom and a private sector corporate.

The Independent Development Trust hoped last year to launch a $100m loan for welfare needs.

It shelved the deal following conflicting views expressed on support for the issue by the ANC.

Croeser said his department had a continuing "non-political administrative task" to fund the exchequer from both domestic and foreign sources and could therefore not be hamstrung by political interference.

He noted that recent loans had not only strengthened reserves but also exchequer finances which increasingly were going towards upliftment of the disadvantaged. He also rejected attempts to question recent borrowings on economic grounds, including cost and burden, and needs.

Not only did the foreign borrowing reduce pressure on the domestic market and hence rates, but the Finance Department itself had to use the natural opening in the SA borrowing queue in the international capital markets. — Reuter.

Europe showing keen interest in SA

(74)

DARIUS SANAI

EUROPEAN firms and financial institutions are eyeing SA with great interest and several are already investing here, says an international consultant. B/Day 26/2/92

Manual Soto, head of Arthur Andersen's operations in Africa, Europe, the Middle East and India, said yesterday SA was in a "very promising situation regarding foreign investment".

He said he knew of a number of European firms actively involved in investing in SA.

"In five to 10 years, many things which now seem like a dream in SA will come true," he said.

Soto, who is based in Madrid, is on a week's visit to SA. He said European firms were beginning to wake up to the African market after ignoring the continent for years.

"SA will be the economic bastion of sub-Saharan Africa, and the success of SA is very important to European companies. They realise that SA is the only country in the region, at the moment, that has the economic and intellectual infrastructure to be a base for the African market."

SA was attracting an unprecedented amount of interest from his firm's clients worldwide, and it was Arthur Andersen's policy to advise clients to invest in SA as soon as possible, Soto said.

He said senior management figures from several banks in EC countries were coming to SA within the next few weeks to discuss establishing branches.

The other sectors showing an interest in SA were manufacturing and the chemical industry.

Firms in Germany, the UK and Spain were showing the greatest amount of interest in SA, Soto said.

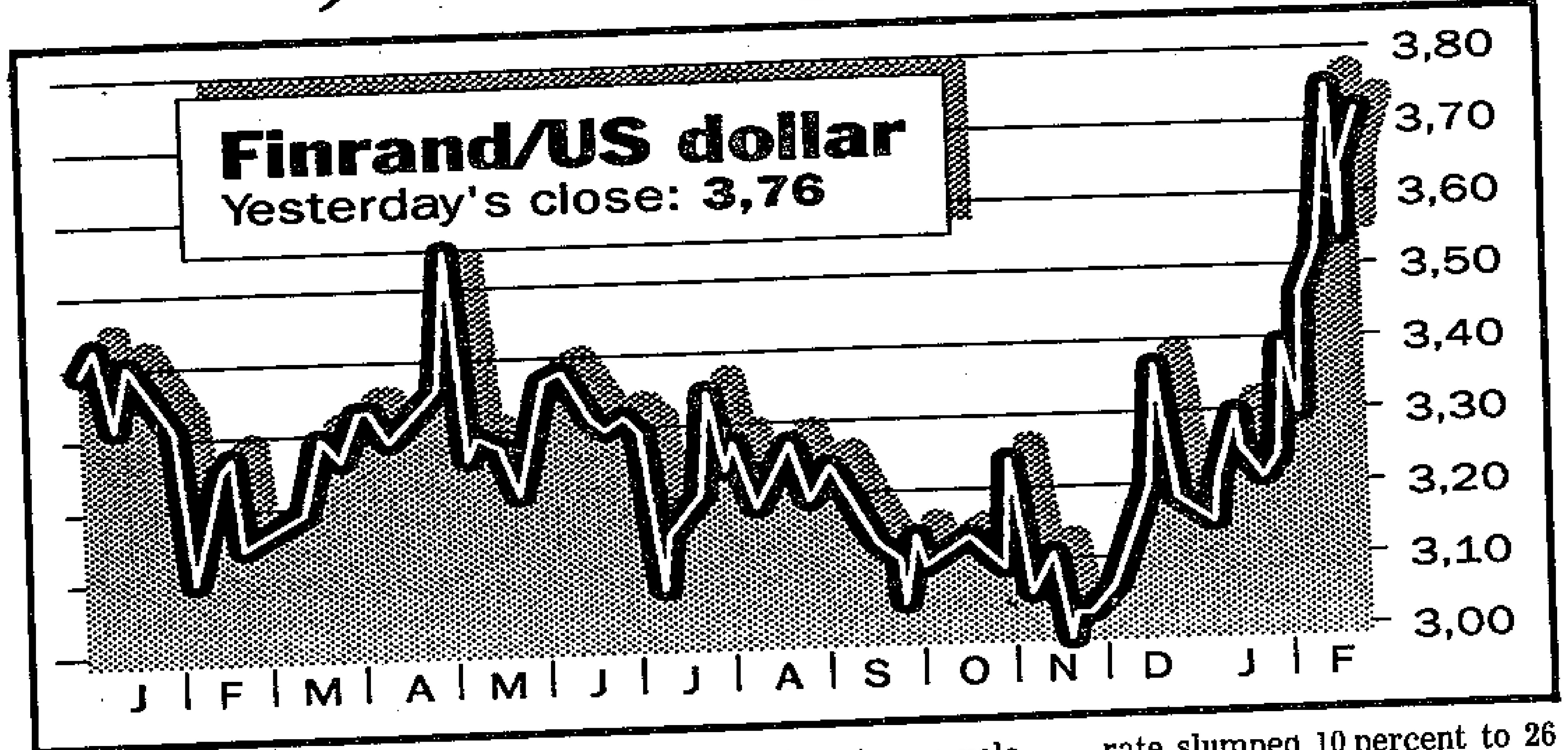
And a consortium of French companies had recently visited SA to establish a supply route for SA-made supermarket supplies to west African countries.

NEWS

Finrand's volatility may deter investment, foreign bankers say

STAR 27/2/92

By Neil Behrmann (74)



LONDON — The uncertainty of the forthcoming referendum has so far had minimal impact on South African foreign debt traded on the international market.

Since SA debt is sold to international corporations that take a long-term view and finance projects in South Africa, it is a far better indicator of informed international financial opinion than the volatile financial rand.

At 87c to the dollar, the discount of top-quality SA Public Investment Commission (PIC) debt is trading at a discount of 13 percent, compared with a 25 percent discount of the financial rand.

The narrower discount of debt is a sign that the international business and financial community are placing their bets on a De Klerk victory.

Isolated

There is considerable uncertainty, but bankers here do not believe the South African white electorate will reject the momentum towards multi-racial democracy.

They say that if voters back a white-ruled boerestaat South Africa will be isolated as never before.

Renewed international economic and financial sanctions would starve the country of vital international capital and trade and the economy would swiftly retrogress into depression.

Like changes in the former Soviet Union and Eastern Europe, the reform process is irreversible, say bankers and businessmen.

If voters back President de Klerk, there will be a marked improvement in international confidence.

Foreign investors and businessmen will then be sure that he will have a mandate to negotiate an acceptable political settlement for all South Africans.

In the meantime, bankers here are concerned about the ludicrous volatility of the financial rand which has recently fluctuated by as much as six percent within a day.

They say this extreme volatility of a currency which supposedly reflects international confidence, will discourage foreign investment — regardless of political uncertainty.

Foreign investors have incurred large paper losses on their SA bonds. Sharp finrand changes are placing pressure on local bond prices which in turn affect long-term interest rates.

Since the beginning of December, the discount on quality SA foreign debt has widened to 13 percent from six percent.

The financial rand discount has soared to 25 percent from a low of six percent, clearly discounting a pessimistic outcome of the referendum.

Within a week, the finrand rate slumped 10 percent to 26 US cents, before rising to 28,5 US cents mid-week and then sliding to 26,6 US cents on Friday. In this period, SA foreign debt prices hardly moved.

Market makers are struggling to cope, and are quoting wide spreads between bid and offer prices.

Daily financial rand trade is only $150 million to $250 million, less than five percent of the $5 billion to $6 billion daily commercial rand dealings, say dealers.

The Reserve Bank intervenes in the much larger commercial rand market and bankers here say that it could easily "smoothe" daily rates and boost the liquidity of financial rand trading, by buying the currency when it falls sharply and selling it when it surges too quickly.

The Reserve Bank would be merely following other central banks which intervene when markets become volatile.

Apparently, the Reserve Bank canmnot legally trade financial rands because it is resident in SA, say dealers.

This is surprising, but if true, the Reserve Bank can still appoint foreign central or commercial banks to act as agents on its behalf.

Intervene

Reserve Bank governor Chris Stals boosted international confidence in SA bonds in late 1990 when he suggested the central bank would intervene in the finrand market, before eventually scrapping the two-tier system.

Talk needs to be translated into action. Significantly, the South African market ignored a statement by the US administration recently that it was conditionally ready to lift its long-standing opposition to IMF loans to South Africa.

South Africa will need foreign capital to overcome the legacy of apartheid, said a State Department spokeswoman.

President Bush has also authorised the US Export-Import Bank to consider requests for loan guarantees from Pretoria.

SA equities trade on foreign markets

B/Day 27/2/92 (74)

SHARON WOOD

STANDARD Bank began trading in SA equities on overseas markets this week through its wholly owned London subsidiary.

Standard London, the bank's overseas branch, began its market-making activities in SA equities through the Seaq International dealing system on Tuesday, senior GM Graeme Bell said yesterday.

"The long-awaited entry of an SA participant in the international securities marketplace has been welcomed by institutional and professional investors who have been concerned by diminishing liquidity in the SA market," he said.

By raising the profile of SA equities and gilts internationally, it was hoped that potential investors would be encouraged to include an SA component in their portfolios and that SA companies would begin to gain the rating they deserved.

Once established, a solid international base would afford local corporate fund-raisers direct access to the world's capital markets, he said.

SA agriculture 'hit hard by high rates'

B/Day 27/2/92

GERALD REILLY

PRETORIA — Much of SA's agricultural industry had been hit by declining profitability caused by high production costs and high interest rates, the Commodity Control Boards said.

The boards will table their annual reports to the Agricultural Outlook Conference (Agrocon) in Pretoria today.

The cotton industry has been pinpointed by the SA Agricultural Union's report as one sector in particularly serious trouble.

Its survival was in the hands of government, which had to make decisions on protection, the report said.

Without protection the textile industry would be further weakened.

The National Cotton Committee has asked for a one-channel marketing system.

According to the Maize Board report, SA will have to put up with regular maize shortages in years ahead, and crops would have to be supplemented by imports.

The fact SA was no longer an exporter of maize meant the marketing system would have to be adjusted.

Profitability would have to improve drastically and producers would need adequate access to production credit.

Continued weakened profitability had resulted in less land being planted to mielies, the Maize Board said.

Causes included the withdrawal of government subsidies to the industry, high inflation and interest rates, producer prices which failed to take production costs into account, and government's land conversion scheme to planted pastures.

Gross value of deciduous fruit produced last year increased 7% to a record R1 177bn.

Production climbed 0,3%. The gross value of fruit exports increased 9% to R854,1m, with a 3% volume increase.

Declining profitability in the industry was due to high inflation which drove production and export costs up by 14%.

The deciduous fruit harvest is expected to beat the record set in 1991.

But heavy competition was expected from southern hemisphere countries, particularly Chile.

Local market prices would rise by less than the inflation rate due to the unfavourable economic climate and decreased consumer spending.

SA's high inflation rate and resultant fast-rising production and export costs had resulted in a weakened competitive position against countries with lower rates.

SA wool production for the 1990/91 season was estimated at 98,9-million kg.

A price decline of 20% was expected for the season.

Export earnings totalled R618,9m, with prices dropping 31,3% from last season to R6,09 a kg.

SA wool production in the 91/92 season was likely to decline to 88-million kg.

The SA Sugar Association said the crop expectation for 1991/92 was 19,8-million tons — almost 10% up on the previous season.

The 1992/93 crop had got off to a great start with early summer rains, and near perfect growing conditions.

The proposed opening of new cane areas and the establishment of a new mill in the Onderberg region of the eastern Transvaal was the most significant expansion project for more than 20 years.

Total area under cane was likely to rise to 420 000 ha, the association said.

'SA must be competitive overseas'

(14)

BLOEMFONTEIN — It was critically important for SA to compete economically overseas. If it did not, the country's political situation would be negatively affected, Trade and Industry director-general Stef Naude said yesterday.

He was giving the opening address at the Free State congress of the National Woolgrowers' Association.

He said SA had the ability to recover economically, provided the country became stable, restored the confidence of overseas investors and became a full player in the international economy.

Despite sanctions and other trade restrictions however, the country had had export successes since the middle 1980s, Naude said. B/Day 27/2/92

The association's unanimously re-elected Free State president J A Neethling said the discrepancy that had developed because farmers' producer prices had not kept pace with the inflation rate was one of the main reasons for farmers' poor financial position.

He called on government to make it possible for long-term interest rates to be adjusted in accordance with the income from farmers' capital investment. — Sapa.

Foreign investment brokers upbeat on SA

STAR 28/2/92

By Neil Behrmann (74)

LONDON — An international conference on South Africa ended in London in a confident mood this week, with the proviso that President de Klerk wins the referendum.

However, most delegates at the investment conference, thought Mr de Klerk had made a shrewd move and that voters would support him.

There was merely uncertainty about the degree of support.

"Speakers were upbeat — prospects look interesting," said Lafayette Barnes, a black American investment analyst representing Capital Strategy Research, a Washington-based adviser to institutions.

Mr Barnes is due in South Africa to investigate the political situation, economy and market.

Relative optimism at the conference, however, contrasted with the uncertain mood of foreign investors, who are avoiding South African securities.

Their pessimism is reflected in a financial rand discount to the commercial rand, now around 23 percent.

But John Taylor, SA specialist at broker James Capel, said from the speakers' platform this was the best buying opportunity for almost a year.

"We believe the odds are substantially in favour of significant positive political developments within the next six months."

Assuming a positive vote for the referendum, the interim government could well be formed by September 1992, he said.

Bonds recommended

Mr Taylor is advising his clients to buy SA Government and para-statal bonds, which are yielding 21 percent for the international investor.

"We can see the financial rand discount narrowing to a conservative 13 percent within six months, with a potential for a 10 percent currency gain."

He forecast the JSE share index could easily rise to 3850 from around 3540 points and is recommending shares such as Gencor and Barlow Rand.

Mr Taylor foresaw a 20 percent return for the international investor over six months.

He was cautious about the SA market and financial rand between August 1991 and February this year, during which period foreign investors incurred large currency losses.

He said many foreign investors were losers because they tended to buy at the top soon after President George Bush of the US had lifted sanctions.

Months before, when the financial rand and securities were cheap, they ignored advice to buy.

"I feel nervous, but I believe that they are making the same mistake again," he said.

While the foreign fund manager was fearful of buying, domestic investors were beginning to accumulate securities.

"There is demand for scrip, but little selling," Mr Taylor said.

Robert Guy, director of N M Rothschild & Sons, was more cautious, but certainly not bearish. He is concerned about the rand.

"If Mr de Klerk is defeated, prospects of foreign investment would be nipped in the bud," he warned.

"The financial rand would fall, the move towards accommodation with the World Bank and the IMF would grind to a halt, trade would decline, unemployment rise."

Nevertheless, Mr Guy held the more optimistic view that the move towards a non-racial interim government would proceed swiftly

Joint ventures

He said the process would help alleviate the SA mining industry's dearth of long-term capital.

In the new South Africa, there was likely to be scope for joint ventures with foreign mining companies.

"Asset swops and mergers between local and foreign companies can provide a mutually attractive means of diversifying asset portfolios," he said.

The World Bank would open the door for its affiliate, the International Finance Corporation, to provide project finance for mineral developments.

There would also be opportunities for SA mining companies in Africa, said Mr Guy.

STAR 28/2/92

Togolese trade delegation here

LOME — The first Togolese trade delegation to South Africa, led by Industry Minister Issa Samarou, flew to Johannesburg yesterday hoping to attract investors.

The group will promote Togo's "export-processing zone". — Sapa-Reuter.

74

FM 28/2/92 74

August, when the International Monetary Fund publishes worldwide figures.

Finally, last November, the Central Economic Advisory Service, a subcommittee of Cabinet's Foreign Trade Relations Committee, recommended that restrictions be lifted at the beginning of this year.

Two State departments, however, blocked the move. According to the service's Theo Malan, they argued that some countries — especially in Africa — could be embarrassed by the amount of trade conducted with SA when they are still publicly advocating sanctions. He declines to say which departments.

The issue is not dead. Malan says the release of trade statistics will be reconsidered at the end of June.

Meanwhile, here are some of the most recent country-by-country figures:

- German imports totalled US$2,6bn over the first 11 months of last year, down 6% on the same period in 1990. Exports to Germany amounted to $1,8bn over the same period, an increase of 6%;
- US imports increased significantly last year, reaching $1,96bn by November 30. This figure surpasses the 1990 total of $1,73bn, mainly because it includes $280m spent on two Boeing aeroplanes during the year. Exports to the US totalled $1,63bn through November, compared with $1,7bn for all of 1990;
- Japanese imports over the first three quarters of last year amounted to $1,24bn, or 14% up on the 1990 figure for the same period. Exports to Japan were $1,35bn, compared with the 1990 total for the same period of $1,4bn, or a decrease of 3,5%;
- Trade with the UK fell last year in both directions. Imports totalled $1,8bn, down 9%. Exports were $1,7bn, a drop of 11%;
- Imports from Italy fell 13% to $600m last year. Exports also fell — to $2,3bn last year, a 4% decline; and
- Imports from France jumped by 77%, to $929m last year, partly because of Flitestar's purchase of Airbuses. On the other hand, exports fell last year by 12,1% to $675m. ■

FOREIGN TRADE — 1

FM 28/2/92 74

The not-so-secret figures

Foreign trade delegations flock to SA, F W de Klerk opens new doors to trade and sanctions are all but finished. But government still surrounds its country-by-country trade figures with secrecy.

A breakdown of SA's total trade figures would give local companies important information on where the country's markets are and where the bulk of the country's imports are coming from. But government has kept the figures to itself since February 1988, when the Cabinet prohibited their release as a defence against sanctions.

The restriction has always been meaningless because, with a little effort, most of the figures can be obtained by calling around to the local trade commissions and consulates for the countries with which SA trades. Even that effort can be saved by waiting until

continue

Chamber set to boost trade with Netherlands

B/Day 28/2/92 WILLIAM GILFILLAN (74)

TRADE between SA and the Netherlands is set to rise following the recent formation of the SA-Netherlands Chamber of Commerce.

The launch of the chamber is regarded as particularly significant because of Rotterdam's increasing importance in the development of the European single market. Rotterdam is already the largest port to handle SA exports.

"When we talk of the SA-Netherlands chamber, we are talking of SA's gateway to Europe," said chairman Bas Kardol.

"The chamber will act to stimulate trade, tourism and services between the two countries."

Trade with the Netherlands, SA's sixth biggest trading partner before sanctions, has been growing significantly in the past two years, says Safto CE Wim Holtes.

Kardol and Holtes, the chamber's vice-chairman, were both born in Holland.

Exports to the Netherlands, which peaked in 1987 at $876m, dropped to $586m in 1990. Imports were US$340m in 1990 — slightly down on the 1988 peak of $347m.

Netherlands Foreign Trade Minister Yvonne van Rooy, who arrives in SA on Tuesday, will be the guest of honour at the official launch of the new chamber.

The launch will coincide with the Holland Trade Fair in Johannesburg next week. The fair will feature 45 companies.

Holtes feels Dutch groups will initially enter SA through joint ventures, "but I am confident new investment will flow in over the longer term".

Sapa reports the Rotterdam Chamber of Commerce will host seven SA companies on a trade mission to the Netherlands next month. Chamber spokesman F van Vlerken said yesterday the "Cape Town Trade Mission 1992" was expected to meet local businessmen in Rotterdam on March 24.

Talks 'inconclusive', but Virgin plans SA flights

B/Day 28/2/92

LINDEN BIRNS

TALKS on a new air services agreement between SA and Britain ended inconclusively on Wednesday evening, although some progress was made, a Directorate of Civil Aviation (DCA) spokesman said yesterday.

Representatives from the Transport Department, the British Embassy, British Airways, SAA and Virgin Atlantic Airways attended the talks, which began in Pretoria on Monday.

DCA spokesman Maurena Nel yesterday said the talks would continue in London once SA's international civil aviation policy review was complete. She could not say when this would be. Industry sources said they expected the new policy to be announced on April 1.

Virgin Atlantic strategy and route planning director Ed Hullah said agreement was reached in principle to end the exclusive rights enjoyed by BA and SAA to the SA-UK routes.

"The talks went well, except for making a decision on capacity. Virgin is allowed to fly to SA, but has no frequencies to actually undertake the service," he said.

Virgin planned to spend several million pounds setting up its SA route operation. "Initially we'd like to offer four flights a week between Heathrow and Jan Smuts airports, but we'd like to go daily as soon as possible," said Hullah.

The airline was still hoping to start flights on the route by November this year, he said. However, delays in announcing SA's revised international civil aviation policy could hold back Virgin's start-up date on the route.

Hullah did not envisage any attempt by Virgin to negotiate a deal with BA in which BA would surrender some of its flights, as Virgin did not want to reduce the number of flights it planned.

"Our argument is that it is not in SA's interests to limit the frequency of flights as it does at present," he said.

In terms of the current bilateral agreement, SAA and BA split the route capacity and flight frequencies on a 50-50 basis. A 60-40 share was mooted last year by several local industry leaders.

Hullah said he hoped the next round of talks would take place as soon as SA had issued a clear statement regarding its new policy.

A steering committee comprising representatives from several SA airlines, the Association of SA Travel Agents and other institutions was appointed last year to investigate the local airline industry requirements, and to draft a new international aviation policy for SA.

Several sources have indicated that the new policy will free the industry from regulations governing tariffs, the number of airlines which may operate on a specific route, the number of times an airline may operate on a route each week, and access to other local destinations as an alternative to Johannesburg.

A liberalisation of the policy regarding international charter flights is also expected.

Virgin already has British authorisation to begin flights to SA, but is prevented from doing so by SA legislation, which permits only SAA and BA to offer scheduled flights between the two countries.

Flitestar has also indicated its intention to start flights to Britain.

Cash inflow tied to progress — Chalker

B/Day 28/2/92 (74) (36A) (45B)

Political Staff

CAPE TOWN — Development funds would not flow into SA until there was progress beyond Codesa and all parties were committed to sound economic policies, Britain's Overseas Development Minister, Lynda Chalker has stated.

"There is no going back now, but we want to see the CP, the PAC and Azapo joining in and I don't think donors in general will say the whole thing's going forward until all parties are involved."

SA's government of the future had to tackle the bitter social and economic legacy of apartheid, she said in an interview in the latest issue of Leadership, published yesterday.

A new constitution could not do that and an early return to economic growth was vital.

"That is why I have long advocated the early abolition of all economic sanctions, and we do believe that, as well as getting the investment, much more assistance will be needed in SA.

"But I think donors do want to see progress and, unfortunately, the failure of the CP and the other parties to join in, and even the less than whole-hearted consent, perhaps, of some in Inkatha, is wearying for people who want to help make this change."

Chalker said it was difficult for her to say what sums of money SA could expect if these problems of participation were overcome.

Until there was a commitment by all parties to sound economic policies "you won't get the international financial institutions, who will be major donors, to come up with large sums at all.

"What I am keen to do is make sure that throughout the world SA's needs are understood, and to get the commitment of all political parties in SA to tackle those needs by having a non-racial government system.

"If we can show that to donors, they will respond," Chalker said.

Arabs on the way

(74)

S Times (Buss) 1/3/92

SEVERAL delegations from Arab countries, including some at ministerial level, will visit South Africa, says Safto Middle East area manager Gyfford Fitchat.

The visits will follow a Safto business mission which has returned from Dubai, Abu Dahbi and Oman.

Mr Fitchat says Safto's mission was well received and resulted in the start of negotiations of multimillion-dollar deals.

SA can outdo Japan — KK

C Press 1/3/92

74

By SEKOLA SELLO

SOUTH Africa must become part of southern Africa's economic system in order to unleash the economic potential of the region, former Zambian President Kenneth Kaunda said in Johannesburg on Friday.

Kaunda said the region had the potential to surpass even economic giants such as Japan.

He called on SA to join the Organisation of African Unity and on the economic front to become a member of the Preferential Trade Area and the Southern Africa Development Co-ordination Conference in order to create a common southern African market.

Kaunda said this while addressing guests at the first anniversary function of the Institute for Multi-Party Democracy on Friday night. This was his first visit to this country.

He also urged people of the subcontinent to bury geographic or linguistic differences.

"To continue operating as we are at the moment perpetuates our misery . . . inward looking states based on nationalistic differences do not advance our interests."

The Zambian statesman also warned South Africans against the currently popular belief that the free market system would address the material problems of the poor.

He said the notion that capitalism was the panacea needed to solve the problems of developing countries was "too simplistic" and "wishful thinking".

Kaunda pointed out that since he was ousted from office four months ago by Frederick Chiluba, who has "embraced the free market economy wholeheartedly", inflation in Zambia was running close to 400 percent for "the first time in the history of our country" and prices were skyrocketing daily.

While critical of capitalism's ability to address the problems of the poor, he said he could not prescribe an economic system for South Africa.

This, he said, would be decided by the people themselves.

Kaunda was met at the airport by ANC national chairman and his longtime friend, Oliver Tambo.

The Zambian leader said the warm reception given to him reminded him that "Zambia and South Africa are one".

Kaunda was questioned on his presidential perks when he addressed students and scholars at the University of Pretoria yesterday.

He told an attentive audience that the new Zambian government had contravened human rights when it passed retroactive legislation affecting the retirement benefits of politicians and civil servants.

Apparently referring to himself and his ousted government members, he said those who benefited from a retirement scheme had been told to repay the government and some had lost their vehicles and houses.

"The post-apartheid government in South Africa must avoid making the mistakes the new government in Zambia is making," Kaunda said.

Kaunda said his ministers had "ordinary" lifestyles.

"We had cars but Zambia is a big place and you can't expect us to go on foot."

THE WEEK AHEAD by Simon Willson

Foreign debt takes its toll

BDay 2/3/92 (74)

FOREIGN debt obligations are likely to have restricted another improvement in the reserves last month. When the February reserves are published, probably on Friday, a rise direct to the much-heralded R10bn level from January's R9,4bn looks a tall order.

If last month was a normal one for the external accounts, the R600m increase needed to hit R10bn would not seem so daunting. The reserves occasionally put on R600m in a single month last year, and rose a formidable R1,2bn in January.

This increase was magnified by an abnormally low December reserves total of R8,2bn caused mainly by seasonal, one-off transfers carried out at the end of the calendar year.

February was also, however, an abnormal month for foreign transfers. This year's total foreign debt commitments total a relatively light $1bn — a sharp reduction on the annual obligations of around $2,5bn in each of the past few years.

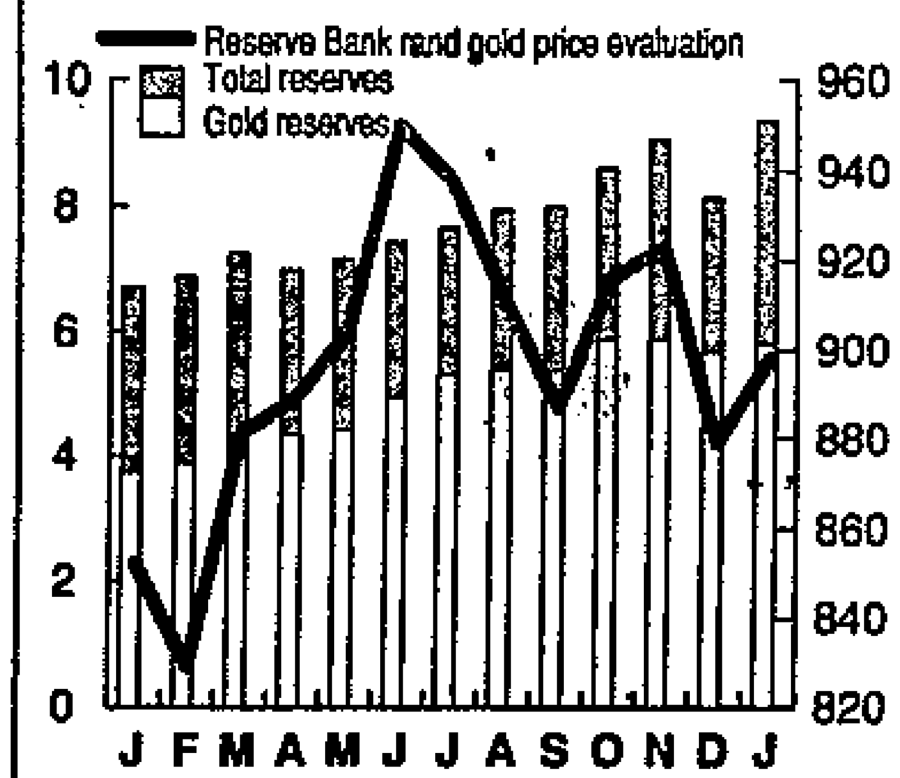
But there remain two concentrations of standstill debt repayment for 1992, and the first fell due in the middle of last month.

At about $180m, it was the larger of this year's two tranches. While this obligation is unlikely to have caused a fall in the reserves — the equivalent commitment last year certainly did not — it looks big enough to have held back any improvement.

Underlying forces determining the level of reserves remain favourable: a steady gold price, rising slightly in rand terms; higher physical gold holdings; a buoyant trade surplus and a firm foreign assets tally.

Internationally, this is a big week for US economic statistics. The markets have, over the past two weeks, decided that the dollar is worth buying again on the prospects of economic recovery in the US as the election season gets into gear. Traders are also going for dollars again on perceptions that economic prospects have suddenly taken a dive in Europe and Japan.

Gold and forex reserves



Graphic: LEE EMERTON Source: SA RESERVE BANK

While the markets have embarked on a re-rating of the dollar mainly on economic expectations they are, starting this week, going to be looking for hard figures to back their mid-February decision to hold dollars again.

First up is the National Association of Purchasing Management's survey for February, out today. The January index was unchanged at the December level of 47,4 and could, therefore, be bottoming out ahead of a return to the levels around 55 reached last September as the US economy rose out of its first dip into recession.

January construction spending, also out today, follows back-to-back falls in both November and December which meant construction spending fell in 1991 by the biggest annual margin — 9,3% — since 1944.

The markets are looking for an uptick in January, since the weather improved during the month.

January's index of US leading indicators — an influential statistic because it measures likely economic trends in six to nine months' time — is released tomorrow and has been negative in three of the last four months. The 0,3% overall fall in the index in December had some bright spots, though, among them a longer average working week and greater housing activity. This should lead to a positive outturn for this variable, if not this month then next.

The February US employment report is published on Friday and, unlike the figures earlier in the week, lags the economic cycle. Overall unemployment was unchanged at 7,1% in January, while there was an unexpectedly sharp contraction of 91 000 in non-agricultural employment. Because the jobs report lags the other indicators, another rise in unemployment would not be out of step with more favourable figures earlier in the week.

Foreigners cut back on SA gilts holdings

BDay 2/3/92

MERVYN HARRIS

74

FOREIGNERS reduced their holdings of SA gilts and remained net sellers of shares in the week ending 21 February, according to latest JSE trading statistics.

But net sales of equities fell to almost half the level of the previous week — to R28,4m from R50,2m — despite the shock CP victory in the Potchefstroom by-election and the announcement of a whites-only referendum.

The figures show that net gilts purchased declined to R62,4m from R105,5m the previous week.

The statistics only represent non-resident finrand transactions through the JSE, and are therefore not comprehensive.

Singapore to ease SA trade restrictions

(74)

SINGAPORE — Singapore said yesterday it would soon ease restrictions on trade with SA.

A foreign ministry spokesman said, in the light of the "irreversible" process of reform, the government would allow imports and exports as well as investments between Singapore and SA.

But Singapore's arms embargo and its ban on loans to the SA government and public enterprises would remain, the spokesman said.

In 1989, Singapore banned exports of oil and petroleum products on Singapore-registered ships to SA.

Currently, Singapore has no diplomatic relations with Pretoria, but the spokesman said links would be established with a new, nonracial SA government.

He described political reforms in SA, such as the proposed drafting of a non-racial constitution, as "profound".

The trade move, to be gazetted soon, was expected to encourage more business exchanges. Singapore businessmen noted, however, that SA diamonds, gold and canned food were readily available on the market now. — Sapa-AFP-Reuter, AP-DJ.

2/9/92 BD

Exchange control 'must be abandoned urgently'

BDay 3/3/92 (74)

SHERIDAN CONNOLLY

EXCHANGE control should be abandoned before any change of government and a new constitution can forbid currency regulation, Free Market Foundation research director Richard Grant contends in a paper.

He says a good investor would be very careful before investing in a country with exchange controls.

"On this score, a free country will come out ahead. Heavily regulated countries, such as our own, often attract foreign investors by offering them special deals that residents of the country are not eligible for.

"Instead, the residents end up paying for them. In other words, the government treats foreigners better than people who actually live here."

It is urgent that exchange controls be dismantled before a change of government, he says.

"Any new regime should, if it wants to have such controls, be forced to go through the visible parliamentary procedure of imposing them."

A better approach would be to have a constitutional clause forbidding any regulation of currencies, Grant says.

He notes the reason cited most often for exchange controls is that they prevent capital outflows. Exchange controls had not only failed to prevent capital outflows from SA, they had also discouraged capital creation and capital inflows.

Capital outflows had increased because "the expectation that people will not be allowed to take their money out if things get worse, leads them to plan ahead and take out as much as possible — now".

Grant says the existence of exchange controls also hinders the elimination of other regulations destructive of growth. "The sooner the exchange controls are removed, the greater will be the pressure to remove the other forms of government interference," Grant asserts.

He calls on government to cease its intervention in the economy, and says the only people who benefit from exchange controls are "the bureaucrats who administer them and the fraudsters who get away with forex violations".

Greater clarity on dumping

Bill tabled to safeguard local industry

BDay 3/3/92 (74)

LINDA ENSOR

CAPE TOWN — A new class of "safeguard" duty to protect industry in SA and the Southern African Customs Union from disruptive competition has been proposed in an amendment to the Customs and Excise Act tabled in Parliament.

And, in terms of a separate but interlinked Bill — the Board of Trade and Industry Amendment Bill, which defines the concepts of disruptive competition, dumping and subsidised exports — the Board of Trade and Industry will become known as the Trade and Industry Advisory Board.

Disruptive competition is a proposed new concept and is defined as the export or proposed export of goods to SA or to the Customs Union which causes or may cause material injury to established industries or retards the establishment of new industries.

While the definition of disruptive competition focuses on the effects a particular import would have, the definition of dumping concentrates on price factors.

Dumping is defined as the export or proposed export to SA or the Customs Union of goods at an export price which is lower than:

- The sale price for consumption prevailing in the export country;
- The highest comparable price at which similar goods are being exported in the normal course of trade to a third country;
- The price determined by the board on the basis of costs of production and other reasonable costs and profit in the exporting country; and
- The comparable price at which similar goods are being exported to SA or the Customs Union from any other country.

The new definitions are expected to give businesses and government greater clarity in deciding whether certain practices amount to dumping.

Subsidised exports are exports which receive financial assistance from a foreign government for their production, manufacture, transport or export.

The Board of Trade and Industry Amendment Bill further clarifies the objects and functions of the board to the conduct of investigations and the making of recommendations on dumping, subsidised export and disruptive competition from overseas.

It is also empowered to investigate and recommend on the protection of industries by customs and excise duties.

The Bill also empowers the Trade and Industry Minister to instruct the board to investigate any matter which affects the trade and industry of SA or of the Customs Union.

A memorandum to the Bill says restricting the board's activities will eliminate overlapping with the functions of other statutory bodies and state departments. The board's objective would be to promote industrial growth in SA.

The board's recommendations would be submitted to the Minister of Trade and Industry who, when he deemed it fit, would request the Finance Department to implement duties in terms of the Customs and Excise Act.

Previously the board made the recommendations to the Finance Department.

Overseas firms for investment gathering

4day 3/3/92 (74)

ADRIAN HADLAND

UP TO 300 international companies will send delegates to a major investment and trade opportunities conference in Johannesburg in June.

The conference, titled SA — The Gateway, will aim at establishing Johannesburg and SA as the "gateway" for foreign investment in southern Africa and will focus on setting up contacts between potential overseas investors and local companies.

The brainchild of the Johannesburg City Council's commerce and industry director Collin Wright, the conference is being organised by international investment magazine Corporate Location, a sister publication of Euromoney magazine.

Corporate Location publisher Richard Thomas said yesterday: "The potential for investment in SA is very substantial. There have been important strategic changes in SA and other African states which have made the world's corporate community optimistic about investments."

The conference, to be held at the Carlton Hotel in Johannesburg from June 8-10, will feature addresses by speakers which include Trade and Industry Minister Derek Keys, the ANC international affairs secretary Thabo Mbeki, Sowetan editor Aggrey Klaaste and SA Chamber of Business director-general Raymond Parsons.

The third day will be spent in private one-on-one meetings where potential investors will be put into contact with relevant local business, government and multinational representatives.

"A number of opportunities exist in developing transport and communications infrastructure, providing consumer goods, power generation and water management," the conference invitation states.

The real purpose behind the conference, says the invitation, is to provide "a network of invaluable contacts that can practically assist and identify specific opportunities".

Wright said, "It assists, in a practical manner, the facilitation of actual investments."

Local companies not wishing to directly sponsor the conference but hoping to get involved will have to do so through their business chamber representatives.

The city council, which has allocated R50 000 to the conference, will be assisted by major sponsors Ernst & Young management consultants and Werksmans Attorneys.

● Comment: Page 10

BTI to change focus

CT 3/3/92 (74)

Political Staff

THE Board of Trade and Industry (BTI) is to be renamed and its focus streamlined into investigations into dumping, subsidized exports, disruptive competition and the protection of industries by customs and excise duties.

The changes are the result of an investigation, undertaken on instruction of the cabinet by the Commission for Administration, into the objects and functions of the board.

In terms of the Board of Trade and Industry Amendment Bill, which was tabled in Parliament yesterday, the name of the board is to be altered to the Trade and Industry Advisory Board.

According to a memorandum attached to the bill, the board's objects and functions are to be restricted to conducting investigations and making recommendations to the Minister of Trade and Industry and for Economic Co-ordination concerning "dumping", "subsidized export" and "disruptive competition" as well as the protection of industries by customs and excise duties.

"This proposed restriction will eliminate overlapping with the functions of other statutory bodies and state departments.

"It is also proposed that the minister may instruct the board to investigate any other matter which affects the trade and industry of the Republic or the common customs area of the Southern African Customs Union," the memorandum said.

The bill defines "dumping" as meaning the export or proposed export of goods to SA or the customs area at "an export price lower than the price at which similar goods are being sold in the ordinary course of trade in the exporting country, for consumption there" or "at an export price lower than the highest comparable price at which similar goods are being exported in the ordinary course of trade from the exporting country to any third country", or at an export price lower than what the board deems reasonable, or at an export price lower than the comparable price at which similar goods are being exported to SA or the customs union.

"Subsidized export" is to mean the export or proposed export of goods from any country "where the authority of that country or any other country provides any form of financial aid or other assistance in respect of those goods, including assistance in respect of the production, manufacture, transport or export thereof".

"Disruptive competition" is to mean the export of goods or proposed export, other than dumping or subsidized export, "in quantities and under circumstances which cause or may cause material injury to established industries" in SA or the customs union or which may retard the establishment of industries, according to the bill.

Trade mission votes before leaving

(74) CT 3/3/92

Business Editor

MEMBERS of the Cape Town Chamber of Commerce trade mission to France and Holland have made arrangements to vote in the referendum before leaving next week.

"They are all banking on a 'Yes' vote, which will mean they are received with open arms," said the chamber's assistant director, Albert Schuitmacher, this week.

"If the result is 'No', things could take a different turn and they could find themselves far less welcome."

This is the second trade mission the chamber has sent overseas since the reform process began.

Members who went a mission to Germany and England a year ago came back with R2,5m worth of confirmed orders — and say export business has increased by between 15% and 20% since their return.

This year's mission, which includes exporters of clothing, wine, canned meat, leather goods, electronic equipment and heat exchangers, has meetings lined up with the Chambers of Commerce in Paris, Amsterdam and Rotterdam.

Individual appointments have been made with prospective importers.

Discussion is expected to centre mainly around the linkage to international trade data networks.

Chamber president Kenneth Marcus, who will lead the mission, will visit chambers of commerce and trade consultants in Warsaw and Budapest to establish contacts.

Other members will make brief visits to other European centres.

The entire mission will visit London on the way home.

Anglo taps foreign interest

MATTHEW CURTIN

MOUNTING interest in investing in SA has prompted Anglo American to launch an investment roadshow to brief international investors on the group's activities.

Anglo official Glen Finnegan said yesterday that during June and July, Anglo planned to hold an "investor presentation in Johannesburg as well as in the main financial centres around Europe".

She said there would be "general presentations" on the corporation and its investments.

B/Day 4/3/92

"They are a response to the growing and renewed interest from international investors in SA companies, and in Anglo American in particular," Finnegan added.

The news comes as SA's return to international financial and business respectability gathers pace.

Anglo American faces the prospect of having to contribute billions of rands to finance large new capital projects in SA, as well as more run-of-the-mill capital programmes under way in the numerous mining and industrial companies in which the corporation has interests.

Anglo has a 50% stake in the Columbus Stainless Steel joint venture, with Gencor, which is expected to be given the go-ahead this year at a likely cost of R2,5bn.

Anglo is involved in a variety of gold exploration projects and has a stake in Gencor's developing Oryx gold mine which will come to full production in the mid-1990s at a cost of R1,3bn.

Feasibility studies on Anglo's R900m Namakwa mineral sands project are also expected to be completed this year, when the corporation may give the project the green light.

(74)

Spotting the dollar's victim

BDay 4/3/92. (74)

SIMON WILLSON

HAVING advanced to four-month peaks against the Deutschmark and the Swiss franc in the past week, the dollar paused for breath as markets awaited a new signal on which to base fresh positions.

Precedent suggests that Monday's unexpected boost to a key, forward-looking US economic indicator could be that signal.

On Monday the index produced by the relatively obscure monthly survey of the National Association of Purchasing Management (NAPM) leapt strongly in its February readout. The index, produced by a survey of orders, production and deliveries in the US manufacturing sector, had dropped or not moved in each of the four months to January and was an influential pointer towards the dreaded double-dip US recession.

Readings below 50 generally imply contraction in the manufacturing sector, and those above 50 relay expansion. In January the index was unchanged at the 47,4 posted in December, but Monday's release of the February figure propelled the index to its own four-month high of 52,4.

As the accompanying chart shows, the uptick in the NAPM index interrupts what was a rather neat sequence of slump, rally and slump in the index's progress since June 1990. The February NAPM outturn hauls the figure back into the expansionary zone after a headlong dive to a low of 37,7 at the bottom of the US recession's first dip in January last year.

The chart also shows a modest general correlation between the NAPM and the dollar. The dollar value used is its effective exchange rate — that is, its value against a basket of the currencies of the US's major trading partners.

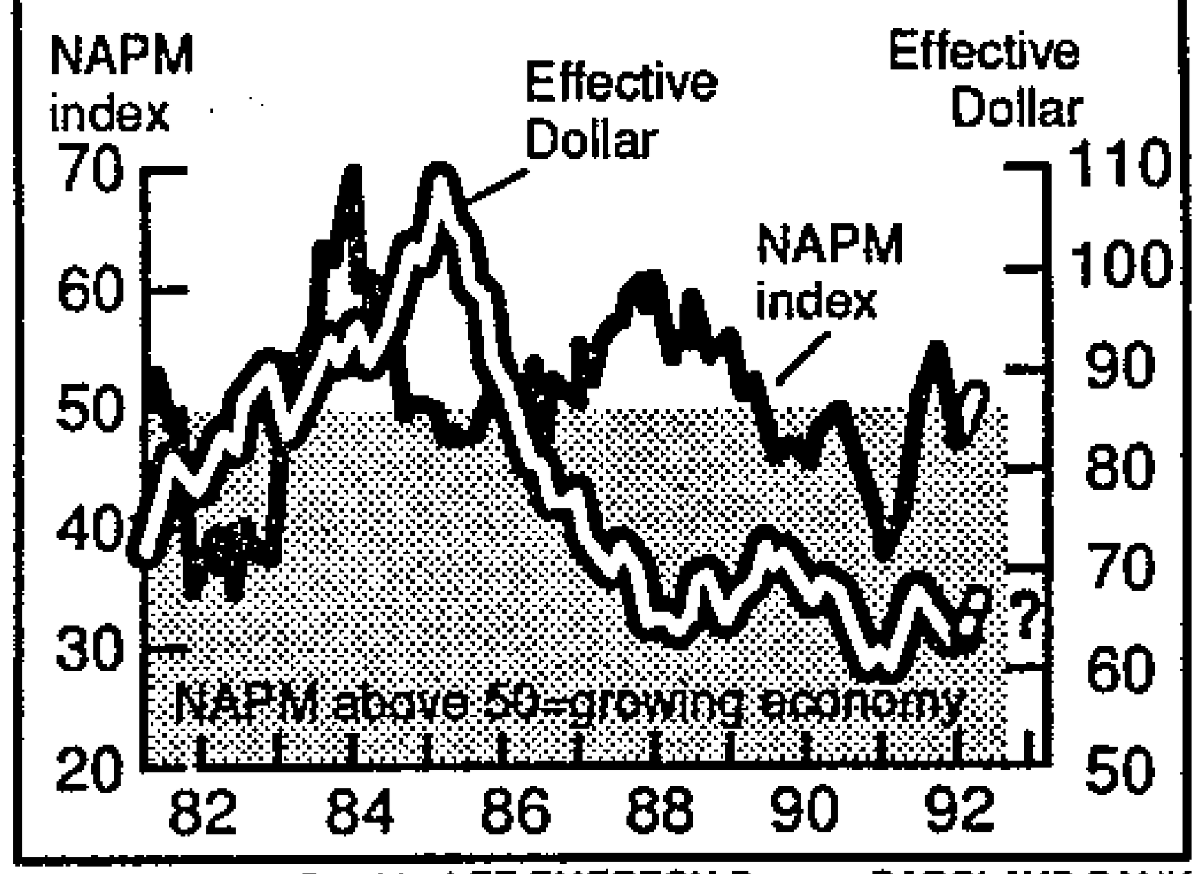
At the beginning of the 1980s the match-up is less striking, seemingly involving an exchange rate lag behind the level of the NAPM. More recently, especially during the course of the 1990-91 US recession, the dollar-NAPM link is much more pronounced.

It seems less than outrageous, therefore, to expect a continued and identifiable link between the two variables at the current stage of the US business cycle.

Given the marked rise in the NAPM recorded on Monday, and the underlying improvement in conditions in the US manufacturing sector, a sympathetic appreciation in the dollar's effective rate can surely be expected.

However, the effective dollar is a multilateral exchange rate. Expecting a stronger effective dollar does not tell a market which currencies are apparently poised to fall before a dollar advance. The trick here is to identify where, in the dollar's trade-weighted basket, the US currency is likely to strengthen to produce a firmer effective dollar.

Effective Dollar & NAPM



Graphic: LEE EMERTON Source: BARCLAYS BANK

A process of elimination offers a method of identifying where the market might go long of dollars. The US currency is unlikely to strengthen by much against the yen. The Federal Reserve and the Bank of Japan have intervened to prevent the dollar rising against the yen, and the Americans and Japanese seem to have agreed that a cheap yen will not be allowed to hamper a US recovery this year.

Dollar strength against sterling is a possibility, but mainly in the short term. Sterling sentiment is about to be tested by the announcement of an April UK general election date but, assuming re-election of the Major government, should quickly stabilise — particularly if sterling is rapidly converted to narrow-band membership of the European exchange rate mechanism.

This leaves the Deutschmark as the most likely victim of a stronger dollar. The German economy, weighed down by the troubled east of the country, has technically entered recession, and interest rates are poised to soften later this year. Slowing German economic activity and a recovering US economy spell yield differentials moving back in the dollar's favour.

A stronger dollar, as heralded in the chart, would mean further losses for the commercial rand after its fall last week to a six-month dollar low at R2,8780. Offsetting the rand's dollar weakness, however, should be a rally on the third currency crosses towards R4,85 against sterling and nearer DM0,60.

Dutch trade office opened

B Day 5/3/92 (74)

SHERIDAN CONNOLLY

IN A major step towards re-establishing trade links between SA and the Netherlands, Dutch Foreign Trade Minister Yvonne van Rooy officially opened the South African-Netherlands Chamber of Commerce (Sanec) in Johannesburg last night.

Speaking at the launch, Sanec chairman Bas Kardol said the chamber's aim was to foster closer economic ties between SA and the Netherlands.

Kardol said SANEC would promote bilateral trade, business services, tourism and investments between the two countries. The chamber would also promote SA as a "springboard" for Netherlands companies into sub-Saharan Africa and would encourage the Netherlands to act as a gateway for SA companies wishing to enter the European community.

He praised the Dutch for their quick and positive response to the Netherlands government's announcement of a change in policy towards SA, made less than a year ago.

Rotterdam was already SA's major foreign port for its exports while shipping and air links between SA and the Netherlands were expanding rapidly, said Kardol. With its efficient communication systems, SA provided an excellent base for Netherlands companies interested in trade with Africa.

He said the Netherlands was SA's sixth largest trading partner before the imposition of sanctions in September 1986. Exports from the Netherlands had increased by 60% over the last year to reach R1,21bn while SA exports had remained around R660m.

Kardol said a convincing "yes" vote in the referendum would mark the beginning of an exciting future because of the enormous potential SA offered.

With the level of beneficiation of local minerals expected to increase, and given the large metal industry in the Netherlands, Kardol said there ought to be room for increased SA exports in that area.

"In the short run, the most obvious benefit from joint ventures and a close trade relationship between SA and Netherlands enterprises is distribution power," Kardol said.

He said the trading skills and network of potential Dutch partners could be of significant benefit to SA.

Van Rooy, who is visiting SA, will have talks with representatives of government, business and political organisations.

Egypt looks south for new markets

74

STAR 6/3/92

Africa's two biggest economies, Egypt and South Africa, may soon find themselves competing for markets, Star Africa Service correspondent NEIL MOORHOUSE reports from Cairo.

EGYPT looks set to move south to exploit an untapped African market for its goods at a time when the other economic giant on the continent, South Africa — with apartheid crumbling — is pushing hard to win friends in the north.

This could set the stage for a competition for markets by Africa's two largest economies.

President Hosni Mubarak's recent tour of African nations marks a new phase in Egyptian relations as the country turns south for new business.

Hitherto, the volume of Egyptian trade with Africa has been remarkably low. Between 1980 and 1990, Egypt's annual exports to Africa amounted to an average $24 million (about R67 million). Surprisingly, trade with Arab countries is also low.

But Egypt is looking to develop business contacts as well as asserting a greater role in Africa. Omad Gad, under-secretary of the Ministry of Foreign Affairs and director of its African department, says the government is seeking to use funds for African development to support Egyptian exports to African markets.

Egypt is also seeking to launch joint agricultural and industrial projects with African countries to encourage commercial exchange throughout the continent.

On the lookout . . . Egyptian leader Hosni Mubarak.

How to achieve greater co-operation will be another matter. Kamal Hilaly, chairman of the El-Nasr Export-Import Company, believes greater customs concessions to African exports would support trade.

One major obstacle to the furtherance of trade, according to Egyptian business investors, is transportation. As a sign of its willingness to ease the problem, the government has plans for an inter-African road network.

The development of the African market is part of a move by the Egyptian authorities to a greater market-oriented economy. At present, 85 percent of Egyptian industry is government-owned. Under the new public-sector companies' law, up to 49 percent of the shares in about 350 such companies may be sold on the Egyptian stock exchanges.

The urge for greater co-operation with African nations may also be part of a move among Arab countries to respond to the supposed economic threat posed by the European Community. Some countries in the region see the European economic bloc as an attempt to keep out foreign imports. □

FOREIGN TRADE POLICY

Dumping on consumers

FM 6/3/92

Will consumers pay more or less for imported goods after amendments tabled last week to the Customs & Excise Act? By targeting "dumped goods," the proposed amendments will reduce the range of goods on which "formula" duties of up to several hundred percent are imposed.

But the Trade & Industry Department was not satisfied with this concession to trade liberalisation. Deputy Director-General Gerrie Breyl says formula duties on commodities such as chemicals, textiles, clothing and shoes are high and apply to goods from all sources. "If we remove the existing formula duties, we must provide a safety net to protect industrialists against the disruptive effects of dumping."

The *quid pro quo* has come in the form of wider definitions for "dumped" goods. By simplifying the process of proving goods are dumped, the amendments will catch more imports in the protective legislative net.

The definition of dumping is now so wide that aggrieved local producers will have to establish only the price at which goods are exported in the normal course of trade to third countries, instead of undertaking the more difficult task of establishing the cost to the producer or the price at which similar goods are sold in the export country.

The Trade & Industries Advisory Board (formerly the Board of Trade & Industry) will police the operation.

The net effect on prices is incalculable.

"The new definitions are only a temporary measure," says Breyl, "and they are needed because SA is not in a position at this stage to implement the Gatt requirements for proving goods are dumped. We don't have the manpower or the expertise to undertake the investigations needed. As we gain experience, we will be in a better position to adjust to Gatt requirements."

It seems it is impossible for one step towards trade liberalisation to take place unaccompanied by a simultaneous step backwards.

Import replacement is no longer a buzzword in government circles, but "safeguards" against "disruptive competition" have certainly gained favour — with support from those private- and public-sector industries that see their monopolies threatened by competitively priced imports. The main beneficiaries will be the steel, textile, chemical and footwear sectors.

The implications may be even more serious because they may well provoke countermeasures in trading partner countries. Accusations and countercharges are constantly levelled between countries on this score.

A case in point is that the new Customs & Excise Amendment Bill proposes the same

74

logic applied to tariffs on "dumped" goods should apply to countervailing duties imposed on subsidised exports (described as "disruptive" to local competition).

In view of SA's much-vaunted export incentive programme, in direct contravention of Gatt requirements, this move is breathtakingly illogical.

The Bill establishes that government is incapable of effectively opening up SA to world market forces and that business is incapable of seeing beyond its own back yard.

Anti-dumping is an emotive issue but it must be remembered that one man's produce is another's intermediate input. And jobs preserved in an uneconomic industry are at the expense of potential jobs in a more viable industry. What is beneficial to particular sectors is by no means in the interests of the economy as a whole.

For those who advocate retaliatory tariffs, a recent edition of *Newsweek* contained the following useful insight into the value of such measures: "A 1984 US Federal Trade Commission study estimated that tariffs cost the American economy US$81 for every $1 of adjustment costs saved. Restrictions on clothing and textile imports cost consumers $1 each for each cent of increased earnings of American textile and clothing workers, according to the London-based Trade Policy Research Centre. According to the Institute for International Economics, trade barriers are costing American consumers $80bn a year — that's equal to more than $1 200 per family." ■

PENSIONS FM 6/3/92

Drilling a R400 000 hole

Pension savings of employees of liquidated Masterbore were used for working capital, instead of being paid over to the pension

FM 6/3/92

fund managers, confirms the managers, AA Life. Employees of the defunct drilling equipment and contracting company are certain to lose out because they have no preferential status.

Though the amount involved is not large, about R400 000, the case gives impetus to the Financial Services Board's campaign to force companies to pay over pension money timeously. The Masterbore situation is thought to be one of many cases where the board has become aware that directors are effectively using the pension fund to carry them through the recession. As far as the *FM* can ascertain, Masterbore is the only offender so far to have gone into liquidation, leaving its pension scheme underfunded.

Also, though there has clearly been a breach of regulations, it may be difficult for the attorney-general to nail the offenders: the management changed between the period when the money was first diverted and the liquidation. The pension shortfall was reported to the board by AA Life several months before the liquidation.

The sensitivity attached to a situation where workers lose their savings came at about the time the board sent a tough circular to pension fund managers and principal officers, putting the onus on them to report late payers (*Economy & Finance* August 30). Breach of regulations carries a penalty of R200 — so, in the case of a fund for 500 members, R100 000 for every time the offence occurs.

The reporting requirements are supported in principle by the Institute of Retirement Funds and the Life Offices Association, but are thought to be so stringent that they are impractical. After the Masterbore case, it is unlikely there will be any relaxation. Together with circular PF74, that outlined the reporting requirements, the board also made it clear all infringements would be referred to the attorney-general's office.

AA Life's Joe Gates says he maintained close contact with the board during the Masterbore debacle. But Basilios Tsingos, ex-financial director of Masterbore, complains the fund had not been actuarially valued by AA Life so, after management at Masterbore changed during 1990, the extent of underfunding could not readily be established. But Gates calls that argument irrelevant, adding that the triennial valuation was not due. At all times, Gates says, AA Life was aware that members' contributions were not being received and was urging Masterbore to catch up.

In Masterbore's 1991 financial statements, the last issued before the company's suspension from the JSE, it is noted: "The group operates two pension schemes, which

continue →

Foreign trade 'is economy's oxygen'

BDay 6/3/92 (74)

ABERDEEN — International trade was the oxygen of the economy and if that was cut off, the economy would suffocate, Cape NP leader Dawie de Villiers said yesterday.

SA's policy of apartheid and racism had resulted in the country being internationally rejected and isolated, he said at a public meeting in this central Karoo town.

"The noose was getting tighter and had a visible effect on the economy. No country in the modern world can live in isolation."

De Villiers, leader of the NP's Codesa negotiating team, said it was becoming obvious that the moderates in all parties in SA were winning.

The NP was not an ally of the ANC or SACP.

"We talk to them and try to convince them that our viewpoints are better for SA. And there has been progress. We are not going to throw our principles overboard, that is why we are negotiating.

"Even with a 'yes' vote, it is still going to be tough, but we must not give up. There are still big challenges waiting for us. We want to lift values and norms above racism."

There were about 10 right-wingers in the audience of about 70.

Two of them, one explicitly, commented that since De Villiers had left the ministry, he also appeared to have abandoned the truth.

"I take the strongest exception to that. Before we accept and believe rumours, we must establish the truth.

"My faith, not only when I was in the ministry, tells me not to judge people on the basis of colour. That is what I find in the Bible."

De Villiers' next stop in his two-day whistle-stop tour of the Karoo was Beaufort West.

There he told town councillors and members of the Central Karoo Regional Services Council the building of the new SA was not yet finalised but certain of the foundation stones had already become clear.

"What is becoming clear is that there should be strong autonomous local and regional government structures."

He said local and regional government had an important role as it brought government as close as possible to the people.

The functions of the two types of government would have to be identified and ensconced in the new constitution which would result in a good balance of power in the country. — Sapa.

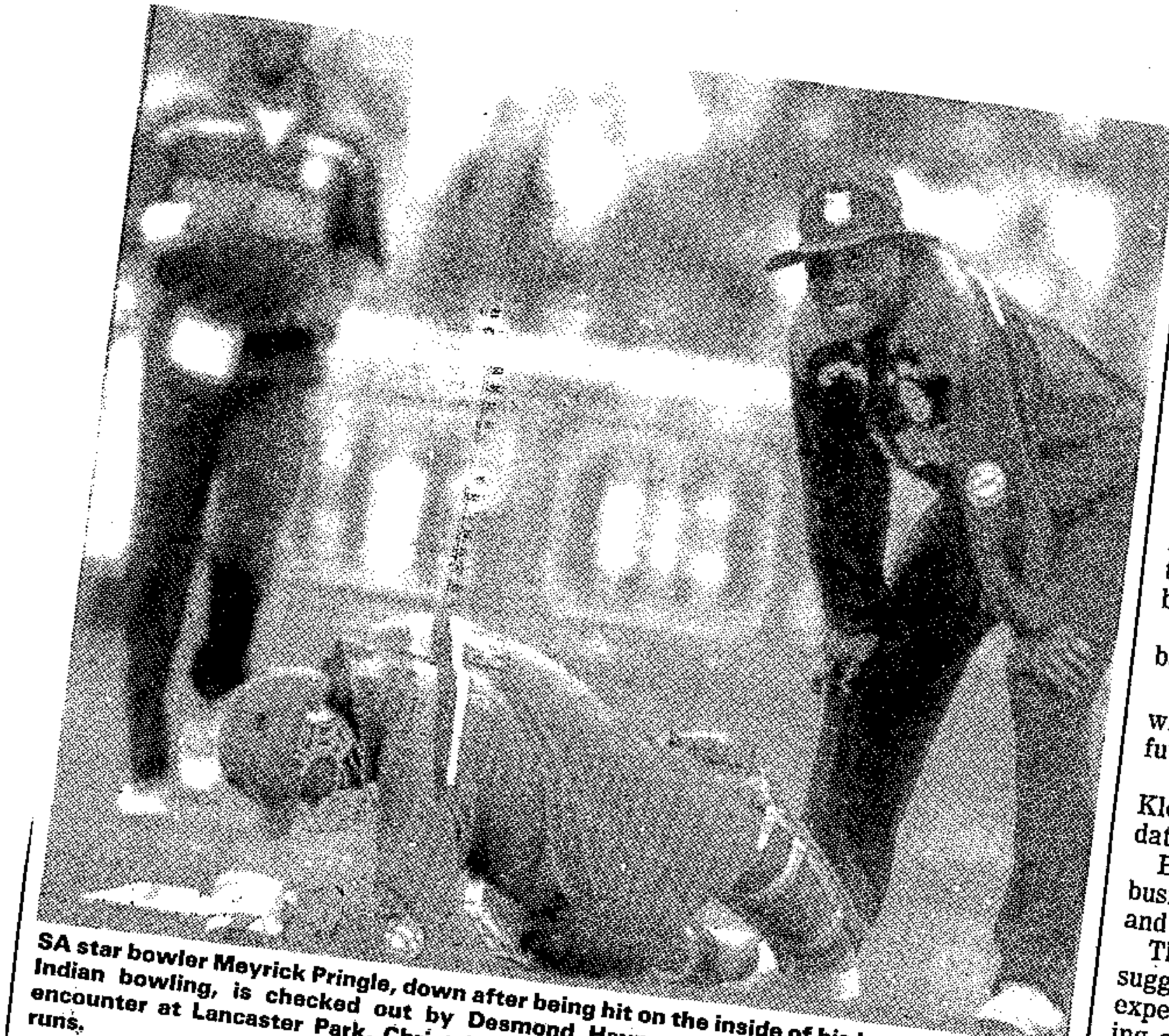
Report by L Braid, Press Gallery, House of Assembly, Cape Town.

BUSINESS DAY, Friday, March 6 1992

Russian delegates looking for local business partners

(74)

B/Day 6/3/92



SA star bowler Meyrick Pringle, down after being hit on the inside of his knee by the West Indian bowling, is checked out by Desmond Haynes during yesterday's World Cup encounter at Lancaster Park, Christchurch. SA decisively beat the West Indies by 64 runs.

Picture: AP

CAPE TOWN — Russian businessmen gathered in Cape Town yesterday for a two-day seminar aimed at expanding trade links between their country and SA.

Opening the Marvol Group-sponsored meeting at a Sea Point hotel, SA businessman Deon de Wet said the Russians had to realise that the route to Africa was through SA, especially following political breakthroughs in SA.

Both countries were emerging from a background of unrest and archaic laws.

"A 'yes' vote in the March 17 referendum will set our lives free to negotiate a better future for SA," said De Wet.

"I am convinced (President) F W de Klerk will get all the support and a mandate for a resounding victory."

Both countries were already involved in business ventures in the fields of aviation and solar panels.

The Lonhro Group's Tiny Rowland had suggested that SA and Russia, given their expertise, should get involved in joint mining enterprises.

De Wet said the Russian trade delegates were well connected with that country's government, but were in SA in their private capacity.

LINDA ENSOR reports that the Russian aerospace industry representatives were looking for possible SA participation in a joint venture to manufacture light civilian aircraft.

Marvol SA MD Johannes Dreyer said Russian design bureau Rusjet had designed a civil aircraft and was looking for partners.

"A market niche has been identified for the designing and building of a small aircraft with limited seating and freight carrying capability for use in African conditions. It will also have the capability for short take off and landing.

"It is an affordable aircraft with low maintenance and operational costs. The possibility of a SA-Russian venture to manufacture this aircraft is being looked at," Dreyer said.

"The possibility of upgrading the passenger seating in the Antonov-124 to acceptable business standards will also be discussed."

"The idea is to combine the transport of passengers and freight. At the moment the Antonov-124 is a very crude aircraft used for military purposes. SA has the ability to upgrade it internally."

Dumping on consumers

FM 6/3/92

(74)

Will consumers pay more or less for imported goods after amendments tabled last week to the Customs & Excise Act? By targeting "dumped goods," the proposed amendments will reduce the range of goods on which "formula" duties of up to several hundred percent are imposed.

But the Trade & Industry Department was not satisfied with this concession to trade liberalisation. Deputy Director-General Gerrie Breyl says formula duties on commodities such as chemicals, textiles, clothing and shoes are high and apply to goods from all sources. "If we remove the existing formula duties, we must provide a safety net to protect industrialists against the disruptive effects of dumping."

The *quid pro quo* has come in the form of wider definitions for "dumped" goods. By simplifying the process of proving goods are dumped, the amendments will catch more imports in the protective legislative net.

The definition of dumping is now so wide that aggrieved local producers will have to establish only the price at which goods are exported in the normal course of trade to third countries, instead of undertaking the more difficult task of establishing the cost to the producer or the price at which similar goods are sold in the export country.

The Trade & Industries Advisory Board (formerly the Board of Trade & Industry) will police the operation.

The net effect on prices is incalculable.

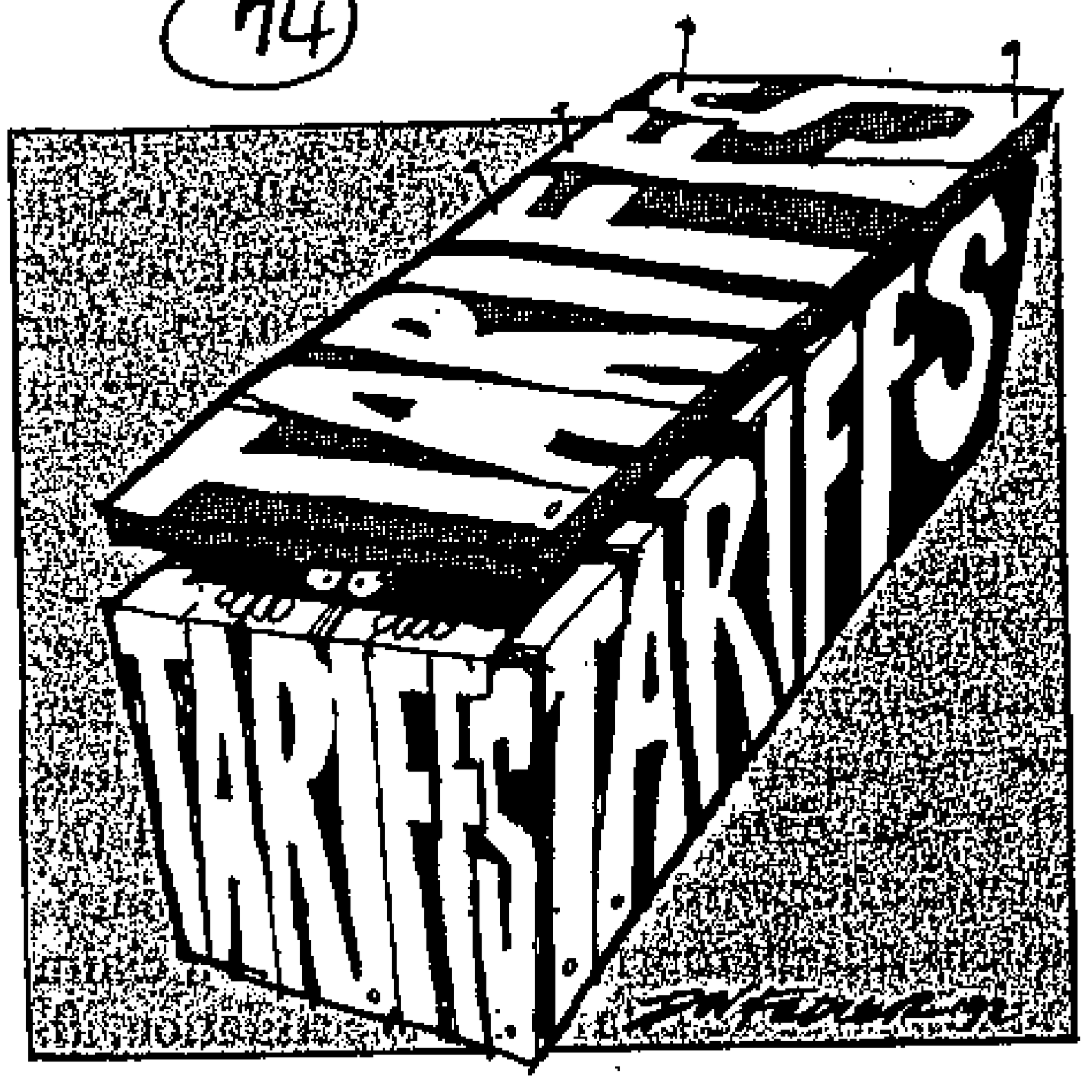
"The new definitions are only a temporary measure," says Breyl, "and they are needed because SA is not in a position at this stage to implement the Gatt requirements for proving goods are dumped. We don't have the manpower or the expertise to undertake the investigations needed. As we gain experience, we will be in a better position to adjust to Gatt requirements."

It seems it is impossible for one step towards trade liberalisation to take place unaccompanied by a simultaneous step backwards.

Import replacement is no longer a buzzword in government circles, but "safeguards" against "disruptive competition" have certainly gained favour — with support from those private- and public-sector industries that see their monopolies threatened by competitively priced imports. The main beneficiaries will be the steel, textile, chemical and footwear sectors.

The implications may be even more serious because they may well provoke countermeasures in trading partner countries. Accusations and countercharges are constantly levelled between countries on this score.

A case in point is that the new Customs & Excise Amendment Bill proposes the same



logic applied to tariffs on "dumped" goods should apply to countervailing duties imposed on subsidised exports (described as "disruptive" to local competition).

In view of SA's much-vaunted export incentive programme, in direct contravention of Gatt requirements, this move is breathtakingly illogical.

The Bill establishes that government is incapable of effectively opening up SA to world market forces and that business is incapable of seeing beyond its own back yard.

Anti-dumping is an emotive issue but it must be remembered that one man's produce is another's intermediate input. And jobs preserved in an uneconomic industry are at the expense of potential jobs in a more viable industry. What is beneficial to particular sectors is by no means in the interests of the economy as a whole.

For those who advocate retaliatory tariffs, a recent edition of *Newsweek* contained the following useful insight into the value of such measures: "A 1984 US Federal Trade Commission study estimated that tariffs cost the American economy US$81 for every $1 of adjustment costs saved. Restrictions on clothing and textile imports cost consumers $1 each for each cent of increased earnings of American textile and clothing workers, according to the London-based Trade Policy Research Centre. According to the Institute for International Economics, trade barriers are costing American consumers $80bn a year — that's equal to more than $1 200 per family." ■

Gold, forex reserves rise at a slower rate

(74)

Finance Staff STAR 9/3/92

Gold and foreign exchange reserves continued their rise in February, but at a slower-than-expected monthly rate of under one percent.

The Reserve Bank said on Friday that total reserves had risen from R9,36 billion in January to R9,46 billion last month.

The gold holdings were virtually unchanged at R5,81 billion as a small drop in the volume of gold held to 6,45 million ounces (6,47 million ounces) was offset by a rise in the average value of gold held to R900,79 per ounce (R898,15).

The rand gold price was boosted by the lower rand-dollar exchange rate.

The foreign exchange content of the reserves improved from R3,55 billion to R3,65 billion, reflecting the smaller surplus during the month. However, capital outflows were limited in February.

Reserves beat debt repayment

B Day 9/3/92 (74)

SHERIDAN CONNOLLY

SA's gold and foreign exchange reserves continued their upward trend in February in spite of a foreign debt repayment of $160m.

The Reserve Bank said on Friday that total reserves increased R92,47m to R9,45bn in February from R9,36bn in January.

The Bank's gold holdings were largely unchanged at 6,448-million ounces in February from 6,469-million in January.

It said, however, the value of gold reserves declined by R1,08m to R5,80bn in February from R5,81bn in January. Average price of the metal was only slightly higher at R900,79 in February, against R898,15 in January.

Foreign assets were up R93,55m to R3,64bn in February from January's R3,55bn.

Nedbank chief economist Edward Osborn said the rise in total reserves was extremely small and was, in part, due to a lower dollar value of the rand.

Osborn said the net overall increase was thus a positive improvement.

An upward trend in the level of foreign reserves would be dampened by the need to import grain, Osborn added.

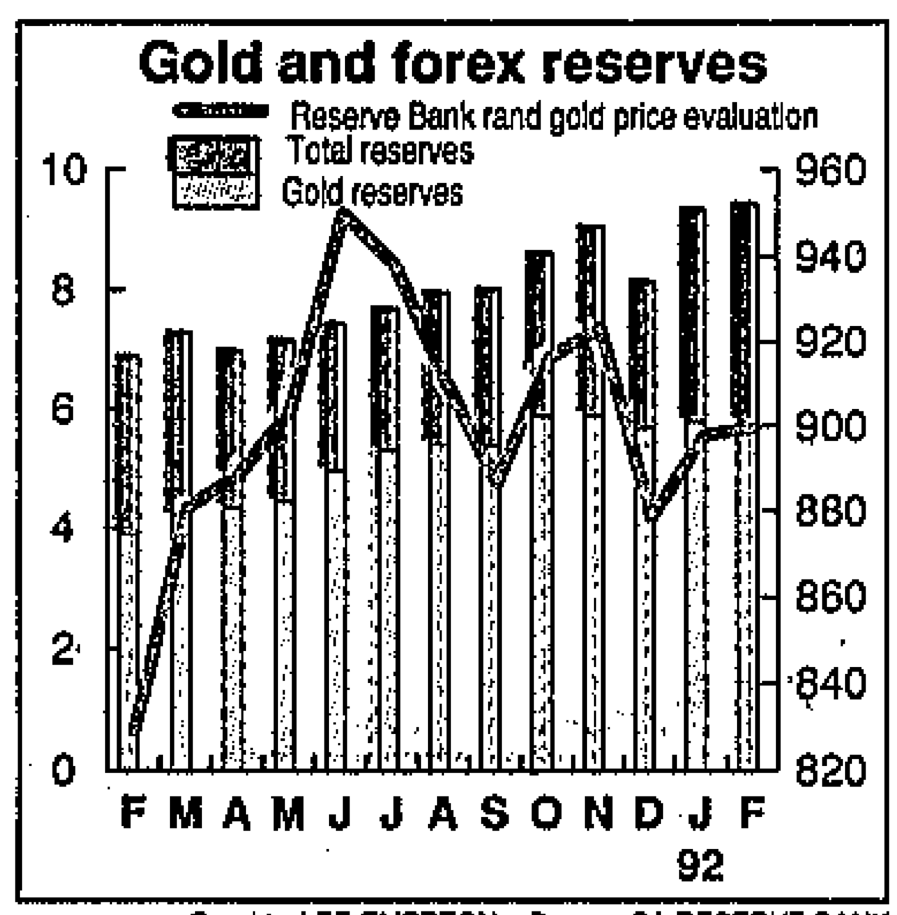
Bankorp economist Jaques du Toit said the small decline in gold reserves had been offset by a build-up in foreign assets.

An increase in total reserves was significant in the light of any capital outflows to finance a debt repayment, Du Toit said.

The R1,2bn rise in January had been a substantial increase and the smaller February rise was by no means disappointing, he added.

Du Toit was confident that the good performance in the level of reserves would continue and said there was an excellent chance that total reserves would reach the R10bn mark within the next few months.

He was optimistic that the Reserve Bank would reach its target of having sufficient reserves to cover the cost of three-months imports by mid-year.



Graphic: LEE EMERTON Source: SA RESERVE BANK

Regional development is punted

SHERIDAN CONNOLLY

WITHOUT sufficient job opportunities, price stability and economic co-operation and development in southern Africa, the objectives of regional economic development would not be achieved, Regional and Land Affairs Department chief director Hans Van Rensburg said at the weekend.

He told the SA Chamber of Business Transvaal congress government's regional policy aimed to develop regional economies' potential to the optimum, in co-operation with the private sector, to increase the prosperity of all SA's inhabitants.

Development possibilities and comparative advantages could be optimally exploited only if government formulated strategic guidelines. It was essential that a healthy climate be created for development to enable institutions to advise on development matters at regional level, he said.

13/10/92

(74)

Foreign trade delegates show increased interest

(74)

Bday 9/3/92

SUBSTANTIAL foreign interest in being shown in this year's Southern Africa Industry & Technology Fair (SAITF) and Electrex '92 taking place at the National Exhibition Centre from tomorrow to March 13.

Organised by Systems Exhibitions, the combined SAITF and Electrex '92 have attracted a number of trade delegations from the UK, says Systems Exhibitions marketing manager Jo Melville.

A number of the exhibitors are hosting overseas visitors who are experts in a wide range of fields, and will be manning stands and advising on their products.

Special emphasis is being placed on application software, in an application software village which forms an integral part of the fair.

About 15 000 purchasing decision makers are expected to visit the show.

There are several conferences, workshops and seminars running alongside Electrex '92 and SAITF '92.

Vibration

Two seminars dealing with vibration technology are running alongside Electrex '92.

The first one-day seminar entitled Basic Vibration Technology takes place tomorrow and is aimed at newcomers to the field of vibration technology.

This will be followed by a two-day seminar for advanced users entitled Advanced Machine Monitoring and Vibration Analysis on March 11 and 12.

Also, the South African Institute of Electrical Engineers (SAIEE) is organising a symposium entitled The Management and Auditing of Electrical Energy.

Among the areas coming under the spotlight are the proposed changes to Eskom's tariff structure and principles of metering — issues of vital concern to a wide range of electricity consumers.

SAIEE liaison officer Jack Yelland says the symposium will deal with a mix of electrical power and electronics engineering.

With 1992 being the 18th bi-annual exhibition, Electrex is a well established show.

Electrex '92, however, is an expansion of the traditional SAIMC (South African Institute of Measurement and Control) show and will be SA's first exhibition to group together the electrical and electronics industries.

Meanwhile, the third bi-annual SAITF is poised to be the largest industrial and technological business-to-business fair in southern Africa.

Opportunity

It will provide visitors with an opportunity to see state-of-the-art products, locally manufactured products, systems, design and installation capabilities available to southern African industry.

The fair embraces categories from abrasives and business travel to valves and welding.

with a broad range of infor- to use the unit in a broad local expertise in rapid ser- & Technology Fair.

Information aimed at industrialists

B/Day 9/3/92

A NUMBER of organisations which provide information to industrialists ranging from investment, factory location and export advice will be at this year's Southern Africa Industry and Technology Fair.

Organisers Systems Exhibitions marketing director Jo Melville says the third bi-annual SAITF is poised to be the largest industrial and technological business-to-business fair in southern Africa.

Among the organisations which will provide information are the South African Department of Trade and Industry; the KwaNatal Marketing Initiative of the KwaZulu Finance Corporation; the KwaNdebele National Development Corporation; the Qwaqwa Development Corporation, the Ciskei Development Bank and Associated Information Technologies (AIT), an industrial and business-to-business research company operating in sub-Saharan Africa.

Drive

The Department of Trade and Industry's (DTI) participation in SAITF is part of a national export drive.

A DTI spokesman says: "With SA's improved international status and the lifting of sanctions, this is the ideal time for local industries to enter the export market."

The department's stand will highlight all its services, particularly those to the export community such as export promotional services and incentives.

Information will also be available on the services provided by SA's Foreign Trade Representatives to local exporters such as market research, identifying potential customers and advice on duties and custom restrictions in various target countries.

The KwaNatal Marketing Initiative (KMI) is responsible for marketing and industrial development of Natal/KwaZulu and provides industrialists with a comprehensive one-stop development service at all the main industrial nodes of the region.

The KMI stand will highlight the industrial development services offered by the organisation.

Support

These include pre and post-establishment support services; provision of industrial infrastructure and utilities; lease or sale of industrial buildings; loans; professional services; and introductions to key contacts.

Similar services will be highlighted on the stand of the KwaNdebele National Development Corporation, which is the economic development arm of the KwaNdebele government.

CA
RIO

ave had to
28 and

Stimulating an export awareness

B/Day 9/3/92

74

THE Department of Trade & Industry's aim includes the promotion and maintenance of a healthy and viable industrial structure.

It also focuses on the expansion of foreign trade relations, the promotion of foreign trade, the maintenance and promotion of competitive conditions in domestic trade, with the greatest possible private sector participation, and the protection of consumer interests.

The purpose of the department's participation in the Industry & Technology Faire is to stimulate an export awareness among South Afrcan companies and to provide information concerning the establishment and expansion of industries.

Representatives of the department's Export Centre and its Industrial Development and Investment Centre, together with SA's trade representatives based in London, Rome and Hong Kong, will be available at stall 59B in Hall 7 to meet manufacturers and exporters to discuss how the department can assist in promoting their products abroad.

Foreign visitors to the fair are also invited to discuss assistance available to establish operations and invest in SA.

Altech reveals new soft...

Services have become a focus of attention

BIDay 9/3/92 (74) ~~191~~ ~~184~~ ~~179A~~

A FEATURE of this year's Southern Africa Industry and Trade Fair (SAITF) is services, as opposed to products, will be the focus of attention on a number of stands.

One such exhibitor is Armatron Systems, a multidisciplinary technical consulting and engineering enterprise which provides contract research, design, development, engineering and program management services.

Among the services offered by Armatron are design engineering, project management, product improvement, software development, maintenance and support and technical consulting.

Strategic information services are provided by Associated Information Technologies (AIT), an industrial and business-to-business research company which has positioned itself between the conventional industries of market research and management consultancy.

Information provided by AIT to its client base of some 100 companies forms the foundation of their decision making and planning structures.

A service of a different kind is offered by Gerotek, which aims to introduce exporters, manufacturers and designers of high technology, electronic, electrical and mechanical products to EN45001 accreditation during the fair.

Restrictions

The European Community (EC) has announced that from January 1 1993 mandatory trade restrictions will be imposed against the import of a wide range of products unless they carry the EC mark of approval, which includes the EN 45000 Series.

These are general criteria for the operation of test and calibration laboratories and are equivalent to SABS 0159.

Europe's planned EC-wide product testing and certification programme presents a range of challenges and options to SA manufacturers and exporters, who will have to become familiar with the new legal requirements in order to determine the levels of compatibility between these requirements and their approach to certifying products for export to individual EC member countries.

SA producers may also face logistical problems trying to obtain this mark as a result of the distances involved, to say nothing of language problems and unfamiliarity with prevailing customs and excise regulations.

Gerotek's environmental test facility was recently granted EN45001 accreditation and status, empowering the local company to test products and confirm compliance with the EC's requirements and specifications.

This should help to minimise delays and foreign exchange.

Naschem's stand will include a display of its laboratory services, including its practical laboratory and environmental testing laboratories services.

Practical laboratory services cover such items as electron microscopy; particle size analysis; thermal analysis and ion chromatography.

With laboratories becoming information intensive and the fact that environmental pressures and statutory bodies are adding to workloads, automation could be an answer, says Symmetry Software Services.

Symmetry, an independent software house specialising in computer applications in the scientific, technical and engineering fields, is exhibiting with Olivetti Information Systems to demonstrate a wide range of systems.

Needs

These are said to meet the needs of every type and size of laboratory.

The range stretches from SQL*LIMS, using any size of DEC hardware, though Symmetry's own SLIMS package written for DEC/-VAX, down to pcSLIMS, which runs on a PC network.

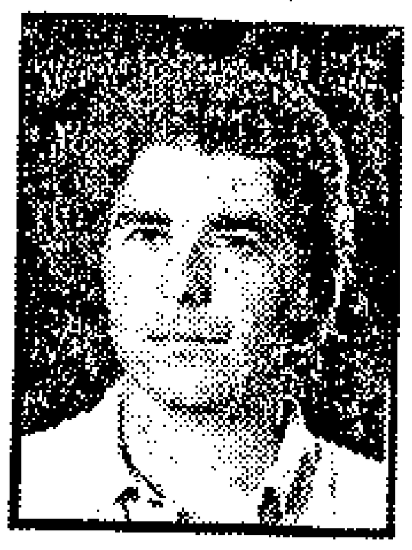
Symmetry's areas of expertise include process control, laboratory management information systems, telemetry and expert systems.

Commodities hold key to next upturn

STAR 10/3/92

(74)

By Jacques Magliolo



MAGLIOLO on the MARKET

Analysts seem to agree on at least one aspect of our market; if politicians get a mandate to proceed with political change, more sanctions could be lifted and international funds should become accessible.

This would, in turn, drive the JSE into a bull market. However, investors are warned that it is unrealistic to believe that the re-establishment of international trade links will result in rapid capital gains.

Economists warn that renewed trade with the US and Europe will not kick-start our economy and bring prosperity to all.

"This is a dangerous sentiment with no grounds for justification," says Sanlam economist Pieter Calitz. He says that prior to sanctions, it was relatively easy to determine economic phases — our economy lagged the US business cycle by about nine months.

But the advent of trade isolation and political instability has left economists with poorly defined business cycles. However, the US's locomotive effect on all major trading countries cannot be ignored.

So, how and when do our oconomists predict the next upswing?

Given the locomotive effect, it is necessary to first assess the American economy. This complicates analysis as even American economists are unable to accurately assess their economy.

There are currently two opposing views.

Optimistics suggest that positive factors are overwhelmingly pointing to a recovery period as highlighted by the following facts:

- The US leading indicator, consisting of 16 indices which include stock prices, employment levels, money supply growth and order sales, has been in an upswing for the past three months.
- Monetary policy has eased considerably. Short-term rates have fallen from five to below four percent and long-term rates to 7,8 from 10 percent. However, the latter has recently climbed back to 7,9 percent.
- Since January 1992, the Dow Jones has reached several all time highs and remains buoyant.

Yet pessimists say that the following negative factors continue to inhibit an upswing:

- The mild upswing, which started in mid-1991, ended during the last quarter of 1991 when the US fell back into recession.
- The housing market remains relatively static.
- Consumer confidence is low.
- Unemployment figures point to a continued weak economy.

These pessimists maintain that even when a recovery phase starts, it will be a laborious process due to:

- A heavy debt burden on consumers and business.
- Increases in wages have been moderate.
- The absence of a strong inventory build-up.
- Inflation remains high at four percent (aim: two percent), which could force government to maitain its restrictive financial policy.
- The recent strenghtening of the dollar could hamper further US exports.

Therefore, if the US cannot accurately assess its own cycle, it becomes difficult for other countries to forecast pending boom and recession phases.

Some economists believe we should look for new indicators.

Graham Boyd, economist at stockbrokers Simpson McKie says: "The most important international influence in our market would be a rise in world commodity prices, which would be assisted by a recovery in the American economy."

The latest Economist commodity prices, released on February 25, indicate an annual decline in prices with the all item index in US dollar terms falling by 4,8 percent and the metal index by 11,1 percent.

In view of these figures, it is uncertain when our economy will recover — even after a return to international trade and funding.

STAR 10/3/92 (94)

Trade links explored

A 25-member British trade delegation has arrived in South Africa to explore trading links, the British Information Services said yesterday. The Northern Development Company Trade Mission is expected to meet Johannesburg Chambers of Commerce and Industries and Sandton Chamber officials during a 12-day stay.

Protectionist policies 'bad for competition'

8 10 cu 1243/92 (74) (3)

LONG-term competitiveness cannot be ensured if countries have protectionist policies for their industries.

This is the view of Foreign Affairs Department visitor Kumar Bhattacharyya, of the Warwick Manufacturing Group in Britain. Bhattacharyya is visiting organisations ranging from the ANC to Anglo American Corporation and Eskom.

In an interview, he said Warwich was a technology transfer centre where technological development is co-ordinated with management and integrated into the organisation of businesses.

He has advised various governments on matters of industrial policy and technology, and reckons SA should learn from countries like Britain, where deregulation and the dropping of controls and protectionism had led to success in turning around companies like the Rover Group.

"If government interferes in any way with the private sector and utilities, there is often a slowdown in efficiency, and government in turn is held accountable," he said.

For SA to compete with newly industrialised countries like Singapore, Malaysia and Indonesia, it would need a sound technological and industrial policy free from government interference, although the private sector could get some help from government in the form of favourable taxation, or small sums of money to assist in training schemes, for example.

Looking at SA's electronics industry, which is currently having its "life support system" in the form of tariffs and duties on imported components disconnected, he said the early days of dropping protectionist policies were always traumatic, but the end results were worthwhile.

"If regulation is dropped, for example, a country becomes far more attractive for overseas investors."

Bhattacharyya said competition forces produced innovative developments, and this was the most likely way for SA to experience a renaissance and become a leader in its own right.

Business is on hold until after referendum

74

Sowetan 12/3/92

Sowetan Correspondent

MANY jittery businessmen are adopting a wait-and-see policy before next Tuesday's reform referendum.

They are holding back on deals running into many millions of rands and placing large sectors of the economy on hold.

A resounding "yes" majority will help restore badly-needed confidence, according to local business spokesmen. And there are hopes that it will spark off a "mini-boom" in the property market, in financial investment by the public and in some other fields, particularly if next week's Budget is a popular one.

But the outlook is bleak if the "no" votes carry the day, according to the spokesmen. A number of big deals will crash.

Not all businessmen and members of the public are marking time. The overall picture is topsy-turvy - and one Durban financial adviser, Mr David Upfold, said that now was the time to invest and to buy property - before the "mini-boom", which he is confident will materialise.

A multi-million rand commercial property deal arranged by estate agents JH Isaacs is precariously balanced. A clause written into the agreement stipulates that it will fall through in the event of a "no" victory.

Brink Properties' marketing director, Mr Chris Williams, said yesterday that a R500 000 property offer had been frozen and was dependent on a "yes" vote.

He said: "The general trend is that people are looking around at properties but are reluctant to put pen to paper until after the referendum."

Share prices on the Johannesburg Stock Exchange drifted aimlessly yesterday as nervous investors mostly kept to the sidelines. Dealers described trading as directionless in jittery conditions ahead of the referendum.

Durban Metropolitan Chamber of Commerce economist Barry Poulsom said: "Everyone is on tenterhooks in business circles."

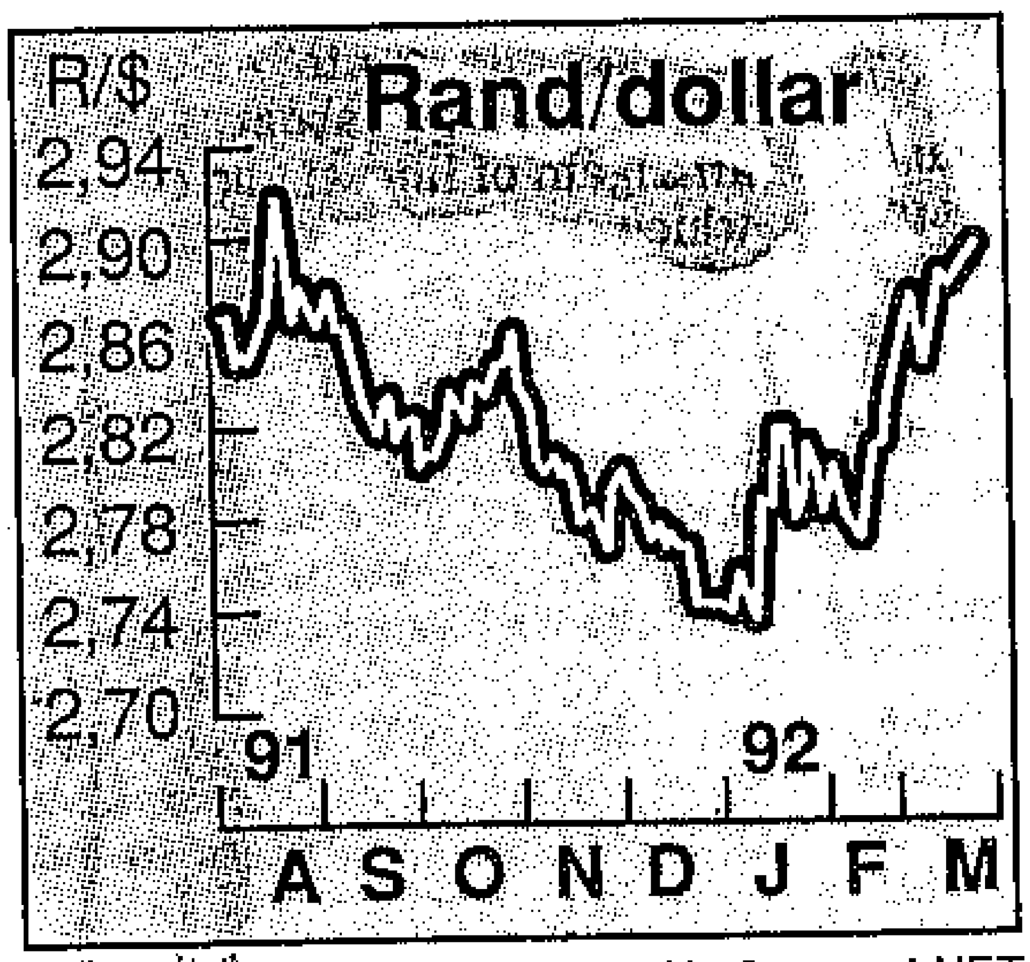
A Durban travel agent said quite a few nervous people had inquired in the last fortnight about the "cheapest possible one-way ticket to the UK".

A large number of other people, who had immigrated to South Africa years ago, had now made up their minds to quit the country.

The referendum has led to the postponement of Safto export marketing consultants' Southern African Trade and Investment Conference in Johannesburg this month.

The conference will now be held on April 28 and 29.

A Safto spokesman said: "We have speakers confirmed from Zimbabwe, Zaire, Kenya, Botswana, Ivory Coast and Angola as well as Europe and America. The referendum has influenced the situation and the speakers understandably don't want to be in South Africa before the results are clear."



Graphic: LEE EMERTON Source: I-NET

Exchange rates fall in rare unison

74

SIMON WILLSON

BOTH components of SA's two-tier exchange rate fell in rare unison on the foreign exchanges yesterday, reflecting a degree of referendum nervousness among jumpy local importers and anxious foreign investors. BDay 12/3/92

Strong demand for dollars late in the local market's trading session forced the commercial rand to a new six-month low of R2,8923 against the US currency.

The financial rand also fell in late trading to R3,84 — its lowest dollar level in 17 months, on a sudden but isolated turnaround in foreign sentiment.

Some of the dollar buying in the commercial rand market was technical, thought to have arisen from the increasing number of local banks running sizeable options desks. Dealers remain unconvinced the rand has slumped into a lower trading range.

"I reckon a lot of the scramble for dollars we saw was from desperate derivatives traders needing to cover their straddles and butterflies," a rand trader said. "When a major importer came in with a big order and the rand broke below R2,89 it picked up pace and kept on going."

The commercial rand steadied narrowly above the R2,90 level, last breached in

To Page 2

Exchange BDay 12/3/92

74

From Page 1

August 1991 when the dollar soared on the abortive Soviet coup. The rand retraced some of its losses at the end of the session to close at R2,8923 — up from its day's low of R2,8953 but sharply lower than its close on Tuesday of R2,8743.

Unusually, the rand also posted losses against the major third currencies, ending down against the Deutschmark at DM0,5787 from an opening DM0,5807, at 46,2 yen from an earlier 46,5 yen, and at R4,96 to the pound from an initial R4,94. When the rand falls against the dollar it generally gains on the crosses as other currencies post their own dollar losses.

Both the technical contribution to the rand's weakness and the absence of solid fundamentals behind a largely chart-based dollar advance left local dealers sanguine about the chances of a rand rally from yesterday's lows.

The financial rand started the day assertively with buying orders out of London, Continental Europe and the Far East that showed little non-resident anxiety about the result of next week's referendum.

Later in the day, however, a local bank hit the market with a big sell order, and the investment unit slid to its lowest dollar close since October 1990 at R3,84, down from Tuesday's close at R3,75.

"It looked as though this was one big order which the seller wanted out of the way before the referendum," a dealer said.

SA on course for 'rehabilitation'

PATRICK BULGER

SA's international integration will take time, but as long as the process of change remains on course SA's international rehabilitation will continue, says RAU political studies professor Deon Geldenhuys.

Writing in the International Affairs Bulletin of the SA Institute of International Affairs, he says SA's short-term challenge is to manage this reintegration effectively.

"It is a process that will only be concluded ... once a new domestic political order, enjoying both internal and external legitimacy has been devised. At that point, obviously under a new government, SA will for the first time in decades enjoy sufficient freedom of action to make fundamental choices in its foreign policy," he says.

In an article called "Towards a new SA: The Foreign Policy Dimension", Geldenhuys says SA has developed a new co-operative relationship with its neighbours, expanded its representation abroad, eased relations with world bodies and been given access to world activities like sport.

"The ANC, of course, still insists on the retention of at least economic and military sanctions. The fact that so many states have nonetheless begun resuming or expanding economic ties clearly shows that the ANC's influence over other countries is strictly limited ... (however) ... the ANC can indeed still affect the pace of SA's return to international respectability.

"The foreign policy of SA's internal transition has two key elements: promoting co-operative involvement by foreign countries in SA and furthering its return to the international fold. Through these duel initiatives SA could help to ensure that one form of international exclusion (enforced isolation) will not simply be replaced by another (marginalisation)," he says.

World markets give SA better credit risk rating

STAR 13/3/92

By Neil Behrmann 79

LONDON — South Africa's risk rating is improving on international markets and is likely to rise even further once an interim non-racial government is formed.

The Japan Bond Research Institute of Tokyo has ranked South Africa C grade, the first time it has achieved that level since the debt moratorium in 1985.

The risk was calculated by the institute after surveys of 14 groups of specialists in the banking and industrial field. They include bankers, traders and manufacturers.

Each group assesses the sovereign risk on political stability and potential for economic growth and rates the country on average scores.

According to The Nikkei Weekly, A grade "no risk" countries with a score of 10 are Canada, Austria, Germany, Singapore, Belgium and Italy.

In the same group, France, the UK, Holland, the US, Tai wan, Switzerland, Sweden, Norway and Denmark have scores of 9,6 to 9,7.

B grade "little risk' countries must have scores of eight to nine.

C grade "some risk" nations such as South Africa must have points of five to 6,9.

The average index rating of 100 countries was 5,1.

Latin America

Ratings of most Latin American countries continued to rise as well because of falling foreign debt and growing economies:

The former Soviet Union posted its sixth consecutive annual decline in investor confidence.

Its general rating is 3,4.— D "risky" grade — compared with 8,1 in the mid-80s.

According to a special survey of four major members of the Commonwealth of Independent States (CIS), Russia and the Ukraine, were awarded more points than Belorussia and Kazakhstan.

Ongoing peace negotiations and the end to the Gulf war raised Middle Eastern ratings, particularly Saudi Arabia's.

"Worst risk" nations in the E category include Zaire, Peru, Bangladesh, Iraq, Nicaragua and North Korea.

Meanwhile, the UK government has lowered export insurance premiums on trade with South Africa.

The rate has fallen to seven from 8,5 percent, and compares with 17 percent for countries such as India.

Tim Sainsbury, UK Minister of Trade, says that in the 20 main markets of UK exporters who most need long-term credit cover, cuts will average 20 percent.

Cuts are possible because developing economies are performing better than expected and are being better managed.

South Africa's rating has improved since the dismantling of apartheid.

Debt repayments have also helped. Foreign debt is down to \$19 billion from \$24 billion in 1985 and is only 19 percent of Gross Domestic Product and 70 percent of annual exports, says the SA Reserve Bank.

Debt service

With debt service at seven percent of annual exports, SA debt ratios are better than those of Latin America, other developing economies and commodity producers such as Australia.

A democratic South Africa will also boost its borrowing power and paper, once it is accepted by the International Monetary Fund and World Bank.

On the other hand, a vote against reform in next week's referendum, will again push SA to high-risk levels.

German MPs to visit SA

DARIUS SANAI

SENIOR members of the German parliamentary committee on economic affairs are to visit SA early next month, in what an embassy spokesman described yesterday as "getting down to the nitty-gritty" of renewing business relations between the two countries.

The committee's trip comes hot on the heels of the visit to SA earlier this month by German Economics Minister Jurgen Mollemann and a delegation of high-powered bankers.

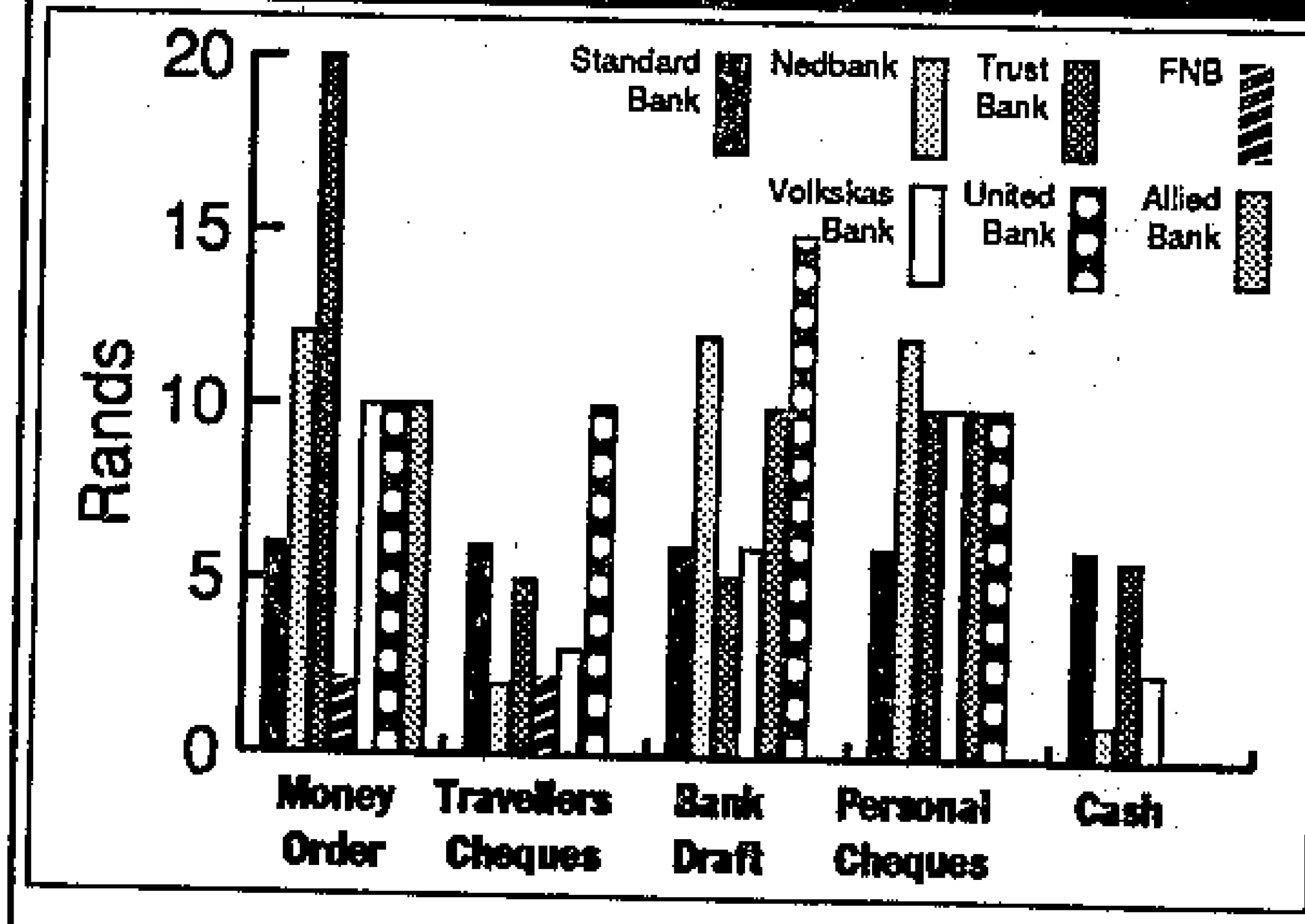
The spokesman said the committee's members would meet various business groups and politicians during their six-day stay.

The German deputy minister for post and telecommunications would visit SA later next month, with a group of communications specialists. BIDay 13/3/92

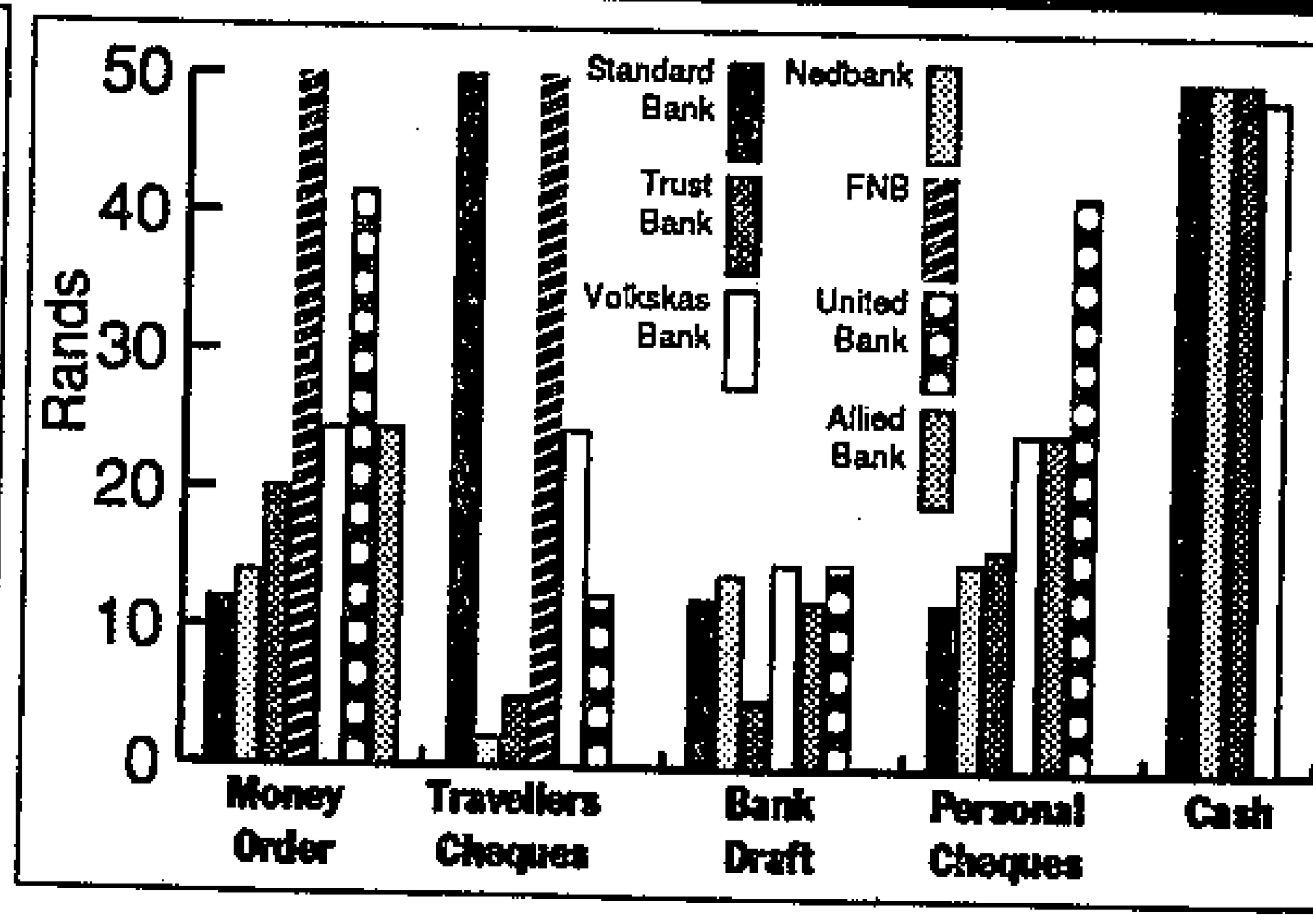
The purpose of their trip would be to look into co-operation in the telecommunications field.

(79)

STERLING TO RAND CONVERSION COSTS
FOR £50



STERLING TO RAND CONVERSION COSTS
FOR £1000



Currency exchange cost is a lottery

S/Times (Buss) 15/3/92

74

By ANTHEA DUIGAN

MOST banking services appear competitive, but costs differ greatly for converting foreign currency to rands.

Converting an international money order for £100 at First National Bank in Verwoerdburg costs R12, or 2,5%. At another branch of the same bank, exchanging US$50 to rands costs R15.

A spokesman for FNB says commissions and charges are not set. As with an overdraft, rates are determined by each branch manager.

An example is a 1% (of rand value) commission on all exchange transactions, with a predetermined minimum and maximum charge.

He stresses that charges may vary for different transactions. Details are available from foreign-currency personnel at each branch.

Perhaps because of this, FNB head office did not supply the full details provided by the other banks in the tables above.

Absa, which includes Volkskas, United and Allied (but not TrustBank until April 1), has yet to consolidate its costs of conversions in the group.

Minimum charges vary from R6 on bank drafts, R10 on personal cheques and money orders to R2,50 for banknotes. However, it is wise to check for the minimum because it varies, depending on which Absa bank is used.

Nedbank's costs for money orders, drafts and cheques amount to 50c a R200 (0,25%). But there is a minimum charge of R10 and a maximum of R100. There is also a R2 fee a transaction for postage.

No commission is payable on travellers' cheques, but there is a R2 fee for a transaction. On cash or banknotes a minimum of 1% is charged.

Sources

The figures supplied by TrustBank are based on the assumption that the money comes from foreign sources and that the daily exchange rate is applied.

Standard Bank figures reflect its costs for converting £1 000 to rands through money orders, travellers' cheques, bank drafts, personal cheques and cash and the same for converting £50.

Germans say: Join us in prosperity link-up

S/Times 15/3/92

74

By CHARLENE SMITH

EUROPE'S most powerful country is offering South Africa a dramatic and beneficial "special relationship" — but only if there is a "yes" vote on Tuesday.

A resolution adopted this week by Germany's three governing parties promises South Africa a "fair and active" economic partnership on all levels.

It also proposes the ending of all sanctions, including the oil embargo but not the arms embargo.

The parties want to encourage the emergence of a regional economic centre in Southern Africa and propose a co-operation agreement to help the country during the transition phase to democracy.

Full details of the tantalising plan are not available but Mr Michael Schmunk of the German Embassy in Pretoria confirmed the intention was to develop a full relationship between the European Community and SA as soon as a non-racial government was in place.

"We are considering whether SA should be defined as a Third World country so it can receive aid on that basis. Alternatively, we could assist meantime with cross-border aid projects which would include several projects to neighbouring countries."

Mr Schmunk said his government was looking at direct economic aid and it could become a reality if there was a positive referendum result.

Germany is also keen to re-establish cultural ties with South Africa and as a first step is considering founding a Goethe Institute for the study of German language and culture.

Professor Karl-Heinz Hornhues, deputy chairman of the co-governing Christian Democrat parliamentary caucus, called on the German government

□ To Page 2

f PW's last
: Page 4

Germany offers SA help

74

□ From Page 1

and the EC to help the reform process in South Africa "so that the way to a democratic future becomes irreversible".

"The emergence of a regional economic centre in a democratic, socially stable and economically attractive South Africa is also of interest for the European Community and calls for a concrete European co-operation offer, especially in the transitional phase," he said.

In rare agreement, all German parties backed increased aid to SA if there was a "yes" vote on Tuesday.

He said the referendum offered a "great historical chance for the 'guardians of the grail of apartheid' to be finally pushed back and for SA to take a big constitutional jump forward to open the door for a democratic future for all members of the population".

The European Parliament in Strasbourg also made it clear on Thursday that "a positive vote on March 17 will open the possibility for the rapid removal of all further restrictions on normal relations, other than the arms embargo".

On the same day, a special debate in the German Bundestag backed the lifting of the oil embargo against South Africa — again only if the referendum has a positive result.

The total lifting of the 1985 embargo will need the backing of the EC, and indications are strong that this will be given in return for a strong pro-reform vote on Tuesday.

A strong "yes" vote will also give impetus to a scheduled meeting in April in which the EC Industrial Council of Ministers will discuss ways to enhance SA's entry to EC markets.

(News by Charlene Smith, 11 Diagonal Street, Johannesburg)

Growth in world trade slowing up

STAR 16/3/92

(74)

GENEVA — Growth in global commerce slowed for the third consecutive year in 1991, making a successful conclusion to the long-running Uruguay Round negotiations even more important, the trade watchdog body GATT said yesterday.

"Success in the current trade negotiations would ... make a tangible contribution to an improved economic outlook for the world economy," Arthur Dunkel, director-general of the Geneva-based General Agreement on Tariffs and Trade said in the organisation's annual report.

He pointed to the short-term "need to promote a strong recovery after three years of declining growth rates" and the long-term need to ensure smooth economic relations between countries as trade competition became more fierce.

But he added that incomplete data for the second half of 1991 suggested the decline in the growth rates may have bottomed out and that a modest recovery might be under way.

The Dunkel report, presented to the 103-nation ruling GATT Council, estimated the growth rate of volume of world trade in goods to have been three percent in 1991, the smallest since 1983 and the third straight annual decline.

Growth in the dollar value of this trade also declined sharply to 1,5 percent from 13,5 percent in 1990 — and that was before making any adjustment for inflation.

World merchandise trade value grew to $3,53 trillion from $3,49 trillion in 1990.

Commodity prices

Value growth differed from volume growth because of lower prices for many commodities and because a stronger dollar made receipts in other currencies less valuable in dollar terms.

GATT launched the Uruguay Round in 1986 in an ambitious effort to free up trade, bringing in whole new areas including farm subsidies and services trade under GATT controls. Mr Dunkel hopes to finish it in the next couple of months after long delays but his chances of success are by no means certain.

Growth in trade in services, from tourism and aviation to banking and insurance, declined to five percent from 17 percent in 1990 to $850 billion from $810 billion.

The current slowdown in the world economy differs from the recessions of 1975 and 1982, Mr Dunkel said, in that there was no agreement this time on the causes.

The implication is the solution is not immediately obvious and that the role of trade is thus more valuable, he said.

"Developments in the trade area alone are not, of course, a panacea for all the ills confronting the world economy.

"But it is equally true that the increasing contribution of foreign trade (to national economies) ... makes predictability and security in the international trading environment a critical factor in generating jobs, investment flows, technology transfers and thus increasing economic production and growth."

The report showed that the United States regained the world lead in exports from Germany, partly due to the appreciation of the dollar and also due to a lower volume of German exports.

The United States remained the world's largest importer, despite a 1,5 percent decline in imports to $509 billion. Its exports were $422 billion.

German exports fell by 4,5 percent to $403 billion while imports rose by 9,5 percent to $390 billion. In both categories, Japan was third, France fourth, Britain fifth and Italy sixth.

Strongest growth

The leading developing or newly industrialised countries in Asia had the strongest overall trade growth — between 10 and 20 percent for exports and eight and 30 percent for imports.

The East European and former Soviet economies registered a 20 percent fall in the value of their exports and a 25 percent drop in imports. The ex-Soviet Union cut imports by 42 percent.

Latin America sucked in more imports than exports as its economies liberalised, imports rising by 12,5 percent to $145 billion and exports declining by four percent to $140 billion. In volume terms its exports rose by an estimated two percent and imports by 10,5 percent.— Sapa-Reuter.

The diplomacy of isolation must be replaced with a diplomacy of participation, argues RAU's **Prof Deon Geldenhuys**

Time for SA to dare to be bold

STAR 17/3/92

74

NOW that South Africa is returning to the international fold, many people are only beginning to realise how isolated the country has been, says Professor Deon Geldenhuys, head of political studies at Rand Afrikaans University.

In an article in the latest International Affairs Bulletin, he said more than one generation had known only a country facing constant international adversity.

"Pretoria was forced on to the defensive in its foreign relations. South African foreign policy was therefore designed to counter the rising tide of isolation and the threat of more drastic forms of external intervention.

"Harsh, repressive measures at home were thus accompanied by militant behaviour abroad, particularly in the southern African region."

A new co-operative relationship had been developed between South Africa and its regional neighbours since the independence of Namibia and the abolition of apartheid.

"For the first time since the early '70s South Africa's official representation abroad is expanding."

Socio-cultural interaction between South Africa and the rest of the world had improved and this could be seen in the greater freedom of movement granted to South African passport holders and the number of new airlines on the South African route.

Professor Geldenhuys said the ANC could still affect the pace of South Africa's return to international respectability.

"The ostensible increase in SA Communist Party support is not likely to inspire Western confidence in the future of South Africa and it is on the West that the South African economy will remain critically dependent.

"South African diplomacy in the phase of transition has to alert the world to the possibility that the first post-apartheid goverment may well include communists among its members. This may not be a particularly appealing prospect to foreign nations with vested interests in South Africa."

He said the diplomacy of isolation had now to be replaced with a diplomacy of participation.

The timely merging of the diplomatic corps and the ANC's foreign service would make it more representative of the general population and would help the situation internationally.

The country would also have to rethink its ties to pariah states like Israel and Taiwan.

"The important consideration is whether a state on the road back to international respectability should still be seen in the close company of the so-called pariah states.

"A state is after all supposed to have no permanent friends, only permanent interests.

"South Africa can now afford to become somewhat bold and even demanding when dealing with other states," Professor Geldenhuys added.

He concluded: "Many countries would probably take the view that they had done their duty by somehow contributing to the struggle against apartheid: what follows thereafter is none of their responsibility.

"South Africa will need the world far more than the world needs South Africa." — Sapa. □

CAROLE on CURRENCIES

Sterling now rates as a high risk currency

(74)

STAR 17/3/92

By Carole Mason, International Economist, Standard Bank

If his Budget was excessively generous domestic financial markets would have accused him of fiscal impropriety, whereas an insufficiently generous Budget would have left him vulnerable to charges of political naivety.

As it was, his final budget package was quickly dismissed by disappointed financial markets as being insufficiently voter-friendly to guarantee the Tories a fourth term of office.

To add further salt to the Tories wounds, however, whereas it had earlier been hoped that a favourable budget would generate sufficient sterling strength within the European Monetary System to encourage an interest rate cut (as an additional electoral sweetener), market disappointment has now rendered the pound very weak against its European counterparts and the prospects of an interest rate cut has all but disappeared.

Overnight, then, the Budget transformed sterling from a modestly vulnerable currency to an inherently high-risk one.

Last week's decision by Prime Minister John Major to dismiss parliament and call for a general election on April 9 merely served to exacerbate sterling's vulnerability since it is now clear that, short-term, the pound's performance will be determined almost exclusively by political developments and opinion poll performance.

Market participants are thus left with the distinctly distasteful possibility of a very weak pound in the run-up to a general election which, if not resulting in an outright victory for one or other party, suggests the possibility of a hung parliament and protracted political uncertainty.

Although sentiment remained favourably disposed towards the dollar last week, it quickly became apparent that an element of lethargy had set into the market, whereby any attempt to push the dollar substantially higher would be frustrated by market inertia.

Further US economic releases last week confirmed earlier evidence of energing recovery within the US economy, but markets chose to ignore this additional supportive evidence for the dollar and the US currency remained wedged within a DM1,66 – DM1,68 trading range.

The obvious decision by market participants to pause for breath in so far as potential dollar movements were concerned encouraged those participants anxious to generate volatility to look elsewhere.

In a market suffering from obvious dollar fatigue, sterling proved a viable alternative with last Tuesday's UK Budget widely deemed crucial.

From a forex market perspective the longer-term economic impact of the UK Budget was considered much less important than the shorter-term impact which the budget would have on voting preferences.

Since recent opinion polls have suggested that, at best, the Tories are neck and neck with the Labour Party and, at worst, are a couple of percentage points behind, sterling stability within the European Monetary System appeared to pivot around the delivery of a Budget deemed likely to enhance the political fortunes of the Conservative Party.

Referendum nerves batter financial rand

STAR 17/3/92

By Sven Lünsche (74)

The financial rand yesterday fell to its lowest level in almost 20 months as foreign investors took flight ahead of today's referendum.

The finrand closed at R4 to the dollar, a decline of 15c on the day on the back of a similar fall in the investment currency last week.

Since November last year, when the finrand was trading at just under R3 to the dollar, the currency has declined by about 33 percent in the wake of political uncertainty, taxation of non-resident investments and a number of company disinvestments.

The discount between the commercial and the financial rand has also widened over the period from seven percent in November to about 28 percent yesterday, despite the recent weakening of the commercial rand. (see graph)

Over the past month the commercial rand has dropped by about 10c to the US dollar — it closed yesterday at R2,89.

The weaker finrand has prevented a large scale slide in share prices on the Johannesburg Stock Exchange as both local and foreign investors remained on the sideline ahead of the referendum.

The drop in the JSE's overall index was limited yesterday as the weaker finrand offset the impact of the sharp fall in the gold price to its lowest level since September last year.

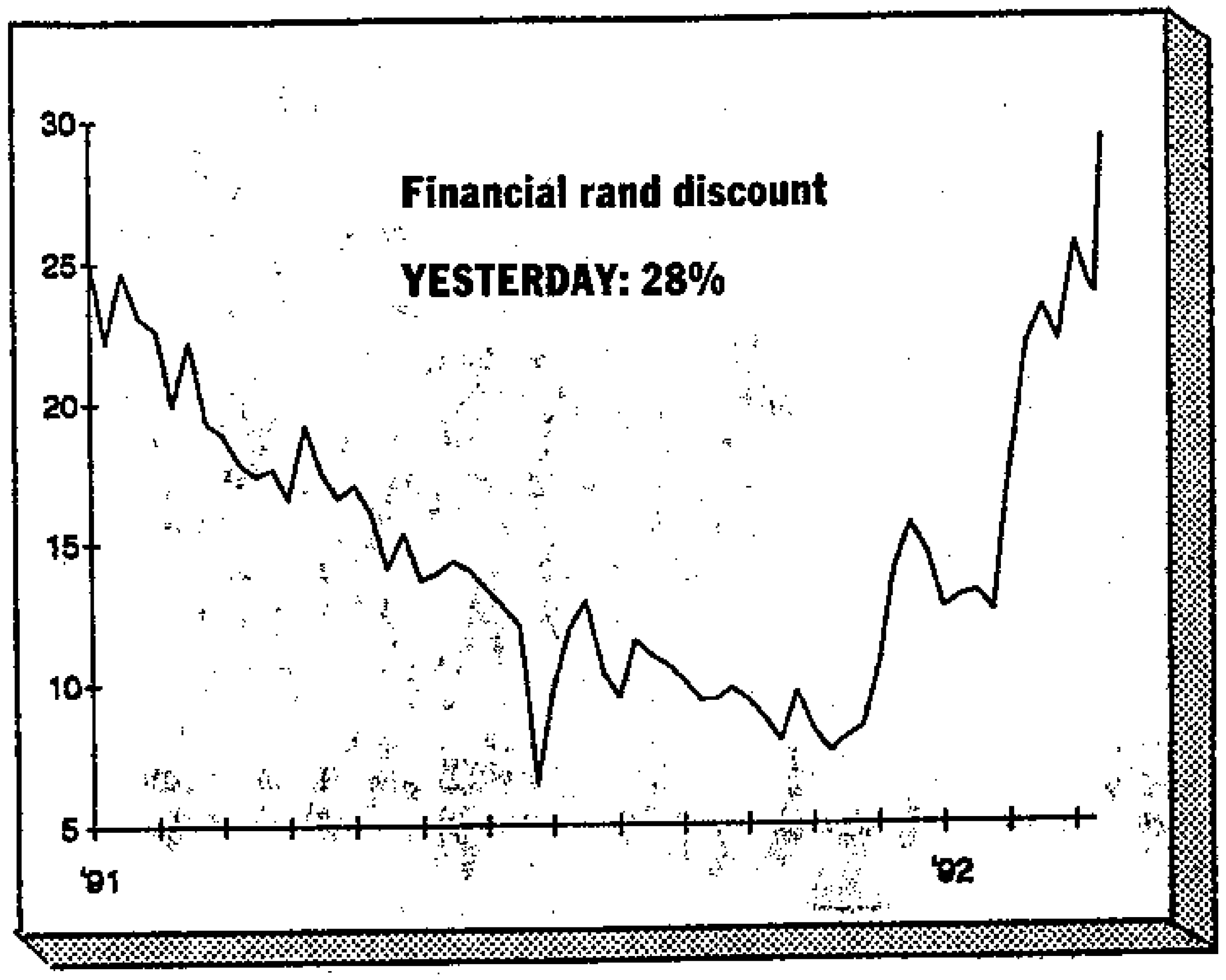
Gold was fixed in London at $343 yesterday afternoon, a decrease of $4,25 on last week's closing level, reflecting a stronger US dollar.

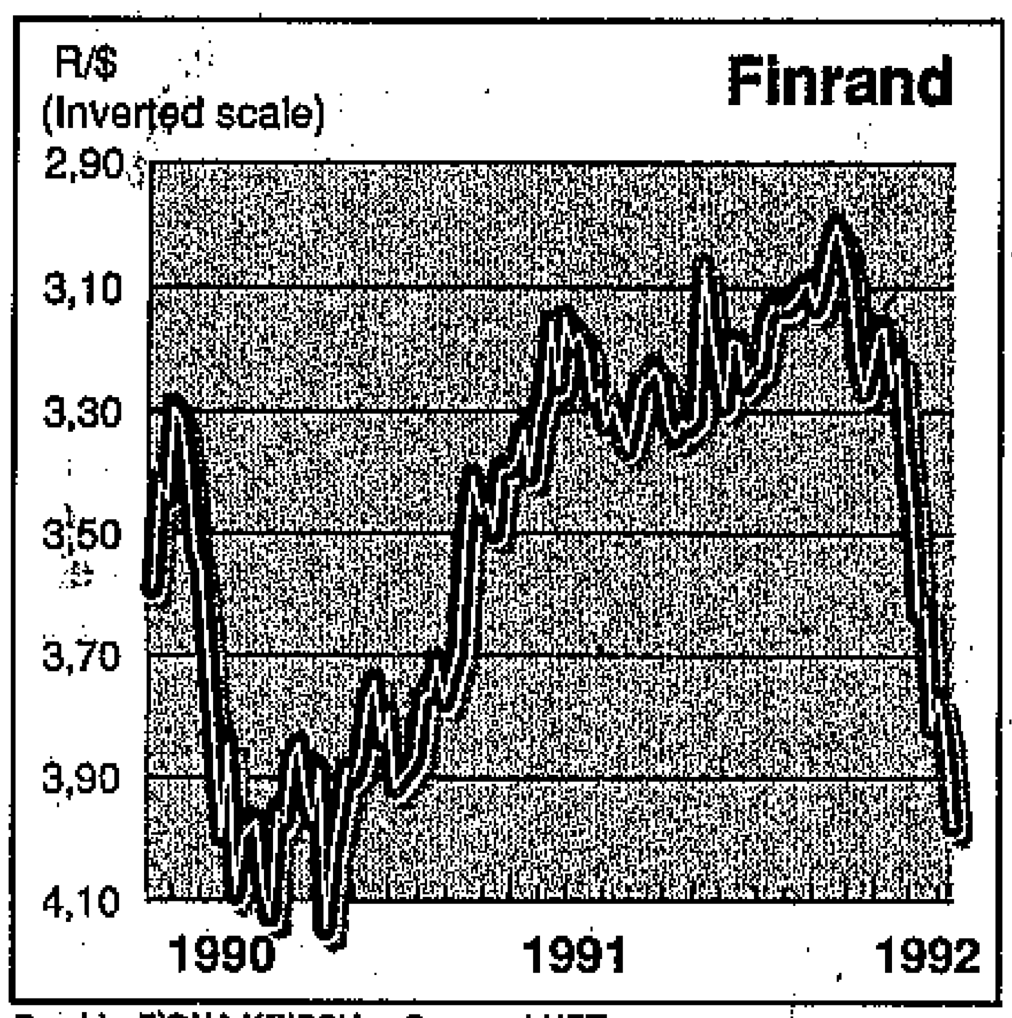
Davis Borkum Hare (DBH) economist Jos Gerson expects a sharp narrowing in the financial rand discount if the 'Yes' vote prevails today.

"The same, however, does not necessarily apply to local investors on the JSE, as a recovery in the finrand will dampen any recovery in local share prices," Mr Gerson writes in the latest DBH newsletter.

Foreign investor selling has also dampened confidence on the capital market with yields to maturity at the long-end of the market rising sharply over the past few weeks.

"The gilt market, however, is sensitive to foreign investor sentiment and for this reason long-dated gilts are a good speculative buy at current yields," Mr Gerson adds.





Graphic: FIONA KRISCH Source: I-NET

Finrand at lowest level in two years

BDay 17/3/92 (74)

SHERIDAN CONNOLLY

NERVOUSNESS ahead of today's referendum saw the financial rand plummet to a two-year low yesterday on the back of large selling orders.

It dropped to a low of R4,00 to the dollar on intra-day trade — its lowest level since April 1990 — before ending at R3,98. The foreign investment unit has weakened persistently since the referendum was announced almost a month ago.

One senior analyst said the finrand had reacted strongly to referendum fever and attributed the 28% depreciation to political and investment uncertainty.

"A 'yes' vote could exacerbate an initial strengthening surge, followed by a consolidation phase. A 'no' vote should lead to further weakening," he said.

Forex dealers said the market was very jittery because of increased fears of a majority "no" vote. "A 'no' vote would be absolutely disastrous and would see the finrand tumble as a result of mass disinvestment," one dealer said.

The feeling in the market was that a "no" vote would result in "economic chaos" and could even lead to a stock market crash. Analysts said a negative outcome would render property ownership, insurance policies and pension funds worthless.

Dealers said market activity had been dull over the past few weeks.

Capital market dealers said in the event of a "no" vote, market rates would increase sharply as a result of disinvestment. Foreigners would dump gilts and the finrand would have to weaken to discourage mass capital outflows.

SA mission for Iran

S Times Buss 8/3/92

74

By ZILLA EFRAT

SAFTO will take a business delegation to Iran, which has had no contact with South Africa.

Safto's first group visited Dubai, Abu Dahbi and Oman where contact was made with Iranian interests.

Safto Middle East area manager Gyfford Fitchat met representatives of the powerful Iranian Bonyad in Dubai and they expressed great interest in SA.

The Bonyad is a State-run organisation which controls most of Iran's industries and came into being after the revolutionary overthrow of the Shah in 1977.

Mr Fitchat says: "These relationships can be developed into major business opportunities for SA."

Iran, with a population of 60-million, is the awakening giant in the Middle East, he says.

It was a sophisticated consumer market before the revolution and war with Iraq. The Iranian Government is re-constructing the country.

The best way to enter the Iranian market, as well as other Arab countries, is through Dubai, the Middle East's major trade centre.

Mr Fitchat says SA's trade with Arab countries is taking off even though Arab League sanctions against SA have not been lifted.

SA fruits are freely sold in the region and delegates on Safto's mission savoured grapes from "the Highlands of Swaziland".

In a first for SA industry, an official invitation has been received from the Muscat International Fair in Oman in October.

Mr Fitchat says the Oman International Bank has established relations with Bankor. Other banks are keen on ties with SA.

Overseas bond holders can only wait and hope

STAR 18/3/92. (74)

By Neil Behrmann

LONDON — International holders of South African bonds and equities are biting their nails.

Acute uncertainty surrounding the referendum has driven long-term SA Government and para-statal bond yields on foreign markets to around 22 percent, the highest level in 18 months.

The yields are high because the weak financial rand has dragged down SA bonds and equities on foreign markets.

They are trading at a steep discount of around 26 percent to their Johannesburg quotations.

International traders and investors are so nervous about South Africa's political future that SA bond yields on foreign markets are far higher than speculative Latin American bonds, which are trading on yields of 10 to 20 percent.

Mexican bonds, for example, are yielding 14,5 percent.

Top-grade long US Treasury bonds are yielding around eight percent and short-term dollar paper only 4,25 percent.

South African gold stocks on foreign markets are down 38 percent from their 12-month highs of the middle of last year and quotes for foreigners are back to levels last seen in the mid-Seventies.

Shares of De Beers, South Africa's main international stock, are down 27 percent since the third quarter last year.

Intentions of foreign investors in SA securities are extremely important.

Brokers and money managers estimate that roughly 25 percent of South African-Government rand-denominated bonds and around 42 percent of Eskom bonds are owned by foreign investors, mainly in Germany and Switzerland.

If the referendum vote is negative, many holders, who are already losing, may bail out.

Their selling would push long-term bond yields skywards on the domestic market and South Africa would be crippled by punitive long-term interest rates.

Political play

Any government would find it extremely expensive to finance spending.

A positive outcome, on the other hand, would encourage foreign purchases of bonds and help the Government finance expansion.

A Wall Street Journal feature says the referendum offers "gutsy" foreign investors a pure political play.

If President FW de Klerk wins, South African securities should rally.

Moreover, as the country moves rapidly towards an interim non-racial government, its securities will become more acceptable to US and other countries' fund managers, many of whom still are prohibited from investing in SA.

On the other hand, a negative vote will lead to renewed racial conflict, sanctions and isolation, a brew that will send stocks, bonds and the rand into a tailspin.

The newspaper thus cautions its readers that high-yielding South African securities are "speculative" and are "not for the faint-hearted".

It recalls that within hours of the referendum announcement, South African stocks and bonds tumbled and the financial rand plummeted.

The combination shrank the value of foreign investors' South African stocks and bonds by nearly 10 percent.

As behoves the Journal's objective style, analysts quoted in the article are neatly divided between optimists and pessimists.

John Taylor at James Capel in London is nervous, but contends it is the best buying opportunity in a year.

"In the two years since Mr De Klerk began to dismantle apartheid, foreign investors have alternated between euphoria, gloom, euphoria and now gloom once again," says Dana Wakefield of Davis Borkum Hare.

She predicts a sharp recovery in SA securities if voters say yes.

Credit Lyonnais Laing in London expects the finrand discount to narrow to 10 to 15 percent and says investors should buy blue-chip stocks.

But J Mark Mobius, president of Templeton Emerging Markets Fund, thinks South African stocks are too expensive.

Gold shares

By contrast, John van Eck, chairman and president of Van Eck Associates in New York, thinks the referendum jitters offer a great opportunity to accumulate gold mining shares.

"Everybody thinks South Africa is going to go to hell, we don't see that."

Others aren't so sure. Richard Gray, a director of bond research at UBS Phillips & Drew Research, is wary of SA bonds because inflation is high and government spending must rise to meet black aspirations.

"Betting on a de Klerk victory is a perfectly reasonable trading stance for a speculator, but not necessarily an investment recommendation," says Jeremy Archer, a senior investment analyst at Lombard Odier Investment Management Services in London.

"Whatever happens, economic recovery and political rehabilitation are going to be a drawn-out process," he cautions.

Anti-dumping Bill is just another sop to protectionism

B/Day 18/3/92 **ROBIN BOSOMWORTH** 74

AS POLITICAL and social liberalisation forges ahead, economic liberalisation seems stuck in the mud — even sliding backwards. Before Parliament is a Bill restructuring the Board of Trade and strengthening so-called "anti-dumping legislation". That big business is pushing through this legislation and helping define it should give cause for concern.

The Bill reflects the very views of those parties that have captured the price mechanism, control the resources and run the monopolies and de facto cartels that "riddle" the economy. With impunity, they hike prices, divide up the market and keep the economy internationally uncompetitive. Invariably, they owe their narrow, exclusive and privileged positions to regulation or protectionism, and shout for more.

Without protectionism, their bubble would burst and domestic competition, greater global competitiveness, growth and improved balance of trade would take place. Remove the causes of the distortions, and prices will find their own level — "stagflation" will disappear and opportunity will return to the economy.

For too long, SA has politically, socially, and economically been overregulated, overprotected, overinterfered with, and overlegislated by government in the interests of some paternalistic cause. Now emerging from the system is a serious piece of protectionist legislation — not merely an anti-dumping clause, as covered in GATT. By international standards it is blatantly protectionist and unacceptable to GATT — despite SA's economic decline and pleas of poverty.

The basis of the legislation is poor — the dirt "in others' backyard", when our own is worse. Apart from inviting retaliation, we should consider our own needs and "protect" ourselves from our own folly. The effective import price landed in relation to world prices is a better basis than meaningless fob. values and subjective prices elsewhere.

The legislation is an exercise in double standards considering SA's two-tier pricing structures on everything. Everything exported, that is mined, manufactured or grown in SA is therefore "dumped" in terms of the new definitions. Be it minerals, plastics, steel, paper, agricultural products, food, textiles, or whatever, the domestic price is always higher than prices to the outside world — and protectionism is to blame.

Why then such blatant hypocrisy? Is the proposed legislation intended as a replacement of the now discredited formula duty system — a product of the same stable? A sop to big business, as we lower tariffs in line with world trends and GATT? Or is it a "safeguard" being manipulated into something more sinister — without allowing consumer input and the ascribing of "rights" to balance it? Why is it being rushed through with so little time for comment?

Without balances, controls and checks, the legislation is loaded in favour of the applicant. The onus is on the importer to prove his innocence after he has been provisionally penalised. The system clearly encourages harassment, manipulation and the orchestration of issues, irrespective of the integrity of the adjudicators. Who can stand up to the Iscors of this world at this newly reconstructed board?

Iscor is a prime mover and architect of this hurried piece of legislated double standards, and for good reason. That Iscor "dumps" 47% of its production into world markets and makes all its profits from domestic sales, at prices 40%-50% higher, says everything. It explains why "dumping" is only what other people do, while two-tier pricing structures are legitimised at home. Imports that undermine "orderly marketing" by the Rolled Steel Producers Association, must, by definition be "disruptive competition", if the logic, being foisted on us, is to be followed through.

The ability to import is essential for economic health, for domestic competition and the international competitiveness of industry as a whole. Too much protectionism for too long has led to the "capturing" of the economy and the "administration" of inflation.

Liberalisation of trade and investment is the only way out. The legislation impinges on this ability, defining what "dumping" is in all-encompassing terms without clarifying what "dumping" is not. The import of steel at prices marginally higher than Iscor export prices, but less than list prices, is "dumping", according to Iscor. The previous Minister could not answer the question, and we do not know.

Trade and Industry Minister Derek Keys, as former chairman of Gencor, should understand the question of two-tier pricing on paper, and why Wilbur Smith books are printed elsewhere — where SA paper is cheaper. The issues of trade reform and the IDC report are not that complex. They merely need a decision.

Protectionism is at the heart of our industrial and economic policy and is at the root of our economic ills. One of the richest countries per capita in terms of mineral resources, SA has rendered itself sterile behind industrial policies which ran out of steam in the '70s and have to be propped up by protectionism at the expense of economic development.

Protectionism is the reason why beneficiation never gets past the primary stage. Export prices on materials are rarely available to local industry for adding value. The manufacture of a washing machine for world markets would be an exercise in futility, as you can buy all the components cheaper elsewhere. Importing components for adding value and re-export would be an administrative nightmare. The Customs Act sees to that.

Protectionism is an interference, a distortion and a tax. It redistributes resources and opportunity at the expense of others. It encourages inefficiency, exploitation and privilege to those who bleat the loudest — it creates a narrow, exclusive and concentrated privilege for the few. When protectionism becomes a business, the system is corrupt. No system is better than a bad one and that is why free markets succeed. It is no paradox that protectionism leads to industrial decline.

Internationally, economies are moving from interventionism and towards large trading blocs, capable of generating their own internal competition. Liberal trade reforms are taking place across the world, despite the setbacks of GATT. Free-market Europe is reaching 25% of world GNP as countries scramble to achieve a higher standard of living.

The legislation has to address certain fundamental issues on which government is tardy to answer.

What are we going to do about trade reform? Without access to world prices on raw materials there can be no future for the manufacturing sector, for jobs, the balance of payments and the problem of "stagflation". Becoming internationally competitive is the only way out, otherwise we will continue to exchange our raw materials for finished goods, to the benefit of our competitors — and continue to be ripped off domestically by the monopolies and de facto cartels that have captured the price mechanisms. High interest rates will continue to kill off the small competitive sector, and the economy as a whole, without achieving its goals.

Go to Mauritius and see a country that is booming at 7%-8% a year. They are now fully employed and have to import labour. They have a booming textile and clothing industry that lives in harmony. They threw out protectionism in 1983 and have not looked back since.

The SA legislation should be rejected as it now stands. It reflects how things go wrong and why, and there are no safeguards for the individual. Without protecting the individual, society as a whole is not protected.

☐ **Bosomworth is chairman of the Independent Wire Converters' Association, which defeated Iscor's application through the Rolled Steel Producers' Association for increased anti-dumping protection on wire rods.**

Most finrand dealing suspended

(74) B/Day 18/3/92

SHERIDAN CONNOLLY

MOST major financial institutions have suspended trade in the financial rand until the final results of the referendum are made known later today.

Almost all leading institutions, except Standard Bank, confirmed yesterday they would curtail trade. Dealers said the decision had been taken in order to prevent the unit from being "hit" each time one of the 15 regions announced results.

I-Net reports that Standard Bank Treasury GM Willie Potgieter yesterday slammed the move and said the bank would attempt to make a market in spite of the absence of other players. Local banks claiming to be market makers should continue trade because the referendum was not enough reason to suspend trade, Potgieter said.

UAL senior dealer Graham Clunie said his institution would halt trade as a precautionary measure. UAL had advised its clients to complete transactions today.

Absa said it would also suspend trade. Finansbank said it would limit activity, but would do business where possible.

Finrand trading was volatile yesterday and dealers said demand in the first two days of the week had far outstripped demand in the past two weeks. There had been strong levels of foreign buying, but it had been offset by a large sell order.

Dealers said there was extremely good

□ To Page 2

Finrand

B/Day 18/3/92 (74)

□ From Page 1

demand for finrands out of London, Zurich and Hong Kong, as well as some position squaring ahead of referendum results.

The finrand ended yesterday at R3,97 a dollar, marginally stronger than its Monday close of R3,98. The commercial rand also finished stronger at R2,8828 a dollar compared with Monday's close of R2,8903.

Bullish sentiment in the capital market pushed rates down yesterday with the market confident of a majority "yes" vote.

The turnout at the polls yesterday fuelled optimism in the market, one dealer said. There was fairly strong demand for the government RSA stock.

The gap between the long-term RSA 150 and the Eskom 168 bond had narrowed to about 18 points from a previous differential of about 55 points, dealers said. The RSA 150 closed yesterday at 16,47% from Monday's 16,54%, while the Eskom 168 finished at 16,29%, down from 16,34%.

Major boost expected from foreign trade (74)

STAR 19/3/92

By Sven Lunsche

CAPE TOWN — Improving foreign trade relations will be the major contributor to an expected one percent rise in economic growth this year, Finance Minister Barend du Plessis said yesterday.

Delivering his Budget for the 1992/3 fiscal year in Parliament, Mr du Plessis said the lifting of sanctions and a moderate international economic revival would impact favourably on exports in 1992.

"These developments could lead to a surplus of R4 billion yod R5 billion on the current account of the balance of payments," he said.

This was considerably more than SA's foreign debt payments of R3 billion under the debt rescheduling agreement in 1992 and would contribute to a stronger foreign reserve position, he said.

Last year, a 4,5 percent increase in export prices and a 3,5 percent rise in export volumes lifted the current account to a R7,4 billion surplus.

The current account also showed a sharply rising trend in 1991, going from R1,5 billion in the first quarter to a record R12,3 billion in the fourth, Mr du Plessis said.

On the capital account of the balance of payments, a large net outflow of R6,1 billion was recorded last year, which was, however, largely linked to the abolition of the preferential rate on forward cover.

"Notwithstanding the larger net capital outflow in 1991, net gold and foreign reserves increased by R1,4 billion, bringing the total increase in net reserves since 1990 to R4,3 billion," he said.

Mr du Plessis said SA had repaid $360 million of foreign debt last year, while a further $350 million of the affected debt had been converted into financial rands for share investments.

He estimated that at the end of 1991 SA's total debt within the debt standstill net amounted to $5,5 billion, of which $1,5 billion would have to be repaid by the end of 1993 in terms of the third debt standstill agreement with foreign creditor banks.

"We hope to speed up the normalisation of our foreign financial relations, so that a final agreement may be made with overseas creditors in 1993."

Mr du Plessis said his department had compiled a foreign loan programme so that SA could on occasions raise capital on overseas markets.

In terms of the programme SA would also seek to refinance R1,1 billion of debts on the German capital market this year through the issue of new funds.

Looking back at the poor economic performance of the past three years Mr du Plessis said the absence of large-scale investments had played a major role in this trend.

"Violence, social unrest, industrial strikes and stayaways in an environment of important constitutional changes create a climate of uncertainty that will hardly promote long-term economic development and new investment."

In 1991, real capital expenditure fell by 8,5 percent, both in the private and the public sector, but Mr du Plessis predicted that there were certain positive factors which were supportive of renewed investment this year.

These included the lifting of sanctions, investment by multi-national corporations, the sale of funds from the strategic oil supply and private-sector capital projects.

On the other hand, Mr du Plessis said a slight or even no improvement in private consumption expenditure (PCE) was foreseen as a result of lower increases in salaries and wages and lower company profits. Last year PCE showed virtually no growth.

On balance, therefore, he predicted only a moderate revival in the domestic economy, with a growth rate in gross domestic product (GDP) of one percent forecast.

Tax incentives to encourage exports

74

LINDA ENSOR

CAPE TOWN — Tax incentives to promote the beneficiation of imported raw materials and intermediate products for export markets were announced by Trade and Industry Minister Derek Keys yesterday.

The announcement followed the statement by Finance Minister Barend du Plessis during his Budget speech that the parameters of the special accelerated deductions under Section 37E of the Income Tax Act would be widened. Du Plessis said this move could act as a significant further incentive for private investment and exports, particularly in the mineral processing and beneficiation industry.

Keys said the proposed amendment taken together with other changes to the section would encourage new investment in a greater number of large-scale capital projects. B/Day 19/3/92

Keys said Section 37E would be retrospectively amended with effect from yesterday to broaden the definition of beneficiation to provide for the inclusion of local and imported raw materials and intermediate products.

Section 37E provides for the accelerated deduction of the expenditure on qualifying plant and machinery, buildings and preproduction interest on cost. Its primary aim, a statement says, is to help investors bridge start-up costs. Negotiable tax credit certificates are issued in cases where deductions cannot be written off against income immediately.

Previously, the section — which was introduced as a temporary measure in September 1991 — stated that only beneficia-

☐ To Page 2

Exports

B/Day 19/3/92 (74)

☐ From Page 1

tion projects which used locally sourced base minerals and intermediate products qualified for the tax incentive.

The amendment broadens the scope of the measure to include all raw materials intended for beneficiation instead of being limited to base minerals.

Keys said the section would also be amended to require that the beneficiation process add at least 35% to the value of the raw material. The calculation of the value added would be based on a new formula announced in the amendments.

It is still necessary for qualifying projects to be internationally competitive and to export more than 60% of their output.

The proposed amendment also required that in approving a process as a beneficiation process, a specially appointed committee had to examine the degree to which the production of an intermediate product encouraged further processing of the product in SA, its effect on the Exchequer and on small and medium enterprises.

● See Page 9

SA to seek lasting credit arrangement

Own Correspondent

CAPE TOWN — An attempt would be made to secure final and more permanent arrangements with SA's creditors before the present debt arrangements lapsed, Finance Minister Barend du Plessis said.

He said it was estimated the total debt still within the net at the end of last year amounted to about $5,5bn compared with the total affected debt of $13,6bn at the end of August 1985. Bday 19/3/92

At the end of the Third Interim Debt Agreement on December 31 1993 the total affected debt at current exchange rates should be between $4,5bn and $5bn.

A moderate international revival with a slight increase in international commodity prices should impact favourably on the real quantum of SA merchandise exports. These exports had performed reasonably well in 1991 despite a decline in international economic growth and poor commodity prices and would be further strengthened by the gradual lifting of trade and financial sanctions.

However, these positive trends would be partly neutralised by the unfavourable prospects for domestic agriculture.

SA's commitments regarding the repayment of foreign loans with a fixed period, and obligations to redeem capital under the Third Interim Debt Arrangements Agreement, amount to less than R3bn.

Govt acts to boost consumption

Hire purchase restrictions to be relaxed

B/Day 20/3/92

(74)

BILLY PADDOCK, SIMON WILLSON and LINDA ENSOR

CAPE TOWN — Hire-purchase restrictions will be eased next week, says Finance director-general Gerhard Croeser.

Yesterday, Trade, Industry and Economic Co-ordination Minister Derek Keys also said measures to stimulate consumption in the economy would be announced next week.

Keys declined to detail the measures, but intimated that one would originate in his department. His reluctance to specify any other stimulus left open the possibility that a cut in official interest rates has been agreed with the Reserve Bank.

Croeser, speaking at the Old Mutual/Nedbank Budget forum yesterday, said the new HP conditions would be gazetted next Friday.

Minimum deposits on cars would drop to 10% (15%) and the maximum repayment period would be lengthened to 54 months (42 months). Minimum deposits for furniture would fall to 10% (12%) but the repayment period would remain at 24 months. Minimum deposits on imported white goods would also drop to 10% (12%).

Keys, responding in an interview to criticisms that the Budget did not do enough to stimulate growth in an economy still experiencing its longest post-war recession, said: "By next week it will be apparent the Budget isn't the whole story."

He said government was watching the economy's consumption levels more closely than its investment flows, and that consumption was more important and easier to monitor than investment.

On the Budget being devoid of economic incentives to foreign investment at a time when political obstacles were falling away, he said there was no reason to give foreign investors an advantage over local investors.

"I don't think I could ever justify giving the foreign investor a special deal that the SA investor could not get. We are not in a position to compete for the truly mobile international investor who will go to places like Ireland, which is much closer and has no tax."

SA did not want to compete in that league, he said. SA did not want "the marauding investors", such as international textile companies intent on getting out of other countries where they were tied to restrictive agreements. Should they come to SA the same measures would have to apply to prevent their opportunist practices.

Foreign investors would come into the SA market when they wanted to. "I am in possession of a great truth: when they want to come in, they will come in on their own terms. They will negotiate with us and we will do business."

Foreign companies "would come in their droves" once SA had the conditions where local companies were investing more concertedly.

Keys said there would be no new incentives to stimulate local export industry, beyond that announced on Budget day, because local industry was operating at below capacity and there was no need for

☐ To Page 2

HP restrictions

B/Da 20/3/92

☐ From Page 1

(74)

encouragement and enticements. Taken with the General Export Incentive Scheme, full VAT input credits and GST scrapped on capital, there was nothing more government could do.

The Budget was exactly the sort needed at the bottom of a recession and the large deficit was necessary at this stage. The deficit would not have been allowed had there been any pressure or difficulty in access to capital, he said.

He said the state was at this stage not involved in talks about an economic forum because this would have to come through Codesa. But some business and employed labour were involved with talks.

Once an interim government had been established, a triangular arrangement for talks would get off the ground formally. At the interim government stage economic policy would become the number one priority. It would be critical to come to some arrangement about labour, linking wage increases with productivity and generally stabilising increasing wage demands.

Keys said deregulation was proceeding but government could change things only at a primary level. As soon as this was done, second- and third-tier authorities jumped in to re-regulate.

He said there was a great "head of steam" behind the Industrial Development Corporation report on tariff protection when he arrived in office, "but I called a hold on it". He said SA needed an anti-dumping mechanism in place before tariffs were reduced. "If we want to carry deregulation through we have to go for a cultural change deeper than that we have had so far," he said. Five years was too short a period; 10 years was a better goal.

With regard to privatisation, Keys said no one would want to buy the Post Office, Telkom or Spoornet at this stage because they were not yet ready to be bought.

Privatisation was not seen by government as a source of revenue but as a means to stimulate competition. He said the process was going ahead to commercialisation — the halfway stage to privatisation.

● See Page 3
● Comment: Page 10

Money comes pouring in

STimes 22/3/92 (74)

CHARLENE SMITH tots up the cash benefits of Tuesday's referendum

THE final result of the referendum was not even announced when telephones in South African trade missions around the world began ringing with inquiries from potential investors.

Billions of dollars worth of foreign aid and trade are now set to pour into the country. May promises to be a month of wall-to-wall trade delegations from around the world.

Denmark, which only recently lifted trade sanctions against South Africa, has awarded R60-million over the next five years to development.

Its Chamber of Commerce and Federation of Industries believe annual trade between the two countries could exceed R720-million before long.

A 30-member trade delegation will accompany Denmark's Foreign Minister here in April.

America, home to some of the toughest sanctions legislation, announced a R75-million, four-year housing programme, a trade and development programme and export-import bank guarantees.

An aerospace trade mission with 30 members from 18 major corporations, including Westinghouse International and Gulfstream Aerospace arrive in April.

They are "seeking new business partners through distributors, sales representatives and joint ventures, as well as sales".

Canada gave SA just over R12-million in development aid. Foreign Minister Barbara McDougall, who chairs the Commonwealth Foreign Ministers Committee, will discuss with them the easing of further sanctions and will speed up the exchange of trade missions.

Britain is calling for an end to EC trade sanctions. Its largest importer of fresh and canned fruit and wine has lifted restrictions against SA.

Germany has announced it will offer SA a unique development package to help it through the transition, probably by classifying the country as a "developing" nation.

In SA, meanwhile, the tourist industry is predicting a 15 to 30 percent upswing in the R3-billion a year tourist market — after being warned at the recent international tourism fair in Berlin, Germany, that trade would dry up with a "no" vote.

Sheraton Hotels confirmed plans to invest here and Hong Kong investors made known intentions to spend R150-million on hotels.

Close to R100-million in property deals have firmed after the referendum, including a R12,7-million deal with Hong Kong investors.

A major Belgium bank, in a joint venture with a Swiss and French bank, will study opportunities in SA.

IRG Plastics will investigate opportunities here. Forty business leaders led by the Belgian Trade Minister will visit in May.

A marriage between CMB Transport and Safmarine has been taken out of the balance. M-Net's new venture with Filmnet in Europe will also now continue unhindered.

Malaysia confirmed establishing airlinks and said it would consider lifting some sanctions.

A major industrialist will visit in April with the aim of establishing a television manufacturing factory.

Japan's powerful economic federation, the Keidanren, arrives in April with a 30-member delegation. A major Japanese company has launched investigations into mining and beneficiation operations.

These moves could provide a much needed boost to SA's sagging GDP, which relies on trade for 50 percent of its revenue. The positive referendum result boosted competition to pull SA into trading blocs. Italy will use SA as a base for joint ventures in third countries both in the African continent and Eastern Europe.

Portugal will use SA for development projects in Angola — in line with many other countries using SA to assist development in Africa.

SA representative in Mauritius Coen van Wyk said Indian Ocean countries were keen to form an Indian Ocean Rim economic bloc, similar to the highly successful Pacific Rim, which includes Japan, Australia and Hong Kong. It would take in India, East Africa and Kenya.

Nigeria, the first country to congratulate SA this week, is keen, once OAU sanctions are lifted, to include SA in a five-point continental economic power grid.

A major African development agency with links to the World Bank has begun seeking ways to do business with SA.

Graham Chisholm, a trade official at the SA Embassy in London, said since the referendum results were announced "phones haven't stopped ringing in the trade office with queries about increased trade and the establishment of manufacturing facilities in SA".

The walls come tumbling down

(74) S/Times 22/3/92

By CHARLENE SMITH

THE referendum result has brought many remaining sanctions crashing down, further weakening the already tottering international isolation of South Africa.

Indications now are that the European Community could lift the oil embargo as early as next month.

Most governments are still technically holding to the demand that an interim government, a constituent assembly and a new constitution and a democratically elected government are requisites for the complete ending of sanctions.

In reality, many sanctions have already gone.

Here is a checklist:

EUROPEAN COMMUNITY: Still applies a series of sanctions against South Africa approved by the UN General Assembly in 1985, including a ban on oil and arms sales and a freeze on nuclear co-operation.

In November 1990, the EC lifted its ban on new investments in South Africa. On January 27 it lifted an embargo on imports of South African gold coins, iron and steel — the last remaining sanctions taken independently of UN decisions.

The cultural and scientific embargoes are in the process of being lifted. Sports sanctions have been removed in most instances.

Other moves in the last fortnight:

- France lifted its seven-year embargo on South African coal imports last week.
- Denmark lifted trade sanctions on Friday, it is the last EC country to resume trade with South Africa.
- Holland will debate lifting the ban on petroleum products next week.
- German Economics Minister Juergen Moellemann called on Thursday for economic sanctions against South Africa to be lifted.

THE US: Federal sanctions were lifted by President George Bush in terms of Article 3 of the CAAA. However, 24 states and 90 cities retain measures against SA, most relating to non-investment in SA.

"The real problem is," SA embassy councillor, Frik Schoombee said from SA's Washington embassy, "that it is so easy to introduce these measures but it is very difficult to remove them. There are still some local governments in the US that have sanctions against Namibia which had its second independence anniversary this month."

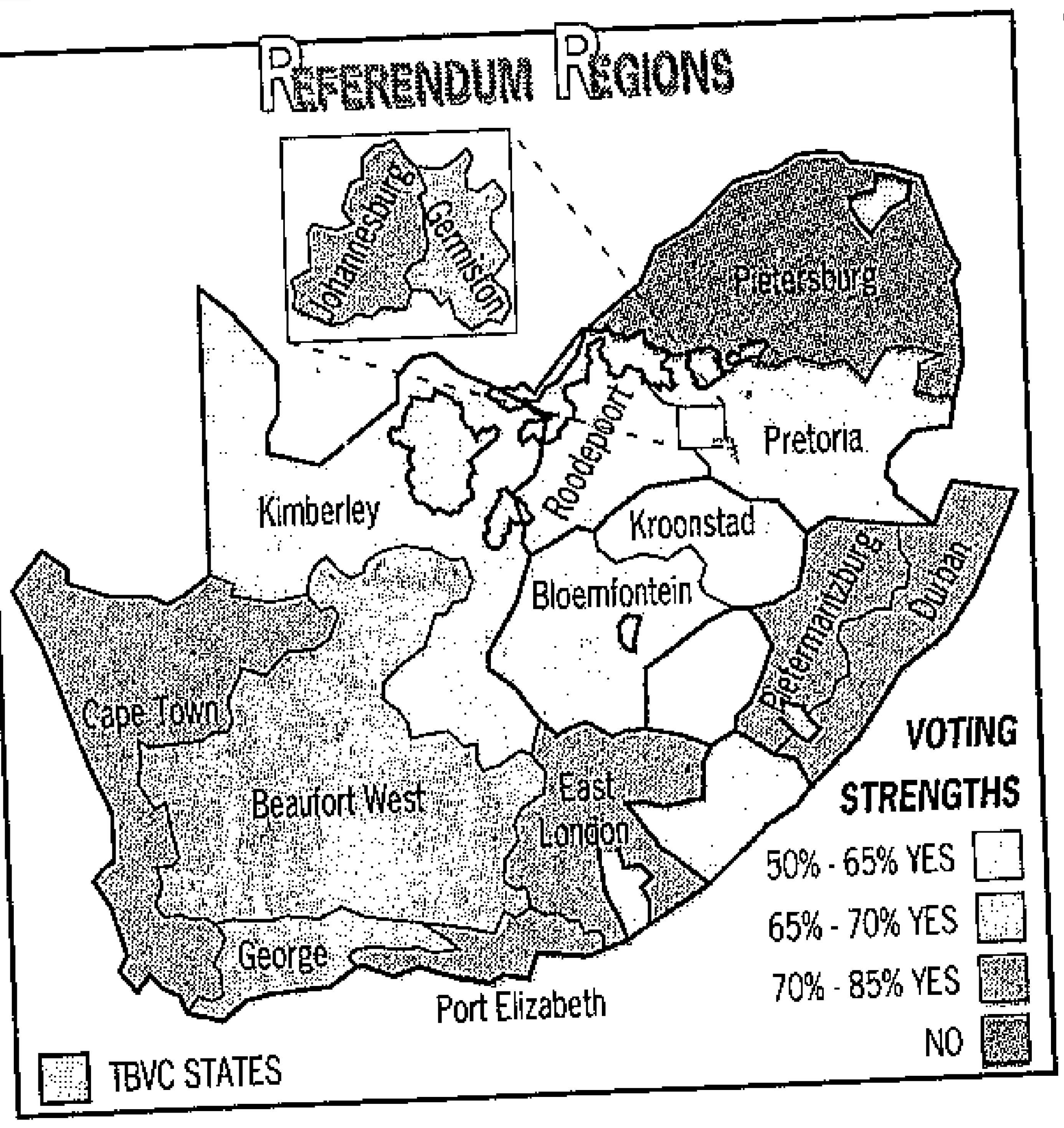
JAPAN has removed all remaining sanctions against South Africa, according to the SA Department of Foreign Affairs.

OAU: The Organisation of African Unity maintains comprehensive sanctions against South Africa, although it now permits neighbouring states to trade with SA.

COMMONWEALTH: The 50 members decided in October last year to lift "people-to-people" sanctions. This has paved the way for the lifting of sports restrictions, direct air links, visa and tourism promotion. But financial, trade and the arms embargoes remain.

Financial sanctions, including lending by organisations such as the International Monetary Fund and World Bank can be lifted only on completion of a new constitution unless Codesa or an interim government requests otherwise.

● See Page 23



THE referendum results have astonished the pollsters even more than the public.

Most analysts estimated the margin of National Party victory to be somewhere in the region of 55 to 60 percent and the turnout between 70 and 75 percent. This was based on surveys which showed many voters were undecided until the last moment. On the day, the turnout was much higher, pushing up the final "yes" vote tally.

The pundits also expected six regions to vote "no". In the event only one did. The 14 other regions voted "yes" by margins ranging from 51 percent to 85 percent.

Donald Simpson and Japie Spoelstra of Potchefstroom have analysed the result and conclude about 20 percent of Conservative Party supporters voted "yes". Ninety-nine percent of DP voters and 98 percent of National Party supporters came out "yes".

A Business

JAPAN-SOUTH AFRICA TRADE RELATIONS

Stability the key to growth

S Times 22/3/92 (BUSS)

(74)

JAPANESE investment could play a decisive role in promoting economic growth in SA.

But irreparable damage has been done to the economy by apartheid, which cost the country billions in lost Japanese investment, says Godfrey Busschau, a Japan expert with Pacific Rim Consultants.

"The Japanese have identified Brazil, southern Africa and mainland China as growth markets. I do not see any investment pouring in here until conditions are more favourable."

Economists say SA's high company tax, high interest and inflation rates, high import tariffs and labour instability scare investors away. Particularly worrying for the Japanese is talk of nationalisation by the ANC.

"Japanese investment will only come to SA when there are signs of political stability and return on investment improves," says Japan expert Simon Organ. This means better incentives, lower company tax and interest rates, inflation under control and labour stability.

Minister of Trade and Industry Derek Keys says the government does not propose to give foreign investors a better deal than that offered to SA investors.

He says: "There are four factors which would have a crucial bearing on any future SA government's trade and investment policies.

Notice

"One, growing internal markets for decades ahead. Two, industrial development for basic internal supply with low tariffs for goods not locally made.

"Three, the need to stimulate exports through world-scale, value-adding plants and the encouragement of exports of manufactured goods, and, four, the benign consequences of our position in the region.

"These factors also constitute the basic reason for taking economic notice of SA, for foreign investors who are not already here to consider the question of entry and for those who are here to look for repositioning of growth."

Japan's consul in SA, Yoshiaki Murakami, says import tariffs as high as 110% on vehicles prohibit their import from Japan, which could substantially reduce the retail price of vehicles in SA. The reduction of import tariffs would not only improve trade between SA and Japan but would promote the transfer of much-needed technology.

The result of SA's protectionist policies, forged in response to international sanctions to keep foreign competition at bay while local industry was given a chance to develop, is high inflation and inefficiency in several key industries such as textiles, footwear and clothing.

In years gone by import substitution was seen as a patriotic endeavour, and the government responded by raising import tariffs more or less on demand

As sanctions crumble, the need to protect inefficient industry is no longer so persuasive as SA moves closer to an accord with GATT (General Agreement on Tariffs and Trade).

Mr Keys told Business Times the government was committed to increasing competitiveness among SA firms.

Appropriate

He says: "Lower tariffs have an important role to play in this process (of increasing competition). SA has made an appropriate offer of lower tariffs as part of the Uruguay round of GATT's negotiations, and these will be implemented over a period once this round is finalised.

"These reductions and any further reductions will be made over a period and in consultation with the businesses affected by them so as to minimise any adverse effects on employment or market disruption."

An issue frequently raised by foreign investors is the gradual decline in gross domestic fixed investment (GDFI). Why, they ask, should they invest in SA when local investors are scaling down their investment?

Financial institutions place the bulk of their cash flows in the financial markets and property rather than into greenfields developments which would create job opportunities and economic growth.

Mr Keys says the decline in GDFI is a response to infrastructural overcapacity in the public-sector fields of electricity and transport, while investments undertaken for strategic reasons during SA's period of isolation are coming to an end. He says the private sector is cautious as it re-orients itself in the direction of reintegration into the world economy.

To attract local and foreign investment, Mr Keys says, existing incentives such as accelerated tax write-offs for export-oriented minerals beneficiation are sufficient to encourage new investment.

"There are large projects in planning in the private sector which are based on the current level of incentives, and the government will be monitoring the quantum of investment activity closely before deciding on further action."

Mr Organ says Japan can play a vital role as educator, partner and banker to SA business.

"Japan is interested in the growing African markets. Its decision to drop sanctions should be identified as a sign of confidence, not in the current policies and socio-political situation, but rather in the long-term future of the country. SA, therefore, needs to adopt an extended time-frame of reference when dealing with Japan."

DEREK KEYS ... 'no better deal for foreigners'

Safto overseas campaign after 'yes' wins the day

(74) • 30451

S/Times (Buss) 22/3/92

By ZILLA EFRAT

SAFTO is set to embark on a highly visible campaign to promote South Africa abroad after this week's resounding "yes" vote.

It is involved in discussions with the Departments of Trade and Industry and Foreign Affairs regarding the campaign.

Part of the campaign will involve national SA displays in central areas targeting whole regions like the Middle East or south-east Asia, says Safto international division manager David Graham.

These across-the-board displays will promote SA's trade, tourism, investment opportunities and financial and services industries.

Mr Graham says: "The time has come to put SA back on the map just as our cricketers have put us back on the sporting map.

"There were always clouds hanging over SA's future before the referendum, which made South Africans hesitant to promote themselves overseas. During the period of our isolation our competitor countries have made tremendous progress in developing their exports."

The referendum had done much to change the perceptions of SA abroad, and the world was now ready to look at SA as a supplier. But after so many years in the cold, a highly visible promotion campaign was required to market SA as a reputable producer.

One company that will be proudly flying the SA flag after this week's "yes" vote is Macadams Manufacturing when it exhibits at the Iba '92 international bakery trade fair in Berlin in May.

Managing director Raimund Pouliart says that in the past Macadams had hidden its SA identity when it exhibited, and its last participation at this fair, held every four years, was threatened with a boycott.

The company had planned to cancel its participation if there had been a "no" vote. Instead it will now be serving SA wines and beers, and feature pictures of the Cape and a large protea display at its stand this year.

Times Feature

Sumitomo — example of a world giant

S1Times(BUSS) 22/3/92 74

ONE WAY for SA companies to gain quick access to the Japanese market is through one of several trading houses operating in SA.

The bulk of trade between Japan and SA is handled by the "Big Six" trading houses: Mitsui, Sumitomo, Mitsubishi, Marubeni, C-Itoh and Nissho-Iwai.

The Japanese trading house is a concept unique to Japan, where regional offices all over the world source raw materials for various industries while marketing manufactured goods on behalf of Japanese and other countries' manufacturers.

Sumitomo Corporation, started 400 years ago while William Shakespeare was penning Hamlet's final stanzas, has developed into one of the world's largest industrial, financial and commercial enterprises.

The growth of Sumitomo reflects that of the Japanese economic miracle. Its annual turnover is a gigantic R400-billion, dwarfing the South African economy. It is the second-largest trading house in Japan and a major driving force of the Japanese economy, with annual turnover a little less than 20% of Japan's gross national product.

Yet few people in SA have heard of Sumitomo despite its 25-year presence in SA. Throughout the period it has been a major force in facilitating trade between Japan and SA.

The Johannesburg branch, one of 140 such offices around the world, is headed by Shigefumi (Stan) Noda.

Penetrating

He told Business Times: "We are chiefly involved in importing machinery, manufactured steel products and industrial products from Japan. This accounts for 40% of our business.

"The balance is made up of exports to Japan: minerals such as iron ore, manganese ore, ferro-chrome for our steel industries, and gold and platinum for the jewellery industry and other raw materials.

"Dealing though a trading house is the most efficient way of penetrating the Japanese market. But there is very little in the way of manufactured products that could be exported to Japan. The Japanese market is already very developed in this regard."

Sumitomo was founded by Masatomo Sumitomo, a samurai warrior who renounced his warrior status and entered the Buddhist priesthood. He opened a shop selling books and medicine in the ancient capital of Kyoto. The business was based on the principles of integrity and sound management rather than profit for its own sake.

Accelerated

The company started to take off in 1590 when a family member discovered a technique for extracting silver from crude copper using lead, an innovation that revolutionised the copper industry and prompted the Sumitomo family to enter mining. It became Japan's leading refiner and exporter of copper. The group's growth accelerated after the discovery of a massive copper deposit in Besshi in 1690.

Japan's modernisation started in 1868 when the Meiji Restoration brought an end to feudalism. Sumitomo branched into a range of new enterprises: electrical and chemical industries, warehousing, financing, and machinery production.

Forex market in curious mood

STAR 23/3/92

CAROLE on CURRENCIES

By Carole Mason,
International Economist, Standard Bank

79

Activity in international forex markets in recent days has been of a somewhat curious nature.

Significant fundamental developments in the global arena (which, in more normal circumstances, would be expected to provide ample justification for clear market direction), have been largely ignored and trading has been confined to essentially technical considerations.

Although activity has, as a result, been made more volatile, it has also become highly inconclusive.

Previous inability to push the dollar above Dm1,68 encouraged initial ettempts on the part of traders last week to push the dollar back down.

However, although widespread profit-taking and position adjustments in the dollar occurred, sustained dollar weakness was frustrated by ongoing support for the US currency.

Having thus failed in their immediate objective, markets then began to probe the dollar's upside.

Although this succeeded in establishing a 1992 high for the dollar against the Dm (at Dm1,6840), most other currencies ended up at pretty much the same levels at which they had begun.

In their decision to concentrate on technical developments, a number of important fundamental considerations were largely ignored or, at best, afforded cursory market attention.

News early in the week that the Japanese Nikkei-Dow stock market index had fallen below the crucial 20 000 level, for instance, failed to inspire the widespread yen weakness most analysts had assumed would occur in the event of this support level being broken.

Anticipated forex market concern over stock market developments in Japan is best explained by widespread speculation that many Japanese banks would be in serious default of required capital adequacy ratios should the Nikkei-Dow fall below 20 000, as well as by latent concerns that the potential for renewed international stock market weakness originates in developments in what in recent years has been a highly over-valued Japanese market.

In the event, however, last week's stock market weakness failed to produce the anticipated forex market response and attention was confined to the growing belief that Japanese interest rates would, in part because of development within the stock market, be forced lower.

This view gained even more credence when the government announced a special stimulatory package to encourage greater growth within the Japanese economy.

In similar vein, markets also chose to ignore developments on the precious metals and commodities front, where developments regarding the trend in the gold price, as a particularly noteworthy example, might normally have been expected to elicit some form of response.

The Swiss franc, for instance, was not even remotely affected by the news that the price of bullion had fallen to a six-year low or by widespread expectations that the precious metal could fall even lower.

News of a geo-political nature was also dismissed, with the Dm only displaying vulnerability to negative news from the Commonwealth of Independent States (where the former Soviet Union has been described as being on the edge of an abyss) towards the latter part of last week.

Sterling, too, remained reasonably impervious to news that the British Labour Party had opened up a 5 percent lead over the Tories in what up to now has been an unprecedentedly close race, the lack of sterling response owing perhaps to the growing belief that neither of the two main parties will win an outright victory in the forthcoming general election and that consensus politics will be generated only by coalition government.

Although recent market activity has thus been based on a temporary distraction from underlying market fundamentals, it is not expected that this will continue to be so.

Economic developments remain vital to the fundamental view that the dollar is currently the most attractive of the major currencies, while political developments, too, have the potential to influence near-term market movements, whether directly or indirectly.

Growing market concern at developments in Iraq, for instance, (where the authorities have been given an unofficial deadline for the destruction of all nuclear weapons) combine with ongoing market uncertainty relating to developments in the former Soviet Union to offer the potential of renewed safe-haven buying of the dollar.

Similarly, the possiblity of renewed Allied hostilities with Iraq, could, if successful, be instrumental in shoring up flagging electoral campaigns in both the US and UK, with implications for both the dollar and the pound.

ud

Govt borrowing 'will be easier'

BDay 22/3/92

SHERIDAN CONNOLLY

GOVERNMENT's borrowing requirements for the current financial year would be more easily funded because of SA's return to the international capital market, analysts said at the weekend.

A review of last week's Budget showed government raised roughly R13bn on the domestic capital market in the 1991/92 financial year in addition to the R1,5bn that was raised through foreign loans. The "yes" majority in the reform referendum was welcomed by foreign governments and the positive outcome had boosted chances for renewed access to foreign loans, they added.

In comparison to the R13bn raised last year, "the net amount demanded of the local gilt market (excluding rollovers of redemptions) in the 1992/93 Budget is a mere R2,73bn", said Simpson McKie research team head Peter Trengove Jones.

This assumed minimal utilisation of foreign loans, but a fairly large requirement of R8bn from the Public Investment Commissioners (PIC), Trengove Jones said. "The ownership distribution of government stock is becoming more and more heavily weighted towards the PIC and the proportion of funding reliant on this source is somewhat alarming considering the stated intention of reducing the PIC's exposure to gilt investment," he said.

Trengove Jones said it was likely the funding of the deficit would occur at the shorter end of the yield curve, particularly if money market rates continued to fall. He said the capital market should continue its bullish run and rates should fall a further 10 to 20 points in the short term.

Although it was difficult to isolate the effect of the referendum the market's immediate reaction to the Budget had been positive, Trengove Jones said. Any significant amount of foreign buying would obviously reinforce a downward movement in capital market rates, he added.

Commenting on the Budget, Simpson McKie economist Graham Boyd said the budgeted figures needed to be evaluated in the context of the forecast inflation rate of 14,5%, which was higher than many private sector estimates.

The Treasury had budgeted for a real increase of 2,0% in government expenditure, which was greater than the forecast real economic growth rate of 1,0%, Boyd said. "Unless expenditure by each department is contained exactly within budget, the Budget figure of total expenditure will be exceeded," Boyd said.

Sanctions seem set to stay pending new govt

BIDay 23/3/92 (74)

PATRICK BULGER

A HOST of international sanctions imposed on SA in oil, weapons, investment and trade are likely to remain in place until an interim government is installed.

SA was continuing to lobby for the lifting of sanctions on the basis of last week's referendum result, a Foreign Affairs spokesman said at the weekend.

Although the Danish government was prepared to shift its stance on the basis of the referendum result, at least 120 US city and state sanctions remain.

The Gramm Amendment which technically blocks SA access to IMF funding is still in place, although the US administration said the amendment would not be invoked.

Other sanctions have conditions attached to their dismantling.

The Commonwealth, which lifted person-to-person sanctions at the Commonwealth Heads of Government meeting in Harare in October last year, is demanding the introduction of "transitional mechanisms" before lifting trade and investment sanctions. Government is arguing that Codesa represents a transitional mechanism, but the Commonwealth is holding out for an interim government. Failing this, it awaits a signal from the ANC.

The Commonwealth has agreed that lending by the IMF and World Bank should only be allowed once the text of a new constitution has been agreed upon.

The OAU has adopted a similar stance.

Japan has lifted all sanctions. The Netherlands is discussing lifting sanctions on petroleum products this week, while France has lifted its ban on coal imports.

The UN Security Council arms and oil embargo remain in place with little prospect of that being lifted until majority rule has been introduced.

In public statements Government has played down the effect of sanctions and has refrained from making public appeals to have them lifted. But privately intensive lobbying is being conducted, the Foreign Affairs spokesman said.

The ANC — which has been fundamental in forging a common sanctions position with world bodies — has been insisting that investment sanctions remain until an interim government is installed. It is urging potential investors to prepare for investment, but to hold back for the time being.

Reserve Bank poised to play finrand role

SIMON WILLSON 74

FROM the opening of trading this morning the Reserve Bank will for the first time be ready to intervene in the financial rand market. BDay 23/3/92.

Until now the Bank has confined its foreign exchange market intervention to trading in the commercial rand, leaving the finrand market free to reflect fully any swing in sentiment.

While able to smooth out disruptive volatility in the commercial rand market, the authorities have until today been powerless to prevent wild fluctuations in the finrand which have made trading in the investment unit a particularly hazardous business recently.

Reserve Bank Governor Chris Stals said at the weekend Finance Minister Barend du Plessis had agreed to a Bank proposal that it now intervene in the finrand market in the same way it already does in commercial rand trading.

When the finrand market opens this morning the Bank will be able to buy or sell finrands against US dollars, either through its own dealers or through local banks operating on its behalf.

The Bank's entry into financial rand trading represents a sharp turnaround from its stated position only five months ago. Towards the end of October last year, the financial rand's discount to the commercial rand had slimmed to around 8,5% from more than 25% at the end of 1990, sparking strong rumours that the Bank was dabbling in the market with the objective of unifying the two rates.

But in October last year Stals denied the Bank had intervened to support the finrand, saying it was encouraging that the narrowing in the discount had come about "entirely by market forces" and through improved foreign perceptions of SA.

In the intervening period, however, SA's standing has improved further — especially in view of the decisive pro-reform majority in last week's referendum. Stals said as sanctions were being lifted, "unnecessary exchange control restrictions should also be phased out".

Although the abolition of the finrand is

□ To Page 2

Reserve Bank

BDay 23/3/92. 74

□ From Page 1

not yet being actively planned, it will be that much easier to accomplish once the Bank is able to influence the price of the investment unit.

Stals said the Bank expected to become a net purchaser of finrands, thus reducing the total supply. The Bank's intervention is also expected to bring about a smaller finrand discount to the commercial rand, although there is to be no preconceived target range for the discount.

Since the Bank's intervention will involve trading finrands for dollars, the extent to which the authorities can move the market will be governed by the level of its foreign exchange reserves. The strong, R1,4bn increase in net gold and foreign exchange reserves last year and the further R1,4bn increase in reserves in the first two months of 1992 alone, could also comprise another reason for the Bank's change of policy.

The Bank's main objective in entering the finrand market is greater stability in the finrand/dollar rate. Stals acknowledged the volatility of the rate in the past had discouraged many foreign players from investing in SA equities.

With an eye on what he feels will be the continuing need to tamper with domestic liquidity levels in the months ahead, Stals also noted a by-product of putting reserves to use in official finrand intervention would be that overall liquidity levels could be regulated.

Another facet of the Bank's entry into the finrand market is that it widens the scope foreign creditors already have to withdraw debt frozen in the standstill net. Previously creditors had to convert the debt to finrands and then look for a decent foreign-currency price for their finrands from another non-resident buyer. From today, creditors also have the option of selling finrands to the Reserve Bank for foreign currency — for the right price.

A local finrand dealer said the Bank's entry into the market may make it more liquid, but would not necessarily make it less volatile.

"Now that the Bank has told the finrand market that it aims to be a net purchaser, as soon as he calls we'll tend to think that he's on the bid. This is going to make a lot of players very jumpy about what's going on and we could initially see more volatility rather than less," the dealer said.

He said Reserve Bank would also find it harder in the relatively thin financial rand market to disguise its intervention in the way it does in the larger commercial rand market.

"If I got asked for a price by certain banks in the market, I'd be pretty sure they were acting for the Bank, because they hardly ever deal for their own book."

74

Mauritius to upgrade its ties with SA

STAR 24/3/92

Star Africa Service

PORT LOUIS — The South African referendum result has persuaded the government of Mauritius to open a consulate in Pretoria and to agree to the SA trade mission in Port Louis being upgraded to a similar level.

This will make Mauritius the second African country to open a diplomatic mission in South Africa at a level higher than a trade office.

Malawi has for many years maintained an embassy in Pretoria.

The Mauritian government said the decision was taken in the light of the progress in Codesa and "the massive vote in favour of reform in the March 17 referendum".

The L'Express newspaper said Foreign Minister Paul Berenger was expected to visit SA next month and might be accompanied by opposition leader Navin Ramgoolam. There was no confirmation of this report.

STAR 24/3/92

Pik urges Japan to invest

(74)

TOKYO — Foreign Minister Pik Botha appealed to Japan today for investment to support the transition to a society free of apartheid.

In an earlier meeting with his Japanese counterpart, Michio Watanabe, Mr Botha said the overwhelming victory in the referendum should quell doubts about determination to end institutionalised racism.

"What we need is economic growth. Without economic growth under the new constitution, it wouldn't matter who governs the country," Mr Botha said. — Sapa-AP.

STAR 24/3/92

Pik urges Japan to invest

TOKYO — Foreign Minister Pik Botha appealed to Japan today for investment to support the transition to a society free of apartheid.

In an earlier meeting with his Japanese counterpart, Michio Watanabe, Mr Botha said the overwhelming victory in the referendum should quell doubts about determination to end institutionalised racism.

"What we need is economic growth. Without economic growth under the new constitution, it wouldn't matter who governs the country," Mr Botha said. — Sapa-AP.

74

Finrand intervention hailed

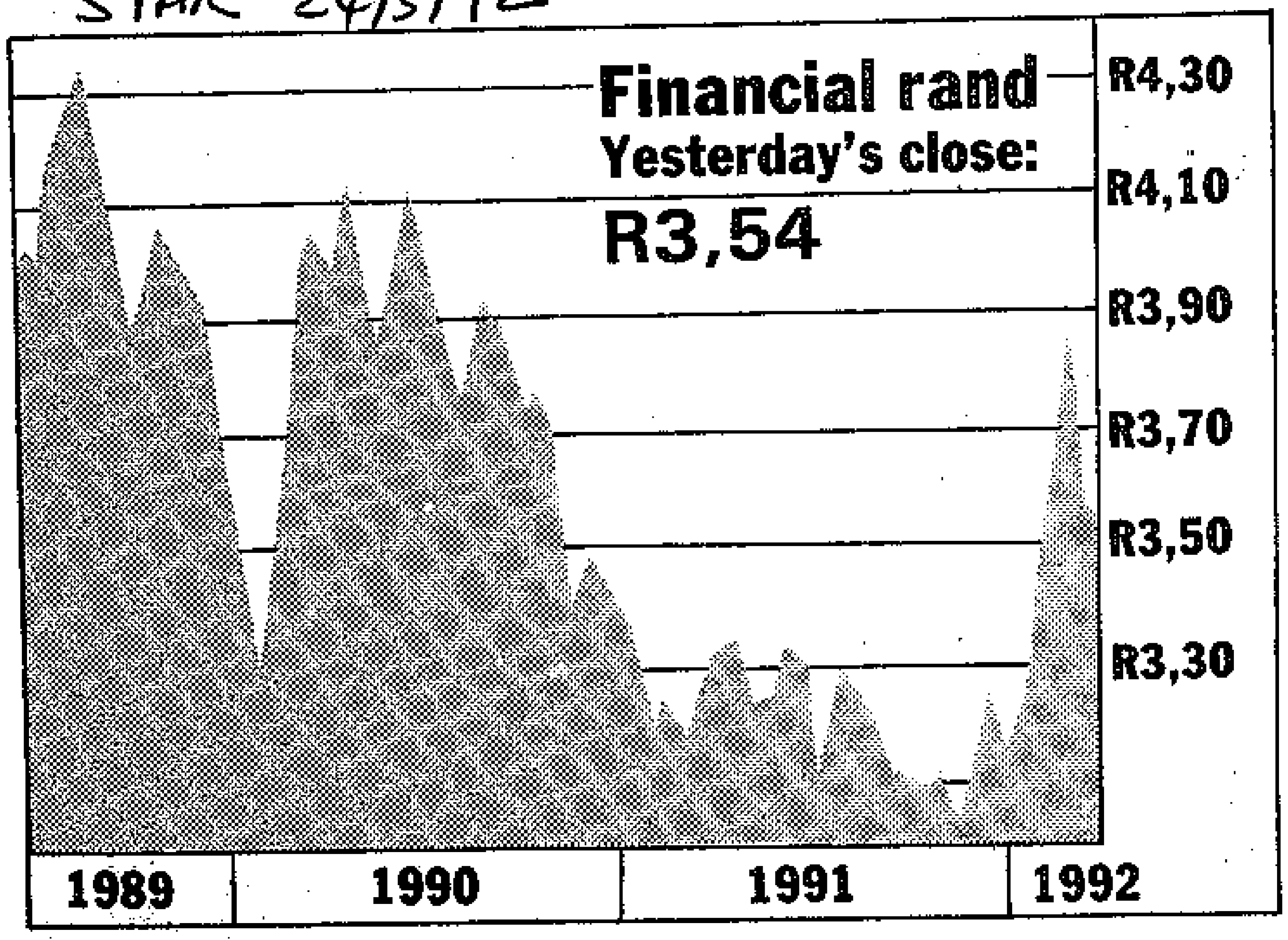
STAR 24/3/92

By Derek Tommey (74)

The Reserve Bank's decision to intervene in the financial rand market is seen partly as a move to reassure foreign investors that they need no longer fear losing large sums of money through currency fluctuations.

It is also seen as a way of creating a better image for South Africa among foreign investors.

In the past few months the sharp movements in the financial rand have resulted in foreign-owned investments violently changing value when measured in foreign currencies.



Investor

This can be seen from the following example:

At the end of last October the financial rand discount was 8,6 percent. Then a foreign investor with investments worth $1 million at the official exchange rate could be assured of selling them for $914 000 through the financial rand.

Last week, when the financial rand discount was 27 percent, the same investments could be sold for only $730 000.

However, following the Reserve Bank's announcement, the financial rand discount last night was back to 17,25 percent, and those assets were worth $827 500.

Having a commercial currency and an investment currency does not help South Africa's image.

It indicates that the country has serious financial problems.

And when the financial discount widens to 27 percent, as it did last week, it indicates serious political problems as well.

It is suspected that Reserve Bank policy, apart from reducing the financial rand discount to stabilise the currency, is probably aimed eventually at eliminating the financial rand altogether.

Mike Brown, economist with broking firm Frankels, said yesterday the Reserve Bank had made it known some time ago that it wanted to intervene in the financial rand market.

He believed the bank could aim to reduce the financial rand discount to around 14 percent in the next few weeks. But it was possible that the discount could narrow more quickly.

Dealers

Gold shares could ease as the financial rand firmed. But he did not believe that this would stop local investors trading in these shares.

Stock exchange dealers said the news that the Reserve Bank was intervening in the FR market should encourage foreign investors to buy the currency.

They knew that the discount was more likely to narrow than to widen and this could give then a substantial exchange profit.

Eskom to launch two new bonds on June 30

SHERIDAN CONNOLLY

ELECTRICITY utility Eskom planned to launch two new bonds on the local capital market on June 30, Eskom treasury manager Willem Kok said yesterday. B|Day

The bonds were first announced last November. 24|3|92

Kok said there would be a bond with a 13,5% coupon, maturing in 2020 with an issue size of R20bn, and a zero coupon bond maturing in 2002 with a R6bn limit.

He said Eskom was still considering a third medium-term bond, but an announcement was only expected in the second half of the year. (74)

Eskom officials also confirmed they had prepared the debut issue of a DM300m (R530m) bond in international capital markets.

The Eurobond should be issued today, to be lead-managed by Germany's Commerzbank.

Analysts said they expected the bond to be well received in light of improved foreign investor confidence following the positive outcome of the March 17 referendum.

A second international bond issue is planned for later this year.

Eskom's Eurobond issue follows the highly successful issue by the Development Bank of SA.

Strong investor demand lifted the bank's issue by 33% to DM200m from an initial DM150m.

Reserve Bank confirms finrand intervention

BDay 24/3/92 (74)

SHERIDAN CONNOLLY

THE finrand firmed yesterday following last week's referendum result and confirmation from the Reserve Bank that it had intervened in the finrand market.

The unit finished at R3,54 to the dollar, off its opening level of R3,51 but stronger than its previous close of R3,58.

Reserve Bank governor Chris Stals confirmed last night that the Bank had intervened in the market yesterday, but "only in small amounts". The Bank would continue to intervene on a regular basis, Stals said.

Some dealers felt the Bank's intervention would stabilise the unit and boost investor confidence, but others said sporadic intervention by the Bank would destabilise the currency and it would no longer be a true indicator of foreign sentiment.

Players were unsure of how and when the Bank would intervene, dealers said.

Finrand dealers said there had been good two-way trade yesterday, with some squaring off by investors. The finrand strengthened to an intraday high of R3,49 before slipping to its closing level.

One dealer said the announcement had come at a bad time. The market had just recovered from anxiety about non-resident tax liability, which had affected investor confidence in the finrand.

The stronger finrand put mining financials and gold shares under pressure as there was confusion over the Bank's impact on finrand trading, dealers said.

Capital market dealers said rates edged up in response to the cut in the Bank rate to 16% from 17%. There was some profit-taking as well as strong overseas buying in the government RSA long stock.

Capital market rates eased last week in response to the overwhelming "yes" vote in the referendum but, because the market had discounted more than a one-point cut in the bank rate, there had been a slight upward correction in market rates yesterday, dealers said.

The benchmark Eskom 168 hardened to 16,14% at the close of trade yesterday compared with its previous close of 16,04%. The government RSA 150 was higher at 16,35% from a previous 16,20%.

In the money market the drop in the bank rate apeared fully discounted as most institutions left their 90-day liquid BA rates unchanged at 15,80%.

Derek Keys to head overseas trade crusade

STAR 25/3/92

(74)

Political Staff

CAPE TOWN — Minister of Trade and Industry and Economic Co-ordination Derek Keys is to lead a trade crusade this year to boost South Africa's business interests in Japan, Germany, Britain, China and Taiwan.

India and Thailand are also being targeted in the drive for business expansion abroad, it emerged in an interview with The Star yesterday.

The former Gencor chief intends promoting South African business interests and products on his wide-ranging trips abroad.

It is understood the ventures have been timed to make the most of the confidence boost South Africa's trade relations received from the referendum result.

The trip to Britain, Germany and other parts of Europe is the result of an invitation by the German government.

The visit to Japan and China is being arranged by his department. He will be accompanied top South African industrialists on this leg.

Mr Keys launches his drive for international trade with the conviction that exports are the key to economic growth and that the Government has a critical role in creating opportunities for businesses and supporting their ventures in foreign markets.

He said: "We are marshalable by South African enterprises. I want people to know that I am open for that."

The initial visits would concentrate on "the groundwork".

But Mr Keys added: "It is important that where South African business starts to get involved in fresh fields, like world exports, they have to have the feeling that they are supported by the Government, to improve their prospects and create opportunities for them."

Citing trade missions by US President George Bush and former British prime minister Margaret Thatcher, he said "most South Africans do not realise the extent to which politicians of other countries (actively promote) their companies".

Confessing that he had "no plan" for the economy, Mr Keys rejected the view that the Government ran the economy.

"It is better for us to attempt to behave according to that truth, than to give the impression that we do run it."

Ideally, the Government's job was to "hold the ring" for the private sector and make it possible to have an economy that offered the "greatest degree of choice".

The Government could help by being "predictable and transparent", banishing uncertainty (and boosting investment) by applying a consistent economic policy and being "transparent in your motives .. so that the private sector can plan in the knowledge that the Government will behave in a certain way".

The Government was keen to make exporting as attractive as possible as a means of attracting investment.

Mr Keys cautioned that achieving a growth rate in the order of 5 percent would require a "remarkable national consensus" between business, labour and the State.

Trade figures show economy is picking up

STAR 25/3/92

74

By Derek Tommey

It is a little too early to say that South Africa is starting to move out of recession.

But the latest trade figures show that businessmen are beginning to regain confidence and have started restocking imported goods.

Presumably this is because they expect conditions to start improving in the coming months.

This expectation could have been stimulated by the continuing strong improvement in exports.

They rose R684,3 million (seven percent) to a record R10,4 billion in the first two months of the year, despite the depressed price of precious metals and other mineral exports, which are SA's major export earners.

The trade balance for the two months to end-February was R2,6 billion, up from R1,9 billion in the same two months last year.

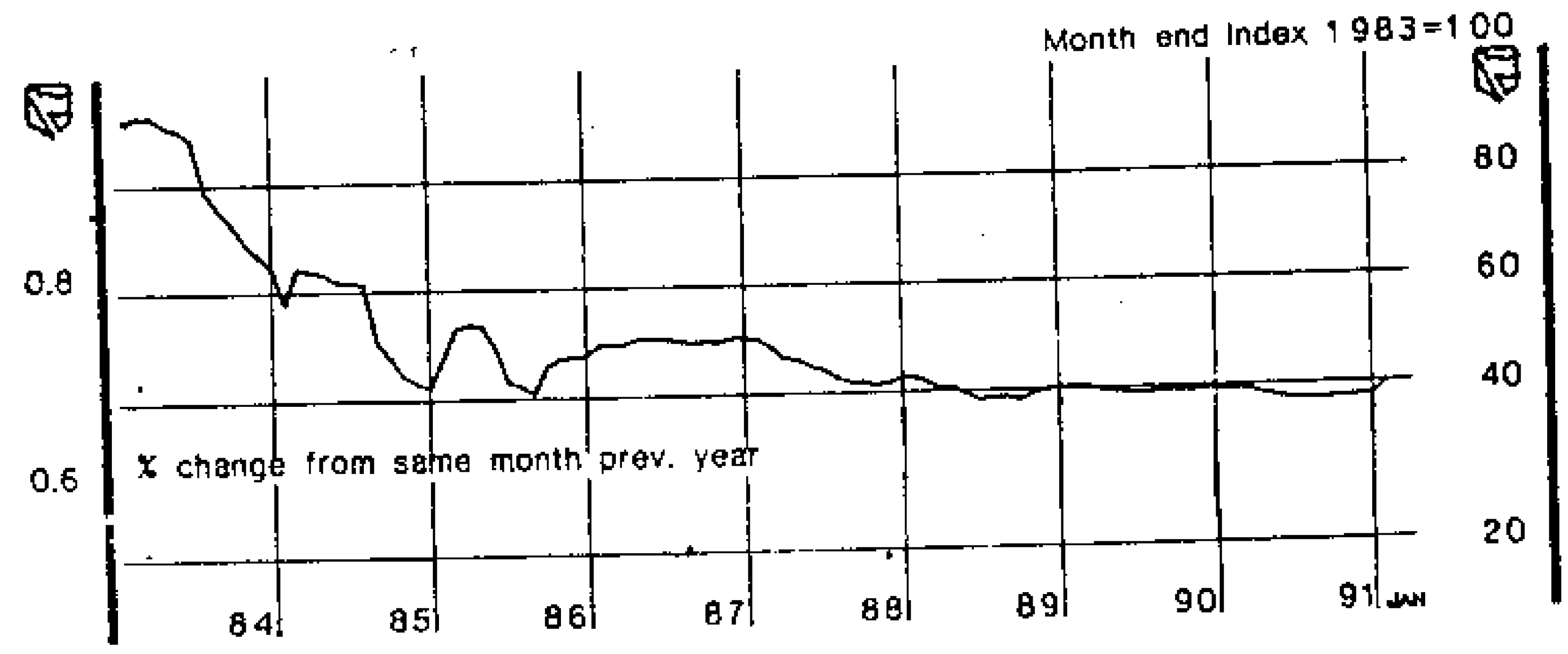
Trade figures show the total imported goods bill for the first two months was R7,8 billion, virtually the same as last year.

But if the apparent sharp drop in oil imports is excluded, a different picture emerges.

It shows that all other imports in the two-month period increased 11,2 percent to R7,06 billion.

Imports of textiles and textile articles rose R85,6 million (23,3 percent) to R452,9 million, while imports of machinery, mechanical appliances, electrical equipment, including TV sets and VCRs, rose R360,4 million (17 percent) to R2,48 billion.

Other significant increases were in miscellaneous manufactured goods (24,6 percent to R85 million), articles of stone, glassware and ceramics (22,7 percent to R103,7 million), prepared foodstuffs and tobacco (27 percent to R195,7 million), live animals (60,9 percent to R43,4 million) and mineral products (22,4 percent to R98,8 million).



The effective exchange rate of the rand against the basket of currencies has remained fairly steady since 1988.

Highlight

The highlight of the export figures is the more than doubling in sales of precious and semi-precious stones and precious metals (not including gold and platinum) from R659,7 million a year ago to R1,37 billion in the first two months of the year.

The probable reason for this huge increase is the start of production at the Venetia diamond mine in the Northern Transvaal.

Until the full plant begins operating later this year, production is from a sampling plant.

Sales of vegetable products soared 45,3 percent from R256,9 million to R373,5 million, partly reflecting the year's huge increase in fruit exports from the Cape.

Sales of chemicals jumped 35,5 percent from R339,4 million to R459,8 million and sales of plastics 43,4 prcent from R72,3 million to R103,4 million as Sasol and AECI expanded their export markets.

But exports of mineral products rose only 3,6 percent to R1,27 billion and exports of base metals fell 9,5 percent to R1,28 billion.

However, this last item should not get too much attention as it represents minerals in transit from Zimbabwe, Zaire and Zambia to SA ports for export.

The figures show that imports of "other unclassified goods" slumped to R740,8 million from R1,45 billion a year earlier.

As oil imports are included in this item, the virtual halving is believed to reflect the switch known to be taking place from imports to the use of strategic reserves.

The increase in exports was foreshadowed by the remarkable R1,4 billion rise in net foreign exchange reserves announced earlier this week which was equal to 1991'sentire increase.

It also gave rise to speculation that SA might have been a large arms exporter in the two-month period.

But exports of "other unclassified goods", including arms, gold and platinum sales, were down 8,2 percent in the first two months at R3,94 billion, against R4,3 billion a year ago — a decline of R369,5 million.

MP: foreign investors still wary

STAR 25/3/92

Statements about nationalisation, incidents of violence and threats to wreck the economy were continuing to frighten off foreign investors from South Africa, Deputy Minister of Trade and Industry David Graaff said yesterday.

In a debate on a private member's motion on the economy proposed by Brian Goodall (DP Edenvale), he said that in the next decade South Africa would have to compete with about 106 other countries for scarce surplus capital.

Conditions for loans would be determined solely by the lenders, and political stability would be a major priority for foreign lenders and investors.

One of the megatrends in the next century would be the shift towards free-market, democratically governed societies. Three major trading blocs — Japan, Europe and the US — would dominate the world economy.

South Africa would have to determine how it would adapt to this new world.

Douglas Gibson (DP Yeoville) said all major players should reach consensus on economic policy to be followed by the present Government, by a transitional authority and by a democratically elected government in the long term.

Melt Hamman (NP Ceres) said South Africa should take part fully in the process of technological innovation.

Dr Pieter Gous (CP Parys) called on the Government to lift exchange-control regulations as an "ultimate guarantee" to foreign investors. — Sapa.

Pik pleads for trade partnership with Asia

O/Day 25/3/92 • (74) •

TOKYO — Foreign Minister Pik Botha said yesterday SA wanted to set up representative offices in all major Asian countries as soon as possible.

Botha arrived in Japan on Monday for the first high-level talks since Tokyo and Pretoria established full diplomatic relations in January.

"We want to be a junior partner in trade with this giant (Asia) that is arising," Botha told a news conference.

He appealed to Japan for investment.

However, a government spokesman said yesterday while Tokyo's relations with Pretoria had improved greatly since SA moved to end apartheid, Japan was not considering financial aid for the country.

"The per capita income of SA is ... above average," top foreign ministry spokesman Masamichi Hanabusa told reporters. "We may consider the possibility of taking more trainees from that country, but I think co-operation will be in the area of technical assistance."

SA had an overall per capita gross national product of $2 520 dollars in 1990. In practice Japan does not usually extend loans to nations with a per capita GNP of $2 100 or more.

In an earlier meeting with his counterpart Michio Watanabe, Botha had explained that the overwhelming victory last week of a referendum calling for political reforms should quell doubts about his nation's determination to end apartheid.

"Without economic growth under the new constitution, it wouldn't matter much who governs the country," Botha said.

In East Asia, SA currently has diplomatic relations only with Japan and Taiwan.

SA would like to give priority to setting up diplomatic relations with Thailand, Malaysia, South Korea and Singapore because these were the most economically advanced nations in the region, an SA embassy spokesman said.

Botha discussed with Watanabe a visit to Japan by President F W de Klerk, perhaps as early as June.

Botha's Asian tour also includes Singapore and Thailand.

Yesterday he flew to South Korea for an unofficial visit. He will meet counterpart Lee Sang-Ock today to exchange views on increasing economic co-operation and promoting friendly bilateral relations.

Meanwhile top Dutch government minister S Brinkman said on Monday night all remaining sanctions against SA should be lifted now that its democratisation process had "clearly become irreversible"

However, his call deviated from his party's policy. The leadership of the CDA, the joint government coalition with Labour, rejected proposals tabled in Parliament on Thursday by the liberal VVD party that the export ban on petroleum products be lifted.

And Canadian exporters complained on Monday they were losing business to Japanese, US, German and French competitors in SA and urged the government to lift sanctions immediately.

Only Canada, Australia and New Zealand are maintaining any significant sanctions against SA.

Australian Prime Minister Paul Keating told parliament yesterday it was still too early to ease the pressure for change in SA despite the referendum result.

"What we and the Commonwealth require is the removal of apartheid and the establishment of democratic and non-racial government." — Sapa-Reuter-AP-AFP.

Goods allowance for travellers up

(74)

STAR 26/3/92

PARLIAMENT — The ad valorem allowance for goods coming to South Africa with returning travellers was to be increased to R10 000, the Deputy Minister of Finance, Japie van Wyk, said last night.

Speaking in the Budget debate, he said details of the increase from its present R2 000 would be gazetted soon.

The move meant travellers would be able to bring in more from abroad without having so much trouble as at present. — Sapa.

Soaring exports boost business confidence

74 ARGT 26/3/92

DEREK TOMMEY

JOHANNESBURG. — It is a little too early to say that South Africa is starting to move out of recession.

But the latest trade figures show that businessmen are beginning to regain confidence and have started restocking imported goods.

Presumably this is because they expect conditions to start improving in the coming months.

This expectation could have been stimulated by the continuing strong improvement in exports.

They rose R684,3 million (seven percent) to a record R9,727 billion in the first two months of the year, despite the depressed price of precious metals and other mineral exports, which are South Africa's major export earners.

The trade balance for the two months to end-February was R2,6 billion, up from R1,9 billion in the same two months last year.

Trade figures show the total imported goods bill for the first two months was R7,8 billion, virtually the same as last year.

But if the apparent sharp drop in oil imports is excluded, a different picture emerges.

It shows that all other imports in the two-month period increased 11,2 percent to R7,06 billion.

Imports of textiles and textile articles rose R85,6 million (23,3 percent) to R452,9 million, while imports of machinery, mechanical appliances, electrical equipment, including TV sets and VCRs, rose R360,4 million (17 percent) to R2,48 billion.

Other significant increases were in miscellaneous manufactured goods (24,6 percent to R85 million), articles of stone, glassware and ceramics (22,7 percent to R103,7 million), prepared foodstuffs and tobacco (27 percent to R195,7 million), live animals (60,9 percent to R49,4 million) and mineral products (22,4 percent to R98,8 million).

However, this last item should not get too much attention as it represents minerals in transit from Zimbabwe, Zaire and Zambia to South African ports for export.

The figures show that imports of "other unclassified goods" slumped to R740,8 million from R1,45 billion a year earlier.

As oil imports are included in this item, the virtual halving is believed to reflect the switch known to be taking place from imports to the use of strategic reserves.

The increase in exports was foreshadowed by the remarkable R1,4 billion rise in net foreign exchange reserves announced earlier this week which was equal to 1991'sentire increase.

It also gave rise to speculation that South Africa might have been a large arms exporter in the two-month period.

But exports of "other unclassified goods", including arms, gold and platinum sales, were down 8,2 percent in the first two months at R3,94 billion, against R4,3 billion a year ago — a decline of R369,5 million.

The highlight of the export figures is the more than doubling in sales of precious and semi-precious stones and precious metals (not including gold and platinum) from R659,7 million a year ago to R1,37 billion in the first two months of the year.

The probable reason for this huge increase is the start of production at the Venetia diamond mine in the Northern Transvaal.

Until the full plant begins operating later this year, production is from a sampling plant.

Sales of vegetable products soared 45,3 percent from R256,9 million to R373,5 million, partly reflecting the year's huge increase in fruit exports from the Cape.

Sales of chemicals jumped 35,5 percent from R339,4 million to R459,8 million and sales of plastics 43,4 percent from R72,3 million to R103,4 million as Sasol and AECI expanded their export markets.

But exports of mineral products rose only 3,6 percent to R1,267 billion and exports of base metals fell 9,5 percent to R1,278 billion.

Mission wins order from France for wine

STAR 26/3/92 (74)

ROTTERDAM — The Cape Town Trade Mission which is touring Europe this week in search of new export contracts, has received an order to export South African wines to France.

Head of the trade mission Cape Town Chamber of Commerce president Kenneth Marcus said yesterday interest in the mission was incredibly high both in France and the Netherlands.

The mission had more than 100 appointments with Dutch businessmen during their three-day visit to the country.

"It is clear from our negotiations in the Netherlands that the Dutch also are interested in serving as conduits for trade between South Africa and many other countries such as in the Far East.

The Dutch are old-time traders with long-established trade routes between a great many countries and as such very important to our mission," Mr Marcus said.

He added that it had also become very clear to the mission that the French were less reticent about investing and trading with South Africa than the Dutch at the moment.

"The French have had much more experience with trade in Africa, and clearly the Dutch businessmen were still holding back because of the present uncertainty about South Africa's future political infrastructure.

"We were, however, very well received and at a very high ministerial level by the Foreign Trade and Economic Affairs Ministries in the Netherlands and France."

Mr Mracus has also established contacts through his personal trips to Hungary where he was received by the national Hungarian Chamber of Commerce and the Budpest Chamber of Commerce. He also visited the Polish Chamber of Commerce. — Sapa.

Exchange controls to stay

Exchange control could not be lifted now because this could lead to all foreign reserves being used to pay foreign debt, the chairman of the Joint Committee on Finance, Dr Francois Jacobsz, said yesterday.

STAR 27/3/92

Speaking in the Budget debate in Parliament, he said the reserves stood at about $3 billion and debts subject to the debt standstill $5 billion.

Abolition of the financial rand system, a form of exchange control, would mean that all capital transactions could take place at the cost of the reserves.

(74)

Scrapping exchange control might also mean that the country would not have enough reserves to pay for imports such as maize and grain.

Dr Jacobsz said the improvement in the balance of payments would lay a solid foundation for economic growth and contribute to creating stable financial conditions.— Sapa.

Courtesy call . . . Pik Botha meets Singapore Prime Minister Goh Chok Tong. Picture: AP

Lift curbs on loans, Pik urges

280

74

SINGAPORE — Foreign Minister Pik Botha yesterday called on the international community to lift restrictions on loans to South Africa.

Mr Botha, in Singapore as part of an Asian tour, said South Africa needed foreign technology and funds to rebuild its economy. "We would welcome loans without any restrictions," he said, adding that sanctions had suffocated the economy.

Singapore, which lifted a ban on imports of South African goods and on the shipment and export of petroleum and petroleum products to South Africa, maintains a ban on loans to Pretoria.

STAR 27/3/92

Mr Botha said his Government wanted to set up representative offices in all major Asian countries as soon as possible.

Pretoria had signed an agreement to set up a consulate in Thailand, he said, and was holding talks with Malaysia and India to set up representative offices there.

Pretoria would soon set up the office of special representative in Singapore, he added. Singapore has named a former civil servant as its special representative to South Afria. — Sapa-Reuter.

FINANCIAL RAND (74)

Package deal

FM 27/3/92

Reserve Bank Governor Chris Stals has equipped himself with a versatile new policy instrument. With one stroke he has found a way to reduce:

- ☐ Liquidity in the money market;
- ☐ The financial rand's discount against the commercial currency;
- ☐ Debt held in the standstill net; and
- ☐ Losses incurred on the Bank's forward cover operation.

For the first time since the financial rand was introduced in 1961, the Bank will intervene in that market. By using dollars to buy financial rands, it will offset inflows of foreign funds to the money market. Though determined "at the discretion" of the Bank, the exchange rate of the financial rand will be linked to the level of official reserves.

At the same time, the Bank will shrink the pool of financial rands which will increase the value of the unit. Stals implies in his statement that this is a first step towards abolishing exchange control. "As sanctions are now being lifted, unnecessary exchange control restrictions should also be phased out."

For some time, he has complained that exchange control has distorted SA's financial markets, creating liquidity which would not be there if market forces prevailed. This has the unfortunate effect of stimulating credit creation and driving inflation. Now he has found a way to tackle that problem.

He points out that foreign creditors with claims against the debt standstill net (now worth less than \$6bn) can convert these into financial rand. They can then sell them, indirectly, through authorised dealers in foreign exchange, to the Bank. But, clearly the Bank could not absorb huge sums overnight, so transactions will be limited by availability of reserves.

As long as there is a discount, the Bank's finrand interventions will generate profits. At prevailing rates \$100 will eliminate R350 in financial rands, at a cost to the Bank of only R290. These profits will be transferred to the Forward Contracts Contingency Reserve Account of the Treasury, held by the Bank, which had accumulated debits of R10,4bn by March 1991 — the latest available figure. Allocations from the Budget in certain years reduced the amount.

The immediate effect of the operation will

Continued

FM 27/3/92 (74)

be to increase net foreign reserves because the reduction in the finrand deposits — which are treated as a short-term liability of the banking sector — will exceed the reduction in gross foreign reserves. But at the same time, the amount owed to the Bank by the Treasury on its forward account will fall, reducing its net other assets.

This will neutralise the impact on net reserves and money supply. ■

Foreigners flock to Rand Show

(74) DARIUS SANAI

THIS year's Rand Show is attracting 10 times more foreign exhibitors than last year's, according to Rand Show spokesman Johan Theron. B I Day 27/3/92

But despite displays from more than 250 foreign companies representing 34 countries, only two US firms are exhibiting, Theron said this week.

Atlanta-based BKT International and Detroit-based Rexair — a vacuum cleaner manufacturer — will be the only direct representatives of US industry.

Theron explained the dearth of American firms by saying the US was a world in itself. "Many American firms have not yet woken up to trade opportunties with SA," he said.

There were approximately 25 foreign firms at last year's Rand Show. Theron said it was hard to calculate exact numbers because some came under the wing of their national chambers of commerce, or government departments.

Two Moscow-based firms would be exhibiting, and also seeking to become agents for the importation of SA goods into Russia, he said.

Most of the foreign firms were there to promote exports to SA, but many were also interested in importing SA goods.

Hotel groups size up the SA option

B I Day 27/3/92

DARIUS SANAI

LONDON-based luxury hotel group Hilton International (HI) was "seriously interested" in extensive investment in SA, Hilton spokesman Catherine Lord said yesterday.

And Gillian Goldman, local PRO for the US Hyatt group, said yesterday the group was "very interested" in hotel sites in SA, with Johannesburg's northern suburbs being an obvious target for development.

Goldman said a Hyatt hotel in such an area would probably have to be built from the ground up, and would charge rates similar to those charged by the group worldwide — more than R1 000 a night per single room.

But a senior director of another top international chain, Intercontinental Hotels, said yesterday that the group's "definite and advanced plans" to build a R130m, 350-room five-star hotel in Sandton had been scuppered by the "archaic" practices of SA financial institutions.

Senior development vice-president Hans Worms said yesterday the group could not come to a satisfactory agreement with SA pension funds on the financing of the project.

"SA institutions want a straightforward lease, which is not how we run our operations anywhere else."

Intercontinental's intention to build a hotel on Cape Town's new Waterfront development project was given up after "complicated local politics", Worms said.

Lord said Hilton International was reviewing a number of possibilities for extending its 153-hotel chain to SA, including constructing new hotels, she said.

Senior management from the Hyatt group are due to return next month after their December visit.

Several other hotel groups are looking into buying up and constructing hotels and resorts in SA.

Spokesmen for several hotel groups said privately that the service and management standards offered by their hotels would be in a different league — but so would their prices.

Sheraton Hotels marketing vice-president (Africa) Mike Prager said state and local sanctions inhibited the US-based group from developing in SA at the moment.

He said the protectionism engendered in SA by sanctions made entry into any section of the SA market difficult, and the monopolistic position held by "our one potential competitor" (Southern Sun) caused added complications.

"But there's room in the market for more than one group," he said.

Major tourism consultancy for SA

B I Day 27/3/92

LINDA ENSOR

CAPE TOWN — Greene Belfield-Smith (GBS), the world's largest tourism and leisure consultancy, has set up in SA as the specialist tourism and leisure division of Deloitte Pim Goldby Management Consultants.

GBS, owned by accounting and consulting firm Deloitte Ross Tohmatsu, has an international network of 530 offices in 105 countries with 65 000 partners and staff.

Its clients include Boeing, Cunard, Hyatt, Thomson Travel and the London Tourist Board. The SA office, with headquarters in Cape Town and offices in Johannesburg and Durban, is GBS's launch into Africa.

GBS senior partner Dries de Vaal said yesterday the opening of an SA office represented an international vote of confidence in SA's tourism potential.

He said the SA division hoped to pick up all opportunities for developing tourism by consulting companies and local, regional and national government, adding that it would actively lobby the SA government for a contract to draw up a tourism marketing strategy.

"Substantial foreign interest in the form of development aid and private investment should be available to develop southern Africa's tourism and leisure industry assets provided SA is prepared to commit itself to a free economic order and investor security — and providing SA can demonstrate it has an implementable and coherent tourism development strategy," De Vaal said.

GBS SA director Pierre Tredoux said there was widespread speculation that major sports events would be moved to SA and the 2004 Olympics was not an unrealistic possibility.

De Vaal said SA at present only received about 500 000 foreign tourists, excluding those from neighbouring countries, a small proportion of the world's total which could easily be increased to the 2-million hosted by Australia. Only a few of these tourists visited Cape Town.

"SA has a tremendous product and it would not be difficult to increase the numbers provided it is marketed properly," De Vaal said.

He pointed to deficiencies in infrastructure, namely airports which were not up to international standards, insufficient hotel rooms, insufficient luxury coaches and the lack of a convention centre.

plc

Govt plans zero-coupon bond issue

SIMON WILLSON

CAPE TOWN — The Finance Department is to issue a series of two zero-coupon bonds with fixed redemption dates in the current financial year, financial market sources say. B|Day 27/3/92

It is understood the Reserve Bank will soon announce the availability of the instruments on its dedicated trading screens. Investors and brokers will be invited to tender for available volumes. The bonds will probably carry maturities of between five and 10 years.

The department will use the Reserve Bank to market the bonds. The department may subsequently issue zero-coupon bonds with a tenure shorter than one year.

Zero-coupon bonds are instruments which bear no interest rate but are, instead, issued at a substantial discount to their face value. As the bond's redemption date approaches the price typically rises towards its nominal face value, assuring the holder of a profit.

The bonds generally offer the most attractive returns against a background of volatile interest rate movements because the holder can calculate the effective yield at the time of purchase. The investor can be at a disadvantage in a rising interest rate environment because the bond value will most likely fall as the holder is committed to a fixed, lower rate of return.

An official announcement is on hold pending formal approval of the scheme by the parliamentary committee on public accounts, which would have to vet the proposal because existing accounting procedures would have to change to accommodate a zero-coupon bond issue.

Sources say there is unlikely to be an immediate cost advantage to the Finance Department from issuing the new debt instruments. The objective is thought to be improved government debt marketability. Tours of European financial capitals to promote SA Eurobond issues have apparently found that zero-coupon bonds are popular among foreign investors.

Conditions of issue are likely to include restricting the bonds to denominations in multiples of R1m. They will be endorsed as being non-liquid assets.

Govt plans zero-coupon bond issue

(MH) SIMON WILLSON (MH)

CAPE TOWN — The Finance Department is to issue a series of two zero-coupon bonds with fixed redemption dates in the current financial year, financial market sources say. B/Day 27/3/92

It is understood the Reserve Bank will soon announce the availability of the instruments on its dedicated trading screens. Investors and brokers will be invited to tender for available volumes. The bonds will probably carry maturities of between five and 10 years.

The department will use the Reserve Bank to market the bonds. The department may subsequently issue zero-coupon bonds with a tenure shorter than one year.

Zero-coupon bonds are instruments which bear no interest rate but are, instead, issued at a substantial discount to their face value. As the bond's redemption date approaches the price typically rises towards its nominal face value, assuring the holder of a profit.

The bonds generally offer the most attractive returns against a background of volatile interest rate movements because the holder can calculate the effective yield at the time of purchase. The investor can be at a disadvantage in a rising interest rate environment because the bond value will most likely fall as the holder is committed to a fixed, lower rate of return.

An official announcement is on hold pending formal approval of the scheme by the parliamentary committee on public accounts, which would have to vet the proposal because existing accounting procedures would have to change to accommodate a zero-coupon bond issue.

Sources say there is unlikely to be an immediate cost advantage to the Finance Department from issuing the new debt instruments. The objective is thought to be improved government debt marketability. Tours of European financial capitals to promote SA Eurobond issues have apparently found that zero-coupon bonds are popular among foreign investors.

Conditions of issue are likely to include restricting the bonds to denominations in multiples of R1m. They will be endorsed as being non-liquid assets.

FOREIGN TRADE FM 27/3/92

Exported benefits

(74)

A large leap in exports in the first two months of the year may prove of more benefit to Botswana and Namibia than to SA.

Nedbank chief economist Edward Osborn points out that shipments in the category which comprises precious and semiprecious stones and jewellery more than doubled, from R659,7m in the first two months of 1991 to R1,4bn. Most of that would be transfers of diamond stock to the CSO by Botswana/Namibia.

According to Customs & Excise, exports for the two months reached R10,4bn (up from R9,7bn last year) while imports were almost the same at R7,8bn.

Exports of vegetable products rose sharply to R373,5m (R256,9m), marking the start of grain exports to Zimbabwe. The effect of

(74)

this will be countered in the months ahead as SA begins to import maize to meet its own needs — recently estimated at 5m tons.

The biggest shift came, predictably, in the "unclassified" item. Imports were down from R1,5bn to R740,8m, a direct result of lower volumes of oil imports, Osborn says.

Exports in the so-called unclassified category amounted to almost R4bn (R4,3bn), reflecting lower precious metals prices and probably reduced armament sales, offset to a small degree by rising rhodium prices. ■

SA party to visit Uganda

74

S/Times (Buss) 29/3/92

By CHARLENE SMITH

A DELEGATION of South African businessmen will travel to Uganda, one of the few African countries receiving substantial aid money, as a prelude to establishing formal links.

Although President Yoweri Museveni has close links with the African National Congress and will not lift sanctions against SA until significant progress has been made at Codesa, the government has agreed to fact-finding missions by SA businessmen, according to Andrew Maggs, manager of the Africa programme of the SA Foreign Trade Organisation.

Mr Maggs, who recently returned from a trip to Uganda, noted that, since 1986 under the leadership of President Museveni, Uganda had experienced political stability and an economic growth rate of just over five percent a year.

He said Uganda now had a "strong base to pursue large-scale development". It was also "back in favour" with the international financial community in terms of debt rescheduling and new loans.

Toronto firm in gold deal

S Times (Buss) 29/3/92

71

Business Times Reporter

A LEADING Canadian mining investment company has acquired a R43-million major holding in the merging Knights Waverley Simmers gold-dump retreatment project.

Dundee Bancorp Inc, the Toronto-based natural resources group, announced this month that it will acquire 24% of the merged Knights operation.

The proposed merger, in which all three companies' assets will be absorbed into Knights Gold Mining, is expected to be implemented by the end of May.

The merged Knights operation will have a projected annual production of 60 000 ounces of gold, produced at an operating cost of under $250 an ounce, and has the potential to expand production to 100 000 ounces a year. Knights' annual gold production totals about 46 000 ounces (1,44 tons).

Profitable

The R43-million Dundee Bancorp deal is the first major foreign investment in a South African gold-mining operation since sanctions were first imposed in the mid-1980s.

Dundee Bancorp chairman Ned Goodman says: "This is a sound investment in a potentially very profitable enterprise and a good way for Dundee Bancorp to get into the African mining business."

The total reserves of gold-dump sand and slimes available to the merged group amount to about 143-million tons, with head grades varying from 1,55 grams to 0,24 grams a ton. The new company will continue to treat dump material at the rate of 280 000 tons a month.

The merged operation has a life expectancy of 15 years.

Capital expenditure of R36-million is planned for the refurbishment of a non-operational mill owned by Simmers, and for improvements.

Race is on for a slice of SA

☐ MONEY TALK

ANC Deputy President Walter Sisulu seems to have an uncanny ability to put into words certain important thoughts and ideas shared by many who are unable to define in simple terms what they think. C/Press

"If we allow sanctions to die by themselves, we (the ANC) are the losers," he said last week, according to press reports. 29/3/92

Commitments made by several important industrial and trading nations, even before the referendum, made it clear that old-style sanctions have become yesterday's politics. Since the result of the voting became known, a virtual scramble seems to be developing to ditch sanctions and secure a slice of available business in SA.

An important conference that could influence ANC economic policy is to be held next month and one can expect that the new reality voiced by Sisulu will receive considerable attention.

One should bear in mind that sanctions were used as part of a wider strategy to fight apartheid and even though the latter has not been fully eradicated, the marketplace is anticipating this.

There is no doubt that to succeed the "new" SA will have to strive for economic justice.

But, surely, the first priority should be to get the faltering economy to stop shrinking by encouraging growth rather than playing around in public with the "high politics"

Investors warned of risks in futures

B|Day. 30/3/92. (74)

MATTHEW CURTIN

PRIVATE investors risk financial suicide if they dabble in SA's futures market through a third party, says Investor's Guide publisher Taco Kuiper.

Kuiper says that is the only conclusion he can draw after entrusting a R100 000 investment to the now defunct Greenwich Futures and Options. He claims in mid-1991, his discretionary account was poorly and improperly managed by the firm.

However, the SA Futures Exchange (Safex) has investigated Kuiper's allegations and has found that unless Kuiper can submit more information to substantiate his claims, there are no grounds for finding Greenwich acted improperly.

And futures market sources said at the weekend discretionary accounts were a rarity in SA. Futures were traded on principal basis — where clients are consulted on every deal — or as part of a wider investment portfolio.

In the latest edition of the guide, Kuiper said: "A watertight agreement existed between Greenwich and the Investors Guide. Managing the account was in terms of a discretionary mandate, therefore, trading was to be done on an agency basis."

He said between May 24 and July 20 not only was his R100 000 investment whittled down to R34 000, but Greenwhich earned R12 600 on commission on 42 deals in managing the account, plus "thousands more" by doing deals on a principal basis as well.

Kuiper said he discovered this after his position was closed and asked Safex to investigate the matter.

But Safex assistant MD Patrick Birley said yesterday the exchanges complaints and surveillance committee had investigated the matter in December last year and found "in terms of the documents submitted by Kuiper and Greenwich, the company had not acted improperly with regard to exchange regulations".

"Clients who lose money are often upset, but Greenwich acted in good faith and within the rules of the exchange. What is clear is that the company made some bad trading decisions apparently with Kuiper's assent," he said.

Birley said the committee found no evidence to support Kuiper's allegations that Greenwich had accepted a discretionary mandate, and the company had sought Kuiper's permission on every deal it had made on his account. Kuiper had so far refused an offer of arbitration and failed to submit more information to support his claims.

"That is where the matter now rests," Birley said.

Former MD and founder of Greenwich Bryan Coyne, who sold his 49% stake in the company last month and left to join Investec's futures division, said the Safex investigation had vindicated Greenwich's position. Greenwich had never accepted discretionary mandate from Kuiper.

Kuiper was unavailable for comment on Friday.

Tax burden shifts to individuals

GILLIAN HAYNE

IN the past 15 years SA's tax burden has shifted squarely onto the shoulders of individual taxpayers.

In the 1992 tax year they funded more than 70% of the country's revenue, compared with 25,5% in the 1977 tax year.

Speaking at a Budget and Tax Review, BDO Spencer Steward tax partner Matthew Lester said the recession and rising unemployment would soon make it impossible for individuals to meet government's demands.

In terms of the latest Budget, taxpayers would have to pay personal tax of R35,511bn and VAT of R21,020bn to finance the bulk of the country's expenses.

Within the same 15-year period, companies and mines saw their tax contribution fall from 28,8% to 17% of the total Budget.

Seen in this light the concessions given to reduce the effects of fiscal drag for lower to middle income earners were meagre indeed.

Lester said although the effects of fiscal drag were not felt in the short term, over a 10-year period they were substantial.

For example, the pre-tax earnings of a man on a salary of R30 000 a year in 1983 (assuming annual increases of 15% and a constant inflation factor of 15%) could be 304% up in 1993, while his tax liability would have increased by 457%. Taxpayers were getting poorer, Lester said.

He said if taxpayers were unable to meet the tax commitments of the economy SA might have to approach the IMF for significant financial assistance.

The current year's Budget exceeded R100bn for the first time, an increase of 8,9% on 1992. Lester said a frightening aspect was that taxes would be raised by R12bn or 16,4% while the Budget itself only increased by R8,7bn or 8,9%.

Opportunities in Asia Pacific 'are not to be missed'

B/Day 30/3/92 74

MICK ELLINGHAM

SA COULD not afford to miss out on trade and investment opportunities in Asia Pacific, said Stephen Weatherseed, Hong Kong partner of international accounting firm Grant Thornton.

Speaking last week in Johannesburg at Kessel Feinstein — local partners of Grant Thornton — Weatherseed said unlike most major economies, the Asian economies were on a relentless growth path.

Asia Pacific was fast accumulating wealth and expertise which were destined to make this region the dynamic economic force of the 21st century, he said.

Weatherseed divided the area into three distinct groups: Japan, newly industrialised countries (NICs) and emerging NICs.

Japan had established relations with SA which should continue, importing coal, diamonds and precious metals from SA. The Japanese market was, however, difficult to penetrate and SA would need to manufacture high quality niche products to export successfully.

The NICs (South Korea, Taiwan, Hong Kong and Singapore) had grown dramatically in the past 10 to 15 years. The initial catalyst for their growth was export-driven Japanese investment.

South Korean industrial giant Samsung was already exploring possible joint ventures in SA, and Weatherseed predicted others would soon follow.

Taiwan was a centre for electronics and computer companies and might also be looking to SA for joint ventures.

Despite impending Chinese rule in 1997 there was great optimism in Hong Kong and local businesses had invested heavily in southern China. China in turn routed 40% of its business through Hong Kong.

Weatherstreet said it was an ideal market for SA's precious metals, while Hong Kong's entrepreneurs in turn would be on the lookout for joint ventures in SA in fields such as jewellery and clothing.

Joint ventures between Singapore, the main centre of the petrochemical industry, and SA were also possible.

The third group of countries in Asia Pacific, labelled emerging NICs, were Malaysia, Thailand, Indonesia and the Philippines. These countries had grown strongly in the past few years with investment by Japan and the NICs. Their growing middle classes created an increasing demand for consumer products.

To exploit opportunities in Asia Pacific effectively, investors had to take time to understand the business environment, he said.

Flight from Singapore 'heralds economic links'

174

MICHAEL MOON

STRONG economic growth was forecast for Asian Pacific nations and the region offered many opportunities to SA business, Singapore Airlines senior vice-president Yap Kim Wah said last night.

Trade among Asian nations was expected to intensify as free trade increased and disposable incomes grew, Yap said at a function to mark the inaugural flight of Singapore Airlines to Johannesburg.

Johannesburg was now linked to the world's wealthiest markets, and he believed Singapore provided the ideal "hub" for SA business to take advantage of opportunities in the region.

Singapore was the world's busiest port, handling 80-million tons of container traffic a year. It was regarded as one of the "miracle" economies of the Pacific Rim and in 1990 had economic growth of 8,3%.

Yap said SA had massive potential for business and tourism and his airline's agents around the world were excited to be promoting the country's attractions. And there was sure to be an increase in traffic between the two countries, he said.

There would probably soon be daily flights between Changi and Jan Smuts airports, and the service would probably be expanded to include other SA cities.

From this week Singapore Airlines is offering a twice-weekly service. SAA will start flights to Singapore in June. BDay 30/3/92

On board yesterday's inaugural flight was a delegation of senior Singaporean government officials, as well as travel agents, journalists, cultural groups and entertainers from the Asia-Pacific region.

Passengers on the flight were surprised to be informed in Afrikaans of their imminent arrival in Johannesburg.

The announcement was made by co-pilot Peter van Emenus, one of half a dozen former SAA pilots now flying for Singapore Airlines.

Forex markets showing signs of fatigue

STAR 31/3/92

(74)

By Carole Mason
international economist,
Standard Bank

CAROLE on CURRENCIES

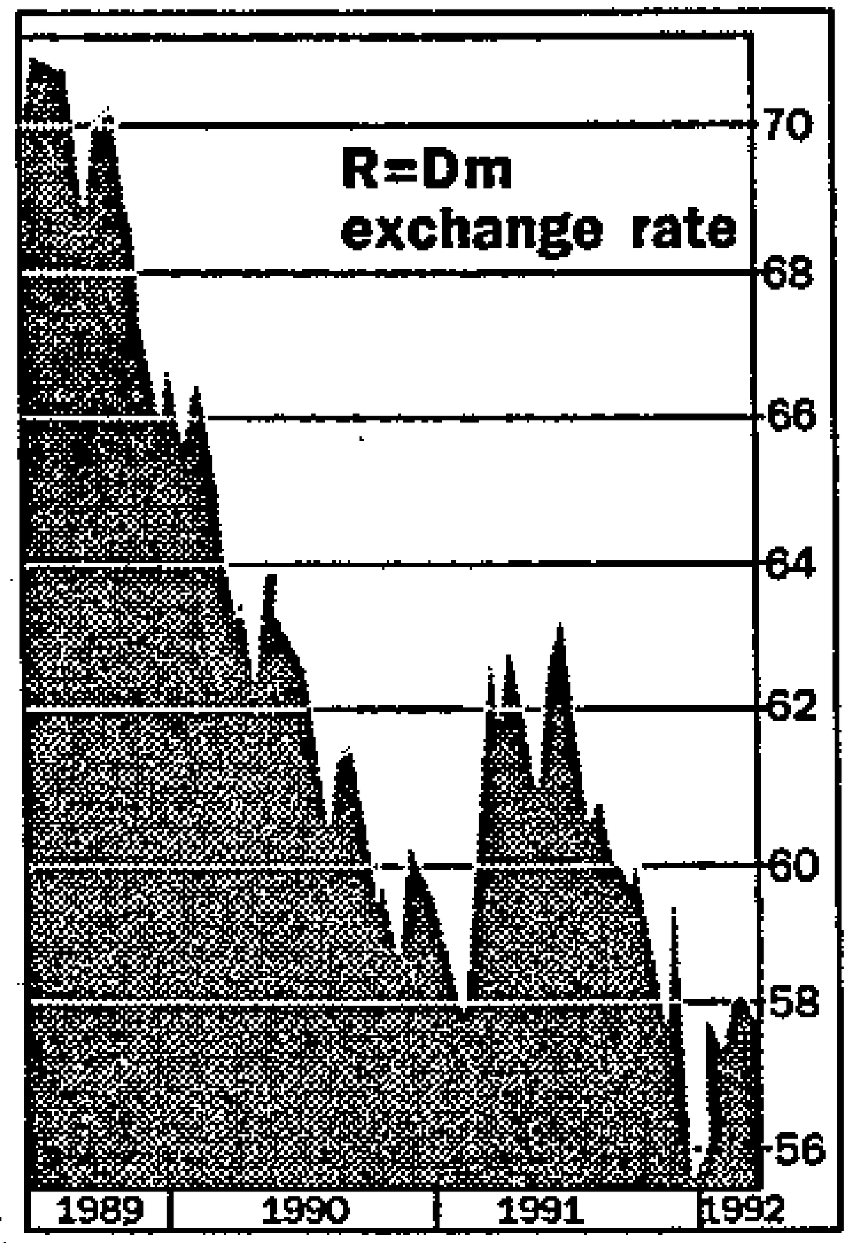
In what until then had proved to be excruciatingly dull international forex markets, last Friday saw a sudden, sharp sell-off in the dollar.

Although dollar weakness could not be ascribed to any one particular factor, widespread speculative selling of the US unit (allegedly originating in the Far East) saw previous market support for the currency crumble.

Friday's dollar weakness brought the week's net dollar loss to one of four pfennigs and although the extent of the dollar's decline was greatly exaggerated by the thinness of the market (with activity mainly of a speculative nature), it nonetheless served to highlight the degree to which a sense of fatigue has entered internaional forex markets.

Led by developments in the dollar, the major currencies have essentially been stuck in broad trading ranges in recent weeks from which they have been unable to extricate themselves.

As is commonly known, the prime motivating factor behind initial dollar strength was anticipated developments in the major GS countries (ie, the US, Japan and Germany), where expectations of economic recovery in the US coincided with expectations of contraction in both Germany and Japan.



The German mark has been climbing steadily against the rand which is now worth about 58 pfennigs.

Since this, it was felt, would inevitably lead to a narrowing in the international interest rate differentials which had wielded such a negative impact on the dollar as to enable it toadvance on both fundamental as well as on technical considerations.

However, whereas recent economic evidence has pointed in the direction of gradual US economic recovery, this has by no means been either uniform or conclusive.

Similarly, although evidence of economic slowdown in both Germany and Japan continues to accumulate, neither country has as yet instituted the interest rate stimulation required to validate ongoing market support for the dollar.

Interest rates

Although last week's dollar weakness has been dismissed in many quarters as being largely technical in nature, nagging doubts about the strength and durability of the US economy have combined with a gloomier assessment of German interest rate prospects, in particular, to provide fundamental justification for the dollar's decline.

With both the dollar's technical and fundamental background thus militating against immediate near-term advance, market participants were encouraged to book profits and flush out long positions.

Such action by no means invalidates medium- to longer-term dollar optimism; it merely reflects the fact that in the current environment where short-term US interest rates are a full 4-5 percent lower than those obtainable in Germany, short-term dollar optimism (ie, long dollar positions) in stagnant market conditions is simply unprofitable.

While last week's dollar weakness will probably be viewed by some as an opportunity to pick up bargain-price dollars, it also begs the question of whether or not this represents the beginning of a new downward lurch in the currency.

With market support for the dollar now at Dm1,63, any break of this level would suggest a return to the Dm1,58-1,62 trading ranges which governed several weeks ago.

However, although markets will be understandably nervous about dollar prospects in the days ahead, it is not generally expected that international forex markets are about to witness a renewed barrage of dollar sales.

Yen's problems

It is important to note, for instance, that last week's dollar decline was led by gains in the Deutschemark whereas the dollar remained firmly in its uptrend against the yen.

Since it is widely expected that the beginning of the new Japanese fiscal year in April will be accompanied by a domestic interest rate cut, the dollar looks set to retain recent gains against the Japanese currency.

Although the anticipated Japanese interest rate cut has been widely discounted by forex markets and has probably already been priced in to the current dollar-yen exchange rate, the Japanese currency remains beset by other concerns.

The most notable is on the domestic political and stock market fronts. "Sell the rumour, buy the fact" interest in the yen generated by anticipated interest rate developments in Japan is likely to prove short-lived.

With the dollar thus expected to remain firmly anchoured against the yen, the US currency's main source of potential weakness emanates from the Deutschemark (the pound, for instance, is likely to remain vulnerable to domestic political developments in the remaining trading days ahead of the general election on April 8).

However, despite its acknowledged interest rate advantage, the Deutschemark is unlikely to garner significant market support to warrant a return to the highs seen earlier this year.

The German currency has really only been able to remain where it is by virtue of the uncompromisingly tough stance adopted by the Bundesbank in its conduct of German monetary policy.

If, for instance, conditions deteriorate further in the former Soviet Union or economic developments in the US confirm a return to more normal US interest rate patterns, the Deutschemark would have to succumb to adverse market forces.

Big chunks of US aid to SA are stuck in the pipeline

B/Day 31/3/92 74

SIMON BARBER in Washington

IN THE current fiscal year, which ends on September 30, and in the one that follows, the US taxpayer will theoretically vouchsafe more bilateral assistance to "disadvantaged" South Africans than to any single African country, according to the US Agency for International Development's (USAID) latest budget presentation to Congress.

SA's annual allotment stands at $80m, fully 10% of USAID's principal account for the entire continent, the Development Fund for Africa. Only Ethiopia ($74,4m) and Mozambique ($68,5m) come close, and in both cases a substantial share of their quotas is made up of emergency famine relief and other food aid.

It must be stressed, however, that these are largely notional numbers. When a US official asserts "we have doubled our aid to SA to $80m this year", he is making a political statement that has little relation to real cash flows.

The $80m figure appears in the budget presentation at the bottom of columns entitled Estimated fiscal year 1992 obligations and Proposed fiscal year 1993 obligations.

The reason it is there is that President George Bush thought it would be a useful bipartisan gesture when he was lifting the Comprehensive Anti-Apartheid Act's sanctions last year.

The word "obligation" needs some clarifying. USAID defines it as a "legal commitment of funds through such mechanisms as signed agreements between the US government and host governments, contracts and grants to organisations, and purchase orders". This is not to be confused with the term "expenditures", which, at least when they are "actual", represent "funds paid from the US Treasury".

Between 1980 and 1990, USAID "obligated" about $101,9m to a variety of SA projects (more, if you take into consideration projects funded from other non-SA-specific accounts). Of this, $32,6m was "spent". Likewise, $48,4m was obligated in 1991 while just $19,8m left the Treasury. For the current year, the agency thinks it may be able to enter into obligations worth $80m, but expects to write cheques for $49,6m.

Where is the rest of the money? Well, says USAID, some has been "de-obligated" but the bulk is in the "pipeline", awaiting the day when contracts, agreements and purchase orders are fulfilled, and the cash may finally be disbursed. Fair enough, so long as the would-be beneficiaries have it explained to them that it may be some time before they feel the benefit of the sums so blithely bandied about by American politicians and diplomats.

Of course, it might be easier for USAID to get the money out the door if both it and its political masters had a coherent idea of what they were trying to achieve.

The decision to double SA's annual allocation preceded any serious thought about how the extra funds might be used. This is painfully evident from this year's estimated budget and next year's proposed one. The obligation figures are mostly very round and appear to have been dictated less by conscious policy than the requirement that they add up to $80m.

For the record, here is how the magic number was concocted for the present fiscal year. Remember, all the figures are "estimated obligations", so their significance in terms of hard cash is at best questionable.

First, there are four new projects. Shelter and Urban Development Support, made possible by the repeal of the Group Areas Act, gets $9,2m "to provide funding for innovative financing schemes, technical assistance, training and research aimed at developing housing programmes which do not perpetuate the forced living patterns imposed under apartheid". Only $500 000 is expected to be spent, no doubt on a study.

SA Basic Education Reconstruction is pencilled in for $6m "targeted on ... high school scholarships, teacher training, curriculum development, adult literacy and special training in English". Estimated real outlay: $500 000.

Two further projects have been launched to help confront AIDS at $1,5m apiece. USAID thinks it can spend it all this year.

Of the existing programmes, Black Private Enterprise Development gets another $4m to go with the $10,2m it has received thus far, of which about $2,6m has been spent. The money might be moving a little quicker, but for a dispute between two Washington consulting firms over who should get the contract to set up a venture capital fund for black businesses.

Labour union training, chiefly handled through the AFL-CIO's African-American Labour Centre (AALC), is allotted $3,5m, bringing to $12m the total USAID has nominally committed to spending on black unions since 1983. Of this, $4,85m has thus far oozed from the pipeline (and then mostly into the coffers of the AALC).

Community Outreach and Leadership Development (Cold) — initiated in 1986 to counter Pretoria's attempts "to crush community power" — is down for $10,7m — more than double last year's figure. This brings Cold's total obligation to date to just under $30m. Actual outlays have been $10,5m.

The Training for Disadvantaged South Africans and SA Bursaries projects, which provide scholarships to universities in the US and SA respectively, are now operating on money still in the pipeline — about $44,3m by my calculation — and receive no new allocations. However, more scholarships to the US are being provided by the Tertiary Education project whose pot this year has been increased by $31,6m for a total of $52,1m since the account was opened in 1990. As of last September, actual outlays were $1,2m.

The Educational Support and Training project, through which the US government underwrites "non-governmental initiatives in teacher training, alternative education, pre-schools, curriculum development and literacy", is slated to be topped up to the tune of $4,5m this year, bringing the sum sloshing about in its pipeline to about $10m.

Self Help Support and Human Rights Support — relatively fast disbursing conduits from which the embassy and USAID mission dole out small grants to worthy causes — are allocated an additional $500 000 and $5m respectively.

The $10m Transition to Democracy Project is not counted in this year's $80m. The money was obligated in 1991, and who knows, now that the ANC has accepted that it cannot use its share to pay salaries to its nomenklatura, the US-SA Leadership Exchange Programme, which USAID has retained to do the honours, may actually get to dispense the moolah.

Next year two additional projects come on stream.

Tertiary Education Linkages will attempt to "improve the efficiency and quality of the tertiary education system in SA" by giving grants to US universities (proposed initial obligation: $10m).

Training for Employment will try to "reduce constraints to economic growth caused by an inadequately trained labour force". To find out how, USAID will have to commission some studies. To prime the pipeline, it is asking Congress for $3m.