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Unlocking the Benefits of Trade Policy

Stephen Hanival *notes the benefits of South Africa's preferential trade agreements and discusses some constraints that still inhibit the region's export potential.*

Up to now, the trade policy research programme at TIPS has focused primarily on predicting the benefits of freer trade between South Africa (SA) and the Rest of the World, and SA and preferential trading partners through various multilateral and bilateral trade agreements. However, relatively little analysis has been undertaken to assess what precisely the impact of changes in SA's trade policy has been, and/or what the remaining impediments – both macro- and microeconomic – are to growth in SA exports.

Some researchers argue that while SA has managed to negotiate highly preferential trade agreements with a range of partners, including the EU, SADC[1], the US (under Agoa[2]) and others, the benefits of these agreements have accrued only slowly to SA and the region, if at all. The reasons for this are numerous and varied.

One of the problems could be that the macroeconomic environment has not been conducive, for example due to volatile exchange rates. The constraint could also lie on the supply side, where the often excessively strict standards and regulations in place in developed markets make it difficult for local manufacturers to comply. Whilst some of these regulations might well be legitimate standards designed to protect developed country consumers, in many cases they are nothing more than non-tariff barriers (NTBs) to trade designed to protect developed country markets.

We believe this to be a major constraint to developing countries' export potential. So this edition of the *Trade and Industry Monitor* kicks off a new programme of work at TIPS, which will identify specific NTBs or non-tariff measures (NTMs) in key markets and calculate the potential benefit to South and Southern Africa of having these impediments removed.

Ron Sandrey, a senior New Zealand government trade policy analyst seconded to TIPS for three months, has made a first stab at compiling and assessing the NTMs faced by Southern African exporters. Sandrey, who has undertaken a review from mostly secondary sources of data, finds that Southern Africa is negatively affected by NTMs but is able to offset this partially through its trade preferences with developed countries. Crucially however, he argues that this is likely to be only a temporary respite and that Southern African exporters will have to focus their efforts on building their competitiveness and applying pressure for NTMs to be cut.

Ideally, primary data from a survey of manufacturers and exporters in particular sectors should be collected, although this is time-consuming and expensive. Of course even once NTMs and their impact have been identified, the onus remains on developing countries to leverage the removal of these trade impediments – by no means an easy task.

Nonetheless, without a systematic and consistent process for identifying and prioritising NTMs, their removal is unlikely to occur. TIPS believes this to be a priority for SADC countries and is initiating further sector-based research to compile a priority list of NTMs that will enable governments in the region to motivate for their removal from a position based on solid research.

[1] The Southern African Development Community
[2] African Growth and Opportunity Act

Non-Tariff Measures: The Bigger Picture for South and Southern Africa

Ron Sandrey[1], economic research co-ordinator at the New Zealand Ministry of Foreign Affairs and Trade currently seconded to TIPS as a research fellow, argues that reduced tariff barriers are not enough to provide true market access for developing countries while non-tariff measures still create considerable barriers to exports to developed countries.

As tariff barriers are reduced around the world, increasing attention has been paid to non-tariff measures. Although differing definitions exist of exactly what these NTMs are, let alone how their quantitative impacts are measured, they can basically be defined as government measures other than tariffs that restrict trade flows.

The effect of NTMs is generally recognised, with the Permanent Mission of SA recently pointing out their impact on trade flows to the World Trade Organisation (WTO):

"Reducing tariff barriers alone will not succeed in providing genuine market access for developing countries. Non-tariff barriers such as anti-dumping, technical barriers to trade and import licensing in developed countries often pose significant barriers to developed country exports."[2]

Ideally, a quantitative analysis of NTMs would be desirable, but given the difficulties associated with quantification, a strong qualitative assessment is useful in that it provides policy-makers and trade negotiators with valuable information on where to direct their efforts for maximum gain.

It is important to note that identifying NTMs can be very subjective. For instance, many NTMs, such as most sanitary and phyto-sanitary (SPS) measures, are in place to protect human, animal and plant life. But when these measures are applied inconsistently with international agreements, they can become insurmountable barriers.

Categories of non-tariff measures

A useful means of examining NTMs is to place them into three broad – admittedly arbitrary – groupings. The first is those measures that are put in place to protect health, safety and the environment, which include import and export bans, SPS requirements, and standards and conformance requirements.

The second comprises a wide range of trade policy regulations: broader policy measures including export assistance, export taxes, import licences, import quotas, production subsidies, state trading and import monopolies, tax concessions and trade remedy practices (anti-dumping, safeguard and countervailing duty measures).

The third group is not generally regulations *per se*, but rather a wide grouping of administrative disincentives to export – customs clearance delays, lack of transparency and consistency in customs procedures, overly bureaucratic or arbitrary processing and documentation requirements for consignments, high freight transport charges and services that are not user friendly.

Reducing tariff barriers alone will not succeed in providing genuine market access for developing countries. Non-tariff barriers such as anti-dumping, technical barriers to trade and import licensing in developed countries often pose significant barriers to developed country exports.

Export trade summary

The NTMs a country faces critically depend upon both its major trading partners and the composition of exports to those markets. Within the South and Southern African region, exports from the Southern African Customs Union (SACU[3]) countries completely dominate exports, with an 86% share in 2001. With less than 5% of exports, Zimbabwe, at least until recently, has been next in line. The EU is the major export destination, followed by the US and Japan.

Precious metals and stones (diamonds), mostly to the EU, form the main trade flow from SACU. Coal, pig iron and petroleum products round off the top five commodities, with automobiles and their associated parts, iron and steel products and aluminium products following. Agricultural products (wine, sugar and fruits) also figure, as do forestry products.

From Zimbabwe, tobacco and tobacco products dominate exports, while Mauritian exports are dominated by clothing and sugar. The EU is the main destination for exports from both countries.

Elsewhere in the region, copper and copper products lead exports from Zambia, while tobacco is the main export product from Malawi. Clearly, the trade from SACU dominates exports, so in aggregate the main products from these countries will be of most interest. However, several individual products are important to other smaller countries in the region, and NTMs facing these exports should also be considered.

Trade policy regimes in export markets

As the EU is the world's second-largest importer of merchandise goods and the leading importer of southern African goods, its trade policies are crucial. The WTO reports that, with the exception of textiles and agriculture, the EU market is largely open. Both of these exports are important to southern Africa.

Most imports either enter the US duty free or subject to low tariffs. The highest tariffs apply mainly to imports of agri-food and tobacco products, clothing, textiles and footwear, again important products from the region.

The US extends tariff preferences unilaterally to many Andean, African (Agoa) and Caribbean countries, as well as under its Generalised System of Preferences. It continues to make active use of anti-dumping, countervailing and safeguard measures, has quantitative import restrictions imposed under the provisions of the Agreement on Textiles and Clothing, and has recently tightened its borders for national security and foreign policy reasons. This is a source of concern for some trading partners.

Japan has few visible non-tariff border measures. Those currently applied involve some import prohibitions, import licensing and

[1] The opinions expressed in this report are solely the responsibility of the author and do not necessarily reflect the views of TIPS or the New Zealand Ministry of Foreign Affairs and Trade.
[2] "SA on Market Access for Non-agricultural Products". SA's comments on the Draft Elements of Modalities for Negotiations on Non-Agricultural Products. Dated 12 August 2003, this is an excerpt from a report the WTO received from the Permanent Mission of South Africa.
[3] Botswana, Lesotho, Namibia, South Africa and Swaziland

quantitative import restrictions, for example, on certain fish products. Some imports are subject to licensing requirements, and both tariff quotas and certain aspects of the import quota system can be complicated. The support received by farmers and the consumer prices of agricultural products in Japan remain above the OECD[4] average, with consumers paying on average more than twice as much as they would have paid in the absence of market-price support to producers.

The big picture on NTMs: minerals and mineral products

The mining sector remains at the heart of SA's economy. There are few barriers to precious metals and diamond exports. Coal is heavily subsidised in some EU countries, and exporting to a market where the traded price is about one-third of the subsidy level to a large component of the domestic production certainly constitutes an NTM. There is little evidence of problems in the copper and aluminium sectors.

Manufactures

The main sectors of SA manufacturing are automobiles and their associated parts, textiles and clothing, food processing and beverages, mineral-based industries, machinery and equipment, and pulp and paper.

Duty drawback and similar schemes, export incentives, and international multinational transfer pricing and practices all combine to make the international automobile sector a complex one. In many countries, the sector has iconic status, but this is generally only possible behind high tariff and NTM walls. An examination of the data reveals that automobiles and their associated parts are protected by almost every known NTM and a few more ingenious ones as well.

Local content rules exist, either on their own or operating in tandem with programmes similar to the Motor Industry Development Programme (MIDP) in SA. Import charges over and above tariffs are common, and include sales taxes, luxury taxes, statistical fees, purchase/ registration fees, investment restrictions and conditions such as joint-venture requirements.

The system of import quotas that has dominated trade in textiles and clothing since the early 1960s is being phased out, and by 1 January 2005 the use of quotas will come to an end, so that the major importing countries of the EU, US and Canada will no longer be able to discriminate between exporters. There are, however, special provisions for the use of trade remedies should imports surge, and it could be expected that these remedies will be enacted.

(continued on page 4)

[4] Organisation for Economic Co-operation and Development

(continued from page 3)

Overlaying this global picture is the African Growth and Opportunity Act that authorises preferential treatment for most qualifying apparel from Southern African into the US until September 2008.

Over time it can also be expected that China will increase its share of world exports, although special short-term WTO safeguard and anti-dumping rules will slow this dominance. Given current preferences into the US in particular, it is not clear that the removal of this specific quota access measure will necessarily enhance export trade from the region.

Another very distorted market can be found in steel products. Despite WTO rules to the contrary, many countries provide subsidies to their domestic sectors. Consequently there is massive over production globally, anti-dumping cases are frequent and the US recently imposed safeguard measures involving tariffs of up to 30% over three years. SA initially escaped the chapter 201 safeguards for imports into the US, but local producers would become vulnerable should the US actively pursue anti-dumping and countervailing actions in combination with these safeguards.

Forestry products attract very few NTMs outside of North Asia.

Agricultural and food products

Many of the disciplines that have been applied to promote freer trade and more open production systems in the non-agricultural sector are not exercised in the agricultural sector. Measures such as import quotas, export subsidies and domestic supports act to distort agricultural trade in the developed OECD markets.

While SA is not a major exporter of agricultural products, exports would be higher if international trade were to be liberalised. SPS measures are the most contentious issue in terms of agricultural access: consumers seek assurances that food is safe to eat, thus regulation is needed in this area and the removal of SPS standards and associated regulations might actually reduce trade.

To prevent the creation of unnecessary trade barriers, the WTO SPS Agreement states that measures must be applied only to the extent that they are necessary to protect human, animal or plant life or health, must not arbitrarily or unjustly discriminate between countries where identical or similar conditions prevail, and must have scientific justification. Each country has the right to set standards within these criteria, and any challenge must be addressed to these criteria and not to the SPS measures as such[5].

In its July 2003 newsletter, the Common Market for Eastern and Southern Africa (Comesa)[6] explores whether SPS measures are trade enhancing or form a trade barrier for Eastern and Southern African (ESA) exports. It raises three crucial issues:

- Stringent regulations place small-scale producers at a disadvantage as they do not have the capacity to absorb extra costs;
- ESA countries do not generally have the monitoring, testing and certification structures in place to demonstrate compliance; and
- There is a growing concern that many SPS measures may be inconsistent with WTO rules.

US cotton farmers can sleep easy. They will continue to receive $4-billion in subsidies and flood the world with cheap cotton for the foreseeable future. Meanwhile west African cotton growers will see no way out of their destitution.

The sugar, rice and dairy sectors are the most distorted markets internationally. Meanwhile, countries in the region benefit from preferential sugar access to the EU market, with Mauritius in particular obtaining economic rents as a direct result of NTMs.

A more complete analy-sis would be needed before any judgement could be made on whether or not liberalisation would, in fact, benefit Southern African exporters, but initial analysis suggests not. The major beneficiaries would be Brazil, Thailand, Australia and India. So again, NTMs can be seen as currently benefiting Southern African producers.

For health reasons, tobacco products face very high excise taxes, often at levels that exceed the value of the product itself by a wide margin. Anti-smoking legislation, consumer boycotts and labelling requirements all constitute NTMs.

An initial analysis at TIPS suggests that many other NTMs operate to constrain agricultural exports from the region in different sectors. These include, for example, tariff quotas on fruit and vegetables in Norway – a potential free trade agreement partner for SA – and barriers into Asian markets. Cotton emerged as a flash point at the recent aborted Cancún trade meetings, with the London *Guardian* observing:

"US cotton farmers can sleep easy. They will continue to receive $4-billion in subsidies and flood the world with cheap cotton for the foreseeable future. Meanwhile west African cotton growers will see no way out of their destitution."[7]

The same applies to a lesser extent to cotton exports from the southern African region.

It is clear that NTMs are pervasive in international trade from southern Africa, although in some cases the region is offsetting these costs through preferential access to protected markets. However, this can be but a temporary situation.

The region must plan on enhancing its competitiveness to continue exporting products such as sugar and clothing as markets inevitably reform. It must also continue to combat NTMs elsewhere on international stages such as the WTO and in its regional Free Trade Agreement (FTA) negotiations. These NTMs will ultimately be more important as barriers to exports than tariffs, and a comprehensive survey of businesses would benefit exporters.

[5] See "Agro-food Products and Technical Barriers to Trade: A Survey of Issues and Concerns in the WTO's TBT Committee", OECD, Paris, March 2003. Available at http://www.oecd.org/trade. This document contains a background on TBT-related activities before the WTO during the period 1995 to 2001. It provides some examples of how disputes have been settled and the background to several more of the contentious issues raised by WTO member countries during this period. These issues covered a wider area than only SPS measures, and included issues such as food labelling.

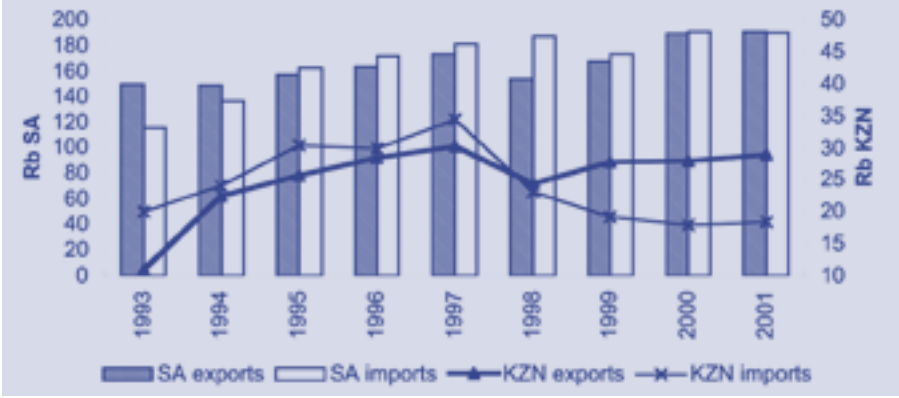
[6] Comesa Newsletter, Vol. 1, Issue 2, July 2003. "Market Access and the SPS Issues". Available at http://www.comesa.int. This newsletter draws upon the more comprehensive report, "Market Access Constraints", available at the same website.

[7] *The Guardian*, London, 21 September, 2003.

Key Features of the Post-1994 Pattern of Trade of KwaZulu-Natal with the Rest of the World: Emerging Trends and Issues[1]

In this article, Myriam Velia and Imraan Valodia of the University of Natal's School of Development Studies present some newly analysed features of the trade between SA's KwaZulu-Natal (KZN) province and the global economy, focussing on the establishment of a typology of manufacturing sectors according to their trade performance. The analysis spans two key periods of adjustment with regard to SA's integration in the international economy: 1993-1997 and 1998-2001. The first period captures the general opening of the SA economy, while the end of the second period – which opens on a difficult international trade context dominated by the East Asian crisis – shows SA securing new trade advantages with the EU and the US.[2]

Figure 1: KZN and SA trade



[Sources: SA Customs and Excise and TIPS trade database. Deflators from the Reserve Bank of SA]

How important is KZN to SA's trade performance?

An overview of KZN's overall pattern of trade.

KZN trade (imports and exports) expanded between 1993 and 1997 and again between 1999 and 2001 (*see Figure 1*). The province displayed a more pronounced initial response to SA's integration with the international community than what has been observed for SA overall. As the export expansion until 1997 remained below that of imports, KZN has had trade deficits throughout the first period. A sharp reversal occurred in 1998 when trade temporarily slowed down, and exports and imports declined. However the rate of import decline was such that KZN at this point shifted to a trade surplus. In contrast to the province, SA's initial trade surplus disappeared rapidly and an increasing trade deficit emerged between 1995 and 1998, which only disappeared in 2001.

KZN's contribution to SA trade was relatively stable at around 16.5% to 18% between 1994 and 1998. The share of trade, particularly imports, subsequently fell, and exports from other provinces, notably Gauteng and the Eastern Cape, expanded. In terms of imports, the shares of both KZN and Gauteng declined and those of the Western and Eastern Cape increased.

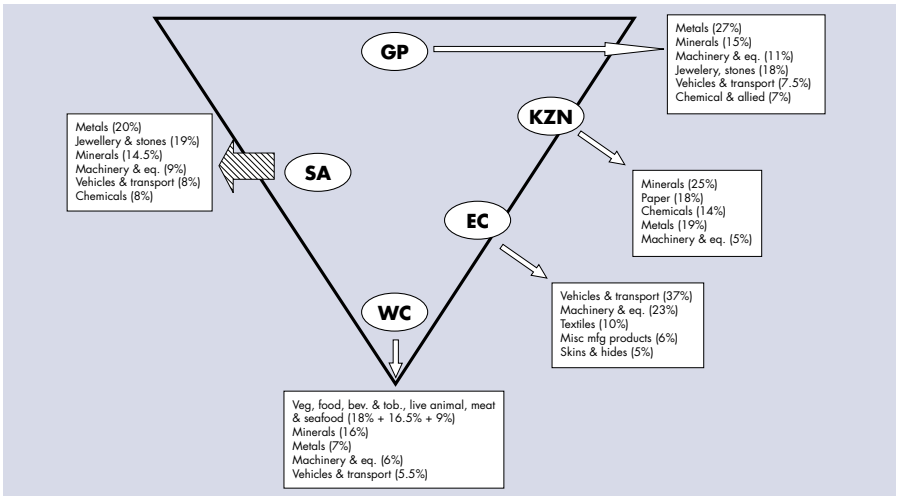
KZN's trade pattern is distinct from those of other provinces. Figure 2 sets out the sectors which most recently dominated the export composition of various provinces and of SA overall. KZN is in a strong and unique position in *paper* products and potentially in *minerals* and in *metals*. It can be seen that agro-industry trade leads exports from the Western Cape, while lighter manufacturing make up a large part of exports from the Eastern Cape. Some competition exists between Gauteng and KZN in the trade of *machinery and equipment*, and *metals goods*.

Parallel to trade, KZN is a substantial contributor to SA's manufacturing performance. According to the 1996 Census of Manufacturing, KZN accounted for 20% to 22% of SA's manufacturing establishments, labour costs and net profits, second only to Gauteng's contribution.

The structure of KZN trade: shifts in the dominance of some key products

The Census of Manufacturing data shows that KZN's manufacturing and trade were concentrated in a few sectors: *refined petroleum, chemical, rubber and plastic,* and *basic metals, fabricated metal products, machinery and equipment*. Several large manufacturing

Figure 2: Composition of exports of SA and selected provinces: 1998-2001



[1] Based on a report prepared for the KwaZulu-Natal Department of Economic Development and Tourism. The full report is available at http://www.nu.ac.za/csds.

[2] The data used are primarily from the Customs and Excise division of the SA Revenue Services. These data, specified at the nine-digit level of the Harmonised System (HS) nomenclature, are re-aggregated at the four- and two-digit level at 2000 constant prices.
Trade is specified as it originates from/reaches a postcode area where the firm that engages in the trade is located. Thus the final destination of imports (and conversely, the origin of production) does not have to be the province under consideration. This article focuses, for illustrative purposes, on KZN's trade performance, but the data exists for all SA provinces and the analysis can therefore be extended to other provinces.

Table 1: Export intensity and share of core manufacturing sectors (KZN 1996)

	Share of output (%)	Share of exports (%)	% of output exported	Share of paid employment
Refined petroleum products, chemical, rubber & plastic products	18.8	22.1	31.4	10.5
Basic metals, fabricated metal products, machinery & equipment	18.5	50.1	72.4	14.6
Food, food products & beverages	17.6	3.8	5.8	13.6
Wood, wood products, paper & paper products	15.9	14.3	24.0	13.5
Textiles, clothing & leather goods	13.7	3.7	7.1	32.6
Transport equipment	10.0	3.6	9.5	6.1
Furniture & other major groups not elsewhere specified	2.2	1.2	15.0	4.1
Non-metallic mineral products	1.7	0.2	3.7	2.8
Electrical machinery and apparatus	0.9	0.7	22.8	1.0
Precision & optical & communication equipment & apparatus	0.6	0.1	4.6	0.9
Total	100	100	26.7	100

[Sources: Census of Manufacturing (1996) and Customs and Excise trade data (own calculations)]

sectors, *notably food, food products and beverages,* and *textiles, clothing and leather* displayed low export intensities (*see Table 1*).

HS data also shows that KZN's trade is concentrated in a few product groups. Four key product groups drove the export performance – *metal, mineral, chemical and allied,* and *paper* products (*see Table 2*). In other words, heavy industry and natural resource goods strongly dominate the composition of exports. Only 4.4% of the province's exports were in agro-industry. This is, however, a small export sector in SA, accounting for about 8% of total exports. Table 2 shows that important differences between the composition of KZN's and SA's trade are only partially explained by the fact that SA's exports are primarily in *precious stones and metals*, a sector generally absent from KZN.

Fluctuations typify the export performance of KZN's core sectors – exports from the *metal* sector declined markedly whereas those in the *mineral* sector rose. Fluctuations were most pronounced in *chemical and allied* as well as in *paper*. The performances differ substantially across the two periods of analysis and KZN has witnessed a recent expansion of its exports in the residual/smaller export sectors.

KZN's imports are also concentrated (*see Table, part 2*). *Mineral products, machinery and industrial equipment* and goods from the *chemical and allied* industry averaged 61% of imports in the first period. Changes over the second period were comparatively abrupt for *minerals* and *machinery and equipment*. With a shrinking import base, *textile* imports have become apparent. One aspect of the second period is that *mineral* imports have almost disappeared since 1997.

A different pattern of imports comes through once petroleum data (HS27) are excluded, but KZN's import pattern remains different to SA's. With no change in KZN's refining capacity, either imports have declined following the relocation of a company outside of KZN, or oil prices have affected the values of imports. In absolute terms, imports in *machinery and equipment* dropped by about 17% per year between 1998 and 2000. Imports also declined for the other main sectors and the residual categories.

Table 2: Structure of trade for core sectors: KZN and SA

Part1: Exports

	% of total KZN		% of total SA		% of total SA excl. precious stones and minerals	
	1993-1997	1998-2001	1993-1997	1998-2001	1993-1997	1998-2001
Paper (HS47 to HS49)	13.9	18.3	3.1	4.2	4.6	5.2
Chemical & allied (HS28 to HS38)	15.1	13.8	5.8	7.09	8.7	8.7
Mineral (HS25 & HS27)	17.6	24.75	12.5	14.5	18.8	17.9
Metal (HS72 to HS83)	33.9	18.6	14.5	19.6	21.8	24.1

Part 2: Imports

	KZN		SA	
	% of total KZN		% of total SA	
	1993-1997	1998-2001	1993-1997	1998-2001
Chemical & allied	13.8	16.35	10.8	10.7
Machinery & equipment	15.5	22.2	31.4	28.9
Mineral	31.8	7.3	8	11.9
Textiles		8.4		2.8

[Sources: Customs and Excise and TIPS trade data]

KZN trade: detailed sectoral performance

An overview of sectoral trade performance

KZN's concentrated pattern of trade across a few sectors of activity is generally maintained at the sub-sectoral level. However, this does not preclude shifts in terms of the dominant products within sub-sectors over time. The information set out in Table 3 reflects the trend in the province of a comparatively rapid shift in the products exported within the major export groups.

Imports of *mineral* products primarily fall within the *mineral fuels and oil* group. Exports, initially spread between petroleum fuel and ores, slag and ash, progressively shifted away from the former in favour of the latter sector. Importantly, the sub-sector HS2709 (oils and oils obtained from bituminous minerals, crude) disappeared in 1998, although some mineral fuel imports remained. In *metals*, the initial trend of exports shifting away from articles of iron and steel towards aluminium items reversed in the second period. Shifts were away from unwrought aluminium (*see Table 3*).

For *machinery and equipment*, over 70% of imported items fell within the mechanical appliances group, although there was a great diversity of appliance type traded and complex changes over time (pumps/compressors, bull-dozers and other extracting machineries were imported, and recently machinery for the tobacco industry). Bells, burglar and fire alarms, parts of broadcasting instruments, centrifuges, and pulley tackles and hoists were exported.

A much less consistent pattern appears for *chemical and allied*, with trade switching across sub-sectors depending on the year under consideration. For exports, the share of *inorganic chemical* products declined

Table 3: Sub-sectoral structure of KZN exports (1997 and 2001)

		1997	2001	Of which	1997	2001
Paper	Pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard	67%	57%	Chemical wood pulp, dissolving grades	74%	67%
Chemical & allied	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes			Titanium oxides	67%	38%
		56%	43%	Diphosphorus pentaoxide; phosphoric acid and polyphosphoric acids	18%	37%
Mineral	Ores, slag and ash	53%	63%	Iron ores & concentrates	31%	58%
Metal	Iron & steel	46%	64%	Flat-rolled products of iron or non-alloy steel (HS 7208)	26%	14%
	Aluminium & articles of	46%	21%	Unwrought aluminium	92%	1%
				Pig iron and spiegeleisen in pigs, blocks or other primary forms	11%	19%
				Aluminium plates, sheets and strip, of a thickness exceeding 0.2 mm	3%	80%

[Source: Own calculations based on Customs and Excise data]

in favour of an increasing share of *miscellaneous chemical and allied* items (for example, insecticides, rodenticides, fungicides and herbicides). The share of imports of inorganic chemical items increased, displacing miscellaneous chemicals imports. However, this changed again in the second period, although imports in these segments were still important. Finally, chemical wood pulp and other fibrous cellulosic items remained the dominant export sub-sector within *paper*.

Other changes are less easily identifiable. A series of small sectors displayed a continuous export growth. These are primarily located in the *light manufacturing group* (arms, a small trade sector, made up, toys and games, and waxes, and animal and vegetable oils). Other larger groups which featured were *clothing* and *vehicles and transport*. The latter had a trade surplus between 1996 and 2000.

Within KZN: trade at the level of the localities

1997 trade data point out that central to southern Durban is the dominant trading zone for the period under study, accounting for 57% of provincial exports and 72% of imports. Empangeni in 1997 accounted for another 30% of exports, while the Empangeni, Pinetown and the Pietermaritzburg areas were respectively responsible for another 10%, 8.5% and 5% of KZN's imports. A strongly localised pattern of trade can generally be discerned.

Most goods were imported by the central to south Durban area, with the exception of *arms* (55.5% of which was destined for Pinetown). In terms of the contribution of other localities to sectoral trade, 35% of *vegetables* were exported from the Ladysmith area, 59% of *footwear* from Pietermaritzburg and 97% of *arms* and 56% of *accessories* from Pinetown. Although 53% of *chemical and allied* products were exported from Empangeni, localities other than Durban were typically involved with small trade sectors.

A typology of changes in the trade performance

There are numerous ways to characterise trade performance (*see The Monitor Company, December 2000*). This article considers whether the sector has a continuous trade surplus or deficit and whether the export growth of the province for a sector is in excess of that of SA. KZN's trade performance is thus defined relative to SA's, whilst incorporating the overall strength of the sector in foreign markets in terms of exporters' capacity to expand or maintain orders and the overall capacity of the sectors to meet (KZN) demand. Although the typology of sectoral exports focuses on distinguishing the 'stars' from other sectors, there are still potential export prospects for sectors in deficit at provincial level but with export growth in excess of that of SA.

Underlying the first-period typology of sectoral performance is an overall pattern of trade specialisation – sectors in deficit in 1993 and 1994 fell further in deficit whereas sectors in surplus improved their positions. Only a small core of sub-sectors in deficit shifted to surplus. With the exception of *vehicles and transport* these are small trade sectors. When the conventional *textiles* sector is disaggregated, *clothing* and *made up* fall within this category, generally experiencing surpluses from 1995. However, the surplus is not sufficient to alter the textile deficit substantially, in spite of a strong expansion of exports. Another sector – *chemical and allied products* – that exhibited a large trade deficit position in 1993 temporarily turned to surpluses between 1994 and 1995. The deficit then re-emerged but disappeared in the second period. The typology is reported in Table 4.

Although the above information does not include the quality of the aforementioned sectors' trade developments, *paper* and *chemical and allied* were reported as 'attractive' sectors of activity in the Monitor Company Report. Moreover, not only have three of the four sectors important to the province maintained their trade performance, new smaller sectors have emerged as sectors 'with potential' or 'stars'.

However, a worrying trend is discernable in *metals*, with exports declining in the second period. The dismantling of the General Export Incentive Scheme (GEIS) might account for the change (see Valodia, 1996). What the typology fails to indicate is the extent to which the trade performance of a particular sector is related to that of another (for example, *wood* and *paper*), and whether new trade deficits – as for the vehicle sectors – are to be viewed as problematic.

The analysis can be further refined to account for new opportunities. Through the Trade and Development Co-operation Agreement that underpins the EU-SA Free Trade Area pact, Jachia and Teljeur (1999) find that *vegetables* and *live animals, meat and seafood* exports from SA are set to achieve the highest relative gain around preference margins.

Additional sectors with high preference margin gains are *textiles, base metals* and *vehicles and other transport equipment*, some of which are comparatively large production sectors in the province. SA's *vegetables* and *base metals* are moreover predicted to benefit from a net export expansion under the agreement.

In contrast, Stern and Netshitomboni (2002) identify few opportunities available for an expansion of exports to the US, on the basis of the current pattern of export performance. Besides clothing, the authors identify two types of product groups for which Agoa is relevant – sub-sectors that are under-traded, and products that would qualify for Agoa but are little traded. In their analysis, at a refined level of aggregation, three products identified in the first group were exported by KZN (petroleum

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Table 4: Typology of manufacturing sectors in KZN based of their trade performance

Deteriorating path	Potential but under-performing	Consistently strong sectors / new 'star' potential
Strong deterioration signs	Mineral products	Paper
Leather and hides	Food, beverages and tobacco	Wood
Textiles	Jewellery and stones	Chemical and Allied
Machinery and equipment	Made up	Clothing
Miscellaneous manufacturing products (other)	Precision and optical	
Accessories	Waxes and animal & vegetable oils	
Unclear developments in the long run	Toys and games	
Metals (?)	Made up	
Vehicles and transport (?)	Precision and optical	

[Note: The trade balance captures the gap between production and domestic demand. This does not exclude the possibility that a sector can be in a strong export position – as is the case with textiles].

and oils obtained from bituminous minerals other than crude, motor cars and other motor vehicles principally designed for the transport of persons and unwrought aluminium). In the second group, one particular vehicle sub-sector – motor vehicles in the transport of goods – has notable export prospects.

Summary

KZN trade is driven throughout the period of analysis by a few manufacturing sectors and sectors biased towards a relatively limited processing of commodities. In 1996, the *metal, mineral* and *chemical and allied* sectors had a comparatively strong export intensity. An expansion of production in these sectors is likely to be associated with export growth. The *wood and paper* sector is in an intermediate export position but the trade data point out that exports in this sector are decreasingly driven by *paper* products.

A number of questions emerge from the KZN pattern of trade. Generally, as KZN trade is dominated by heavy and basic manufacturing commodities, are there province-specific barriers to beneficiation? Moreover, to what extent is the level of development an important constraint to an expansion and diversification of trade? Finally, there are clear issues surrounding the limited role of localities other than Durban and Empangeni in provincial trade. What are the possibilities in integrating most of the province with foreign markets?

Positively, the analysis shows that new small export sectors have emerged in the province, while the large sectors have generally maintained their performance throughout the period of analysis. Therefore, new trade opportunities available for SA might generate a new export momentum for KZN as elsewhere.

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or
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ledwards@commerce.uct.ac.za,
www.commerce.uct.ac.za/tarpog

Is the Public Sector Crowding out an Appropriate Analytical Framework for the Liberalising Economy of SA?

Rob Davies of the University of Zimbabwe and senior economist at TIPS Dirk Ernst van Seventer examine why private sector investment in SA has not filled the space created by the reduction of the public sector as a driver of the macroeconomy.

Keynes taught us that a public sector deficit might raise aggregate demand through the multiplier process – and thus bring underutilised plant and unemployed labour into production. However, it was recognised early that this expansionary effect can often be offset by a 'crowding out' effect, in which the private sector shrinks as the public sector expands. This might operate through many channels, but typically it is argued that the deficit increases government's appetite for finance, pushing up interest rates and raising the costs of private investment, thus causing the latter to fall. This effect would be enhanced by tight monetary policy. Any expansionary effect the budget deficit might have had is thus offset because the private sector is elbowed aside. Its main consequence is to change the composition of demand, swapping private investment for government consumption. This of course has implications for long-term growth.

Although many criticisms may be lodged against Keynes, this view retains a strong hold on policy-makers. It accords with the common sense of practical men, who, in Keynes' words "believe themselves to be quite exempt from any intellectual influences". It certainly seems to have influenced macroeconomic policy in SA, which has placed a high premium on fiscal and monetary discipline, at least since the adoption of the Growth, Employment and Redistribution (GEAR) policy. The fiscal authorities have been strongly motivated by a desire to reduce the deficit, and the monetary authorities by a desire to avoid inflation.

One explanation for this prudent motivation relates to the liberalisation that has taken place over the 1990s. SA has gone through a 'double liberalisation' since 1993 – one political, the other economic. The economic liberalisation started as the country reintegrated into the global economy, but was given further impetus in the late nineties by policy-driven trade and financial liberalisation. For such liberalisation to provide any benefits, a consistent package of policies – including some level of macroeconomic stability – must be implemented.

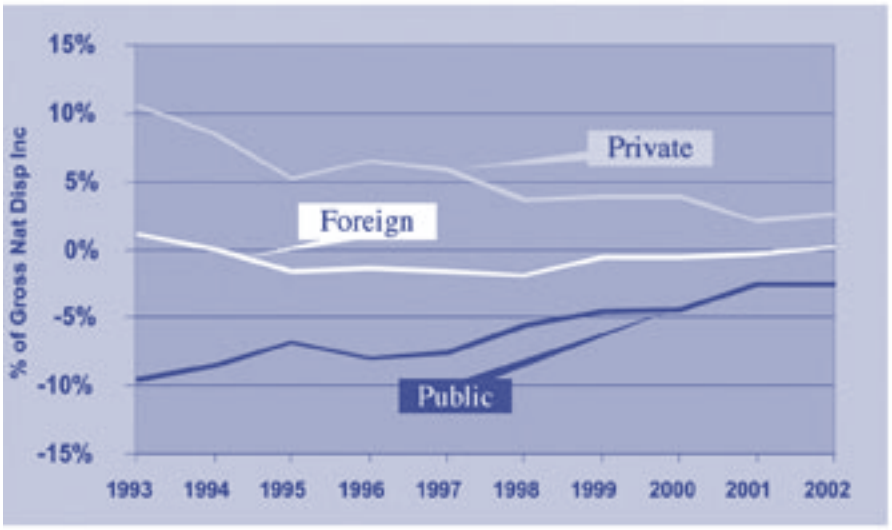
The national accounting framework is useful when looking back at some macroeconomic trends. While this will not tell us what caused what, it does give some clues about where to begin looking for explanations.

National accounting reminds us that the total use of goods and services in any period must be equal to their total availability. We can use this identity to show the 'resource gaps' in the economy. The 'domestic' gap shows the gap between the use of goods and services by domestic sectors and their availability from domestic sources. This can be measured by the difference between domestic savings and domestic investment. The national accounting identity says that a gap here – say we invest more than we save – is only possible if it is matched by a 'foreign' gap. This is measured by the difference between what foreigners buy from us – exports – and what we buy from them – imports. So we can only invest more than we save if there is a net inflow of goods and services from abroad, that is, a deficit on the current account of the balance of payments (CAB).

We can break the domestic gap down further into a private (households plus corporations) and a public gap by taking the differences between the savings and investment of these macro institutions. Together, these two gaps must match the foreign gap.

Figure 1 shows trends in these gaps over the past decade, expressed as percentage of national income. The first thing to notice is that the foreign gap – shown as the middle line – is relatively small. This is what one would expect with a floating exchange rate regime: exchange rate adjustments prevent the CAB from departing too far from zero. Its slight shift from positive to negative is consistent with the expectation that the financial liberalisation that accompanied the trade liberalisation should lead to inflows of foreign capital. Since this would mean the capital account of the balance of payments should be in surplus, it also implies

Figure 1: Gap Accounting for SA: 1993-2002



[Source: SA Reserve Bank Quarterly Bulletin and own calculations]

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SA TRADE AT A GLANCE

SA Trade Flows to the World

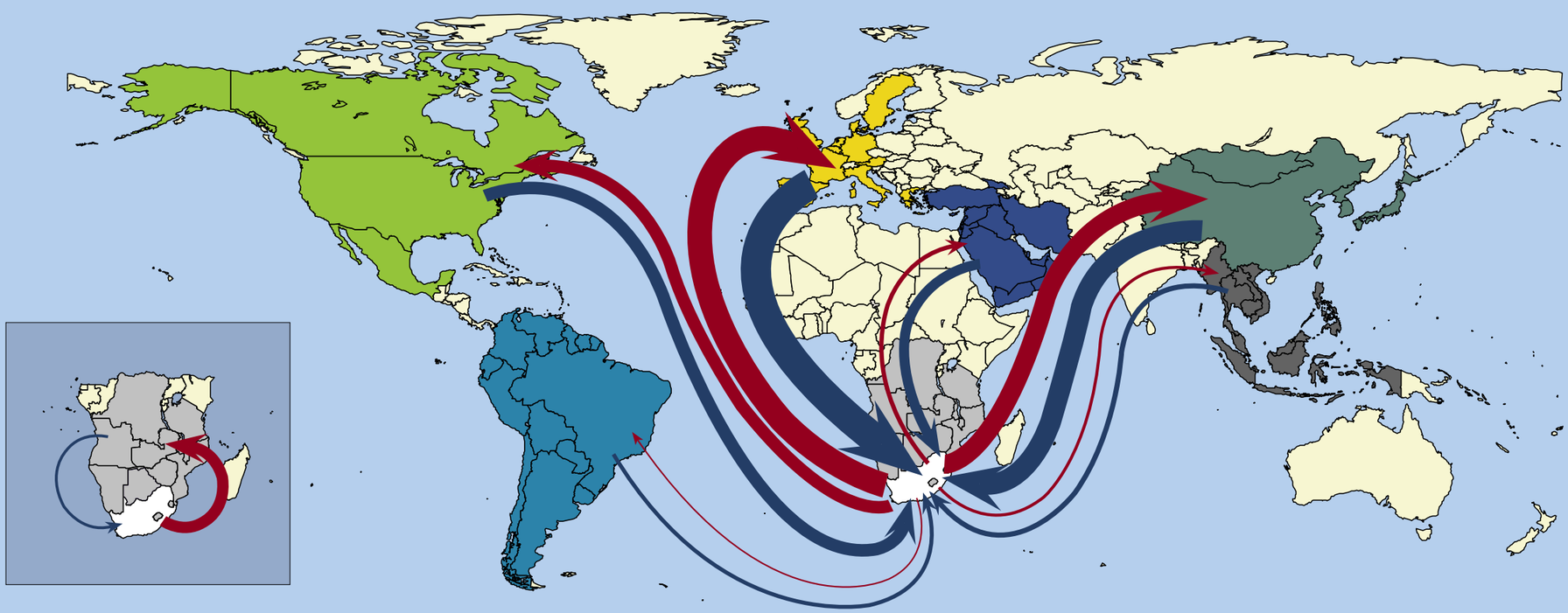
	Q3 2002		Q3 2003		Q2 2003		Q3 2003	
	Rbn	US$bn	Rbn	US$bn	Rbn	US$bn	Rbn	US$bn
Total Exports	64.4	**6.2**	62.7	**8.5**	58.9	**7.6**	62.7	**8.5**
Total Imports	69.2	**6.6**	63.9	**8.6**	60.9	**7.9**	63.9	**8.6**
Trade Balance	-4.9	**-0.5**	-1.2	**-0.2**	-2.1	**-0.3**	-1.2	**-0.2**

Note: The substantial change in the dollar value of exports whilst the rand value of exports declines is as a result of the appreciation of the rand.

SA Trade with the World: Percentage Growth Rate

	Q3 2002 – Q3 2003 (%)	Q2 2003 – Q3 2003 (%)
Total Exports	**-2.5**	6.6
Total Imports	**-7.6**	5.0

Note: Growth rates have been calculated on the Rand values.



Top Three Non-Mineral Exports from and Imports to SA from Regions (HS4; Q3 2003)

	Exports			Imports		
Regions	Products	Value (R'000)	Share (%)	Products	Value (R'000)	Share (%)
EU	Machinery	1,505,746	14.2	Vehicle Components	3,440,017	14.5
	Motor Vehicles	845,791	8.0	Motor Vehicles	1,878,815	7.9
	Wine	780,892	7.4	Pharmaceuticals	1,056,340	4.4
East Asia	Motor Vehicles	1,847,133	43.6	Vehicle Components	1,760,855	16.1
	Wood Chips	530,188	12.5	Data Processing Equipment	613,209	5.6
	Citrus Fruit	188,143	4.4	Motor Vehicles	529,166	4.8
NAFTA	Motor Vehicles	910,918	23.9	Aircraft	557,188	9.0
	Machinery	223,299	5.9	Motor Vehicles	314,966	5.1
	Vehicle Components	187,387	4.9	Medical and Surgical Equipment	194,792	3.2
SADC	Goods Vehicles	244,420	4.9	Cotton	212,022	20.5
	Maize	192,910	3.8	Works of Art	92,368	8.9
	Fertilisers	165,033	3.3	Tobacco	37,584	3.6
Middle East	Citrus Fruit	176,911	18.1	Nitrogenous Fertilisers	193,995	18.8
	Sugar and Sugar Products	88,097	9.0	Acyclic Hydrocarbons	60,458	5.8
	Chocolate and Chocolate Products	36,343	3.7	Potassic Fertilisers	48,204	4.7
South-East Asia	Chemical Wood Pulp	159,281	20.0	Vehicle Components	240,159	9.6
	Motor Vehicles	105,799	13.3	Office Equipment Parts	220,489	8.8
	Citrus Fruit	37,578	4.7	Data Processing Machines	190,666	7.6
South America	Insecticides	48,876	14.9	Vehicle Components	480,934	26.0
	Vehicle Engine Parts	34,832	10.6	Soybean Oil	184,992	10.0
	Fertilisers	30,171	9.2	Soybean Oilcake and Residue	169,117	9.1

Note: Share refers to the proportion of total exports/imports from the specified trade partner

EU
East Asia
NAFTA
SADC
Middle East
South-East Asia
South America

Top 10 Export Markets and Import Sources (Q3 2003; all products)

	Exports		Imports		
Country	Value (Rbn)	Share (%)	Country	Value (Rbn)	Share (%)
UK	6.4	10.3	Germany	9.4	14.9
US	6	9.5	US	5.9	9.2
Japan	5.3	8.5	UK	5.6	8.7
Germany	3.4	5.4	China	4.5	7.1
Netherlands	3	4.8	Saudi Arabia	4.4	7.0
Italy	1.7	2.7	Japan	4.3	6.7
Belgium	1.6	2.6	France	2.8	4.4
China	1.6	2.6	Iran	2.5	3.9
Spain	1.5	2.4	Italy	2.2	3.4
Australia	1.5	2.4	Brazil	2.5	2.3
Total	32.1	51.3	Total	43.2	67.5

Note: Share refers to the proportion of total exports/imports

SA Trade with the World: Top 10 products (HS2; Q3 2003)

Products	Total Exports (Rbn)	Percentage of Total Exports	Products	Total Imports (Rbn)	Percentage of Total Imports
Precious Metals	15	23.9	Nuclear Reactors	11.2	17.4
Iron and Steel	7.5	12.0	Minerals and Fuel Oils	8.2	12.8
Motor Vehicles	6.1	9.8	Electrical Machinery	6.2	9.8
Nuclear Reactors	4.1	6.5	Vehicle Components	6.2	9.7
Minerals and Fuel Oils	3.9	6.2	Motor Vehicles	5	7.8
Fruits and Nuts	2.11	3.4	Professional and Scientific Equipment	2.2	3.4
Ores, Slag and Ash	2.1	3.3	Pharmaceutical Products	1.6	2.5
Aluminium Products	1.9	3.0	Plastics	1.6	2.5
Beverages	1.4	2.2	Precious Metals	1.5	2.3
Electrical Machinery	1.2	2.0	Organic Chemicals	1.4	2.2
Total	45.3	72.3	Total	45.1	70.5

SA Trade by Region (Rbn)

	Q3 2002		Q3 2003		Q2 2003		Q3 2003	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
EU	21.0	29.3	20.2	26.1	18.8	25.4	20.2	26.1
East Asia	7.5	11.8	10.0	11.6	9.3	11.1	10.0	11.6
NAFTA	6.7	9.5	6.6	6.6	6.1	7.0	6.6	6.6
SADC	6.4	1.4	6.0	1.5	5.7	1.3	6.0	1.5
Middle East	2.7	3.6	2.3	5.3	2.2	3.6	2.3	5.3
South-East Asia	1.6	3.0	1.6	2.7	1.7	2.6	1.6	2.7
South America	0.7	1.8	0.6	2.1	0.7	1.7	0.6	2.1
Rest of Africa	2.6	1.1	2.6	1.2	2.5	1.2	2.6	1.2
Rest of the World	15.1	7.7	12.9	6.9	11.9	7.0	12.9	6.9

(continued from page 9)

a deficit on the CAB. The fact that it is small shows that, whatever financial capital flows took place, the net flow of resources associated with this was small.

The second feature in Figure 1 is that the negative public gap has been reducing over the period. This suggests that the fiscal discipline motivating GEAR has been successfully translated into practice. Finally, with the foreign gap remaining close to zero and the public gap becoming less negative, the positive private gap at the start of the period must have reduced. The downward trend in Figure 1 is implied by the national accounting.

This cursory overview suggests that the 'crowding out' framework of GEAR is vindicated. The negative public sector resource gap has been reduced. The private sector has a much better balance between its investment and savings. The 'crowding out' school would have said that because the public sector had a large deficit in 1994, the private sector was obliged to save more than it invested so that it released resources for use by the public sector. In other words, there was high 'crowding out'. From this point of view the trends in Figure 1 provide at least a superficial vindication of the policies motivated by the 'crowding out' framework: the public sector has provided 'space' to the private sector and private sector surpluses recorded in the early 1990s have indeed been reduced.

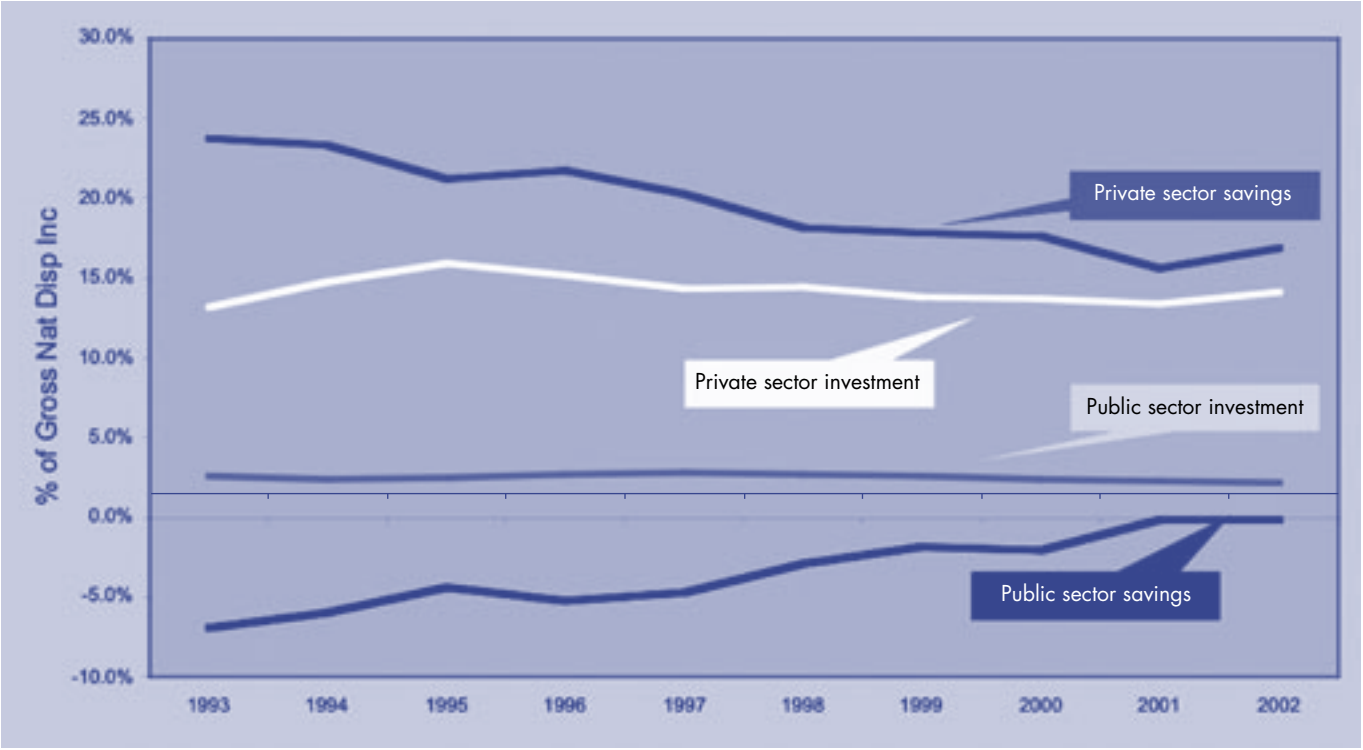
However, going one step further is illuminating. Figure 2 looks at the individual components – saving and investment – that make up the public and private sector gaps. It is striking that both private and public investment remained fairly constant relative to national income over the period. The immediate drivers of the trends observed in the gaps have been the declining private and the rising public savings rates. This suggests that while one side of the crowding out story – reducing the public sector – has worked, the other side has not. The aim of fiscal discipline in this framework is to create the space for increased private sector investment. It appears that instead the private sector savings rate fell, that is, every rand saved by the public sector is associated with a decline in private sector savings of more or less the same amount. Certainly, the fiscal authorities did not have in mind that the space that they would create with their fiscal discipline should be used for private sector consumption spending!

It is instructive to consider what the immediate effects might have been if the changes to the private gap required to match the concomitant change with the public and foreign gaps had come about with savings remaining constant and investment rising. A simple calculation shows that if the private gap over the period remained as it was but was brought about by the private savings rate remaining at its 1994 level of 23.3% while investment rose accordingly, there would have been an additional R221bn (in 1995 prices) of investment over the period 1994 to 2002. This is almost three times the level of investment in 1995, and would probably have had a significant effect on growth and employment.

The foregoing does not provide any explanation for these trends. However, a downward trend in the private sector savings rate is often observed when financial or trade liberalisation takes place. Prior to liberalisation, limited opportunities for private spending may lead to an artificial propping up of savings. In addition, opening up to foreign competition may squeeze profits and therefore savings by firms. This calls for more careful macroeconomic policy co-ordination.

Despite this decline in private savings, private investment has remained a constant proportion of national income. This perhaps suggests that savings do not drive investment in SA, although one would want to control for other determinants to decide this. More importantly, it suggests that, for various reasons, private sector investment has not filled the space created by the reduction of the public sector as a driver of the macroeconomy. Perhaps this calls for a more active role by the public sector to stimulate private sector investment, as it is unlikely that fiscal discipline on its own is going to do it.

Figure 2: Components of the Domestic Gap: 1993-2002



[Source: SA Reserve Bank Quarterly Bulletin and own calculations]

The SME Sector: Real Wage Rate Growth for SA Manufacturing by Size Class: 1972-1996

The small and medium enterprise (SME) sector in SA has been the focus of attention since the first democratic elections in 1994. Not only does this sector offer the opportunity to enhance entrepreneurship amongst previously disadvantaged communities, but it is also seen as one that has the ability to absorb relatively more labour per unit of output than large-scale enterprises. One possible reason for the relatively higher labour absorption of the SME sector is that it pays relatively lower wages per worker. Dipak Mazumdar, Professor at the University of Toronto's Centre for International Studies and senior economist at TIPS Dirk Ernst van Seventer investigate whether this is indeed the case and whether it has resulted in relatively better performance by the SME sector in the manufacturing industry. This article – the second in a series of discussions in the TIPS Trade & Industry Monitor on SMMEs in SA – is a shortened version of Mazumdar and Van Seventer, 2002a, which can be found on the TIPS website at http://www.tips.org.za/research.

The data analysed offer a breakdown of key economic variables (value added, employment, wage bill, etc.) in the manufacturing industry by four size groups of enterprises: small (employing 1-19 workers), medium (20-49 workers), large (50-199 workers) and very large (employing more than 200 workers). Data is available for four points in time, spread over the period 1971 to 1996. Although the results are not as accurate as they might have been if time series of annual data were available, the analysis of the changes over the discrete time intervals gives some indication of the economic performance of the different size groups of firms.

Data made available in an unpublished format by Ntsika Enterprise Promotion Agency (1999) has been used. Although Ntsika has tried to cover all sectors in an attempt to bring size class differences in the SA economy to the surface, this analysis is limited to the manufacturing industry. These data are benchmarked on the SA Standardised Industry Database (*see SASID, http://www.tips.org.za/data/*).

As a starting point for the analysis, it should be should pointed out that the relative size of the SME sector in SA manufacturing is still very small, although it has been increasing somewhat over time. Table 1 offers – for manufacturing as a whole – a summary of the growth rates of value added, employment and real wages by the four size groups of enterprises.

Table 1: Growth rates of employment, real value added and real wages (annual period averages)

		Employment growth			Real value added growth			Real wage growth		
		1	2	3	4	5	6	7	8	9
	Size class	1972-1988	1988-1993	1993-1996	1972-1988	1988-1993	1993-1996	1972-1988	1988-1993	1993-1996
1.	Small	3.9	4.5	3.0	3.7	0.0	9.4	0.2	-2.3	4.8
2.	Medium	2.6	3.0	0.9	2.5	1.6	4.1	0.4	-0.4	-0.2
3.	Large	2.0	-0.5	-0.8	2.9	-0.4	1.1	1.1	0.7	0.2
4.	Very large	1.6	-2.9	0.6	3.7	-2.4	3.5	1.9	1.2	0.1
5.	Total	1.9	-1.3	0.4	3.4	-1.6	3.4	1.5	0.5	0.4

It can be seen that (net) output growth in the small and medium enterprises exceeded the average for the whole industry and was much higher than the growth rate in the very large enterprise class during the period 1972 to 1988. In the years 1988 to 1993, total output growth in manufacturing was negative and output growth in the small enterprises was stagnant, although the medium-sized enterprises registered a positive growth rate. In the last period, the SME groups registered a remarkably higher growth rate.

Employment growth was significantly higher in the small and medium-sized groups, even in the period of output stagnation (1988 to 1993). This has been associated with stagnant real wage growth in the first period and a substantial negative trend in the second period. Output growth in the small enterprises has been high in the most recent period, with substantial employment growth in the small size group (but not so much in the medium group) associated with an actual positive growth of real wages.

The growth rates of value added, employment and real wages are tied together in a complicated relationship. For the purpose of this article, the quantitative relationship between these variables has been explored in terms of a decomposition model. In particular, it is emphasised that, given the growth rate of value added, the fruits of output growth can be taken either as growth in employment or growth in real wages per worker. Labour market institutions determine what division will occur in a particular class of firms. Here, our major concern is to see if there is a significant difference between the various size groups of enterprises on this important point. In particular, real wage growth can be decomposed into four additive components, as can be seen in Table 2.

The results of the decomposition for total manufacturing are shown in Table 3. We have already drawn attention to the fact that output growth was higher in the SME groups than in the larger firms (column 1 – the 'output effect').

This is confirmed for the growth rate of the wage bill for all three periods. The price effect, which constitutes a leakage from the growing output available for distribution either as employment growth or wage growth, consists of two elements: (i) the wage share effect, which is negative if the wage share is declining or rather if the ratio of the growth in the wage bill is lower than the ratio of growth in GDP; and (ii) the domestic real exchange rate effect. For all size groups, the latter effect was positive in the first two periods as the producer prices increased faster than consumer prices.

This was offset – sometimes more than completely – by the wage share effect, which was negative throughout since the wage bill

(continued on page 14)

(continued from page 13)

Table 2: Real wage growth decomposed into four additive components

	Effect	Impact on real wage growth
1.	Output:	With positive growth in value added (output), the impact on real wage growth is positive. If growth in value added is negative, real wage growth will be affected negatively.
2.	Employment:	With higher employment growth, real wage growth will be affected negatively, since the wage bill will be shared by more workers.
3.	Price effect:	
	a) Wage share:	A positive effect of producer price inflation is eroded by a rising share of capital.
	b) Domestic real exchange rate:	If consumer price inflation is higher than producer price inflation, real wage growth is eroded.

increased at a slower rate than value added and the wage share in GDP was declining. Only in the third period did the domestic real exchange rate effect turn negative for most size groups. Thus the 'leakage' due to the price effect was not very significant except in the 1993-1996 period.

Turning to the division of the wage bill between employment and wage growth, it is clear that the SME groups in the first two periods tilted strongly toward employment growth, resulting in a stagnation of real wages in the 1972-1988 period, and an actual decline over the years 1988-1993. This is in sharp contrast to the experience of the large and very large size groups, which clearly favoured wage growth at the expense of employment increase. This is in accordance with expectations that the 'insider power' of those already in employment would be stronger in larger firms. Wages in the SME sector would largely be determined by the supply price of labour, which did not increase significantly over time in the SA economy. These trends were continued in the 1993-1996 period, with the exception of the smallest size group.

The small size class of firms had a spectacular increase in the reactor growth of output and of the wage bill in the 1993-1996 period, and contrary to the experience of the previous years, the larger part of this increase was taken in the form of real wage growth, although employment growth was still substantial at 3% per annum. The abrupt shift in the trade-off to wage increases (which, incidentally, is not shared by the medium-size class of firms) requires explanation. There is no evidence of a significant increase in alternative earnings of labour outside formal manufacturing that would have led to an upward pressure on wages in small enterprises. It is possible that institutional factors, like minimum wages, impacted disproportionately on the small firm sector. Before 1994, it could be argued that small firms were displaying relatively lower wage rate. A sudden change in labour market regime required SMEs to adjust more rapidly than larger firms to new formal sector wage determination rules. Therefore, there was more of a catch-up effect for SMEs compared with large firms.

Nevertheless, the reasons for the large wage increase in the small-scale sector in SA need to be researched further. Further study at the disaggregated industry level (not presented here) shows that the pattern observed for all manufacturing was valid for most somewhat disaggregated industries. This also suggests that institutional factors were responsible for the substantial 'wage push' in small enterprises. It should be noted that the latest time period for which data have been assembled is a short one. It is important to lengthen the time period by incorporating data for more recent years when they become available.

This type of analysis by size class of firms has not been done systematically for many other countries. Mazumdar and Sarkar (2002) have undertaken a similar exercise for the post-liberalisation period in Indian manufacturing, though the size groups differ somewhat from those defined for SA. It is nevertheless interesting to consider a broad order of comparison between the two countries. Both countries in the post-liberalisation phase are trying to promote dynamic industrial programmes that are less dependent on restrictive import-substituting strategies.

The major point of similarity between the Indian experience and that of SA in the 1993-1996 period is that in both countries, output growth was stronger in the small-medium size groups. In the Indian case, however, the smaller firms increased at the expense of enterprises employing more than 1,000 workers. Also, in

Table 3: Results of the decomposition exercise, manufacturing (average annual growth rates)

Size-group	Output effect	Employment effect	Real wage growth	Ratio of nominal wage bill growth and GDP growth	Domestic real exchange rate	Wage share effect
			A: 1972-1988			
Small	3.6	3.9	0.3	0.96	1.1	-0.6
Medium	2.4	2.6	0.4	0.97	1.0	-0.4
Large	2.8	2.0	1.1	0.95	1.0	-0.7
Very large	3.4	1.6	1.9	0.93	1.1	-1.0
All	3.2	1.9	1.5	0.94	1.1	-1.3
			B: 1988-1993			
Small	0.0	4.5	-2.3	1.02	1.9	0.3
Medium	1.5	3.0	-0.4	0.93	2.2	-1.2
Large	-0.4	-0.5	0.7	0.92	1.9	-1.3
Very Large	-2.3	-2.9	1.2	0.93	1.5	-1.0
All	-1.0	-1.3	0.5	0.94	1.7	-0.9
			C: 1993-1996			
Small	8.5	3.0	4.8	0.91	0.0	-0.8
Medium	3.1	0.9	-0.2	0.75	-0.4	-2.0
Large	1.0	-0.8	0.2	0.87	-0.6	-1.0
Very large	2.8	0.6	0.1	0.79	-0.4	-1.6
All	2.7	0.4	4.8	0.82	-0.5	-1.4
			D: 1972-1996			
Small	3.5%	3.9%	0.3%	0.96	1.2%	-0.5%
Medium	2.3%	2.4%	0.1%	0.94	1.0%	-0.8%
Large	1.9%	1.1%	0.9%	0.94	1.0%	-0.8%
Very large	2.2%	0.5%	1.5%	0.92	1.0%	-1.1%
All	2.2%	1.1%	1.1%	0.93	1.0%	-1.0%

the Indian case, the fastest output growth took place in the medium-size group (200-499), while in SA, the growth seems to have been most spectacular in the very small size group. There is significance in the fact that there is a pronounced shift of output to smaller firms in both countries after liberalisation. It reflects the worldwide tendency, noted most prominently in the US, that smaller firms have taken the lead in recent output growth in manufacturing.

Another point of similarity between the Indian and SA experiences is that, contrary to expectations, the trade-off between employment growth and wage growth has tilted to wage growth in the smallest size groups of firms.

It has been suggested that in the SA case, this may have been due to institutional policies favouring wage growth among the less well-paid sectors of industry. In India, there is some evidence that the supply price of labour in the unorganised or informal sector has increased in the period under consideration, giving an upward push to wages in the small scale sector, where wages are generally tied to the alternative earnings of labour in the informal sector.

However, it is worth mentioning another hypothesis that may be equally applicable to both the Indian and the SA cases. As the small-scale enterprises get going in the manufacturing sector, they may need to upgrade the quality and skills of the labour force to meet the needs of changing product market. The tilt to higher wages may reflect the superior skills of labour being used in the more dynamic small enterprises as they upgrade their position in the market. (Note that our data on wages are the average earnings of all workers employed in the enterprises). We cannot test this hypothesis because the Indian statistics do not record the measurable skills of workers in terms of education or experience, and while SA statistics do record this information, they do not record wage rates at the skill level.

The policy conclusions that follow from the above observations are rather clear cut. SMEs have made a positive contribution to real wage growth while increasing the demand for labour, although the kind of labour is uncertain. That these potential trade-offs have been achieved has been the result of rather phenomenal output increases. Policy-makers, it would seem, should therefore focus on supply-side constraints to SMEs, rather than the labour market. Such constraints may be the result of lack of demand or capacity, perhaps in the form of sufficient credit.

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WTO WATCH

Cancún: Crisis or Catharsis?

Bernard Hoekman[1] from the World Bank discusses whether Cancún represents a crisis that will derail multilateral co-operation on trade for some time to come, or signifies a healthy development that will assist policy-makers to identify a more balanced and feasible negotiating set. This article first appeared in the Southern Africa Trade Research Network's (SATRN's) Quarterly Bulletin Number 3 of October 2003.

In September, WTO members met in Cancún for a mid-term review of the Doha Round of trade negotiations that were launched in November 2001. Trade ministers entered the fifth WTO Ministerial divided on agricultural and non-agricultural negotiating modalities, on whether to launch negotiations on the so-called Singapore issues and their possible scope, on the approach to take towards strengthening existing WTO provisions on special and differential treatment (SDT) for developing countries and on how to address implementation problems left over from the Uruguay round.

In the period following the Doha Ministerial, most deadlines were missed, sometimes repeatedly. Only one of the major issues of concern to developing countries was settled before Cancún – TRIPS[2] and public health – and then only after long delays and rancorous negotiation. Although much progress had been made in moving towards a formula-based approach to reduce agricultural support and both agricultural and non-agricultural market access barriers – potentially creating a powerful vehicle to reduce the most distorting trade policies (export subsidies and tariff peaks) significantly – Ministers confronted a complex agenda. In the event, they failed to agree on how to move forward.

As documented by a plethora of recent research, agricultural protection, tariff peaks, tariff escalation and closed services markets in high-income countries discriminate against poor countries. High trade barriers in developing countries further reduce trade opportunities for South-South trade. Eliminating these trade distortions could help to raise millions of people out of extreme poverty (World Bank, 2001; 2003). A good Doha Round outcome is an important instrument to help to attain the Millennium Development Goal of halving income poverty by 2015. The failure of the meeting to agree on negotiating modalities to move the market access agenda is therefore not good news.

Cancún illustrated that realising the promise of trade reforms through reciprocal bargaining is a major challenge. The question confronting the international community is whether Cancún represents a crisis that will derail multilateral co-operation on trade for some time to come, or whether it represents a healthy development by helping policy-makers to identify a more balanced negotiating set that is feasible to pursue.

The rise in developing country participation

Clearly one of the most noteworthy aspects of the Cancún meeting was that developing countries came prepared to push for specific negotiating modalities and targets. Attention focused primarily on agriculture and the Singapore issues. The former is important not only for middle-income exporters such as Argentina, Brazil and Thailand, but also

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[1] Correspondence: Bhoekman@worldbank.org. The views expressed in this paper are personal and should not be attributed to the World Bank, its affiliated organisations, or the members of its Board of Executive Directors or the countries they represent.
[2] Trade-related Intellectual Property Rights

(continued from page 15)

for poor countries such as Benin and Burkina Faso. The latter was of particular concern to many low-income African and least-developed country (LDC) governments, as well as a number of more advanced countries such as Malaysia. On both subjects, developing countries formed coalitions.

Brazil, China, India and SA formed a coalition consisting of over 20 countries to negotiate on agriculture.[3] They appointed two Ministers for each of the three major elements of the agricultural agenda (domestic support, market access and export competition), and negotiated as a bloc in the bilateral discussions that characterise the WTO process. Despite active efforts to split the group through specific offers targeted at individual countries, the coalition remained together. This was a first for the trading system, as in the past such coalitions remained limited to agenda setting or blocking coalitions, and did not extend to actual negotiation coalitions.[4]

West African countries – Benin, Burkina Faso, Chad and Niger – formed a coalition around a proposal to abolish export and other trade-distorting subsidies granted to cotton producers in the US, EU and China, complemented by a proposal that their cotton farmers be compensated during the proposed three-year transition period when subsidies were to be phased out. African countries coming forward with a specific demand was another first for the WTO. Cotton accounts for up to 80% of merchandise exports for some of these countries, while US and other subsidies have been estimated to lower world prices by 20% to 40%. The West African proposal attracted much support from other developing countries, as well as the donor community in several OECD nations. In the event, no movement proved possible on this issue, significantly souring the atmosphere.[5]

On the Singapore issues, three groups of developing countries came to Cancún with a clear position: the Asian Caribbean Pacific (ACP), the LDCs and the African Union (AU). All three groups had agreed at Ministerial level before Cancún that they were not supportive of launching negotiations on these topics. In this they were joined by others, such as Malaysia, although many middle-income countries did not have serious concerns about these issues, especially because the degree of ambition on the part of the demandeurs had been scaled back significantly in the post-Doha Ministerial period (see, for example, the contributions in Hoekman, Mattoo and English, 2002).

On the final day of the Ministerial, 'Green Room' discussions started with the Singapore issues. The EU reportedly indicated a willingness to remove competition and investment from the table, including termination of the working groups on these subjects, but argued to keep trade facilitation and transparency in government procurement. Korea and Japan indicated that they could not agree to remove any of the four issues. The ACP/AU group reiterated that they opposed all the issues, while India signalled it could accept trade facilitation. Given the divergent positions, the conference chairperson decided there was no possibility of consensus and adjourned the meeting.

Cancún showed that developing countries are playing an ever more proactive role in WTO negotiations. The larger countries proved they are able to form negotiating coalitions even though specific national interests may differ – a major achievement that will be beneficial for the WTO.

Some implications

While it is too soon to determine the consequences of the conference failure, some implications emerging from Cancún can be identified.

First, a successful negotiation requires a negotiating set that is seen to be relevant to (potentially benefit) all members. The Singapore issues did not satisfy this condition. Some saw them as purely a negotiating ploy; others came to the conclusion that they were simply not of significant economic value. Thus, while agriculture remains a key subject for overall progress to be made on the Doha agenda, seeking to expand the negotiating set by adding behind-the-border issues to link to agriculture was counter-productive. This linkage strategy proved highly divisive, with poor countries in particular concerned that multilateral rules might not be in their interest, would do little to promote progress on key market access issues and could give rise to major implementation burdens (Finger, 2002).

In the end, no compelling case could be made on either economic (development) or on tactical issue-linkage (negotiating) grounds for taking up subjects such as investment and competition. The presence of the Singapore issues allowed the intransigent to block progress on subjects on which they had major political problems. Thus it is not surprising that Korea and Japan – two of the most protectionist countries on agriculture – insisted that negotiations on all four Singapore issues be launched in Cancún. It would have been much better if these issues had been removed from the table in Doha, allowing WTO members to focus fully on the market access agenda.[6]

Secondly, developing countries are playing an ever more proactive role. The larger countries proved they are able to form, lead and maintain negotiating coalitions even though specific national interests may differ. This is a major achievement and can only be beneficial for the institution. However, the negotiating positions that were taken do not necessarily reflect demands or interests of national con-stituencies, and in many cases the agenda remains largely a defensive and inflexible one. While resource constraints help to explain this, the posture on the Singapore issues by the AU/ACP as the meeting entered into the end game was arguably not the optimal strategy. Here the lesson is that it is necessary to have a fall-back position, a 'plan B'. This will by definition be second best from a national perspective, but may nonetheless generate an overall Pareto-superior outcome – a better alternative to no agreement. For example, a good case can be made that accepting to discuss trade facilitation would have little in the way of a downside, and might well help to mobilise additional resources over time to improve trade logistics. Of more immediate relevance, such a concession might have allowed progress to be made on the other agenda items.[7]

Thirdly, the reciprocity dynamics of the WTO negotiating process require that developing countries offer 'enough' to OECD countries to induce them to take on the interests that

[3] The group was formed pre-Cancún as the G-20. It included Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, India, Mexico, Pakistan, Paraguay, Peru, the Philippines, SA, Thailand and Venezuela. In Cancún, Nigeria and Indonesia joined, while El Salvador withdrew. Observers variously refer to the group as the G-20, G-21 or G-22. G-20+ is used in this article.

[4] The Cairns Group is an exception, but comprises both developed and developing countries. The opposition by Latin American countries to accept a proposed deal on agriculture at the 1988 GATT Ministerial in Montreal was more an example of a blocking than a negotiating coalition.

[5] The paragraph in the draft ministerial text of 14 September on cotton did not mention subsidies and called on the WTO Director General to work with other agencies to redirect resources away from existing allocations to help these countries to diversify away from cotton – a product in which they have a strong comparative advantage and in which they pursued significant reforms and investment in recent years to increase productivity. This was widely seen as a putdown of the countries concerned and generated significant rancour, especially in the Africa group.

[6] Numerous observers have, of course, made arguments to this effect in recent years.

[7] There was much debate after the conference as to what might have happened if more time had been spent on the last day to explore this possibility.

benefit from trade protection. These countries can mainly offer further reforms to their own trade policies for goods and services. Although proposed negotiating modalities in Cancún would exempt the LDCs from any liberalisation, and insistence by other developing countries on maintaining SDT (limited reciprocity) makes it harder to harness the reciprocity dynamics, certainly the larger developing countries are fully cognisant of the need to engage in *quid pro quo* bargaining. There is still a lot of scope to make such trades on market access – in both goods and services. In contrast to regulatory issues or demands for the stronger enforcement of rights to intangible assets (intellectual property, geographical indications) that might entail a zero-sum bargain (creation or protection of rents), the market access agenda implies trading 'bads' so that there is a greater likelihood that all gain in the end. Despite statements to the contrary, it is not clear that developing countries were not ready to negotiate on the market access agenda – progress was being made on both agriculture and non-agriculture. The fact that there was no consensus on the Singapore issues implied that countries were not forced to reveal what they were willing to undertake on market access-related modalities.

Fourthly, Cancún suggests that WTO members should revisit the concept and content of special and differential treatment. The case for exempting developing countries from liberalisation is weak – own trade protection also hurts poor people in poor countries. But low-income countries with weak institutional capacity may not be able to or may not benefit from implementing resource-intensive WTO agreements, and may also have greater need of tariffs for revenue purposes. At a minimum, greater differentiation between countries is needed to determine the reach of SDT. Deciding on a new framework for SDT in the WTO could do much to move the market access agenda forward, and could also facilitate movement on new behind-the-border regulatory policies where members agree that co-operation is beneficial.[8]

In the fifth place, research, capacity building and advocacy made a difference in enhancing knowledge of the issues on the table and informing positions. Looking forward, more research and advocacy are required to help to identify the costs and benefits of alternative options. If countries had had a better understanding and felt more comfortable about an issue like trade facilitation – which from an economic perspective is of direct relevance to all countries – the meeting might have been successful. More generally, more work is needed to analyse the effects of specific proposed reforms and to identify the extent to which the poor will gain from them. For example, farmers and non-governmental organisations (NGOs) in OECD countries often argue that they are willing to accept own reforms if it can be shown that this will benefit poor countries, but resist reforms that are perceived to benefit larger, middle-income countries. One reason for this is a perception that gains will mostly accrue to intermediaries or elites, and not to the poor producers of the products concerned. Arguments that overall growth in trade will support economic growth and the poor through 'trickle down' are often not compelling to civil society, farm or development groups. Additional efforts are also needed to identify complementary policies to ensure that the gains from trade are distributed more equitably in terms of reaching poor producers and consumers.

Although Cancún suggests a change has occurred in the 'balance of power' in the WTO – reflecting in turn developments such as the accession of China, the increasing share of developing countries in world trade and investments by countries to participate in the WTO – the meeting's failure to agree on modalities carries significant opportunity costs for developing countries.

In the sixth place, although much greater attention has recently been given to expanding 'aid for trade', Cancún suggests more work is needed to integrate development considerations into the trade policy process and to mobilise resources for trade-related investments and reforms. Some countries that are highly dependent on only a few exports that benefit from effective trade preferences oppose further multilateral liberalisation due to a fear of preference erosion. Maintaining preference margins is not the answer; what is needed is more aid to assist countries to adjust to such erosion and to ensure that there are offsetting benefits through other dimensions of the Doha round. The 'aid for trade' agenda is mostly a national agenda and revolves around both policy and investment decisions. To benefit from market access a country must have supply capacity and be competitive in world markets. This in turn requires efficient transport logistics and low trade-related transactions costs for firms, which in turn requires public as well as private investment in hard and soft infrastructure. Thus all of the Singapore issues are important for development, but require national action that reflects national circumstances and priorities. They are best approached as development issues through a process of project evaluation and cost-benefit analysis, not international negotiation.

Finally, as was the case post-Seattle, Cancún raises questions regarding the governance and procedures of the WTO. Consensus is both a major strength and a weakness of the WTO. It is obviously difficult and cumbersome to negotiate among 148 countries. Improvements have been made since Seattle to enhance the transparency of the process. The move towards the creation of negotiating coalitions of groups of countries may reduce the number of 'principals' but possibly at the cost of greater inflexibility and a higher risk of breakdown, especially in circumstances where there is little time to consult. Whether it makes sense to have periodic Ministerial meetings as opposed to strengthening the Geneva process is a question that should be given greater attention.

Moving forward

Although Cancún suggests a change has occurred in the 'balance of power' in the WTO – reflecting in turn developments such as the accession of China (a member of the G-20+), the increasing share of developing countries in world trade and investments by countries to participate in the WTO[9] – the failure of the meeting to agree on modalities carries significant opportunity costs for developing countries. A key challenge confronting WTO members is therefore to resuscitate the talks rapidly, which will require leadership, both by the EU and US, and, if not more importantly, by the leaders of the G-20+.

Arguably Cancún did identify the way forward – starting with an acceptance by the demandeurs to remove investment, competition and procurement from the table. This would allow members to focus on what research suggests matters most for development: removing trade-distorting policies that hurt the poor disproportionately. The fact that the EU was willing to take competition and investment off the WTO table and that the US is not a strong demandeur in these areas, suggests that this should be feasible. The *quid pro quo* will have to be a strong signal that there is a willingness to accept lower trade barriers in the South, especially by middle-income countries. As noted above, revisiting the approach taken towards SDT should be part of the equation.

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[8] See Hoekman, Michalopoulos and Winters (2003) for a discussion of SDT options in the WTO.

[9] In turn driven in part by the lessons learned in the Uruguay Round – that not participating can lead to being confronted with a set of rules that gives rise to transfers to high-income countries (TRIPS) or to substantial implementation costs that divert resources away from priority areas (Finger and Schuler, 2000).

(continued from page 17)

The US$64,000 question is whether talks will start from the baseline that emerged at the end of negotiations in Cancún, or whether countries will retract offers made there, most notably to take investment and competition off the table. The million-dollar question is whether the political will and leadership can be mobilised to relaunch the Doha talks rapidly, as called for in the Cancún Ministerial text. This will importantly depend on the key countries and negotiators, many of whom confront elections next year. An effective WTO is critical for developing countries: the alternatives – bilateral and regional agreements – will give rise to trade diversion and discrimination, and most likely exclude sectors such as agriculture and policies such as anti-dumping. Developing counties have a strong incentive to put together an agenda that offers potential benefits to OECD countries.

Given good will on both sides – a major uncertain factor at the time of writing – this should be feasible. The WTO negotiating process has proven effective in the past in using the exchange of market access concessions to move towards the reduction of trade barriers. There is still significant scope for countries to engage in this process. Both merchandise and services trade barriers are relatively high in many developing countries, and these countries have also bound only a limited share of past unilateral reforms in the WTO. The Singapore issues are arguably not necessary to move forward on the market access agenda. There is huge scope to trade 'concessions' on tariffs – both applied rates and tariff binding. The same is true for access to service markets (Mattoo, 2003). Services was given little attention in Cancún, as there was no need for Ministerial decisions on the subject. Looking ahead, from both a negotiating and a development perspective, much more political attention should be given to the services agenda, both because it is economically very important and offers scope for *quid pro quo* bargaining of the type that will be needed to move forward in other areas.

Although there is still significant scope to harness the traditional WTO reciprocity dynamics to move forward on market access in goods and services, Cancún proved once again that domestic political pressure is critical to remove inefficient, trade-distorting policies in agriculture. Budget constraints; advocacy by civil society groups and the development community to highlight the detrimental effects of policies on developing countries, the environment, etc.; and the identification and adoption of alternative policies that do not distort trade are all key ingredients to move this agenda forward. External pressure and reciprocal market access concessions can help, but history suggests that high expectations for the impact of such efforts are likely to be misplaced.

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FOCUS ON FACTS

Exchange Rate Appreciation and Non-gold Exports: A Mixed View

Much media coverage has recently been given to the appreciation of the Rand and the relationship between the exchange rate and export performance. TIPS economists Dirk van Seventer and Donald Onyango assess the impact of recent exchange rate appreciation.

This article presents annual (non-gold) exports from 2000 at constant 2000 Rand prices for the 12 months up to August 2003, the most recent month for which data is available. Monthly export values at the HS6 commodity group level, available from Customs and Excise, are mapped to the Standard Industrial Classification (SIC) using a bridge. Exports were subsequently deflated using monthly SIC export producer price indices (PPIs) available from Statistics SA (series P0142.1) These series only go back as far as June 1999. For reference purposes this article also reports on the monthly Real Effective Exchange Rate (REER) as published by the SA Reserve Bank (series 5366M)[1].

It should be noted that export values are not only dependent on the exchange rate but also on supply-side conditions as well as global demand. Here we are only interested in a rather casual observation about the relationship between exchange rates and exports. We report on the most important sectors and for reasons of display group them in terms of value of technology according to Unido[2] classifications.

Figure 1: Non-gold exports and average REER for 12 months up to August

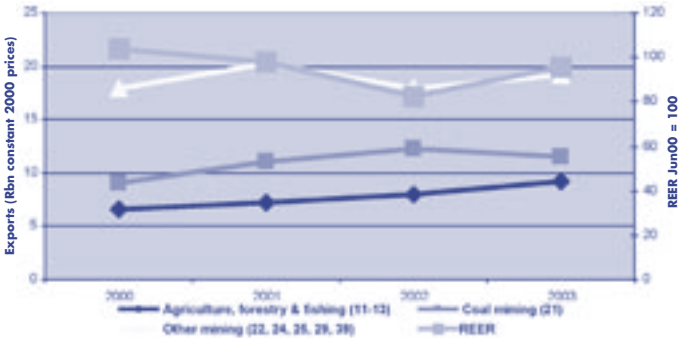
Real growth in total exports of goods started to slow down from 2001 and reached a peak in the 12 months up to August 2002. During the 12 months up to August 2003, exports declined by about 3%, from R212-billion to R205bn in 2000 constant prices. During the same period, the REER depreciated until the 12-month period up to August 2002 but appreciated during the 12-month period up to August 2003. Even over this short period, the correlation coefficient is -0.84.

[1] This series is only available up to July 2003 so that the average is calculated over an 11-month period.

[2] United Nations Industrial Development Organisation

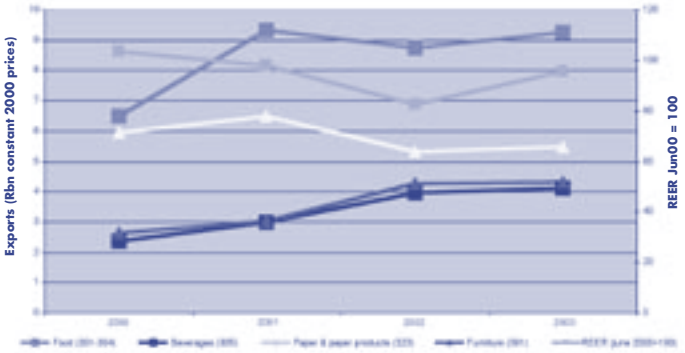
From Figure 2 it is clear that the primary sectors, except for coal mining, have managed to consolidate their exports during the 12 months up to August 2003. Agriculture may be driven by supply-side issues, while other mining includes star performer platinum.

Figure 2: Exports by primary sectors



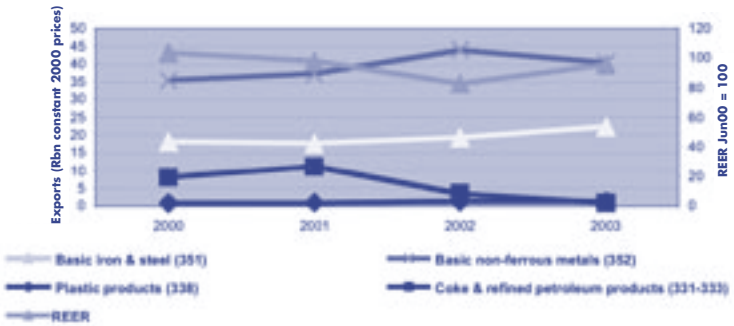
The next batch of sectors is low-technology manufacturing industries, including *food, beverage, paper* and *furniture*. These sectors seem to have weathered the currency appreciation, at least up to August 2003. Food and paper actually experienced a decline during the 12 months up to August 2002 but managed to recover somewhat during the next 12 months. Furniture and beverages kept on growing, albeit at a lower rate.

Figure 3: Exports by selected low-technology industries



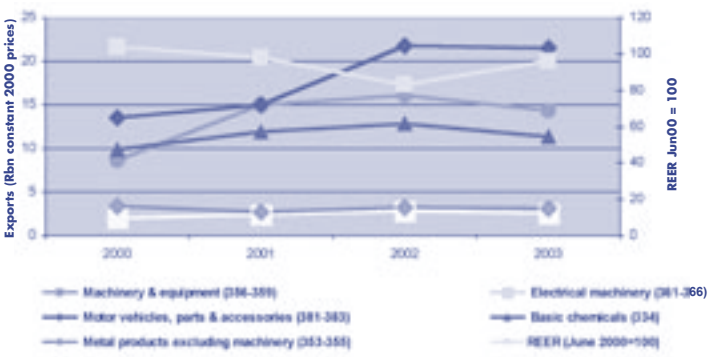
Next, we report on a range of medium-technology industries, including heavyweights such as *basic iron and steel* and *non-ferrous metals*. Here we observe a mixed bag, with the former improving its real exports while *non-ferrous metals* takes a step back. *Basic iron and steel* is generally exporting into highly competitive international markets where SA producers are 'price takers' and where economies of scale are substantial. It is therefore very likely that although export margins are being squeezed through the appreciation of the rand, these exporters remain willing to export even at a loss simply to maintain capacity utilisation. If this hypothesis is correct, export volumes may even have increased to offset the lower Rand income. This is not the case with *non-ferrous metals* where the world markets may have been declining.

Figure 4: Exports of selected medium-technology industries



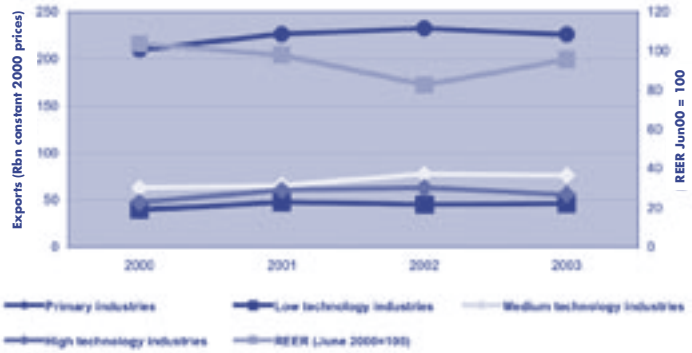
Finally, we present graphs on high-technology industries, including basic chemicals metal products, machinery, and motor vehicles. Apart from the latter, which shows some consolidation, most industries have recorded a decline in real exports.

Figure 5: Exports by selected high-technology industries



Aggregating the industries in each graph confirms the picture sketched above. Although coal mining mainly drives the trends of the primary sector, a negative trend is visible during the last 12 months up to August 2003. A similar trend is observed for high-technology sectors, while medium-technology sectors, including *non-ferrous metals*, as well as low-technology sectors have managed to consolidate.

Figure 6: Exports by technology



One should note that trade data hide any squeezes in operating margins that may occur, an often-reported phenomenon in the media, as this could well be the first strategy of exporters following an exchange rate appreciation in an effort by producers to remain competitive. This, in turn, could lead to a redistribution of functional income toward wage earners and therefore lower income households as exporters seek to maintain overhead labour. However, it has also been reported that employers are entertaining thoughts of retrenchments in the face of further strengthening of the exchange rate, with dire consequences for functional and household income distribution.

In conclusion, it would appear – at least at this stage – that the export performance picture is somewhat mixed, with some industries demonstrating a significant reduction in their real exports, including *non-ferrous metals, machinery, electrical machinery, coal,* and *basic and other chemicals*. Perhaps they have failed to expand supply to offset lower Rand denominated prices. Other industries seem to be more flexible – *motor vehicles, agriculture, food, wearing apparel, furniture* and *plastics* appear to be less affected in terms of export performance. Interestingly, high-technology sectors appear to be impacted most, and it will be interesting to see how the story unfolds as further appreciation of the exchange rate is currently underway.

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