TIPS 1999 Annual Forum

at Glenburn Lodge, Muldersdrift

19-22 September, 1999

THE EXPERIENCE WITH TRADE LIBERALISATION OF SELECTED INDUSTRIES IN THE PORT ELIZABETH-UITENHAGE METROPOLITAN AREA

By
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Abstract

This paper reviews the role played by the Growth, Employment and Redistribution (GEAR) trade strategy in inducing trade and growth in select industries in the metropolitan area covered by Port Elizabeth and Uitenhage. The GEAR strategy is discussed and the experiences with trade in the motor vehicles and components, citrus and wool and mohair sectors of this metropole's economy are described. It is found that during the period the GEAR strategy has been pursued the growth of GDP and jobs has been disappointing, but that there are positive developments in the three sectors of the metropolitan area on which attention is focused.

1. Introduction

On 14 June, 1996 the Minister of Finance presented an economic policy document called the Growth, Employment and Redistribution (GEAR) strategy. The overall impact on the economy of this policy is a matter of ongoing debate, with some contending it has been positive and others that it has been negative. Support for the strategy has been strong in the private sector (Eko-info, 1999:6) although some feel that the implementation of the GEAR strategy has been too patchy - that labour market policy is at odds with the strategy and that the rate at which non-strategic state assets have been sold to the private sector has been too slow. A number of economists appear to share these views (Minford, 1997:457; Black and Rankin, 1998; Ekoflits, 15 June, 1999). Their problem is not with the GEAR strategy but the way it is being implemented in the form of policy.

There are a number of detractors of the GEAR strategy as well, especially amongst the labour movements. Their argument is that the gains of economic liberalisation so far achieved, for instance, reducing inflation and containing government debt servicing requirements, have been small compared to the social sacrifices that have accompanied it, e.g., minimal growth and substantial job losses (Adelzadeh, 1999).

This paper contributes to this debate at the microeconomic level. The trade policy component of GEAR strategy is discussed and trade flows during the 1990s of three sectors of the Port Elizabeth-Uitenhage metropolitan economy are described, namely, the:

- Vehicles and Vehicle Parts
- Citrus, and
- Wool and Mohair sectors.

2. GEAR trade policy targets and the performance of the SA economy

2.1 Trade policies under GEAR strategy

In terms of the GEAR strategy the following trade policies were to be followed:

- replacing quantitative restrictions on imports with tariffs,
- reforming (reducing) the tariff structure,
- providing tax incentives to exporters,
- promoting domestic competitiveness,
- supporting industrial cluster initiatives,
- allowing net export proceeds to be used as rebates on import duties,
- phasing out the general export incentive scheme,
- introducing a new accelerated depreciation scheme for all new investments in manufacturing, and
- promoting small and medium manufacturing enterprises (Adelzadeh, 1999: 3).

The trade policy component of the GEAR strategy was in part the product of the Uruguay round of negotiations initiated under the General Agreement on Tariffs and Trade (GATT). This round of negotiations started in Punta del Este, Uruguay in September, 1996 and was finally signed in April, 1994 in Marrakech, Morrocco (El Toukhy, 1998: 467). The agreement took effect on 1 January, 1995. It provided for the establishment of the World Trade Organisation (WTO) and improved market access to the signatories for most industrial and agricultural products, inter alia. South Africa was one of the signatories and committed itself to the replacement of import restrictions with tariffs, and the rationalisation and reduction of tariff protection on imports.

2.2 GEAR targets

Some of the GEAR targets, for instance reducing the rate of inflation below 10%, cannot be linked to trade policy specifically. However, trade policy was expected to be a very important instrument by which to achieve most of the targets of the GEAR strategy. The relevant targets were to:

- facilitate an increase in growth in GDP per annum from 3,7% in 1996 to 6% by the year 2000,
- increase the number of jobs created per annum from 126 000 in 1996 to 409 000 by the year 2000,
- increase Gross Domestic Investment from 20% to 26% of GDP by the year 2000,
- increase annual real private investment growth by 11,7% per annum,
- increase real non-gold exports by 8,4% per annum, and
- increase per annum inflows of foreign investment to 4% of GDP.

2.3 South African economic performance

Some progress has been made since 1995 towards achieving the last two targets listed above: real non-gold exports rose by 14,5% in 1996 and foreign direct investment increased from $760 million in 1996 to $1,7 billion in 1997. However, the bulk of the targets have not so far been achieved and have no realistic chance of being realised by the year 2000. Annual real growth of GDP has been declined since 1996 from 3,2% to 0,1% in 1998, and per annum growth in both employment and private sector investment has turned negative (Adelzadeh, 1999: 3).

The failure of the South African economy to achieve the GEAR strategy targets may be ascribed to various factors. Five are considered below – adverse trading conditions, the use of inappropriate evidence to base prediction upon, a failure to take adjustment costs into account, a failure to compensate for the removal of tariff protection with other strategic assistance and political constraints.

(a) Adverse trading conditions

The fact that the GEAR performance targets are unlikely to be achieved could have been expected under the circumstances. Growth in many developing countries was undermined during the period 1997 to 1999 by conditions in the world trading and investment markets adverse to developing countries, especially metal and energy good exporters. During 1997 and 1998 there were substantial declines in the demand for metal and energy goods exported by South Africa, inter alia, and excess supplies have developed on international markets. At the same time a major financial crisis developed in East Asia undermined investor confidence in developing economies generally.

As a result of these events the prices of key South African exports declined and there were substantial net outflows of investment funds from South Africa. Between 1995 and 1999 the price of gold, South Africa's main commodity export, declined from over US$400 per fine ounce to just above US$250 (Hazelhurst, 1999:51). Substantial declines also were experienced in other commodities South Africa exports in significant volumes. For instance, between 1997 and 1999 coal prices have fallen from about US$22,97 per ton to US$20 per ton. During 1997 and 1998 the trade weighted value of the South African Rand fell by about 20% against a basket of foreign currencies (Financial Mail, 23 July :121).

Evidence in July, 1999 indicated that the Economist commodity price index reached its lower turning point in about January, 1999 and that Asian economies were recovering from their July, 1997 collapse (*Ekoflits*, 7 July, 1999).

(b) The use of inappropriate evidence

As shown above the architects of the trade policy component of GEAR strategy believed that an outwardly orientated trade policy would increase growth of GDP and jobs in South Africa. What we do not know is if the evidence they used was appropriate to apply to the case of South Africa and if they made realistic assessments of the adjustment costs involved in switching production from import substitution to exports. It is shown below that it would be easy to make these errors. There is international evidence linking reduced trade barriers with growth, but a question mark remains over the appropriateness of this evidence to the case of South Africa, and if adjustment costs caused by trade are not taken into account, an over-estimation could easily be made of growth through tariff reductions.

Empirical work on the issue of whether lowering trade barriers does induce higher growth (a proxy for welfare) has not been conclusive, but it is probably true to say that the balance of evidence currently available favour the theory that lowering trade barriers does effect on growth positively. A number of cross-country regressions for the 1970s and 1980s found that economies with low trade barriers grow faster than those with high barriers (for instance, Edwards, 1992; Vamvakidis, 1998), but the openness variables are not significant in all regressions (for instance, Levine and Renelt, 1992).

The deductions that these findings, inter alia, imply that economic liberalisation induces growth have often been criticised on the grounds of causation and multicollinearity. Is faster growth is caused by more trade or more trade caused by faster growth (Bruton, 1999:932), and are the increased trade openness variables used in the regressions really proxy for other factors which have little to do with trade (Vamvakidis, 1999)? Often trade reform is accompanied by other reforms, e.g., fiscal and monetary policy reforms, changes in financial regulation and revisions of labour market legislation. To some extent these problems can be addressed by using time-series variation (so as to establish causation) and by considering only liberalisation episodes that feature trade openness as their main feature(so as to reduce the proxy for the wrong thing problem). Using these methods Vamvakidis (1999) concluded that increased openness has a direct positive impact on growth, as well as an indirect effect, through higher investment (see also Greenway, Morgan and Wright, 1999).

However, in specific regions, such as Latin America, trade reform has not induced GDP growth, or increased investment or exports (Bleaney, 1999). Moreover, while there was general agreement that at the global level the Uruguay Round agreement would have a positive effect on trade, investment and income, there was also a widespread acceptance that there would be some losers amongst the least developed countries (El Toukhy, 1998: 471-472). It was estimated that least developed countries in sub-Saharan Africa stood to lose up to $1,2 billion per year and that the flows of foreign direct investment into the

region could remain small (El Toukhy, 1998: 472). Having poor neighbours with low growth rates is a problem. Slow growth in South Africa's neighbours can be expected to impact negatively on South Africa's growth rate (Easterly, 1996; McCarthy, 1998:429). These factors have to be built in to forecasts on the benefit accruing to South Africa through trade liberalisation, but it is unclear that the authors of the trade policy component of the GEAR strategy did do this.

Of all the GEAR strategy forecasts perhaps the one that has attracted most criticism is that of job gains - the forecasts were so wrong, jobs were not gained but lost. It appears that the authors of GEAR believed that job creation was a by-product of growth in the formal economy. However, evidence from South Africa is not persuasive on this point (Loots, 1998: 319-336). Loots (1998:331-332) found that although there was a negative correlation (-1,2624) between rate of unemployment and rate of growth of real GDP lagged by one period from 1970 to 1996, that 'economic growth on its own does not significantly contribute to the creation of new job opportunities'.

(c) Failure to take into account adjustment costs

The principle that countries can benefit from trade is a fundamental one in economics. It was first articulated by David Ricardo (1772-1823) and is now known as the principle of comparative advantage. It is the starting point for most texts on international trade theory (Carbaugh, 1998). The gains from trade are typically described assuming a concave transformation curve, convex utility contours, linear terms of trade functions and perfect competition. Under these circumstances it is easy to show welfare can be increased by trade and that imposing trade barriers on the good being imported would reduce welfare (Carbaugh, 1998:56).

The problem with this argument is demonstration is that its assumptions do not fit the case of South Africa (and indeed most countries in the world today) and adjustment costs and risk are ignored. In South Africa markets are imperfect and often inflexible. As a result trade policy changes may mean that production choices are only available within the production transformation curve, not on it. Under these circumstances the removal of trade barriers may decrease welfare in the first instance and this situation may prevail for a number of years, especially if change is ongoing. The case is shown in Figure 1 below.

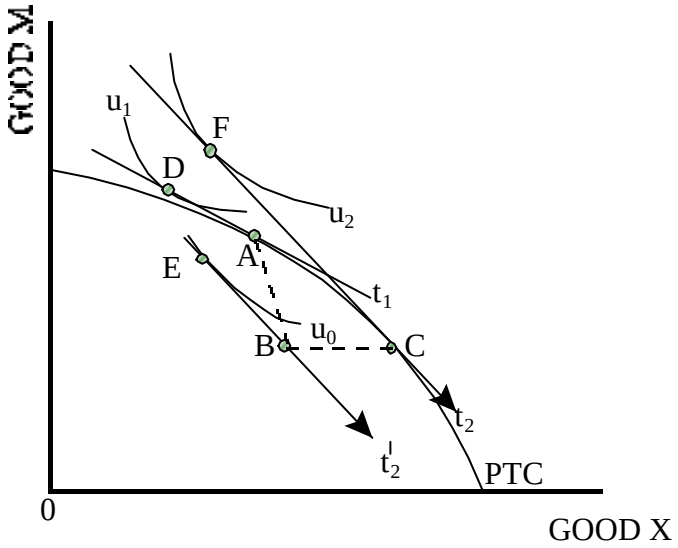

Figure 1: Welfare decreasing removals of trade barriers

In the model described in Figure 1 two goods are produced, M and X, and the following are drawn:

- a production transformation curve (PTC),

- three societal utility contours, u_1, u_2, u_3 , and
- three linear terms of trade functions, t_1, t_2 and t_2`, the latter two relating to the same terms of trade. The terms of trade t_1 are where protection is accorded to good M, and the terms of trade t_2 are where this protection is reduced.

Let the initial production situation be one where production is efficient, point A on the PTC, and the terms of trade be t_1, reflecting substantial tariff protection on good M. If the tariff is then reduced on good M, the terms of trade change to t_2 , and an incentive arises to shift resources from the production of M to the production of X, until point C is attained, and trade X for M in order to consume at point F, where welfare is greater than at D.

However, if in the face of inflexible markets, the process takes a long time, then at some point in time the economy may be producing at B, where, resources are not only re-deployed, but also unemployed. Through trade it is possible to reach point E; a point where welfare is lower than it was before protection on M was reduced. Eventually, assuming the market inflexibility problem is overcome, production settles at point C and assuming that the initial terms of trade have not changed, trade enables consumption at F.

The first problem raised in this process is that welfare is initially reduced. Society is only better off after reduction of the tariffs if the future welfare gains outweigh the initial losses. The second problem is the one of risk that the terms of trade have changed by the time the economy is at B, so that the economy is led (back) to a production equilibrium at point A.

South Africa could currently be at a production position like that described by point B. Concern is often expressed by stakeholders and academics over the problem unemployment resulting from trade liberalisation in South Africa, especially unemployment in groups most in need of employment income (Bell and Cattaneo, 1997; Nattrass 1998). This problem had led to the allegation that trade liberalisation in South Africa produces adverse income distribution effects; that it benefits the skilled workers and disadvantages the unskilled workers (Nattrass 1998). It does this by increasing the demand for skilled workers, who already earn higher wages, and decreasing the demand for unskilled workers, who are poorer. As a result earning opportunities amongst the poor are diminished to unacceptable levels, given the limited social security the government can afford to provide in South Africa.

(d) Failure to compensate for the removal of tariff protection with sufficient other strategic support

Imperfect market circumstances have also proved fertile grounds for other cases to be advanced in trade theory for imposing of restrictions on free trade, e.g.:

- the optimal tariff case, where a country can increase its welfare by imposing tariff protection, providing its trading partners do not retaliate by also setting up protective tariffs, and
- the infant industry argument, where initial costs of entry prevent the development of a domestic industry unless temporary trade barrier protection is provided.

The first case has not proved applicable to the real world. The optimal tariff case collapses when a retaliatory tariff is imposed and it inevitably is. The infant industry argument for tariffs has been used for centuries (Nicholson, 1997: 262-264). In its current form it is not based on there being economies of scale but their being a declining long-run costs for those firms who have already established themselves. The case is demonstrated in the model below (Figure 2).

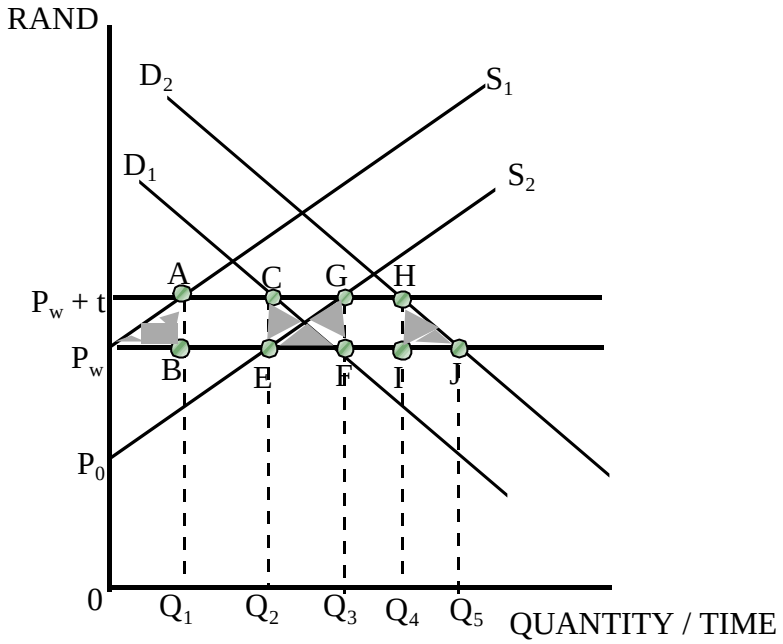

Figure 2: The long run infant industry argument

In Figure 2 there are two domestic demand curves ($D_1$and D_2) and two domestic supply curves (S_1 and S_2) shown. They relate to two different periods, 1 and 2. Also shown are the world price for the good, P_W and the world price plus an import tariff, t. In the absence of a tariff no domestic industry is established in period 1, but with the imposition of a tariff Q_1 is produced locally and Q_1 Q_2 is imported. The consumer surplus loss resulting from the imposition of the tariff in period 1 is described by area (P_W AB + CEF). In period 2 the costs of starting to produce the good domestically are less (the industry having already been established in period 1). In period 2, Q_3 is produced locally and Q_3 Q_4 is imported. The consumer surplus loss resulting from the imposition of the tariff in period 2 is described by area (GEF + HIJ) and the producer surplus gain is described by the area (P_W P_0E).

If the discounted sum of consumer surplus losses in periods 1 and 2 are less than the discounted sum of the producer surplus gain in period 2 an infant industry case for protection exists.

The main objection economists raise with respect to the infant industries argument is that firms in many industries frequently appeal to their governments to leave in place, or even increase tariffs on imports, well after the industry has completed its high cost 'infancy' period. The ongoing use of tariffs begs the question of whether the infancy protection rationale for tariffs is not used as a cover for X-inefficiency (organisational slack) and rent-seeking. The latter takes place where members of the protected industry to secure income at the expense of domestic consumers and international competitors (Carbaugh, 1998: 129).

In the light of this criticism many other ways of protecting the infant industry have evolved other than with tariffs. These options are now often categorised under the heading of 'strategic trade policy'. All options aim at providing certain domestic firms (targeting) with assistance so that they can achieve lower costs than their foreign rivals (Krugman, 1986). Besides tariff protection there are also the options governments can follow, inter alia, facilitating the development of domestic communication and support networks, coordinating the financing arrangements, helping train a suitable pool of labour, providing appropriate infrastructure and utility support and contributing to research and development.

The problem is, however, that if other governments are using these alternative means by which to support industry in their countries, it could be necessary for the South African government also to do something

extra. What the removal of tariff protection in certain industries in South Africa may be revealing is this inadequacy. If this is the case and South Africa cannot afford the alternative strategies to tariffs, then these tariffs may be the only option open by which to increase producer surplus in industries targeted for stimulation.

(e) The political constraint factor

The GEAR strategy and South Africa's growth experience while it has been followed is in line with that on the continent of Africa generally. Economic performance in Africa has been worse than that of other regions in the world during the 1980s and 1990s (McCarthy, 1998; Collier and Gunning, 1999). At negative 1,3 % per annum growth in GDP per capita in Africa was 5% less than the average for all low-income developing countries in the world (Collier and Gunning, 1999: 64). Between 1990 and 1994 the decline accelerated further to 1,8% and the gap between the average and Africa widened to 6.2%. Yet the 1990s have been a period in which there has been increasing liberalisation of trade and exchange rate policy.

One of the reasons for the slow pace of growth in Africa is the low level of investment. Investment levels are low partly because domestic saving levels are low and partly because foreign direct investment inflows are low. Foreign direct investment per annum was 5,6% of capital stock in Africa between 1991 and 1997 as against 7,5% for developing countries as a group (Hazelhurst, 1999:61).

High levels of risk seem to be the explanation for the low levels of foreign direct investment. The United Nations Conference on Trade and Development has reported that foreign direct investment is highly profitable in Africa; that since 1990 the rate of return has averaged 29% and between 1991 and 1997 was higher than any other region in the world. However, after adjustment for risk these rates are much less attractive relative to other regions (Collier and Gunning, 1999). Collier and Gunning argue that the after risk rates are low because of a failure of appropriate reform at the macroeconomic level to be carried through to the microeconomic one. The latter is more difficult politically to effect because strong urban constituencies tend to oppose them. In the case of South Africa this is also true. GEAR strategy reforms at the microeconomic level have been resisted within the ruling African National Congress alliance by the Congress of South African Trade Unions and the South African Communist Party (Haffejee, 1999; Eastern Province Herald, 10 August, 1999: 2)

2.4 Increased opportunities for trade-induced growth at South African ports

As a result of all of these problems it is difficult to determine the extent to which South Africa's economic performance can be ascribed to GEAR trade policy. A less problematic approach to assessing the GEAR trade strategy is one which does not focus attention on targets which are inherently difficult to connect with trade policy, but outcomes which could be expected with confidence. One of these expected outcomes was the stimulation of economic activity near South African ports.

By reducing tariffs on imports, providing subsidies for exports (in the form of tradable rebates on import duties) and targeting support at export orientated industrial clusters, the GEAR trade strategy aims at increasing demand for trade related services and goods from domestic businesses near South African ports. Tariff reductions and duty free allowances on certain types of domestic manufacturing could be expected to increase import traffic. These reductions and allowances should enable the price of certain imports to decrease relative to domestic production, so increasing demand for them relative to domestically produced ones. Subsidies on manufactured exports should encourage firms to exploit economies of scale and go beyond production merely for the domestic market. The export orientated firms making up the industrial clusters GEAR strategy targets for support need ports in order to bring in their inputs and send out their outputs.

For these reasons one would expect certain businesses in the Port Elizabeth-Uitenhage metropolitan area to have benefited from GEAR trade strategy. This paper considers experiences in three of the main trade orientated industries in the area. It aims to determine if they actually did benefit in the way anticipated.

3. Trade and growth in selected industries in the metropole

3.1 Motor vehicles and motor vehicle components

The metropole's motor vehicle manufacturers

The manufacture of motor vehicles, parts and accessories (including rubber products) is easily the most important of all of the groups of goods manufactured in the Port Elizabeth-Uitenhage metropole and the Eastern Cape. The manufacture of these goods alone adds almost 50% of the total value added of goods manufactured in the Eastern Cape (Hosking and Lloyd, 1999).

The two major motor vehicle manufacturers in the metropole are Volkswagen South Africa (VWSA) and Delta Motor Corporation (Pty) Ltd. VWSA's plants are in Uitenhage and Sidwell and Delta's are at Straundale and Neave in Port Elizabeth. South African Motor Corporation (Pty) Ltd (SAMCOR) also produce Ford engines at a plant in Straundale, but the Ford cars are assembled in Pretoria.

Together with Daimler-Crysler in East London, VWSA and Delta produce about 66% of all passenger vehicles in South Africa and in July, 1999, held about a 30% share of the total South African passsenger and light commercial vehicle market (van Biljon, November, 1998; Sheard, August, 1999). VWSA held a 16,3% share of the South African motor vehicle market from January to July, 1999 and Delta held about a 14,5% share.

Government policy with respect to motor vehicle manufacture

Over the past seventy years South Africa has followed a programme of import substitution in the automotive industry. High tariffs placed on Completely Built Up vehicles (CBUs), Completely Knocked Down (CKD) packs and imported components made up the foundation of a policy aimed at increasing locally manufactured content in motor vehicles. The first motor industry Local Content Policy (LCP) was introduced on 1 January, 1961 and since then there have been six amendments; the last, known as the Phase VI LCD programme, being introduced in 1989. The latter programme encouraged exports and reduced protection on automotive components. It was considered to have failed, inter alia, because it did not reduce the number of models being assembled locally and was introduced during a time of political uncertainty (Black, 1994:65). Moreover, because it promoted the use of local components over imported ones it was not in compliance with the General Agreement on Tariffs and Trade (GATT).

In September, 1995, a programme more in line with GATT Uruguay Round agreement was introduced, the Motor Industry Development Programme (MIDP). The objectives of the MIDP were:

- to develop an internationally competitive automotive industry which can supply vehicles and components to the domestic market at affordable prices,
- to increase long-term employment in the industry, and
- to increase economic growth by increasing the value of automotive products manufactured in South Africa (Stewart, 24 March, 1994: 20-21).

As a result of a history of high domestic protection and local content requirements the prices of vehicles were high in South Africa relative to other countries. In order to make prices affordable, tariff protection was reduced and subsidies on domestic sales introduced, and to increase growth and sustainable employment, incentives to export were provided.

The policy was one of allowing steadily more and more external competition on the domestic market by a phased reduction in tariffs, and cushioning the effect of this on domestic manufacturers by the provision of subsidies on exports and domestic sales. The objective with respect to domestic producers was to encourage them to increase volumes and cost-effectiveness (Furlonger, 1998:50-51) The subsidy on exports took the form of an Import Rebate Credit and the subsidy on domestic sales took the form of a Duty Free Allowance.

Under the MIDP the tariffs for CBUs and imported components are reduced on an annual basis (see Table 1).

Table 1: Tariffs for CBUs and imported components

Year	% tariff on CBUs	% tariff on imported automotive components
1995	65	49
1996	61	46
1997	57,5	43
1998	54	40
2000	47	35
2001	43,5	32,5
2002	40	30

Source: Sheard, G. (1999):41.

Any registered local Original Equipment Manufacturer (OEM), component manufacturer or tooling manufacturer can earn Import Rebate Credits (IRCs) by exporting their goods (DTI, May, 1998). The value of these IRCs is the free-on-board value of export sales less the foreign exchange used in producing the good. With respect to catalytic converters only 90% of the value of the South African platinum used in the coating mixture can be used to claim IRCs (DTI, May, 1998: 26). The IRCs can be used by importers to claim refunds of import duties and sold between participants (DTI, May, 1998: 36).

Local motor vehicle manufacturers are entitled to a Duty Free Allowance (DFA) of 27% on the recommended domestic retail price exclusive of VAT, ad valorem excise duty and a company specific percentage (DTI, May, 1998: 112-113). The DFA is reflected on an IRC certificate and can be used by a local vehicle manufacturer to reduce the value of duties paid on imported components used in vehicles sold on the South African market. Excess DFA may be used to reduce the price of CBUs, but is subject to a 25% reduction on the value of the IRC certificate (DTI, May, 1998: 113). A supplementary duty free allowance was also offered to local motor vehicle manufacturers of 0,03% for every R1 below R40 000 charged on the retail market – the small vehicle incentive scheme (DTI, May, 1998: 112).

A mid-term review of the MIDP was provided for in 1999 and was gazetted in March, 1999. It provided for the MIDP to be extended from 2002 to 2007 (Sheard, 1999:46, taken from Government Gazette, 1999, Mid Term Review Proposals for the Motor Industry Development Programme). Further tariff reductions were proposed (Table 2).

Table 2: Proposed tariff reductions 2002-2007

Year	% tariff on CBUs	% tariff on imported automotive components
2002	40	30
2003	38	29
2004	36	28
2005	34	27
2006	32	26
2007	30	25

Source: Sheard, 1999:46, taken from Government Gazette, 1999, Mid Term Review Proposals for the Motor Industry Development Programme.

A revision of the DFA arrangements was also proposed. In order to qualify for a DFA in the 2000s the model will have to attain a certain market share (see Table 3). Failure to attain these market shares will mean that only 20% DFA can be claimed from 2002 onwards. A model is defined as a motor vehicle of which the floor plan, front side panels, front fenders, bonnet, windscreen, roof panel, side pillars and dash panel area are of identical construction (Sheard, 1999:48). It was proposed that the supplementary DFA

under the small vehicle incentive scheme be phased out by the year 2003; the reason being that it led to increased proliferation of models in the small vehicle segment of the market (Sheard, 1999:49).

Table 3: Proposed DFA based on market share attainment of model

Year	% of market held by model
2000	0
2001	1
2002	2,05
2003	2,5
2004	3
2005	3,75
2006	4,5
2007	5

Source: Sheard, 1999:46, taken from Government Gazette, 1999, Mid Term Review Proposals for the Motor Industry Development Programme.

The intention of the DTI with these reductions of incentive was to encourage domestic manufacturers to increase their model volumes and thereby achieve greater economies of scale. They will place low volume producers at a disadvantage in the future. The need for greater volumes in South Africa is considered great - total domestic vehicle production in South Africa is less than for a single model in big markets, yet there are seven domestic manufacturers (eight counting Hyundai in Botswana) (Furlonger, 12 February, 1999: 45).

It was also proposed that the import rebate credit scheme be phased down (see Table 4).

Table 4: The proposed phasing down of the IRC scheme

Year	Qualifying value of export, CBU – light motor vehicles, %	Qualifying value of export, Components – excl. tooling, %	Qualifying value of export, tooling, %	% reduction of IRC for export of component or tooling used for import of CBU light motor vehicles
1999	100	100	100	25
2000	100	96	90	30
2001	100	93	80	30
2002	100	90	70	35
2003	94	86	60	40
2004	88	82	50	40
2005	82	78	40	40
2006	76	74	40	40
2007	70	70	40	40

Source: Sheard, 1999:51, taken from Government Gazette, 1999, Mid Term Review Proposals for the Motor Industry Development Programme

How the local industry has fared under the MIDP

In some respects the MIDP has succeeded, but in others is has failed. It succeeded in increasing the number of passenger car sales on the domestic market in 1995 and 1996, but failed in the following ways:

- these sales declined in 1998 and 1999,
- the number of model ranges competing in South Africa increased from 400 in 1994 to 510 in 1999, and

- the number of manufacturers increased from 18 in 1994 to 27 in 1999 (Bruton, 1999); this despite the world automotive industry going through a period of takeovers, mergers and rationalisation.

The seven South African motor vehicle manufacturers now compete against more foreign manufacturers in a declining market with an increasing number of models to choose from. Moreover, the new entrants have adopted an aggressive pricing strategy in order to win market share (NAAMSA, 1999:2). The decline in sales during 1998 and 1999 is related to the business cycle. During this period the rate of growth of GDP was also declining, partly due to high real rates of interest and partly due to losses of confidence in the financial and consumer markets. In the face of a recovery in Asian markets, increasing political and economic policy stability, a decline in interest rates and a cash injection into consumer's hands through Old Mutual's demutualisation, this trend is expected to reverse during the second half of 1999. NAAMSA believes that motor vehicle sales could increase by between 10 and 20% during the year 2000 (Ekoflits, 16 March, 1999).

The breakdown of passenger cars sold on the new car passenger car market between 1994 and 1998 is shown in Table 5. In 1994 imports of passenger cars were 9,2% of total sales in South Africa (Sheard, August, 1999, using NAAMSA figures). Since 1994 both import volumes of cars of both NAAMSA and non-NAAMSA members increased until 1998, when the portion of imports of passenger cars rose to 31,8% of total sales in South Africa. By 1999 (the first 7 months) not only were the volumes of imported cars substantially down on 1998 levels, but the share imported passenger cars had fallen to 14,3% of the total sold in South Africa; 7% being NAAMSA imports and 7,3% being non-NAAMSA imports.

Table 5: The breakdown of passenger cars sold on the new passenger car market between 1994 and 1999

Year	Domestically Assembled cars	NAAMSA imports of cars	Non-NAAMSA imports of cars	Total cars sold
1994	184 045	6 671	12 000	202 716
1995	224 165	12 565	16 892	253 622
1996	230 106	19 732	22 292	272 130
1997	239 762	25 697	27 100	292 559
1998	172 978	30 843	24 200	228 021
1999 (forecast)	160 161	25 839	14 960	200 960

Source: Sheard, 1999:57, drawn from *Volkswagen Archives*, VWSA, Port Elizabeth and NAAMSA figures.

One of the factors leading to the rapid increase of new entrant sellers into the South African market during the last four years is excess global production capacity. The automotive industry globally operating at less than two-thirds capacity (Furlonger, 12 February, 1999: 45). It is estimated that the global automotive industry has the capacity to produce 22 million more vehicles each year than it sells.

Reactions to GEAR trade policy from the automotive industry

There is little doubt that the MIDP is putting pressure on the industry to rationalise. Earlier this year Toyota SA chairman Bert Wessels acknowledged that

> rationalisation will force us all to build fewer models. Of the 43 models built locally now, by 2007 there may be only 15 (Furlonger, 12 February, 1999: 45).

Moreover, export earnings from vehicle sales have risen sharply. During the first 5 months of 1999 total vehicle exports numbered 17 638 units as compared with 13 902 during the same months in 1998; most of the increase being due to major export contracts allocated to BMWSA and VW SA by their parent companies. VWSA's vehicles were mainly exported to African countries in 1998. In 1999 most have been exported to the United Kingdom, but declining demand in this market has meant that volumes have been below those initially projected. VWSA believes that during 1999 they will export about 50 000 Golf IVs to the United Kingdom, 10 000 less than originally forecast (Maphologela, 12 July, 1999).

As a result of this export surge, the proportion of total exports made up by motor vehicles and parts will probably continue to increase. In 1975 the proportion was 2,1%, in 1985 it was 2,4% and in 1993 it was 7,4% (Bell and Cattaneo, 1997:11).

Within the Port Elizabeth-Uitenhage metropole investor reaction to the MIDP appears to have been mainly positive - the scaling down of protection for the motor vehicle manufacturing industry does not appear to have undermined confidence as severely as might have been expected (Business Day, November 26, 1998: 15). The reason is that the new partnerships and production arrangements, which have developed as the MIDP has been implemented, have brought in new investments and better connected local firms to new production technology and marketing decisions with respect to the major European and American vehicle markets.

One of the results of this change has been an increase in reports of export orders from Europe and America for local vehicle and vehicle component manufacturers (Eastern Province Herald, December 1, 1998:13). In order to meet the technological and plant capacity requirements to service these orders all the main vehicle manufacturing firms in the metropole are making major investments: VWSA about R1 billion during the next 5 years, Delta about R1,2 billion during the next 5 years and Samcor about R100 million over the next 1 year, inter alia (see Port Elizabeth Regional Chamber of Commerce and Industry (PERCCI) list of recent investments in automotive and component manufacturing capacity, Table 6).

Table 6: PERCCI's list of recent investments made in automotive and component manufacturers

Delta's 5-year project	R1,2 billion
Delta Motor Corporation	R617 million
Goodyear-Contred buy-in	R568 million
Bridgestone-Firestone buy-in	R290 million
Volkswagen	R200 million
Samcor (new facilities for engine export programme)	R146 million (phase 1)
	R100 million (phase 2)
Ford Motor Company	R126 million
Alloy Wheels	R120 million
Industex - double dipping tyrecord plant	R50 million
Precision Exhaust systems	R49 million
Shatterprufe (automotive glass)	R43 million
Engelhard Environmental technologies	R34 million
Industex (tyre cord)	R25 million
Autocat catalytic converters	R24 million
Leonishe Drahtwerke (Uitenhage) - automotive harness facility	R20 million
Newton Toyota	R 7 million
Hyundai - sourcing local components	R 3 million
Delta / Sten Joint Venture Partnership	
Bearing Man	R2 million
Delphi Autocable (expansion)	R1,1 million
General Motors (US)	49% buy-in of

Source: PERCCI, November, 1998.
Note This list is not comprehensive.

The motor vehicle components industry

The same types of change have been evident in virtually all vehicle component manufacturing, from tyres through to auto-paint supplies – new partnerships with OEMs or other major overseas component

manufacturers (more often than not German or American) have been entered into, new technology has been adopted and export orders have followed. For example, Gentyre, South Africa's biggest exporter of tyres, has been taken over by its German technological supplier, Continental AG, and the announcement of even bigger export orders (Eastern Province Herald, December 1, 1998:12). Another tyre manufacturer, Goodyear South Africa, went through a similar experience (being taken over by its US parent company) just a short time before this (Eastern Province Herald, 3 December, 1998:19). More than 35% of Goodyear SA's total production will be exported in 1999, mostly to Europe and Africa (Maphologela, 27 July, 1999: 13).
Seventy per cent of all tyres made in South Africa are made within the metropole (PERCCI, December, 1998).

The entry into new production arrangements with major overseas component producing firms has for the most part been an act of survival for domestic component producing firms. Usually these overseas parent firms have acquired the majority shareholding in the domestic firm and re-invested in domestic production capacity, bringing its technology up to international required standards and re-orientating production to fit in with global supply chains (Maphologela, 7 June, 1999:3).

The local production of automotive parts is dependent on the presence of locally base original equipment suppliers. Component producers aim at two markets: the new motor vehicle market and the replacement motor vehicle part market. The new motor vehicle market is regulated by the purchasing decisions entered into by the overseas-based original equipment manufacturers, and these are usually determined with the objective of achieving the lowest possible cost of supply arrangements given a required quality standard. A firm's capacity to penetrate the replacement market is influenced to a large extent by its success in the new car market, but in this segment of the market the consumer herself is also important. The motor vehicle component manufacturers in the Port Elizabeth-Uitenhage metropole, with whom production and export arrangements were discussed, viewed the two markets differently.

In order to get a slice of the new motor vehicle market the local firm must negotiate an agreement to supply, e.g., Univel Transmission and LUK Africa have negotiated agreements with VWSA. LUK Africa produces clutches and is one of VWSA's 'best' component suppliers, having been awarded the award of top supplier in 1994 and 1998 (*Eastern Province Herald*, 8 October, 1998: 15). Negotiating an agreement to supply may be done either through the local division of overseas parent motor vehicle manufacturing firm or through a firm that uses the technology accepted by the original equipment supplier. Agreements with technology partners typically take one of the following forms - a licence or a joint venture or the sale of the majority share holding of the domestic business firm (Smart, 1999). To increase the slice of ones sales of components in the new car market the local supplier needs to show that it can deliver the parts cheaper than other firms making up the international component supply chains.

The scope for competing in the replacement part market is usually defined by the arrangements entered into with respect to the overseas technology partner/parent/licensors. Typically Africa is the export market 'allocated' to the automotive component exporter based in the Port Elizabeth–Uitenhage metropole.

One of the most rapidly growing component industries in the metropole is that producing catalytic converters. The SA catalytic converter industry's sales rose from R835million in 1997to R1 478 million in 1998; a rise of 77% (Maphologela, 26 February, 1999:20). Catalytic converters transform dangerous engine pollutants from a wide range of fuels into harmless gases before releasing them and are required by law to be fitted in vehicles using petrol and diesel in most North American and European countries.

The platinum content of a catalytic converter amounts to about 40% of its value. For this reason South Africa has a comparative advantage in the production of catalytic converters because about 70% of global platinum output is produced in South Africa. South Africa currently produces 8% of the world's output of catalytic converters (Maphologela, 26 February, 1999:20). The other major commodity input in catalytic converter production is stainless steel. More than 30 000 tons of locally produced stainless steel is consumed by the industry. The Port Elizabeth based firm Autocat was the first to export catalytic converters from South Africa (Eastern Province Herald, 8 October, 1998: 15).

The DTI encourage this industry through the provision of a subsidy to domestic vehicle manufacturers to use domestically produced catalytic converters in the vehicles they export. Their efforts to start up a stainless steel plant in Port Elizabeth could also be interpreted as encouraging the catalytic converter industry; the encouragement being in the form of cluster spinoffs. The DTI have encouraged the Department of Defence to purchase of 3 submarines from a German consortium, inter alia, in order to win an offset deal whereby Ferrostaal build a stainless steel mill in the Coega IDZ, next to Port Elizabeth. If these defence procurement deals be agreed to Ferrostaal will find firms willing to finance and run the plant (Wilhelm, 30 July, 1999: 33).

Just how necessary the latter component is to the growth of the domestic catalytic converter industry is however, a matter of debate. From a domestic market perspective there does not appear to be a need for another stainless steel plant - another plant may undermine the viability of the existing one. The South African domestic market consumes about 100 000 tons of stainless steel annually and this can be fully met with existing production capacity (Ryan, 30 July, 1999: 43). Current South African stainless steel producer, Columbus Steel, has the capacity to produce 600 000 tons annually and is struggling to find profitable export opportunities (Ryan, 30 July, 1999: 43). The proposed $1 million Coega plant would add a further 800 000 tons per annum production capacity in stainless steel in South Africa. It would take 3 years to build and commission and 7 years to reach full production.

From an international perspective there is a case for building the plant. The Coega stainless steel plant's output would merely constitute about one year's growth in world demand; the current world average annual growth rate in demand being about 7% (Ryan, 30 July, 1999: 43). The problem here is that this has induced so many other newcomers into the industry world wide that prices of stainless steel have plunged from $3 300 per ton in 1995 to $1 100 per ton in 1999, and profitability has plunged (Ryan, 30 July, 1999: 43). In 1996 there were 15 independent companies producing stainless steel of which 12 were profitable, but by the end of 1998 only 12 were left and only 2 of these were making a profit (*Financial Mail*, 23 July, 1999: 12; Ryan, 30 July, 1999: 43).

Not all the evidence from the Port Elizabeth-Uitenhage metropole on the automotive industry has been positive. A question mark hangs over future investment by VWSA as their management have repeatedly voiced their belief consider South Africa as a high risk environment for investment and living (Richardson, 4 March, 1999: 13), and that its labour force is too prone to strike disruption. At the same time as new investments and export orders have been announced, imports have been surging in through the port of Port Elizabeth. The export and import flows in and out of the Port Elizabeth harbour during the 1990s are shown in tables 7 and 8 below. The export of vehicles was mostly done using the Ro-ro loading facility up until February, 1998. At this point it ceased to operate and exports of assembled vehicles was done in containers. Import mass has been substantially higher than export mass. In 1995 export mass in containers was about 17% of import mass in containers and the number of vehicles exported using the ro-ro facility was about 70% that of imports using this facility. By 1998 the export mass in containers had risen to 19% of the import mass but exports and imports using the ro-ro facility had ceased.

Table 7: Exports of motor vehicles and parts, 1990-1998

Year	Ro-RoVehicles in tons (no. of vehicles)	VW export containers in tons	CKD containers in tons
1990/1	71 560	-	N/A
1991/2	230 115	-	37 178
1992/3	207 180	-	51 525
1993/4	256 082	-	61 925
1994/5	277 790 (28 146)	-	56 369
1995/6	283 500 (29 699)	-	131 036
1996/7	356 970 (34 851)	-	74 286
1997/8	205 835 (19 960)	-	154 885
1998/9	-	-	112 354
1999 (April-June)	-	139 246	24 313

Source: Commodity Stats on Deepsea export cargo, Port of Port Elizabeth, August, 1999. The year begins in April and ends in March. N/A=Not Available. Exports of glass components are excluded.

Table 8: Imports of Motor Vehicles and Parts

Year	Ro-RoVehicles in numbers of vehicles	Containers – vehicles, aircraft and boats in tons	CKD in containers in tons
1991/2	-	170 238	103 168
1992/3	-	164 842	135 790
1993/4	-	151 321	216 563
1994/5	-	13 376	341 885
1995/6	40 065	17 644	723 608
1996/7	51 910	12 509	734 549
1997/8	42 605	8 456	419 287
1998/9	-	20 944	576 522
1999 (April-June)	-	8 344	452 485

Source: Commodity Stats on Deepsea export cargo, Port of Port Elizabeth, August, 1999. The year begins in April and ends in March. Imports of glass components are excluded.

Many doubts have been expressed about the GEAR trade strategy being followed by the DTI in the industry. First and foremost, the question has been raised of whether high cost structures in South Africa do not preclude a domestic automotive industry without the protection of adequate tariffs (Furlonger, 1998:50-51). This being the case the policy will destroy the domestic industry in South Africa without apparently managing to replace it with something better. In this connection reports of South Africa's leading export orientated manufacturers reassessing the merit in the long-term of continuing manufacturing vehicles in South Africa are of particular concern, namely BMW SA and VWSA (Furlonger, 1998:50-51; Grawitzky, 1999:3). Both of these firms have cited South Africa's high crime rate and expensive and strike prone labour as imposing comparative cost disadvantages on them in the export market.

Preliminary indications are that the export volumes of these companies are well below expectations (Maphologela, 12 July, 1999) and that imports of vehicles have been increasing faster than exports, so increasing the automotive industry's trade deficit (Furlonger, 1998:50-51). Moreover, the economy of scale benefits of the big exports orders have not been passed on to local consumers because most of the export earnings have come from components not used on vehicles sold in South Africa (Furlonger, 1998:50-51).

Related to this issue is the question of the sufficiency of the local market as a base from which to export to Europe (Richardson, 27 June, 1999: 9). The sufficiency of the local market as a base for an automotive

export business has been questioned in the light of other attractive options for locating this type of business, e.g. Brazil, which has a domestic market about five times as large as South Africa's. As a result economies of scale are more easily realised in Brazil than in South Africa. South Africa exported 18 342 of the 195 554 vehicles it produced in 1998 (9,4%), whereas Brazil exported 279 400 of the 1 240 000 vehicles it produced in 1998 (22,5%). Virtually all authorities agree that the original equipment suppliers will locate their new production investments increasingly on the basis of cost considerations alone. Competition in world markets is too intense to allow any other approach (Richardson, 27 June, 1999: 9).

Another issue raised by various stakeholders in the industry is the speed at which tariffs on automotive imports have been reduced (Richardson, 25 March, 1999:17; Furlonger, 1999: 51; see also Bell and Cattaneo, 1997:25). The speed at which tariffs were reduced is thought to be one of the main reasons for the massive retrenchments in the automotive industry during the passed few years. Vehicle manufacturers cut their workforce from 25 000 to 21 000 between 1992 and 1999 and vehicle parts manufacturers cut their workforce from 43 500 to 39 400 between 1996 and 1998 (Richardson, 27 June, 1999: 9). The result appears to be at odds with the Canadian experience, where a lowering of tariffs actually increased multi-national corporation asset holdings and employee levels in Canada (Feinberg, Keane and Bognanno, 1998).

The experience of VWSA

Currently the main motor vehicle manufacturer exporting from the Port Elizabeth-Uitenhage metropolitan area is Volkswagen South Africa (Pty) Ltd. For this reason this investigation focused attention on the experience of this firm under GEAR trade policy as applied in the automotive sector (i.e., the MIDP). The other two motor vehicle manufacturers operating in the metropole are also active in the export markets, but on a smaller scale. Delta is well known for exporting components and assemblies and Samcor is well known for exporting Ford engines.

Prior to the implementation of the MIDP, VWSA was manufacturing 6 models in South Africa: the Citi Golf, Pick Up, Golf 3, Jetta 3, Audi A4 and T3 Bus. These make up 4 model lines because the Citi Golf and Pick Up share one production line, and the Golf 3 and Jetta 3 share one line. After the MIDP was implemented competition of model range and price intensified.

VWSA felt that it needed to fill the gap in its offerings between the Citi Golf and the Golf 3, so it added the Polo Classic in 1996 and Polo Playa (hathchback version) in 1998 (Sheard, 1999:55). These two models make up one model line. The Polo Playa was introduced to compete with an emerging generation of modern hatchbacks in South Africa, the Opel Corsa and Ford Fiesta.

Many cars were now imported due to the lowering of import duties and as a result price restraint and price reductions, in real terms, became characteristic in the setting of new vehicle prices (NAAMSA, 1999:2). By the beginning of 1998 VWSA's manufacturing plant had been reduced to running at 43% of capacity and it was forced to seek out a solution to this problem (Keenan, 1999:26).

At the same time Volkswagen Germany (Pty) Ltd (VWAG) were planning a new generation of Golf to replace the Golf 3, namely the Golf IV, and had no capacity in its Europian plants to support the required volumes. For these reasons they decided to award VWSA contracts to export of 5000 Golf 3s to the United Kingdom in 1998 and supply spares for the Golf 3 to the rest of the world, and to invest in modifying the production lines for the Golf 3 to accommodate the Golf IV. With this modification in mind VWSA were awarded the contract to assemble CDKs and export 68 000 CBU Golf IVs to the United Kingdom in 1998 and 1999; the value of the contract being R5 billion. The decision was taken for the following reasons:

(a) Projections were that the project would be profitable
(b) VWAG needed the volumes to retain and build up its market share, and
(c) The project would enable VWSA to capture more of the MIDP export incentives.

Subsequently, the contract was extended to the production of 60 000 Golf IVs per year for the life cycle of the car. VWSA have been able to capitalise on these contracts by importing other Volkswagen CBUs and Audi motor vehicles at lower prices and thereby compete across a wide market range. The different models

presently imported are the Golf Cariolet, Sharan, T4 Bus, Passat, Audi A3, Audi A6, Audi Cabriolet and Audi A8. Since January, 1999, when this whole range became available in the market, VWSA have achieved the highest monthly passenger car sales of any manufacturer in South Africa. Their sales between January and July, 1999 account for 22,7% of the total sales for new passenger cars (Sheard, August, 1999).

An additional benefit of the VWSA Golf IV export contract is that over time local component suppliers can be expected to add further domestic value to the order. Already a local safety glass manufacturer, Shatterprufe, have won a contract to supply various safety glass components for the Golf IV (Laing, 1999).

3.2 Citrus

The industry

The Sundays, Gamtoos and Kat River valleys in the Eastern Cape are some of South Africa's premier export citrus fruit growing regions. The Eastern Cape contains about 25% of the citrus trees and accounts for about 30% of the country's citrus fruit sales (Niven, 1999). Its climate suits the Noble cultivars, which are slower growing than those in hotter areas, but yield a better quality fruit. About 50% of the trees planted in the Eastern Cape are 6 years or younger and a large proportion are lemon trees (Brown, 1999). In recent years lemon trees have yielded high returns.

There also is a lot of deciduous fruit growth in the Eastern Cape, but not nearly as much as citrus fruit grown. In 1998/9 106 371 tons of deciduous fruit were exported though PE harbour, about one third the mass of the citrus fruit exports for that year (see Table 9).

In 1996 Eastern Cape citrus sales summed to just over R500 million, while in 1997 it generated just over R700 million and employed about 19 000 people directly. Over 65% of the income is generated in the Sundays River area (Niven, 1997). The increased planting in recent years has been accommodated within the constraints of 1993 water right allocations (Niven, 1997). Water rights have been traded with farmers higher up on the Orange River water transfer route, mainly in the Fish River valley. There also have been greater efficiencies achieved in irrigation techniques. Hydroponic open drip irrigation has replaced flood irrigation in many areas (Brown, 1999).

About 60% of the Eastern Cape annual crop is exported (Brown, 1999). This portion of the crop, the best grade, yields about 92% of the income of the growers (Brown, 1999). Most of the citrus fruit grown in the Eastern Cape is exported through PE harbour. A small quantity is exported through Durban and Cape Town. This fruit requires cold sterilisation before export; a facility not available in the PE harbour.

The marketing of all the fruit was until recently done by Capespan, a division of Outspan International Ltd. With the deregulation of the industry a number of smaller players have opted to market their own fruit, based on the perception that they could get better prices because their fruit was of better quality than the average on which they were remunerated under the Outspan label.

Outspan International have in the past used break bulk carriers to ship the citrus fruit to export markets, mainly to Europe. Being in the opposite hemisphere from Europe, the South African fruit does not compete directly with that grown in Europe, other than a small overlap with some cultivars grown in Spain. There is growing competition from Australian exporters on this market. As a result tariff protection against South African citrus exports have been low. In 1994 it was 20% and by 1999 it had fallen to 12%. The American market has been dominated up until recently by Californian and South American production.

Not all locally grown fruit can be exported. Outspan International do not accept the lower grade fruits as a rule (categories 2 and 3). His portion of the crop, about 40%, is sold at a lower price on the domestic market. One option currently being investigated is the exportation of lower grades as industrial grade fruit for processing on the overseas markets into what is called Not From Concentrate (NFC) juice (Niven, 1999).

The smaller independent (of Outspan International) exporters find it more economical to use containers than the break bulk facility to ship their fruit, and tend to target a number of smaller markets than Outspan International. In recent years the smaller independent producers have expanded into the Far Eastern markets in particular (Niven, 1999). The growth in the proportion of independent exporters market is reflected in the rise of the proportion of container citrus exports in containers in 1997 and 1998 (Table 9).

The jumps in exports in break bulk exports in 1993 and 1995 were caused by increased opportunities opening up for exports (Brown, 1999) and could be considered part of the dividend of the liberalisation of the South African economy.

Table 9: Exports of Citrus through PE harbour, 1988-1998

Year	Break Bulk in tons	Containers in tons	Total in tons
1988/9	170 953	N/A	N/A
1989/90	164 110	N/A	N/A
1990/1	173 845	N/A	N/A
1991/2	161 866	24 160	186 026
1992/3	154 659	30 910	185 569
1993/4	215 705	28 265	243 970
1994/5	219 658	11 775	231 433
1995/6	326 321	15 592	341 913
1996/7	331 449	5 613	337 062
1997/8	319 553	22 719	342 272
1998/9	298 281	35 693	333 974

Source: Port of Port Elizabeth Commodity Stats on Deepsea Export Cargo, August, 1999. The year begins in April and ends in March.

Portnet expects a greater citrus export volume through Port Elizabeth harbour in 1999 than in 1998. (Business reporter, Eastern Province Herald, 24 June, 1999:17).

Gear strategy trading policy and citrus exports

The most significant aspects of GEAR trading policy affecting the citrus industry have been the opening up of new markets and the reductions in protective tariffs negotiated. Further impetus to this process is expected to be provided when the Lomé trade and aid Convention is replaced with the European Union-South Africa free trade and cooperation pact on 1 January, 2000 (Eastern Province Herald, 20 August, 1999: 2). The European Union-South Africa free trade pact will see South Africa eliminating tariffs on about 86% of European industrial products and 81% of its agricultural products, and the European Union eliminating tariffs on about 99% of South African industrial products and 61% of its agricultural products (Ahwireng-Obeng, 1999: 12). Citrus exports to Africa also may increase as a result of the Southern African Development Community trade agreement, which is expected to be implemented on 1 January, 2000.

Currently, tariffs are not perceived by local growers to be the major barrier to exports of citrus. Bigger problems are the use by other countries, especially developed ones, of subsidies on their own production and on their exports, and the absence of trade agreements with potentially importing countries like Korea and the Philippines (Niven, 1999). The subsidies on exports take the form of export credits, export credit guarantees and export insurance (Ekoflits, 28 July, 1999).

The provision of subsidies for the export of agricultural good is scheduled to be discussed again under Article 20 of the World Trade Organisation's 3rd Ministerial Conference, to be held from 30 November to 3 December, 1999. In order to keep the playing fields level the South African government will have to consider its position with respect to the export of citrus fruit, inter alia.

3.3 Wool and Mohair

The values of the wool and mohair clips in the Eastern Cape were approximately equal in the 1998 season. About 5 million kilograms of mohair were sold in 1998 at an average price of R27,85 per kilogram, yielding a total revenue of R139,250 million for the farmers (*Mohair South Africa Review, 1998*: 7). By comparison, about 13 million kilograms of wool were sold in 1998 at an average price of R10,23 per kilogram, yielding a total revenue to farmers of about R133 million (Strydom, August, 1999). About 83,2% of the national mohair clip and 32% of the national wool clip were grown in the Eastern Cape in 1998 (*Mohair South Africa Review, 1998*: 14; Strydom, June, 1999; Strydom, August, 1999). South Africa supplied about 61% of world mohair in 1998, but less than 20% of its wool (*Mohair South Africa Review, 1998*: 5; Strydom, August, 1999).

About 25% of the Mohair clip is sold in its raw greasy state and about 37% of the wool clip (Loots, August, 1999; Strydom, June, 1999). The remainder undergoes early stage processing in the Port Elizabeth-Uitenhage metropole (scouring, washing and combing). Two groups dominate this industry, the Stuken and Samil groups. After early stage processing over 90% of the wool and mohair is exported, mainly to Europe and the Far East. Italy is South Africa's main destination for wool. It buys about 31% of the total South African export shipment (Strydom, June, 1999). The United Kingdom was the main destination in 1998 of South Africa's mohair exported. It purchased just over 22% of the total export shipment (*Mohair South Africa Review, 1998*: 9).

Less than 10% of the washed and combed products are purchased by South African firms for later stage processing in South Africa (spinning weaving and garment making). The overseas markets for later stage processed wool and mohair products are harder to compete in because of higher tariff protection on these goods and relative labour cost disadvantages. For example, tariff protection on wool products entering the European Union is 0% on greasy wool, 2% on wool tops, 3,8% on worsted yarn, 10,5-12% on worsted fabric and 13% on garments (Figures supplied by Strydom, August, 1999, quoting from The Woolmark Company figures, March, 1999). In most other countries tariff protection is higher.

The bulk of the later stage processing in South Africa takes place in Cape Town and Durban. The fact that later stage processing has not developed in the Port Elizabeth-Uitenhage metropole, but elsewhere in South Africa, is linked to the availability of appropriate expertise amongst the coloured and Indian populations when this industry was initiated.

Trade liberalisation in the 1990s has not yielded much benefit for this industry (Palmer, 2 August, 1999: 12). The reduction in tariff protection on textile imports into South Africa has caused imports of textiles to surge (see Table 10 for flows through PE harbour). These flows include textiles made from synthetic fibres. By contrast exports of textiles have declined (Table 10). Nationally textile imports increased in the first 9 months of 1998 by 13%, while exports declined by 5,2% (Palmer, 2 August, 1999:12).

Table 10: Exports and Imports of Wool and Mohair and Textiles through PE harbour, 1991-1998

Year	Exports - Wool and Mohair in tons	Exports - Textiles in tons	Imports – Textiles in tons
1991/92	53 921	N/A	31 538
1992/93	39 765	N/A	25 864
1993/94	53 262	N/A	20 530
1994/95	36 982	26 621	29 783
1995/96	52 442	16 863	47 845
1996/97	46 213	16 504	45 810
1997/98	45 593	15 145	57 685
1998/99	39 931	13 168	76 057

Source: Port of Port Elizabeth Commodity Stats on Deepsea Export Cargo, August, 1999. The year begins in April and ends in March. N/A= Not Available

The sum of wool and mohair mass of exports through Port Elizabeth harbour averaged 46 014 tons per annum between 1991 and 1998. In recent years exports of wool and mohair and textiles have declined. By 1998 wool and mohair exports had declined to 39 931 tons and textile exports had declined to 13 168 tons, half their 1994 level. By way of contrast textile imports through Port Elizabeth harbour have increased steadily since 1994. In 1994 they were 29 783 tons and in 1998 they were 76 057 tons. In 1994 the combined mass of wool and mohair and textile exports was over double that of textile imports, whereas in 1998 the combined mass of these exports was only about two-thirds the mass of textile imports.

It is likely that the percentage wool and mohair textile imports included in the above import figures are very low; that the surge in imports relates to the mass markets for cheaper cotton and synthetic fibre made textiles (Strydom, August, 1999). Wool and Mohair textile products aim at satisfying demand at the upper end of the consumer market and are not directly threatened by this inflow of imports (Strydom, August, 1999).

Against the background of declining exports the Department of Trade and Industry recently launched the Wool and Mohair Cluster initiative. This initiative has the aim of increasing the percentage of the product purchased for later stage processing in South Africa to over 50% by the year 2005. The principal mechanism by which it hopes to do this is bringing together all the principal role players in the industry and improving networking between them.

There are a number of questions this initiative will have to give careful attention to. One is what the factors were that led to the closure in 1998 of one of South Africa's largest and most respected top making plants in Durban. Another is how the vacuum in the provision of quality assurance and marketing services caused by South Africa's termination of Woolmark Company in 1997 can best be filled (Strydom, June, 1999)

The effect of the Durban wool processing plant closing has been, inter alia, an increase in the proportion of total domestic production exported as greasy wool, from 26% in the year 1996/7 to 37% in the year 1998/9. One implication is that South Africa, by reducing tariff protection on textiles has exposed its own textile industry to competition it cannot match, given its labour costs and technology (Palmer, 2 August, 1999).

South African wool production has fallen from about 103 million kilograms in 1990 to 51 million kilograms in 1998 (Strydom, 1999). A reason frequently advanced for the decline in wool production during the 1990s is depressed prices (Business Day, 27 July, 1999: 14). Prices in US dollars are depressed as a result of consumers switching demand to cheaper synthetic fibres (about one-third of the price), demand declining in the Far East due to recession and excess supply from Australia. However, the Rand price of wool has not been decreased because it has been cushioned by exchange rate changes. There were three Rand price cycles between 1991 and 1998 and the trend in these cycles is upward (Table 11). The problem for growers would therefore seem to be more one of costs rising faster than prices than prices declining, per se.

Table 11: Wool price cycles 1991-1998

Cycle – from low turning point to next low turning point	Duration of cycle	Lower turning point price in Rand per kg (date in parenthesis)	Upper turning point price in Rand per kg (date in parenthesis)
06/03/91 – 05/05/93	2 years 2 months	R9,43 (05/05/93)	R14,84 (04/03/92)
05/05/93 – 11/10/95	2 years 5 months	R14,83 (11/10/95)	R23,04 (26/04/95)
11/10/95 – 14/10/98	3 years	R15,62 (14/10/98)	R26,24 (22/09/97)

Source: Strydom (June, 1999)

Mohair production has also declined steadily during the 1990s, even since 1993 when Rand prices per kilogram rose sharply (Table 12).

Table 12: Mohair production and prices, 1990-1998

Year	Number of Goats in million	Production of mohair in thousands of tons	Price in Rands per kilogram
1990	2,6	10,1	R11,402
1991	2,0	7,6	R11,985
1992	1,8	6,7	R11,455
1993	1,6	6	R9,589
1994	1,5	5,7	R22,144
1995	1,4	5,4	R24,883
1996	1,4	5,6	R22,815
1997	1,4	5,2	R25,06
1998	1,3	5	R27,85

Source: *Mohair South Africa Review, 1998*: 10.

The members of the Wool and Mohair Cluster will have to come to terms with is what has been happening on the cost side of production. Obviously there are serious problems being encountered by growers in this connection. Recurring droughts, rising costs of material and labour inputs and increased criminal activity are all problems which have increased the costs of production in the industry (Strydom, August, 1999). Eastern Cape farmers lost 21 063 sheep, valued at R6million, during the first 6 months of 1999 (Schoeman, 1999: 7). Additional assistance with these problems, inter alia, may be needed if the industry is to reverse its decline.

Conclusions

During the period the GEAR trade strategy has been implemented, the South African Department of Trade and Industry has served exporters interests enthusiastically. Many new free trade agreements have been negotiated, trade missions have opened up new doors, small businesses have been supported, planning of industrial clusters has proceeded and an export help desk has been set up to match local exporters with foreign buyers (Roberts, 1999:16). Some benefits from this initiative were felt quickly. As a result of the outward orientated trade policy opening up new opportunities for Eastern Cape citrus producers, rapid increases occurred in citrus exports in 1993 and 1995.

By way of contrast, no such benefit is evident in the export of wool and mohair from the Eastern Cape. The wool and mohair industy has been in decline for most of the 1990s. Final stage processing of the wool and mohair is done on a small scale in South Africa, but not in the Eastern Cape. As a result the setbacks that have occurred at this level in the industry during the passed few years have not directly affected the metropole.

In the automotive industry GEAR trade strategy was given expression in the form of the MIDP. It aimed at inducing local motor vehicle manufacturers to modify their production arrangements so that they could supply motor vehicles and parts at affordable prices on the domestic market, and at the same time increase foreign exchange earnings and employment (Laing, 1999:72-74). Prices of passenger motor vehicles have fallen in real terms (Sheard, 1999) but the mechanism by which it was hoped this would be achieved is still in its early stages of development, namely, through the exploitation of greater economies of scale in domestic manufacture. In the Port Elizabth-Uitenhage metropole the Volkswagen Golf IV contract to export 60 000 cars a year gives some cause for optimism in this connection.

On the other hand, the proliferation of imports and the decline in the number of people employed in the South African automotive industry have dampened enthusiasm for the MIDP (Taylor, 1997; Ryan, 1997; Laing, 1999). There has been a rise of imports of cars into the South African market making it difficult for local manufacturers to achieve economies of scale (Taylor, 1997: 33). The automotive industry deficit under the MIDP has been high (Ryan, 1997:51). In 1996 exports earned R4 billion whereas imports earned R16 billion. Employment in the South African automotive industry declined from 82 000 in 1996 to 70

000 in 1997 and questions have been raised over the speed the MIDP reduced tariff reduction (Laing, 1999:73 and 85).

In the Port Elizabeth-Uitenhage metropole it looks like GEAR trade strategy is ultimately going to yield more benefit than costs. There is evidence of substantial new investment being made in the industry and an enthusiasm for exploring export options.

To sum up: the trade policy component of GEAR strategy has not lived up to early expectations, but given the crises on the international markets of 1997 and 1998, the adjustment period required in orientating production from import substitution to export and political constraints, this was always in the cards. However, from the perspective of the Port Elizabeth-Uitenhage metropole there are positive signs: citrus exports are growing and there is considerable new investment being made in the automotive industry. Perhaps the first GEAR dividends are not too far off.

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