1. The Committee has conducted the 1963 consultation with the Republic of South Africa under the provisions of paragraph 4(b) of Article XII. The Committee had before it (a) a basic document prepared by the South African authorities (BOP/31) and an addendum containing information supplied subsequent to the compilation of the basic document, and (b) documents provided by the International Monetary Fund, as noted in paragraph 3 below.

2. In conducting the consultation the Committee followed the Plan for such consultations recommended by the CONTRACTING PARTIES (BISD, 73/97-98). The consultation was completed on 4 December 1963. The present report summarizes the main points of discussion during the consultation.

Consultation with the International Monetary Fund

3. 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 South Africa. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's document concerning the position of South Africa. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES a paper dated October 25, 1963, which deals with economic development and changes in the restrictive system in the Republic of South Africa.

1 See also paragraph 24.
"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, and with respect to Part III, relating to systems and methods of the restrictions, the Fund is currently conducting a consultation with South Africa under Article XIV of the Fund Agreement and expects to transmit to the CONTRACTING PARTIES the Executive Board decision relating to that consultation when it becomes available.

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, pending the conclusion of its current consultation with the Republic of South Africa, the Fund has no comments on alternative measures."

Balance-of-Payments position and prospects

4. In his opening statement, the full text of which is annexed, the representative of South Africa outlined developments in the South African economy since the last consultation. In particular, he indicated that real gross national product had increased by 6 per cent between 1961-62 and 1962-63; private consumption had risen by 9 per cent in 1962-63; both exports and imports had increased in the first ten months of 1963 as compared with the same period of 1962; the surplus on current account had declined from R.245 million in the first nine months of 1962 to R.108 million in the same period of 1963; there had been a net surplus of R.80 million in the overall balance of payments in the first three quarters of 1963 compared with R.169 million in the corresponding period of 1962; the Reserve Bank's gold and foreign exchange reserves had risen from R.430 million at the end of 1962 to R.519.4 million on 30 November 1963 but had subsequently declined to R.511.4 million on 15 November 1963."
5. The Committee discussed with the representative of South Africa the factors underlying the South African balance-of-payments position. In particular, members of the Committee based their questions on specific points appearing in the report of the Committee on the Balance-of-Payments Consultations with South Africa in October 1962 (L/1852).

6. Members of the Committee noted that South African imports, which amounted to R.1,058 million in the first ten months of 1963, were 24.4 per cent higher than in the corresponding period in 1962. The representative of South Africa stated that it was expected that imports for the year 1963 would amount to R.1,260 million. Commenting on the increase of imports in the first ten months, the representative of South Africa explained that this was attributable to increased imports of capital equipment, R.39 million; motor vehicles, R.43 million; raw materials, R.51 million; wheat, R.10 million (necessitated by the poor South African harvest following a drought); and consumer goods, R.25 million. It was expected that in 1964, as a result of the maintenance of a rapid rate of industrialization in South Africa, imports of capital equipment would again rise. The representative of South Africa, in reply to a question, stated that increasing imports had not led to increased stocks so that it could be expected that present import levels would generally be, at least, maintained in 1964.

7. Members of the Committee noted that exports had risen from R.796 million in the first ten months of 1962 to R.823 million in the corresponding period of 1963. They asked whether the South African authorities expected this improvement to be maintained. The representative of South Africa indicated that, as far as agricultural products were concerned, the position was not altogether promising. The maize crop had, in 1963, been exceptional and the 80 million bags produced this year had to be compared with an average crop of 25 to 30 million bags.
In this connexion it had to be borne in mind that South African producers of maize were paid a higher price than that obtainable on world markets so that it was not altogether in the country's interests to encourage maize production for export. South Africa had benefited from the very high prices for sugar during 1963 but it was not, of course, to be expected that such prices would be maintained for any length of time. South African exports of fruit, besides being dependent upon climatic conditions, were meeting increasing competition in the European market. South African exports of raw materials were likewise faced with uncertain world markets and export realizations were liable to fluctuate with price variations prevalent in this sector of trade. There had been a tendency recently for South African exports of manufactured goods to level off.

8. The South African representative replied to a question on the prospects for gold production. It was the expectation of the South African authorities, he explained, that gold production will reach its peak in 1964 and, thereafter, start to decline. Exploration was continuously being conducted to find new ore bodies but it was unlikely that any new discussion would offset the closing of old mines as a result of increasing production costs and the working out of richer veins.

9. A member of the Committee enquired whether the South African Government was attempting to encourage exports by the provision of incentives to exporters. The representative of South Africa stated that the Minister of Finance had, in his last budget, introduced a scheme whereby all exporters were permitted to deduct, for taxation purposes, 125 per cent of allowable expenditure incurred in the development of export market irrespective of whether they were successful in increasing their exports or not.
10. Members of the Committee observed that South African reserves of gold and foreign exchange were, in August 1963, three times higher than they had been in 1960 and twice as high as they were in 1961. They noted that there had been a slight decline from the middle of August and enquired whether this was indicative of a trend. The representative of South Africa stated that a decline in reserves at this time of the year was unusual since it was at this period that South African exports of fruit were at their peak. In reply to a question, the representative of South Africa confirmed that the reserve figures given in his opening statement did not include commercial bank holdings outside South Africa. The representative of the Fund stated that, according to information available to him, these amounted to R.35 million in August 1963.

11. The members of the Committee discussed with the representative of South Africa the adequacy of his country's reserves in relation to its imports and other short-term commitments. They noted that reserves now amounted to about four and a half months' value of imports. The representative of South Africa pointed out that this calculation was accurate if imports were valued on an f.o.b. basis but if the ciffing costs and other current account payments were taken into consideration, the reserves would cover only about three months' outlay.

12. The representative of South Africa confirmed that there had been a continued upsurge in fixed private investment. This had been particularly marked in the industrial sector and it was for this reason that the South African authorities expected imports of capital equipment to rise in 1964. Despite this trend, however, there had been a net private capital outflow of R.67 million in the first half of 1963. The South African Government, as a result, saw no alternative but to maintain exchange restrictions. In this context the representative of South Africa observed that there still existed a significant gap between London and Johannesburg stock prices.
Alternative measures to restore equilibrium

13. Answering a question, the representative of South Africa stated that the South African authorities were not anxious about the money supply which was rising but not at a rate disproportionate to economic activity. The South African Government had been largely successful in preventing price increases. In 1962, prices rose by only 1.4 per cent and had remained steady during 1963. Costs of certain items had even fallen and he instanced clothing in this regard. Wage rates had also remained steady but recently there had appeared a shortage of skilled labour which had resulted in the bidding up of wages for this category. The South African authorities were keeping a careful watch on this trend since they were not prepared to permit the emergence of an inflationary situation which would in particular be extremely detrimental to the vulnerable gold industry.

System and methods of restrictions

14. Members of the Committee recalled that in paragraph 4 of the International Monetary Fund Executive Board Decision of 10 September 1962 it had been stated that "in view of the continuing increase in reserves, the Fund considers that South Africa should be able in its 1963 Import Programme to make substantial progress in eliminating restrictions". They also noted that since the date of the Executive Board Decision the general economic position of South Africa, and the level of the reserves had generally improved. The representative of South Africa observed that since South Africa's 1962 consultation, fifty-three items had been removed from the restricted list. In accordance with the request made at that consultation, South Africa now freely issued licenses for imports of motor vehicles of an f.o.b. value of R.1,600 and above. Allocations of exchange for Group A and Group B commodities had been increased. For both groups these allocations were 25 per cent higher in 1963 than in 1962. For Group A items the 1963 allocation was 66 2/3 per cent greater than the 1961 allocation and the Group B allocation 42.8 per cent higher.
As far as Group A commodities were concerned the allocation now amounted to 125 per cent of the average imports of 1959/60. It was noteworthy, he continued, that when in October 1963, additional allocations for Group A goods were announced one third of the importers of such items had not taken advantage of this additional allocation. Moreover, during 1963 a concession had been granted to holders of Group B import permits enabling them to convert their permits to allow for the importation of goods on the restricted list on the basis of R.1 for R.1 for the first R.5,000 of their total permits and on an R.2 for R.1 basis thereafter. Although it had been found necessary to add raw coffee to the list of goods subject to specific import permit, this had not led to any shortage of coffee in the Republic. In the view of the representative of South Africa, the measures taken by his Government indicated its preparedness to relax controls as and when conditions were favourable to such a relaxation.

15. A member of the Committee commented that the brunt of the restrictions maintained by South Africa fell on a rather narrow range of goods, those included in Groups A and B and those subject to specific import permits. As regards Group A items there were many which South Africa did not even produce. This member also pointed out that imports from his country of certain items, falling under Group B had declined. Another member of the Committee noted that fruit appeared on the list of goods subject to specific import permit. The representative of South Africa observed that his country was largely self-sufficient in fresh fruit throughout the year but nevertheless allocations were made to importers of fruit to enable them to maintain their overseas trading contacts.

16. On the question of allocations to new businesses, the representative of South Africa stated that initial allocations had to be arbitrary but were, after initial trading figures were available, calculated on the basis of what the new importer would have imported had he been importing in 1948. It was also possible for importers to obtain permits for goods subject to specific import permit even through they might not be importing commodities listed in Group B.
17. The representative of South Africa indicated, in reply to a question, that imports of certain agricultural products into South Africa were the monopoly of marketing boards. He pointed out that such boards did not constitute state-trading bodies as such and their imports were subject to a permit issued by the Ministry of Economic Affairs.

18. Members of the Committee commented that although there had been some developments which might make the relaxation of restrictions more difficult and in this connexion cited the increase in imports; a slight decline in reserves; the possibility of increases in wages of skilled workers; and some uncertainty in relation to exports; the overall reserves and general economic situation appeared to be such that the South African authorities could introduce immediate and substantial measures of liberalization.

19. In reply the representative of South Africa recalled a statement by the Minister of Economic Affairs in October 1963 in which it was stressed that South Africa's general import policy, as expressed through import control, would continue to take cognizance of all relevant factors not least of which is the need to plan further relaxations positively yet cautiously. The Minister in his speech had also stressed the undesirability of taking precipitous and ill-timed steps which might have to be retracted at a later stage and which could not serve any useful purpose for either foreign suppliers or local producers.

20. Replying to a question, the representative of South Africa stated that his Government had not adopted any standard criterion for assessing the adequacy of foreign exchange reserves. However, spokesmen of the South African Government had, in the past, mentioned a reserve figure equal to six months' value of imports and services as adequate. He recalled that before the war South African reserves had regularly stood at a level equal to half-yearly current account outlays.
Effects of the restrictions

21. A member of the Committee noted that the South African Government had recently added two items, hand knitting wool and buttons, to the list of goods subject to specific import permit. He deduced that the reason for this was the increase in manufacturing capacity of these items in South Africa. The representative of South Africa stated that this was the reason but pointed out that imports of hand knitting wool were only slightly lower in 1962 than in 1961 and in the case of buttons it had not declined at all.

22. The representative of South Africa confirmed that it was the objective of his Government, in its import control policy, to divert consumption from imported to locally produced products by means of restrictions, in order to protect South Africa's reserve position. It was not, however, the intention of the South African Government to use the restrictions as a means of encouraging the establishment of uneconomic industries which would render difficult the removal of such restrictions when relaxation was feasible on balance-of-payments grounds as such. In considering whether permits should be issued for imports of products competing with local industry, the South African authorities took into account the ability of the local producers to compete in price, quality and delivery dates. He confirmed, however, that, as regards fertilizers and timber, imports were only permitted to the extent that local producers could not meet local demand.

23. Members of the Committee commented that the system of diverting consumption from imports to local production by means of the restriction system would seem to be conducive to the establishment of uneconomic industries in the Republic. They pointed out that such development would have an adverse impact on costs. The representative of South Africa stressed that his Government was well aware of the need to ensure that its import control policy did not lead to increased internal costs, particularly in view of the vulnerability of the gold industry in this regard.
24. The Committee noted from the statement of the representative of the International Monetary Fund, quoted in paragraph 2 above, that the Fund was currently conducting a consultation with South Africa under Article XIV of the Fund Agreement and that the Fund expected to transmit the Executive Board Decision to the CONTRACTING PARTIES when it became available. The Committee felt that, in view of the provisions of Artivle XV:2, the findings of the IMF on certain points were essential for the conclusion of a consultation under Article XII of GATT, and that, when the IMF Decision on South Africa became available and the Fund was thus ready to consult more fully with the CONTRACTING PARTIES, the Committee might wish to discuss further the South African import restrictions and their relationship with the criteria and conditions of Article XII in the light of any new findings of the Fund. It was therefore agreed that, in submitting the present report, the Committee should suggest to the Council that it should, when the Decision of the IMF Executive Board on South Africa had been received, determine whether this consultation need be reopened. The representative of South Africa expressed the willingness of his Government to continue the consultation should this prove necessary.

25. Members of the Committee congratulated the representative of South Africa on the improvement in the general economic position of the Republic and, in particular, in its foreign exchange reserves position. They noted with satisfaction the measures taken by the South African authorities to relax import restrictions. They considered that circumstances were now generally propitious for a further immediate and meaningful liberalization of South Africa's import restrictions. It was suggested, in this connexion, that the South African Government might give consideration to the establishment of a time-table for the removal of all restrictions. Members expressed their disappointment that the policy statement by the South African Minister of Economic Affairs relating to his country's import control policy for 1964 had not included any undertaking concerning further liberalization. They considered that, particularly in view of the existence of exchange controls, the South African reserves were adequate to withstand further liberalization. They thanked the representative of South Africa for the thorough manner in which he had answered the questions they had posed. The representative of South Africa stated that his Government would give most careful consideration to the suggestions made in the course of the consultation.