

A REDIENTATION OF THE EXISTING EXTERNAL TRADE

RELATIONSHIP OF THE UNION OF SOUTH AFRICA

AS A RESULT OF INTERNATIONAL POST-WAR

DEVELOPMENTS IN THE ECONOMIC WORLD.

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BY

PETRUS JOHANNES NIEUWENHUIZEN, HONNS.-B.COMM.

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VOORWOORD EN BEDANKINGS.

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Die verhandeling is in hoofsaak geskoei op die komparatiewe kosteteorie van Ricardo wat deur al die jare heen nog steeds geld as die aanneemlikste verklaring vir die internasionale handel. Die begrip is dan ook aanvaar sonder 'n kritiese bespreking van die waarde daarvan. Die uitbouing en vertolking van die res van die probleem dra die spore van die outeur se dagtaak en die sosiale omgewing waarin hy hom bevind het gedurende die studie-termyn.

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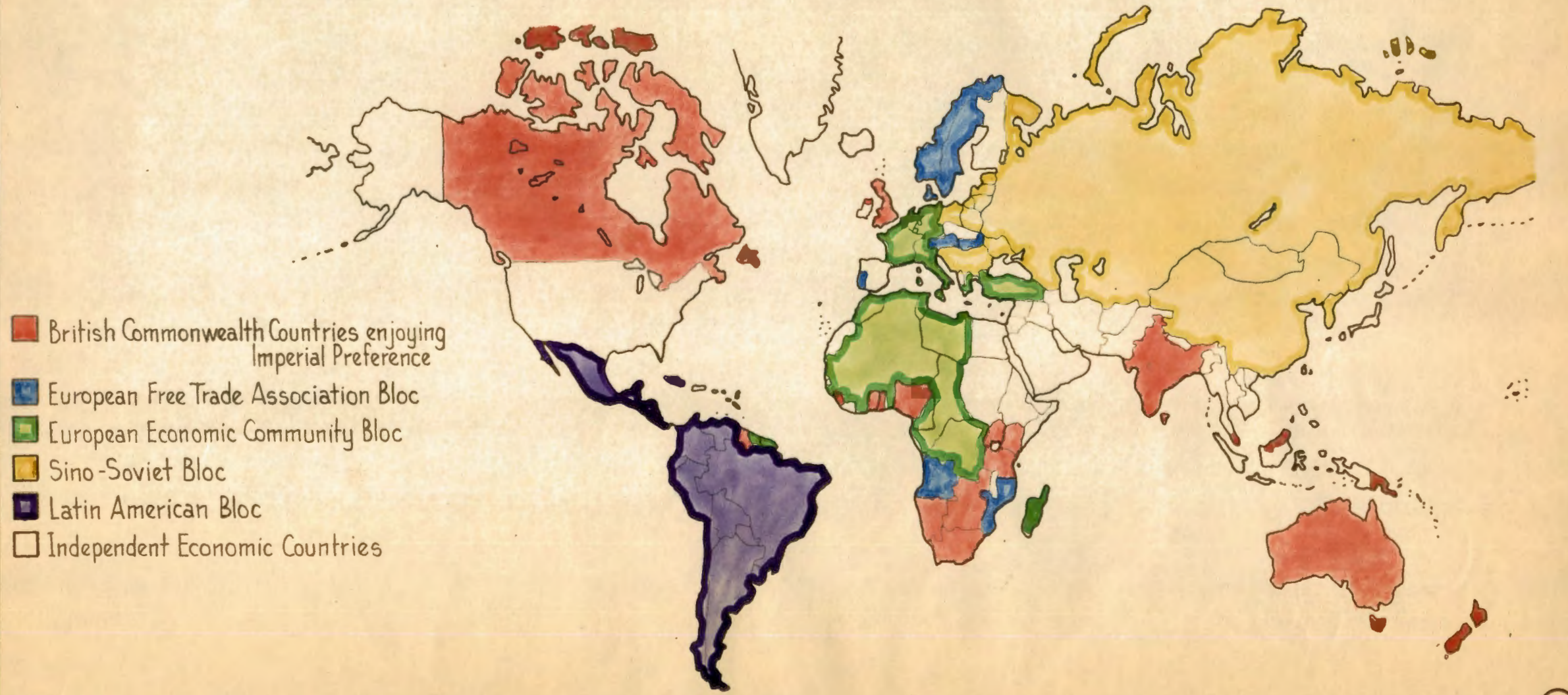
AAN GOD AL DIE EER.

P.J. NIEUWENHUIZEN.

PRETORIA.

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Map indicating the existing International Economic Blocs



- British Commonwealth Countries enjoying Imperial Preference
- European Free Trade Association Bloc
- European Economic Community Bloc
- Sino-Soviet Bloc
- Latin American Bloc
- Independent Economic Countries

CHAPTER I.

INTRODUCTION

For the purpose of this thesis the hypothesis is made that the existing economic policy and the external trade relations of the Union of South Africa have during the past been built on traditional channels of trade, but that this policy has become obsolete, especially since the Second World War.

Up to the Second World War this policy served its purpose in a relatively static world. After the war a new era commenced in which particular concepts made the ruling foreign policy obsolete. This new economic "climate" is the result of the post-war division of the world into two large political entities, namely the Free World on the one hand with the United States of America as its leader and the Communist Bloc on the other hand under the leadership of Soviet Russia. Between these two world powers a power vacuum existed. Economic development in the post-war period has to a large extent been moulded by this disequilibrium in world politics and economics. Many of the post-war situations and developments were the outcome of contractual obligations in terms of which Western Europe had obtained help from the United States of America.

The dynamic character of these post-war events in the economic world has as a result of their political backgrounds a vitality which can no longer be ignored by smaller economic entities. These integration movements are interrelated with various other economic phenomena, such as commodity consumption patterns, income effects, capital effects and deliberate domestic economic policies. These policies and developments may hold a serious threat to a particular country if the necessary provision is not made in time to forestall diversive developments. Once the developments have occurred a regression cannot easily be

affected. This rigidity is mainly the result of the behaviour of consumer tastes and pure financial considerations. The imposition of a single subsidy, tariff or development policy and the impossibility of doing away with it after achievement of its purpose is an adequate example of this fact. Once the countries of the European Economic Community have decided on a line of action, such as the development of mineral ore mines in the associated territories, it will be difficult to induce them to change their plans. If, however, very close contact had existed a different line of action might have been taken. The political implications of a known line of action cannot easily be ignored. Since the Second World War this development was speeded up and strengthened by a natural process of integration which has made itself felt from the time of the industrial revolution in Britain, but which has actually been going on since the dawn of economic activity. The dynamic character of integration movements coupled with political association will place South Africa in a position where isolationism can no longer form a basis for her international economic activity. Particular features of her import and export packet may add to this new complex situation.

In South Africa factors of a political origin are of extreme importance to the point in question, but fall outside the scope of the economist and economic science. In so far as these objectives clash with economic objectives and the underlying economic laws, a compromise will have to be found. Various alternatives may enable the authorities to attain the same long-term objectives by the application of a definite dynamic economic policy to conform to the ends aimed at and the means available.

Only by the application of scientific methods can a foreign policy be formulated to create the environment so essential for the solution of the internal economic issues. This approach

necessitates the continuous studying of the world situation to determine the line of action to be taken. Whether the existing order should be completely disrupted and a new order established will depend on the weight of the evidence which can be discovered and on the targets at issue. A dogmatic approach to the issues underlying the post-war disequilibrium in South Africa's trade will, in the long run, result in a retrogression in the trend and a loss of labour specialization with a continuous decline in economic prosperity. To illustrate this it must be pointed out that in the years immediately following the war many countries found themselves without international currency reserves while their population continuously pressed for higher standards of living. Trade by these countries could only take place under a bilateral system and under the guiding lines of bilateral agreements. Any insistence on multilateral trade by a country with a high gold production, such as South Africa, clearly precludes trade with countries hampered by a lack of international currency reserves. Another case falling under this group is trade with countries trading by means of state-trading enterprises. This is especially true of the countries with centrally directed economies, such as the members of the Sino-Soviet Bloc and to a certain extent, Japan. While many countries of the Western World have been only too eager to trade with countries under bilateral agreements, South Africa has without exception refrained from entering into these goodwill agreements. It will be shown later that this principle in particular has been responsible for the preservation of the traditional trade contacts. Trade relations with the countries of Latin America, Japan and the Sino-Soviet Bloc have suffered under this approach. Developments in the international economic sphere, such as the formation of economic power groups, the following of aggressive internal economic policies by countries

such as the United States of America and the Federal Republic of Germany (to mention only two), changes in consumption patterns and developments in the field of technology will compel South Africa to revise her existing external trade relations in order to expand the internal economic welfare which is so dependent on international trade. The following of a static principle which cannot be adjusted to changing conditions can never form a scientific basis for the formulation of economic policy, and calls for a reorientation of the existing approach.

The vast and rich resources available in South Africa can only be fully developed and a high equilibrium rate of economic growth and prosperity attained if assistance from foreign powers or blocs is obtained. This should take the form of a permanent solution of the problems relating to factors which are in short supply, such as skilled labour, technological aids and capital.

The formulation of a foreign policy to include these targets should be based on a process of planning which, in turn, should be based on the most up-to-date facts and scientific conclusions which can be obtained only by a progressive line of economic thought.

§ 1. Internal and external policies:

The interrelationship between the external and internal sectors of the national economy calls for a review of the present economic situations within the Union. A review of internal conditions is clearly necessary for the formulation of an external economic policy which must contribute towards the realization of the overall maximum economic target.

Uncertainty in the internal economic sphere can have far-reaching effects on the economic growth of a country. According

to Mr. Marx ¹⁾ this uncertainty was responsible for a 4% fall in productivity between 1951 and 1958. This fall in productivity is clearly abnormal in a country such as South Africa with its long and high rate of economic development since Union ²⁾ in 1910. A slowing down in the rate of economic growth was to be expected, but a reversal of the trend must be regarded with suspicion.

What the reasons for this development are, are not certain. It may be stated, however, that many of these problems have their origin in the external sphere. Excessive spending by consumers on foreign goods is a drain on the domestic economy and the multiplier effect of this on the South African economy can have far-reaching effects. During and immediately after the Second World War expenditure by South Africans on domestic goods was hampered by scarcities and fiscal control measures. In 1948 the pent-up consumer demand was released on foreign goods with such an intensity that the Government was compelled to resort to import control to safeguard the already dwindling international reserves.

The control measures were for various reasons periodically relaxed from 1951, but in some cases they were re-introduced. In 1960 and the immediate future direct control of imports will be maintained as the most important measure to protect the balance of payments. The question is whether direct control of imports is still serving its purpose and whether the time has not come when import control should be replaced by a more effective

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- 1) The Financial Times, Presidential address of Mr. G.S. Marx before the Federated Chamber of Industries. Johannesburg, December, 1959. P.14.
 - 2) Franzsen D.G., "Die Volksinkome en sy groei", published in n Half-eeu Ekonomiese Vooruitgang 1909/10 - 1959/60, published by Die Suid-Afrikaanse Akademie vir Wetenskap en Kuns, Pretoria, 1959. P.21 - 25.

long-term measure, such as consumer tax.

The present uncertain conditions in many of the economic spheres, internally as well as externally, do not contribute to the economic growth of this country.

The present situation of South Africa and the value of this situation must be carefully determined before a line of action can be decided upon. For a country which has traded mainly in a preferential area under conditions where tradition has played a particular rôle many factors must be taken into consideration. Many of these factors are the direct result of trade contacts in the preferential market and cannot be changed immediately without serious effects on the national economy.

§ 2. Method:

This thesis is based on the merchandise exports and imports of South Africa only. It must be pointed out that merchandise exports and imports form only part of South Africa's economic contact with the outside world. Merchandise was defined by the Economic Commission of the United Nations ³⁾ as all physical items moving in international trade except gold, and to a common point of valuation; exports are valued f.o.b., at border and imports are valued c.i.f.

Gold exports will not be dealt with, except where necessary to illustrate certain phenomena of particular importance to the development of the merchandise trade of the Union of South Africa.

During the period under review, namely from 1938 to 1958, numerous events have occurred in the national and international

3) Joint publication by the United Nations, the International Monetary Fund and the International Bank for Reconstruction and Development, Direction of International Trade, New York, 1958. P.5.

sphere. These events will be discussed in as far as they have had a bearing on the trend of economic development during this period.

Particularly disturbing were the attempts of foreign nations to apply certain directive policies, such as the devaluation of their currencies, direct control of imports by way of prohibitions, rationing of imports, quota allocations and the adoption of price-support measures with a view to stimulating the production of certain industries in order to make the country more self-supporting or even to make supplies available for export.

No attempt was made to use any particular year as a basis for the calculation of comparable money values. Where a comparison over this twenty-year period was necessary, the trend was expressed as a percentage of the total packet. The movement thus obtained is fairly representative of the underlying trend. Where a comparison of money values was necessary such a comparison was made in respect of one year only. In a few cases where a definite movement had occurred, as for example in the United States of America, Japan and the Federation of the Rhodesias and Nyassaland, a comprehensive analysis was made.

During the period under review a remarkable change of very disturbing effect occurred in the form of a change in the statistical territory of the Union of South Africa. The Customs and Excise laws applicable to the political territory of the Union of South Africa are also applicable to the High Commissioner territories i.e. Basutoland, Swaziland and Bechuanaland.⁴⁾ Prior to 1955 South West Africa was not included in this territory, but from that year the mandated territory of South West Africa was

4) Section 17 of the Schedule to the South Africa Act of 1909.

also included in the statistical territory of the Union of South Africa.⁵⁾ (Throughout this thesis the words "South Africa" shall mean the Union of South Africa, as defined above for statistical purposes).

No adjustment was made to eliminate the effects of this change in statistical territory, because it was thought unlikely that any difference in the composition of the export and import packets would occur, South West Africa requiring much the same merchandise and exporting mainly diamonds, mineral ores and agricultural products. The trade of the territory prior to 1949 is negligible while the overall pattern during the period 1950-1954 more or less shows the same trend as the trade of the Union of South Africa, since the whole geographical area has become economically integrated in the economy of the Union of South Africa. Before 1955 the two areas were linked by the same monetary system and no restrictions existed on the movements of capital and labour. Goods conveyed by rail had to comply with customs formalities but no check in respect of private road hauling was carried out. Any attempt at adjustment would have necessitated the adjustment of all statistical classes in the trade packet. Such an adjustment in this condition of semi-control may only lead to errors. The impact of this volume of trade has been of very little or no value at all and may be ignored.

The division of imports and exports into 14 statistical classes by the Department of Customs and Excise has been accepted for purposes of comparison. Where necessary a more detailed analysis was made.

This thesis will concentrate mainly on the foreign aspects of

5) Department of Customs and Excise, Annual Statement of the Trade and Shipping of the Union of South Africa, 1955.

the South African economy. This approach will also have to take into consideration certain internal policies and developments because of the interrelationship between the two economic spheres. Actually both belong to the same dynamic pattern and production schedules, but with the difference that numerous external factors become uncertain or highly variable when the geographic boundaries are crossed.

Only a long-term view will be given. Furthermore, it must be kept in mind that the formulation of an economic policy must include minimum as well as maximum objectives. It is the contention of this thesis that the formation of international power groups has increased the need for such an approach. The aim of this thesis will be to ascertain the facts surrounding these developments and to determine their likely effect on the South African economy.

§ 3. Scope:

In chapters II and III an analysis of the import and export packets of South Africa will be made in order to determine the long-term trends in composition, direction and possible future developments. It will be shown that South Africa's import packet consists of many commodity items, while the export packet contains relatively fewer items, each item being of far greater weight, however, than the items in the import packet. It will be argued that these facts indicate a condition of relative underdevelopment as far as the South African economy is concerned and disequilibrium as far as the import pattern of some commodities, such as motor vehicles is concerned. The implications of various policies, such as direct import control instead of a progressive consumer tax on these items, will be discussed. Attention will also be drawn to some implications of the industrial protection

policy, while the pattern of national income distribution and its effects on particular import commodities will be analysed.

An important contention of this thesis is that the present upward trend in the case of many commodity items will probably continue in the import packet. Some of the import items show an explosive character which will most likely contribute towards excessive imports. The export packet contains items which will most likely show great fluctuations during the period up to the end of this century. The fluctuations will probably be disadvantageous to South Africa. It will also be argued that the greatest comparative advantage for South Africa lies in her abundant and rich mineral resources which should be exploited to the maximum. It will be argued that the solving of the economic problems of the Union of South Africa with her great abundance of natural resources and unskilled labour calls for a complete reorientation of our existing trade relations and that international post-war developments in the economic world necessitate the formulation of a dynamic foreign economic policy.

The present position of South Africa and the dependence of this country on international trade will be discussed in Chapter IV, and it will be shown that the disequilibrium between merchandise exports and imports is so great that more is spent on foreign goods than what is gained by selling to foreigners. Disequilibrium will result in the slackening of the rate of economic growth which, in turn, might cause complete stagnation. This is especially true in a country with a relatively small market, such as South Africa.

In Chapter V attention will be drawn to post-war developments in the international economic sphere, particularly the formation of power groups and the application of particular commercial policies. The main economic power blocs to which attention will

be given are the British Commonwealth Bloc of which South Africa is a member, the European Economic Community, the European Free Trade Association, the Sino-Soviet Bloc, the Latin American Bloc and the independent international economic countries. Discussions in this connection will include the underlying economic basis for these developments, the present world situation and also a broad outline of developments which may be expected.

In Chapters VI, VII and VIII South Africa's trade and economic position within the different context situations discussed in Chapter V will be analysed. It will be shown that the traditional trading pattern with the United Kingdom is of particular importance, and it will be argued that this is mainly the result of the external policy followed by successive South African Governments. While the trade-establishing value of Imperial preferences will be acknowledged, it will be argued that these preferences are no longer of any value to South Africa. On the contrary, it will be shown that these preferences, which are mostly contractual, hinders the formulation of an independent foreign economic policy and contributes towards the distortion of the structural framework of the South African economy because they act as a brake on the dynamic qualities of the national economy. It will also be argued that the time has come for the abolishment of these ties and that such abolishment is an absolute prerequisite for the formulation of a foreign economic policy so essential for the establishment of new economic contacts in a world where power groups are gaining in importance. The United Kingdom will probably be forced to participate in the present integrational developments in Europe. Any linkage with these groups will necessitate the abolishment of some or all of the imperial preferences which have been freezed under the GATT.

The relatively unimportant economic contacts between South Africa and members of the Sino-Soviet Bloc on the one hand and the Latin American countries on the other must be ascribed to the existing foreign economic policy of the South African authorities, such as the adherence to the principle of absolute multilateral trade. Again it will be argued that South Africa must follow a more aggressive economic policy which is all the more necessary in a world where competition becomes more severe every day.

Attention will also be given to the economic position of the Union of South Africa and the rest of Africa. The overall economic situation will be critically examined in order to determine whether the economic policy with regard to the rest of Africa reflects the economic mood of the continent and whether the existing arrangements can contribute to greater trading contacts. It will be argued that also in this matter South Africa should formulate a more definite African economic policy in which technical and financial assistance should play a more prominent part. Funds voted for this purpose must be regarded as a long-term investment and will immediately safeguard South Africa's interests; such funds may also stimulate the interests of other highly industrialized countries in South Africa. Such a policy can only have a beneficial effect on the external economic contacts of the Union.

No attempt will be made to analyse the desirability of an economic union between the Union of South Africa and Southern Rhodesia because the Federation of the Rhodesias and Nyassaland has been the speculative area of political debate for a considerable time. Any discussion might bear the insignia of these controversial issues. Once the political problem has been solved, economic issues will make themselves felt. The special economic position of the two countries also does not fall within the scope

of this thesis. This does not mean that a full customs union would not be desirable. As a matter of fact, the two economies must clearly be seen as complimentary rather than competitive.⁶⁾ Only when they are combined the small markets can carry individual industries to an extent where reasonable equilibrium between the economic and technical optimum can be reached. Attention will again be paid to this aspect.

In Chapter IX the impact of international economic organisations, such as the General Agreement on Tariffs and Trade, the International Monetary Fund and the International Bank for Reconstruction and Development, will be discussed, while attention will also be given to international developments in the commodity and consumer behaviour fields. A discussion of developments in this connection is important because the effects of integration movements will be intensified or cushioned by developments in this context. Commodity and technological developments in the world will compel South Africa to conclude long-term contacts with international power groups in order to safeguard her primary products supply position and develop her economy. Although non of South Africa's export commodities is directly threatened by the establishment of the European Economic Community, contracts and development programs with associated or other countries may seriously jeopardise her trade relations with countries which are members of these power blocs.

Chapter X will present a synthesis for the future conduct of South Africa's external economic relations in the light of the facts discovered and the conclusions drawn from the previous

6) Wilmot J., "The Interrelationship of economic development in the Union and the Federation", Published as Fact Paper 75, August, 1959, by the South African Information Service, Pretoria.

chapters. :

The extent of the context situation, its dynamic qualities and the complicatedness necessitate the following of a method bound to exclude many points of detail. It is felt, however, that the analysis will indicate the more important issues necessary for the formulation of the conclusion.

CHAPTER II.

COMPOSITION OF SOUTH AFRICA'S IMPORT PACKET, ITS DIRECTION, AND POSSIBLE FUTURE TRENDS.

§ 1. Introduction:

For the purpose of this thesis attention will be drawn mainly to long-term trends and structural changes. This approach is disturbed, however, by numerous events which occurred during the past twenty years, especially in the case of merchandise imports. The extremely fluid and dynamic character of everyday economic life has thus been accentuated by exogenous factors which may conceal the real direction of the trend still more. This is all the more true in the case of a country such as South Africa where so much has happened since the outbreak of the Second World War.

The events may be divided into two main groups, namely:

- (a) Deliberate policy interventions
- (b) Spontaneous or exogenous acts.

§ 2. Deliberate policy interventions:

During the Second World War purchasing power increased considerably as a result of full employment and higher incomes. The scarcity of consumer goods as a result of the war effort resulted in a large accumulation of purchasing power which was released immediately after the war. Inflation increased and demand was directed mainly at imported goods. During 1948 the balance-of-payments position became so precarious that the Government was forced to impose severe import restrictions which were relaxed again in 1951, 1953 and 1956-57. The effects of these measures will be discussed later.

The South African pound was also devalued together with the currencies of the other members of the British Commonwealth (with

TABLE I.

UNION OF SOUTH AFRICA - IMPORTS BY STATISTICAL CLASSES.

(Given as a percentage of the total)

	I abc	I d	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII	
1938	1.1	6.0	.9	.4	20.6	42.6	2.2	6.8	4.1	2.3	4.3	3.9	1.9	2.9	100
1948	1.2	6.1	.4	.3	24.1	40.9	2.4	8.2	2.3	1.9	3.6	3.8	2.3	2.5	100
1949	1.3	5.9	.4	.3	23.3	39.9	3.7	9.4	3.1	1.9	3.4	3.6	1.4	2.4	100
1953	1.9	6.9	.4	.2	21.7	38.2	4.4	10.2	3.2	2.4	2.9	3.7	1.2	2.7	100
1954	2.2	6.1	.4	.2	23.5	35.3	3.9	10.4	3.9	2.4	3.3	4.1	1.3	3.0	100
1955	.8	4.7	.4	.6	19.5	39.6	3.5	10.3	4.5	3.2	3.8	4.3	1.7	3.1	100
1956	.8	4.3	.4	.7	17.2	43.8	3.4	10.4	4.1	2.6	3.3	4.0	1.8	3.2	100
1957	.9	3.4	.4	.3	17.6	45.4	3.4	10.1	4.0	2.6	3.0	3.9	1.5	3.5	100
1958	.7	3.6	.4	.3	14.6	49.6	3.6	9.4	4.1	2.2	2.8	3.8	1.5	3.4	100

I abc = Animals, Agricultural and Pastoral Products.

I d = Foodstuffs.

II = Ales, Spirits, Wines and Beverages.

III = Tobacco.

IV = Fibres, Yarns, Textiles and Apparel.

V = Metals, Metal Manufactures, Machinery and Vehicles.

VI = Minerals, Earthenware and Glassware.

VII = Oils, Waxes, Resins, Paints and Varnishes.

VIII = Drugs, Chemicals and Fertilizers.

IX = Leather, and Rubber and Manufactures thereof.

X = Wood, Cane, Wicker and Manufactures thereof.

XI = Books, Paper and Stationery.

XII = Jewellery, Time-pieces and Musical Instruments.

XIII = General.

Source: Department of Customs and Excise, Annual Statement of the Trade and Shipping of the Union of South Africa, 1938-1955.
Foreign Trade Statistics 1956-1958.

the exception of Canada). The effect of the devaluation of the South African pound was, however, short-lived as indeed the effect of all devaluations are in the absence of a well-directed central monetary policy.¹⁾

The imposition of import control and the numerous relaxations followed by successive re-introductions of control resulted in a pattern which might not at all represent the true direction of the trend. The Secretary of the Department of Commerce and Industry has said recently that 90% of South Africa's total imports has been released from control, but it should be remembered that the 10% still controlled forms the explosive factor, since if this were not the case control of this portion would have been unnecessary. It is quite clear today that this 10% is comprised mainly of luxury items which do not respond readily to a deterioration in the balance of payments.

Taken as a whole, it may be concluded that South Africa's import packet contains items which will for quite some time form a very sensitive and disturbing element.

§ 3. Spontaneous or exogenous acts:

Any movement which is not the result of deliberate intervention by the authorities to influence an endogenous factor or factors may be regarded as being the result of spontaneous or exogenous events. The Korean war is such a factor of no mean importance. But the greatest spontaneous factors were the extraction of uranium and the discovery of the goldfields of the Orange Free State with the ensuing developments which took place.

1) du Plessis F.J., Wisselkoersmanipulasie as instrument vir die Ekonomiese politiek van die Owerheid, Published thesis for the degree of D. Phil., Vrije Universiteit van Amsterdam, 1958. P.113.

It was impossible to eliminate these factors and no provision has been made in this direction, mainly because many of these disturbances will exercise a considerable influence for the next decade or two. The development of the gold mines will probably take another ten years to complete after which the imports of mining machinery will most likely decline. The uranium plants are already equipped and will not require much more imports. The big investment in railway material will also be completed within the next few years. New developments will, however, replace these developments with the result that imports of durable capital goods will always form an important part of the import packet in a rapidly developing country such as South Africa.

§ 4. Composition of the Import packet:

For the purpose of this thesis only merchandise imports were taken into consideration, as can be seen from Table I. The reason for this lies in the great weight of merchandise imports, the fact that detailed statistics were available and the important bearing which this type of import has on the problem under consideration. The effect of the change in capital flow direction which occurred in 1949 and the ensuing number of years on the composition of merchandise imports of South Africa was not dealt with. This change and its responsibility for the course followed by the Union authorities since the Second World War are of very great importance, but the direction and composition of the merchandise imports are probably to a larger extent the result of domestic demand and development factors.

The available statistics do not lend themselves to a detailed analysis. This is due to the extremely incomplete form in which statistics used to be compiled in South Africa. Many of the headings include a large variety of items which vary in importance.

TABLE II.

MAIN IMPORT ITEMS IN SOUTH AFRICA'S IMPORT PACKET
AND THEIR WEIGHT AS A PERCENTAGE OF THE RELEVANT
STATISTICAL CLASS FOR THE YEARS 1957-58 (£'000)

	1958		1957	
	Value (£)	%	Value (£)	%
<u>FOODSTUFFS</u>				
Coffee, Raw	2984	15.0	3046	16.4
Tea	7177	36.0	6422	34.5
Total	10161	50.9	9468	50.9
Total for class	19932		18573	
<u>ALES, SPIRITS, WINES AND BEVERAGES</u>				
Whisky	1461	76.0	1461	77.4
Total for class	1922		1888	
<u>FIBRES, YARNS, TEXTILES AND APPAREL</u>				
Nylon	1091	1.3	1848	1.9
Grain Bags, Jute, Hemp or Hessian	2414	3.0	2773	2.9
Calico	1166	1.4	890	.9
Other Cotton Piece Goods, Woven	17358	21.3	21540	22.2
Cotton Yarn	1451	1.8	1609	1.7
Carpet and Floor Rugs	1095	1.3	1239	1.3
Rayon Piece Goods, Woven ..	11884	14.6	17224	17.8
Wool and Hair Piece Goods (Not worsted) Woven	2507	3.1	2999	3.1
Wool and Hair Piece Goods (Worsted) Woven	1682	2.1	2010	2.1
Rayon Fibre	2286	2.8	3260	3.4
Cotton Fibre	2133	2.6	2317	2.4
Total	45067	55.3	57709	59.6
Total for class	81426		96684	

	1958		1957	
	Value (£)	%	Value (£)	%
<u>METALS, METAL MANUFACTURES, MACHINERY AND VEHICLES</u>				
Transformers	3204	1.1	1693	.7
Generators, Accumulators, Transmitters, Distributors of Electric current	11227	4.1	8623	3.5
Machinery, n.e.e.	18666	6.8	15122	6.1
Copper, Bar, Rod, Block and Ingot	3883	1.4	4239	1.7
Plate or Sheet, coated with tin	4695	1.7	4642	1.8
Locomotives	10478	3.8	4107	1.6
Rails	4223	1.5	4211	1.7
Rolling stock	14707	5.3	3750	1.5
Telegraph and Telephone Material	2906	1.1	2877	1.2
Tools, Mechanics	2732	1.0	3010	3.1
Motor Cars	13182	4.8	7754	3.1
Motor Car Chassis, in- cluding Parts and Materials for Building and Equipment of cars	33584	12.2	29162	11.6
Motor Car Parts and Accessories, n.e.e.	7179	2.6	7748	3.1
Motor Trucks and Vans and Chassis, Assembled	3910	1.4	3857	1.5
Motor Truck Bus and Other Vans, Chassis, Unassembled	11243	4.0	13480	5.4
Motor Trucks Parts and Accessories, n.e.e.	2911	1.1	2896	1.2
Aeroplanes, Airships and Other	7279	2.6	4201	1.7
Tractor (Wheel type)	5565	2.0	6508	2.6
Parts of tractors	3398	1.2	3376	1.4
Total	164972	60.0	131256	52.5
Total for class	275416.		259897	
<u>MINERALS, EARTHENWARE AND GLASSWARE</u>				
Diamonds, Rough of Mixed African Origin	11301	56.7	10108	54.5
Total for class	19908		18517	

	1958		1957	
	Value (£)	%	Value (£)	%
<u>OILS, WAXES, RESIN, PAINTS AND VARNISHES</u>				
Fuel Oils, Crude	7075	13.5	5716	10.3
Light Diesel Fuel	5181	9.9	4907	8.8
Lubricating	4063	7.8	5339	10.0
Illuminating and Burning Paraffin	2071	3.9	1698	3.1
Power Paraffin	3433	6.6	3595	6.5
Motor Spirit (Gasoline, Petrol)	14870	28.4	14228	25.5
Resin and Dry Resinous Gums	2353	4.5	2160	3.9
Tallow	2572	4.9	2160	3.9
Total	41618	79.6	39803	71.5
Total for class	52286		55638	
Chemicals, n.e.e.	5565	24.4	5483	24.7
Animal Glands and Tissues and their Preparations	2278	10.0	2165	9.7
Drugs and Medicines	1678	7.3	1558	7.0
Rock Phosphate	1620	7.1	1755	7.9
Total	11141	49.0	10961	49.3
Total for class	22755		22212	
<u>WOOD, CANE, WICKER AND MANUFACTURES THEREOF</u>				
Pine, Pitch	2249	6.1	2722	7.1
Pine, Other	936	2.5	1556	4.0
Other Coniferous soft woods	1373	3.7	1478	3.9
Furniture Woods	2320	6.3	2284	6.0
Other Unmanufactured Wood .	1348	3.7	1028	2.7
Sleepers, Railway and Tramway	2533	6.7	2132	5.9
Cardboard	1313	3.6	1653	4.1
Newsprint, in Reels	3768	10.2	3939	10.3
Printing paper	2465	6.6	2505	6.5
Kraft Paper	3207	8.6	2898	7.2
Paper and Paperware	1695	4.6	1485	3.9
Total	23207	62.6	23680	61.9
Total for class X & XI	37054		38254	
1. Total for the items above	308928		284446	
2. Total Imports for all classes	555510		549836	
1. as a percentage of 2.	55.7		51.7	

Source: Department of Customs and Excise, Foreign Trade Statistics 1957-58.

For the purpose of this study no attempt was made to overcome this deficiency. Where possible use was made of the much more detailed and precise statistics of the United Kingdom and reference will frequently be made to this source.

§ 4.1 Imports of Animals, Agricultural and Pastoral Products and Foodstuffs:

From Table I it is clear that a marked structural change has indeed occurred in the composition of the merchandise import packet of South Africa. The import of animals, agricultural and pastoral products in class I abc increased from 1.2% of the import packet in 1948 (1.1% in 1938) to 2.2% in 1954, mainly as a result of the importation of stud animals after the Second World War. From 1955 imports under this heading constantly decreased to the low level of .7% where it will probably remain. From the same Table it can be seen that the import of foodstuffs showed a similar trend, except that it declined constantly from 6.1% in 1948 (6.0% in 1938) to 3.6% in 1958. This trend will probably continue during the next decade or two, and is mainly the result of the efforts of the South African government to stimulate agricultural production and self-sufficiency. Later on it may rise slowly to correspond with a higher purchasing power. In 1958 raw coffee and tea constituted 15% and 36% respectively, or 51% of all foodstuffs imported (see Table II). These products of tropical origin will never be grown in South Africa and will always occupy a place in South Africa's import packet. Since the post-war years imports of ales, spirits, wines and beverages has remained constant at .4% of the import packet. From Table II it is clear that whisky was the most prominent item in this class and constituted no less than 76.0% of the total imports in this class. The same is true of tobacco and tobacco manufactures. It is clear that South Africa is able to feed itself. According

to G. van de Wall this will probably always be the case, especially since South Africa has but recently started applying better agricultural methods and conservation farming.²⁾

§ 4.2 Imports of Fibres, Yarns, Textiles and Apparel:

Imports of Fibres, Yarns, Textiles and Apparel decreased from 24.1% of the import packet in 1948 (20.6% in 1938) to 14.6% in 1958, although the years immediately following the war were characterised by a higher percentage until 1954. This was mainly the result of tension in the international sphere and the building up of inventories after the relaxation of import control in 1951 and the lifting of control over dollar-imports in 1953. The two items with the greatest weight in this class were cotton piece goods (21.3%) and rayon piece goods (14.6%). Domestic production of these two items is already far developed and the year to year decrease will continue (see Table II). Imports in this class were made up of numerous items, most of which are also manufactured locally. If the present trend in the direction of self-support is maintained, it may be expected that the country's requirements will decrease still further. In fact, no reason exists why imports in this statistical class should not decline to a level comparable with imports in statistical classes I abc, I d, II and III.

§ 4.3 Imports of Metals, Metal Manufactures, Machinery and Vehicles:

Imports in this statistical class increased from 40.9% of the import packet in 1948 (42.6% in 1938) to 49.6% in 1958. The effects of import control can clearly be seen. The composition of this class is of the utmost importance because of its weight in relation to the other statistical classes (see Graph I).

2) Van de Wall G., A Survey of the Food and Feed Resources of the Union of South Africa, Part II. Unpublished M.Sc. thesis, University of Pretoria, 1949. P.228.

It is also clear from Table I that this statistical class contains the explosive factor(s) which have given rise to all the post-war balance of payments problems. As a result of its weight and composition a more detailed examination is warranted.

Imports in this statistical class were numerous and of a great variety. From Table II it can be seen that 60% of all imports in this statistical class comprised only 19 items. Of importance is the fact that motor cars and parts totalled 19.6% of the 60%. This item is the most explosive factor in South Africa's import packet. From Table II b. it can be seen that imports of motor vehicles, trucks and parts advanced from a value index figure of a 100.0 in 1946 to 329.3 in 1948, as compared with 297.0 in respect of total imports in the class and 164.3 in respect of total merchandise imports. In 1949, under the full impact of import control, it fell to 142.8, as against 228.6 in respect of total imports in the class and 133.2 in respect of total merchandise imports. In 1951 imports of this particular item moved to 242.0, as compared with 323.1 in respect of total imports in the class and 212.2 in respect of total merchandise imports. The relatively higher imports in this class as a whole was due mainly to the development of the gold mines in the Orange Free State. This position was maintained until the end of 1954 when a further relaxation was allowed. Imports of this item moved from 269.0 in 1954 to 411.9 in 1955, as against 390.3 in respect of total imports in the class and 223.6 in respect of total merchandise imports.

TABLE II b.

Value index of Post-war Imports of Motor Vehicles,
Trucks and Parts, ¹⁾

Year	Imports under col. 3 as a % of total imports under col. 5	Imports of the item	Imports in the class	Total imports of merchandise
1	2	3	4	5
1946	5.5	100.0	100.0	100.0
1947	8.4	212.4	214.0	139.6
1948	11.1	329.3	297.0	164.3
1949	8.2	219.6	273.9	146.3
1950	5.9	142.8	228.6	133.2
1951	6.3	242.0	323.1	212.2
1952	7.4	246.8	339.3	184.2
1953	7.7	251.7	347.2	181.1
1954	7.7	269.0	333.6	192.0
1955	10.2	411.9	390.3	223.6
1956	9.9	411.8	420.4	230.0
1957	12.6	583.9	484.4	255.5
1958	13.5	632.0	533.0	258.2

1) Includes: Motor cars (assembled and unassembled), component parts and accessories, spares, motor Char-A-Banks and omnibuses, motor trucks and vans (including parts and accessories), motor cycles, motor scooters and auto cycles.

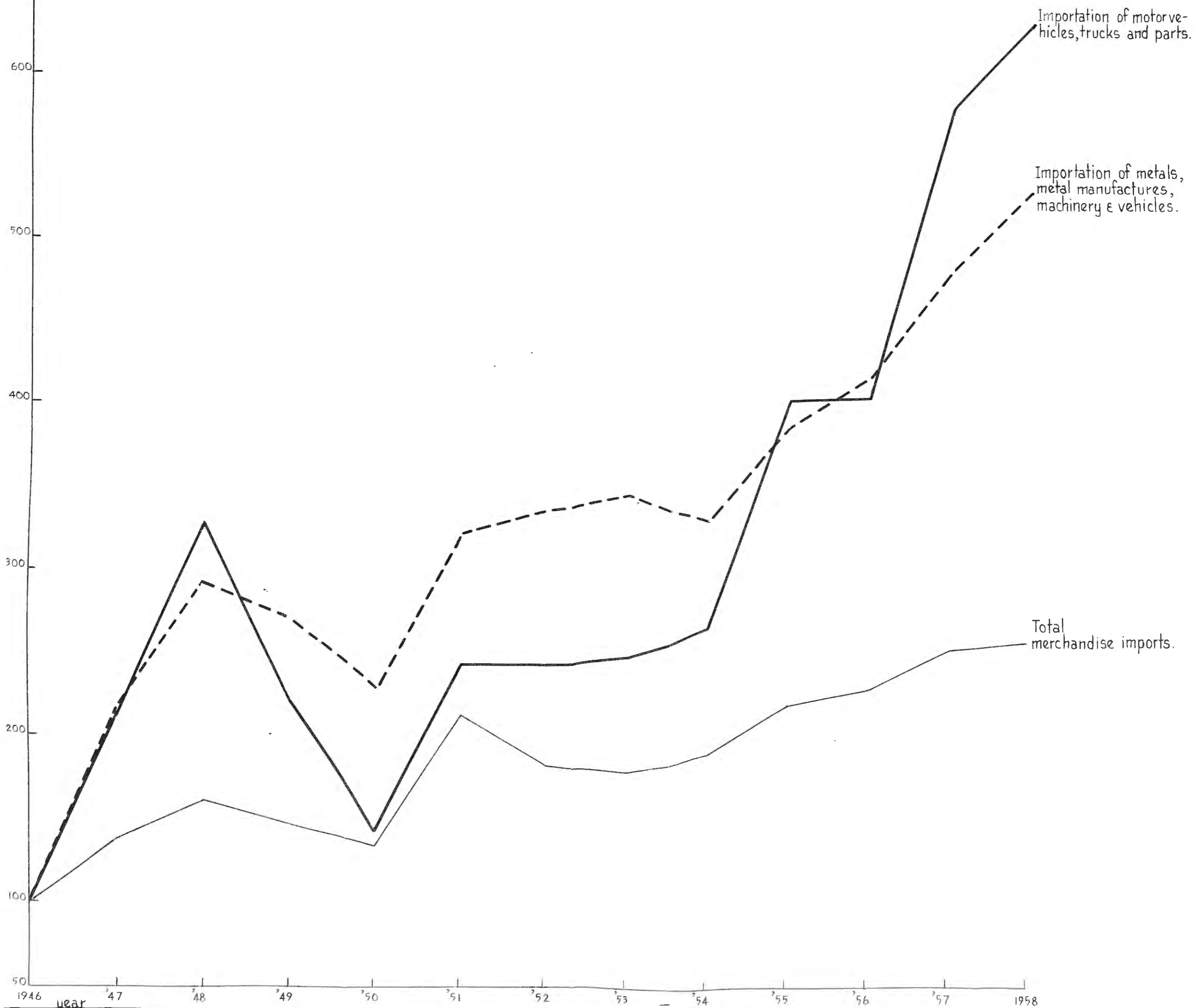
Source: Department of Customs and Excise, Foreign Trade Statistics, 1956-58, previously Trade and Shipping 1946-1955.

This movement was sustained and reached a figure of 632.0 in 1958, as against 533.0 in respect of total imports in the class and 258.2 in respect of total merchandise imports. From 1951 to 1958 an intensive expansion program was carried out in different public utility concerns, such as the Railways, Sasol, the Electricity Supply Commission and the Department of Posts and Telegraphs. From Graph II it can be seen that the curve reflecting imports of motor vehicles, trucks and parts is very much steeper than the other two curves.

Money values were used for the compilation of the information

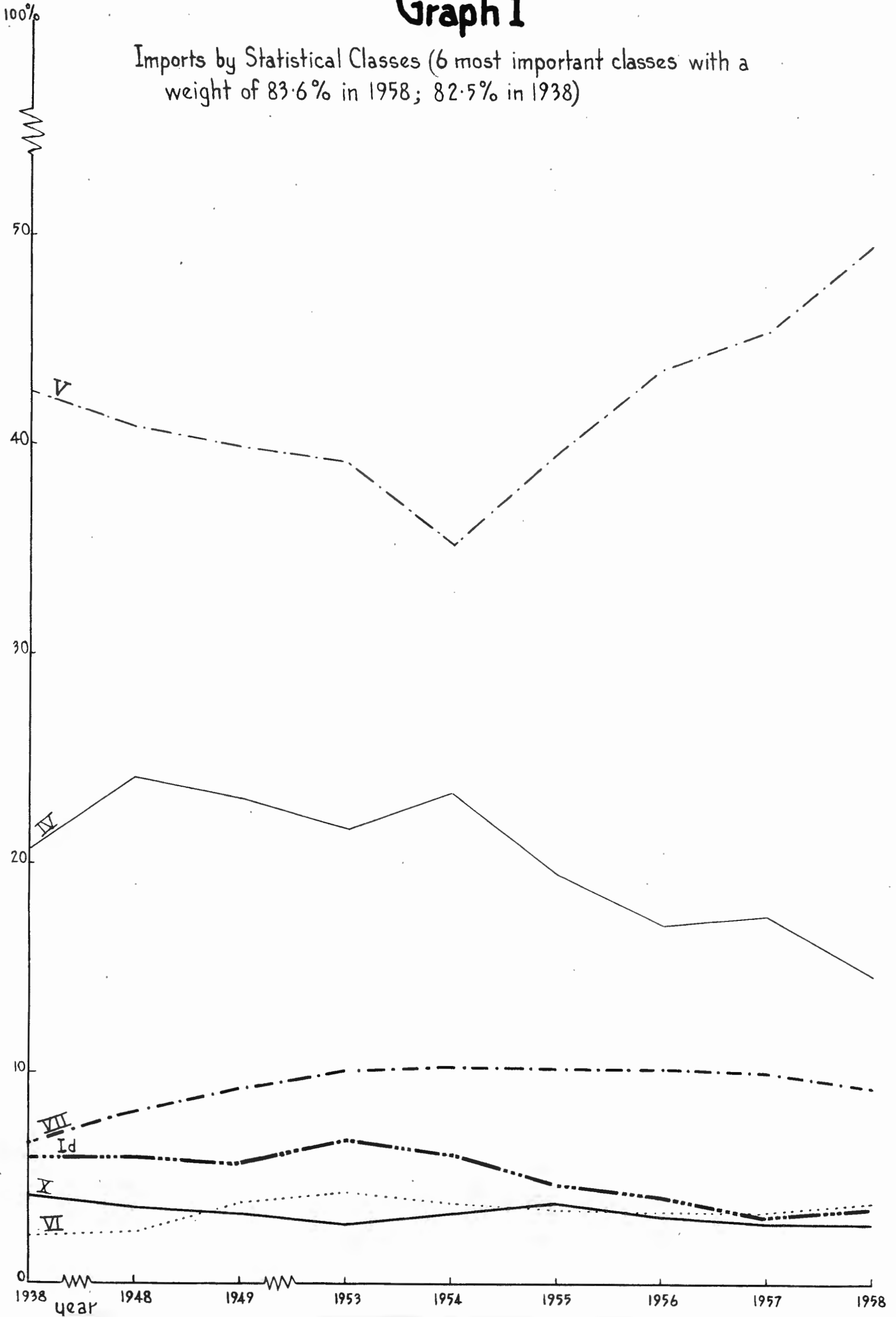
Graph II

Value index



Graph I

Imports by Statistical Classes (6 most important classes with a weight of 83.6% in 1958; 82.5% in 1938)



in Table II b. The fact must be borne in mind that the imports of cars from the dollar area have decreased since 1955, while imports of other items from the dollar areas have increased after the relaxation of discriminative measures against dollar-areas in 1953-54.³⁾ The money value of expenditure on motor vehicles, trucks and parts increased from £11,895,000 in 1946 to £75,182,000 in 1958 notwithstanding the maintenance of import control restrictions.⁴⁾ (No provision was made for changes in the purchasing power of money).

The price effects on imports in the class as a whole were certainly greater than the price effects on imports of this item, owing to the switch-over from the relatively more expensive area to the relatively less expensive area. However, it must be kept in mind that up to now the demand for cars has not yet reached a point of satiation, while imports of most other items in the class were allowed under all circumstances. In 1957 the authorities were certain that the demand had reached its peak, but in 1958 imports increased by another £6 million. In fact, the whole increase in respect of total merchandise imports in 1958 occurred in respect of motor vehicles. Imports of trucks and commercial vehicles were never restricted, so that we may conclude that the upward trend, as shown by Graph II occurred mainly in respect of passenger vehicles. With the exception of the United States of America South Africa has the highest ratio of cars to European population in the world.⁵⁾ The difference is, however, that the United States of America is a large manufacturer of motor cars and

3) Government Notice No. 5190 of 27th November, 1953.

4) Government Notice No. 642 of 2nd May, 1958 reimposed the restrictions on the importation of built-up luxury motor vehicles, but the f.o.b. price of the vehicles on which these restrictions were imposed were increased from £600 to £800 each.

5) Tegniek, February, 1958. P.6.

that it is therefore not dependent on imports. The consumer pattern of this item also differs completely from the position in the United States where a car costs 33% of the annual income of the citizen. The fact must be realised that special circumstances in South Africa probably created a unique consumption pattern in respect of cars. The circumstances are mainly the presence of the gold mines with their stimulating effect on purchasing power and the topographic character of South Africa. The motor car is nowadays nothing more than an essential part of the South African economy but the importation of luxury cars cannot be justified. The behaviour of this item in the import packet when control is relaxed gives weight to the argument that luxury cars actually form the explosive factor. It is suggested that consumer tax may be more effective in the control of this item than import control.

The importance of this item and its explosive character is well known to the South African authorities.⁶⁾ A ten-year plan has already been drawn up by the South African Board of Trade and Industries and will save the country £30 million annually. The aim of this plan is to manufacture, in collaboration with certain overseas firms, component parts which are to be used in assembling cars in the Union. The ultimate aim is to manufacture 80-90% of all parts locally. Tariff protection will be given to the local industry. While certain parts can easily be made in South Africa, without complicated machinery and highly skilled labour, many parts will require a highly developed technology. Reports daily appear in the Press that certain overseas manufacturers intend investing in concerns with this end in view.

6) The Financial Times, 30th October, 1959. P.5. See also Report of the Commission of Enquiry into Policy relating to the Protection of Industries. U.G. 36/1958. P.5.

Whether the limited South African market justifies this is another aspect of the problem. Great difficulties are to be foreseen if parts have to be manufactured for all the models sold in South Africa. Discrimination of any kind will only worsen the already tensioned international contacts of South Africa. With the limited internal and external market no possibility will exist to practice economies of scale, a practice which is of vital importance to the success of the scheme.

The completion of the development programs of the gold mines, the South African Railways, the Electricity Supply Commission and other public authorities will result in a marked decline in imports of specific items in this statistical class. Total imports in this class will most likely follow the development pattern of the country as a whole. It cannot be expected that South Africa, a relatively underdeveloped country with a small domestic market, will be able to supply the highly specialised imports in this class so essential to development of the country in the near future.

With developments such as television and air-transport and an increase in purchasing power, imports in this class are more likely to increase than decrease. Any attempt to stimulate production diversification artificially may only result in the diversion of potential exports to the local market, thus effecting a loss in comparative and specialization advantages.

The conclusion as far as this statistical class is concerned is that it will continue to carry the same weight for quite some time. It may be regarded as a long-term phenomenon. The most that can be done is to direct certain items such as the importation of motor cars by means of consumer taxation. Direct control of imports should be abolished to conform to the requirements of a free economy. It is felt that import control has

served its purpose. Attention is also drawn to Article XII of the General Agreement on Tariffs and Trade under which South Africa is allowed to maintain import restrictions for balance-of-payments reasons. The continued improvement in the balance-of-payments position and the substantial international reserves of South Africa will in future only give rise to friction in this international body, should South Africa insist on import control under this article.

§ 4.4 Imports of Minerals, Earthenware and Glassware:

The importance of the statistical class Minerals, Earthenware and Glassware may be ignored, because 56.7% of the imports in this class consists of rough diamonds of African origin imported by the Central Selling Organisation, as can be seen from Table II. The re-exportation of these diamonds forms a contra item which should have been eliminated from the statistics. Other imports in this class are mostly essential raw materials for South African industries.

§ 4.5 Imports of Oils, Waxes, Resins, Paints and Varnishes:

Imports in this statistical class moved from 8.2% of the import packet in 1948 (6.8% in 1938) to 10.4% in 1954 and 1956. In Table I a declining tendency can be detected, however, which is probably the result of the activities of the South African Oil and Coal project at Sasolburg. Developments in this direction and future prospects will change the picture completely within the next few years. With the large coal reserves no reason exists why this should not happen.

Imports in this statistical class consist mostly of items complimentary to the main item in statistical class V, namely motor vehicles. From Table II it can be seen that 79.6% of the total imports in this class was comprised of 8 items, all

relating to tractive power.

It may be concluded, therefore, that imports in this class will decrease in the future.

§ 4.6 Imports of Drugs, Chemicals and Fertilizers:

Imports in this statistical class moved from 2.3% of the import packet in 1948 (4.1% in 1938) to 3.2% in 1953, but with the relaxation of import control and the lifting of control over dollar imports in 1953, imports increased to 4.1% of the total import packet in 1958. As a result of developments in this direction South Africa will require less and less of the items in this class. In this connection attention must be drawn to Sasol, Foskor and Iscor with their numerous by-products. There is practically no limit to the possibilities in this direction in South Africa.

§ 4.7 Imports of Leather, and Rubber and Manufactures thereof:

South Africa is mainly self-supporting as far as leather and manufactures thereof are concerned. Rubber must be imported, however, and supplies imported are in the form of raw rubber. It may be expected that imports in this statistical class will be maintained at approximately 2.3% of the total import packet. This has been the position since 1938. Movements which occurred since that year are mainly the result of import control measures and do not indicate any long-term trend or structural change.

§ 4.8 Imports of Wood, Cane, Wicker and Manufactures thereof:

Imports in this statistical class are of a great variety and decreased from 3.6% of the total import packet in 1948 (4.3% in 1938) to 2.8% in 1958. This indicates a clear-cut trend which will probably be maintained. Many of the items in this class are being replaced by new technological developments, such as iron and concrete sleepers as a substitute for wooden railway.

sleepers. One of the industries threatened by international integration movements is the pulp and paper industry, especially those plants which manufacture hard-board. Should the export market be lost, attention will probably be diverted to other branches. Afforestation programs under the Bantu-development act increased the possibilities of overproduction of these and related products for which a market will only be found under very severe competition.

It may be concluded that imports in this statistical class will continue to follow the trend indicated in Table II.

§ 4.9 Imports of Books, Paper and Stationery:

No change in the position of this statistical class occurred between the years 1938 and 1958 and no change is likely to occur. Imports in this class consist for the most part of educational material which will nullify any decreasing trend as far as paper for wrapping and other purposes are concerned.

§ 4.10 Imports of Jewellery, Time-pieces and Musical Instruments:

No change occurred in the composition of this statistical class between the years 1938 and 1958. Imports formed 1.5% of the total import packet in 1958 and are, therefore, negligible and of very little importance.

§ 4.11 Conclusion:

The following conclusions may be drawn in regard to the composition of South Africa's import packet:

- (1) The importance of imports in 3 statistical classes are overwhelming. These classes are Fibres, Yarns, Textiles and Apparel (14.6%); Metals, Metal Manufactures, Machinery and Vehicles (49.6%); and Oils, Waxes, Resins, Paints and Varnishes (9.4%).

Imports in respect of these 3 statistical classes totalled 73.6% of the total import packet. The position of imports under these 3 classes can clearly be seen from Graph I. In all 3 classes a clearcut trend is definitely noticeable although sharp fluctuations occurred in the two most important classes, namely metals, metal manufactures, machinery and vehicles, and fibres, yarns, textiles and apparel. The importance of statistical class V in particular can clearly be seen from this graph.

- (2) Imports in the other 11 statistical classes totalled only 26.4% of the total import packet.
- (3) The figures in Table I show a declining trend in 4 out of the 14 statistical classes; 6 statistical classes show no trend at all, while the remaining 4 show an increasing trend.
- (4) Many of these statistical classes and the items of which they are comprised show a definite declining trend, except statistical classes V and VII.
- (5) Statistical class VII will most probably also follow a declining trend as a result of internal developments. Such a trend is already noticeable for the years 1957 and 1958.
- (6) Statistical class V contains the explosive factor in the import packet. Various measures have been advanced to cope with the factor(s) responsible for this phenomenon. The contributing factor(s) has (have) been of an endogenous as well as exogenous character.

- (7) The endogenous factors are the habit of South Africans to regard motor cars as a necessity and the very rapid rate of economic development. These factors are of a long-term nature and will resist any deliberate intervention.
- (8) The exogenous factors are the Korean war, the discovery of gold in the Orange Free State, and public investment programs. These factors are of a short-term nature and will decrease within the next decade or two.
- (9) The main problem for the authorities lies in the endogenous factors contained in statistical class V. Any intervention must be made with the utmost care and according to a well formulated long-term policy based on scientific considerations only. In order to release the economy from continuous interference import control should be abolished and replaced by consumer taxation based on a steeply progressive scale so as to tax the consumer group most likely to cause the burden on South Africa's international reserves.

§ 5 Direction of South Africa's import packet:

The origin of South Africa's merchandise imports can be readily seen from Table III. International post-war developments in the international economic world necessitate the study of trade directions.

TABLE III.

Value of Imports into South Africa from
the different International Economic Blocs.
 (Percentages)¹⁾

	1958	1957	1956	1955	1954	1953	1949	1948	1938
Commonwealth Bloc	45.0	44.8	45.0	44.3	45.5	47.7	53.3	43.2	52.3
EEC and associated territories	20.7	18.0	16.6	15.8	15.5	15.6	6.3	6.9	12.8
Sino-Soviet Bloc .....	.7	.5	.6	.4	.5	.5	.3	.6	2.3
Independent Countries ..	22.5	26.0	26.0	26.4	27.6	26.1	29.9	37.7	24.4
E.F.T.A. (excluding Britain) ...	5.4	5.1	5.0	5.0	4.8	4.4	3.2	4.8	3.4
Latin American Countries ..	.9	.9	1.0	.5	1.2	1.3	1.1	2.0	1.1
African Countries ..	6.3	6.5	7.8	6.7	8.5	7.7	5.6	4.5	1.1
Value of Total Imports	555	549	494	481	413	390	284	331	86

1) The percentages in respect of different groups will not add up to 100%, because some countries are included in more than one group.

Source: Department of Customs and Excise, Annual Statement of the Trade and Shipping of the Union of South Africa, 1938-1955. Foreign Trade Statistics 1956-1958.

It will be argued later on that tradition forms a vital element in the direction of a country's international contacts, but that the direction can be changed by certain measures and deliberate policies. The behaviour of the consumer in the different international markets presents a formidable barrier to

the supplier which requires constant study and a dynamic approach.

For reasons which will be given later the world can be divided into the following blocs or economic spheres:

- (1) The British Commonwealth of Nations bound together by Imperial preference.
- (2) The European Economic Community and associated territories.
- (3) The Sino-Soviet Bloc.
- (4) The Independent International Countries.
- (5) The European Free Trade Association (excluding Britain).
- (6) The Latin American Countries.
- (7) The African Countries.

§ 5 1 The British Commonwealth of Nations:

In 1948 43.2% (52.3% in 1938) of South Africa's merchandise imports came from the British Commonwealth countries. In 1958 these imports increased to 45.0%. This has in fact been the position since the end of the Second World War, with the exception of 1949. Reasons advanced as an explanation for this trend varied from the inability of the United Kingdom to supply the required items to the inadequateness of imperial preferences. It is clear, however, that no drastic variation occurred. For this purpose the year 1938 is an abnormal year, because the prospects of war had by then already influenced the direction of international trade.

It may be concluded that no change occurred in the volume imported from the Commonwealth group.

§ 5.2 The European Economic Community and Associated Territories:

Imports from the countries constituting the European Economic Community increased from 6.9% of the import packet in 1948 (12.8% in 1938) to 20.7% in 1958. Again it may be concluded that war preparations made 1938 an abnormal year for comparative purposes. As contrasted with imports from the Commonwealth Bloc, imports from the member countries of the European Economic Community increased from 15.6% of total imports in 1953 to 20.7% in 1958. A definite clear-cut trend manifests itself in trade with this Bloc.

§ 5.3 The Sino-Soviet Bloc:

Imports from the countries forming the Sino-Soviet Bloc fluctuated between .6% of total imports in 1948 (2.3% in 1938) and .7% in 1958. The reason for this trend is that reasonable economic contacts existed between South Africa and some of the members of this Bloc before the Second World War, notably with Poland, Hungary and Russia.

§ 5.4 Independent International Countries:

The most important country in this group as far as South Africa's imports of merchandise are concerned, is the United States of America. Imports from the other members were negligible.

This fact explains the fluctuating character of the movements in the imports from these countries. Imports from this group of countries declined from 37.7% of the import packet in 1948 (24.4% in 1938) to 22.5% in 1958. The inability of Europe to supply the Union's requirements immediately after the Second World War is clear from Table III and imports dropped from 37.7% of the total import packet in 1948 to 29.9% in 1949 and to 22.5% in 1958. Imports from these countries have been fairly stable

since 1953 and will probably continue to be so in the future.

§ 5.5 European Free Trade Association Bloc (excluding Britain):

Imports from the countries constituting this Bloc increased from 4.8% of the total import packet in 1948 (3.4% in 1938) to 5.4% in 1958. The slight increase has been well maintained and is spread evenly over the whole period. Whether it has reached a point of equilibrium is, however, not clear.

§ 5.6 Latin American Countries:

From Table III it can be seen that imports from these countries declined from 2.0% of total imports in 1948 (1.1% in 1938) to .9% in 1958. Imports had decreased continuously from 2% in 1948 to its present level. This trend will most likely continue in future and it will be argued later on that particular conditions in these countries, and South Africa's policy towards these conditions, are mainly responsible for this relatively stagnant condition.

§ 5.7 African Countries:

Imports from countries on the continent of Africa increased from 4.5% of total imports in 1948 (1.1% in 1938) to 6.3% in 1958. The Federation of the Rhodesias and Nyassaland played an overwhelming part and the trend observed coincides completely with the import position from this country.

§ 5.8 Conclusion:

It is clear from Table III that the traditional position has been conserved as far as the origin of South Africa's merchandise import packet is concerned. Apart from imports from African countries and the European Economic Community Bloc no significant movement has occurred.

Imports came mainly from the industrially advanced countries and coincide with statistical class V in Table I. Imports of oils, waxes, resins and paints under statistical heading VII came for the most part from the Independent Economic Countries.

There is no reason why this pattern should change, granted that certain developments might occur as a result of a deliberate domestic or international policy. It will be argued later on that a country such as South Africa has a definite international set-up and that import channels are only part of the complete contact position, the other important component being the direction of the export packet. In other words, the direction of exports and origin of imports depend on the position and composition of the balance of payments and the fact that a position of equilibrium is envisaged. In a world of increasing state intervention and government measures there is no reason why development should not be diverted into definite channels of a two-way nature.

Commercial contacts, tradition and cultural historical ties may be of the greatest importance as far as imports are concerned. These factors may conceal the real economic factor where measures such as currency control or a permit scheme are adhered to. In a completely free economy, price considerations will form the "invisible" hand ensuring the cheapest origin and the derivation of maximum advantage from international cost differences which arise from factor allocation and labour specialization.

CHAPTER III.

COMPOSITION OF SOUTH AFRICA'S EXPORT PACKET, ITS DIRECTION AND POSSIBLE FUTURE TRENDS.

As in the case of imports, attention will again be directed to long-term trends and structural changes. In contrast with imports it will be found that much less has happened to interfere with the long-term trend and direction of exports. Changes in the trend of composition and direction were mainly the result of national and international developments. The need to distinguish between exogenous and endogenous impulses does not exist, except perhaps in the case of uranium exports. As far as the export packet is concerned attention will again be focused on merchandise exports only, although reference will occasionally be made to gold production and gold sales.

Deliberate policy interventions by the local authorities do not exist or can have no direct effect on the direction or composition of the export packet in the long run, although a vigorous and definite foreign policy can do much to cause a better equilibrium between the import and export sectors.

§ 1. Composition of the export packet:

An analysis of the statistical classes forming the export packet gave results similar to those obtained in the case of the import packet. Structural changes within the statistical classes are more pronounced and demarcated than in the case of the import packet.

§ 1.1 Exports of Animals, Agricultural and Pastoral Products:

From the figures in Table IV it can be seen that exports in this statistical class decreased from 37.9% of the total merchandise export packet in 1948 (45.6% in 1938) to 20.6% in 1958. The trend is fairly smooth and very clear-cut (see

TABLE IV.

UNION OF SOUTH AFRICA - EXPORTS BY STATISTICAL CLASSES.

(Given as a percentage of the total)

	I abc	I d	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII	
1938	45.6	28.3	1.4	.1	.8	8.4	9.4	.4	.6	.5	.4	.3	3.4	.8	100
1948	37.9	20.7	2.1	.6	2.3	12.2	10.7	2.1	1.4	2.6	.8	.6	4.5	1.5	100
1949	35.7	15.5	1.4	.4	2.5	13.4	10.7	2.3	1.8	2.1	.8	.6	11.2	1.6	100
1953	29.7	13.9	1.1	.5	2.7	16.6	7.2	2.0	1.0	2.1	.7	.7	20.2	1.6	100
1954	29.6	22.7	1.3	.5	3.1	22.7	7.2	2.9	1.3	2.3	.8	.9	3.1	1.6	100
1955	25.8	20.8	.9	.4	2.0	28.5	11.0	2.6	1.2	1.8	.6	.6	2.6	1.2	100
1956	24.7	20.5	.6	.4	2.0	31.5	10.3	2.6	1.0	1.5	.6	.5	2.5	1.3	100
1957	24.4	20.6	.7	.2	1.9	30.6	10.3	3.0	1.1	1.7	.6	.7	2.7	1.5	100
1958	20.6	23.7	1.0	.1	1.9	31.3	10.2	2.7	1.2	1.5	.7	.7	3.0	1.4	100

I abc = Animals, Agricultural and Pastoral Products.

I d = Foodstuffs.

II = Ales, Spirits, Wines and Beverages.

III = Tobacco.

IV = Fibres, Yarns, Textiles and Apparel.

V = Metals, Metal Manufactures, Machinery and Vehicles.

VI = Minerals, Earthenware and Glassware

VII = Oils, Waxes, Resins, Paints and Varnishes.

VIII = Drugs, Chemicals and Fertilizers.

IX = Leather, and Rubber and Manufactures thereof.

X = Wood, Cane, Wicker and Manufactures thereof.

XI = Books, Paper and Stationery.

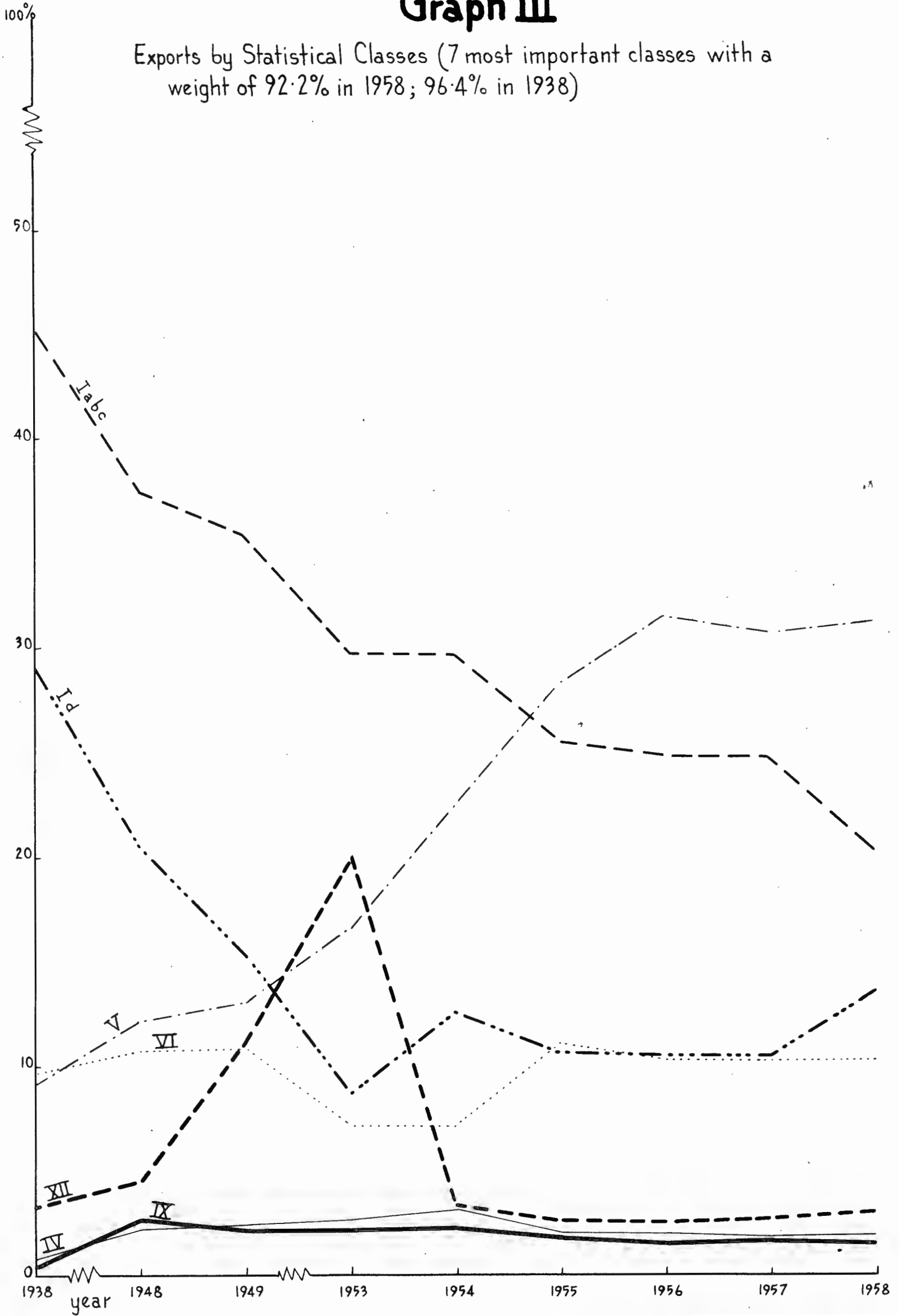
XII = Jewellery, Time-pieces and Musical Instruments.

XIII = General.

Source: Department of Customs and Excise, Annual Statement of the Trade and Shipping of the Union of South Africa 1938-1955.
Foreign Trade Statistics 1956-1958.

Graph III

Exports by Statistical Classes (7 most important classes with a weight of 92.2% in 1958; 96.4% in 1938)



Graph III). This decrease may partly be the result of the increasing importance of exports in the other statistical classes. A comparison of similar movements in the other classes reveals in some cases a definite trend over the whole twenty-year period, or it shows a definite trend for a few years and then a change.

The export packet in this class is comprised mainly of 4 items with a total weight of 73.3% of the exports in this class, (Table V). One of the items, namely wool, can be isolated and compares favourably with the behaviour of the item motor cars in statistical class V under imports. In 1957 it comprised 67.0% of the statistical class, as against 56.5% in 1958. The behaviour of this item in the international trade sphere before and after the Second World War makes it one of the most sensitive export items. Not only is the consumption of wool influenced by world events and fashions, but competition is continually being experienced from synthetic products. Developments in the synthetic field which will be more fully discussed in Chapter IX will probably continue to exert a downward pressure on the price and consumption of wool until a position of "equilibrium" has been reached. This position will depend on many factors which preclude a definite conclusion.

Wattle bark and wattle bark extract are two more items also threatened by synthetic products. Leather is making way for plastics and tanning is now done by means of synthetic tanning substances which give better results at a lower cost and whose quality can be more effectively controlled.

Fish meal and solubles are a very important item. Demand for these products will increase with the greater demand for animal products.

TABLE V.

MAIN EXPORT ITEMS IN SOUTH AFRICA'S EXPORT PACKET
AND THEIR WEIGHT AS A PERCENTAGE OF THE RELEVANT
STATISTICAL CLASS FOR THE YEARS 1957-58 (£'000)

	1958		1957	
	Value (£)	%	Value (£)	%
<u>ANIMALS, AGRICULTURAL AND PASTORAL PRODUCTS</u>				
Wool	41543	56.5	65648	67.0
Wattle Bark and Extract ...	5125	7.0	5688	5.8
Fish Meal and Solubles	4086	5.6	2527	2.6
Cellulose Pulp, Bleached ..	3087	4.2	2460	2.5
Total	53841	73.3	76323	78.0
Total for class	73459		97889	
<u>FOODSTUFFS I d.</u>				
Butter	664	.8	1015	1.2
Mealies and Mealie Meal ...	20505	24.2	21395	25.7
Fish and Fish Products	8517	10.0	8357	10.0
Fresh Fruit (8 important varieties)	18467	21.7	20017	24.0
Canned Fruit and Jam (5 important items)	14465	17.0	11337	13.6
Groundnuts	1846	2.2	3511	4.2
Sugar	7361	8.7	4557	5.5
Total	71825	84.7	70189	84.3
Total for class	84825		83186	
<u>ALES, SPIRITS, WINES AND BEVERAGES</u>				
Heavy (Fortified) Wines ...	900	25.3	941	31.7
Light Wines	316	8.6	95	3.2
Total	1216	34.2	1036	34.9
Total for class	3553		2966	

	1958		1957	
	Value (£)	%	Value (£)	%
<u>METALS, METAL MANUFACTURES, MACHINERY, VEHICLES</u>				
Mining Machinery	3459	3.1	4495	3.6
Metals and Metal Ores (7 important items).....	28016	25.1	31191	25.3
Prescribed Materials under the Atomic Energy Act	53662	48.0	49989	40.6
Motor cars (re-exports) ...	1898	1.7	2071	1.7
Total	86635	77.6	88346	71.7
Total for class	111684		123249	
<u>MINERALS, EARTHENWARE AND GLASSWARE</u>				
Asbestos	10428	28.6	10953	26.3
Diamonds, Rough and Uncut .	20572	56.4	24686	59.5
Total	31000	85	35639	85
Total for class	36493		41493	
<u>JEWELLERY, TIME-PIECES AND MUSICAL INSTRUMENTS</u>				
Diamonds, cut and polished	10110	94.3	10136	94.0
Total for class	10715		10781	
1. Grand Total for all the above items	254627		281669	
2. Exports for the year	353661		397426	
1. as a percentage of 2.	72		70	

Source: Department of Customs and Excise, Foreign Trade Statistics 1957-58.

Cellulose pulp which formed 4.2% of the export packet in this statistical class in 1958 also has to face severe foreign competition. Developments in the European Free Trade Association as well as the United Kingdom's participation in this bloc will threaten this product's future in its traditional market, the United Kingdom.

It would appear that export in this statistical class is very uncertain. Three of the items totalling 67.7% of the total exports in this class in 1958 are of a very unstable nature and continually experience pressure from synthetic substitutes. Exports in this class will also decline as the South African population increases. This in turn will have a marked influence on the relatively more stable items in this statistical class, such as meat. South Africa is not able to supply the needs of its population as far as animal products are concerned.¹⁾ The country will probably never be in a position to produce enough animal protein and fat to supply the rapidly increasing demand which in turn is the result of two very dynamic factors, namely a population increase and the increasing purchasing power. Increasing consumption of animal products will increase domestic consumption of cereals with the result that potential exports will be diverted from the international to the local market.

It may be concluded that exports in this statistical class will continue to follow the present trend.

§ 1.2 Exports of Foodstuffs:

The trend of exports in this statistical class is similar to that of exports in the previous class, except that it is less

1) Van de Wall G., A Survey of the Food and Feed Resources of the Union of South Africa Part II, Unpublished M.Sc. thesis, University of Pretoria, 1949. P.215, 218, 223, 225.

pronounced (see Graph III). Exports in this statistical class increased from 20.7% of the total export packet in 1948 (28.3% in 1938) to 23.7% in 1958. The trend is not even, however, and declined from 28.3% in 1938 to the low level of 13.9% in 1953 from where it recovered to its present level of 23.7%. The decline just mentioned may have been caused by heavy exports of items in the previous statistical class to a starving Europe. It may also have been caused by plant breakdowns and modernization programs after the Second World War or by unfavourable climatic conditions. Production conditions in the sugar industry seem to confirm the latter point of view.²⁾

South Africa's inability to produce enough animal protein and fat is also evident from the negligible weight of dairy products in the export packet. The country already has to import these products.

From Table V it will be seen that 6 items comprised 84.7% of the total exports in this statistical class in 1958. The only really sensitive item is groundnut which are very sensitive to a virus disease.³⁾ It is quite likely that production will decrease to a point where export will cease altogether, although the place of groundnuts will probably be taken by castor oil seeds.

Trouble may also be expected in the case of mealies and mealie meal which constitute 24.2% of the total exports in this statistical class. Production costs in South Africa are high, mainly as a result of the low yield per morgen. In order to reduce costs

2) South African Sugar Yearbook, 1953-54. P.27.

3) Sixth Annual Report of the Oilseed Control Board for the year, 1st July, 1957 - 30th June, 1958. P.8.

production per unit will have to be increased.⁴⁾ The international supply is already in a chronic state of congestion as far as mealies and mealie products are concerned,⁵⁾ Losses on maize exported were as follows:⁶⁾

1957/58	per	200 lb. bag	3/6 $\frac{1}{2}$ d.
1956/57	"	" " "	1/3d.
1955/56	"	" " "	3/9d.

In 1957 agricultural products contributed £383.9 million towards South Africa's national income, maize making a contribution of £60.1 million. Maize is admittedly a product of great importance in the agricultural sphere, but it is difficult to understand how export at these losses can be maintained. Production per morgen increased as follows:⁷⁾

1937/38	Average yield per morgen	6.7 bags
1939/40	" " " "	8.5 "
1957/58	" " " "	11.2 "

If this production trend is maintained, export at a loss may become something of the past, because the international competitive position will be greatly increased, hence, a comparative advantage for South Africa. This will also be the case if price-support in the United States is reduced, but it is most unlikely that this will happen. Maize exports from South Africa to the United Kingdom depend to a large extent on the preference enjoyed in this market.

The behaviour of this item in the statistical class is almost abnormal, but it is to be hoped that the item will adjust itself to the different circumstances with which it is confronted.

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- 4) Van de Wall G., A Survey of the Food and Feed Resources of the Union of South Africa, Part II, Unpublished M.Sc. thesis, University of Pretoria, 1949. P.228.
- 5) Annual Report of the South African Mealie Industry Control Board, for the year ended 30th April, 1958. P.5.
- 6) Idem, P.5.
- 7) Idem, P.4.

The other item which has caused concern since 1956 is canned fruit which constituted 17.0% of the total exports in this class in 1958. This item is an outstanding example of the problems to which artificial protection gives rise in the international sphere. South African export and production enjoyed the protection afforded by British discrimination against dollar-areas. As a result of this, rationalization in the industry was disregarded and standards deteriorated to a point where, in spite of the excellent quality of raw products, South African exports could not compete with American exports after the abolition of discrimination against dollar-areas in 1958.⁸⁾ After the installation of modern machinery and the application of other rationalization measures processing costs in one particular concern in the industry decreased from £4.15.3. per ton to £1.15.0. per ton. Higher standards, as determined by the South African Bureau of Standards, will solve all the problems as far as exports are concerned. The monopoly position of the one big concern in this field gave rise to this disturbing condition.

As a final conclusion it may be said that more and more agricultural and pastoral products will be processed and exported as foodstuffs. It is of the utmost importance that stress should be laid on quality and rationalization of production methods in these industries.

§ 1.3 Exports of Ales, Spirits, Wines and Beverages:

Exports in this statistical class decreased from 2.1% in 1948 (1.4% in 1938) to 1.3% in 1954 and further to 1.0% in 1958. The problems of the wine and brandy industry will be discussed in Chapter V.

8) Rand Daily Mail, 9th November, 1959. P.6.

The conclusion may be drawn here that exports in this class will always be faced with numerous artificial barriers and currency measures in other countries. Again attention must be drawn to the monopoly position of one large South African concern and also to the lack of a vigorous advertising campaign overseas. As an example of the poor advertising methods attention need only be drawn to the trade name "Ostrich" given to a certain wine exported to Canada. It can never convey the same association to the consumer as the trade name "Cape of Good Hope" wine or "Grand Mousseaux". All these points are of the utmost importance in the marketing of an excellent product.

§ 1.4 Exports of Tobacco:

Exports of tobacco decreased from .6% of the export packet in 1948 (.1% in 1938) to .1% in 1958. Only certain lines of minor importance were exported or dumped on the British market. Although production has nearly doubled itself during the period under review, this trend will continue if the large potential domestic market is taken into consideration.

§ 1.5 Exports of Fibres, Yarns, Textiles and Apparel:

Exports in this statistical class increased from 2.3% of the total export packet in 1948 (.8% in 1938) to 3.1% in 1954, but has since then decreased to 1.9%. Severe competition from the low-cost countries, such as Hong Kong and Japan⁹⁾ (to mention only two) will always form a formidable obstacle in the international sphere. The only hope for South African exports lies in catering for the more discriminating market. In view of the present position, especially the low output of South African

9) Marais M.D., "Historiese - Huidige en Toekomstpatroon van die Wêreldhandel", Published in Jaarverslag van die Ekonomiese Instituut (F.A.K.) 30th June, 1959. P.47.

labour and the complete disregard for rationalization measures, it is hard to foresee any future for the textile industry; competition will most likely increase in severity as a result of further industrial expansion in countries such as India and Pakistan.

§ 1.6 Exports of Metals, Metal Manufactures, Machinery and Vehicles:

The only important structural change and very strong trend in South Africa's export packet occurred in this statistical class (see Graph III). Exports increased from 12.2% of the export packet in 1948 (8.4% in 1938) to 31.3% in 1958. This trend was maintained throughout the period under review and is in full agreement with the vast resources of South Africa. Reference need only be made to the highly competitive nature of the steel produced by Iscor and the high quality of this product.¹⁰⁾

South Africa has an abundance of the most useful and durable metal ores, such as manganese, tungsten, chromium, antimony and iron.¹¹⁾ Development policies in this field left much to be desired. The point is advanced here that this is one of the most important potential export items of South Africa. This is even more true if the comparative advantage over other countries is taken into consideration. Developments are taking place today which might seriously damage South Africa's favourable position in this field. It is also felt that this point has been neglected by the Commission of Enquiry into Policy relating to the Protection of Industries in South Africa.¹²⁾ The consumption of steel for

10) Metal Bulletin, 11th December, 1959. P.16, 26.

11) Commonwealth Economic Committee, A review of Commonwealth Raw Materials, Volume I, Report No. 37, London, 1958.

12) Report of the Commission of Enquiry into Policy relating to the Protection of Industries. U.G. No. 36/1958.

the manufacture of motor cars and parts has already been discussed in Chapter II.

Many industrial problems, especially the employment of Bantu workers, will be solved by the exploitation of the vast mineral resources of this country. The development of metallurgic plants will create the climate favourable for continued expansion of exports. Specialization in this field where South Africa has a very great advantage over other countries will contribute more to the national income than the domestic production of motor cars and parts where no such advantage exists and where export prospects are negligible.

The artificial restriction of stocks delivered to the international markets will most certainly encourage the development of resources elsewhere to the detriment of South Africa's future position. In this connection attention is drawn to the statement of the leader of the Japanese delegation which visited South Africa recently, and also to the development plans in collaboration with Anglo-American of similar plants in the Federation of the Rhodesias and Nyassaland.¹³⁾ In this connection also see the development schemes in French Equatorial Africa.¹⁴⁾

13) Rand Daily Mail, 20th November, 1959. Metal Bulletin 11th December, 1959. P.16.

14) (i) Bank for Reconstruction and Development, Press Release No. 592, 30th June, 1959. World Bank loan of £12.5 million for the development of extensive high-grade Manganese deposits in the Gabon Republic of French Equatorial Africa, 45 mile cableway and 180 mile rail connection to an Atlantic Port.

(ii) African Economic Newsletter, 17th - 24th October, 1959. P.4. Nigeria has large known reserves of iron ore, now estimated at 75 million tons; situated principally in Eastern and Northern Nigeria. The ore is of relatively poor grade, which, coupled with their long distance to the coast, makes it of little or no interest in the export trade. The possibility of production is enhanced by the availability of large coal reserves nearby which is, however, also of a low quality.

From Table V it can be seen that exports of metal and metal ores constituted 25.1% of the total exports in this statistical class in 1958. The weight of these items is even greater because only 7 of the more important items have been included.

An item of considerable importance in this class is prescribed materials under the Atomic Energy Act with a weight of 48.0% in 1958 (see Table V). The rapid increase in exports in this statistical class since 1954 must be ascribed to the weight of this item. Contracts for the delivery of this item will expire in 1964, after which date South Africa will have to supply at the ruling international price which will just cover production costs. The effect on the export packet will be considerable.

Unless steps are taken immediately to develop other more favourable and stable export items, the weight of exports under this statistical class may decline rapidly between 1960 and 1970.

§ 1.7 Exports of Minerals, Earthenware and Glassware:

The pessimistic tone of the conclusions made up to now is aggravated by the composition and weight of this statistical class in the export packet of South Africa. According to Table IV the weight of exports under this class remained constant at about 10.2% of total exports throughout the period 1948-1958.

Exports in this statistical class consisted mainly of asbestos, 28.6%, and uncut diamonds, 56.4%, in 1958 (see Table V). If the warning of the Chairman of the De Beers Consolidated Diamond Company is to be taken seriously all sources of production in South Africa will be depleted within twenty years.¹⁵⁾

15) The Rand Daily Mail, 12th November, 1959. P.14. Widespread prospecting is taking place in the Union of South Africa to find new diamond resources.

Development of resources and sales of asbestos by Canada and Soviet Russia constitute a serious threat to South African production and export.

§ 1.8 Exports of Oils, Waxes, Resins, Paints and Varnishes:

Exports in this statistical class increased from 2.1% of the total exports in 1948 (.4% in 1938) to 2.7% in 1958. The development of Sasol and Foskor and similar concerns which are to be erected will add considerably to the importance of this class in future. As in the case of mineral resources, the vast coal-fields hold out considerable promise for the future.¹⁶⁾ Positive measures will, however, have to be taken to exploit these resources.

§ 1.9 Exports of Drugs, Chemicals and Fertilizers:

What has been said in respect of the previous statistical class also applies in the case of this statistical class. By-products obtained from the various chemical concerns, such as Sasol and Foskor, will have a stimulating effect on export.

At present exports in this class only constitute 1.2% of the total export packet (Table IV).

§ 1.10 Exports of Leather, and Rubber and Manufactures thereof:

From Table IV it can be seen that exports in this statistical class decreased from 2.6% of the total export packet in 1948 (.5% in 1938) to 2.3% in 1954 and then to 1.5% in 1958. This level will in all probability be maintained in future.

§ 1.11 Exports of Wood, Cane, Wicker and Manufactures thereof:

Exports in this statistical class remained fairly stable throughout the period under review, as did exports under the

16) Commonwealth Economic Committee, A Review of Commonwealth Raw Materials Volume I, Report No. 37, London, 1958. P.134.

heading Books, Paper and Stationery. No reason can be advanced why this position should change in the future.

§ 1.12 Exports of Jewellery, Time-pieces and Musical Instruments:

Exports in this statistical class remained fairly constant at about 3.0% of the total export packet (see Table IV). The years 1948 and 1949 were clearly abnormal and do not follow the normal trend (see Graph III). Exports under this heading consist mainly of cut diamonds which constituted 94.3% of the total exports in this class. The sensitivity of this export item and what has previously been said about the diamond industry as a rapidly wasting asset, minimises the importance of exports in this statistical class for future prospects.

From the above analysis it may be concluded that:

- (1) South Africa's export packet includes a limited number of sensitive items of very great weight. Table V shows 20 items totalling 72.0% of the total exports in 1958.
- (2) Many of these export items are being threatened by international developments in the consumption pattern field as well as in the substitute production field and will be more fully discussed in Chapter IX.
- (3) Exports of prescribed materials constitute a very dangerous item which will make itself felt after the expiry of international contracts in 1964.
- (4) Diamonds are a wasting asset which will probably vanish from the export packet within 20-40 years.
- (5) South Africa's great advantage lies in the vast resources of minerals, especially manganese,

chromium, tungsten, iron and steel and coal. These minerals are of very high quality, can be produced cheaply and must be exported in a semi-processed form rather than being used for the manufacture of motor cars and spares where, as a result of the advanced technology required, the limited market and the large variety which will have to be produced, no cost advantages are to be gained. Bilateral agreements with other countries, especially the industrial countries, should contain a schedule for the delivery of metal in ingot form or whatever processed form required. Resources should be developed to forestall the development of less advantageous resources in other countries or the development of synthetics to replace scarce metals, such as chromium, manganese and tungsten. Long-term contracts should especially be concluded with the European Economic Community which will be compelled to develop relatively poorer resources in the associated territories, and with Japan which is also busy developing resources ¹⁷⁾ elsewhere. South Africa should seriously consider the establishment of two more concerns such as Iscor to process her vast resources. The export of these metals for which there is a great market, will improve the state of equilibrium

17) Metal Bulletin, 11th December, 1959. P.16.
The Japanese Consul-general in Pretoria said recently that although his country had previously been interested in supplies from South Africa, the expansion of South Africa's own manufacturing industry was now proceeding at so great a pace that there was no longer a substantial surplus of these metals for export and Japan will have to consider developing such resources elsewhere.

between the export and the import packet.¹⁸⁾ The stimulating effect of these steel concerns on the national economy was illustrated by Iscor and may be of more help in balancing the economy than a few factories manufacturing motor car parts.

- (6) Unless a deliberate export policy is followed exports will decrease in future. The position, as outlined above, calls for immediate and determined action. An important prerequisite for an export drive will be machinery to ensure quality. All exporters should be compelled to have their products tested before exportation.

2. Direction of Exports:

The direction of a country's exports is determined mainly by traditional trading contacts, but foreign policy also plays an important part. Of overwhelming importance, however, is the cost factor. Foreign policy need not be deliberate, but it must be dynamic and adjustable to changing circumstances. It has been said lately that bilateral agreements are nowadays nothing more than goodwill agreements, yet South Africa has deliberately refrained from entering into such agreements, presumably under the influence of the GATT philosophy. The theory has also been advanced that, as a major gold producer, South Africa must refrain from entering bilateral trade on a barter basis. This theory would sound quite plausible, were it not for the fact that many countries do not have the international reserves to trade with a country which is the major gold producer in the world. On the

18) Volkskas Nuusbrief, November, 1959. P.4. Iscor had exported £11 million worth of steel in 1959, and could not meet all the orders from foreign countries.

other hand, other competitors in the international sphere have not refrained from entering trade on account of these reasons. In this respect attention is drawn to Public Law No. 480 of 1954 and Section 402 of the Mutual Security Act of 1954, promulgated by the United States of America. Under certain sections of these laws certain strategic materials can be sold to the United States only on a barter basis. These laws will be dealt with later.

Enough has been said, however, to show that the direction of exports can be influenced by certain measures and foreign policies. From Table VI comparisons can be made as far as the direction of South Africa's merchandise exports is concerned.

§ 2.1 The British Commonwealth Bloc:

Exports to members of the British Commonwealth increased from 47.9% of the export packet in 1948 (43.7% in 1938), to 49.8% in 1958. The much higher percentages in 1954 and 1955 were caused mainly by British discrimination against dollar-areas for balance-of-payments reasons.

The British Commonwealth constitutes a sheltered area for South African exports as a result of the imperial preferences enjoyed in this market. The traditional channels and trade contacts flowing from these preferences have probably been established so firmly that they will continue to exist without the assistance of the preferences. In Chapter V further attention will be drawn to this fact.

§ 2.2 European Economic Community Bloc:

It will be seen from Table VI that exports to countries constituting the European Economic Community declined from 23.0% of the total export packet in 1948 (31.2% in 1938) to 17.9% in 1958. The trend has been declining continually over the whole

TABLE VI.

VALUE OF SOUTH AFRICAN PRODUCE EXPORTED
TO THE DIFFERENT INTERNATIONAL ECONOMIC GROUPS.
 (Percentages)¹⁾

	1958	1957	1956	1955	1954	1953	1949	1948	1938
Commonwealth Bloc	49.8	47.1	49.2	51.2	56.4	48.9	45.3	47.9	43.7
E.E.C.	17.9	21.3	23.0	22.3	23.0	24.8	22.3	23.0	31.2
Sino-Soviet Bloc	1.4	2.0	.5	1.5	1.0	.3	1.5	.8	15.6
Independent Countries ..	10.8	10.0	11.4	11.1	9.7	9.1	11.0	10.9	37.5
E.F.T.A. (excluding Britain) ...	3.4	3.0	3.0	2.7	3.6	3.3	4.4	5.0	3.4
Latin- American Countries ..	.6	1.0	.5	.3	.3	1.0	1.4	.8	-
African Countries ..	19.0	19.3	19.5	19.6	20.8	17.1	21.9	21.0	9.3
Value of Total Exports	357	403	370	332	278	298	137	119	32

1) The percentages in respect of the different groups will not add up to 100%, because some countries are included in more than one group.

Source: Department of Customs and Excise, Annual Statement of the Trade and Shipping of the Union of South Africa 1938-1955. Foreign Trade Statistics 1956-1958.

period and will probably continue to do so. Price-support measures, mainly in the agricultural field, made these countries independent from foreign raw-material resources. Various measures adopted for balance-of-payments reasons under Article XII of the GATT discriminated against South African exports.

§ 2.3 Sino-Soviet Bloc:

Exports of South African merchandise to member countries of the Sino-Soviet Bloc increased from .8% of the total merchandise export packet in 1948 (15.6% in 1938) to the low level of 1.4% in 1958. No definite trend can be observed over the period 1938 to 1958. Indeed, fluctuations from year to year show an erratic pattern.

§ 2.4 Independent International Countries:

Exports of merchandise to these countries remained fairly constant at 10.9% of the total export packet during the period 1948 to 1958 (37.5% in 1938). Exports to these countries have been very constant since 1948. No trend can be detected from the figures for the period under review and no conclusions can be drawn in regard to future exports to these countries, because everything depends on internal policies and self-support measures as far as raw materials are concerned.

§ 2.5 European Free Trade Association (excluding Britain):

Merchandise exports from South Africa to countries of this Bloc remained constant throughout the period and totalled 3.4% of the total merchandise export packet. No definite trend can be observed in respect of the period under review and no change is likely to occur, since the members of this Bloc are highly developed countries and important producers of raw materials.

§ 2.6 Latin-American Countries:

Exports of merchandise to these countries remained relatively stable at .8% of the total merchandise exports from 1948 to 1958. Exports show the same erratic behaviour as in the case of the Sino-Soviet Bloc.

Unless an attempt is made to build up contacts with these countries and unless special measures are taken and traditions peculiar to these countries are taken into consideration, exports will probably remain negligible.

§ 2.7 African Countries:

Exports of merchandise decreased from 21.0% of the export packet in 1948 (9.3% in 1938) to 19.0% in 1958.

The overwhelming importance of the Federation of the Rhodesias and Nyassaland may present a distorted figure as to the importance of these countries as importers of South African goods.

The natural export market for South Africa's merchandise is the continent of Africa but this country's trade is being threatened by exports from the low-cost countries of Asia, such as Japan and Hong Kong.¹⁹⁾ The total imports of East, West and Central Africa exceeded £2,000 million in 1957. Whereas the Union supplied more than 33 $\frac{1}{3}$ % of the total imports of the Federation, its share of the imports of the other African territories was only 2%.

§ 2.8 Conclusion:

As in the case of imports, the main conclusion which can be drawn in the case of exports is that traditional trading contacts

19) Marais M.D., "Historiese - Huidige en Toekomstpatroon van die Wêreldhandel" Jaarverslag van die Ekonomiese Instituut (F.A.K.) 30th June, 1959. P.47.

have been maintained. Unless more deliberate measures are adopted to ensure quality, and a dynamic approach where necessary, trade will not be increased. In contrast with imports, a detail study must be made of regional consumer patterns and other trade impediments, such as insufficient reserves. South Africa will have to exploit her vast mineral resources so as to increase her exports. With this end in view, assistance should be sought from the European Economic Community which will otherwise be forced to find resources that are less advantageous than those of South Africa.

Serious attention should also be paid to the formulation of an external policy which will expand exports to the Sino-Soviet Bloc and the Latin-American countries. Imports from these countries must be increased in order to induce them to import more from South Africa. A greater flow in both directions will ensure a better equilibrium between exports and imports, a factor which is of such great importance to the South African economy.

Association with the EEC and the use of bilateral agreements must be regarded as the principle aim of a reorientation of the existing economic relations of South Africa. These aspects will be discussed in Chapters VI, VII and VIII.

CHAPTER IV.

PRESENT POSITION AND DEPENDENCE OF SOUTH AFRICA ON INTERNATIONAL TRADE.

A country with large natural resources and a small domestic market, such as South Africa, is highly dependent on international trade. This is the result of different economic "laws", which may be summarised as follows:

- (1) Egalisation forces working internationally in the direction of greater equilibrium. Production factors become scarcer in the country richly endowed with such factors and more abundant in the country relatively poorly endowed. Whether production factors move in their unprocessed form or in the form of immediate consumer goods is a question which becomes more important daily. This requirement of the international trade is referred to by economists on the Continent of Europe as "Konsumorientierung"¹⁾ and describes the tendency to give raw materials and semi-finished products the final destination as late as possible in order to allow for the latest developments in consumer tastes and consumption patterns. This term is a variant of the division advanced by R.E. Harrod²⁾ who divides all goods into:

- (a) Staple goods of a homogenous character, capable of entering foreign trade, and in respect of which a single international price level exists. Most of South Africa's present exports, such as sugar, maize and other raw materials, fall under this

1) Abeln G.H.J., De Vrijhandelszone als economische integratievorm voor West-Europa, Leiden, 1958. P.55.

2) Harrod R.E., International Economics, London, 1933. P.59.

category. These products are, as a rule, highly sensitive to trade fluctuations.

- (b) Finished and semi-finished materials, specialized in character, differing in quality and detail of design. Each type of product has its own price, determined by relations of goodwill and formation of habits. Many of South Africa's export products fall under this category, such as canned fruits and metals. This category creates a unique opportunity to establish a definite international demand as far as quality is concerned.
- (c) Goods incapable of entering foreign trade directly, such as houses and services only available to tourists.

- (2) In the reaching of the optimum volume of production many industries are faced with the problem of a large difference between the technical production optimum and the available market.³⁾ In order to reap the full benefit of economies of scale it became necessary to traverse national markets. South Africa is one of the countries which has a serious handicap in this respect. The potential market may be much larger than it is at present, but it is limited by the relatively low purchasing power of the Bantu population. The discussion in Chapter II of the prospective automobile industry must be seen against this background. Reference was also made to the production-cost problem of the maize industry. To reduce production costs per unit the yield

3) Abeln G.H.J., De Vrijhandelszone als economische integratie-vorm voor West-Europa, Leiden, 1958. P.13-17.

per morgen must be increased, but an increase in yield per morgen will increase the quantity to be exported to an already overstocked market. Yet, cessation of the production of maize would cost the country £40-£60 million annually. Dependence on export markets up to a point where domestic consumption can absorb the whole output is of the greatest importance to many industries of South Africa.

- (3) A country such as South Africa with large natural resources, particularly gold mines, and a highly uneven distribution of national income, especially with part of the population having become accustomed to a high standard of living, will import many goods, especially luxury items such as motor cars. The explosive character of this commodity has already been mentioned. The effecting of greater equilibrium in income distribution, especially by the utilization of a progressive consumer tax on luxury items, might be of great help in solving this problem.

§ 1. The interrelationship of imports, exports and national income in South Africa:

The dependence of South Africa on international trade can clearly be seen from a comparison of merchandise exports as a percentage of net national income at factor cost (Table VII). This table shows the amount of net national income derived from sales to the outside world. From Table VII it will be observed that this percentage remained constant at about 20% during the years 1953 and 1958.

TABLE VII.Exports of merchandise as a percentage of net national income at factor cost.

1953	20.6
1954	17.9
1955	20.1
1956	20.5
1957	21.1
1958	18.3

Source: South African Reserve Bank, Quarterly Bulletin of Statistics, December, 1959.

Department of Customs and Excise, Annual Statement of the Trade and Shipping of South Africa, 1953-1955.
Foreign Trade Statistics 1956-1958.

Table VIII on the other hand shows expenditure on merchandise imports as a percentage of personal consumption expenditure.

TABLE VIII.Expenditure on Merchandise Imports as a Percentage of Personal Consumption Expenditure.¹⁾

1953	34.8
1954	34.8
1955	37.6
1956	36.0
1957	37.8
1958	35.9

1) Personal Consumption Expenditure is defined by the South African Reserve Bank as Gross National Expenditure at market prices less (Balance on Current account plus Gross Domestic capital formation plus Purchases of Goods and Services by Public Authorities).

Note: The expenditure by public authorities on imports of goods and services should have been eliminated, but its inclusion in Personal Consumption Expenditure does not make any important difference to the results given above.

Source: South African Reserve Bank, Quarterly Bulletin of Statistics, December, 1959.
Department of Customs and Excise, Foreign Trade Statistics, 1956-1958. Annual Statement of the Trade and Shipping of South Africa, 1953-1955.

Diversion of consumers' expenditure from the domestic market to the international market, as shown in Table VIII, has been very high in the case of South Africa. It has also shown a rising trend, namely from 34.8% in 1953 to 35.9% in 1958, and would probably have been much higher, were it not for import control measures.

A comparison of merchandise imports and exports as a percentage of net national income in respect of South Africa and a few other countries reflects a condition of extreme disequilibrium as far as South Africa is concerned (Table IX). Exports as a percentage of net national income fluctuated in the case of South Africa between 21.4% in 1953 and 20.2% in 1958. Imports, on the other hand, fluctuated between 27.7% in 1953 and 31.4% in 1958. The inherently rising trend is very clear and pronounced. There was a difference of 6.3% in 1953 and 11.2% in 1958. The effect of the relaxation of import control is very clear.

TABLE IX.

Imports and Exports as a
Percentage of net National income.

		1958	1957	1956	1955	1954	1953
<u>UNION OF SOUTH AFRICA</u>	Exports ...	20.2	22.8	21.5	21.4	18.6	21.4
	Imports ...	31.4	31.1	28.7	31.1	27.6	27.7
<u>AUSTRALIA</u>	Exports ...				18.6	19.6	22.0
	Imports ...				19.3	21.0	18.0
<u>NEW ZEALAND</u>	Exports ...				30.1	29.7	33.6
	Imports ...				29.4	28.7	24.8
<u>UNITED STATES OF AMERICA</u>	Exports ...				4.4	4.3	4.1
	Imports ...				3.6	3.5	3.6
<u>UNITED KINGDOM</u>	Exports ...				20.1	19.5	19.8
	Imports ...				22.4	20.8	21.4
<u>CANADA</u>	Exports ...				21.8	21.7	22.5
	Imports ...				22.1	20.8	22.0

Source: Statistical Office of the United Nations, Statistics of National Income and Expenditure, New York, 1957.

Similar findings were attained by Prof. D.G. Franzsen for the period 1918-1939.⁴⁾ This reflects a definite upward trend of very great importance, also expressed in Table X which shows that any increase in the national income has a marked effect on the percentage of imports and accordingly also on the balance-of-payments.

The effect of a relaxation of import control in 1951 can be seen from Table X. Any sudden or abnormal increase in the expenditure of the Union residents tends to induce a sharp increase in imports, which, unless offset by countervailing forces such a corresponding increase in the value of visible and invisible exports, or a fortuitous inflow of capital from abroad, leads to a worsening in the overall international balance-of-payments.⁵⁾ Prof. Franzsen went on to say that: "the increase of £149 million in the national income, which occurred between 1946 and 1948, was associated with an increase of £138 million in the total of merchandise imports over the same period". This, however, was clearly the result of the war-time restrictions on consumption, especially the consumption of import commodities such as motor cars and mining equipment.

4) Franzsen D.G., "Review of the Union's National Accounts, 1946-1953", Quarterly Bulletin of Statistics, South African Reserve Bank, March, 1955. P.XX.

5) Idem, P.XX.

TABLE X.Year-to-year Changes in Imports and Gross National Product 1946 - 1958 (£'000,000).

Year	Imports	Gross National Product
1946	103	54
1947	85	71
1948	53	78
1949	62	93
1950	-8	154
1951	162	105
1952	-50	130
1953	6	222
1954	23	143
1955	68	129
1956	13	169 ⁱ⁾
1957	55	130 ⁱ⁾
1958	6	68 ⁱ⁾

i) Provisional Estimates.

Source: South African Reserve Bank, Quarterly Bulletin of Statistics, June, 1959.
Department of Customs and Excise, Foreign Trade Statistics, 1957-1958.

Studies by Dr. G. Marais show that during the inter-war period, 1925-39, the South African income elasticity of demand in respect of imports was between 1.5 and 2.⁶⁾

6) Marais G., Disequilibrium in the South African Balance of Payments between 1925 and 1952, Unpublished Ph.D degree thesis, University of Wisconsin, 1956. P.109.

Prof. Franzsen concludes that import control was not intended to lead to a big decline in the average ratio of imports to gross national expenditure during the period, but rather to prevent increases in the national income from being absorbed by additional imports. If this explanation is correct, this factor, with others, is mainly responsible for the stagnation in South Africa's economy since 1956. It is my opinion that measures other than import control should have been applied to curb import tendencies. It is difficult to see how a long-term trend could have been controlled by the imposition of a temporary system of import control. This was clearly a case for more drastic fiscal policy.

A comparison of different countries, all characterised by relatively rapid rates of growth shows that in no other country (New Zealand approximates the figure) have merchandise imports played such a dominant part as in the case of South Africa, especially when compared with exports (see Table IX). In this thesis this phenomenon is accepted as indicative of a definite long-term trend and, except for the giving of a few conclusions, no attempt will be made to explain the underlying reasons. It is felt that the gold factor in the South African economy may have been responsible for this condition in so far as equilibrium between total exports (gold included) and total imports was striven after, or was allowed to establish itself (see Table XI). Such an argument must also be based, however, on the aspect of the quantity of money available in the South African economy, and this clearly does not fall within the scope of this thesis.

TABLE XI.Imports, Exports and Net Gold Production
of the Union of South Africa from 1949 - 1958.

Year	Imports	Exports		Net Gold Output		Exports and Gold	
	£M	£M	% of Imports	£M	% of Imports	£M	% of Imports
1938	95.6	33.7	35.3	89	93.1	122.7	128.3
1949	313.1	146.5	46.8	114	36.4	260.5	83.2
1950	304.0	218.2	71.8	147	48.4	365.2	120.1
1951	466.8	288.4	61.8	150	32.1	438.4	93.9
1952	416.8	285.6	68.5	152	36.5	437.6	105.0
1953	424.3	296.3	69.8	153	36.1	448.3	105.9
1954	439.0	331.5	75.5	165	37.6	496.5	113.1
1955	482.2	369.1	76.5	183	38.0	552.1	114.5
1956	494.9	412.2	83.3	198	40.0	610.2	123.3
1957 1)	550.6	452.6	82.2	214	38.9	666.6	121.1
1958 1)	375.5	256.0	68.2	160	42.6	416.0	110.8

1) First 9 months of 1958 only.

Source: South African Journal of Economics, June, 1959. P.117.

Table XII reflects the importance of the gold industry and the place of gold in the overall export packet. The weight of gold exports as a percentage of the total export packet decreased from 70.0% in 1938 to 38.1% in 1958. This was brought about by an artificial price phenomenon rather than by an underlying economic cause.

TABLE XII.

Gold production¹⁾ expressed as a percentage of total exports (including gold) from South Africa, 1938 to 1958.

1938	70
1948	54
1949	58
1953	33.9
1954	37.1
1955	35.5
1956	34.7
1957	34.6
1958	38.1

- 1) Gold production can for all practical purposes be taken as equal to gold exported. During the years following the Second World War abnormal quantities of gold were exported or sold to parties outside the Union, or were stored and thus not exported. Annual production figures give a more reliable indication of the changing position, which is largely the result of price movements in merchandise exports, the price of gold having remained the same since 1934.

Source: South African Reserve Bank, Quarterly Bulletin of Statistics, December, 1959.
 Department of Customs and Excise, Annual Statement of the Trade and Shipping of the Union of South Africa, 1938-1955. Foreign Trade Statistics, 1956-1958.

South Africa's export packet consists of a relatively small number of items of great weight, and this has a bearing on many aspects of the country's economic position, as shown in Chapter II. In this respect the country completely answers the description given by Michaely.⁷⁾ Imports, on the other hand, are much more diversified (see Table II). The more developed a country (the higher its per capita income), the more diversified its exports.⁸⁾ This is probably a more reliable criterion for

7) Michaely T., "Concentration of Exports and Imports - an International Comparison", Economic Journal, December, 1958. P.722.

8) Idem, P.728.

economic development than any advanced in South Africa by politicians. This point of view is also shared by Prof. T.H. Kelly.⁹⁾ In the three census years, 1936, 1946 and 1951, merchandise exports amounted to £4, £11 and £22 per head of the whole population respectively, while imports amounted to £11, £24 and £37.

A point related to the above - although differing in conception - is that the more industrialized a country is (i.e. the lower the share of primary production in its national product), the more diversified will be its exports. The major export items of a country whose exports are highly concentrated are always primary products.¹⁰⁾ Table VI proves this to be true in the case of South Africa. South Africa's export packet has always been directed at a few highly industrialized areas, such as the United Kingdom and Western Europe. With greater development, however, exports expanded to States on the continent of Africa.

§ 2. The Terms of Trade:

The hypothesis advanced by Kindleberger, namely that the quantitative expression of the effects of the terms of trade on a country's balance-of-payments or national income must be approached with great care, also applies in the case of South Africa. His view that the expenditure of a country or area is intimately tied up with the terms of trade, as are also the volume of exports and imports¹¹⁾ does not seem to apply in the

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- 9) Kelly T.H., "South Africa's Foreign Trade 1933-53", South African Journal of Economics, March, 1954. P.75.
- 10) Michaely T., "Concentration of Exports and Imports - an International Comparison", Economic Journal, December, 1958. P.728.
- 11) Kindleberger C.P., The terms of trade, London, 1956. P.276.

case of South Africa.¹²⁾ This may become the case in the long run, but no country in the world, least of all South Africa, can, in the absence of the forces of free international trade, rely on the long-term equilibrating effects to make themselves felt. According to van Waasdijk South Africa's terms of trade (excluding gold) improved from an index of 149.9 in 1946 to 100 in 1950, and then again deteriorated in 1952. In 1955-56 the gap between import and export prices widened, causing the country's terms of trade to deteriorate further. In 1957 there was a slight improvement, but the position again grew worse in 1957 and 1958 (see Table XIII). The sensitivity of certain items, particularly wool and diamonds, in South Africa's export packet to fluctuations in economic activity makes the country extremely vulnerable and can have a devastating effect on international reserves. Resort to direct control of imports may have far-reaching and disturbing effects on the internal structure of the economy.¹³⁾ Not only are monopoly positions promoted, but the growth of unsound industries is accelerated and potential exports are diverted to the domestic market. This will give rise to painful structural changes and adjustment once import control is relaxed or becomes ineffective. The effects of these structural changes may also contribute to stagnation.

§ 3. Conclusion:

According to the view points that have been found to be correct in the case of South Africa, it may be argued that a constant and high rate of growth is absolutely essential for

12) Van Waasdijk T., "Changes in South Africa's terms of trade 1950-58." South African Journal of Economics, June, 1959. P.120.

13) Lundberg E., "Stability and Progress in the World Economy" International Stability and the National Economy, edited by D.C. Hague, London, 1959. P.211-226.

TABLE XIII.

UNIT VALUE INDEX OF IMPORTS AND EXPORTS, AND SOUTH AFRICA'S TERMS OF TRADE.

	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958 ¹⁾
Unit value of imports					100.0	120.2	125.7	117.9	112.1	116.5	120.1	118.8	118.3
do. Bureau of Census	68.5	82.0	90.0	92.7	100.0	120.6	123.3	115.2					
Unit value of exports					100.0	121.1	114.8	112.8	105.3	105.1	108.0	111.0	98.4
do. Bureau of Census	45.7	59.2	70.4	76.1	100.0	120.4	109.9	109.9					
<u>Terms of Trade</u>													
<u>Unit value of Imports</u> <u>Unit value of Exports</u>					100.0	99.3	109.5	104.5	106.4	110.8	111.2	107.0	120.2
do. Bureau of Census	149.9	138.5	127.8	121.8	100.0	100.1	112.1	104.8					

1) First 9 months of 1958 only.

Source: South African Journal of Economics, June, 1959. P.118.
 South African Reserve Bank, Quarterly Bulletin of Statistics, December, 1959.
 Department of Customs and Excise, Foreign Trade Statistics, 1956-58.

a greater diversification of exports and less dependence on imports. It follows that a period of stagnation, such as has been experienced since 1956, must be regarded with concern.

It has been shown that South Africa is highly dependent on international trade, much more so even than some of the world's leading trading nations. The ratio of exports to national income is as high as that of most other countries, while the ratio of imports to national income is very much higher than that of most other countries. The crux of the matter is, however, the gap between earnings from exports and expenditure on imports. The terms of trade will most likely fluctuate according to international economic activity. The vulnerable character of many of the items in the export packet has already been shown.

The foreign repercussion factor with its influence on the economy of South Africa is of the utmost importance for future growth and development. It calls for detailed study and a long-term policy based on the reaching of specific minimum and maximum targets.

The minimum target should be to increase exports. This matter has been discussed in Chapter III. Here we have one of the instances where the external and internal sectors have merged together. The interrelationship between the import and export sectors and their mutual relationship with the national income necessitate the adoption of a policy which will ensure greater equilibrium between merchandise imports and exports. Such a policy will have a stimulating effect on the whole South African economy and will contribute considerably towards the realisation of the objectives mentioned in the Viljoen report,

namely full employment and a constant rate of growth.¹⁴⁾

For the pursuance of a policy which will ensure greater equilibrium between merchandise exports and imports greater use should be made of instruments such as bilateral trade agreements with industrial countries, such as Japan, and economic power groups, such as the European Economic Community. These bilateral agreements should aim at increasing the exploitation of South Africa's mineral resources. This problem requires immediate attention, because negligence in this respect will compel industrial countries to look elsewhere for these materials. This will not only hamper future developments, but may even result in a decrease in present exports. Only long-term agreements can safeguard South Africa's interests in this direction. Long-term contracts should make provision for capital, skilled labour and markets.

The importance of bilateral agreements is indicated by the fact that Britain maintains 21 such agreements at present.¹⁵⁾ From this fact it can be gathered that these agreements are essential to the arrangement of the national economy. This is all the more true in the case of a country such as South Africa, a relatively underdeveloped country with a high percentage of unskilled workers.

The point of view of the Viljoen Commission that sound economic development requires a parallel and balanced expansion of all sectors of the economy cannot be accepted without serious

14) Report of the Commission of Enquiry into Policy relating to the Protection of Industries. U.G. 36/1958. P.5.

15) Board of Trade Journal, 3rd December, 1959. P.27.

qualifications.¹⁶⁾ While this is probably true of industrialized countries, serious doubts must be raised about its validity in a country with a large portion of the population relatively under employed. One of the lessons to be learned from the centrally directed economies of the Sino-Soviet Bloc is clearly the effect of a high degree of concentration on the establishment of heavy industries, such as steel plants.¹⁷⁾

South Africa's economic policy calls for a complete re-orientation of economic thought. More effective exploitation of our resources will contribute much towards the balancing of merchandise exports and imports. A reorientation of the foreign policy to allow for bilateral contracts is a prerequisite for the application of such an internal policy.

A maximum or long-term target should be formulated and should apply fiscal policies which will curb or divert certain consumer tastes. It has already been suggested that a consumer tax on motor vehicles may be more effective than direct import control, since the former will have a more direct effect on the points calling for such action, while the economy will be free to find a better equilibrium between supply and demand. Under such conditions more attention can be given to real economic problems, such as a sustained rate of growth and full employment.

16) Report of the Commission of Enquiry into Policy relating to the Protection of Industries. U.G. 36/1958. P.3.

17) The Economist, 15th August, 1959. P.414.

POST-WAR DEVELOPMENTS IN THE INTERNATIONAL
ECONOMIC SPHERE.

§ 1 Introduction:

After each disturbance in the economic world a series of developments and planning take place. Some of these developments are the result of the changing conditions and must be regarded merely as periods of movement to new positions of equilibrium. These movements which may be regarded as natural structural changes happened smoothly and may also be the result of long-term trends. The economies of the world are in a continuous state of self adjustment and adaptation to new situations. This dynamic quality occurs in the free society under the directive force of the price mechanism which many economists regard as the only effective form of adjustment.

The economic world of today is largely the result, however, of definite directive intervention. In course of time man has reached the stage where he is trying to give guidance to the forces in the material world.. Once such intervention has started the end of further planning cannot be foreseen.

Our present-day world economy is comprised mainly of two totally different economic systems, namely the so-called free world on the one hand and the centrally planned economies on the other hand. The distinction between these two systems is complete and very definite in character. Not only are they based on different ideologies but each one has its own minimum and maximum targets which in themselves do not differ so very much, because both are striving for maximum long-term human welfare.

Each one of these two dominant systems has a very large and strong leader, economically as well as politically. On the one

hand we find the United States of America and on the other hand Soviet Russia. The economies of both these industrial giants are based on populations of about 160-200 million people. Both have large natural resources and have their origin in Western technology and Roman culture. Between them numerous countries are situated, some of whom were world leaders before the Second World War. Many of the post-war developments must be seen as attempts at creating a new system of equilibrium between these two industrial giants.

Man has also tried to create a more logical world by way of international co-operation, planning and agreements. Attention is drawn to institutions such as -

- (1) The General Agreement on Tariffs and Trade.
- (2) The Organisation for European Economic Co-operation, which has given rise to -
 - (a) The European Payments Union.
 - (b) The European Monetary Union, which replaced the European Payments Union.
- (3) The World Bank for Reconstruction and Development.
- (4) The International Monetary Fund.

But apart from these developments another phenomenon in the economic world has made itself felt more with great urgency. The integration of different economies and the merging or abolishment of customs boundaries are nothing new, but never before have these factors made themselves felt with such finality and urgency as in the period following the Second World War.

The reasons for this process of integration are quite clear. Before discussing them, however, attention must be given to definitions that have been formulated to describe the essence of these developments.

Prof. F. de Roos defines integration as "een aantal

economische subjekten dat zich heeft vereenigd om door gesamen-
lijk optreden, door middel van het ruilverkeer, de verdeling van
het nationaal inkomen, ten gunste van de groep te beïnvloeden".¹⁾
This definition also applies in the case of international integra-
tion movements, although the motives may embrace factors other
than the mere "exchange process". As a matter of fact, most post-
war economic integration movements have been motivated mainly by
political considerations.²⁾

Dr. G.H.J. Abeln defines economic integration as: "de toe-
nemende interdependentie der volkshuishoudingen, welke het gevolg
is van de economische penetratie van elkaars markten".³⁾

According to this definition integration is actually a
process of disintegration of the national economy as a sovereign
and independent unit. It became more and more dependent on the
products and economic activity of other countries. According to
this viewpoint increasing trade between industrialized countries is
the best proof that integration is taking place.⁴⁾

The definition of Prof. de Roos is based on integration as a
long-term phenomenon and the result of an absolute process. It
embraces much more than mere economic integration, such as the
abolishment of customs barriers, but is based on the welfare of
the group as an entity. Dr. Abeln's definition is based on
integration as a short-term phenomenon and the result of a partial
international process only. Distinction between absolute and
partial integration is very important, because the division of

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- 1) Economisch-statistische Berichten No. 2127 of 9th April, 1959. P.289.
 - 2) Brown W.A. and Opie R., American Foreign Assistance, Compiled for the Brookings Institution, Wisconsin, 1953. P. 215-271.
 - 3) Abeln G.H.J., De Vrijhandelszone als Economische Integratievorm voor West-Europa, Leiden, 1958. P.1.
 - 4) Abeln G.H.J., De Vrijhandelszone als Economische Integratievorm voor West-Europa, Leiden, 1958. P. 10.

Western Europe into two regional blocs in 1958 happened as a result of a difference of opinion as to the degree of integration to be achieved. Dr. Abeln interprets absolute integration as: "een supranationale beleidsvorm, waarbij een central economisch, financieel en monetair beleid gevoerd word".⁵⁾

Such a mutual policy will give rise to the removal of differences between integrated units in the welfare niveau. The pooling of resources makes it possible to achieve projects which could otherwise not have been achieved.

Partial integration is interpreted by Dr. Abeln as: "de integratievorm waarbij de handelsbelemmeringen tussen de landen verdwijnen maar waarbij de regeringen self verantwoordelijk blijven voor het economisch, financieel, en monetair evenwicht terwijl ieder land zijn eigen lasten draagt".⁶⁾ The present differences between the various countries constituting the integrated unit will continue to exist. Prof. Hallstein, Chairman of the Commission of the European Economic Community, expressed the view that the dis-equilibrium will be increased under a system which aimed only at partial integration. His viewpoint will be discussed later. The movement expressed in the viewpoint of Kindleberger⁷⁾, namely that the terms of trade have moved against the underdeveloped countries, will lead to the intensification of the degree of dis-equilibrium in the case too of an area that has only been partially integrated. The more mobile factors of production will tend to move in the direction of the more advantageous areas, while, increased production in the area as a whole will have a depressing effect on prices, and therefore also the effect of reducing the income of the relatively poorer or less developed areas.

5) Abeln G.H.J., De Vrijhandelszone als Economische Integratievorm voor West-Europa, Leiden, 1958. P.3.

6) Idem, P.4.

7) Kindleberger C.P., Terms of Trade, London, 1956. P.239.

The European Economic Community and the European Free Trade Association are both based on partial integration. In the European Economic Community the degree of integration is much further advanced, however, than in the European Free Trade Association. The dynamic character and the political objectives of the Community will in future move in the direction of absolute integration. These two viewpoints express the philosophy behind the two directions of thought in present-day Europe.

§ 2 The Economic arguments for Integration:

The economic arguments for integration are virtually the same as those for free trade. Most economists agree that the abolishment of all customs barriers and the lowering of all tariffs constitute a step in the direction of freer international movement of goods and services as well as the obtaining of all the advantages of the comparative costs theory, as originally defined by Ricardo and defended by Professor von Haberler.⁸⁾ This is the old free-trade doctrine of greater productivity and prosperity of a region if barriers to trade between different parts of the region are broken down.⁹⁾

With certain economic principles as basis the task is to determine what benefits may be derived from larger mutual markets. The question is also whether these benefits will be distributed among all the inhabitants of the integrated society. The advantages to be derived from such integration are the following:

§ 2.1 Effects on Production and Productivity:

The greater flow of goods between countries differently endowed with natural and human resources will permit of greater

8) Von Haberler G., The Theory of International Trade, Geneva, 1935. P.126.

9) Robertson D.H., "European Integration" in Utility and all that, London, 1949. P.149.

specialization with a larger total product as the result. Tibor Scitovsky in particular regards the intensification of competition as the real benefit to be derived from integration.¹⁰⁾ This viewpoint was contested by Sir Dennis Robertson who regards integration movements only as the beginning of bigger and better international cartels.¹¹⁾ It must be remembered that European countries have a traditional monopolistic background and that it is not impossible that development may take place to curb competition. Should this happen many of the benefits of the greater market may be destroyed.

When integration takes place, the average productivity of labour may rise as a result of¹²⁾ -

- (a) Changes in the consumers' behaviour and the methods of production.
- (b) A reallocation of production factors among different producers.
- (c) Changes in the volume, nature and direction of investment.

This is a long-term effect, in contrast with (a) and (b) which are short-term effects. Control over the direction of investment is an essential requirement for any integration movement. It is at the same time, however, the result of the forces of integration.

The impact of integration on competition depends on the availability of surplus capacity and idle resources¹³⁾. The

10) Scitovsky T., Economic Theory and Western European Integration, London, 1958. P. 110.

11) Robertson D.H., "European Integration" in Utility and all that, London, 1949. P.149.

12) Scitovsky T., Economic Theory and Western European Integration, London, 1958. P. 19.

13) Idem, P.20.

integration of the different countries may result in a "rejuvenation" of the competitive forces themselves. We may find that new processes are adopted, more modern machinery is installed and more aggressive competitive standards are maintained. This will be all the more true if different degrees of monopolism or oligopolism exist in the different units to be integrated.¹⁴⁾

It must also be remembered that in some countries, such as France and Belgium, virtually every industry and business group has long been in the habit of asking, and the political power in obtaining, protection from the State in the form of trade restrictions, price maintenance schemes and compensation systems, in order to keep their least efficient members in business.¹⁵⁾ The existence of a high authority is likely to discourage this phenomenon drastically. Much will, however, depend on the policy formulated.

The differences in the economic climates of the different countries, differences in taxation, social habits, business enterprise drive and awareness of market opportunities will have a great impact on productivity.¹⁶⁾

All these effects will exert pressure on prices and the lowering of prices will exert pressure on the marginal producers to improve their methods or else to quit the market.¹⁷⁾

The result will be a chain of innovation effects with all the attaching benefits which will give rise to a greater social product, and therefore also to increased welfare, which, in turn,

14) Idem, P. 20.

15) Idem, P. 21.

16) Scitovsky T., Economic Theory and Western European Integration, London, 1958. P.22.

17) Idem, P. 24.

will increase consumption and bring to bear all its stimulating effects on production through economies of scale and optimum utilization of research and marketing facilities.

The extent to which these theoretical possibilities will be exploited, will depend on the factors of production at the disposal of the community and the quality of the policies adopted.

§ 2.2 Marketing advantages:

In the modern world with the rapid development of technology and the capital-intensive character of most projects the big problem is to achieve equilibrium between the technical and economic optimum. Lowest costs per unit, and more rationalized marketing are the benefits to be derived from a bigger market. Entrepreneurs in charge of large-scale projects seek markets which will give a certain guarantee against changes in consumer tastes and restrictions on resources. The diversity of resources in the large integrated economy is not very likely to contribute to scarcities, tariff measures and restrictive policies by foreign governments.¹⁸⁾ This is all the more true in the case of enterprises manufacturing luxury goods. Production and the marketing of luxury goods are easily affected by import restrictions in foreign countries. In the integrated economy any measure taken by the high authority must be taken against the background of the area as a whole.

Trade can be accelerated when the tariff walls are lowered or removed. This is especially true of intra-area trade as a result of the economies of scale or lower prices resulting from the greater competition. Intensified competition and its beneficial effects on the application of better processes and the use of more effective machines can in the long run contribute considerably

18) Idem, P. 27.

towards international trade. The benefits accruing from integration derived from this process of rejuvenation may make its influence felt far beyond the boundaries of the integrated unit and is therefore an international advantage.

§ 2.3 Allocation of output:

Any reallocation of factors of production under the directive force of the price mechanism, and any reallocation of output will facilitate international trade.¹⁹⁾ Scitovsky²⁰⁾ is of the opinion that not all abolition of quantitative restrictions on intra-European trade, carried out by the O.E.E.C. in its Trade Liberalization Programme, has had this effect in so far as an increase of intra-European trade is concerned. The share of intra-European trade in the total foreign trade of the O.E.E.C. countries only rose from 42% in 1938 to 47% in 1956. He probably loses sight of the fact that production in Europe during this whole period cannot be regarded as normal. Shortages of international reserves and the fact that these reserves were largely used for the procurement of raw materials contributed more than anything else to this particular rigidity. In 1938, on the other hand, intra-trade may already have been at its maximum under the purchasing power conditions which in 1956 had not changed considerably from the pre-war pattern.

In the agricultural sphere in particular great advantages may be obtained. Experts agree that output and average labour productivity could be raised in Western Europe by increased agricultural production in France and by a shift of horticulture to the South where labour is more plentiful and the climate more favourable.²¹⁾

19) Scitovsky T., Economic Theory and Western European Integration, London, 1958. P. 32.

20) Idem, P. 32.

21) Scitovsky T., Economic Theory and Western European Integration, London, 1958. P. 33.

This may especially be the case if Spain, Portugal and Greece were to be included with France and Italy. Production of fruit in these countries and their associated territories in the tropics may increase considerably under the impact of Western European integration.

§ 2.4 Investment:

A common Western European market may attract the inflow of American capital, especially if the establishment of such a market discourages the importation of goods from the United States of America.²²⁾ In less than 10 years time, U.S. industry almost trebled its investment in Western Europe. In 1950 the total investment by the United States industry in Western Europe amounted to 1.7 billion dollars; it increased by 1959 to 4.5 billion dollars and is now increasing even more rapidly under the impact of the European common market.²³⁾

Apart from the free flow and pattern of investment funds a vigorous investment policy may also be followed by the high authority. The countries to be integrated in Europe have all had a high level of capital formation. The reconstruction of their economies during the post-war years is ample proof of this fact. Furthermore, these countries may direct their surplus investment funds towards underdeveloped associated territories.

Not all the integrated units in the post-war period will have sufficient investment funds, however. The Latin-American group may have to find capital outside the area.

§ 2.5 Trade-creating or Trade-diverting effects:

Much has been said on this aspect of integration, especially by contracting parties of the GATT.²⁴⁾

22) Idem, P. 44.

23) Chase Manhattan Bank, Report on Western Europe, June-July, 1959.

24) GATT, International Trade 1957-58, Geneva, 1959. P. 295.

If integration has other beneficial effects and these effects raise real incomes, it will have an income effect on trade within the integrated unit as well as on trade with third countries.

A regional development plan or integrated unit has as its basic requirement the discrimination principle in as much as development can only be achieved through the enjoyment of preferential treatment. This applies both in the case of very small communities and in the case of international groups and cannot be objected to by any outside group. No other country realised this more fully than the United States of America, hence her own restrictive and protective economy and her backing of the Western European Community.

A fundamental requirement for the raising of world prosperity lies in the realization of the validity of the theory of comparative advantage. At the other extreme is a maximum protection of agriculture and industries, discrimination against other countries, the formation of cartels and the application of monopolistic practices, all of which can in the long run only distort the international production pattern. Any measures of this nature will be counteracted in the international sphere by the taking of retaliatory measures. Countries as dependant on international trade as those which have shown integration tendencies can never afford these ill effects.

The inclusion of countries with different outlooks in an integration unit will have a moderating effect on either side and may give rise to an increase in world trade.

A classical example of trade distortion is provided by the development of the butter trade between the Benelux countries and outsiders (see Table XIV below).

TABLE XIV

Imports of Butter into the Belgium-Luxembourg Union after the Formation of the Benelux in 1948 (Metric tons).

	:1937	1938	1954	1955	1956	1957
Imports from:	.	.	.	.	.	.
The Netherlands ..	723	359	7145	8493	4798	5162
Other Countries ..	1531	793	704	895	1021	904
TOTAL	2254	1152	7849	9388	5819	6066

Source: GATT, Trends in International Trade, Geneva, 1958. P. 119.

It may be added that this commodity is the only one which has undergone an appreciable change in direction.²⁵⁾ The opposition of the United Kingdom to the formation of an economic Union between Belgium-Luxembourg, the Netherlands and other countries is a good example of her attitude towards the European Economic Community.²⁶⁾ The United Kingdom herself has been trading mainly in a sheltered area.

On the basis of the Convention of Oslo which still existed, Belgium, Denmark, Finland, Luxembourg, the Netherlands, Norway and Sweden signed the Convention of the Hague in May 1937. As in the case of the Convention of Oslo the United Kingdom opposed the Convention of the Hague on the grounds that it was an infringement of the principle of the most-favoured nation clause. The principle of imperial preference introduced in 1932, however, also ignored the most-favoured nation clause.

25) GATT, Trends in International Trade, Geneva, 1958. P. 119

26) Weisglass M., Benelux, Amsterdam-Brussel, 1949. P. 12-13.

This same lack of logic in the British foreign and domestic economic policy is noticeable in her attitude towards the European Economic Community. Her proposals for a European Free Trade comprising all seventeen members of the O.E.E.C. must be seen against this background. It was nothing else than an effort to prevent the formation of a solid economic bloc where British prestige would be submerged by other more fundamental issues. To quote from the Economist:

"The spectacle of the British solemnly telling the Europeans that these preferences are sacred and untouchable while they are withering away behind Britain's back (New Zealand Trade Agreement) has been odd. These preferences are the one trump card left in the Commonwealth hand. But they will be gone by the time the Common Market reaches its final form But as one settles down to contemplate a world without the Free Trade Association it becomes increasingly clear that the United Kingdom and Commonwealth are going to need to use all the counters they can muster to come to terms with the CM.

The economic arguments for going in seems strong - so strong indeed that one wonders why the idea was not raised before. The answer is that it was not contemplated seriously on political grounds. In his speech on December 6th, Mr. Maudling soft-pedalled the economic arguments and explained that we could not join the CM on political grounds. The chief opposition would not come from British industry (many firms do not even know the difference between the CM and a free trade area), but from Whitehall and some politicians.

In concrete political terms there is only one detailed feature of the Treaty of Rome which presents a real domestic political problem: free movement of labour. Otherwise the Labour Party ought to like joining the Keynesian concept of expansive

full employment policies - plus rehabilitation and investment funds - which underlies the treaty ought to make a European market much more palatable to Labour than a Tory laissez - faire FTA"²⁷⁾. British opposition to the formation and membership of the European Economic Community on political grounds and the reluctance to sacrifice imperial preferences which cannot be of much value, must simply be seen as an effort to maintain the unity of the British Commonwealth of Nations. This does not form an argument for South Africa to join forces with the United Kingdom. South Africa's foreign policy should be changed to conform to the facts given above. Backing of the British opposition towards the EEC can only result in the provocation of ill feelings against South Africa by the members of the European Economic Community. To adopt a neutral position comes down to doing nothing while the opportunity exists to associate with a rigorous dynamic economic unit which the EEC clearly is.

The effects of integration may be summarised as:

- (a) short-term effects that is the immediate effects on production, production activities, resource allocation, income distribution and international trade, and
- (b) long-term effects, that is effects on investment, structural changes flowing from (a) and the changes in consumers' behaviour.

There is no reason why these integration movements will harm international trade. A higher standard of living, being the result of the factors explained, will lead to a higher purchasing power and a greater consumption economy with greater demand for internationally traded articles. All the countries taking part in these integration movements are extremely dependent on international

27) The Economist, 27th December, 1958. P. 1139.

trade. The application of an internal policy rather than an external policy will be restrictive on reciprocal trade with other countries and not only on imports. Greater self-support might result here and there but this is a phenomenon of everyday economic life even within national boundaries.

The following quotation from Prof. Ludwig Erhard, German Minister of Economic Affairs, in his book Prosperity Through Competition, as quoted in The Banker of December, 1958, sums up the position: "The unresolved European questions, particularly the future of the Common Market - whether it should follow a more liberal policy towards other economic areas or breathe the selfish spirit of economic inbreeding which will sharpen the conflicts within the free world", is an indication of thought ruling in post-war Europe.

The philosophy which has won rapid recognition after the Second World War, namely that it is an obligation of the other party to withhold damage from the economies threatened by any actions it may take, has been driven too far. Action should rather be based on the closest bilateral consultation and with long-term objectives in mind.

3 Present-day integration movements:

During the past few years the integration movement has given birth to two economic blocs with the result that the world is now divided into the following regional blocs (see Map I).

- (1) The British Commonwealth group which already existed before the Second World War, but which cannot be regarded as an integrated unit.
- (2) The Sino-Soviet Bloc comprising Soviet Russia, Bulgaria, Rumania, Hungaria, Poland, Checkoslovakia,

- China and Albany as well as parts of countries such as North Korea, North Vietnam and Eastern Germany.
- (3) .The European Economic Community comprising Western Germany, Italy, France, The Netherlands, Belgium and Luxembourg with their dependent territories, the most important of which are French West Africa, French Equatorial Africa, Algeria, Madagascar, The Belgian Congo and the Netherlands Antilles.
 - (4) The European Free Trade Association comprising the United Kingdom, Sweden, Denmark, Portugal, Austria, Switzerland and Norway. Dependent territories will be included but on what basis is not clear yet.
 - (5) The Latin-American countries, i.e. all the countries of Latin-America from Mexico to the southernmost point of the continent of America.
 - (6) The independent international countries which include all the other countries not mentioned.

§ 3.1 The British Commonwealth Area:

There are 34 countries constituting this group of nations; they are organised on a voluntary basis without a constitution. The distinctive feature of the trade relations among the various members of the Commonwealth is the preferential tariff treatment on a widely varying scale that is exchanged among members, both in the case of independent and non-self-governing countries. This treatment is sometimes based on a contractual basis as a result of trade agreements and is sometimes a matter of individual tariff policy.

Commonwealth tariff preferences may be regarded as dating from the beginning of the twentieth century. South Africa has been participating since 1903, but the connection between the different

countries will be discussed as it flowed from the 1932 Ottawa Agreements. These details will be discussed in Chapter VI.

The countries forming the British Commonwealth of nations do not form a natural integral unit as a result of geographical factors (see map I). The whole area can, however, be regarded as one in which a considerable part of the international trade is sheltered.

The effect of the revision of Imperial preferences at the 1932 Ottawa conference can be seen from Table No. XV. United Kingdom imports from the Commonwealth increased from £144.9 million in 1928-31 to £146.3 million in 1933-36, while imports from other sources decreased from £344.7 million in 1928-31 to £209.5 million in 1933-36 (Real values). The application of the Imperial preference system was clearly a great success in a period characterised by a low degree of economic activity. The same will not be true in a period of expanding economic activity, unless the preferential tariffs are adjusted to coincide with price-movements which clearly cannot be the case, especially under the GATT obligations of the Commonwealth countries.

The mother country, the United Kingdom, is highly developed and industrialized and is dependent to a large extent on the less developed countries for the supply of raw materials and foodstuffs. Of these countries Canada, Australia, New Zealand and the Union of South Africa are the most important, since they are richly endowed with natural resources ranging from agricultural produce to the richest mineral resources in the world. At the one extreme is South Africa and at the other New Zealand. Their relatively under-developed condition and their location have discouraged intra-trade relations. These countries also have large European populations with no relative scarcity of the entrepreneurial factor.

TABLE NO. XV.

UNITED KINGDOM IMPORTS OF FOODSTUFFS, TOBACCO
AND BEVERAGES FROM THE COMMONWEALTH AND OTHER
SOURCES, BEFORE AND AFTER THE OTTAWA AGREEMENT,
DISTINGUISHING SEVEN MAJOR FOODSTUFFS AFFECTED
BY NEW PREFERENCES. 1928-31 AND 1933-36. REAL
VALUES ONLY. (£=MILLION).

	1928-31			1933-36		
	Common Wealth	Other Sources	Total	Common Wealth	Other Sources	Total
Wheat	20.7	26.5	47.2	22.5	9.3	31.8
Butter	17.9	32.0	49.9	19.3	18.6	37.9
Eggs in shell	0.8	15.7	16.5	1.4	6.6	8.0
Apples	3.9	3.8	7.7	4.5	1.7	6.2
Bananas	1.5	4.0	5.5	2.5	2.1	4.6
Oranges	1.3	7.9	9.2	1.4	6.2	7.6
Cheese	11.8	1.9	13.7	6.4	0.8	7.2
Sum of Commodities listed	57.9	91.8	149.7	58.0	45.3	103.3
Other foodstuffs	87.0	252.9	339.9	88.3	164.3	252.5
Total food and beverages	<u>144.9</u>	<u>344.7</u>	<u>489.6</u>	<u>146.3</u>	<u>209.5</u>	<u>355.8</u>

Source: GATT., The possible impact of the European Economic Community, in particular the Common Market, upon world trade, Geneva, 1957. P. 45.

Trade is mainly with the mother country.

A few of the other less important members include the Federation of the Rhodesias and Nyasaland, which is developing rapidly and with which South Africa has very close geographical and economic as well as cultural historical contacts, Ghana, Nigeria, Ceylon, India and Pakistan.

The preferential system has often been the subject of fierce international disputes, since it is regarded as a discrimination unit. It is the direct opposite of the trade philosophy of the GATT.

A natural group-disintegration process is continually taking place with the rapid development of the member countries.

§ 3.2 The Sino-Soviet Bloc:

The countries constituting this Bloc all have centrally planned economies, co-ordinated and directed from Soviet Russia, except China who conducts her own affairs and formulates her own policy. International trade is carried out by state-owned enterprises operating mainly on a barter basis with other countries under bilateral agreements.²⁸⁾ Economic contacts with the free world are increasing in importance and will continue to expand. Economic activity²⁹⁾ in this Bloc is very high and some of the members, notably the Soviet Union, Poland and Checkoslovakia, have made important attempts to expand trade with the free world.³⁰⁾

The ideological objectives of the Bloc and the aggressive character underlying their ideology, as well as the economic

28) GATT, International Trade 1957-58, Geneva, 1959. P. 265.

29) Idem, P. 265.

30) United Nations, World Economic Survey 1958, New York, 1959. P. 261-298.

activity of the members which is geared to suit state objectives, have been the subject of much debate and the cause of many negative measures by the West.

§ 3.3 The European Economic Community:

The Community was established on a constitutional basis under the treaty of Rome, signed in 1957. It was founded on the basis of a complete customs union which was to become a reality after a transition period of 12-15 years, divided into three stages.³¹⁾ Tariffs between the members would be gradually abolished and a common external tariff was drawn up. This will be more fully discussed in Chapter VII.

The formation of the Community is founded on a more absolute degree of economic integration than had been thought possible. It envisages far more penetrating long-term objectives and has shown a highly dynamic nature since its inception on the 1st January, 1958. The adoption of a common agricultural policy in particular has given rise to many objections from other countries. The agricultural provisions of the Treaty are of particular interest to a number of countries. In terms of these provisions the institutions of the Community will work in the direction of a common agricultural policy for the member states. Countries which are major exporters of agricultural produce fear that the evolution of this common policy, and in particular the possible recourse to minimum prices and long-term contracts, might be detrimental to their trade with member States of the Community.³²⁾

The formation of the Community was actively backed by the United States of America. The political objectives of the Community were found to dominate the economic motives. The countries

31) See Chapter VII, § 1.

32) GATT, International Trade 1957-58, Geneva, 1959. P. 294.

constituting the Bloc are highly developed, but have different backgrounds. The six countries of the European Economic Community have extensive trade contacts with each other (see Table XVI). Intra-Six trade in primary products totalled an average of 2,028 million dollars annually in 1953-55, while imports from the rest of Continental Western Europe totalled 1,329 million dollars and exports to these countries 1,356 million dollars. Trade in manufactures between the six was considerably higher, with an annual average of 4,746 million dollars over the years 1953-55. Imports of manufactures by the six countries from Continental Western Europe amounted to an average of 2,745 million dollars annually, while exports amounted to 4,000 million dollars. The six countries exported much more to the other countries of Continental Western Europe - especially manufactures - than they bought from these countries. The overall picture shows the degree of integration of Western European trade. The trade connections with North America, which is also a highly industrialized area, as well as trade connections with non-industrialized countries were also important. The six countries imported much more from North America than they exported to this area. This picture changed considerably during the years 1956-58³³⁾, when imports from the United States decreased. Total imports by the six countries from non-industrial countries, with an average of 6,121 million dollars annually during the period 1953-55, were only slightly higher than exports to these countries. The composition of the import packet from these countries differed completely from that in the case of the industrial areas. Imports of primary products amounted to an average of 5816 million dollars annually during this period, as compared with only 305 million dollars in the case of manufactures, while exports of primary products to these countries amounted to an annual average of only 1,250

33) Economic Report of the President, Washington, 1959. P. 29.

TABLE XVI.

THE COMMODITY COMPOSITION OF THE TRADE OF THE
SIX COUNTRIES, ANNUAL AVERAGE 1953-55 (MILLION DOLLARS, F.O.B.)

	Intra-European Trade				Extra-European Trade					
	Among the six countries	Imports of the six from Cont. W. Europe	Exports to Cont. W. Europe	Net Imports	Imports from North America	Exports to North America	Net Imports	Imports from Non-Ind. areas	Exports to Non-Ind. areas	Net Imports
Foodstuffs	722	471	535	- 64	452	157	+385	2381	683	+1698
Raw Materials	690	773	364	+ 409	555	157	+398	2415	219	+2196
Fuels	616	85	457	- 372	148	6	+142	1020	348	+ 672
Primary Products	2028	1329	1356	- 27	1245	320	+925	5816	1250	+4566
Capital Goods	912	544	949	- 405	393	140	+253	22	1738	-1716
Consumer Goods	705	373	736	- 363	87	274	-187	94	1184	-1090
Semi-Manufactures ...	1101	499	959	- 460	233	423	-190	189	1724	-1535
Manufactures	2718	1416	2644	-1228	713	837	-124	305	4646	-4341
Total	4746	2745	4000	-1255	1958	1157	+801	6121	5896	+ 225

Source: G.A.T.T. The Possible Impact of the European Economic Community, in particular the Common Market upon World Trade, Geneva, 1957. P.16.

million dollars, as compared with an annual average of 4,646 million dollars in respect of manufactures.

The six countries are therefore highly dependent on world and intra-European trade. This fact will compel them to follow an outside trade policy and to take all economic contacts into consideration before they apply a particular policy. While imports from non-industrial countries may be replaced by greater Bloc production, the export market will have to be maintained. The Community has a population of 165 million and equals the United States on the one hand and Soviet Russia on the other.

§ 3.4 The European Free Trade Association:

The European Free Trade Association was established on the 20th November 1959 with the object of serving as a brake for the European Economic Community.³⁴⁾ It is the outcome of the attempt of Britain to unite the 17 members of the O.E.E.C. in a free trade area rather than a customs union.³⁵⁾ As has been explained, and in correspondence with the points advanced by Dr. Abeln,³⁶⁾ it is based on complete freedom for member countries. Tariffs are to be abolished between members in stages to coincide with the periodical reductions of tariffs by the European Economic Community.³⁷⁾ The purpose behind this is to establish a merger or association between the two Blocs, since it is felt that their problems might only be increased if they were to remain apart.

Formation of the European Free Trade Association was urged by the unexpectedly dynamic qualities which the Common Market began

34) The Statist, 5th September, 1959. P. 187. At the best the European Free Trade Association of seven would be a make-shift to meet an emergency and perpetuate individuality. One compensation for the sacrifice of sovereignty made is the immense economic advantages that intogration should bring.

35) GATT, International Trade 1957-58, Geneva, 1959. P. 296.

36) Abeln G.H.J., De Vrijhandelszone als Economische Intogratievorm voor West-Europa, Leiden, 1958. P. 2.

37) United Nations, World Economic Survey 1958, New York, 1959. P.296.

to show. A proposal by Belgium recently that the integration process between the six countries constituting the European Economic Community should be accelerated (6-8 years), added to the urgency of the formation of the second preferential area, namely the European Free Trade Association,³⁸⁾ with a view to ensuring self-protection. The Belgian proposal was backed by all six governments.

The basis on which the European Free Trade Association was founded leaves much to be desired. Not only does it lack the inherent qualities of a complete customs union,³⁹⁾ but it is based on certificates of origin, process lists and numerous administrative requirements which must ensure that misuse will not occur. It is felt that administrative measures can frustrate all efforts towards a freer trade.

It also lacks the dynamic quality of the "rejuvenation" process so typical of a complete economic integration process and is based on a series of short-term objectives.⁴⁰⁾ It is also felt that the anticipated merger between the two Blocs might never occur. If this is the case the retaliatory character of this economic Bloc may divide Europe permanently, in which case many of the advantages of European integration may be ruined.

The dependence of the Blocs on each others' trade, especially some important members of each Bloc, might - and this is the most possible solution - result in some form of association between the two Blocs.

See Table XVII for an explanation of the trade position of the six countries constituting the European Economic Community

38) The Economist, 17th October, 1959.

39) The Statist, 5th September, 1959. P.187. No loose club could survive outside such economic entities as the U.S.A. and the U.S.S.R.

40) The Financial Times, 21st November, 1959. P.1.

and the rest of Western Europe. Export of the Six to the rest of Western Europe is nearly as large as trade between the six countries themselves. Imports from the other countries of Western Europe only form about 57%, however, of imports between the Six themselves. The Six has a favourable balance of trade with the other countries of Western Europe which amounted to 1.15 thousand million dollars per year over the period 1953-55.

Trade between the Six and the other countries of Western Europe, under which the seven member countries of the European Free Trade Association are by far the most important part of the total external trade of the Six.

TABLE XVII

Imports and Exports of the Six Countries
and the Rest of Western Europe from and
to Various Areas, Annual average, 1953-55.

(Thousand million dollars, f.o.b.)

	<u>The Six Countries</u>			<u>Rest of Western Europe</u>		
	<u>IMPORTS</u>	<u>EXPORTS</u>	<u>Net</u>	<u>IMPORTS</u>	<u>EXPORTS</u>	<u>Net</u>
<u>Trading Partners</u>						
The six countries	4.77	4.77	0	4.14	2.99	+1.15
Rest of W.Europe	2.99	4.14	-1.15	3.30	3.30	0
Intra-Euro.trade	7.76	8.91	-1.15	7.44	6.29	+1.15
N.America	2.05	1.17	+0.88	2.25	1.46	+0.79
Japan	0.07	0.09	-0.02	0.08	0.07	+0.01
<u>Industrial Areas</u>	9.88	10.17	-0.29	9.77	7.82	+1.95
Dollar countries						
of Latin-America	0.33	0.47	-0.14	0.26	0.29	-0.03
Rest of Latin-Am.	0.76	0.64	-0.12	0.66	0.37	+0.29
Overseas Sterl Ar	2.00	1.12	-0.88	3.75	3.78	-0.03
Overseas Territ.						
Western Europe	1.43	1.63	-0.20	0.15	0.14	+0.01
E.Europe & USSR	0.32	0.36	-0.04	0.50	0.43	+0.07
Rest of World	1.26	1.80	-0.54	1.07	1.19	-0.12
<u>Non-Indust.Areas</u>	6.10	6.02	+0.08	6.39	6.20	+0.19
<u>WORLD</u>	15.98	16.19	-0.21	16.16	14.02	+2.14

Source: GATT. The possible impact of the
European Economic Community, in
particular the Common Market, upon
World trade, Geneva, 1957. P. 14.

The dependence on each other's trade shows a high degree of natural integration. The combining of the two blocs is merely a question of time.⁴¹⁾ Any recession of magnitude will hasten the pooling of resources and the signing of a formal Agreement of Integration.

From Map I it will be seen that the European Free Trade Association group does not form a natural trading bloc. Austria and Switzerland border on the Six while Portugal is completely cut off by the Six. Britain, Denmark, Norway and Sweden form the only more or less geographical unit. Lack of geographical concentration has probably been an important consideration in favour of a free trade area with Britain.

§ 3.5 The Latin-American Bloc:

The twenty republics in Latin-America form a natural trading area, although trade between them is very low, being 3% in the case of the dollar countries⁴²⁾ and 10% in the case of the non-dollar countries⁴³⁾. This indicates a lack of economic inter-dependence amongst the group. All these countries are relatively underdeveloped and are dependent on the United States of America and Western Europe⁴⁴⁾ for the supply of their trade requirements. The Republic of Western Germany and the centrally directed countries were the first to realise this.⁴⁵⁾

The principal obstacle in the way of expansion in this area is the fact that the efforts to promote growth were made in twenty separate "watertight" compartments, the reason for this being that the national markets of these countries were too narrow and their resources too limited for the rate of growth required for the raising of living standards.⁴⁶⁾

41) The Financial Times, 21st November, 1959. P.1.

42) GATT, International Trade 1957-58, Geneva, 1959. P. 129.

43) Idem, P. 134.

44) Idem, P. 129.

45) Idem, P. 114 and 214.

46) The Financial Times, 12th May, 1959. P.5.

During the past ten years this problem has been given serious consideration by the Organisation of American States, the Economic Commissioner for Latin-America and the Organisation of Central American States. The plans for a free-trade area in Central America have already been approved by the countries concerned. Experts of Brazil, Argentina, Chile and Uruguay have also submitted plans for an integrated market.⁴⁷⁾

The political instability does not favour economic co-operation, but the relative scarcity of production factors, the smallness of the markets and the uneven allocation of natural resources will, under American leadership, work in the direction of economic integration. The area forms a natural trading bloc, as can be seen from Map I. No reason exists why this bloc should not pool resources once the political problems have been solved.⁴⁸⁾

3.6 Independent International Economic Countries:

The countries which do not belong to one of the blocs already discussed will probably not merge with the others. The exceptions are Finland which might join the European Free Trade Association, Greece and Turkey which have already applied for association with the European Economic Community, and Spain which will probably also be absorbed by one of the Western European blocs. The other countries included under this group are the United States of America, South Vietnam, The Lebanon, Thailand, The Phillipines, Jordan, Taiwan, North Korea, Japan, Israel, The Republic of Iraq, Indonesia, Burma, The Bahrein Islands, Arabia, Yugoslavia and Egypt.

These countries are for the most part far away from one another and will belong economically to the blocs bordering on

47) GATT, International Trade 1957-58, Geneva, 1959. P. 296

48) The United Nations Review, October, 1959. P. 37.

them. The majority belong to the Arabian-Asian Bloc where the ideological and strong feeling of coherence will speed up integration, although the countries are generally dependent on one or two products such as petroleum and cotton. Integration on account of political motives is more likely to take place. These countries are a group in themselves and will vanish as independent entities with the notable exception of the United States of America.

§ 4 Post-war Economic Policy in Western Europe:

The early efforts at integration after the Second World War were concentrated on setting free, that is the removal of qualitative restrictions, abolishment of quotas and the development of multilateral clearing through the European Payments Union.

In the middle of 1947 European Economic recovery was seriously threatened by shortages of raw materials and foodstuffs as a result of the precarious position of international reserves. The direct outcome of this trouble was the fostering of the Marshall Plan and the formation of the Commission for European Economic Co-operation. On the 2nd April, 1948, the Congress of the United States of America promulgated the "Economic Co-operation Act" under which aid was given to Europe. These developments were the beginning of the European integration movement. The immediate aims were to increase production, to eliminate restrictions on trade, to increase financial stability and to ensure full employment. The direct result was the following (quoted from the Economisch Statistisch Berichten): "Hiermede begon een volkomen nieuwe wijze van internationale samenwerking in Europa. Dit ligt tans tien jaren achter ons. In deze tien jaren of beter gezegd: van 1947 tot 1957, stegen de industriële en agrarische produktie in Europa met resp. 120% en 50%, de uitvoer na de rest van de wereld en het bruto-nationaal produkt per hoofd der bevolking met resp. 180% en 55%.

Geen dezer resultaten is, zegt het 9e verslag van de O.E.E.C., het uitsluitende en direkte gevolg van de activiteiten van de O.E.E.C., geen dezer resultaten zou echter zo spoedig bereikt zijn zonder het systeem van samenwerking".⁴⁹⁾

In 1954 all the Western European countries were again faced with shortages of international reserves without which they could not hope to obtain the raw materials and foodstuffs essential to their recovery programmes and production schedules. The result of this crisis was the formation of the European Payments Union under the guidance of the O.E.E.C. to prevent the conclusion of bilateral-payment agreements which could only lead to restrictions. "Het systeem der bilaterale betalingsakkoorden berus in wezen op valutaire discriminatie; gediscrimineerd werd tegen betalingen aan landen die wel, en ten gunste van betalingen aan landen die geen convertible valuta verlangden voor hun exporten en diensten".⁵⁰⁾

To eliminate the regional character of the European Payments Union the European Monetary Agreement was concluded in 1955, but this Agreement only came into operation in December, 1958, because full convertibility of the important world currencies was a prerequisite for its effective functioning.⁵¹⁾ The composition and structure of these Agreements are not important for this thesis. What is important, however, is that co-operation on a regional and international basis took place on such a scale. Full co-operation was impeded, however, by the reluctance of the seven countries now constituting the European Free Trade Association to form a full customs union with the Six.

49) Economisch - Statistische Berichten, 4th June, 1958. P.443

50) Economisch - Statistische Berichten, 21st January, 1959. P.44.

51) Idem, P.44

§ 4.1 Post-war Commercial Policy:

The philosophy was spread through the GATT that trade barriers should be attacked on a world wide basis rather than on a regional basis. The GATT policy had its limitations, however, because similar commercial policy criteria could not very well be applied to countries as diverse economically as Burma and Afghanistan or Switzerland and the United States.

The GATT rules of tariff concessions on a reciprocal basis were bound to fail for three reasons:

(a) The inequality of existing tariff levels between different countries. A comparison of South Africa's bargaining position with her relatively low tariff rates as against that of the United States of America with very high rates is a good example. A small reduction in the South African tariff might be of much greater weight than a fairly large reduction in the very much higher American tariff rate. South Africa would soon be in a position where a further round of tariff reductions or tariff concessions might not be possible. Changing domestic conditions might necessitate the rebinding of certain tariffs, under which circumstances no tariffs might be available to offer as compensation for those unbound.

(b) The existence of many forms of trade restrictions other than the tariffs and taxes permissible under Article III of the GATT instruments. These have found wide-spread application after the Second World War. Administrative measures for the regulation of trade are becoming more important every day. In this connection attention is drawn to the health regulations of the United States of America and the Phytosanitary regulations of Italy.

The pressure which exists in Germany and some other European countries to maintain restrictions on imports of certain

manufactured and raw materials from Asiatic countries is, however, only one particular manifestation of the more general problems of access to the markets of the more industrialized countries encountered by exports from relatively under-developed countries.

The inability of the GATT to solve these and many other problems, such as O.E.E.C.-discrimination against other countries under the pretext of balance-of-payments problems which do not exist any more, has made this an organisation of very little value.

(c) The disequilibrium of factor allocation in the international sphere does not constitute a case for free trade. To quote from the Viljoen report: "Analytically it can be shown that under conditions of perfect competition and the free international exchange of goods, the resources of a country will tend to be distributed between different uses in such a way that the marginal private net product of resources in every different sphere of investment is equal. Leaving out of account differences between the marginal private and marginal social net products, this is a necessary condition for the optimum allocation of resources. But the deduction that free trade would, therefore, be the best policy for a country to pursue, even under the conditions generally postulated by the free trade theory, namely that all resources are fully employed and that external equilibrium is maintained, would be correct only in a static society. For although the equality of the marginal social net products of resources in all different uses is an essential condition for the optimum distribution of resources, there may be alternative arrangements of a country's resources, whether they comply with this condition or not, that could raise the country's income and economic welfare to a higher relative maximum than the one attained under free trade. Free trade may, in other words, be the condition necessary to secure the optimum utilization of resources within any given pattern of

production, but protection, although in itself not fulfilling the requirements of equi-marginal yields, may be necessary to call forth the innovations that will jerk the economic system from one relative maximum to another higher absolute level".⁵²⁾ Meade's "modified free-trade position" serves as a further proof.⁵³⁾

It is felt that international organisations and co-operative efforts do not give enough attention to the problems of under-developed countries. Nor do they base their recommendations on scientific facts, such as the above. To apply measures and formulate policies to be applied on a universal basis under conditions which do not exist, do not add to any optimistic expectations for the future.

The efforts of the International Bank for Reconstruction and Development contributed nothing towards lessening this factor inequality or the development problems. Neither have the funds of the International Monetary Fund been adequate to absorb the effects of economic fluctuations. The whole concept of international trade and development is considered to rest upon the wrong assumption, namely that the same policy is applicable to every country in the world, irrespective of its state of development or factor allocation.

§ 5 Conclusion.

The position today is as follows:

- (1) Regional-integration economic blocs, each based on a different philosophy, were created after the Second World War.
- (2) The world was divided into two large ideological systems, each with its own tradition. The one is based on the mechanism of the "invisible hand" of Alfred Marshall, namely a free economy

52) Report of the Commission of Enquiry into Policy Relating to the Protection of Industries, U.G. No.36/1958, P.1; as quoted from Pigou. A.C. The Economics of Welfare, Second Edition) P.121.

53) Meade J.E., The Balance of Payments in The Theory of International Economic Policy, Volume 1, London, 1951. P. 326.

and free international trade, and the other on a centrally directed economy, based on community of property and state-trading.

(3) Countries obtain membership of world organisations without a clear and dynamic approach to world problems. These organisations do not have a definite mandate and are organised on the principle of universal rules and regulations. The success of the Colombo Plan may be mentioned as an example of international co-operation and aid on a strict regional basis.

(4) The European Economic Community was established on a dynamic basis under political inspiration and the rate at which it has advanced may create a new condition of balance in Europe with far-reaching effects on the rest of the world.

(5) Europe cannot stay divided into two conflicting groups. Association of Britain with any of these blocs will mean the end of imperial preferences. Many of the countries enjoying preferences in this sheltered market will have to find new markets for their products. Even if Britain is not forced to abolish imperial preferences the dynamic qualities of the integrated units will nullify the value of the margins of preference which have been freezed under the GATT. For South Africa to belong to a static unit where the main instruments for the controlling of economic growth cannot be adapted to dynamic conditions can only mean that the economic welfare of this country is at stake. It will be shown in Chapter VI that imperial preferences are of very little value to South Africa, or of no value at all. The adherence to an obsolete mercantile system founded on juridical obligations must be regarded as a burden on economic freedom which is essential in a world divided by power groups and strong national economic policies. Developments within these blocs, which will be discussed in Chapters VI, VII and VIII, clearly call for the closest contact with these blocs in order to participate in any economic advantages which might arise.

(6) The condition in the integrated states will change under the stimulus of the expanded market, the co-ordinated agricultural policies in the European Economic Community and the "re-juvenated" effect of the greater competition foreseen by Tibor Scitovsky. Whatever the position or direction of development of these integrated blocs, the effect on international trade will be considerable. It will be in the interest of South Africa to maintain the closest contact with the most dynamic bloc, namely the European Economic Community.

(7) Outside countries will have to formulate a dynamic approach to this phenomenon and must realise that pressure on the groups or blocs is bound to fail against the combined determination of the United States of America and the Blocs concerned.

In this connection attention is drawn to the opinion expressed by Dr. Luttig (M.P. Mayfair) in the House of Assembly that South Africa has given too little attention to the Common Market which came into being at the beginning of 1959. The South African public, it is felt, has been left in the dark about Government policy concerning the developments in Europe. Any measures which have to be taken in future will come as a shock to industrialists and traders.

South Africa must reorientate her existing external trade relations in order to cope with the problems posed by the European Economic Community in particular. No preference area should be established, but economic contacts should be established under closer association especially under long-term contracts in order to foster certain internal developments in South Africa which have already been discussed. The same applies in respect of developments in Latin-America where a different approach is necessary as a result of different political and economic conditions.

The maintenance of a dogmatic approach towards these developments can only harm the already precarious and unbalanced external sector.

TABLE XX.

IMPORTS FROM SOUTH AFRICA BY THE UNITED KINGDOM OF THE MOST IMPORTANT ITEMS
ON WHICH A PREFERENCE IS ACCORDED TO S.A. AND OTHER COMMONWEALTH COUNTRIES. YEAR 1957.

(CONTRACTUAL PREFERENCES ONLY)

U.K. Tariff Item	Description	Value of Imports from South Africa		Value of Imports from other Common- wealth Countries		Value of Imports from Foreign countries		Total Imports	Duty on S.A. Produce	Full Rate	Calculated Value
		£	% of Total Imports	£	% of Total Imports	£	% of Total Imports				£
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
04.03	Butter	273,274	.27	56,887,025	57.2	42,322,606	42.5	99,482,905	Free	15/- per cwt	15,735
04.05	Eggs in shell	345,768	17.8	456,628	23.4	1,136,411	58.1	1,953,000	Free	1/6 per 120	15,029
03.03	Crawfish, canned	165,562	100.	-	-	-	-	165,760	Free	10%	16,556
10.05	Mealies, flat white	3,511,322	73.3	1,281,169	26.7	-	-	4,793,248	Free	10%	351,132
11.01	Mealie Meal	2,548,227	78.1	699,527	21.4	13,666	.5	3,261,420	Free	10%	254,823
08.02	Oranges, sweet, fresh ...	8,261,820	39.2	1,378,180	6.5	11,424,111	54.2	21,064,111	Free	3/6 per cwt	412,890
08.06	Apples, fresh	2,394,558	16.6	7,584,409	52.7	4,412,084	30.7	14,391,051	Free	4/6 per cwt	109,580
08.04	Grapes, fresh	2,342,930	46.0	333,406	6.6	2,411,193	47.4	5,088,373	Free	14/- per cwt	187,419
08.07	Peaches and Nectarines, fresh	117,004	13.7	-	-	732,796	86.3	849,800	Free	14/- per cwt	11,700
08.06	Pears, fresh	1,481,720	30.6	1,601,217	33.0	1,762,047	36.4	4,844,984	Free	4/6 per cwt	75,163
08.07	Plums, fresh	193,005	26.9	3,316	.4	520,302	72.7	716,623	Free	9/4 per cwt	11,490
08.12	Apricots, dried	80,696	22.2	6,868	1.8	276,561	76.0	364,125	Free	8/- per cwt	2,412
08.04	Raisins and Sultanas	149,505	1.6	4,225,467	44.5	5,115,857	53.9	9,490,829	Free	8/6 per cwt	11,610
20.06	Apricots, canned	1,390,340	69.3	553,735	27.6	59,429	3.1	2,003,522	Free	12%	166,840
20.06	Peaches, canned	3,856,614	51.3	1,984,012	26.4	1,671,181	22.3	7,511,807	Free	12%	462,794
20.06	Pears, canned	1,130,992	19.5	4,305,554	74.2	365,407	6.3	5,801,953	Free	12%	135,719
20.06	Pineapples, canned	2,162,907	30.4	4,607,916	64.6	357,001	5.0	7,117,824	Free	12%	84,864
20.06	Fruit salad, canned	678,259	56.9	440,759	37.0	70,913	6.1	1,189,931	Free	5/6 per cwt	17,858
20.07	Grape juice	133,935	39.8	125,286	37.3	76,463	22.9	335,684	Free	10%	13,394
20.07	Fruit juice, other	262,796	38.1	176,536	25.6	250,357	36.3	689,744	Free	10%	26,279
11.08	Maize starch	253,346	10.2	-	-	2,239,251	89.8	2,492,600	Free	7½%	19,000
17.01	Sugar unrefined	4,785,207	3.0	88,644,992	61.0	51,978,840	36.0	144,309,039	Margin of preference 3/10 per cwt		413,364
22.05	Wine, light	61,070	1.1	591,475	11.0	4,709,060	87.9	5,361,605	Margin of preference 2/- per gallon		13,535
22.05	Wine, heavy	776,019	9.3	252,300	3.0	7,338,048	87.7	8,366,362	Margin of preference 4/- per gallon		240,743
24.01	Tobacco, unmanufactured .	105,955	.10	34,215,463	40.5	50,044,700	59.4	84,366,203	Margin of preference 1/6½ per lb.		44,533
12.01	Groundnuts	1,725,250	9.6	15,532,000	86.3	739,363	4.1	18,000,000	Free	10%	172,525
25.24	Asbestos, crude	1,590,138	15.9	8,361,000	83.4	70,126	.7	10,021,136	Free	10%	159,014
15.04	Sperm oil, unrefined	379,381	30.1	544,000	43.2	335,837	26.7	1,260,158	Free	10%	37,938
32.01	Wattle bark, extract ...	1,899,583	85.3	325,469	14.7	-	-	2,225,052	Free	10%	189,958

£43,057,183

£3,673,897

Column (12) as a percentage of column (3): 8.5%

- Sources: (1) Annual Statement of the Trade of the United Kingdom with Commonwealth Countries and Foreign Countries, 1957. Volume II.
(2) Trade Agreement between the Union of South Africa and the United Kingdom, Treaty Series No. 11 (1932) Pretoria, 1934.
(3) H.M. Customs and Excise Tariff of the United Kingdom, London, 1958.
(4) The British Commonwealth, Commonwealth Preference and the Sterling Area, Federation of British Industries, London, 1958.

CHAPTER VI.SOUTH AFRICA'S TRADE AND ECONOMIC POSITION
AS A MEMBER OF THE IMPERIAL PREFERENCE
SYSTEM.§ I Imperial Preferences:

The principle of imperial preferences was fully developed at the Ottawa Conference in 1932. Imperial preferences is the name given to the system according to which the countries of the Commonwealth grant each other various concessions in their customs duties, on a contractual¹⁾ or a non-contractual basis²⁾, with the object of increasing the flow of intra-Commonwealth trade³⁾. The average margin of preference was gradually modified by new international agreements, price changes and mutual reductions with a view to protecting domestic industries.

Although imperial preferences as a comprehensive system of contractual tariff preferences came into existence in 1932, its origin can be traced back to the U.K. Navigation Act of 1660 and subsequent navigation acts, which excluded foreign ships from carrying trade between Britain and its colonial territories.

With the repeal of the Corn Laws in 1846 the United Kingdom changed from mercantilism to free trade. The commercial policy of "mercantilism" which involved discrimination against imported goods by means of high tariffs and unequal tariff treatment of imports from different countries was replaced by a policy of free trade which allowed no discrimination in tax treatment between locally produced goods and imported goods, or discrimination in tax treatment between imports from different countries.

After the Franco-Prussian War of 1871 this policy was reversed and replaced by a policy of increasing protection. South

1) See Chapter VI, § 1.1 Article 4, 9 and 11.

2) Preferences on a non-contractual basis may be changed or abolished at any time without consulting the other country.

3) Central office of Information, Imperial Preference, London, April, 1957. P. 1.

Africa introduced preferences on imports from the United Kingdom in 1903, but it was only in 1915, during the emergency of the First World War, that Britain made its first major departure from free trade with the introduction of the "Mc Kenna" duties on motor vehicles, clocks, musical instruments, watches and films. The world economic depression of 1929-33 resulted in a considerable change of policy. The United Kingdom's difficulties in balancing its external accounts were greatly increased by the sharp increases in many foreign tariffs, e.g. the Hawley-Smoot tariff in the United States of America, and by the introduction of quotas and exchange control in several countries. Mainly in order to secure some bargaining power in the face of these threats to its exports, but also to restrict imports in order to combat the wide-spread unemployment which then existed and to offer advantages to the Commonwealth, the United Kingdom Government, after imposing prohibitive duties as a short-term emergency measure, passed the Import Duties Act of February, 1932.⁴⁾ This Act, which denoted a decisive change in the British tariff policy, imposed a general ad valorem duty of 10% on all imports from foreign countries.

§ 1.1 The Ottawa Agreements 1932.

The Imperial Economic Conference held in Ottawa in 1932 gave rise to the conclusion of agreements between the United Kingdom and other Commonwealth countries for the exchange of reciprocal preferential tariffs.

The most important articles as far as the agreement with South Africa is concerned, are⁵⁾:

Article 3. The United Kingdom Government will pass legislation

4) Idem, P. 2.

5) Only the most important articles and schedules have been extracted for the purpose of this thesis.

necessary to secure to South African goods of the kinds specified in Schedule C which comply with the law and statutory regulations for the time being in force affecting the grant of imperial preference, the margins of preference⁶⁾ specified therein over similar foreign goods.

Article 4. His Majesty's Government in the United Kingdom undertakes that the general ad valorem duty of 10% imposed by section I of the Import Duties Act, 1932, on foreign goods specified in Schedule D shall not be reduced except with the consent of the Government of the Union of South Africa and that the existing preferential margin on sugar and wine (except ...) shall not be reduced without the like consent.

Article 9. The Government of the Union of South Africa will impose on foreign trade of the kind specified in Schedule F the specific duties shown in that Schedule and undertake not to make any alterations in the existing rates of duty on similar United Kingdom goods which will result in a decrease in the margin of preference now accorded.

Article 11. The Government of the Union of South Africa undertakes not to lower the existing margins of preference over similar foreign goods now accorded to the United Kingdom goods of the kinds specified in Schedule G.

South Africa is not compelled to extend preferences under the Agreement accorded to the United Kingdom to colonies under the auspices of the United Kingdom if the colonies do not extend preferences to South Africa.

Schedule A

As regards eggs, poultry, butter, cheese and other milk

6) Margin of preference means the absolute difference between the most-favoured-nation rate of duty and the preferential rate of duty for the like product and not the proportionate relation between these rates.

products, free entry for produce of the Union of South Africa will be continued for three years.

After three years, in consultation with the Union of South Africa, a revision may be made.

Schedule B

Oranges, raw	3/6 per cwt. from 1st April to 30th Nov.
Grapefruit, raw	5/- " " " " " " " "
Peaches and Nectarines, raw	14/- per cwt. from 1/12 - 31/3
Maize, flat, white	10% ad valorem throughout the year.
Butter	15/- per cwt. throughout the year.

Eggs in shell

a) Not exceeding 14 lb. in weight per hundred. 1/- per great hundred throughout the year.

Schedule D

Wattle bark and tanning extracts made therefrom.
 Maize products.
 Asbestos
 Dried fruits, other than currants, not specified in B
 Fruit preserved by chemicals or artificial heat other than fruit preserved by sugar.
 Fruit juices.
 Whale oil and whale products.
 Crayfish.
 Hake, fresh.
 Oyster-shell grit.
 Groundnuts.
 Lucerne seed.
 Kaffir-corn and meal.
 Box-wood.
 Potatoes.
 Sausage casings.
 Ostrich feathers.

Schedule E

Commodity.

Margin of preference over similar foreign goods.

Ex 19 Fish, tinned (not specially provided for)

1½d. per lb.

Cranes, Bucket Conveyors, Vacuum Cleaners, etc., also included.

Schedule F

Piece-goods, underclothing.

Schedule G.

Cheese, full-cream	Wheat
Foods.	Hops
Hosiery	Laces
Piece-goods (excluding under-clothing)	Cutlery
Iron and Steel	Lamps and lampware etc.

An important article in the agreements with other Dominions was that the imports of chilled and frozen beef, frozen mutton and lamb, bacon and ham from non-British countries would be controlled.⁷⁾

§ 1.2 Modifications of Imperial Preferences.

Imperial preferences concerning South Africa were modified in 1938 with the conclusion of the United Kingdom/United States and Canadian/United States Agreements of 1938, in terms of which the United Kingdom and Canada undertook to modify certain preferential advantages which they had received in each other's markets in return for concessions in the United States tariff, made possible by the United States Reciprocal Trade Agreements Act of 1934.

Since the Second World War the general level of imperial preference was lowered as a result of bilateral agreements with other countries, and more particularly as a result of multilateral tariff negotiations carried out under the auspices of the GATT.

The effect of imperial preference was also reduced by rising world prices which lessened the ad valorem incidence of duties

7) Reference is made to this article because it will be one of the most troublesome in any association with the European Free Trade Association, notably Denmark.

levied on a specific basis.⁸⁾

Under article I of the General Agreement on Tariffs and Trade the raising of preferences are prohibited, except with the agreement of the contracting parties.⁹⁾

§ 2 South Africa and Imperial Preferences.

Apart from products of the United Kingdom, preferences are also accorded by South Africa to a limited number of products of New Zealand¹⁰⁾, Canada¹¹⁾, Ceylon¹²⁾ and the non-self-governing areas.

The association of the Union of South Africa with imperial preferences was already examined in 1924 by the Board of Trade and Industries¹³⁾. The Board defined imperial preference as "a direct offshoot of the mercantilist policy of national state-building which existed in Europe to an intense degree during the period 1500 - 1776".¹⁴⁾ In spite of the fact that South Africa was definitely against the granting of preferences, the scheme was carried through in 1903, and a preference of 25% of the duty was granted on British goods where such goods were classified under ad valorem rates. In 1906 preference was considerably extended¹⁵⁾.

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- 8) It will be seen from the Agreement with South Africa that most of the more important margins on her produce are specific duties.
- 9) The Economist, 4th April, 1959. P.18. Preference will probably last only during the transition period of the European Economic Community (12 - 15 years).
- 10) No Agreement between South Africa and New Zealand could be traced.
- 11) Trade Agreement between the Union of South Africa and the Dominion of Canada, Treaty Series No. 12 (1932).
- 12) Trade Agreement between the Union of South Africa and the United Kingdom, Treaty series No. II (1932).
- 13) Report No. 46 of the Board of Trade and Industries, "South Africa and Imperial Preference" Pretoria, 1924.
- 14) Drs. A.J. Bruwer and M.H. de Kock were chairman and member of the Board respectively.
- 15) Idem, P.3.

The value of South African articles imported by England in 1920 on which preference was granted under the above provision amounted to £650,000, whereas imports from Great Britain into South Africa amounted to £55,700,000; on this amount rebates totalling £1,314,000 were allowed. In its report the Board directed attention to the following:

(1) The British manufacturer takes full advantage of the preference accorded by South Africa and increases his export price accordingly. In view of South Africa's traditional trade contacts with the United Kingdom and the type of products bought this point of view is important.¹⁶⁾

(2) Local importers may pocket the preference and the consumer may never see it. The amount of the preference would in this case only be a loss for the consumer and not for South Africa.

(3) Protection to South Africa's local industries are weakened by the contractual obligations. Article II of the Agreement between the Union of South Africa and the United Kingdom refers specifically to the extension of preferences under the Agreement to colonies under the auspices of the United Kingdom on a reciprocal basis. South Africa has had many problems under this article as far as protection against imports from Hong Kong is concerned.

(4) South Africa does not get a quid pro quo on the present basis of imperial preference in view of its one-sidedness. This argument was considerably weakened after the conclusion of the Agreement of 1932.

(5) The South African Treasury sacrifices a substantial amount of revenue annually largely for the benefit of the British manufacturers. This argument has also lost most of its weight,

16) Imports from the United Kingdom were mainly textiles and apparel, and machinery which are products whose output can be adapted to conditions of demand, i.e. whose prices can be determined by the seller.

as will be shown later.

(6) South Africa's discrimination under the scheme against foreign countries has made enemies. Even when a foreign country is receiving most-favoured nation treatment¹⁷⁾ from South Africa he still has to face the competition from countries enjoying preference in the South African market. Most-favoured nation treatment is thus not a strong enough incentive to expand trade relations with South Africa. Before a new trade "climate" can be created for the establishment of new economic contacts this source of discrimination must be abolished.

The following recommendations of the Board were of particular importance:

- 1) That preferences on goods from the United Kingdom and dependent British possessions should be reduced to a quid pro quo basis.
- 2) That preference should take the form of the granting of minimum rates on certain specified articles selected by negotiation with due consideration to the relative needs of Union industry, the Union Treasury and the export trade of the countries concerned.
- 3) That tariff concessions should not seriously decrease revenue earnings or cause harm to local industries.
- 4) That preference should only be allowed on British goods containing 75% of British labour and materials.
- 5) That South Africa's external tariff should be divided into: a preferential tariff for imports of Commonwealth origin; an intermediate tariff which could be used as a basis for negotiating commercial treaties with foreign countries, and a general tariff applicable to imports from other countries.

17) When a State binds itself not to give worse treatment to imports from another State than it gives to imports from any other State. Von Haberler G., Theory of International trade, Geneva, 1935. P. 363.

§ 2.1 Present Position of Imperial Preferences and South Africa.

Before making a valuation of imperial preference for South Africa, an attempt will be made to evaluate the quantitative value of preferences¹⁸⁾ accorded to and by South Africa. Any attempt to determine the quantitative value of the preferences must take account of the following problems:

1) To determine the difference between the amount which the South African exporter would get without preference and the amount which he would get with preference would not be correct, owing to the following possibilities¹⁹⁾.

(a) The value of a preference for a particular country is determined by the direction of the taxation shift, and the direction of the shift depends on the elasticity of supply and demand. If supply and demand is relatively unelastic, the burden of a tariff will be shifted on the consumer. A product of South Africa under this category is canned crawfish (see Table XX). At the other end of the extreme are raisins and sultanas in the case of which the exporter will have to carry the burden of a tariff. Most of South Africa's fruit on which a preference is enjoyed, is sold by auction with the result that the exporter will have to face the tariff duty.

(b) It is possible that the merchants or agents dealing with the product might pocket the amount of the preference.

The "normal" trade pattern may become distorted and the preference may have an influence on production standards and rationalization measures. The producer will be inclined to pay less

18) South Africa does not give non-contractual preference to any member of the British Commonwealth.

19) This is the official valuation of the preferences.

attention to production costs with the result that he may find himself in a position completely different from the "normal" position. A profit of 10% on capital outlay may be enough to satisfy stockholders, while this 10% might merely be the preference he enjoyed. It may thus be argued that preferences in a market tend to reduce competition. When competition is reduced the incentive for rationalization measures falls away with the result that the producer finds himself unable to compete, should the preferential market be disturbed by the abolition of preferences or new developments in countries which do not enjoy such preferences.

It must be assumed that several industries in South Africa will have to face this problem when the sheltered market in the United Kingdom falls away. The shock effect on the South African economy may be substantial. In this connection a more sound and realistic approach towards the effect of preference in a particular market on South African industries must also be considered. The pure distortional effect will be discussed later. The problem of determining the "normal" position makes valuation of preferences for the industry and the country of no use.

§ 2.2 A Quantitative Evaluation of Imperial Preferences for South Africa.

The year 1957 was chosen for a study of the influence and value of imperial preference, for the following reasons:

- a) The year 1957 was a more "normal" year than 1958, which was characterised by large fluctuations in the prices of most of the items traded within the Commonwealth and which enjoyed preference.
- b) United Kingdom statistics for 1958 were not yet available. This source of statistics was of great value.
- c) There would be no significant differences from year to year in respect of items traded between the countries.

Attention was paid only to trade between South Africa²⁰, the United Kingdom, Canada, New Zealand and Ceylon, for the following reasons:

- a) The Federation of the Rhodesias and Nyasaland was excluded on account of the special trade position between the territories and the existence of special trade arrangements under a separate agreement.
- b) Trade with the colonies dependent on Britain (covered by Article II of the Agreement between South Africa and the United Kingdom) is negligible and will change with the gaining of independence by these areas in the near future.

Only slight attention will be paid to Canada and New Zealand, because intra-trade between these Dominions and the Union is small and of a sporadic nature. Attention will be focused on the United Kingdom to which South Africa exported £106,576,903 out of a total of £178,044,713 exported to all Commonwealth countries in 1958, (Federation of Rhodesias and Nyasaland £49,085,113) and from which merchandise to the value of £187,446,859 was imported in 1958. (Total imports from all Commonwealth countries amount to £250,265,008). From Table XVIII and XIX it can be seen that exports of South African produce to Canada, New Zealand and Ceylon which enjoyed preferences formed a high percentage of the total exports to these countries. The same applies to imports. The relatively small importance of trade with these countries does not warrant much attention to the value of preferences as a factor contributing towards trade between them and South Africa. In many cases trade was bilateral, as in the case of South Africa and Canada. Exports to that country was dominated by the item maize which constituted

20) Trade between the Union of South Africa and the Commonwealth of Australia is regulated by Treaty Series II (1935) and only makes provision for most-favoured-nation treatment, hence no preferential treatment.

TABLE XVIII.

PREFERENCES ENJOYED BY SOUTH AFRICAN PRODUCE DURING THE YEAR 1957.

Country	Number of Export items	Value of Exports enjoying Preference	Total Exports to the Country	3 as a % of 4	Weighed value of Preference ¹⁾
(1)	(2)	(3)	(4)	(5)	(6)
<u>Contractual Preferences</u>					
		£	£		£
United Kingdom	67	45,071,553	110,103,720	40.9	4,196,783
Canada	57	1,400,500	1,709,474	81.9	105,000
New Zealand	16	118,000	1,177,289	10.0	94,000
Total		(b) £46,589,553	£112,990,483	41.2	(a) £4,395,783
(a) as a percentage of (b) 9.4					
<u>Non-Contractual Preferences</u>					
United Kingdom		9,996,245	110,103,720	9.1	1,118,512
Canada		588,000	1,709,474	34.4	31,707
New Zealand		713,038	1,177,289	60.6	116,682
Ceylon		231,701	317,896	72.8	23,826
Total		(b) £11,528,984	£113,308,379	10.2	(a) £1,299,727

(a) as a percentage of (b) 11.3

1) The absolute difference which the South African exporter will have to pay at M.F.N. rates in the different markets and the amount payable under preferential treatment.

Source: Figures for the United Kingdom were obtained from the Annual Statement of the Trade of the United Kingdom with Commonwealth Countries and Foreign Countries, 1957. Volume II, and H.M. Customs and Excise Tariff of the United Kingdom, London, 1958. Figures for the other countries were obtained from Foreign Trade Statistics, 1957, Volume II. Department of Customs and Excise, Pretoria.

TABLE XIX.

PREFERENCES ACCORDED TO THE PRODUCE OF OTHER COMMONWEALTH COUNTRIES IN THE SOUTH AFRICAN MARKET DURING THE YEAR 1957.

Country	Number of Import items	Value of Imports enjoying Preference	Total Imports from the Country	3 as a % of 4	Weighed value of Preference ¹⁾
(1)	(2)	(3)	(4)	(5)	(6)
		£	£		£
<u>Contractual Preferences</u>					
United Kingdom	-	67,158,000	179,186,930	37.5	2,801,000
Canada	-	5,800,250	16,954,844	34.2	156,000
New Zealand	-	64,000	296,341	21.6	2,000
British West Indies	-	210,000	332,741	63.1	19,850
British Non-Governing areas (Mostly in East Africa)	-	1,795,000	3,789,996	47.3	72,000
		(b) £75,027,250	£200,560,852		(a) £3,050,580

(a) as a percentage of (b) 4.1%

1) The absolute difference which the Commonwealth exporter will have to pay at M.F.N. rates in the South African market and the amount payable under preferential treatment.

Source: Department of Customs and Excise, Foreign Trade Statistics, 1957, Volume I.

38.0% of the total exports to that country in 1957 and on which the calculated value of preference was only £4509. In the case of New Zealand, prunes constituted such an item with a weight of 84% and a calculated value of only £977. The geographic factor plays an important role in the trade between the dominions. Future developments in the international sphere will force these countries to trade with the countries nearest to them, except where an absolute advantage exists. (See Map I).

§ 3 South Africa's trade with the United Kingdom.

Since 1910 the United Kingdom has without doubt been the most important trading partner of South Africa and of most other Dominions, such as New Zealand and Australia.

The reasons for this are:

- 1) Imperial preference.
- 2) Historical and political ties which have been partly the objectives of imperial preference.
- 3) The difference in the requirements of the two economies. Britain requires foodstuffs and raw materials which South Africa can supply and South Africa requires manufactures which Britain can supply.

In 1957 South Africa enjoyed contractual preference over foreign suppliers in the British market on produce worth £45.2 million, £43 million being in respect of the 29 items enumerated in Table XX. The supplying position of South Africa can also be seen from Table XX and indicates South Africa's importance as a source for Britain's purchases. This supplying position ranges from 100.0% in the case of canned crawfish to .1% in the case of unmanufactured tobacco. The difference between the 29 items in Table XV which totalled £43 million and the 67 items in Table XVIII totalling £45.2 million represents the 38 less important items with a money

value of about £2.2 million. Preference on these 38 items may at any time be offered to the British authorities in exchange for South Africa's obligations towards Britain. The abolishment of preferences on these items will pave the way for economic contacts with other countries. The psychological impact which imperial preference has on the formulators of South Africa's foreign economic policy will thus be broken and they will be compelled to formulate a new approach to compensate for advantages lost in this way. Such a change of circumstances will have a stimulating effect on the South African economy, but definite steps should be taken to establish dynamic contacts with other countries. Under the preference obligations such steps have been impossible. The importance of the 38 "dead" items in South Africa's export packet will probably decrease still further in future.

✓ Of the 29 items in Table XX butter is already in short supply in South Africa's domestic market, while the United Kingdom produces enough eggs for her domestic market as a result of her price support to the agricultural community. Although the margin of preference on canned fruit, is fairly high (12%, only 10% of which is guaranteed), the excellent natural quality of the raw material should safeguard South Africa's position.²¹⁾ The abolishment of preferences will give rise to a whole series of rationalization efforts which will lead to the improvement of standard and

21) The General Dealer, October, 1959, is the publication of an authoritative consumers' co-operative group in the United Kingdom. A survey conducted by the paper confirmed the supreme quality of South African fruit, especially peaches. The paper also mentioned a discussion with an executive of the Apricot and Peach Growers' Association in South Africa who said in an interview that the canning factories receive peaches according to grades and although they also accept under-grade peaches, they do not pay the farmers for them. A stricter control will be kept on grades this year to ensure quality and it is possible that grades may be improved. Much depend on how S.A. canners process the peaches sent to them by the farmers.

manufacturing processes. This will enable South African exporters to compete in any foreign market, something which at present they are unable to do.

The position of fresh fruit differs completely from that of any other product exported by South Africa to the United Kingdom because all fruit are sold by auction, while other products are sold by contract. There is, thus, no possibility to carry the duty burden forward to the consumer. Because of this condition special attention will now be given to the position of fresh fruit exports.

The United Kingdom is the most important market for South African fruit, especially oranges. During 1957 and 1958 the export position of oranges to this market was as follows:

1958		1957	
Quantity cwt.	Value £	Quantity cwt.	Value £
2,307,665	5,392,177	2,735,893	6,657,085
<u>56%</u>		<u>48%</u>	

Exports to the U.K. as
a % of total exports to
all countries

Source: Department of Customs and Excise,
Foreign Trade Statistics, 1958.

From Table XV it will be seen that imports by the United Kingdom of oranges from South Africa totalled 39.2% of total imports from all sources in 1957. Another 6.5% was supplied by other Commonwealth countries, which means that South Africa is the only important Commonwealth supplier. The major portion of the imports, namely 54.2%, was supplied by third countries, such as Israel and Spain. With the liberalisation of imports from the dollar areas, countries other than South Africa will be faced with competition from the United States. South Africa, however, enjoys protection in the seasonal factor.

The importance of imperial preference may be seen from the fact that duty of 3/6 per cwt was payable by third countries, while Commonwealth products entered duty free. During the years 1957 and 1958 the average price per cwt in the United Kingdom was £2.9.0. A duty of 3/6 on the proceeds at this price amounts to approximately 7% which would have to be met by the exporter if duties were payable, which is uncertain and depends on Britain's tariff policy. Any duty will be absorbed by the exporter, because sales by auction do not allow of the shift of duty to the consumer, which means that South African exporters will receive 7% less for oranges exported to this market. With the abolishment of preferences, however, duty may be abolished altogether, in which case the South African exporter will not sustain any losses. If a duty of 3/6 had been payable, an amount of about £412,890 would have been paid on the 1957 exports, which is not excessive (see Table XV). On the other hand, if a duty has been payable more fruit would probably have been sold on the European and other markets where entrance is free.

The abolishment of imperial preference on this particular and a few other products will harm South Africa's interests only if a duty on imports is maintained. The few industries which will be harmed will quickly adapt themselves to the new conditions because the extra burden will not be excessive.

The position of grapes in the market of the United Kingdom will be different because a duty of 14/- per cwt is payable by third countries. During 1957 and 1958 the export position of grapes from South Africa to the market of the United Kingdom was as follows:

1958		1957	
Quantity cwt.	Value £	Quantity cwt.	Value £
332,937	2,122,353	276,542	1,466,591

Exports to the United Kingdom as a % of exports to all countries

80%

46%

Source: Department of Customs and Excise:
Foreign Trade Statistics, 1958.

This gives a price of approximately £6.6.0. per cwt and the full duty as a percentage of the proceeds amounts to approximately 11%, which is considerably higher than that in the case of oranges. Again the position of South African produce will depend on the overall position when preferential treatment has fallen away. In 1957 South Africa delivered 46.0% of total British imports while third countries supplied 47.4% and other Commonwealth countries only 6.6%. The position without preferential treatment will depend on the level of the duty which may be abolished altogether.

An argument which counts against no duty at all is the fact that the duty will have to be carried by the South African exporters, because all sales are done by auction. There is no argument of raising the British cost of living but only a loss of revenue to the British treasury.

The position of South African fruit exports in the British market will fluctuate between these two extremes and depends on the height of the rate of duty and the prices realised by the consignments. The United Kingdom has always been and will probably remain the most important market for South African fruit.

These commodity items are the most sensitive of the 28 items which enjoy a considerable preference in the British market.

The seasonal factor makes it highly improbable that the United Kingdom will be asked by the European economic blocs to abolish imperial preferences. South Africa should be careful not to harm the interests of South African exporters as far as fruit is concerned. On the other hand, various techniques may be applied in the different fruit industries to absorb the 7% to 11% decline of proceeds which will follow if no preferential treatment is enjoyed in the United Kingdom market.

It may be wise to concentrate more on other markets in order to avoid too great a dependence on British markets. Potential markets of importance for oranges are the Sino-Soviet Bloc, the North America's, South East Asia and the African countries. South Africa will also be well advised to study the export potential of Brazil which has increased exports of oranges appreciably during 1956 and 1957, and which also lies in the Southern hemisphere, hence no seasonal protection.²²⁾

As in the case of other items in her export packet South Africa must study international developments in detail. Economic integration in Latin-America may stimulate the production of oranges considerably. Production may also be stimulated by the European Economic Community in the Belgian Congo and other associated territories. Should this happen the external foreign market for South African oranges may be seriously jeopardised. A timely study will enable the authorities to reorientate the domestic industry accordingly. The citrus industry in South Africa has flourished under the impact of the large United Kingdom market where a preference is being enjoyed, but it is still an open question whether this market has not been built up at the expense

22) Citrus Control Board, Annual Report for the period 1 February 1957, to 31 January, 1958. P.7.

of the South African consumer.

Contractual preferences were allowed by the United Kingdom on South African exports which constitute a very essential part of the raw materials and foodstuffs required by her industries and population. South Africa's position in the market of the United Kingdom is in many instances in no way dependent on these preferences. Abolishment of the preferences will in many cases lead to the improvement of production methods and the raising of quality which may only be beneficial in the long run.

South Africa does not give non-contractual preferences to exports of the United Kingdom, but enjoys non-contractual preference on nearly £10 million worth of products exported in 1957 (see Table XVIII). The United Kingdom may at any moment and without prior notification abolish these preferences which have been extended to all Commonwealth countries and which are mostly of a margin of 10%. These non-contractual preferences in particular can severely damage the South African economy by the distortion of certain economic sectors such as the hardboard industry which enjoy a non-contractual preference of 10% in the United Kingdom market and which has invested great amounts of money during the last few years to supply this particular market. The unfamiliarity of the South African public with the many catches in this intricate trade system may lead to decisions which must afterwards be seen as having been based on wrong assumptions. It is not always correct to keep the management responsible and it would be in the national interest if Government policy could be formulated to eliminate this extensive source of error.

Exports of the United Kingdom which enjoyed contractual preference in the South African market were valued at £67.2 million in 1957 and exceeded South Africa's exports enjoying similar treatment in the United Kingdom by £8 million. The preference

enjoyed by products of the United Kingdom was, however, only 4.1% and cannot be regarded as of much value in the modern world.²³⁾

Thus preference may be disregarded as a factor contributing towards the flow of trade from the United Kingdom to South Africa. The same is, however, not true in the case of a number of South African products, as will be illustrated later.

§ 3.1 The economic arguments against South Africa's participation in a sheltered²⁴⁾ market.

The dependence of South Africa on trade with another country under sheltered conditions raise the following points:

(1) The country is dangerously dependent on a market which may collapse at any moment. It is a recognised fact to-day that the United Kingdom will have to associate herself with integration movements in Western Europe. She is already involved in the European Free Trade Association where South African exports are experiencing direct competition from many member countries. The solution of the problems between the two European economic blocs will lead to closer association, irrespective of whether a particular bloc forms a complete customs union or a free trade area. Participation by the United Kingdom in such a bloc will necessitate the abolishment of most of her preferential contacts with Commonwealth

23) The surrender of the remaining preferences in the Commonwealth might involve sacrifices by the British exports to Commonwealth countries. 45% of British exports to Commonwealth countries are covered by preferences but only on a small proportion of the exports have preferences got a decisive influence. Traditional patterns of trade and investment are generally more important. Commonwealth countries are likely to go on reducing the preferences as they protect their new industries and seek markets elsewhere. The Economist, 4th April, 1959. P.18.

24) Shelter does not refer only or primarily to the existence of special trading arrangements, but also to the presence of traditional ties of a political, financial or trading character which affect the trend of investment and of old-established business connections. GATT., International Trade 1957-58, Geneva, 1959. P. 13.

countries²⁵⁾.

(2) The practice of exporting to sheltered markets acts as a brake to the installation of modern plant and the employment of modern techniques, since it reduces competition. In the long run the effect will be that competition cannot even be faced with preference.

(3) Preference in a particular market must be continually revised to fit in with a dynamic and fluid economy.

The interests of different groups within a single country or in the different countries give rise to many economic-political problems and lengthy administrative procedures.

(4) The greatest problem, and this is of particular importance to South Africa, is the distortion which is caused to particular industries in a country under the stimulus of a preference in a particular market. A classical example is the wine industry in South Africa and Australia.²⁶⁾ Conditions in this industry will be discussed as being representative of the position of several other industries, notably the pulp and hardboard industry and the wattle bark industry.

§ 3.2 The South African Wine Industry and Imperial preference.

There are at present ± 5,000 farmers engaged in the production of wine and grapes and about 150,000 acres of the most fertile soil in South Africa have been planted with some 220,000,000 vines, giving a capital layout of about £120,000, 000. The proceeds from the annual wine crop over the past ten years amounted to ± £7 million.

25) The basic objections to Britain joining the Common Market seem to be Britain's commitments to other Commonwealth countries. The growing criticism of the Ottawa Agreements voiced by Commonwealth countries and the desire of those countries to expand their trade with Europe suggest that it might not be impossible to overcome them. The problem of the harmonisation of external tariffs, which was the initial reason for proposing a free trade area, proved the most difficult technical point in the long negotiations within the O.E.E.C. The Banker, March, 1959.

26) Russel R.S., Imperial Preference, Empire Economic Union, London, 1947. P. 94.

The production of these wines is an expensive long-term project and can only be successful if wines suitable for long maturation are selected on a broad basis from wines produced for export.

South African soil and climatic conditions are highly suitable for the production of heavy wines of the port and sherry types. The production of these wines was stimulated by the margin of preference enjoyed in the market of the United Kingdom from about 1806. Production is a long-term project, as is also the case in many other industries, and could not be changed to conform to sudden reversals of tariff policy which for various reasons were imposed in the United Kingdom market in later years.

At the Ottawa Conference in 1932 an increase of 1/- in the duty on foreign light wines, i.e. from 3/- to 4/- per gallon, was decided upon, in preference to a reduction of the same magnitude in the Commonwealth rate. Commonwealth wines were thus placed on an equal footing with foreign light wines, both paying 4/- per gallon as is shown by the following statistics.

	<u>Duty on heavy wines</u>	<u>Duty on light wines</u>
Foreign	8/- per gallon	4/- per gallon
Commonwealth	<u>4/- per gallon</u>	<u>2/- per gallon</u>
Preference	4/- per gallon	2/- per gallon

This parity of duty between Commonwealth heavy wines and foreign light wines was in reality a preference in the form of alcoholic strength. Under the stimulus of this preference on heavy wines which formed about 80% of the wine consumed in the United Kingdom, Australian and South African heavy wines replaced about 4 million gallons of foreign wines of port type in this market.

Prior to 1932 imports of Commonwealth wines were negligible, but by 1939 imports from this source increased to 30% of total wine imports. Exports of South African wine showed the following pattern:

<u>Year</u>	<u>U.K. Imports of South African wine.</u> <u>Gallons.</u>
1927	245,000
1929	455,000
1931	789,000
1933	1,170,000
1935	1,190,000
1938	1,530,000

Source: Department of Customs and Excise, Annual Statements of the Trade and Shipping of the Union of South Africa, 1927-1938.

Since 1939 monetary values and prices have changed, specific preferences have decreased in value and wine duties moved as follows:

	<u>Commonwealth</u> Light;Heavy per gallon		<u>Foreign</u> Light;Heavy per gallon		Preference of Foreign light over Commonwealth heavy per gallon
1932	2/-	4/-	4/-	8/-	Parity
Increase from 1939 to 1947	21/-	36/-	21/-	36/-	15/-
	23/-	40/-	25/-	44/-	15/-
1948 duty increased on foreign heavy				6/-	
	23/-	40/-	25/-	50/-	15/-
1949 duty reduced on light wine	12/-		12/-		
duties 1949-58	11/-	40/-	13/-	50/-	27/-
1958 duty on heavy wine reduced		12/-		12/-	
1958 duties	11/-	28/-	13/-	38/-	15/-
Percentage of pre- war level	450	700	325	475	--

Source: Department of Customs and Excise, Annual Statement of the Trade and Shipping of the Union of South Africa, 1932-1955. Foreign Trade Statistics 1957-58. H.M. Customs and Excise tariff of the United Kingdom 1932, 1939, 1948, 1958.

Where Commonwealth heavy and light wines had since 1932 entered the United Kingdom on an equal footing, a preference in favour of light wines came into being as a result of simple fiscal

measures. This effect was later increased with the extension of a direct encouragement to the exporters of foreign light wines. As a result foreign light wines from 1949 to 1958 enjoyed a duty advantage over Commonwealth heavy wines of 27/- per gallon which was reduced to 15/- in 1958. With the removal of shipping and currency restrictions a gradual displacement of Commonwealth port type heavy wines in the market of the United Kingdom took place. Consumption decreased from 4,400,000 gallons in 1938 to 1,600,000 gallons in 1956/57.

The effect of these measures imposed by the United Kingdom resulted in large South African surpluses in post-war years. If production of wines were not stimulated by the original favourite preferential rate the factors of production could have been employed for the production of other products of equal value, but of a different consumption and demand situation.

The distortional effect of preferences on particular industries within a country can never be tolerated and can have widespread disturbing effects on the whole economy. It also does not contribute to the economic independence of a country such as South Africa.

§ 4 A Micro effect.

The effect of a preference on a whole industry and the distortional results may be regarded as a macro-effect and are much more serious than the effects of what may be called a micro-effect, i.e. the distortional effect on a particular firm. This problem has already been referred to. When a particular firm finds itself in a position to expand its sales in a particular market (on the strength of preference) it will almost certainly decide to increase production. Such a firm then loses sight of the fact that the preferential conditions might change under the influence of governmental action, price movements and the effect of greater demand on their production factors. It cannot be expected from the management that they

should know everything about these preferences at all times. In South Africa very few competent industrialists know anything about preferences with the result that many decisions are taken to the detriment of the future of the industry.

As a result of this growth direction, severe pressure is brought to bear on the authorities as soon as the preferences are jeopardised. Moreover, there is always pressure to increase the margin of preference in order to compensate for the dynamic movements of production conditions. For economic freedom a country such as South Africa, which already maintains severe restrictions on its economy, for social reasons, should formulate a policy to increase the freedom of the individual concern. This will have in itself a salutary effect on the national economy.

§ 5 Conclusion.

No point in South Africa's economy has been so widely debated as imperial preference but without any clear concept of its effect on trade with other Commonwealth countries. It is difficult to form an exact quantitative evaluation of imperial preference for South Africa. The following summary must, however, serve the purpose.

1) Imperial preferences have contributed to the feeling on the part of third countries of being discriminated against²⁷⁾ and have tied South Africa's hands on the application of an independent foreign economic policy.

27) Americans have for years been aiming at the abolition of imperial preference (Atlantic Charter Schedule). In May, 1943, Mr. Summer Wells, Under-secretary of State in the United States of America have declared: "The whole history of British Empire Preferences is a history of economic aggression". Russel R.S., Imperial Preference, Empire Economic Union, 1947. P.11.

2) Trade between South Africa and the United Kingdom will in future be of the same magnitude without the aid of imperial preferences. South Africa in particular is in a very good bargaining position as a result of the nearly 50% trade deficit with the United Kingdom. While imports from the United Kingdom amounted to £187.5 million in 1958, exports of South African products to the United Kingdom amounted to £106.6 million, or 57% of imports from the United Kingdom.

3) Imperial preferences have lost most of their value as a result of price movements in the post-war world and the prohibition of any increases under Article I of the GATT. The political unity of the Commonwealth will probably remain even without the aid of imperial preferences which has been its principle objective.

4) The contractual preference on many export items in South Africa's export packet are of no significant value. Non-contractual preferences are also of negligible importance and may be abolished at any moment.

The final conclusion is that South Africa is adhering to a system which has already become completely obsolete. In many instances adherence to the system has been to the detriment of independent economic development.

Before an independent foreign economic policy can be developed South Africa will have to free herself from the shackles of this empire-building device. Steps to free the country should be taken by the South African authorities, because no British monarchist will take the lead. The United Kingdom authorities may welcome such a development because it will enable her to take a fresh stand on European integration, especially in the case of the European Economic Community.

In order to surmount the political-economic position in South Africa a Commission of Enquiry should be appointed to study all aspects of the problem. Once preferences are abolished a clean sweep should be made.

Only after the abolition of imperial preferences will the South African authorities be in a position to formulate an independent and scientifically based foreign economic policy so essential to the conduct of the country's external trade.

CHAPTER VII.

SOUTH AFRICA'S TRADE AND ECONOMIC POSITION WITH REGARD TO THE EUROPEAN ECONOMIC COMMUNITY AND THE EUROPEAN FREE TRADE ASSOCIATION.

South Africa's future trade position in Europe will depend to a large extent on the eventual position between the two European Economic Blocs. The countries constituting the European Economic Community are for the most part industrial countries except the Netherlands and the South of Italy. France has a well-balanced economy and production of agricultural and industrial goods will benefit greatly by the impact of the larger market.

The European Free Trade Association also has a mixture of the two types, the United Kingdom, Sweden, Austria and Switzerland being the industrial countries, while Denmark and Norway in particular, but Portugal also, are the agricultural countries.

The trade relations between these two Blocs will, as has been argued in Chapter V, result in very close co-operation or association (see Table XVI).

Western Europe's position in the world economy and its dependence on international trade may be seen from the fact that its trade is much larger in relation to its production of goods than that of North America. It is also more diversified, both as regards commodities and geographical areas. The ratio of total imports (at f.o.b. values) to the value of production stood at 30% in 1953-55, as compared with 9% in the case of North America, i.e. the United States of America and Canada^{I)}.

I) GATT., The possible impact of the European Economic Community in particular the Common Market, upon World Trade, Geneva, 1957. P.5.

The value of imports by Western Europe as a whole was 32.2 thousand million dollars in each of the years 1953-55. Western Europe's suppliers are also much more scattered than those of North America. Fluctuations in Western Europe will therefore have a much greater impact upon the economies of primary producing countries than fluctuations in North America²⁾.

The six countries of the European Economic Community exported much more and imported somewhat less than the rest of Western Europe (European destinations and origins included³⁾.)

The degree of natural integration is already far developed, as can be seen from the above-mentioned intra-trade relations and dependence on each other's economies.

The main problem and fear of many other countries are whether these Blocs will follow a trade-diverting or trade-creating policy.

A point of considerable importance in regard to the trade-diverting or trade-creating effects of the integration movements will be the degree of inflation ruling in Western Europe during the next 12 - 15 years⁴⁾. If it is accepted that chronic inflation has been the rule during the past 40 years (with interruptions in 1930-32, 1938, 1949, 1952-53 and 1957-58), then the impact of the integration movements will probably be negligible. The integration processes will contribute to the maintenance of inflationary movements. The real problem lies in the primary producing countries, where development will not take place at a rate comparable with development in Europe as a result of many adverse factors, such as the lack of entrepreneurial ability and the relative scarcity

2) Idem, P. 6.
3) Idem, P. 13.
4) Idem, P. 12.

of other production factors. Cost-push as well as demand-pull inflation will create a large market in Western Europe.

The type of association is not important, but only the fact that a close co-operation will exist. In this chapter South Africa's position will be discussed, as seen in relation to the two Blocs individually. Conclusions will, however, be based on the assumption of a close economic contact between the two Blocs. It must be emphasised once more that the reason for the difference of opinion in Europe revolves around the following problems:

- 1) The belief of one group in a more absolute degree of integration than the other group, thus a political problem.
- 2) The Commonwealth background of Great Britain and the imperial preferences underlying this association. The traditional neutralist policy of Sweden and Switzerland and the peace treaty of Austria with the West and Soviet Russia which precludes a close association with any other country or group of countries.
- 3) The protectionist behaviour of France which will probably yield to the pressure of the other members of the Community with the advancement of the French economy on the strength of the measures recently taken by the new regime⁵⁾.
- 4) The agricultural problem of all the countries. The background of this problem is more sociological than economical and revolves around the fact that the agricultural communities in the different countries must be protected under different conditions. The adoption of a policy of integration will raise many problems as far as these agricultural communities are concerned.

5) The Financial Times, 18th July, 1959. P.7.

5 I The European Economic Community and Dependent Territories.

The treaty⁶⁾ establishing the European Economic Community is a very important and precise document and Article 3 reads as follows:

- "a) the elimination, as between Member States of customs duties and of quantitative restrictions in regard to the importation of goods, as well as of all other measures with equivalent effect;
- b) the establishment of a common customs tariff and a common commercial policy towards third countries;
- c) the abolition as between Member States of the obstacles to the free movement of persons, services and capital;
- d) the inauguration of a common transport policy;
- e) the inauguration of a common agricultural policy;
- f) the establishment of a system ensuring that competition shall not be distorted in the Common Market;
- g) the application of procedures which shall make it possible to co-ordinate the economic policies of Member States and to remedy disequilibria in their balances of payments;
- h) the approximation of their respective municipal law to the extent necessary for the functioning of the Common Market;
- i) the creation of a European Social Fund in order to improve the possibilities of employment for workers and to contribute to the raising of their standard of living;

6) Treaty establishing the European Economic Community and connected documents, Secretariat of the Interim Committee for the Common Market and Euratom, Brussels.

- j) the establishment of a European Investment Bank intended to facilitate the economic expansion of the Community through the creation of new resources;
- k) the association of overseas countries and territories with the Community with a view to increasing trade and to pursuing jointly their effort towards economic and social development".

Article 8 reads as follows: "The Common Market shall be progressively established in the course of a transitional period of twelve years.

The transitional period shall be divided into three stages of four years each; the length of each stage may be modified in accordance with the following provisions...." Article 9: "The Community shall be based upon a customs Union covering the exchange of all goods and comprising both the prohibition, as between Member States, of customs duties on importation and exportation and all charges with equivalent effect and the adoption of a common customs tariff in their relations with third countries".

The reduction of the basic duty will be carried out in steps and the first reduction of 10% was made on the 1st of January 1959. This reduction was extended to the other O.E.E.C. countries and contracting countries to the GATT, including South Africa.

Article 18 is one of the most important as far as the rest of the world is concerned and reads as follows:

"Member States hereby declare their willingness to contribute to the development of international commerce and to the reduction of barriers to trade by entering into reciprocal and mutually advantageous arrangements directed at the reduction of customs duties below the general level which they could claim

as a result of the establishment of a customs union between themselves".

The external duties under the common customs tariff shall be at the level of the arithmetic mean⁷⁾ of the duties applied in the four customs territories⁸⁾ covered by the Community. As regards France, list A contains duties under particular tariff headings for the purpose of calculating the arithmetic mean. The duties under the common customs tariff shall not exceed:

- (a) 3% in the case of products which fall under the tariff headings mentioned in list B and which include a wide variety of raw materials, including metallic ores and concentrates.
- (b) 10% in the case of products which fall under the tariff headings mentioned in list C and which include mainly simple processed materials and raw materials.
- (c) 15% in the case of products which fall under the tariff headings mentioned in list D and which include chemicals only.
- (d) 25% in the case of products which fall under the tariff headings mentioned in list E, where the tariff rate of the Benelux countries in respect of such products, contains a duty of not more than 3%, such duty shall be for the purpose of calculating the arithmetic mean be raised to 12%. This list contains a few chemicals.

7) The use of an unweighed arithmetic average for computing the common tariff may tend to produce an upward bias, if, as appears to be the case in most instances, the largest importers among the six have the lowest tariffs. GATT., Trends in the International Trade, Report by a Panel of Experts, Geneva, 1958. P. 116.

8) The Benelux countries formed by Belgium, Luxembourg and the Netherlands constitute one customs territory.

- (e) The duties applicable to products mentioned in list F shall be those laid down in this list. This list is of great importance to South Africa and contains mainly animal and plant products.
- (f) List G contains products in respect of which duties under the common customs tariff are to be negotiated between Member States. This list contains a wide variety of products.

In respect of the agricultural and marine products mentioned in Annexure II to the Treaty a common agricultural policy, as set out in the Treaty, shall be formulated. The main purpose of this policy shall be to increase agricultural productivity by developing technical aids and ensuring the rational development of agricultural production, as well as by the optimum utilization of the factors of production, particularly labour. The provisions and the aims of the common agricultural policy will be of the utmost importance to a country such as South Africa which is faced with the problem of finding outlets for her agricultural products, such as fruit, wine, maize, wattlebark extract and other products. The closest contact should be established and maintained with the community in order to safeguard South Africa's interests. The development and stimulation of particular sectors by a positive agricultural policy will constitute an acute problem to the economies of member states of the Community. Production where no comparative advantage exists will divert production factors from the more remunerative sectors to the less remunerative sectors. In this respect Italian scientists have shown that the mediterranean areas of Italy may be more economically and profitably exploited if vegetables, such as potatoes, are produced rather than fruit. The problem in this particular instance is chiefly

the high costs of manual labour⁹⁾. Many similar conditions undoubtedly exist in the Community. By the establishment of closer contacts South Africa may be in a position to make more definite supply arrangements where a greater comparative advantage is to be had. This is all the more true in fields such as mineral ore requirements. It must be emphasised that fruit production in Italy and France may form a serious threat to South African exports, even though the seasonal factor is important. Modern refrigeration and other developments can replace the dependence on South African fruit to a large extent.

In order to protect and achieve a greater utilization of agricultural factors of production Article 44 has been formulated to guarantee a system of minimum prices below which imports may be temporarily suspended or reduced or made conditional on their price being above the minimum price fixed for the product concerned. These minimum prices are applicable to member countries of the Community as well as other countries, but shall not be applied in such a manner as to be an obstacle to the development of a natural preference between the Member States. This article of the Treaty must be seen as creating an opportunity for discrimination against any country outside the Six. The creation of the European Common Market for steel did not prevent the establishment a few months later of the so-called Brussels Convention - an agreement among the steel exporters in the Common Market to fix minimum prices for the export of steel to third countries at prices above those ruling in the Community¹⁰⁾.

9) Franco Tradard, "Situation and Prospects of the Italian Vegetable sector in Relation to the Common Market", Review of the Economic Conditions in Italy, November, 1955. P.563-601.

10) GATT, The Possible Impact of the European Economic Community in particular the Common Market, upon world trade, Geneva, 1957. P.21.

Long-term agreements or contracts between exporting and importing Member States shall be pursued in order to protect the development of exchanges in respect of products for which there exist in certain Member States provisions designed to guarantee to national producers a sale of their products and a need of imports. To the extent that Member States require raw materials for the production of goods destined for export outside the Community in competition with producers in third countries, such agreements or contracts shall not be an obstacle to imports, for this purpose, of raw materials coming from third countries.

The extent to which the Treaty regulates matters of detail can be seen from Article 46 "Where in a Member State a product is the object of a national market organisation or of any internal regulation with equivalent effect, either of which affects the competitive position of a similar production in another Member State, a countervailing charge on entry shall be applied by Member States on this product when it comes from the Member State where such organisation or regulation exists, unless that State levies a countervailing charge on exit".

The Treaty also covers workers and their movements, transport, capital, rules governing competition, fiscal policies, policy relating to economic trends, balances-of-payments, commercial policies, social policy, the structure of the European Social Fund, and the European Investment Bank. In Article 131 the Member States agree to bring into association with the Community the Non-European countries and territories which have special relations with Belgium, France, Italy and the Netherlands. The dynamic qualities of the Community can clearly be seen from the scope of its articles as explained above. Any third country which do not apply such a dynamic regulatory policy will, after a few years, find that certain developments have taken place which is posing a substantial problem towards further economic contacts with this

bloc. It is of the greatest importance that such developments shall be seen and grasped in time to take the necessary steps. South Africa's contact with the bloc through the United Kingdom authorities does not present the opportunity for the active participation in the thought behind the Community. This calls for immediate revision of the present attitude towards the bloc.

The associated overseas countries and territories will enjoy all the benefits of the Community and a special attempt will be made to stimulate their development¹¹⁾.

TABLE XXI

Production, Consumption and Net Imports of Foodstuffs in the Six Countries and the rest of Western Europe, Actual 1953-55 and Prospective 1973-75.

(Thousand million dollars at 1953-55 prices).

	1953-55			1973-75		
	The six Countries	Rest of W.Europe	W.Europe as whole	The six Countries	Rest of W.Europe	W.Europe as whole
<u>Value of product.</u>	16.5	9.45	26.0	26.9	12.9	39.8
<u>Materials, raw</u>	(0.35)	(0.45)	0.8	(0.65)	(0.45)	1.1
<u>Foodstuffs</u>	16.15	9.05	25.2	26.25	12.45	38.7
<u>Net Imports</u>						
<u>Coffee, Tea, Cocoa</u>	0.65	0.75	1.4	1.0	1.0	2.0
<u>Other foodstuffs</u>	1.35	2.25	3.6	0.0	3.4	3.4
<u>Consumption</u>	18.15	12.05	30.2	27.25	16.85	44.1

Note: Prospective total food consumption is based upon an income elasticity of 0.5. Prospective agricultural production follows from (a) the condition that individual incomes in agriculture will rise in the same proportion as in other occupations,

11) The Six claimed that the arrangements for the association of their overseas territories with the Community constitute a free trade area embracing these overseas territories consistent with the articles of the GATT. Commonwealth and other outside contracting parties disputed this claim, primarily on the grounds that the provision for the associated territories to maintain or introduce protection against imports from the Community violates the conditions laid down by Article XXIV of the GATT. They maintained that this provision is contrary to the spirit of the GATT - being the extension of a preferential area to other members of the Community.

(b) the relationship between income and output per person engaged in agriculture, shown in Appendix B, and (c) an assumed 10% decline in the agricultural labour force between 1953-55 and 1973-75.

Source : GATT, The possible impact of the European Economic Community, in particular the Common Market, upon world trade, Geneva, 1957. P.32.

A study of future developments within the European Economic Community made by the GATT¹²⁾ has shown that net imports of food-stuffs by the Six will be 0.0 in 1973-75. Production of food-stuffs will increase from 16.5 thousand million dollars in 1953-55 to 26.25 thousand million dollars in 1973-75, which will satisfy the demand (see Table XXI).

As regards food imports, the most important supplying area comprises the overseas territories (including Algeria and the French overseas departments). Together they account for more than 25% of the total imports of the Six from other countries (these imports are mainly coffee, tea, cocoa, oilseeds, fat and oils, fruits, vegetables and cereals). North America and Australia are next in line of importance and supply mainly cereals and oilseeds. Latin-America supplies mainly coffee and cereals, other Western European countries meat and Spain and Israel fruit¹³⁾.

§ 1.1 South Africa and the European Economic Community.

Exports of South African produce to the members of the European Economic Community including the associated territories remained fairly constant at 21.3% of the total export packet during

12) GATT, The possible impact of the European Economic Community in particular the Common Market, upon world trade, Geneva, 1957.

13) Idem, P.22.

TABLE XXII.

EXPORTS OF SOUTH AFRICAN PRODUCE TO MEMBERS OF THE
EUROPEAN ECONOMIC COMMUNITY BY STATISTICAL CLASSES, 1958. (£'000)

	I abc	I d	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII	Total
Belgium	2277	844	34	9	-	6085	703	12	27	4	-	-	3604	4	13602
Belgian Congo	77	1041	29	-	81	422	212	26	111	134	52	271	10	99	2564
France	7788	381	111	-	-	1281	787	197	18	-	-	-	8	5	10576
Algeria	6	-	-	3	-	4	82	-	-	-	-	-	-	-	98
French Aq. Africa	2	105	2	3	-	13	-	-	-	-	-	-	-	-	126
French West Africa	-	114	-	-	-	4	-	-	3	-	-	-	-	-	124
Madagascar ...	2	32	7	-	-	7	35	-	15	5	8	-	-	5	115
Germany	6124	4799	158	-	-	2014	887	71	49	-	-	2	3	17	14127
Italy	8002	3426	5	-	3	2320	1095	46	11	-	-	-	-	4	14916
Netherlands	1263	3928	42	207	30	337	534	876	49	-	6	6	667	18	7961
	25541	14670	388	222	114	12487	4335	1228	283	143	66	279	4292	152	64209
	39.7%	22.8%	.6%	.4%	.2%	19.4%	6.7%	1.9%	.4%	.2%	.1%	.4%	6.7%	.2%	

Class I abc = Animals, Agricultural and Pastoral Products.

I d = Foodstuffs.

II = Ales, Spirits, Wines and Beverages.

III = Tobacco.

IV = Textiles, Apparel, Yarns and Fibres.

V = Metals, Metal Manufactures, Machinery and Vehicles.

VI = Minerals, Earthenware and Glassware.

VII = Oils, Waxes, Resins, Paints and Varnishes.

VIII = Drugs, Chemicals and Fertilizers.

IX = Leather, and Rubber and Manufactures thereof.

X = Wood, Cane, Wicker and Manufactures thereof.

XI = Books, paper and stationery.

XII = Jewellery, Time-pieces, Fancy goods and Musical Instruments.

XIII = General.

Source: Department of Customs and Excise, Foreign Trade Statistics, 1958.

the post-war period (see Table VI). In 1958 there was a decline to 17.9% which can be ascribed to the price decreases in respect of wool exported to this destination.

More than 62% of South Africa's exports to the European Economic Community consisted of agricultural raw materials and foodstuffs. Wool alone totalled 26.3% of all exports to the Bloc, while metals and metal ores constituted 19.4% (see Table XXII). The 19 products enumerated below represented 84% of the total exports to this Bloc (see Table XXIII).

TABLE NO. XXIII

Exports of the most important items to
the European Economic Community, 1958.
£'000.

<u>Commodity</u>	<u>Exports to the</u> <u>Community</u>	<u>External Tariff</u>
	£	%
Wool	16907	0
Maize	7869	10
Dried and preserved fruit	734	20 - 28
Oranges	2849	10
Other fruit, fresh	315	10 - 20
Lead ore concentrates	3640	Not yet determined
Chrome ore	791	3
Manganese ore	1709	3
Copper, Bar, Block and Ingot	4502	0
Asbestos, crude	2584	0
Zinc ore concentrates	425	Not yet determined
Diamonds rough	4270	do
Hides and Skins	3742	0
Wattle Bark Extract	716	3
Cellulose pulp	840	Not yet determined
Fish meal	856	5
Pines, preserved	472	24
Groundnuts	447	0
Fish body oil	731	10
Total	<u>54399</u>	

Source : (i) Department of Customs and Excise,
Foreign Trade Statistics, 1958,
Vol. II
(ii) Treaty Establishing the European
Economic Community.

The position of these exports should be maintained in the markets of these six countries; exports might even increase with increased economic activity in the Bloc. None of these products, except perhaps fruit, will be threatened by competition within the Bloc or associated territories. Many of the mineral ores are of very great importance for any increased production, while fruit is produced and delivered outside the European season.

The external tariff to be faced by South Africa's exports to the Bloc are low as may be expected in the case of materials forming a vital substance of any basic industry. Only in the case of canned and dried fruit products does the tariff exceed 15%. South Africa's exports of canned and dried fruit totalled only 1.9% of total exports to the Bloc in 1958.

It would seem, therefore, that South Africa can only gain by the integration of the six economies into one dynamic unit. This is the result, as has been shown above, of:

- 1) The low external tariff facing many South African export items.
- 2) Climatic and seasonal differences between South Africa and the European Economic Community.
- 3) Traditional trade relations with the Bloc, and
- 4) South Africa's heavy imports ¹⁴⁾ from the Bloc which totalled £115,096,000 in 1958 which is 179.2% of South Africa's exports to the Bloc. Imports from the Bloc, mainly from Germany who supplied 51.0% of total imports in 1958, have increased in the

14) The Rand Daily Mail, 23rd March, 1959. Participation of the Members of the European Economic Community in the Rand Easter Show, serves as an indication of their interest in the South African market.

post-war period from 15.6% in 1953 to 20.7% of total South African imports in 1958. This trend will maintain itself and reflects the ability of Western Europe to supply South Africa's needs as far as capital goods are concerned (see Table XXIV). This trend occurred at the expense of imports from the independent international countries (Table III).

It will be argued later that the European Economic Community constitutes the most promising field for the expansion of South Africa's trade contacts. Her position in Africa also depends on the goodwill arrangement with this Bloc, since its members are the only countries who pursue a dynamic expansionist policy with regard to their associated territories in Africa.

§ 2 The European Free Trade Association:

In sharp contrast with the European Economic Community the European Free Trade Association is a conglomerate of countries tied together by the free trade principle¹⁵⁾. The principles on which this Bloc is based, are:

- 1) The formation of a free trade area by the abolition in various stages of some of their tariffs against each other. To enable them to do this, rules of origin have been drawn up stipulating a 50% material and/or labour content. A process list has also been drawn up to exclude certain industrial branches from the Treaty. No finality has as yet been reached in regard to some vital points of the proposed Treaty which is intended as a retaliatory measure against the European Economic Community.
- 2) Each country will maintain its own external tariff against imports from other countries that are not members of the Bloc.
- 3) Escape clauses have been included to assist Portugal to protect certain industries until 1980¹⁶⁾. It is hoped that by that

15) Board of Trade Journal, 11th December, 1959. P.942-947.

16) Idem, P. 946.

TABLE XXIV.

IMPORTS INTO SOUTH AFRICA FROM THE MEMBERS OF THE
EUROPEAN ECONOMIC COMMUNITY BY STATISTICAL CLASSES, 1958 (£'000).

	I abc	I d	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII	Total
Belgium	84	29	-	-	1807	6272	204	72	693	151	4	90	21	143	9573
Belgian Congo .	8	166	-	-	138	1440	9918	195	8	-	257	-	-	2	12136
France	64	87	117	-	1443	5851	159	123	570	317	346	251	169	251	9745
French Eq. Africa	-	-	-	-	-	-	-	-	-	-	635	-	-	-	636
Germany	230	140	93	6	5008	42712	578	976	2896	872	161	960	1707	2468	58806
Italy	76	209	26	-	3780	6219	215	92	150	195	68	116	257	241	11644
Netherlands ...	455	734	23	181	4253	2838	103	400	1041	169	20	396	157	298	11068
Netherlands Anitilles	-	-	-	-	-	-	-	1482	-	-	-	-	-	-	1488
	917	1365	259	187	16429	65332	11177	3340	5358	1704	1491	1813	2311	3403	115096
	.8%	1.2%	.2%	.2%	14.3%	56.7%	9.7%	2.9%	4.7%	1.5%	1.4%	1.6%	2.0%	3.0%	

Class I abc = Animals, Agricultural and Pastoral Products.

I d = Foodstuffs.

II = Ales, Spirits, Wines and Beverages.

III = Tobacco.

IV = Textiles, Apparel, Yarns and Fibres.

V = Metals, Metal Manufactures, Machinery and Vehicles

VI = Minerals, Earthenware and Glassware.

VII = Oils, Waxes, Resins, Paints and Varnishes.

VIII = Drugs, Chemicals and Fertilizers.

IX = Leather, and Rubber and Manufactures thereof.

X = Wood, Cane, Wicker and Manufactures thereof.

XI = Books, Paper and Stationery.

XII = Jewellery, Time-pieces, Fancy goods and Musical Instruments.

XIII = General.

Source: Department of Customs and Excise, Foreign Trade Statistics, 1958, Volume I.

time these industries will be in a position to face foreign competition.

4) On account of the special considerations affecting agriculture, agricultural goods are dealt with in a separate group of articles and special provisions are made for them. The agricultural goods in question are listed in Annex D to the Convention¹⁷⁾. With the exception of a few instances, agriculture will be excluded from the provisions of the Treaty. The exceptions are bacon and cheese from Denmark to the United Kingdom and certain fish products from Norway to the United Kingdom.

5) The Treaty will ensure more economic freedom to members than is the case in the European Economic Community, and imperial preferences will not be affected.

The objectives of the Association are, firstly, to ^{be words of} promote economic expansion, full employment, productivity, rational use of resources, financial stability and a higher standard of living; secondly, to ensure that trade within the Association takes place under conditions of fair competition; thirdly, to avoid significant disparity in the supply of basic materials; and, fourthly, to contribute to the harmonious development of world trade¹⁸⁾.

In contrast to the European Economic Community no instruments, such as the direction of production factors or the development of particular sectors within the Association, are aimed at. The lack of dynamic approach in order to eliminate the existing disparity in economic growth between the different countries and between areas within specific countries will continue, while no definite integration of the monetary sectors is envisaged. Economic planning within the Association will continue without a general overall objective. The basis of the Association is nothing else than an extension of the unrealistic concept of the free trade

17) Idem, P. 945.

18) Idem, P. 941.

TABLE XXV.

EXPORTS OF SOUTH AFRICAN PRODUCE TO MEMBERS OF THE
EUROPEAN FREE TRADE ASSOCIATION BY STATISTICAL CLASSES, 1958. (£'000)

	I abc	I d	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII	Total
Austria	100	41	2	-	-	337	2	-	13	-	-	-	-	4	449
Denmark	166	234	12	-	-	6	74	-	-	-	-	-	-	2	496
Norway	34	371	67	-	-	300	44	93	6	-	-	-	-	4	920
Portugal	1305	-	-	-	-	147	83	-	-	-	-	-	-	2	1539
Angola	7	107	3	25	1	70	32	7	22	-	-	3	-	21	297
Mocambique	47	627	14	8	125	1892	933	1110	163	112	109	68	27	119	5357
Sweden	628	1017	104	-	-	175	40	-	25	-	-	-	-	7	1996
Switzerland	186	140	31	-	3	18	29	-	9	-	-	-	101	8	527
	2473	2537	233	33	129	2945	1237	1210	238	112	109	71	128	167	11631
	21.3%	21.8%	2.0%	.3%	1.1%	25.3%	10.6%	10.4%	2.0%	.9%	.9%	.6%	1.1%	1.4%	

Class I abc = Animals, Agricultural and Pastoral Products.

I d = Foodstuffs.

II = Ales, Spirits, Wines and Beverages.

III = Tobacco.

IV = Textiles, Apparel, Yarns and Fibres.

V = Metals, Metal Manufactures, Machinery and Vehicles.

VI = Minerals, Earthenware and Glassware.

VII = Oils, Waxes, Resins, Paints and Varnishes.

VIII = Drugs, Chemicals and Fertilizers.

IX = Leather, and Rubber and Manufactures thereof.

X = Wood, Cane, Wicker and Manufactures thereof.

XI = Books, Paper and Stationery.

XII = Jewellery, Time-pieces, Fancy Goods and Musical Instruments.

XIII = General.

Source: Department of Customs and Excise, Foreign Trade Statistics, 1958.

principle which will be proved to be wrong in a world divided by different social systems, stadia of development and resource allocations. This is all the more true in the countries of Western Europe with their old and obsolete industries and production techniques. The greatest advantage of the European Economic Community, namely the intensification of competition, is hindered by too many obstacles in the European Free Trade Association such as the rules of origin.

In view of the fact that each country will maintain full autonomy over its economy, South Africa should continue to establish trade contacts with each country individually. The present volume of trade will most probably be maintained, because no great dynamic expansion is expected.

§ 2.1 South Africa and the European Free Trade Association. (E.F.T.A.)

The United Kingdom was discussed in Chapter VI and will be excluded from this Bloc.

From Table XXV it can be seen that exports of South African produce to the other six members of the European Free Trade Association totalled £11,631,000 in 1958. Agricultural products and foodstuffs comprised 43.1%, metals and metal ores 25.3%, minerals, earthenware and glassware 10.6% and oils, waxes, resins and paints 10.4%. Export items of great weight in 1958 were:

	(£'000)
Goatskins	325
Sheep- and Bovine skins	301
Wattle bark	158
Wool	1344
Oranges, fresh	816
Apples, fresh	138
Grapes, fresh	163
Manganese ore	301
Copper, Bar, Block and ingot	545
Diamonds, uncut	101
Asbestos, crude	201
Exports to the Six countries (excluding Mocambique) of the main South African export items	£4,393

Source: Department of Customs and Excise,
Foreign Trade Statistics, 1958.

Most of the exports to the six countries are essential raw materials which were not obtainable elsewhere. There is no reason why imports from South Africa to the six countries of the E.F.T.A. should decrease as a result of the formation of the free trade area. Increased activity within the six countries may rather increase the demand for raw materials and foodstuffs, many of which are not produced in these countries.

In 1958 exports to Mocambique which amounted to £5,357,000, constituted nearly 50% of all exports to this Bloc. The trade position between Mocambique, Angola and Portugal (the whole area constitutes Metropolitan Portugal) is of such a nature that South African cannot to any extent depend on this market, despite the Mocambique convention¹⁹⁾.

As a result of the geographic situation of the two countries South Africa may under the protection of a trade agreement with Portugal maintain her position in this market.

Imports from the European Free Trade Area (United Kingdom excluded) totalled £29,409,000 in 1958 which is 252.5% of South Africa's exports to this Bloc, and consist mainly of metals, metal manufactures, machinery and vehicles 42.0%, wood 11.7%, and books, stationery and paper 14.9% (see Table XXVI).

South Africa is in a strong bargaining position as far as this Bloc is concerned and will most probably not lose any trade as a result of the formation of the European Free Trade Association.

19) This is the result of administrative discrimination procedures which have been followed with regular alterations to discourage trade contacts with countries other than Portugal.

TABLE XXVI.

IMPORTS INTO SOUTH AFRICA FROM THE MEMBERS OF THE
EUROPEAN FREE TRADE ASSOCIATION BY STATISTICAL CLASSES, 1958 (£'000)

	I abc	I d	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII	Total
Austria	-	16	-	-	885	1503	96	-	63	9	6	395	105	127	3209
Denmark	17	248	38	-	46	1135	18	19	222	9	30	24	23	48	1878
Norway	2	368	-	-	44	1075	30	91	43	-	153	1194	23	25	3050
Portugal	-	72	10	-	-	27	7	-	27	19	723	-	-	20	911
Angola	-	39	-	-	-	-	121	-	-	-	380	-	-	-	543
Madeira	-	-	-	-	124	-	-	-	-	-	-	-	-	-	124
Mocambique	31	214	-	-	113	38	2	277	13	-	1433	-	-	-	2126
Sweden	6	10	-	-	313	5840	77	145	222	32	712	2762	20	114	10256
Switzerland	5	107	6	-	1695	3014	21	37	651	21	9	24	1225	495	7312
	61	1074	54	-	3220	12632	372	569	1241	90	3446	4398	1396	829	29409
	.2%	3.6%	.2%		10.9%	42.0%	1.3%	1.9%	4.0%	.3%	11.7%	14.9%	4.7%	2.8%	

Class I abc = Animals, Agricultural and Pastoral Products.

I d = Foodstuffs.

II = Ales, Spirits, Wines and Beverages.

III = Tobacco.

IV = Textiles, Apparel, Yarns and Fibres.

V = Metals, Metal Manufactures, Machinery and Vehicles.

VI = Minerals, Earthenware and Glassware.

VII = Oils, Waxes, Resins, Paints and Varnishes.

VIII = Drugs, Chemicals and Fertilizers.

IX = Leather, and Rubber and Manufactures thereof.

X = Wood, Cane, Wicker and Manufactures thereof.

XI = Books, Paper and Stationery.

XII = Jewellery, Time-pieces, Fancy goods and Musical Instruments.

XIII = General.

Source: Department of Customs and Excise, Foreign Trade Statistics, 1958.

§ 3 Conclusion: B/128.

Integration movements in Europe will probably have no adverse effects on South African exports to countries who are members of these Blocs. As a result of the expansion which may be expected, an increase is possible. South Africa will, however, have to maintain her position by means of closer contact with Brussels. The integration of large parts of Africa might endanger the supply of some South African products, notably fruit and metal ores. The resources of these associated areas are much poorer than similar resources in South Africa, but social policies in the underdeveloped areas may jeopardise South Africa's exports if special efforts are not made to maintain or expand supplies. How important some form of contact with the European Economic Community is, can be seen from the fact that the United States of America, Canada, and Japan have agreed amongst themselves to increase economic consultations to guard against possible discriminatory action by Europe's new trading groups²⁰⁾. The E.E.C. announced recently that the United States of America and Canada will in future be consulted in questions of trade policy²¹⁾. South Africa as a result of her geographic situation cannot easily group with other countries but must establish direct contacts with this Bloc.

20) Rand Daily Mail, 28th January, 1960.

21) Samuel Montagu's Review of Foreign Exchange, 15th December, 1959. P.1.

CHAPTER VIII

SOUTH AFRICA'S TRADE AND ECONOMIC POSITION WITH REFERENCE TO THE SINO-SOVIET BLOC, THE LATIN-AMERICAN COUNTRIES, THE INDEPENDENT ECONOMIC COUNTRIES AND THE COUNTRIES ON THE CONTINENT OF AFRICA.

§ 1 The Sino-Soviet Bloc:

Foreign trade in the Sino-Soviet Bloc is a state monopoly and operates according to a state plan. The main purpose of foreign trade in the centrally directed economy is to fill gaps in the production programmes.¹⁾ The often erratic nature of trade with countries belonging to this Bloc reflects the institutional differences between these countries and the countries of the Western World. There are indications that the indifference of the Bloc to international trade has changed lately. The centrally directed economies have expressed their willingness in 1959 to participate in commodity agreements aimed at the stabilisation of international markets.²⁾ The Soviet Union is also desirous of increasing its exports of non-ferrous metals above the levels achieved prior to 1956-57 in order to earn additional amounts of foreign exchange required for increasing imports of equipment from Western countries.³⁾

Foreign-trade planning has developed gradually since about 1949. Soviet trade is rigidly planned and disciplined and must balance over six months periods. A so-called "swing" credit is used to finance transactions over this period. This "swing" credit is an automatic credit based on a specific upper limit, the "swing ceiling".⁴⁾ The use of this swing basis to finance imports is

1) United Nations, World Economic Survey 1958, New York, 1959.P.160.
2) Idem, P. 165.
3) Idem, P. 165.
4) Ames E., "International Trade without markets - Soviet Bloc case" in American Economic Review, December, 1954. P. 792-795.

planned to fill a budgeted gap and does not allow for adaptation to particular needs or dynamic conditions. This method of financing makes trade with this Bloc unreliable. The trade of the Sino-Soviet Bloc consists of -

- 1) Bilateral balancing of intra-bloc with extra-bloc trade.
- 2) Satellite dependence on the Soviet Union.
- 3) The integration of trading agreements with long-term planning.
- 4) Rigid scheduling of deliveries⁵⁾ under the clearing agreements.

State-controlled organisations were formed in the Bloc to handle trade internally as well as externally. These state-controlled organisations form an integral part of each manufacturing concern and production schedule.

Apart from filling the gaps in the economy, much has been written on the other motives of international trade of these countries. Up to 1956 the main purpose of trade of the group was of a political nature, i.e. to disrupt the orderly western markets by excessive selling and buying of vulnerable products such as rubber, tin, asbestos, petroleum and cereals. The political objectives were to cause hardship to particular underdeveloped countries with a view to stimulating subversive elements.

§ 1.1 The economic basis of trade by the Bloc.

One of the main characteristics of trade by Soviet Russia and China was the absence of any connection between costs and prices. This was in accordance with the long-term political aspirations of the Bloc. Trade took the form of dumping practices and did not conform to any experience known in Western countries. In many instances special legislative measures had to be adopted

5) Idem, P. 799.

in Western countries to cope with the situation.

In more recent years this attitude and operational plan was replaced by a more constructive and realistic plan. It was realised that programs of imports and exports and, subsequently, production plans should take into account the comparative cost of production in other countries, and that the price reforms taking place in several countries should provide the basis for this comparison. During the period prior to 1954, little consideration was given to the relative advantages derived from trade with the rest of the world, and trade flows were primarily determined by the pressing import demand for commodities not available within the area and by the need to secure foreign exchange for payments. The greater attention paid to comparative advantage will increase imports of several primary commodities in exchange for exports of manufactured goods. The advantage of such a pattern of trade to the centrally planned economies rests on the fact that, while the terms of trade in respect of primary products for manufactures in world trade seem to have deteriorated in recent years the opposite is true in the centrally planned economies. The much more rapid rate of industrialization in the centrally planned economies showed a tendency to increase the cost ratios of primary commodities to manufactures, as compared with the corresponding price ratios in world trade.⁶⁾

The following extract from the welcoming speech of Mr. John Diefenbaker⁷⁾, Canada's Prime Minister, to President Eisenhower in July 1958 is indicative of the conservative approach of the West towards trade with the Sino-Soviet Bloc:

"The Communist world is waging an intensive economic global offensive of "aid and trade" -- an offensive which is not designed to

6) United Nations, World Economic Survey 1958, New York, 1959. P.162.

7) Foreign Agriculture, September, 1958. P.3.

secure profits in a bookkeeping sense, nor to secure the ordinary gains of trade for its peoples, but an offensive whose success will be measured by the degree to which the souls, hearts, freedoms and aspirations of the recipients will be subverted to the purpose of communism. To meet this new and ever enlarging phase of communist cold war I believe that joint efforts are needed to expand world trade, to increase the financial base of liquid reserves necessary for such expansion, and to help in raising the standards of peoples in the underdeveloped countries ... The need is imperative. The forces of communism will not wait, for time is running out".

The error in this philosophy lies in the misunderstanding of recent developments in the centrally directed economic motives. The adoption of the comparative cost theory, as underlying and governing international trade, completely nullifies the arguments of Mr. Diefenbaker and other Western countries, including South Africa. The time has come for both groups to realise the fundamental validity of the theory of comparative cost advantages, as underlying the international movements of goods.

Supporting this point of view are the arguments advanced by Prof. W.W. Rostow⁸⁾ where he argues that Russia is seeking to convert its maturity into world primacy by postponing the advent of high mass consumption and that the responsibility rests with the West to assist with this choice between a consumption economy or a world conflict.

We find, therefore, that the outward policy of the Bloc is directed by:

1) The realisation that costs are an essential element to be reckoned with even in a centrally directed economy.

8) "Rostow on Growth" The Economist, 15th August, 1959. P.526.

- 2) The determined attempts by the Free World to resist attempts aimed at the disruption of their markets.
- 3) The difference in the backgrounds of traders under the different institutional systems.
- 4) The difficulty experienced in the financing of trade with the West.
- 5) The absolute necessity of certain goods to the economies of the Bloc, and
- 6) The dependence of some of these countries, especially Poland, Czechoslovakia and Eastern Germany, on Western European and Latin-American markets.

Trade contracts with the Free Countries have been built up under the protection of bilateral treaties in which the products to be exchanged, the volume of transactions and the means of payment are prescribed. Credit arrangements are concluded and sought with industrial countries for periods up to 18 months, while credit facilities have been extended to many underdeveloped countries such as India, Egypt and Ethiopia.⁹⁾

§ 1.2 South Africa and the Sino-Soviet Bloc:

In 1938 imports from the countries constituting the Sino-Soviet Bloc totalled 2.3% of South Africa's import packet, while exports to these countries totalled 15.6% of the export packet (Table III). During the post-war period imports remained stable at .6% of the merchandise imports in 1948, .5% in 1957 and .7% in 1958. Exports to the bloc varied between .8% of total merchandise exports in 1948, 2.0% in 1957 and 1.4% in 1958 (see Table VI).

Participation by the members of the Bloc in the Rand Easter Show of 1958, showed the interest displayed in the South African

9) GATT., International Trade 1957-58, Geneva, 1959. P.213-215.

market.¹⁰⁾ Numerous representations were also made for the admission of trade delegations, while sales agents and experts visited South Africa during the past two years to establish trade contracts.¹¹⁾

It is of no value to analyse the export and import packet to these countries against the present background. Products which the Soviet Bloc would most likely wish to purchase in South Africa range from wool, fruit, mealies and hides to mineral ores, especially those on the strategic list. Goods which they would like to sell include many of South Africa's most essential requirements, namely capital goods.¹²⁾ Merchants with whom the author has spoken, expressed great anxiety to trade with these countries. The Heller-Organisation in particular has done much to improve trade conditions between the two international entities.

An indication of the arrangements under which trade with the Soviet Bloc may be expected to increase is found in the bilateral agreement recently concluded between Soviet Russia and the United Kingdom.¹³⁾

The development of Soviet Russia during the past 50 years serves as proof that this country's progress is not dependent on the goodwill of the Free World. Nothing is to be gained by the West in their refusal to trade with countries belonging to the Sino-Soviet Bloc. A leading economist at the University of Columbia warned the West recently that Soviet Russia would expand her trade with underdeveloped countries if no other alternative existed.¹⁴⁾

10) Poland and Czechoslovakia had big and very modern showrooms at the Show and exhibited the best displays ever seen in this country.

11) Rand Daily Mail, 31st October, 1959. P.1.

12) GATT., International Trade 1957-58, Geneva, 1959. P.213.

13) Board of Trade Journal, 4th September, 1959. P.222.

14) Journal of Commerce, 28th November, 1959. P.2.

This would mean that economic contacts between these countries and the West would decline, which would be to the detriment of the West.

If the Sino-Soviet Bloc cannot lose by the absence of trade with the outside world because of her developmental pattern and large market, and if they can supply South Africa's needs and at the same time form a large market for South African products, then there is no economic reason why trade with the Bloc should not be increased. Before trade can be increased South Africa will have to follow the example of the United Kingdom by concluding bilateral agreements with individual members of the Bloc. Recent press reports have indicated the eagerness of the Bloc to increase trade with South Africa. There is no reason why the validity of the comparative cost theory should not be allowed to govern trade between South Africa and this Bloc.

Trade with China on the other hand is uncertain and the militant character of the Chinese version of the Marxist ideology does not add to optimism in this direction. The problem is aggravated by the fact that South Africa and many other Western countries do not recognise the Peking regime as the lawful government of the Chinese mainland.

§ 2 The Latin-American Countries:

For purposes of study the Latin-American countries have been divided into:

- 1) Dollar countries, viz. Bolivia, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama and Venezuela.¹⁵⁾
- 2) Non-dollar countries, viz. Argentina, Brazil, Chile, Peru, Paraguay and Uruguay.¹⁶⁾

15) United Nations, International Trade 1957-58, New York, 1959. P.130.

16) Idem, P.133.

§ 2.1 The Dollar Area of Latin-America:

Of all the different geographical regions or currency groups constituting the non-industrial areas the dollar area of Latin-America is most marked by the concentration of export earnings on a few primary products. Of the region's 1958 export income, 44% was derived from petroleum shipments alone, 40% from food products (mainly coffee, sugar, bananas and ores.¹⁷⁾ All these products are highly sensitive to trade fluctuations.

Bolivia, Mexico and Venezuela are more dependent on metals and ores for foreign exchange earnings than any other country in the area.¹⁸⁾ The metals are mainly tin, zinc, lead, copper and iron ore.

The United States of America is the main client of this area and took nearly 50% of all exports from these countries in 1958.¹⁹⁾ The present overproduction of petroleum in the world, the price and consumption problems of coffee, tin, zinc, copper and sugar will most likely have a serious effect on export earnings during the next few years.²⁰⁾

The United States of America is also the most important supplier, and supplied 65% of total imports to the area in 1958. Machinery and transport equipment constitute about 40% of all imports. Although the intra-regional trade among the dollar countries of Latin-America hardly exceeds 3% of the total value of their overall commercial exchanges, the imminent coming into force of the Multilateral Treaty of Free Trade and Central American Economic Integration marks a significant development. Apart from

17) Idem, P. 125.

18) Idem, P. 127.

19) Idem, P. 128.

20) Idem, P. 128-129.

the creation of the regional market, the five signatories - Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua - plan to embark on a policy of industrialisation in order to diversify their economies.²¹⁾

§ 2.2 Non-Dollar Countries of Latin-America:

As in the case of the dollar area, these countries suffered continuous trade deficits in the post-war years. These countries are mainly dependent on exports of copper, coffee, cereals and meat products. In order to reduce their excessive dependence on primary products and to free themselves from their extreme vulnerability to fluctuations in world demand, the economic policies in the Latin-American Republics are based on the desire to diversify their economies by industrialisation²²⁾ and the formation of a common market.²³⁾

Since the war intra-regional trade represented no more than 10% of the total trade of the area, and such trade as there is, is based on a narrow range of commodities, mainly foodstuffs such as wheat, sugar, coffee and fruit and a few raw materials such as timber, cotton and copper.²⁴⁾ It would seem that there is no disintegration of the national economies, bearing in mind the extremely low level of intra-trade between all the Latin-American countries, hence no natural integration of the different economies,²⁵⁾ although the removal of the barriers may advance interregional trade.

No attempt will be made to discuss the economies and trade of the different countries individually.

The dependence of these countries on exports of single products, such as Brazil on coffee and Chile on copper, have made

21) Idem, P. 129-131.

22) Idem, P. 132.

23) Idem, P. 133.

24) Idem, P. 134.

25) Abeln G.H.J., De Vrijhandelszone als economisch integratievorm voor West-Europa, Leiden, 1958. P.7.

these countries dependent on a number of other countries, for instance Brazil on the United States of America. Loans to this country by the United States were recently granted in order to enable her to repay previous loans; interest is high, and loans were granted conditional on Brazil buying only from the United States. American goods are priced much higher than goods which could have been obtained elsewhere, but the scarcity of international currency reserves left Brazil no choice. Exports to the United States on the other hand were made impossible by import quota restrictions. All these problems gave rise to bilateral agreements with Soviet Russia and other centrally directed countries.²⁶⁾ Whatever the political controversies between the Latin-American states, the fact must be realised that economic integration is inevitable. Under the leadership and pressure of the United States of America this will be achieved within the next decade, so that we may expect a vast economic unit with rapidly advancing industrialisation programmes. This "take-off"²⁷⁾ stage has already been achieved and is well under way, although the most important prerequisite for the take-off, namely political stability, has not yet been realised.²⁸⁾

The countries of Latin-America are beset with severe troubles, of which the melting away of foreign exchange reserves is but one manifestation. All these countries have grave international-payments problems which is the result of their dependence on one or two primary products. A quotation from Foreign Agriculture²⁹⁾ in the case of Argentina illustrates the severity and consistency of the problem. "Argentina's reserves are at their lowest point since the end of World War II. The trade deficit for 1957, will

26) Financial Times, 17th November, 1959. P.5.

27) The Economist, 15th August, 1959. P.412.

28) Idem, P.411.

29) Doering W.F., "Money Trouble in South America" in Foreign Agriculture, March, 1959. P.9.

probably exceed 1956's adverse balance of 184 million dollar. A few months ago the Government was forced for the first time to intervene in the free money market to support the peso".

The troubles of these countries in the post-war period have also grown from the highway given to inflationary forces. To quote from Foreign Agriculture³⁰⁾: "The recent price rises about which United States people have complained are insignificant compared to those of Chile. In September 1957 the cost-of-living index stood at 746, up 227 points from a year before (1953- 100). Through a comprehensive stabilisation program initiated in April 1956, the government has attempted to slow down the price spiral and has made considerable progress in many respects, but its problems have been intensified by this year's sharp brake in the price of copper".

§ 2.3 The Payments Problem of Latin-American Countries:

The countries of Latin-America have traditionally resorted to bilateral agreements to arrange their trade and have used multi-exchange rates. The particular sensitivity to world price fluctuations, especially in the case of many of their principle export items, such as copper, wool, cotton and coffee, has made these economies much more liable to balance-of-payments problems than the economies of most other countries. The dependence of the capacity to import on the value of exports and the terms of trade necessitated the application of particular payments measures which in themselves were effective in the short term, but likely to worsen the long-term prospect and financial recovery by encouraging imports and discouraging exports. The payments difficulties which Argentina had to face in 1951 were typical of the difficulties experienced by all these countries and resulted from the fundamental balance-of-payments disequilibrium which originated from the high propensity to

30) Idem, P.9.

import and the steady growth of import requirements. For a time short and medium-term foreign credits, obtained mainly under bilateral agreements, helped to relieve the situation, but the problem of liquidating these credits was not slow to rise, and by the end of 1955 Argentina found itself under the obligation to pay her creditors over a very short term, some 360 million dollars, i.e. more than 30% of the figure attained by its capacity to import.³¹⁾

More recently, under pressure of the International Monetary Fund, the International Bank for Reconstruction and the United States of America, fiscal and financial measures were taken to improve conditions. It will, however, take a long time for these countries to solve their balance-of-payments problems.

§ 2.4 Solution of the Problems of the Countries of Latin-America:

The greatest problem in the application of a policy of industrialisation in these countries which will stimulate the diversification of the economies lies in the limited local demand³²⁾ which is mainly the result of small national markets. It has already been shown that intra-trade between these countries is negligible. The formation of an integrational unit or units must be seen as a prerequisite for any future development³³⁾. Such development will require the importation of many raw materials which are not available in abundance in these countries, such as mineral ores and carbo-chemical raw materials³⁴⁾.

§ 2.5 The Trade and Economic Position of South Africa with regard to Latin-America:

From Table VI it can be seen that trade between South Africa and these countries remained constant at .8% of the export packet

31) United Nations, Economic Survey of Latin-America 1956, New York, 1957. P.43-44.

32) Idem, P.75.

33) United Nations Review, October, 1959. P.36-37.

34) Idem, P.37.

in 1948 and .6% in 1958. Imports fluctuated from 1.1% in 1938 to .9% in 1958 (see Table III). Imports during the years 1948 and 1953 were higher on account of greater imports of petroleum and coffee.

The insignificance of this trade must be ascribed to the payments and trade systems of the Latin-American countries, especially the dependence on bilateral agreements which mainly took the form of barter agreements.

The importance of this market to the upcoming South African manufacturing industry can no longer be neglected. Many raw materials may be imported from this source, while exports of raw materials and capital goods can be increased. High prices of many of these items in the different Latin-American markets as a result of the continuous and heavy inflationary movements should ensure a market for South Africa's exports.

A prerequisite for trade between the two entities will be a new approach to the payments problems, as experienced by these countries.

Any development plans for these countries will have to take into consideration the precarious position of their international reserves. For the application of industrialisation plans use will have to be made of bilateral agreements. Only under the provisions of these agreements will it be possible to establish trade contacts with these countries. Again South Africa should consider a revision of her external economic policy in order to create the conditions necessary for the promotion of trade with the Latin-American countries. If this is not done, trade will probably continue to follow the present pattern. The importance of this market, once the countries have been united in a single economic unit, necessitates a special approach.

Most of the countries of South America are geographically much closer to South Africa than to Europe, Soviet Russia, Japan, Australia, the United States of America and Canada. Shipping facilities exist, although these may be improved. These facilities will probably expand with an increase of cargo space.

South Africa's foreign representation in the Latin-American continent can be neglected. No representation by the Department of Commerce and Industry exists. All trade contacts are handled by the three offices staffed by diplomats of the Department of External Affairs. Their offices are in Argentina, Brazil and Chile.³⁵⁾ If this representation is compared with external trade representation in Europe³⁶⁾, important deductions may be made about trade policy in respect of the countries of Latin-America.

Although risks exist which must be taken into account, the credit insurance scheme operated by the South African Government in co-operation with an insurance group eliminates the political and economic risks completely, so that no exporter should be afraid of the ordinary commercial risks.

§ 3.0 The Independent Countries.³⁷⁾

These countries are absolutely sovereign and have given no indication of willingness to belong to any group of countries. Some of them such as the United States of America, are very nearly self-supporting, with in- and exports forming less than 5% of the national income. (Table IX). Other members, such as Japan, are highly dependent on the outside world for their raw material requirements as well as markets for their exports. Taken as a whole,

35) Commerce and Industry, December, 1959.

36) 12 offices in Europe are being maintained.

37) The same countries were used throughout the period 1938-1958.

South Africa's exports to the members of this group decreased from 37.5% in 1938 to 9.1% in 1953, but increased again to 10.8% in 1958. Imports from these countries, on the other hand, increased from 24.4% in 1938 to 27.6% in 1954, but then decreased to 22.5% in 1958.

In 1938 78.3% of South Africa's imports from this group of countries came from the United States of America. As a result of the destruction of Western Europe this figure rose to 94.3% in 1948, but declined since then to 77.8% in 1958. The increasing ability of Western Europe to supply South Africa's needs as far as heavy machinery is concerned, will maintain this trend. Certain Eastern European countries have stimulated this trend, especially Czechoslovakia and Poland. Imports from Japan, the other important country in this group, declined from 13.2% in 1938 to 11.6% in 1958. Together the United States of America and Japan supply ± 90% of South Africa's imports from this group.

TABLE XXVII

Imports by statistical classes from the U.S.A.
and Japan during 1958.1)

	Iabc	Id	IV	V	VI	VII (€0,000)		VIII	IX	X	XI	XII	XIII	Total
.S.A.	52	-	1716	4996	107	669	684	337 ¹	202	399	72	421	9735	
apan	.7	17	1033	166	51	1	3	7	46	9	79	43	1456	

1) Imports under statistical classes II and III were negligible.

Source: Department of Customs and Excise. Foreign Trade Statistics, 1958.

Of the total imports from Japan in 1958, 70.9% was in respect of textiles, apparel, yarns and fibres and 11.3% in respect of metals, metal manufactures, machinery and vehicles. Imports from the United States were more diversified with textiles, apparel, yarns and fibres 17.6%, metal manufactures, machinery and vehicles 51.3%, oils, waxes, resin, paints and varnishes

6.9% and drugs, chemicals and fertilizers 7% (see Table XXVII). The importation of these relatively more expensive³⁸⁾ items indicate an absolute advantage in consumer behaviour in favour of the United States of America. In 1958 motor cars to a value of £15½ million, or 16% of total imports from this source, were the most important commodity item. Imports were very evenly spread over a large number of commodity items. During the whole period 1948 to 1958, however, the importance of the United States of America as a supplier to South Africa decreased. This happened to the advantage of the other major suppliers.

TABLE XXVIII

Imports of Rayon Piece-goods, Woven, from the
United States of America and Japan.

	Percentages of total imports of the item.							
	<u>1958</u>	<u>1957</u>	<u>1956</u>	<u>1955</u>	<u>1954</u>	<u>1953</u>	<u>1952</u>	<u>1951</u>
Japan	44.6	49.2	40.8	34.6	36.2	29.7	19.7	18.2
U.S.A.	19.0	14.8	16.1	21.3	19.7	17.6	27.3	16.5

Source: Department of Customs and Excise. Foreign Trade Statistics, 1958.

This trend, shown in respect of rayon piece-goods (see Table XXVIII) was also evident in respect of many other commodities and may be attributed to:

- (a) Inflationary movements in the United States of America.
- (b) Competition from other countries (in this instance the low labour-cost Japan) which grew steadily during the post-war period.
- (c) Differences in consumer tastes in South Africa and the United States of America. The preference of the South African consumer for the smaller continental car is an example.
- (d) The high exchange rate of the dollar.
- (e) Geographical location of the two countries.

38) The rate of exchange of the U.S. dollar re the South African pound is 2.80 since devaluation in 1949.

Exports of South African produce to these countries changed from 37.5% of total exports in 1938 to 9.1% in 1953 and 10.8% in 1958. Again Japan and the United States of America were the most important recipients, taking 11.0% and 71.0% respectively. In 1938 these two countries took nearly 95.0% of the total exports to countries of this group.

The position of South Africa with regard to the United States of America has been fairly constant and exports include mainly wool, mineral ores and diamonds. The position is not likely to change appreciably, bearing in mind the fact that the American economy is practically self-supporting. The position in the case of Japan leaves much room for improvement, because the country is a large importer of raw materials and mineral ores. A delegation visited South Africa recently with this purpose in mind but had to direct their attention to the Federation of Rhodesia and Nyassaland because South Africa could not supply the required metals.³⁹⁾

The United States of America has reached a stage where certain mineral resources are almost depleted.⁴⁰⁾ South Africa is in a unique position to supply this demand, but will have to plan so in advance.

A few other South African products are kept from the United States market as a result of the application of very strict health regulations. These regulations have been described as nothing less than import prohibitions and will compel South African exporters to maintain rigorous standards of quality and packing.

The United States of America is, not likely however, to expand her imports of South African goods appreciably. The reasons will be discussed in Chapter IX and revolve around the protectionist tendency which has always dominated the American economic scene. Only

39) Metal Bulletin, 11th December, 1959. P.16.

40) Harvard Business Review, Volume 37, No.3. P.42.

by maintaining the highest standards and quality can exports be increased. No special foreign policy is required, because both countries believe in the same trade principles, except that South Africa should formulate a more aggressive policy as far as barter agreements with the United States is concerned. Many of the provisions of laws, such as Public Law No. 480, are clearly very aggressive and discriminatory in effect.

South Africa is one of the countries that invoked Article XXXV of the GATT. against Japan. This has given rise to many international disputes and the forfeiting of an opportunity to conclude a bilateral agreement.

South African trade policy towards Japan should be changed by the conclusion of a bilateral trade agreement on the lines of the Australian-New Zealand/Japan Trade Agreements of 1957. Under these agreements Japan agreed to accord to Australia and New Zealand most-favoured nation treatment and non-discriminatory import control treatment.⁴¹⁾ Japan also undertook to maintain the present duty-free entry of Australian and New Zealand wool for three years. In addition, 90% of Japan's total foreign exchange allocation for wool will be in the form of a global quota available for Australian and New Zealand wool and Japan will not restrict the total exchange allocation for wool beyond the extent necessary to safeguard its balance of payments. Reasonable access to the Japanese market was also secured for Australian and New Zealand wheat, barley, sugar, tallow, hides, skimmilk and dried vine fruits.

Australia and New Zealand accord Japan most-favoured and non-discriminatory import control treatment. An important condition in the agreements is that Japanese exports must not jeopardise Australian and New Zealand industries.

41) Japan usually maintains a system of bilateral trade agreements and exchange allocation agreements with other countries.

South Africa cannot hope to expand exports to Japan in competition with countries which conclude the above-mentioned agreements. No economic reasons can be advanced against the conclusion of a bilateral trade agreement to replace the invocation of Article XXXV of the GATT.

Japan is one of the great consumers of the type of primary product which constituted 60% of South Africa's export packet and in respect of which South Africa enjoys a substantial comparative advantage, namely mineral ores.

Japan is another country who uses state-trading enterprises to conduct her international trade. The absence of the juridical basis on which these enterprises function cannot contribute to the development of exports from South Africa.

§ 4 Countries on the Continent of Africa:

Throughout this thesis the fact has emerged clearly that trade between countries is accelerated and enlarged where transportation costs are a minimum. More important than costs, however, is the time factor. The method of trading, particularly in Africa where traders do not have large cash and credit resources at their disposal has been of the minimum stock carrying type. A quick replenishment saves money locked up in stock. In order to carry a minimum stock, fast transport and immediate despatch must be relied upon. The manufacturer is also in a better position to study particular tastes and customs affecting the marketing of his products in neighbouring countries.⁴²⁾ Interregional trade between neighbouring countries is actually an integration process, since the regions bordering on each other cannot economically be separated

42) Board of Trade Journal, 6th November, 1959. P.708, described the Bantu in Africa as the most conservative buyer in the world.

by artificial boundaries. This fact has been recognised by the GATT. and Article XXIV has been formulated to make provision for frontier traffic.

In the post-war period many political disturbances spread over Africa. Several States gained independence, namely Liberia, Guinea, and Ghana. During 1960 Nigeria, the French and British Cameroons and French Togoland will gain independence, while many other countries are in various stages of independence. With the rising tide of nationalism there has also emerged a growing realisation of the need of industrialisation and development. South Africa has however, remained blissfully unaware of this phenomenon. In 1957 total exports of South African produce to countries on the Continent of Africa totalled £78 million, £58 million of which went to the Federation of the Rhodesias and Nyassaland, £5 million to Mocambique and £5½ million to Angola and the Belgian Congo. If the Federation is excluded, only £20 million or 5% of the total export packet went to these countries (see Table XXIX). During the same period exports of produce from the United States of America to these countries (South Africa excluded) totalled £100 million.⁴³⁾ During the same period South Africa imported only £36 million worth of raw materials and manufactures from these countries. Again the Federation of the Rhodesias and Nyassaland with a total of £13½ million or 38%, the Belgian Congo with £9½ million or 29%, Angola with £5.2 million or 14% and Mocambique with 2.7 million or 7.0% were the most important countries. If the Central African territories are excluded, trade with the other territories is negligible. Trade with the East African countries are more important than trade with the West African countries.⁴⁴⁾

43) Mancure R.C., "Africa South of the Sahara" Foreign Agriculture, June, 1959. P.4.

44) Naude P.T., Afrika (uitgesonderd die Unie van Suid Afrika) as afsetgebied vir Suid-Afrikaanse Primêre en Sekondêre Produkte Unpublished M.Comm thesis, University of Potchefstroom, 1955. P.188.

TABLE NO. XXIX.

TOTAL IN- AND EXPORTS (MONEY VALUES) IN RESPECT OF
COUNTRIES ON THE CONTINENT OF AFRICA FOR THE YEAR 1957
(MADAGASCAR INCLUDED. £'000,000)

	<u>Imports.</u>	<u>Exports.</u>
Angola	44.2	41.3
Tunis	62.6	53.2
Tanganyika	34.5	49.1
Algeria	377.9	168.0
The Sudan	64.6	49.0
Belgian Congo	155.7	173.2
Egypt	187.3	175.9
Ethiopia and Eritrea	26.1	33.4
French Cameroons	35.8	34.3
French Equatorial Africa	54.5	36.4
French West Africa	152.5	119.8
Ghana	96.6	96.6
Kenya	88.0	41.3
Madagascar	61.9	41.7
Mauritius	19.2	25.3
Morocco	146.4	116.0
Mocambique	36.8	22.8
Nigeria	152.6	127.5
Fed. of the Rhod. & Nyassaland	177.5	156.1
Union of South Africa	<u>550.0</u>	<u>453.0</u>
Total ...	<u>2524.7</u>	<u>2013.9</u>
Total (excluding S.A.)	<u>1973.7</u>	<u>1560.9</u>
Total (excl. S.A. and the Fed. of the Rhod. & Nyassaland)	<u>1796.2</u>	<u>1404.8</u>
S.A. exports to the Fed. of the Rhod. & Nyassaland	58.0	
S.A. exports to countries other than the Fed. of the Rhod. & Nyassaland	20.0	
S.A. exports to African countries as a % of total African imports (S.A. excl.)	3.95%	
S.A. exports to African countries as a % of total African imports (S.A. and the Fed. of the Rhod. & Nyas- saland excl.)	1.01%	

Source: United Nations Direction of International
Trade, Series T. Volume IX, No. 10, New
York, 1958.

Exports of South African produce to these countries increased from 9.3% of the total export packet in 1938 to 21.9% in 1949, but declined since then to the present level of 19.0% (see Table VI).

Imports from those countries advanced from 1.1% of the total import packet in 1938 to 8.5% in 1954, but declined since then to 6.3% in 1958 (see Table III).

The overall trend since 1953-54, has been in a declining direction and is in sharp contrast with the rate of development in the rest of Africa. This alarming state of affairs can be attributed to:

- 1) Prejudice against South African produce, poor packing and insufficient transport facilities.⁴⁵⁾ The fact that trade with the neighbouring countries is more developed than trade with the more distant countries may indicate the importance of the geographical factor.
- 2) The rising tide of nationalism and the attitude of the African leaders against colonialism and the European.
- 3) The economic and political isolation of South Africa as far as development schemes in the rest of Africa are concerned. South Africa has not participated financially in any scheme anywhere in Africa. Expenditure of a few million pounds in the post-war years might have been a very wise investment. It certainly would have advertised the country's potential on the Continent of Africa. It has been speculated recently by Ministers that South Africa is emerging as the workshop of Africa,⁴⁶⁾ but this knowledge does not exist outside the boundaries of this country. South Africa is in a unique position to assist the rest of Africa technologically. The presence of many agricultural scientists, veterinary facilities

45) Idem, P. 193.

46) Idem, P. 194.

and numerous highly specialised institutions which do not exist elsewhere in Africa can be of the utmost importance in the formulation and application of a positive Pan-African policy. The financial implications could be regarded as advertising costs or research expenses.

✓4) The low rate of development and the inequality of such development in the different countries on the Continent. Only in the Southern Congo, the two Rhodesias and South Africa has investment exceeded the minimum requirement of 15% of national income.⁴⁷⁾ But even if cognisance of this fact is taken, it remains true that total exports of countries on the Continent in 1957 totalled £2,014 million, while imports totalled £2,524 million. South Africa's share in the imports of these countries was only 3.95% in 1957. If the Federation of the Rhodesias and Nyassaland is excluded, exports from South Africa as a percentage of their total imports amounted to only 1.01% in 1957.⁴⁸⁾ Of an export packet of £2,014 million for the whole Continent of Africa in 1957, South Africa's share was £453.0 million or 22.5%, while her share of the import packet of £2,524 million in 1957 amounted to £550 million or 21.8% (see Table XXIX). Agriculture in Africa is caught in a vicious circle - it cannot be more productive without greatly increased capital investment but it cannot produce the capital until it becomes more productive.⁴⁹⁾

It has been said repeatedly that Japan and other low-cost countries will constitute a formidable threat to South African exports to Africa and that the small market does not deserve much attention.⁵⁰⁾ This argument rests on a fallacy as far as the

47) The Economist, 13th December, 1959. P.6.

48) United Nations, Direction of international trade, Volume IX No.9 Series I, New York 1958.

49) The Economist, 13th December, 1959. P.15.

50) Marais M.D., "Historiese, Huidige en Toekomstpatroon van Wêreldhandel", Jaarverslag van die Ekonomiese Instituut (F.A.K.) 30th June, 1959. P.47.

economic basis of the rapidly emerging independent African states are concerned. The Bantu of Africa has been described as the most discriminatory buyer in the world. To quote from the report of a leading firm of advertising agents: "The African is prepared to spend money on quality because he associates it with prestige. The African preference for fat American cars reflects his desire for status which he finds in the Cadillac and the Buick".⁵¹⁾

Studies in the United States of America have shown the same buyers' attitude in respect of the American Negro. The famous Tomlinson report⁵²⁾ underwrites this inherent quality. Dr. Marais disproves himself by saying that Britain still leads Japan. Studies by the author have shown that exports by the United Kingdom to the three East African territories, Kenya, Tanganyika and Uganda, totalled £27.9 million in 1958, as against exports of £4½ million by Japan for the same year, Britain in particular selling only quality goods. Recently the following advice on the African market was given to British exporters by a leading trade expert: "British exporters should take advantage of the new and undoubted opportunities for British manufacturers over an ever-broadening range of goods. Goods have to be keenly competitive, keeping an eye open for new potentialities if familiar lines grow impractical".⁵³⁾ South Africa's external trade representatives confirmed the above arguments by statements that many shops over the Continent of Africa only stock and sell the best quality goods.

It has been one of the greatest problems of low-cost countries to maintain quality.

In future many of the new independent countries in Africa, with the aid of highly developed countries, will embark on a policy

51) The Financial Mail, 22 January, 1960. P. 58.

52) Report of the Commission of enquiry into the socio-economic development of the Bantu-areas within the Union of South Africa, U. 61/1955. P. 90-94.

53) Financial Times. 5th January, 1960. P. 6.

of industrial protection in order to encourage economic development. The first countries to suffer will be the industrial low-cost countries, because the low grade products which they supply are those which the African countries will most probably manufacture in the beginning. Such programs will increase the demand for durable capital goods in which South Africa should specialise, not only in mass production, but also in the studying of the individual needs of countries on the Continent. Any attempt to treat the African market collectively is bound to fail. To quote further from the Financial Times: "The report of the United Kingdom Trade and Industrial Mission of Ghana had underlain the change in the pattern of trade which would emerge as the Ghanaian development plan of industrialisation got under way".⁵⁴⁾

The present tendency in trade thought, to evaluate a particular market just on its immediate prospects, must be discontinued. This is one of the most important lessons to be learned in a world characterised by upcoming economic power groups and awakening nationalism in Africa. South Africa will act opportunely, by making a detailed study of the African market.

The concept of "Konsumorientierung" discussed in Chapter III applies particularly in the case of Africa in view of the ever changing taste of the Bantu. For this very reason South African industries may find it necessary to establish branches in other African countries. A foreign financial aid program will protect these industries. Before such a policy can be applied, however, a detailed study should again be carried out. The question is whether the facilities for such a study exist. This will be discussed in the next pages.

54) Idem, P.6.

5) The very low level of foreign representation in Africa.

TABLE XXXForeign Representation in
Africa.¹⁾

	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>V</u>	<u>VI</u>	<u>VII</u>	<u>VIII</u>	<u>IX</u>	<u>Total</u>
South Africa		1	3	3	1	2	2			12
U.S.A.	9			13	9		11		4	46
United Kingdom	7		2	9	14	5		7	5	49
Belgium	4	1		7	13			2		27
Portugal	1	3		2	44			2		52
Canada	1		1			2			1	5
Australia			2							2
Soviet Union	5			1			1			7
France	8			4	18			3	1	34

- I Ambassadors
- II Ministers
- III High Commissioners
- IV Consuls-General
- V Consuls and Vice Consuls
- VI Trade Commissioners
- VII Information Officers
- VIII Governors-General and Governors
- IX Attaches, Advisers and Counsellors.

- 1) Since May 1959 other countries have increased their representation, notably the Soviet Union, Western Germany and Eastern Germany.

Source: The South African Information Service,
Fact Paper No. 72, Pretoria, May 1959.
P.8.

A comparison of the figures in Table XXX shows a serious lack of representation as far as South Africa is concerned. None of the suggestions such as African aid programs or African study projects can be undertaken with 12 representatives in the rest of Africa. South Africa's foreign representation in Africa alone will at least have to be increased to compare with that of the United States of America and Britain. The Japanese, the Germans and others are snatching the vast African market while South Africa concentrates mainly on the market of the United Kingdom. The Union also has not sent a trade mission outside the country for the last 15

years, while Australia, for example, has sent three to Africa alone.⁵⁵⁾

Conclusion.

The countries belonging to the Sino-Soviet Bloc, the Latin-American Bloc, the Independent International Countries and countries on the Continent of Africa present formidable problems to South Africa's international trade. Trade with these countries is negligible, except in the case of a few countries such as the United States of America, Japan and the Federation of the Rhodesias and Nyassaland.

This small trade coincides with South Africa's foreign representation in these areas and must be seen as the result of South Africa's rigid foreign economic policy.

The countries and blocs which have been discussed in this chapter are probably the areas which will show the greatest economic growth in future. These countries will need raw materials and durable capital goods to an extent never experienced before.

To increase trade with them will, however, require a re-orientation of the existing foreign economic policy of the Union, and especially a revision of her attitude towards bilateral agreements. These countries are especially important now that the traditional trading areas of South Africa have been disturbed by economic integration movements which may create greater self-support or combinations with other primary producing countries.

Most of these countries are confronted with special circumstances calling for different and dynamic approaches. South Africa will have to reformulate her external economic policy in order to improve contact with these countries. Apart from the absolute essentiality of such an approach to supplement the limited

55) The Star, 5th November, 1959. P.1.

domestic market she will have' to realise that a dogmatic approach to the question of the intense and interrelated complex economic world situation confronting her, is of very little use.

CHAPTER IX

A BRIEF SURVEY OF POSSIBLE FUTURE INTERNATIONAL ECONOMIC DEVELOPMENTS:

Regional developments have been described in Chapter V and in this chapter attention will be confined to the complex situation regarding international co-operation, regional investment, national economic policies, changes in the consumption pattern and likely technological trends of particular importance to the matter under discussion.

Developments in this respect is important for the arguments advanced so far, because they are all influenced by events in the international sphere. Thus the success and future attitude of the contracting parties to the GATT will determine the success of tariff negotiations. The strength of the GATT will also determine the degree of agricultural support measures which, in turn, will determine the prices South Africa and other primary producing countries may expect for their main export commodities. The agricultural and import policies of the economic blocs are of particular importance in this respect, because these countries are in a position to exert the greatest pressure on the GATT and other international organisations. If no relief can be obtained through the GATT., however, other policies will have to be formulated in order to cope with the problems posed by developments such as price support measures.

Small and relatively underdeveloped countries, such as South Africa, that are highly dependent on international trade are affected much sooner by developments in the international economic sphere than less dependent countries, because the internal economy must continually be forced in the direction indicated by world events. If all the industrial countries should for instance embark

on a policy of maize or fruit cultivation, then South Africa would have to divert her production factors to other sectors, such as, for example, the production of corn and meat.

The attitude and success of international organisations such as the GATT will depend to a large extent on the economic policy followed by the United States of America and to a lesser extent on that followed by the United Kingdom and Germany. With the present integrational movements other important power blocs will make themselves felt. The result may either be a moderation or an intensification of American restrictive policies. The policy of the strong countries may be expected to be selfish and of a short-term nature. The United States may for example follow a policy aimed at the correction of her balance-of-payments problems.¹⁾

Apart from the attitude of members of the different world organisations, the basic philosophy underlying these organisations must also be considered. If the basic philosophy should rest on a principle such as free trade which cannot be accepted as valid under present conditions, then nothing can be expected from these organisations. As a matter of fact, an economic policy should then be followed which will neutralise the harmful effects of these international organisations.

In this chapter it will be shown that the restrictive trend in the United States will probably gain strength with the result that the GATT will be weakened. It will also be argued that the philosophy underlying the GATT is wrong and that the other international institutions, such as the International Monetary Fund and the International Bank, cannot really be expected to solve the problem of the present disparity between developed and underdeveloped countries.

1) Journal of Commerce, 28th November, 1959. P.1.

Trends in consumption patterns will strengthen or weaken other economic trends. So, for example, an increase in the consumption of wool may neutralise the effect of price-support measures, or an increase in the production of copper may reduce copper prices with the result that the consumption of aluminium will decrease. Technological developments may increase or reduce the consumption effects already mentioned.

The results of all these factors constitute the grounds on which a country such as South Africa will have to base its foreign policy. It has already been shown in Chapter IV that South Africa is highly dependent on world trade and that in the case of effects of international developments on the South African economy will be more pronounced than other countries, because of this high degree of interdependence. To safeguard her export and import packets her external economic policy should be formulated in such a way that it will soften the impact of disturbances which may follow. If this is not done the shock effects might cause violent fluctuations in the national economy.

The complexity of the post-war economic environment and the dynamic pattern of this environment must be approached with the greatest degree of abstraction. Any attempt at approaching the problem empirically is bound to end in a mass entanglement of detail and too great a dependence on assumptions.

The post-war era is characterised by rigid international co-operation and deliberate directive efforts on a world-wide basis. The human element has been the decisive factor in the development of many regions and countries and the rigidity of this factor has added to the problems in these areas. A prerequisite for economic development is political stability²⁾ and no other period of world

2) United Nations Review, March, 1959. P.22.

history has been characterised by the turmoil peculiar to the period under review. In this connection attention need only be drawn to:

- 1) The advancement made by the Marxist ideology and the resultant events in large parts of Asia and Europe.
- 2) The awakening of nationalism in Africa.
- 3) The many international programmes projected by the Free World to safeguard its position and the far-reaching effects of these programmes on economic trends and development:
 - (a) The Marshall-aid fostered by the United States of America to help a war-stricken Europe.
 - (b) The political unification of Western Europe.
 - (c) The armament programmes and their stimulating effect on the employment of resources and the diversion of investment from underdeveloped to military and prestige projects.
- 4) The dissatisfaction of masses of people in Africa and Asia with existing conditions and their desire to industrialise in spite of the fact that the entrepreneurial element hardly exists.

§ 1 International Co-operation and Future Developments.

Co-operation on an international economic level forms the basis of the General Agreement on Tariffs and Trade, the International Monetary Fund and the International Bank for Reconstruction and Development.

§ 1.1.a) The General Agreement on Tariffs and Trade³⁾

The General Agreement on Tariffs and Trade was concluded in 1947 and there are at present 37 contracting parties. The Agreement is based on juridical principles with the "General Most-favoured-Nation Treatment" principle as slogan⁴⁾, and aims at the reduction

3) GATT, Basic Instruments and Selected Documents, Geneva, 1952.

4) Idem, Article I.

or elimination of tariffs on a reciprocal basis.⁵⁾ No preferences are to be extended between contracting parties and no discriminatory measures are allowed, except for balance-of-payments reasons⁶⁾ or for the fostering of economic development⁷⁾. Provision has been made for escape clauses and the waiver of particular obligations in certain cases by the contracting parties. Provision has also been made for integration movements on a full customs or free-trade basis.⁸⁾

No Member is allowed to frustrate any of the articles by the application of particular measures, such as the levying of taxes on imports or imports from a particular country, or discriminatory administrative or quantitative restrictions.⁹⁾ Contracting parties are required to assemble (since 1959 biannually) to conduct such affairs as they may deem necessary.

The Agreement does not provide for a permanent staff or institution and suffers from the disadvantage that all business must be concluded within the two assembling periods. All attempts to place it on a more permanent footing (vide the formation of an International Trade Organisation) have met with failure.¹⁰⁾

The functioning of the GATT was only satisfactory at the beginning. The first round of tariff negotiations was fairly successful, but the rigid juridical basis of the GATT has lately proved to totally inadequate for the regulation of world trade on the free-trade principle. Many countries adopted and applied measures,¹¹⁾ particularly in the agricultural field, which were inconsistent with the GATT philosophy embracing the free-trade principle.

5) Idem, Article XXVIII bis.

6) Idem, Article XII.

7) Idem, Article XVIII.

8) Idem, Article XXIV.

9) Idem, Article XIII.

10) Wijnholds H.W.J., International Trade and Payments, Pretoria, 1955. P.163.

11) GATT, Trends in International Trade, Geneva, 1958. P.10 para 53.

Many of the countries stimulated production by the application of price-support measures. The effect was particularly noticeable in the case of industrial countries; imports especially of primary products, from underdeveloped countries¹²⁾ decreased. This resulted in large surpluses in certain countries which casted a shadow on international markets.¹³⁾ In 1958 three committees were appointed¹⁴⁾ by the GATT to examine respectively:

- (1) The possibility of tariff reductions.
- (2) The application of non-tariff measures for the protection of agriculture.
- (3) The question of other obstacles to trade with particular reference to the problems of the less-developed countries.

All the contracting parties apply certain measures in this direction and it is hard to see on what basis a reduction can be obtained. The problem is aggravated by the social and political implications which it embodies.¹⁵⁾

Another instance where the GATT philosophy was not successful, is the application of discriminatory and protectionist measures for balance-of-payments reasons and the abolishment of these measures when they were no longer necessary. Many countries in a position to abolish restrictions for balance-of-payments reasons made no effort to abide by their obligations.¹⁶⁾ Continued pressure by the majority of the contracting parties will in future ensure the following of this rule.

The fundamental fault in the GATT philosophy was, however,

12) Idem, P. 11 para 63.

13) Economic Report of the President, Washington, 1959. P.57.

14) International Trade 1957-58, Genova, 1959. P. 289.

15) GATT, Trends in International Trade, Geneva, 1958. P.91, para 253.

16) Reuters, 10th November, 1959. Italy has been found by the International Monetary Fund not in a position to impose import restrictions for balance-of-payments reasons.

summed up by Prof. Hallstein, Chairman of the European Economic Community, as follows:¹⁷⁾

"Het schijnt dat men realistisch bezien in een modern economisch stelsel een volledige afschaffing van doeanerechten en contingenteringen slechts in overweging kan nemen wanneer met name aan de vijf volgende voorwaarden is voldaan:

- indien een algemeen in hun betalingsbalans tot uiting komend evenwicht tussen de staten behouden blijft, daartoe is coördinering van de monetaire en conjunctuur politiek noodzakelijk;
- indien de nieuwe voortaan onvermijdelijke mededinging niet door particuliere of overheidsmaatregelen wordt vervalst;
- indien aan eventuele onderontwikkelde partnerlande bijzondere hulp verleend wordt, want anders zouden de verschillen tussen de Lid-Staten slechts groter worden;
- indien voor markten, welke niet aan het spel der vrije mededinging onderworpen zijn, een gemeenschappelijk beleid wordt ontwikkeld;
- indien een gemeenschappelijk beleid wordt gevoerd ten aanzien van die buitenlandse handel, waarbij in het bijzonder ook wordt voorkomen, dat de mededinging tussen de Lid-Staten wordt vervalst".

The adoption of the full free-trade principle in a world with the present uneven allocation of production factors and different degrees of protection is not only unrealistic, but will also contribute to an intensification of the existing disequilibrium.¹⁸⁾

The policy followed by the most developed and richest country in the free world with a completely self-supporting economy and a

17) Bulletin van de Europese Economische Gemeenschap, February, 1959. P.5.

18) Pigou A.G., The Economics of Welfare, London, 1924. P.121.

large market cannot contribute to the reduction of tariffs on a world-wide basis. The United States of America has during the past 40 years maintained the most restrictive and protectionist economic policy in the world, yet she was the first to prescribe to other countries a free-trade policy. As the most influential member of the GATT the United States of America is not at all in a position to take a strong view in connection with the contravention of GATT rules.

Under these circumstances the strict following of the GATT philosophy by a country such as South Africa and other minors is a crime against the national economy as such.

In future observance to the rules of the GATT will probably depend on world economic activity and the knowledge that the GATT philosophy has failed to advance a solution to problems as diversified and dynamic as economic development. It may be expected that protection and regional development will become the rule, irrespective of whether it is applied on a national or a bloc basis. This will be all the more true in a world divided into a completely planned economy on the one hand and free enterprise on the other. No contribution towards a fair degree of free world trade by the GATT can be expected unless the leading nation in the Organisation changes her internal and external economic policy. To quote from the Economic Report of the President:¹⁹⁾

"The United States is favourably disposed towards such regional reduction and eventual elimination of trade barriers; but as a signatory of the General Agreement on Tariffs and Trade it insists on the principle that such regional developments must lead to the creation of more favourable trade relations with other

19) Economic Report of the President, Washington, 1959. P.58.

countries. The new authority provided by the Congress last year by the four-year extension of the Trade-Agreements Act will be used in further efforts to reduce trade barriers on a reciprocal basis, and the enlarged loan authority of the Export-Import Bank will promote United States exports as well as contribute to economic growth abroad".²⁰⁾ It has already been argued that the United States herself maintain the most restrictive and protectionist policy in the world and that she is hardly in a position to dictate to other countries. The United States of America has no need to promote exports because in 1959, the worst year since the Second World War, her trade surplus still amounted to 3 billion dollars. Her problem certainly does not lie in the export/import field.²¹⁾

Reduction of a tariff on a reciprocal basis does not lead to greater world trade between countries if the tariff of the one is 2 or 3 times higher than the tariff of the other. A reduction of 10% on ad valorem tariff of 60% is not likely to overcome its prohibitive effect, while a reduction from 15% to 5% on a low tariff is bound to be very effective. It is generally known that the economy of the United States of America is constructed behind the

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- 20) Foreign Agriculture, Published by the United States Department of Agriculture, October 1958. P.9. The Act grants authority to reduce the July 1, 1958, tariffs to the lowest rate by any one of three alternative methods:
- a) by not more than 20%, with 10% as the maximum reduction permitted in any one year;
 - b) by 2% points ad valorem, but not more than 1% per year; no item can, however, be transferred from the dutiable list to the free list by this method; and
 - c) to 50% ad valorem, but with the maximum reduction in any one year limited to one-third of the total reduction. Tariff reductions cannot be made in more than four stages and, in no case within periods of less than one year. No part of any reduction shall become effective for the first time after the first has been in force for a period or periods aggregating more than 3 years. No part of a reduction in tariff rates shall become initially effective.
- 21) Journal of Commerce, 28th November, 1959. P.1.

highest known tariff walls.²²⁾ It is not likely that Congress will ever reduce, or create the instruments to reduce tariffs drastically.

International co-operation in the economic field was determined during the past two years by the United States of America on the one hand and France on the other. Both countries are protectionist in their outlook. On the Continent of Europe the whole scene was dominated by the French policy. The failure of the European Free Trade Areas negotiations in 1958, must be ascribed to the rigorous stand taken by France.²³⁾ The determination of France and the other 5 in general will further weaken the GATT, unless a new basis for the GATT itself is found.

The question of discrimination, as mentioned above by Prof. Hallstein, seems to be fundamental to the application of any regional development plan. The unrealistic attitude taken by some contracting parties, notably the underdeveloped countries, in connection with measures aimed at regional economic development is in sharp contrast with the measures which they themselves ought to have taken to foster development. This policy is characteristic of many standpoints taken by this group as to other matters in the international sphere.

The discriminatory effect of area development was examined by Pourvoyeur and Swevers²⁴⁾ and their conclusion is: "dat regionale economische politiek, wil zij slagen, altijd een discriminerend karakter moet hebben. Terwille van het algemene belang, geeft de Overheid de streek, die zij wil ontwikkelen en doen groeien,

22) Address by the Assistant Secretary of Commerce for International Affairs 16/11/54, before the 41st National Foreign Trade Convention, New York.

23) The Economist, 13th December, 1958. P.971.

24) Economisch - Statistische Berichten, 7th November, 1959. P.936.

in bepaalde opzichten een gunstigere behandeling dan de andere streken". This viewpoint also applies in the case of economic development where the plan includes more than one national economy. The recognition by the GATT of this requirement in Article XVIII still does not recognise the fact that such a development is a long-term project and that measures must not be taken by relatively higher developed countries which can abuse this regional development effort. The weak point in the GATT philosophy has been the adoption of the "unconditional free trade" principle as applicable to international trade by countries in different degrees of economic development, with different endowments of production factors and different basic economic policies based on the traditional outlook of the communities.

The hypothesis has been made at the beginning of this chapter that South Africa and other primary producing countries should take steps to protect themselves against the ill effects of the philosophy which underlies the GATT if this philosophy should prove to be wrong. The conclusion remains to be drawn that South Africa's external trade will be harmed if she continues to comply with the GATT rules while the industrial countries of North America and Western Europe do not do so. Exports will then decrease, while imports will have to be increased because certain local industries will simply not be able to continue in the absence of a policy which does not conform to GATT rules, but which is applied by the powerful and highly developed countries. The rigidity to which observance of the GATT rules will give rise will harm individual countries even while negotiations are being conducted to remedy the harm. The severe disequilibrium between the tariff heights of different countries will add to the disparity between the unevenly developed countries.

Developments in Europe and American backing of these

developments will shake the foundations of the GATT still further. South Africa should adopt the same rigorous stand which Australia has adopted in the GATT and should formulate her foreign policy accordingly.

§ 1.2 b) The International Monetary Fund and the International Bank for Reconstruction and Development.

Post-war measures to prevent devaluation contests, to supply temporary liquidity and to help with the reconstruction and development of Europe have been planned since the Atlantic Charter in 1940.

The International Monetary Fund.

The International Monetary Fund which commenced activities in 1946 was established after a conference of experts of the United Nations held at Bretton Woods in 1944 has the following objectives:²⁵⁾

(1) To assist in the establishing of multilateral payments facilities on current transactions among member countries and in the elimination of foreign exchange restrictions which hamper the growth of trade. Restrictions of this nature which were in operation during the Second World War were allowed to remain in force, but on the condition that they were to be withdrawn as soon as circumstances permitted.

(2) To promote exchange stability and orderly exchange arrangements between members. The par value of the currencies of the member countries are expressed in terms of gold as a common denominator. Devaluation of a currency can only be effected with the approval of the Fund.

25) Wijnholds H.W.J., International Trade and Payments, Pretoria, 1955. P.88-90.

(3) The Fund will in co-operation with the International Bank for Reconstruction and Development and the GATT contribute to the furtherance of international trade by making loans to countries experiencing temporary, non-fundamental disturbances of the equilibrium in the balance of payments.

Once again the policy of the leading participant, namely the United States of America, greatly frustrated the aims of the Fund. In his original International Clearing Union Plan²⁶⁾ which was submitted to the United States of America, Lord Keynes proposed the establishment of a Fund of 30 billion dollars as the minimum requirement for the supplying of international liquidity. The Fund was established in a revised form with a capital of 8,800 million dollars,²⁷⁾ which was subsequently increased in 1959 to 15,000 million dollars.²⁸⁾ The raising of the capital of the Fund to this latter figure may be regarded as an indication of the inadequacy of the resources of the Fund. This happened in a period characterised by very mild recessions. In a case of a severe recession, the present resources may prove totally inadequate,²⁹⁾ although the increasing participation of other industrial countries in financing the bulk of trade and the development of industrially retarded countries are both reassuring and welcome, inasmuch as additional economic resources are thus brought into play.

The present resources of the Fund may, under the circumstances be regarded as adequate for the absorption of temporary international

26) Wijnholds, H.W.J., Teoretiese Grondslae van die Geldwese, Pretoria, 1948. P. 186-189.

27) Idem, P. 191-193.

28) International Monetary Fund, International Financial News Survey, 18th September, 1959.

29) GATT. Trends in International Trade, Report by a Panel of Experts, Geneva, 1958. P. 63 para 182.

balance-of-payments instability. This is all the more true if the present strong position of Western Europe is taken into consideration. International illiquidity must be regarded as only a secondary symptom of the disequilibrium in the development of different countries. The main effort to relieve this illiquidity will have to be based on balanced economic growth and sound monetary policies. If countries should embark on a policy of rigorous development and consumption, the illiquidity problem would continue to exist. Many of the problems which contribute to international economic disequilibrium have their origin in other fields. Countries which contribute greatly to the international payments problems are India, Pakistan and others with a high rate of population growth. No increase in the international liquidity position will relieve the balance-of-payments problems of these countries. As far as South Africa and other countries are concerned no serious illiquidity exists, at least not to an extent where international trade is seriously threatened or hindered. In the formulation of an external economic policy the present and future trend in international liquidity may be accepted as satisfactory.

International liquidity may also be compared with national liquidity which again may be compared with the liquidity position of the individual. The behaviour of the individual and the nation determines the overall position.

§ 1.3 The International Bank for Reconstruction and Development.

At the Bretton Woods Conference where the International Monetary Fund was founded, the International Bank for Reconstruction and Development was also founded. The Bank was originally intended as a supplement to the Fund for the advancing of long-term

loans for development purposes.³⁰⁾ The Bank was established with a capital of 9,556.5 million dollars, but this amount was raised in 1959 to 18,357.9 million dollars.³¹⁾ The Bank only granted loans for post-war reconstruction to Western Europe in 1947. After that initial phase the Bank turned to lending with a view to assisting the economic growth of the less developed countries of the world. In 1959 these development loans totalled almost 4 billion dollars. The Bank's operations are combined to the granting of loans for production projects of its member countries, but a great deal of attention is also given to providing member countries with technical assistance and advice on development problems.³²⁾ The aid given to many underdeveloped countries in the technological and economic field has been invaluable but the activities of the Bank are impeded by:

- 1) The fact that loans can only be made for projects that is certain to succeed. Projects showing any degree of risk cannot be helped. The Bank also floats loans under guarantee to finance projects. In 1956, 500 million dollars were provided for this purpose.³³⁾
- 2) The fact that loans carry a high rate of interest, usually $5\frac{1}{2}\%$.³⁴⁾ Underdeveloped countries cannot afford this rate of interest and may in the long run only find that loans received had increased fixed foreign exchange obligations to such an extent that future borrowing prospects are completely eliminated.

No worthwhile international institution exists for the financing of development projects carrying a fair degree of risk. The need in this direction is imperative. Economic development

30) Wijnholds H.W.J., Teoretiese Grondslae van die Geldwese, Pretoria, 1948. P.195-197.

31) International Monetary Fund, International Financial News Survey, 18th September, 1959.

32) International Bank for Reconstruction and Development. World Bank Loans at Work, Washington, 1959. P.1.

33) United States Department of Commerce. Journal of Commerce, 19th April, 1957.

34) Press Release by the Bank, 2/12/1958. Loan to South Africa at $5-6\%$ interest rate.

in Africa will in future also be stimulated by the policy of the European Economic Community,³⁵⁾ the British Commonwealth of Nations and the Sino-Soviet Bloc.³⁶⁾

Economic co-operation in the post-war years has been determined by exogeneous factors, such as the Communist threat and counter measures. Commercial co-operation has to a large degree been frustrated by the internal economic policies of the industrial countries, especially the United States of America, Western Germany and France. The policies followed by these countries will to a large extent determine future co-operation in this field.

International trade and economic relations will depend largely on future trends in these fields.

§ 2 National Economic Policies:

The national policies of all countries in the post-war are directed at the achievement of full employment³⁷⁾ without excessive inflation. The general business cycle is certainly the major and most pervasive influence causing fluctuations in business activity from one country to another. The shock effect of this phenomenon throughout the international economic system³⁸⁾ has been tackled on an international level (vide the International Monetary Fund).

Numerous steps have also been taken by countries to stimulate development of the national economy itself. In this chapter attention will only be drawn to policies of a trade-creating or trade-diverting origin.

35) The Economist, 21st November, 1959. P. 703.

36) Countries in Africa, the Middle East and Latin-America.

37) Salant W.A., Foreign Trade Policy in the business cycle Readings in the Theory of International Trade, Volume IV, Edited by H.S. Ellis and L.A. Metzler, New York, 1949. P.201.

38) GATT., Trends in International Trade Report by a Panel of Experts, Geneva, 1958. P.56 para 161.

This type of action has been particularly disruptive when applied with severity by the industrial countries of Northern America and Western Europe. The aim of these policies was mainly the stabilisation of prices, international reserves and conditions within particular industrial branches. The measures applied for stabilisation purposes also stimulate growth.³⁹⁾ A distinctive feature of these policies (mostly financial policies) applied from time to time, has been the conflict in the highly industrialised countries in regard to those policies which will stabilise the markets for primary producing countries and those which are considered by the national authorities concerned to be most advantageous for domestic stabilisation.⁴⁰⁾ These financial measures were woven into the general commercial policy which is essentially a long-term policy.⁴¹⁾

To-day a large number of national "support" measures, particularly in the agricultural field, already exist which are designed to ensure to the local producers of a given product a more stable price for their output than that which may be obtained from a completely free and uncontrolled market. These measures are widespread, both in exporting countries in which domestic production exceeds domestic consumption and in importing countries in which domestic consumption exceeds domestic production.⁴²⁾ The panel of experts found⁴³⁾ "Most of these agricultural schemes in fact contain two basic elements (a "stabilisation" element and a "protective" element) which it is difficult to separate in the actual operation of the schemes. The essence of these schemes is to provide for the domestic producer a price which is to some degree divorced from the world price. Insofar as the price which thus accrues to the domestic producer is on the average equal to the

39) Idem, P. 56, para. 161.

40) Idem, P. 66, para. 191.

41) Idem, P. 64, para. 187.

42) Idem, P. 66, para. 194.

43) Idem, P. 67, para. 195 and 196.

world price, but is merely more stable than the world price (being higher than the world price when the world price is low, and lower than the world price when the world price is high), the scheme may be said to be only a stabilisation scheme. But in so far as the scheme is such as to keep the price paid to the domestic producer on the average above the world price, there is a "protective" element in the scheme... National schemes of this kind for the stabilisation of the prices and incomes of agricultural and other primary producers provide a built-in stabiliser in the case of the highly industrialised countries". The purpose of the built-in stabiliser is mainly to protect the balance-of-payment position and to further social policies under which may be reckoned full employment and the protection of the agricultural communities.

The measures applied to stabilise prices for the producer may take one of the following forms:⁴⁴⁾

- 1) A policy of purchases and sales by an official stockpiling agency to steady the domestic price.
- 2) A policy of taxing or subsidising (or making special "levies" on, or paying special "deficiency payments" to) the producers at variable rates so as to keep the net income of the farmer steady, although the market price has varied.
- 3) A policy of varying the level of import or export duties or subsidies with the object of so varying the supply to the domestic market, so as to maintain a steady price for local producers and consumers.

The desirability of advantage of one form of price-support as compared with the other will not be discussed. Suffice for the purpose of this thesis is the fact that such programmes have been adopted by the different national economies and that they are here to stay. In the economic report of the President transmitted to

44) Idem, P. 67 para. 197.

the Congress in January, 1959, the conclusion is drawn that major revisions are overdue in the legislation relating to these agricultural programs.⁴⁵⁾ That the purpose of these schemes has not always been of a stabilising nature is borne out by the words "Actually the majority of farm people derive little or not benefit from our agricultural price support legislation. Cattle ranchers, producers of poultry and eggs and growers of fruits and vegetables operate their farms today practically without price support. Only some 1.5 million of our commercial farmers are the recipients of price support outlays in any material amounts, and within this group those with the higher incomes are the main beneficiaries".⁴⁶⁾

In most of the industrialised countries agricultural production is highly developed and this fact, coupled with the consumption pattern in these countries, reduced net agricultural imports into these countries beyond the marginal point. These two facts suggest that agricultural protection in the highly industrialised countries is now a major factor restricting the world trade in such products⁴⁷⁾ (see Table XXXI).

In addition to the price-support measures technological developments have made such great strides that production has been multiplied many times over in respect of agricultural in- and output in the United States of America (see Table XXXII). While the labour force decreased from 9.5 million male labourers in 1910-14 to 6.3 million in 1950-54, gross agricultural output increased from 1590 dollars per male labourer in 1910-14 to 4270 dollars in 1950-54, at 1953-1954 prices.

Other national policies, such as the maintenance of import quotas, are mainly a short-term phenomenon and will disappear with the improvement of the national economies.

45) Economic Report by the President, Washington, 1959. P. 56.

46) Idem, P.57.

47) GATT., Trends in International Trade, Geneva, 1958. P.89, para. 246.

TABLE NO. XXXI.

VALUE OF DOMESTIC PRODUCTION, DOMESTIC CONSUMPTION, AND FOREIGN TRADE OF THE INDUSTRIALISED COUNTRIES IN SELECTED FOODSTUFFS AND RAW MATERIALS.
(THOUSAND MILLION DOLLARS AT 1952-53 PRICES.)

	Selected Foodstuffs Wheat, Maize, Rice, Butter, Sugar, Meat.				Selected Raw Materials Tobacco, Cotton, Wool, Fats, Oils & Oilseeds			
	1938		1956		1938		1956	
	Volume	%	Volume	%	Volume	%	Volume	%
<u>Western Europe</u>								
Production	9.46	74	11.88	81	1.20	23	1.78	30
Add Net Imports ..	3.34	26	2.76	19	4.08	77	4.13	70
Domestic Consumption ¹⁾	12.80	100	14.64	100	5.28	100	5.91	100
<u>North America</u>								
Production	13.86	103	22.05	106	4.38	118.5	6.12	122
Deduct Net Exports	-0.38	-3	-1.33	-6	-0.69	-18.5	-1.11	-22
Domestic Consumption ¹⁾	13.48	100	20.72	100	3.69	100	5.01	100
<u>Western Europe and North America</u>								
Production	23.32	89	33.93	96	5.58	62	7.90	72.5
Add net Imports ..	2.96	11	1.43	4	3.39	38	3.02	27.5
Domestic Consumption ¹⁾	26.28	100	35.36	100	8.97	100	10.92	100

1) Domestic consumption includes net additions to domestic stocks. In so far as cereals fed to animals are a raw material in the production of livestock products, the figures for domestic consumption are "gross" and not "net" figures.

Source: GATT, Trends in International Trade, Geneva, 1958.

TABLE NO. XXXII

AGRICULTURAL INPUT AND OUTPUT IN THE UNITED STATES,
1910-14 TO 1950-54 (DOLLARS AT 1953-1954 PRICES).

	Gross output free from duplication.	Farmers' purchases	Male labour.	Gross output.	Purchases	Agric. income
	Thousand Dollars.	Million Dollars.	Million	Dollars	Per Male Labourer	Labourer
1910-14	15.1	3.9	9.5	1590	410	1180
1915-19	15.9	4.1	9.3	1710	440	1270
1920-24	16.7	5.4	9.1	1835	595	1240
1925-29	18.0	5.4	9.1	1980	595	1385
1930-34	17.5	5.1	8.9	1965	575	1390
1935-39	18.8	4.9	8.7	2160	560	1600
1940-44	19.8	6.3	8.4	2370	750	1620
1945-49	25.0	8.3	7.5	3330	1105	2225
1950-54	26.9	10.0	6.3	4270	1605	2665

Source: GATT, The possible impact of the European Economic Community, in particular the Common Market, upon World Trade, Geneva, 1957. P.59.

§ 3 Patterns of Consumers' tastes:

The Law of Engel⁴⁸⁾ has nowhere found greater application and verification than in the case of international changes in the consumption pattern. This law has been strengthened by international events, such as war and the protective measures taken by governments in war-stricken countries to save their international reserves. Movements in the consumption patterns have in most cases aggravated the effects of support measures. Structural changes were retarded or accelerated contrary to the trends which would have ruled had these forces not been in operation.

Increased purchasing power in the developing countries and the integrated units will result in a change in the consumption pattern. Inferior goods such as cereals will have to make way for animal products in the human diet, although the greater production of animal products will increase the demand for cereals. The production of animals in cereal-producing countries and the export of animals to industrial countries is not a certainty, because "Konsumorientierung" may again have a decisive influence. Developments in this direction can, therefore, not be ascertained at present.

The combined effect of price-support measures and possible changes in consumption patterns in the United Kingdom are illustrated in Table XXXIII. In the pre-war period the net imports of cheese as a percentage of consumption was 75%. In 1950 this figure dropped to 67% i.e. a drop of 8%. The corresponding drop in the case of butter is only 1% and in the case of meat 2%. Wheat and wheat flour declined over the same period from 77% to 60%, i.e. a drop of 17%. (Wheat and wheat flour are inferior goods). This definite trend was also evident in the case of potatoes and wool.

48) Schumann C.G.W., Franzsen D.G., de Kock G., Inleidende Studie tot die Ekonomie, Stellenbosch-Grahamstad, 1957. P.1949.

TABLE NO. XXXIII

CONSUMPTION TRENDS IN POST-WAR BRITAIN OF CERTAIN
AGRICULTURAL PRODUCTS

	Quantities Consumed.				Net imports as a percentage of consumption.			
	Averages.			Year	Averages.			Year
	Prewar	1940-44	1945-49	1950	Prewar	1940-44	1945-49	1950
Milk, liq. (a) m. gallon	1001	1244	1506	1707	-	-	-	-
Cheese '000 cwt.	3774	4652	4276	4542	75	97	89	67
Butter (a) '000 cwt.	10507	3968	4954	7470	91	92	97	90
Meat (a)(b)(c) '000 cwt.	54348	49787	40310	46869	55	63	57	52
Wheat and wheat flour, wheat equivalent (c) '000 tons	7128	7560	6954	6445	77	66	71	60
Potatoes '000 tons	5120	8544	9731	9591	3	-	-	1
Sugar '000 tons, raw value	2267	1742	1968	1950	78	74	67	66
Wool m. lb. clean basis	435	340	405	518	77	94	74	67

- (a) 1934-38 except for milk (1936-39), cheese and butter (1934-37), and meat (1937-38).
- (b) Beef, veal, mutton, lamb, pork, offal and canned meat (all kinds).
- (c) Available supplies (home production + imports - exports and re-exports).

Source: Commonwealth Economic Committee, A review of Commonwealth Agriculture: Production and Trade, London, 1952.

As far as consumption is concerned, the demand for many food-stuffs and raw materials is very insensitive to price changes, so that a considerable reduction in the consumer prices might be necessary to bring about a 1% increase in total consumption; and in the United Kingdom, which constitutes one of the main consumer markets, there may be little scope for policies to expand consumption, because the existing system of agricultural protection through deficiency payments is already such as to keep the consumer price down to the level corresponding to the world price.

The demand for primary products has also been influenced in various ways by technological changes. The importance of rayon, wholly man-made fibres, aluminium, synthetic rubber, plastic materials, synthetic detergents and many synthetic fertilizers is indicated by the fact that purchases at 1950 prices, rose from 800 million dollars in 1938 to 5,500 million dollars in 1954⁴⁹⁾. As a consequence, the use of natural raw materials declined, and the continuous trend to economise on the use of raw materials resulted in the changes shown in Table XXXIV.

TABLE XXXIV.

The use of natural and manufactured raw materials and fuels in industrial areas, 1938 and 1954. Thousand million dollars at 1950 prices.

	<u>1938</u>	<u>1954</u>
Industrial input.		
of natural raw materials and fuels	25.4	33.7
of manufactured raw materials	0.8	5.5
Gross value of manufacturing output	101.6	188.1
Ratio of "natural" input to output	25.0	17.9
Ratio of total input to output	26.8	20.8

Source: GATT., Trends in International Trade, Geneva, 1958.

The best examples of the combined impact of technological changes, price relations and substitution of synthetics can be seen from the following quotation from World Economic Survey:⁵⁰⁾

49) GATT., Trends in International Trade, Geneva, 1958. P.43. para. 125.
 50) United Nations, World Economic Survey, New York, 1959. P.23-24.

"Among the non-ferrous metals, for instance, changing price relationships have been of some importance in influencing the trends in consumption of individual commodities. Thus, a progressive fall in the price of aluminium relative to copper and steel has favoured its increasing use as an electrical conductor and as a structural material. Partly for the same reason aluminium has gained at the expense of timber as a structural material, of tin in the manufacture of foil, of lead in the manufacture of cables and of zinc in the casting of dies. Copper, in turn, has been increasingly substituted for lead in plumbing materials partly because of the relative rise in the price of lead. Substitution has also played some part in accelerating the growth in the consumption of petroleum ... the impact of technological progress and substitution have been of even greater significance for some major textile fibres. While world consumption of apparel fibres grew as a whole group by about 5% between the immediate prewar years and the mid-1950's and by about 30% during the post-war period the consumption of cotton, wool, jute and silk advanced much less rapidly".

TABLE XXXV

Estimated World Consumption of Apparel
Fibres (Percentage distribution).

Year	Cotton	Wool	Silk	Rayon filament yarn	Rayon staple fibre	Other man-made fibres	Total apparel fibres
1934-38	80.1	11.4	0.6	5.6	2.3	-	100
1954-56	68.9	10.2	0.2	8.3	10.4	2.2	100

Source: United Nations, World Economic Survey
1958, New York, 1959. P. 24.

In both the United States and Western Europe total consumption of natural fibres has hardly grown at all since 1927, and, on a

per capita basis, consumption has actually declined.

As a result of the developments mentioned above industrial countries are less dependent on primary producers (see Table XXXV). This fact was also proved by a study made by the National Institute's Economic Review.⁵¹⁾

The purchasing power in primary producing countries in terms of manufactured goods in their total export packets (excluding oil) was only 3% higher in 1955-57 than in 1950, although world industrial output had risen throughout this period at a rate of some 5 $\frac{1}{2}$ % a year. Over the period 1950-52 to 1955-57 the rise in manufacturing output in these areas, i.e. the United States of America, Canada, Japan, the United Kingdom and the European Economic Community, ranged from 14% in the case of Canada to 93% in the case of Japan and averaged 28% for the total "industrial area". Consumption of the sixteen industrial materials, taken together, rose by just about the same amount - namely 29% - but at greatly differing rates for the different kinds of materials as is shown hereunder:

% change 1950-52 to 1955-57.

Processed materials (aluminium, rayon, new synthetic rubber, plastics)	+ 67%
Forestry products (woodpulp, softwood)	+ 21%
Steel	+ 31%
Non-ferrous metals (copper, lead, zinc, tin)	+ 16%
Agric. materials (cotton, wool, jute, natural rubber)	+ 10%

The European Economic Community countries and Japan were largely responsible for what expansion did occur in the demand for natural products. In the United States of America consumption of these materials hardly rose at all; it remained static for

51) The Economist, 3rd October, 1959. P.77.

non-ferrous metals, fell for agricultural materials and softwood and rose only for woodpulp. In Canada and the United Kingdom the demand for agricultural materials also fell.

The period 1950-52 to 1955-57 was exceptional - it began with the Korean boom in primary products and ended before a world recession.

The Institute's opinion is that the process of substitution will continue, especially since Western Europe is bound to follow the United States of America.

The trends discussed above will be intensified if the rate of economic growth slows down in the industrial areas, because the consumption of primary products and basic raw materials will immediately decline to a minimum.

The changes in the world consumption pattern is of the utmost importance to the application of an economic policy. In the modern world no measure should be applied, or a policy formulated, which will stimulate production in a direction contrary to the general international pattern. Should the condition change, a large and immediate change will have to take place in the industry and economy.

§ 4 Terms of Trade:

It appears from United Nations calculations⁵²⁾ that the prices of primary products, taken as a whole, were about 5% lower in the first quarter of 1958 than in the last quarter of 1955 - in contrast with the prices of manufactures which were 6% higher - a situation entailing a deterioration in the terms of trade between primary products and manufactures of about 10%. The decline in the prices of primary commodities was unevenly distributed amongst the various major classes. The sensitivity of agricultural raw materials and non-ferrous metals can be clearly seen from Table XXXVI.

52) GATT., Trends in International Trade, Geneva, 1958. P.17. para. 76.

TABLE XXXVI

Prices of Primary Products and Manufactured Goods (Index figures 1953=100).

	Food	Agric. raw material	Minerals (incl. fuels)	Non- ferrous metals	All primary products	Manufac. goods.	Terms of Trade 1)
1954	107	100	99	99	103	98	105
1955	96	102	102	119	101	99	102
1955 IV	95	101	105	128	101	101	100
1956 I	94	100	107	134	102	102	100
II	95	101	107	126	102	103	99
III	98	100	108	117	102	103	99
IV	100	103	113	116	105	104	101
1957 I	101	105	119	110	106	106	100
II	99	104	114	105	104	106	98
III	97	102	111	96	102	107	95
IV	95	98	110	90	98	107	92
1958 I	94	94	109	85	96	107	90

1) "All primary products" divided by "manufactured goods".

Source: GATT., Trends in International Trade,
Geneva, 1958. P.18.

Various international measures have been proposed to make the prices of primary products more stable. The most important is international commodity agreements. A great advantage of international arrangements is that they can take into account the interests of all importing and exporting countries and can thus avoid the possibility of one country or group of countries increasing its own stability at the cost of the stability of others. Indeed, since the Second World War the principle has been generally accepted that international commodity agreements should be concluded only in those cases where they are entered into and operated by importing and exporting countries jointly.⁵³⁾ This has reduced the monopolistic position of producers.

Lately the theory has been advanced that international commodity agreements should be included in packet agreements.⁵⁴⁾

53) Idem, P. 72. para. 211.

54) Idem, P. 74. para. 214.

There are three types of international commodity agreements which embody the following principles:

- 1) The multilateral long-term contract principle, as embodied in the International Wheat Agreement;
- 2) The quota restrictions on exports principle, as embodied in the International Agreement;
- 3) The buffer stock principle, as embodied in the International Tin Agreement.

The merits of the different types of agreements will not be discussed. There has of late been a strong movement towards increasing commodity agreement. South Africa has, in this respect, taken a leading part.⁵⁶⁾ It is possible that the price-fluctuation problem of primary products may to a certain extent be regulated by the conclusion of these agreements. The violation of the regulative power of supply and demand must be regarded as the main reason why these agreements will always meet with limited success. The economic factor is also ignored, because the fact that high-cost producers are encouraged while low-cost producers are penalised is being overlooked.

It follows that a reliance on international commodity agreements can harm the economic interests of some countries, while it will advance the interests of other countries. South Africa should do well to consider all the economic implications of these agreements before entering into them.

§ 5 Technological trends:

Technological trends have already been discussed as underlying many structural changes which have taken place in the economic sphere.

Attention is given here only to the character of the investment patterns which accompany the technological developments.

56) The Daily Mail, 21st November, 1959.

Only broad conclusions are drawn.

The post-war years have been characterised by the launching and completion of many capital-intensive projects, such as atomic energy power stations, oil pipe lines, large hydro-electric schemes and the exploitation of mineral deposits. Vast sums of money have been invested in public utility concerns, such as transport, communications and housing schemes.

Every period of capital-intensive investment is usually followed by a period of labour-intensive investment. This is the pattern to be expected in the industrial and relatively highly developed countries. In the underdeveloped countries the opposite trend will be true, because the infrastructure⁵⁷⁾ is so underdeveloped that no major development project can be undertaken.

§ 6 Conclusion:

Future economic development will probably to a large extent follow the trend which has been discussed in this chapter. An intensification of the existing trend may be expected in many respects. The greater the intensity of competition in the international sphere is, the more pronounced such intensification will be. Competition in the international sphere will be intensified by the economic power groups which have been formed in Europe and which will probably be formed in Latin-America. Developments in the consumption and technological fields will be enhanced by the power groups and increased competition. The programs aimed at the development of underdeveloped countries by those that are relatively more developed will also add to changes in this respect. The international economic power groups are especially inclined to support these development programs of underdeveloped countries.

57) The Economist, 13th December, 1958. P.16.

The European Economic Community in particular is likely to invest heavily in the associated territories. Coupled to the investment projects will be a directive policy which will have as an objective the supplying of the needs of members of the Community. Investment projects have already been given out on tender and South Africa should do well to associate herself with the Community in order to compete for these tenders, because the African countries which fall under the associated territories are traditional buyers of durable capital goods from South Africa.

South Africa shall handle opportune to study these world trends carefully and to guide the domestic economy in the required direction in order to ensure the greatest economic welfare. For the furtherance of such a study the present South African economic institutions and external economic contacts should be carefully examined in order to determine whether they can cope with the situation. Less dependence on London is a prerequisite for the reorientation of the existing external economic contacts of South Africa. Present day developments in the international economic sphere and the dynamic effect of these developments make them highly important to the long-term external economic future of the Union of South Africa.

The adoption of the full free trade principle as the basis for the conclusion of international agreements, as embodied in the GATT, is unrealistic in a world already characterised by numerous barriers to the movement of factors of production. The traditional policy of the leading country of the free world does not convey much hope for progress in this direction. The creation of a new economic community in Europe more dependent than the United States of America on world trade may in future change the weight of the United States in world co-operation.

Trends in the field of consumption will follow the present trend. The advancement of science and the fact that the law of diminishing increased output does not apply or apply to the same extent as in the case of agricultural commodities will most likely lead to the

replacement of natural raw materials in many production processes.

Unless something drastic is done the existing disequilibrium between the developed and underdeveloped countries will increase. Recognition of this fact will in future lead to greater international investment projects and regional development schemes.

CHAPTER X.A SYNTHESIS : A REORIENTATION OF SOUTH AFRICA'S EXTERNAL
ECONOMIC RELATIONS AND A REVISION OF SOME INTERNAL
POLICIES INTERRELATED WITH INTERNATIONAL TRADE.

Before the policy aspects essential for a reorientation of South Africa's external trade relations can be discussed, a summary of the findings up to now is essential.

§ 1. SUMMARY:

a) The Export Packet:

South Africa's export packet is comprised of a relatively small number of commodities of great weight. During the past 20 years a structural shift has occurred from agricultural produce to foodstuffs, metals, metal manufactures, machinery and vehicles. This shift in class V is largely the result of the discovery and exportation of uranium. Some of these important export commodities such as wool, diamonds and metal ores are very sensitive to international economic activity. In addition, diamond resources will most likely become depleted within 20-40 years, while the prices of uranium will fall with the expiry of South Africa's agreements with the British Atomic Energy Agency in 1963-64. World production of this and similar substances has exceeded effective demand which did not expand according to expectation. It may be expected that export proceeds in respect of uranium will decrease sharply after 1964, while the export proceeds from diamonds will probably stay at the present level for another decade, following which, they will rapidly decline, vanishing round about 1980-2000. Proceeds from wool and metal ores will mainly follow the trend of world economic activity, which will probably be of a cyclical nature. No reason exists why a country such as South Africa should try to obtain a smooth export curve, but too large a degree of fluctuation will have important shock effects on the domestic economy. The aim should

be to obtain a greater degree of equilibrium between merchandise exports and merchandise imports.

To compensate for these sensitive or uncertain items in the export packet attention should be turned to resources which are present in abundance and which are in relatively great world demand.

South Africa's greatest comparative advantage in the international economic sphere lies in her abundant mineral resources which have hardly been touched up to now. These minerals must be exploited by the establishment of heavy industries such as Iscor and Sasol, and must be exploited with the same vigour as copper has been mined in Northern Rhodesia. Any attempt to divert production to the manufacture of luxury items, such as motor cars, will require large outlays of capital and skilled labour which are relatively scarce, while production will have to be highly differentiated in order not to discriminate against certain makes and countries, while an export market will not be easily maintained in view of the severe international competition, particularly from the low-labour-cost countries such as India, China and Japan, but also highly industrialised countries in the European Economic Community. South Africa's export potential is wholly dependent on domestic production, which again is hampered by the relatively limited domestic market, while no control over the external market can be maintained. Costs play an important rôle in her ability to export, but this again depends in many instances on mass production. This vicious cycle is complicated by the relative scarcity of skilled European labour and the stringent social legislation to maintain the position of the European. It must be pointed out that the various factors of production, labour, capital and enterprise, are complementary in such a way that, in order to obtain the best results, they must be combined in certain

specific proportions.¹⁾ The ratio of skilled to unskilled labour will always grow bigger in the absence of a positive immigration policy as a result of the fact that the European population only grows at the rate of 1.20% per year, as against the Bantu (1.98%) and the Coloureds (2.5%).²⁾

The result of the surplus production capacity, and of the limited market, is a lack of industrial vitality, pessimism and the relative scarcity of competitive conditions, which again reflects on the export ability in the form of high costs and inefficiency. This is particularly the position in the fruit canning industry.

South African exports go mainly to Western Europe, especially the United Kingdom; they also go to the United States of America, Japan and the Federation of the Rhodesias and Nyassaland. This position has been very well maintained over the period 1938-1958. Exports to the countries of Latin-America, which are much closer to South Africa than the United States, have been neglected. The same is true of the rest of Africa and Asia, especially the Sino-Soviet Bloc.

In order to increase exports more attention will have to be paid to these relatively neglected markets. A question in this connection already referred to from time to time is the external economic policy. Why are these markets relatively less developed and why does South Africa not take steps to increase trade with these countries? These countries are all characterised by specific ideological and economic philosophies and belong mostly to the non-European sphere. Trade contacts do not recognise cultural barriers and it is in South Africa's own interest to develop these potential markets. The problem is all the more

1) Report of the Commission of enquiry into policy relating to the protection of industries, U.G. 36/1958. P.1. Para. 5.
2) Idem, P.21.

important with the developments which have taken place in the post-war period, especially international integration of different economies and the internal economic policies followed by industrial countries.

b) The Import Packet:

In contrast with her export packet South Africa's import packet is highly diversified. During the period 1938-1958 a structural change occurred from immediate consumer goods to durable or capital goods. The behaviour of the commodity item motor vehicles in particular can be described as explosive in character.

The behaviour of this commodity among others conforms to the point of view expressed by the Viljoen Commission, namely: "A survey by the League of Nations has shown that, among countries of similar size, a high manufacturing production per capita has usually been accompanied by a high per capita import of manufactured goods. The growth of manufacturing, far from rendering the countries concerned independent of foreign-produced manufactured articles, has stimulated the importation of such articles, with the result that imports have tended to pursue a course parallel to that of manufacturing activity".³⁾ A similar argument in the case of South Africa will be as follows. The welfare of the European population of South Africa has been relatively high, mainly as a result of the gold and diamond mines. The Europeans have grown accustomed to these luxury items; expenditure by this relatively small group of the total population has led to the excessive importation of motor vehicles. It may be contended that motor vehicles are no longer a luxury item, but it must be borne in mind that the relative cheapness of petrol and the topographic

3) Idem, P.20, Para.145.

factor in South Africa have contributed to a consumption pattern different from that which would have existed in the case of greater egalization of national income distribution.

Imports followed the same direction as exports and it may be concluded that South Africa's external trade developed along lines only too familiar to previous experiences. It has always been the policy of the government to concentrate on certain markets, with the result that this pattern has become tradition in the course of time. International trade between two particular countries can only flourish in the long run if it is balanced. This is true in all respects, except where particular circumstances prevail. The argument to have equilibrium between two countries can also be seen in the dispute between South Africa and the Federation of the Rhodesias and Nyassaland which resulted in the termination of the South African/Federation Agreement of 1955. Different power groups in the different countries will always fight for more interests in the other market and a particularly strong argument is always the fact that a greater degree of equilibrium must be reached.

South Africa's imports come for the most part from Great Britain, Germany, the United States of America and Japan. Trade with many of these countries is highly unilateral, as has already been proved. There is no reason why South Africa should not buy more from the markets which have been neglected in the past, such as countries belonging to the Sino-Soviet Bloc, countries in Africa, and the Latin-American countries. Such a policy will immediately strengthen trade contacts with these countries and this will also have a favourable effect on exports to these countries. Most of these countries trade only under bilateral agreements which will ensure equilibrium between them and South Africa. Many items in South Africa's import packet can be obtained from these relatively neglected markets in exchange

for South African exports such as wool, fruit, mealies, wattle bark extract, chemical by-products and mineral ores, to mention only a few. This attempt in the direction of greater equilibrium between exports and imports can only take place under a completely new economic policy, such as bilateral agreements and trade contacts with countries which have so far been neglected on account of political and other differences. The maintenance of the traditional, historical trade pattern over the period 1938-58 and before has in particular been the result of a conservative dogmatic foreign economic policy.

c) The terms of trade:

The bulk of South Africa's exports is comprised of primary products in respect of which the terms of trade are inclined to move against South Africa. This will be all the more true under the present trend in the world consumption and production pattern.

Imports, on the other hand, are mainly manufactures in respect of which the terms of trade are also likely to move against South Africa. The effect on the domestic economy of this downward price movement in the case of exports and the upward price movement in the case of imports will be all the more pronounced if the price of gold is maintained at its present level.

As in the case of the rest of the world, South Africa's welfare in this respect will be closely correlated with world economic activity, which, in the absence of any exogenous disturbances, will move in the direction of a lower point of activity although greater equilibrium.

Nothing can be done by a single country, such as South Africa, to influence the terms of trade, but an attempt should be made to compensate for this sensitivity by the balanced and healthy stimulation of industrial growth. The aim should not only be to obtain the maximum amount of money in exchange for South

African goods, but to ensure full employment conditions without the sacrificing of the advantages which arise from labour specialization and the principle of comparative advantage.

d) South Africa's Dependence on International Trade:

No country in the world can ignore the effect of the theory of comparative advantage on her national welfare, least of all South Africa. The composition of the two currents in her international trade flow indicates a dependence on world trade as never before. Imports of foreign goods amount to as much as 35.9% of her total domestic expenditure while only 18.2% of her national income is derived from the sale of merchandise goods to foreigners.

South African industries will have to find outlets for their products if they want to reap the benefits of large-scale economies. The control of the local manufacturer over the external part of his market is a highly uncertain factor.⁴⁾ Such contracts can only be established under direct agreements with foreign governments to follow certain practices or to refrain from them.

Local industries can only plan in a guaranteed and stable economic climate where the factors which they cannot control are arranged by the public authorities concerned.

Direction should further be given to the external sector by policies which will assure minimum interference with the free play of economic forces. Thus, direct control of imports should be abolished and replaced by fiscal measures such as a consumer tax. This will not only ensure a long-term trend, but it will place the incidence on the point most likely to need it. Measures which must be altered repeatedly to conform to different condi-

4) Trade boycotts, foreign government policies and international economic activities all play an important role and are more likely to have an effect on our foreign market than on our domestic market.

tions in the economy can only contribute to uncertainty. This is especially true in an economy which is already characterised by many social regulative measures.

Sound interventionist policy will in the long run ensure a well-balanced economy which, in turn, will lead to more exports and less imports, especially imports of non-essential commodities.

It is of the utmost importance to a country such as South Africa that greater equilibrium between expenditure on imports and the proceeds obtained from exports should be obtained. Unless this is done the vigour will be drained from the national economy through the multiplier effect, while the benefits which can be derived from economies of scale will not materialise. The relatively small domestic market should be expanded by resorting to external markets, while domestic activity potential should not unnecessarily be given to other countries which are relatively more developed. On the other hand, the benefits to be derived from international labour specialisation and differences in factor allocation should not be lost. This is especially true in the case of motor vehicles and mineral products, such as iron and steel.

Developments which have occurred in the international economic sphere, such as integration movements, and domestic economic policies, such as price support measures, have added greatly to the problem of finding additional markets to compensate for diversive developments which may take place in these integrated power groups and industrial countries. This is of particular importance to a country which is highly dependent on international trade, such as South Africa. To find such additional markets will require a reorientation of the existing external economic policy in order to remove the factors which stood in the way of trade with such countries. In the case of South Africa the conditions which have given rise to such trade barriers are mainly

the lack of a sound foreign policy and the application of a dogmatic approach. This approach has to a large extent been based on the assumption that the interests of the Western World can best be served by refraining from trade with certain countries. It has already been proved, however, that this assumption ignores the basic interests of South Africa and that such an approach is without foundation and in contrast with policies followed by other leading Free World countries, such as the United States of America, the United Kingdom, Western Germany and Australia.

e) Post-war developments in the International Economic World.

During the post-war period co-operation in the different hemispheres has been directed at the integration of different countries into larger regional blocs. The degree of integration varies from a full customs union, strengthened by other instruments such as a co-ordinated agricultural and economic investment and commercial policy, to free trade areas with full economic autonomy.

The degree of integration will increase with the gradual reduction of tariffs between the member countries. The formation of these groups will place South Africa and other countries before a completely new and different economic context situation. The dynamic quality of the European Economic Community in particular is of the utmost importance to South Africa economically as well as politically. South Africa's traditional contacts with this Bloc have been very strong and are of great importance.

The inclusion of many dependent territories of Africa in these Blocs presents a formidable problem and concerns our supplying position in two respects. It jeopardises our Africa markets on the one hand, and our European markets on the other.

f) South Africa and the imperial preferential system.

Much has been said on imperial preferences. The problem is so complex and there are so many factors involved that a true valuation can hardly be made.

It may be concluded from the arguments and figures in Chapter VI that imperial preferences are not of much value to South Africa in her present international economic position for the following reasons:

- 1) The United Kingdom market is the only one in the group that is of real importance to South Africa. This is the result of the geographical situation. The United Kingdom market will for various reasons continue to occupy this position. These reasons are:
 - a) Traditional trade contacts.
 - b) Britain's dependence on foodstuffs and raw materials.
 - c) South Africa's bargaining position in respect of imports from the United Kingdom.
- 2) The margin of preference has over the years been brought down to a level where its value is very low. This has mainly been the result of price movements, industrial development policies and the prohibition of an extension of preferential treatment under the GATT.
- 3) The fact that the value of a preference depends on the demand and supply elasticity in the different markets.
- 4) The distortional effect of preferences on the different sectors of the South African economy.
- 5) The lack of freedom on the part of the dominion countries to follow a dynamic economic policy with regard to other countries and changing economic conditions.

In the South African export packet the different fruit items are the only commodities which are really sensitive as far as preferences are concerned. This is due to sales by auction where

the customs duty cannot be shifted on the consumer. South Africa will have to reconsider the position of her fruit exports to the United Kingdom before she abolishes preferences on them. These commodities are the only ones which are really sensitive to preferential treatment. Preferences on many items are of practically no value and should be abolished in return for the relief of certain South African guarantees to the United Kingdom. Although the burden on the South African economy is not great, this will pave the way for a better understanding with other countries. Before a new external economic policy can be formulated to meet the rising economic power groups South Africa must free herself from the mercantilist environment in which she has found herself from the beginning of this century.

g) South Africa and the different international Blocs.

The geographical position of South Africa and her economic position make the different economic Blocs of very great importance. In the past the relation with the European Economic Community and the British Empire has been of overwhelming weight. Her contact with the independent economic countries has been less important, except in the case of the United States of America and Japan.

South Africa's geographical situation in the world is such that she will find it hard to integrate with any area in particular. The countries bordering on her are different in many ways and the growing nationalism in Africa will for the next 20-40 years pose an increasing problem to integration. The only country with which integration seems possible is Southern Rhodesia.

To secure her position in a rapidly changing world, will require the formation of a definite foreign policy in which the importance of the economic factor will play a supreme rôle. Such a policy must be virile and dynamic in order to cope with

the accelerating international economic and technological situation.

Countries like South Africa can only hope to cope with the trade problems which will inevitably arise from regional development if they study these developments carefully and maintain very close contacts with these Blocs. The shock waves emanating from integrated Blocs will be twofold in nature:

- 1) Natural shocks due to the investment and social policies which will be employed in order to stimulate development in a particular direction. The policies will not necessarily include a discriminatory element. South Africa and other countries will have to accept these shocks as part of the long-term trend, to be reckoned with in future planning.
- 2) Shocks which are the result of deliberate discriminatory policies. These policies are usually directed at some particular country and entail a certain amount of preference for other countries. In the case of the European Economic Community preference will be given to the associated territories and countries which are prepared to conclude long-term contracts or bilateral agreements with the Community. The European Free Trade Association will according to their statutes only extend the preferences among themselves. All third countries will, therefore, receive the same treatment.

These two economic Blocs in Europe, namely the European Economic Community and the European Free Trade Association, created a division in Europe which is unreal. The interrelated trade interests of the countries belonging to the two different Blocs will probably in the near future lead to a compromise.

The European Economic Community is the more dynamic of the two European trade Blocs and will also follow a definite development policy in respect of the associated territories in Africa. These associated territories in Africa constitute the greatest

threat to South Africa's trade interests in the European Economic Community, but the rising nationalism in Africa may result in a permanent break with the Community.

South Africa's trade interest has been mainly in the European Economic Community, while trade contacts with the European Free Trade Association (the United Kingdom excluded) are negligible. On account of this fact South Africa will have to maintain the closest contact with the European Economic Community. Contact should be on a basis which can influence the policies within the Community in a definite direction, that is, which can couple certain developments in the Union to certain developments in the Community. For example, rather than developing mineral resources of a poorer quality in the Associated territories these minerals should be obtained from South Africa which has large resources of a high quality at her disposal.

Certain other measures to be taken within the Community, such as the fixing of the heights of tariffs, can also be determined by mutual agreement. In this connection more can be reached by individual effort than by group action. Thus, South Africa may receive better treatment if she negotiates alone rather than through the United Kingdom which has consistently opposed the Community. In this connection attention is drawn to the initiative of Canada.⁵⁾ While the Canadian attitude is probably not correct, it proves her belief in the formulation of an individual external policy. South Africa must reorientate her external economic policy in order to include the objectives discussed above. Such a reorientation will necessitate the revision of the existing economic obligations of South Africa within the British Commonwealth and will require more independent action.

5) The Financial Times, 28th January, 1960, P.2. "A distinct difference of approach has become apparent between the United Kingdom and the Canadian attitudes to European trading problems. The United Kingdom stressed the great scope for regional trading systems, while the Canadians believe in multilateral trade".

§ 2. South Africa's foreign economic policy.

It is extremely difficult to describe and define a country's foreign policy. This is so because the foreign policy of a government is not an isolated phenomenon. It is simultaneously a doctrine and a system of actions, and can be only understood in the light of other governmental activities: the objectives a government has chosen, its ideology, the economic situations, political conditions, the general background of a nation, psychological attitudes, emotional tensions, geographical situation - thus a context situation.⁶⁾

The problem is complicated further by the fact that studies of economic phenomena must inevitably be "open-ended" from the point of view of the economist; any attempt to draw up a complete system showing the loops of causation relevant to economic affairs must include sections of the circuit which pass into fields which cannot be the direct concern of the economist.⁷⁾ It should be apparent enough why economists, if they are to make statements about policies, must be taxonomic and allow for a wide range of possibilities.⁸⁾

Foreign economic policy is only a part of the overall foreign policy of a country, but although this is the case, special consideration should be given to the formulation of a policy which can be adapted to the dynamic conditions confronting a country such as South Africa in the modern complex situation.

The foreign policy of a country, being the dynamic factor that it is, can only be formulated successfully if it rests on a scientific basis. The scientific basis should be a study of social processes, a study of dynamic changing conditions in which

6) Gross F., Foreign Policy Analysis, New York, 1954. P.22.
 7) Day A.C.L., The Taxonomic Approach to the Study of Economic Policies, American Economic Review, March, 1955. P.67.
 8) Idem, P.68.

variables and facts are mutually interrelated. This being the case, the question immediately follows: who shall formulate the foreign economic policy of a country. In a country such as South Africa the problem is of great magnitude, because it is so closely interwoven with political and demographic factors.

For South Africa foreign economic policy has, to a large extent, been formulated by the United Kingdom. As a matter of fact South Africa has been one of the countries too dependent on the United Kingdom for her foreign economic policy. To quote from Hansard:⁹⁾ "As I have said, it has been the position in the past that the United Kingdom as such has had to undertake negotiations alone in these matters, but this is a challenge to the entire Commonwealth and a challenge in particular to us here in South Africa." The words to "undertake negotiations alone" are typical of the attitude which exists. From the same Hansard I also quote the words of the Minister of Economic Affairs:¹⁰⁾ "But what is of importance to us is the fact that just recently Britain, which is not included in the Six, has tried to become linked up with this Common Market, but on a different basis, namely on the basis of free trade. In other words, her proposal is that she should be linked up with these territories in such a way that there will be free trade between Britain and the six territories, but they will retain their own external tariff and their own economic policy ... We adopted the attitude that if this could happen we would welcome it because a greater European unit would be better than a limited one and because we would not like to see two Europes coming into being in the economic sphere; and because it would be to our advantage if we could be linked up indirectly with these six countries and at the same time retain

9) Hansard, 8th-12th June, 1959. P.7526. Speech by the Honourable Dr. H.G. Luttig, Government spokesman.

10) Idem, P.7602.

our most important imperial preferences ... I can give honourable members the assurance that this is something which may be of great importance to South Africa in the future. But I do not agree that this is a matter for the Commonwealth nations".

Attention is drawn to the indifference of the Government to the Common market, to the lack of detailed scientific facts on which the conclusion is based and the fact that Britain must negotiate. (Vide the foreign policy of the United States discussed elsewhere in this thesis.)

Before a body has been formed to make a detailed study of foreign economic events and the position of South Africa in relation to these events and before a positive public relations office has been created the formulation of foreign economic policy in South Africa must remain indefinite and uncertain. The formulation of a definite foreign policy with economics as a cornerstone will necessitate the application of instruments other than trade to foster economic contacts and welfare.

Another aspect of South Africa's foreign economic policy is illustrated by the fact that only one¹¹⁾ trade agreement has been concluded in the post-war period. South Africa has, instead of concluding an agreement, applied sanctions against Japan under Article XXXV of the GATT. New Zealand and Australia on the other hand have both concluded agreements in 1957. The terms of these agreements¹²⁾ are the extension to Australia and New Zealand of most-favoured-nation¹³⁾ treatment and non-discriminatory import control treatment. Japan also undertook to maintain the present duty-free entry for Australian wool for three years. In addition, 90% of Japan's total foreign exchange allocation for wool will be

11) South Africa/Federation of the Rhodesias and Nyassaland Trade Agreement, 1955.

12) Australia-New Zealand/Japan Trade Agreement, 6th July, 1957.

13) Japan usually maintains a system of bilateral trade agreements and exchange allocation agreements.

available for Australian wool in the form of a global quota. An important qualification is that Japanese exports must not harm Australian and New Zealand industry.

South Africa's attitude towards bilateral agreements is unrealistic in the modern world and results in the loss of an opportunity to extend "goodwill agreements".¹⁴⁾ More recently many bilateral trade agreements have merely provided for indicative lists of exchangeable goods without specifying the quantity or value to be traded. Discrimination is therefore not likely to arise, unless there are accompanying exchange arrangements in terms of which non-convertible credit balances may accrue to one of the partners and which cannot be used for purchases in third countries and therefore result in a stepping-up of imports from the other partner country.¹⁵⁾

Bilateral agreements are more widely used by the underdeveloped countries, many of which have a keen desire to find new markets for their staple exports and to diversify their trade relations by establishing direct commercial contacts abroad.¹⁶⁾

Many of the leading exponents of the free trade principle in the Western World, such as the United Kingdom, have maintained bilateral agreements with countries which have for various reasons been unable or unwilling to conduct trade on a multilateral basis. It is felt that a valuable opportunity to bring total merchandise exports and imports in a greater state of equilibrium with each other is lost because of this dogmatic adherence to the principle of multilateral trade which is theoretically sound, but impractical in a world where numerous restrictions exist. South Africa should, especially in a world where long-term contracts are concluded between the economic power blocs and other

14) GATT., International Trade 1957-58, Geneva, 1959. P.262.
 15) Idem, P.262.
 16) Idem, P.262.

countries, seriously re-consider her attitude towards bilateral agreements. The fact that she is an important gold producer is for the formulation of an external economic policy of no practical and theoretical importance under the circumstances where the price of gold has been fixed and controlled by a foreign country since 1934.

South Africa in particular has refrained from bilateral trade agreements of the barter type.¹⁷⁾ This approach is nothing less than severe discrimination against countries which have no international reserves of any magnitude, such as members of the Sino-Soviet Bloc and Latin-American countries. This is also the reason why trade with these countries has remained negligible over the period 1938-58. Why such a dogmatic approach has been adopted is not clear. Suffice it to conclude that the harm to the country's international economic relationships has been considerable.

Again attention is drawn to the policy adopted by the United States of America in this connection.¹⁸⁾ Section 2 of Public Law No. 480 reads: "It is hereby declared to be the policy of Congress to expand international trade among the United States and friendly states, to facilitate the convertibility of currency, to promote the economic stability of American agriculture, and the national welfare, to make maximum efficient use of surplus agricultural commodities in furtherance of the foreign policy of the United States, and to stimulate and facilitate the expansion of foreign trade in agricultural commodities produced in the United States by providing a means whereby surplus agricultural commodities in excess of the usual marketings of such commodities may be

17) Speech by the Minister of Economic Affairs before the American Club in Johannesburg 15th May, 1959. The Star, 15th May, 1959.

18) Public Law No. 480, originally enacted 10th July, 1954.

sold through private trade channels and foreign currencies accepted in payment therefor. It is further the policy to use foreign currencies which accrue to the United States under this Act to expand international trade, to encourage economic development, to purchase strategic materials, to pay United States obligations abroad, to promote collective strength and to foster in other ways the foreign policy of the United States". Section 104(b) of the Act reads: "To purchase or contract to purchase strategic and critical materials, within the applicable terms of the Strategic and Critical Materials Stockpile Act, for a supplemental United States stockpile of such materials as the President may determine from time to time under contracts".

Payment for many of these strategic materials can only be made on a barter basis, i.e. the supply of surplus agricultural products. The extensiveness of these laws,¹⁹⁾ their integration with American foreign policy and their discriminatory²⁰⁾ nature must be taken note of.

Straightforward barter transactions in terms of which no foreign exchange will be transferred to South Africa as payment for products exported from South Africa are prohibited by the Union's Exchange Control Regulations.²¹⁾ Such transactions are permissible as a "compensatory deal" in terms of which a private importer in possession of the necessary import facilities buys and pays for South African goods with the currency so obtained. The complicatedness of the deal can be seen from the fact that four different steps covering payment alone are required. This is in complete disharmony with the existing business practice and is a

19) Section 402 of the Mutual Securities Act. The Trade Agreements Extension Act of 1958, in Foreign Agriculture, October, 1958. P.9.

20) American Cargo preference laws require that 50% of all such cargoes must be carried in United States vessels.

21) Government Notice No. 2800, 2nd November, 1951. Reg.9(I)A. Government Notice No. 2801, 2nd November, 1951. Reg.6.

fundamental disregard of the basic "laws" underlying legal tender.

The making of regulations of this nature complicates the exchange process to an extent where it amounts to nothing less than total prohibition. The existence of such a rigid foreign economic policy under modern conditions is peculiar to South Africa alone and must be seen against the background of our cultural-idea system. The traditional "isolationist"²²⁾ policy can never serve as a foundation for the moulding of the policy required. For the establishment of future international relations past experience is not enough. The tempo of social change and changes in technology create a new situation for which the past can offer no answer.²³⁾

In the past South Africa has had one stable²⁴⁾ factor in her economic relations with the outside world, namely her geographical location. A glance at the map illustrates the unique and advantageous geographical position which South Africa possesses in the development of markets outside her borders. International events, modern aircraft and the widening of the Suez Canal may, however, also change this factor and future foreign policy will have to consider this. Any developments which may occur will probably influence South Africa's exports.

Foreign policy can be defined as:²⁵⁾ "A well-rounded, comprehensive plan based on knowledge and experience, for conducting the business of the government with the rest of the world. It is aimed at promoting and protecting the interests of the Nation. This calls for a clear understanding of what those interests are and how far we can hope to go with the means at our disposal. Anything less than this falls short of being a foreign policy".

22) Robertson H.M., "Economic Co-operation between Western Europe and the Commonwealth", in South African Journal of Economics, December, 1951. P.317.

23) Gross F., Foreign Policy Analysis, New York, 1954. P.XX.

24) Idem, P.23.

25) Idem, P.45.

Proper research is a prerequisite for intelligent decision, so essential to a continuous process of policy formulation. Because of the interdependence a change in one of the factors results in changes in the others, which involves their re-adjustment. Adjustment of factors, in turn, gives rise to social processes which affect the complex canvas of human society.²⁶⁾ This will be the effect of international economic power groups such as the European Economic Community.

Foreign economic policy is a function of domestic economic policy and vice versa.²⁷⁾ There is no doubt as to the importance of this fact to the economic welfare of a country. Every decision of the entrepreneur in every industry at any moment depends on a whole series of interrelated dynamic factors. Some of these factors are more dynamic than others. These fluid factors must be controlled by a higher authority. The control of these factors by the supreme authority cannot exceed national boundaries. It is of the utmost importance that a domestic and foreign policy should be formulated to control the most suitable climate for economic welfare.

The gravest problem in the international economic sphere during this century has probably been the economic policies which have been formulated and followed by the United States of America. These policies are not only very restrictive, but they are also very aggressive. Not only have they been affecting other countries directly, but they have also in many instances been regarded as the model on which other countries should model their own economic policies. The success of international organisations such as the GATT depends to a large extent on the attitude adopted and applied by the United States and other leading countries.

26) Idem, P.95.
27) Idem, P.158.

South Africa and other small countries will act wisely if they also adopt more aggressive external economic policies. Not only will such a step improve the export/import ratio, but it will compel these powerful countries to follow a less aggressive and selfish economic policy. Any reorientation of South Africa's external economic policy should aim at the vigorous protection of her interests and more weight should be given to such a policy than the adherence to foreign obligations which do not count with other more developed countries. South Africa can afford such a policy in view of the fact that she has an adverse trade ratio of 1 : 4 with the United States of America and approximately .5 : 1 with the United Kingdom and Germany.

§ 3. Instruments for the formulation of an economic Pan-African policy.

The instruments required for the formulation of South Africa's foreign policy will be a revision of the national budget with the inclusion of votes for the financing of research, as well as the provision of scientific and educational facilities throughout the Continent of Africa. Only then will her viewpoints be carried to the new independent states in Africa and will she be regarded as the economic hinterland of Africa. Any eclipsing of the economic importance of South Africa by other African countries can only result in a loss of economic contact. The establishment of Bantu Universities provides a unique opportunity for the laying of the foundations of a Pan-African policy so vital to the fostering of trade. The precarious position of South Africa as far as trade with African countries is concerned, has already been discussed.

South Africa's policy in respect to the rest of Africa has been described as "a doctrine in the making, a process of adjustment to the facts and the needs of a developing situation which

has barely begun to shape itself.²⁸⁾

It is felt that the policy of the Government to establish contact with independent states in Africa, to co-operate with them and to convince them that the Union's aim is to maintain friendly relations with them and that our policy of racial segregation must rest on a firmer economic basis. South Africa's participation in two international organisations concerned with the development of Africa, namely the Commission for Technical Co-operation, known as the C.C.T.A., and the Scientific Council for Africa South of the Sahara, known as C.S.A.²⁹⁾, although of great importance, has been of very little economic significance. A project such as the Colombo plan³⁰⁾ will be very much more effective and may be just as remunerative as the Marshall plan has been for the United States of America. The following quotation³¹⁾ from the abovementioned fact paper is relevant: "Indeed, the Union refused to participate in the Economic Commission for Africa inaugurated by the United Nations last year and which held its first meeting in Addis Ababa recently, because it wished to avoid overlapping with these two organisations.

At that time the Minister of External Affairs announced that the Union might review its decision if it should appear that its fears were unfounded ... It is doubtful whether the Union stand to gain anything by ... even on grounds of principle - refraining from any international concert on the future of Africa ... This,

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- 28) Paper read at the 10th annual congress of the South African Bureau of Racial Affairs at Durban on 3rd April, 1959, by Mr. W. van Heerden published as Fact Paper 72, May, 1959, by the South African Information Service, Pretoria, P.3.
- 29) Idem, P.9.
- 30) Commonwealth Survey, 20th January, 1959. P.62. In 1959 contributions of Commonwealth countries towards the Colombo-plan were Australia 1952-59 £27.3 million; New Zealand 1952-59 £8.3 million; United Kingdom £123.25 million; Canada £72.64 million; United States of America £1428.57 million. South Africa does not belong to the plan.
- 31) Paper read at the 10th annual congress of the South African Bureau of Racial Affairs at Durban on 3rd April, 1959, by Mr. W. van Heerden, published as Fact Paper 72, May, 1959, by the South African Information Service, Pretoria, P.9.

however, must be said in regard to the work of the C.C.T.A. and the C.S.A. : Firstly most of it is done in the spirit of 'let not thy left hand know what thy right hand is doing' ... from the point of international relations it has the drawback that the rest of Africa is hardly aware of the extent of its indebtedness to the Union in respect of her share of the technical development of the Continent."

South Africa should establish direct contact with the rest of Africa and not through the liaison of Europe.³²⁾ Economic measures by many countries in Africa have been the latest attempt to hit South Africa's traditional segregation policy.³³⁾

Before trade with countries in Africa can be expanded the formulation of a Pan-African economic policy will be necessary. For the application of this policy use must be made of economic instruments, just as advertisement costs must be paid for by the individual firm or industry. The benefits to be reaped will stretch over a long-term period and may be the difference between economic welfare within a dynamic unit or economic isolation on a continent which will become integrated more and more.

§ 4. Conclusion:

Any economic policy, domestic as well as foreign, can only succeed if it is based on sound long-term principles. In a world beridden by relative scarcities the application of a means in one direction is bound to result in a diversion elsewhere. The final result, the national income, will depend on the success of the policy to stimulate the economic principle to the optimum point.

It follows that South Africa will have to be extremely careful not to stimulate industries by protection where no comparative advantage will ever be obtained. Again a successful policy can

32) Idem, P.10.

33) The Star, "Trade boycotts by Ghana, Kenya and Tanganyika", 30th September, 1959. P.5.

only be followed if all the relevant facts are known, hence a determined but not too comprehensive protectionist policy. On the other hand, no potential industrialist should be left in the dark as to state policy.

Only on a sound, well-sustained domestic economy can the external sector be built. The success of any foreign economic policy is to a large extent the outcome of the resilient features of the domestic economy. The success of the internal sector of the economy depends again on the results obtained in the international sphere. The interwovenness of the national and world economy calls for the highest degree of objectivity, which can only be obtained by the following of a long-term policy without, however, sacrificing the many short-term advantages.

A reorientation of South Africa's external economic relations in the light of the rising international economic power groups must be based on a dynamic foreign policy which can only be formulated after the acquisition of the necessary scientific economic facts. It is the contention of the writer that an institution for the compilation and formulation of such facts and for the advising of the Government does not exist in South Africa.³⁴⁾ The establishment of such a body is a basic requirement for the success of any policy to be followed against the rising power groups.

A revaluation of imperial preferences should be undertaken on the highest level under the guidance of a Commission of Enquiry. This will stimulate public interest which is of vital importance where politics play an important part. Preferences should be readily abolished to free the country from the shackles of her relations with this obsolete remnant of mercantilism.

34) The announcement of the formation of an Advisory Council by the Prime Minister is a step in this direction. The structure of this Council must still be announced: Dagbreek en Sondagnuus, 6th November, 1959. P.1.

South Africa's international trade is precariously balanced on a market of decreasing importance and beridden with political considerations, such as trade boycotts based on political bias, a phenomenon more likely to increase than decline.

South Africa must also as a prerequisite revise her dogmatic principles as to certain international trade and exchange practices such as bilateral agreements and trade with the Sino-Soviet Bloc which, although not the most desirable have been pursued by some of the most powerful economic entities.

Contact with the most powerful economic Bloc, the European Economic Community, must be strengthened by accrediting of an Ambassador Extraordinary and an adequate personnel to the European Economic Community in Brussels. Where possible contracts should be concluded to supply the mineral requirements of this Bloc. This will become of the utmost importance when the Belgian Congo gains its independence and, as is expected, leaves the Community. Even if she does not, the comparative advantage of South Africa as far as mineral and metal resources are concerned, should ensure maximum economic contacts with members of the Community. South Africa should also give serious consideration to the advisability of establishing branch industries in the Community which can develop the principle of "Konsumorientierung". This will ensure a valuable market for some of her fruit products in respect of which the European markets have a particular taste and preference.

Special attempts must also be made to conclude bilateral agreements with Latin-American countries and Japan. Although the situation in regard to the Sino-Soviet Bloc is dominated by political considerations, nothing should be done to discourage economic contacts with them. If South Africa will not do this other countries of the Free World will.

As a component of South Africa's foreign policy in respect of

Africa greater stress should be placed on technical assistance and direct financial aid to underdeveloped countries south of the Sahara. The economic value of such a policy will be of a long-term standing.

Whatever policy is adopted, it should rest on minimum as well as maximum objectives. The foundation of such a policy must be economic science.

South Africa cannot rely on the GATT to have a favourable influence on the freeing of world trade. Her attitude as a relatively underdeveloped country towards the GATT should be cautious on account of the weak basis which underlies the GATT and the open disregard shown by well developed countries for the GATT rules. South Africa will also have to realise that the internal policies of the main industrial countries are aggressive and restrictive in nature and that they will probably continue to be so during the years to come.

The main objective of any external economic policy should, however, be to obtain greater equilibrium between total merchandise imports and exports. In order to achieve this objective less reliance can be placed on the traditional markets where economic integration will play an important rôle. More attention should be given to the markets which have been neglected in the past. To reach this aim the external economic policy should be reorientated to eliminate the factors which have been responsible for this development. If this is not done the disequilibrium will continue to exist, which will result in the stagnation of the South African economy because of the impossibility of obtaining the advantages of economies of scale in a small domestic market. This will result in continuous underemployment with all the evils peculiar to it. In a country such as South Africa where the price of the main export item, namely gold, has been pegged down for 26 years, an external policy should be very definite and well-formu-

lated to compensate for the loss in foreign reserve potential. Nothing should be spared to conclude trade contacts which will contribute towards greater equilibrium in the external sector. All considerations should be taken with a long-term objective in mind. This can only be achieved by a well-directed economic policy based on a detailed study of developments throughout the whole world.

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