1. In accordance with its terms of reference the Working Party has conducted the consultation with the Union of South Africa under paragraph 4(b) of Article XII.

2. The Working Party had before it:
   (a) the basic document prepared on behalf of the secretariat by the authorities of the Union of South Africa describing the system and methods of the balance-of-payments import restrictions in operation in the Union and including a statement on the effects of the restrictions;
   (b) documents provided by the International Monetary Fund.

These documents should be deemed to be supplementary material annexed to this report.

3. In conducting the consultations the Working Party followed the "Plan" recommended by the CONTRACTING PARTIES. The present report summarizes the main points discussed during the consultation.

Consultation with the International Monetary Fund.

4. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with the Union of South Africa. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its 1957 consultation with the Union of South Africa, together with a supplement specially prepared for the CONTRACTING PARTIES on developments since that consultation. In accordance with agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of the Union. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its last consultation with the Union of South Africa under Article XIV of the Fund Agreement, which consultation was concluded on April 3, 1957."
"As some time has elapsed since the conclusion of this consultation with South Africa, the Fund has also provided a supplementary paper on the Union, dated October 4, 1957, to supply background information on subsequent developments in the internal situation, the balance of payments, and the restrictive system. This paper, together with the background material from the last consultation under Article XIV of the Fund Agreement, and the results of that consultation, have been distributed to the members of this Working Party.

"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, the Fund draws the attention of the CONTRACTING PARTIES to the results of its most recent consultation with the Union of South Africa under Article XIV of the Fund Agreement, and particularly to paragraph 3, and to paragraph 4, which reads as follows:

14. Fiscal and monetary policies have remained the principal instruments to establish external equilibrium. The licensing system continues to have some restrictive effects, but the controls are largely of a precautionary nature. The Fund welcomes the relaxation of restrictions announced for 1957 and notes with satisfaction the expressed intention to make further progress in this field.'

"With respect to Section II of the Plan, relating to alternative measures to restore equilibrium, the attention of the Working Party is drawn to the results of the last Fund consultation with the Union of South Africa. The Fund has no additional alternative measures to suggest at this time."

**Balance-of-Payments Situation and Prospects**

5. In opening the consultation the representative of the Union of South Africa referred to the documents before the Working Party which in his view provided a complete picture of the Union's current economic position and of the extent to which the import restrictions had been relaxed. The facts showed clearly that the Government of the Union of South Africa was acting fully in accord with the provisions of the General Agreement and that it was moving forward with the liquidation of its import controls as speedily as the exchange reserves permitted. The need for introducing import controls in 1948 had arisen primarily out of the exceedingly rapid rate of economic development which South Africa had experienced in the early post-war years. Mining and secondary industry in particular expanded enormously and, in addition to the direct investment outlays in these branches, large additions also had to be made to basic services to keep pace with the rapid development in the private sector. In recent years these huge investment programmes had begun to show fruit and there had been a consequent increase in the country's productive capacity. This had brought about an increase of no less than 64 per cent in net national income in real terms during the ten years 1946-56, as compared with an increase of 22 per cent in population. Similarly, non-gold exports had advanced from £138 million in 1948 to £413 million in 1956. Gold production had also risen considerably. In 1956, for the first time since the end of the war, South Africa achieved a current account surplus, amounting to £10 million."
6. As the economic position improved the Union Government had progressively relaxed its import restrictions. As long ago as 1954, all discrimination as between different currency areas had been removed, and the importer had since been entirely free to import from the most advantageous source. As a result of subsequent relaxations, upwards of 90 per cent of South Africa's imports were now free from effective control and as soon as the Government deemed the time propitious it would take the final step of removing the remaining restrictions. The Union Government's policy had been, and remained, to proceed cautiously so as to avoid any need for retrogression.

7. The liberalization measures had been an important contributory factor towards the rise in South Africa's imports (the monthly average imports rose from £41.2 million in 1956 to £45.8 million in the first seven months of 1957). In spite of the liberalization, the balance of payments on current account had continued to show an improvement during the first half of 1957. Gold and exchange holdings, however, declined by about £8 million, which indicated that there was a net outflow of capital during the first half of the year. Although South Africa was currently financing about 90 per cent of its investment outlays from domestic savings the country was still vitally dependent on a steady inflow of investment capital from abroad to maintain a high rate of growth, and any unfavourable developments in capital movements would obviously have an impact on the Government's import control policy.

8. Since the middle of 1957, the Reserve Bank's gold and exchange holdings had shown a further decline, of about £16 million, and they now stood at about £110 million, which was roughly equal to two-and-a-half months' average imports. Seasonal factors normally would cause these reserves to rise during the fourth quarter, but the most recent current account figures were not entirely reassuring and the South African Government might have to reassess its position regarding the removal of the remaining import controls, which it had hoped to do in the course of next year.

9. The representative of the Union of South Africa assured the Working Party that his Government would lose no time in dismantling the remaining controls as soon as it felt confident that this could be done without jeopardizing the country's exchange reserves.

10. The Working Party took note of the statement of the South African representative, and the documents supplied by the Union Government and the International Monetary Fund. It was noted that the South African Government was moving steadily forward in the direction of freer trade, the intention being to continue to remove restrictions as rapidly as the balance-of-payments situation would permit; that the discriminatory element in the restrictions had been eliminated as early as the end of 1953; and that 92 per cent of imports were not under effective restriction although a large proportion remained under licence. The Working Party particularly welcomed the statement that barring any serious unfavourable developments, the Government of South Africa expected to remove all restrictions by 1958. Members of the Working Party also expressed gratification at the South African Government's determination to avoid involvement in bilateral arrangements. Although there had been a reversal of the favourable
trend in capital movement and some uncertainty about the current account position, the hope was expressed that the situation would not worsen and that further progress would soon be made in the elimination of restrictions.

11. The Working Party noted that the problems at present faced by the Union of South Africa principally arose from its net deficits on capital account. Members of the Working Party showed considerable interest in the causes and factors responsible for the reversal of the Union's earlier position as a net importer of capital, and in the implications of this development for the country's general balance of payments and commercial policy. In the course of discussion a number of questions were put by members of the Working Party, such as: whether the decline in capital inflow into the Union reflected lower expectations of invested income in the country, or whether it was due to factors of a more temporary nature; to what extent the outflow of capital from South Africa consisted of short-term funds and to what extent equity investment was affected; whether there was any noticeable change in the inflow of capital for direct investment; whether there had been pressures against the controls on the outflow of capital from South Africa introduced in September 1957.

12. In reply to these and other questions, the representative of the Union of South Africa explained that the South African capital market was closely linked with the world market, especially that of London. The very high rate of interest that prevailed on the London market would naturally have the effect of attracting short-term capital, and had caused a considerable reduction in the inflow of funds to South Africa. Measures had been taken to prevent the transfer of South African funds, but it was not within the power of the Union Government to keep up the inflow of foreign capital which was being attracted by high rates of interest elsewhere. The control measures had been taken purely for precautionary reasons, to prevent speculative movements, and consequently did not affect capital which had come in for legitimate purposes. Under the South African regulations foreign investors had not only the right to remit dividends but also to repatriate capital that had found its way to South Africa through normal banking channels. There had been some selling on the London market of South African securities, but funds invested in industry had not as far as was known been withdrawn to any substantial extent.

13. As regards the magnitude of the change in the capital account and its possible relevance to the policy of liberalization, the representative of South Africa stated that whereas in 1953 and 1954 the net inflow of private capital had been £26 million and £55 million respectively, the year 1955 saw a net inflow of £3 million. In 1956 there was an insignificant inflow of about £1 million, followed in the first half of 1957 by a net outflow amounting to £8 million. In spite of the reversal of the trend of capital flow the South African Government had been able to pursue its policy of liberalization principally on account of the high export earnings.

14. According to the statistics supplied by the Fund, a large and increasing proportion of the capital inflow into South Africa had been of dollar area origin. The representative of South Africa pointed out that the long-term
tendency appeared to be for the Union to obtain capital supplies from markets other than the United Kingdom. As the present shortage of capital was not limited to the London market but rather of a general nature, it had been found increasingly difficult to obtain capital also from other sources.

15. The Working Party discussed the prospects of South Africa's exports. It was pointed out by a member that one-third of South Africa's exports consisted of gold, and that the problems faced by South Africa must have been accentuated by the fact that the price of gold had not increased in the last thirty years to any extent comparable with other commodities. The South African representative fully concurred in this view.

16. In reply to specific questions, the representative of South Africa pointed out that proceeds from diamond exports were hardly a factor in the country's balance of payments; it amounted to £13 million out of a total of the Union's non-gold exports of £13 million in 1956. The demand for industrial diamonds depended on the level of economic activity, and that for gem diamonds on changes in personal income.

17. As for exports in general, it was noted that more than a quarter of South Africa's exports now consisted of industrial products supplied principally to other countries or territories in Africa, and the hope was being entertained that such exports, which had already risen by about 200 per cent between 1948 and 1956, could be further expanded. Among primary commodities the export of wool had been maintained although prices were currently tending downwards, that of fruit could be expected to expand as a result of increased production, the value of mineral exports might fall as a result of lower prices, and in the case of lead and zinc the market was uncertain as it depended on stockpiling policies of governments. Taken as a whole, exports were expected to expand gradually, and it was hoped that there would be a resulting improvement in the balance of payments which would be reflected in the commercial policy of the South African Government.

Internal economic policies

18. The representative of South Africa further explained that about eighteen months ago the Minister for Economic Affairs had warned that the expansion of the economy was at too rapid a rate having regard to the country's resources of manpower and capital. He had consequently counselled a policy of consolidation rather than expansion. More recently, however, the emphasis had again shifted to expansion and measures had been taken to encourage new investment. The rate of development in the Union was, however, also dependent on economic conditions prevailing elsewhere and there would seem to be signs of slackening in some of the leading countries abroad.

19. A member of the Working Party observed that South Africa was able to achieve a steady rate of economic expansion and to maintain an even pace in liberalizing its imports at the same time. In his view the stability in prices should be particularly noted. The South African representative thought that the success might be attributed to the favourable natural and other conditions and endowments of the country, as well as to the sound financial and general economic policy of the Government.
System and Methods of Restrictions

20. The Working Party discussed the system and methods of the restrictions on the basis of the documentation before it. It was noted that under the South African import control system imports were divided broadly into three categories:

(a) goods which may be freely imported without licence;
(b) goods subject to import permit but free from quota restriction;
(c) goods subject to both licensing control and quota restriction.

21. The Working Party wished to know whether the two different procedures, as described in (a) and (b), were necessary for admitting unrestricted imports. The representative of South Africa explained that the licensing control retained on goods in group (b) was generally for statistical or precautionary reasons. As these reasons had now largely disappeared consideration was at present being given to their complete abolition.

22. In response to a request for an indication of the extent to which imports were free from effective restriction, the South African representative stated that imports under the procedures referred to in (a) and (b) above covered about 92 per cent of total import requirements at the current level; only 8 per cent of the total imports remained subject to quota restriction. The "general merchandise" quotas for this category of goods now amounted to 60 per cent of the basic quotas, which for the majority of the importers was the value of their imports of consumer goods in 1948. These restrictions were maintained for the time being also for precautionary reasons and the Government intended to review the situation and examine the possibility of eliminating them at the end of this year.

23. The Working Party discussed the special case of motor cars which had been exempted from quota restriction recently. The representative of South Africa explained that although quantitative restriction was no longer intended on this product, licenses were not issued automatically but, in order to prevent the building up of excessive stocks, on a replacement basis. Under the present arrangement all cars were available on the market and dealers were gradually becoming well stocked.

24. A member of the Working Party pointed out that the goods listed in Annex A (goods free from licensing control) were mostly not very different in nature from the goods listed in Annex B (goods subject to licensing control but were free from effective quota restrictions) and enquired as to the basis on which the selection was made. The representative of South Africa informed the Working Party that the grouping of these products was not the result of deliberate selection, but rather a matter of historical accident. For example, at one stage it was decided to exempt ordinary textile and ancillary products from licensing control while keeping the more expensive types of such goods on the restricted list. Subsequent experience had shown, however, that factors affecting the flow of textile imports were highly unpredictable, and consequently, when the more expensive types of textile goods were due for liberalization it was decided to keep them under licensing control so as to enable a statistical check to be maintained which would be useful in gauging the pressure of demand and in the formulation of future licensing policy.
25. The Working Party was generally gratified to learn that a large proportion of goods were being kept under licensing control purely for statistical or precautionary reasons, and that these goods would eventually be transferred to the group free from licence. Some members expressed the view, however, that these licensing requirements, even though only a formality, must inevitably have some deterrent effect on trade and should be abolished as soon as possible. The representative of South Africa referred to his earlier statement that his Government would be considering the complete abolition of the licensing control and quota restrictions as soon as the exchange reserves permit.

26. A member of the Working Party suggested that it would be useful for other contracting parties applying import restrictions if the South African representative were to outline the factors and policy considerations which had led South Africa to dispense with discrimination. The representative of South Africa referred to the declaration which had been made by the Minister for Economic Affairs at the time of the elimination of the discrimination.

27. As noted above, the Government of South Africa was not a partner to any bilateral trade agreements. In discussing the reasons why South Africa was more successful than other countries in avoiding resort to this device, the South African representative noted that not infrequently pressures were brought to bear on his Government to enter into bilateral arrangements. One of the reasons why it had always resisted, and would no doubt continue to resist, such pressures might be that most of South Africa’s exports were in demand on the world market (although certain of its exports clearly could benefit from special arrangements providing them with privileged markets). But more fundamentally it was because the South African Government was strongly convinced that multilateral, non-discriminatory trade was in the ultimate interest of all and that bilateralism was a curse to international economic relations.

28. The Working Party generally agreed that the past record of the South African Government of steadily moving in the direction of freer trade should give contracting parties full confidence in its future policy. Unless there should be a serious worsening of the balance-of-payments situation it could be safely expected that the further steps of liberalization alluded to by the South African delegation would be taken at the earliest possible time.

Effects of the Restrictions on Trade and Industry

29. The South African representative stated that his Government had always maintained that the controls on imports were applied for balance-of-payments reasons and that they should not be used for any other purpose. Producers had often been warned that they could not count on the continued maintenance of any such restrictions beyond the time when they could be justified on balance-of-payments grounds. Although the measures must have had certain incidental protective effects, the Government was determined that, if at all possible, there would be no transitional problems for the CONTRACTING PARTIES to consider in the context of the "hard core" waiver. Members of the Working Party considered that the attitude of the South African Government was a good indication of the healthy state of manufacturing industry in the Union, and welcomed this categorical statement which showed the South African Government’s determination to uphold the principles, and to abide by the provisions of the General Agreement.

1 Cf. SR.8/17