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SOUTH AFRICA

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1999	2000	2001 1/
Income, Production and Employment: 2/			
GDP (at nominal prices)	130.0	126.1	108.1
Real GDP Growth (pct)	1.9	3.1	2.5
GDP by Sector:			
Agriculture	4.5	3.2	3.2
Mining and Quarrying	6.4	6.5	6.9
Manufacturing	19.9	18.8	18.7
Wholesale/Retail Trade	13.5	13.1	14.0
Transport, communications	10.7	10.0	11.0
Electricity, water	3.6	2.9	2.8
Construction	3.0	2.8	2.8
Financial Services	17.9	20.3	20.5
Government (community, social services)	20.4	19.3	18.7
Other producers: social, private services (incl.above)		3.1	3.1
Per Capita GDP (US$)	3,040	2,885	2,576
Total labor employed (millions)	10.37	N/A	N/A
Total economically active (millions)	13.53	N/A	N/A
Official unemployment Rate (pct)	23.3	25.8	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	13.6	6.2	12.9
Consumer Price Index	5.2	5.3	5.7
Exchange Rate (Rand/US$ - annual average) 1/	6.11	6.93	8.29
Balance of Payments and Trade:			
Total Exports FOB 3/	24.65	27.6	30.1
Exports to United States 4/	3.2	4.2	4.6
Total Imports CIF 3/	24.5	27.3	26.7
Imports from United States 4/	2.4	2.8	2.7
Trade Balance 3/	0.15	0.3	3.4
Balance with United States 4/	0.6	1.4	1.9
External Public Debt/GDP (pct) 5/	2.0	3.0	N/A
Fiscal Deficit/GDP (pct)	-2.3	-2.0	-2.5

Current Account Deficit/GDP (pct)	-0.4	-0.3	0.6
Debt Service Payments/GDP (pct)	5.5	5.2	4.9
Gross Gold and Foreign Exchange Reserves	11.2	11.1	4.2
Aid from United States (US$ millions) 6/	53	47	53
Total Aid (US $ millions) 7/	141	141	100

1/ Indicators for 2001 are projections. In South African Rand the GDP is projected to grow to R 896 billion and GDP per capita for 2001 is projected at R21,354.

2/ The following exchange rates were used in the calculations: $1/R6.11 for 1999, 1$/R6.93 for 2000, 1$/R8.29 for 2001.

3/ Source: South African Reserve Bank Sept. 2001 Quarterly Bulletin. Exports: merchandise only – net gold exports excluded.

4/ Source: USITC. Exports FAS, imports customs basis.

5/ Figures for 1999, 2000 from SA Reserve Bank Quarterly Bulletin September 2001.

6/ The figures represent aid from USAID only.

7/ Source: SA Reserve Bank September 2001 Quarterly Bulletin and 2001 Budget Review of the National Treasury.

1. General Policy Framework

South Africa is a middle income developing country with an economy marked by substantial natural resources, a sophisticated industrial base, and modern telecommunications and transport infrastructure. A member of the WTO, its policies largely promote free trade. It has a very developed legal sector, a sophisticated financial sector, and a stock exchange that ranks among the 20 largest in the world. South Africa has inexpensive electrical power and raw materials as well as lower labor costs than western industrialized countries. It has enjoyed positive economic growth since 1993. Following slow growth in real GDP of only 0.7, a turnaround started in 1999 with a 1.9 percent growth rate, followed by real GDP growth of 3.1 percent in 2000.

The short and medium term prospects for South Africa are generally upbeat. Sound management at the macro-economic level continued to characterize the public finances during 2000/01 and the budget deficit as a percentage of the GDP was reduced to less than two percent. In general, the South African economy is adjusting satisfactorily to the challenges posed by the changing global economy. This is reflected in a low foreign debt-to-GDP ratio and declining interest and inflation rates. Even within the global economic slowdown, the South African economy is expected to grow perhaps 2.5 percent in 2001. With its large structural savings/investment gap, however, South Africa depends on foreign savings to support investment and growth. Progress in attracting higher levels of foreign direct investment (FDI) has been disappointing, hindered by the loss of confidence of international investors in emerging markets assets and South Africa's sluggish pace of privatization. Inflows of FDI are still more than fully offset by South African corporations' expansion and investment abroad as exchange controls are relaxed.

The South African Reserve Bank (SARB) influences interest rates and controls liquidity through its rates on funds provided to private sector banks (repo rate), and to a lesser degree through the placement of government paper. In February 2000, an inflation targeting monetary policy framework was introduced. It is a broad based strategy for achieving price stability, centered on an analysis of price developments and not on some reference value for monetary growth. The SARB uses CPIX (Consumer Price Index for metropolitan and urban areas excluding interest costs on mortgage bonds) as the benchmark for inflation targeting. A CPIX band of three to six percent for the year 2002 was set as target. With the adoption of an inflation targeting monetary policy framework, the SARB no longer has any intermediate policy targets or guidelines such as the exchange rate or growth in the monetary aggregates.

The Competition Act of 1998 took effect in September 1999. The Act replaced the previous legislation with new provisions for a much stronger and more independent competition authority. The Commission has a range of functions, including investigating anticompetitive conduct, assessing the impact of mergers and acquisitions on competition and taking appropriate action, monitoring competition levels and market transparency in the economy, identifying impediments to competition, and playing an advocacy role in addressing these impediments. With record growth in merger and acquisition activity and a growing number of enforcement and exemption cases, the new Commission has accumulated a large caseload in a short period that has severely tested its resources. In its first year, it has handled over sixty merger cases and is playing a significant role in opening the economy.

Although the country's economic fundamentals are in place, the Government of South Africa is still faced with serious challenges. To date, it has made little progress in changing the low overall income levels of the majority of people, addressing the highly skewed income distribution between the different race groups and with the creation of jobs. Other serious shortcomings include poor quality schools in the majority of areas of the country, the lack of social services for all and insufficient growth rates to address the huge unemployment problem. While poverty, inequality, unemployment, lack of skilled labor, corruption, increasing crime, and the acceleration in the incidence of HIV/AIDS remain significant sociopolitical problems, South Africa remains the largest and most developed country in Sub Saharan Africa.

2. Exchange Rate Policy and Foreign Exchange Controls

The market drives South Africa's exchange rate policy with the rate determined by supply and demand in the currency market. While the SARB has the option of intervention, its current policy is that it will not take that action. With the adoption of an inflation targeting monetary policy framework, the SARB no longer has any intermediate policy targets or guidelines such as the exchange rate or growth in the monetary aggregates. The South African authorities are committed to allowing the value of the rand to be determined by the market.

The South African Reserve Bank (SARB) administers foreign exchange controls through its Exchange Control Department. Commercial banks act as authorized dealers of foreign exchange on behalf of the SARB. Unless otherwise authorized by the Exchange Control

Department, all transactions between residents and nonresidents of SA must be accounted for through the authorized dealers. In general, there are no controls on the removal of investment income or on capital gains by nonresidents. Dividends from quoted companies may be paid to nonresidents without the approval of the SARB. Non-quoted companies may pay dividends to nonresidents, providing an auditor's report shows that such dividends are the result of earned profits. Foreign firms may invest in share capital without restriction. Royalties, license fees, and certain other remittances to nonresidents require the approval of the SARB.

In March 1997, the Finance Ministry announced phased-in measures to relax foreign exchange controls, including doubling foreign firms' access to local credit and increasing, higher retention of offshore income, and increased ceilings on foreign investment holdings of local financial institutions. In particular, South African resident private individuals over the age of 18 and tax payers in good standing have, for the fist time, been allowed to invest abroad since July 1997. The R500,000 limit was increased to R750,000 per person in 2000. A number of other exchange control relaxations were also introduced in the past two years. In his 2001 Budget speech, the Minister of Finance emphasized that the global expansion of South African firms held significant benefits for the economy including expanded market access, increased exports, and improved competitiveness. In order to support this expansion from a South African base, the limit on the use of South African funds for new approved foreign direct investment was increased from R50 million to R500 million. And further, as part of the government's commitment to African economic recovery, South African firms were granted the permission to use up to R750 million of local cash holdings for new approved foreign direct investment in Africa.

In the absence of a positive inflow of FDI, South Africa has had to rely on more volatile portfolio inflows instead, which are vulnerable to sentiment and speculation. During 2000, the surplus balance on the financial account contracted sharply, falling from R29.5 billion in 1999 to R8.5 billion. These outflows via the financial account contributed to in the continued fall of the value of the South African currency. During 2000, the Rand fell by 12 percent in value against the U.S. dollar and remained volatile during the course of 2001. This depreciation has reduced the price competitiveness of U.S. exports. The impact on the loss of exports of U.S. agricultural products is particularly strong. South Africa has a surplus balance on trade with the United States

3. Structural Policies

All prices of goods are market determined with the exception of petroleum products. With regard to agricultural products, the sugar industry is the only one in which a degree of price regulation still exists. Purchases by government agencies and major private buyers are by competitive tender for projects or supply contracts. The Preferential Procurement Policy Framework Act, enacted in February 2000, aims to promote public sector procurement reform in all organs of state, to introduce a more uniform public sector procurement system and to provide implementing guidelines for the procurement policy. Under the Act, a government organization with a preferred provider program must use a preference point system. A contract will be awarded to the bidder with the highest number of points, provided the bidder is within a certain range of the lowest acceptable bid price. Regulations in terms of the Act were published during July 2001 to establish a formula for allowing preference points, e.g., for Historically Disadvantaged Individuals (HDIs), when tendering for a Government Procurement contract.

In the 2000 Budget, several proposals were introduced with prospective effect, including residence-based income taxation and the capital gains tax. The South African tax system used to be based on the source principle and tax was levied on income from a source within South Africa irrespective of whether it was earned by a resident or nonresident. From 2001, South Africa has moved to a residence based income tax system. Tax is levied on residents of South Africa irrespective of where in the world the income is earned, although some categories of income and activities undertaken outside the country are exempted from South African tax. This structural change to the income tax was necessary to ensure that the South African tax system kept pace with globalization and the integration of South Africa with the world economy. Capital gains tax became effective from October 1, 2001. Effective rates for individuals will range from zero to 10.5 percent, retirement funds 6.25 percent, unit trusts 7.5 percent, life insurers from 6.25 to 15 percent, and companies 15 percent.

Income tax payers are divided into two categories: individuals, who are taxed at progressive rates, and companies, taxed at 30 percent of taxable income. A secondary tax on companies (STC) (an additional tax on company income) is imposed at a rate of 12.5 percent on the net amount of dividends declared by a company. Withholding taxes are imposed on interest and royalties are remitted to nonresidents. South Africa has a 14 percent Value Added Tax (VAT). Exports are zero rated, and no VAT is payable on imported capital goods. During the recent two to three years, the government has undertaken measures to ease the tax burden on foreign and domestic investors. It has steadily reduced the corporate primary income tax rate from 40 percent in 1994 to 30 percent in 1999. In addition, the STC was halved to 12.5 percent in March 1996. In the 2000 Budget, extensive relief was also allowed on individual tax rates, with the top marginal tax rate to decrease to 42 from 45 percent and the lowest to 18 from 19 percent. The February 2001 Budget allowed for further personal income tax relief, resulting from the restructuring of income tax brackets. The measure boosted personal disposable income by R8.3 billion. The Minister of Finance also announced that $375 million has been set aside over the next four years for tax incentives targeted at strategic industrial projects that promise significant benefits to the South African economy such as job creation. During the 2000 Budget, a reduced tax rate of 15 percent of the first R100, 000 of taxable income was introduced for certain small businesses. In 2001, the tax privileges were extended to allow for the immediate deduction of investment expenditure in manufacturing assets for the year in which the investment is made.

Labor and labor issues have a strong impact on needed investment. The government's privatization agenda meets with significant resistance from trade unions who are politically strong. Recent planned privatizations of two telecom entities have been delayed to next fiscal year. Further, inflexible labor laws, particularly with regard to collective bargaining, impede competitiveness gains and discourage investors.

4. Debt Management Policies

At the end of 2000, the SARB reported that total foreign (public and private) debt amounted to approximately $36.9 billion, down from $38.9 billion in 1999. The ratio of total foreign debt to GDP has remained steady at around 26 to 30 percent over the past three years, while interest payments as a percentage of total export earnings have decrease from 8.6 percent in 1999 to 6.2 percent in 2000.

The government primarily finances its debt through the issuance of government bonds. To a lesser extent, the government has opted to finance some shortterm debt obligations through the sale of foreign exchange and gold reserves. As a corollary to its restrictive financial policies, the government has not opted to finance deficit spending through loans from commercial banks. South Africa's liquid and sophisticated domestic capital market helped the country to cope relatively well with the 1998 global financial market crisis. The country did not require an IMF program and could easily afford not to borrow from international markets. Domestic debt, of which the bulk is medium and longterm, with an average duration of close to five years, accounts for over 90 percent of the national government's total debt portfolio. Foreign debt, almost entirely capital market debt, accounts for only six to seven percent of the portfolio and is mainly denominated in U.S. dollars, euros, and Japanese yen.

In February 2001, the government announced that as part of a more active debt management policy, a program of debt consolidation was underway, a new long-dated inflation linked bond will be issued, and a bondstripping facility introduced. After extraordinary receipts and payments, the Net Borrowing Requirement (NBR) for 2000/01 came to R16.8 billion ($2.4 billion).

The SARB has made strong progress on reducing the liability of its net open forward position (NOFP). At end 2000 the NOFP stood at $9.5 billion. Currently, it is $4.8 billion, which is roughly 64 percent of reserves.

5. Significant Barriers to U.S. Exports

South Africa is a member of the WTO. The government remains committed to the simplification and reduction of tariffs within the WTO framework, and maintains active discussions in trade organizations. Ninety-eight percent of South Africa’s tariff lines are now bound. The number of antidumping petitions filed in South Africa, however, remains high. In a December 2000 ruling, the BTT reaffirmed the dumping duties on chicken pieces imported from the United States.

In September 1996, DTI introduced an Industrial Participation (IP) program. Under the program, all government and parastatal purchases or lease contracts (goods, equipment or services) with an imported content equal to or exceeding $10 million (or the Rand equivalent thereof) are subject to an IP obligation. This obligation requires the seller/supplier to engage in commercial or industrial activity equaling or exceeding 30 percent of the imported content of total goods purchased under government tender. The Industrial Participation obligation must be fulfilled within seven years of the effective date of the IP agreement.

Government purchases are by competitive tender for project, supply and other contracts. Foreign firms can bid through a local agent, who will then be so examined. The government, however, utilizes its position of both buyer and seller to promote the economic empowerment of historically disadvantaged groups through the Black Economic Empowerment (BEE) program.

Regulations also set a legal framework and formula for allowing preference points to HDIs when tendering for a Government Procurement contract. Points are awarded based on such criteria as a percentage of HDI ownership and the percentage of HDI managers. Many U.S. companies operating in South Africa already have significant programs that support and empower HDIs and could therefore fare well in this system. However, the concern was never the point system but the possibility that HDI equity ownership is interpreted as a mandatory part of the system. This could have negative implications for multinational corporations (MNCs) because many MNC boards of directors may be unwilling to give away corporate equity solely for the purpose of doing business with the South African Government.

The Telecommunications Act of 1996 (TCA) gave the telecommunications parastatal Telkom a monopoly over the provision of voice communication lines and the direct sale of infrastructure (including "last mile" services) to end users. The TCA also provided the Minister of Communications sole authority to set communications policy and to issue licenses. The industry regulator, the Independent Communications Authority of SA (ICASA) has a mandate to interpret the TCA, to issue regulations, and to recommend licensees. Frequently there is conflict between the Ministry, Telkom, and commercial telecommunications providers. ICASA was unable to resolve the dispute between Value Added Network Services (VANS) providers and Telkom for over three years. One of the VANS providers, AT&T, has complained to the U.S. Trade Representative (USTR) that the government was not living up to its WTO commitments by allowing Telkom to refuse service to VANS providers whom Telkom claimed were reselling capacity. ICASA has solicited input from the business community during the past year to assist in compiling new regulations covering VANS. As of June 2001, the Department of Communications has yet to issue final policy directives clarifying its stance on VANS and other telecommunications issues.

6. Export Subsidies Policies

Almost all export subsidies have been discontinued. The DTI has moved away from these policies to supply-side measures. One of the new programs, the Export Marketing Assistance Scheme (EMA), offers financial assistance for the development of new export markets, through financing trade missions and market research. The total amount allowed to the DTI for exporter assistance for 1999/2000 was less than $15 million compared to exporter assistance of $150 million in 1997/98.

DTI's division know as Trade and Investment South Africa (TISA) has a section dealing with trade facilitation by providing assistance to export development projects. It is also responsible for the provision of interest subsidies on medium and long term. The subsidies are based on the rate differential between South African and international lending rates. The subprogram also provides assistance to the Reinsurance Fund for Export Credit and Foreign Investment. A new government owned Export Credit Agency was established during 2001. Provisions of the Income Tax Act also permit accelerated write-offs of certain buildings and machinery associated with beneficiation processes carried on for export, and deductions for the use of an export agent outside South Africa.

7. Protection of U.S. Intellectual Property

While South African IPR laws and regulations are largely TRIPS-compliant, there is continuing concern about copyright piracy and trademark counterfeiting. The U.S. copyright industry estimates that trade losses due to the piracy of copyrighted works continue to increase. The U.S. and South African governments have held extensive consultations to clarify a section of the South African Medicines Act, which appeared to grant the Minister of Health broad powers in regard to patents on pharmaceuticals. The governments reached an understanding that any action taken by the South African government will be compliant with TRIPS. A similar understanding was then reached between the pharmaceutical companies and the South African Government. Draft regulations to implement the agreement have been published during 2001 and discussions with interested parties are continuing.

Intellectual property rights (IPR) are protected under a variety of laws and regulations. Patents may be registered under the Patents Act of 1978 and are granted for twenty years. Trademarks can be registered under the Trademarks Act of 1993, are granted for ten years, and may be renewed for an additional ten years. New designs may be registered under the Designs Act of 1967, which grants copyrights for five years. Literary, musical and artistic works, cinematography films, and sound recordings are eligible for copyrights under the Copyright Act of 1978. This act is based on the provisions of the Berne Convention as modified in Paris in 1971 and amended in 1992 to include computer software. The Department of Trade and Industry (DTI) administers these acts.

South Africa is a member of the Paris Union and acceded to the Stockholm text of the Paris Convention for the Protection of Intellectual Property. South Africa is also a member of the World Intellectual Property Organization (WIPO). The SAG passed two IPR-related bills in Parliament at the end of 1997, the Counterfeit Goods Act and the Intellectual Property Laws Amendment Bills, thereby enhancing its IPR protection. The Counterfeit Goods Act provides for criminal prosecution of persons trading in counterfeit or pirated goods and establishes a special antipiracy unit. However, enforcement of these laws by the National Inspectorate has only recently begun in earnest. At the beginning of November 2000, 20 inspectors were appointed and trained. A number of warehouse facilities designated as counterfeit goods depots were appointed on a self-funding basis during the latter part of 2000. During 2001, the DTI put out a tender for the disposal of seized counterfeit goods in state warehouses.

8. Worker Rights

a. *The Right of Association:* Freedom of association is guaranteed by the constitution and given statutory effect by the Labor Relations Act (LRA). All workers in the private sector and most in the public are entitled to join a union. Moreover, no employee can be fired or prejudiced because of membership in or advocacy of a trade union. Unions in South Africa have an approximate membership of 3.3 million or 31 percent of those employed in the wage economy. The right to strike is guaranteed in the constitution, and is given statutory effect by the LRA. The International Labor Organization (ILO) readmitted South Africa in 1994. There is no government restriction against union affiliation with regional or international labor organizations.

b. *The Right to Organize and Bargain Collectively*: South African law defines and protects the rights to organize and bargain collectively. The government does not interfere with union organizing and generally has not interfered in the collective bargaining process. The new LRA statutorily entrenches "organizational rights," such as trade union access to work sites, deductions for trade union subscriptions, and leave for trade union officials.

c. *Prohibition of Forced or Compulsory Labor:* Forced labor is illegal under the constitution. There are reports, however, that women and children have been forced into prostitution.

d. *Minimum Age for Employment of Children:* South African law prohibits employment of minors under age 15. Nor may children between ages 15 and 18 work if such employment "places at risk the child's wellbeing, education, physical or mental health, or spiritual, moral or social development." Child labor is nevertheless prevalent in the rural areas of the former "homelands" and in the informal sector.

e. *Acceptable Conditions of Work:* There is no legally mandated national minimum wage in South Africa. Instead, the LRA provides a mechanism for negotiations between labor and management to set minimum wage standards industry by industry. In those sectors of the economy not sufficiently organized to engage in the collective bargaining processes which establish minimum wages, the Basic Conditions of Employment Act, which went into effect in December 1998, gives the Minister of Labor authority to set wages, including for the first time wages for farm and domestic workers. Occupational health and safety issues remain a top priority of trade unions, especially in the mining, construction and heavy manufacturing industries which are still considered hazardous by international standards.

f. *Worker Rights in Sectors with U.S. Investment:* The worker rights conditions described above do not differ from those found in sectors with U.S. capital investment.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category		Amount
Petroleum		6
Total Manufacturing		947
Food & Kindred Products	142	
Chemicals & Allied Products	205	
Primary & Fabricated Metals	(D)	
Industrial Machinery and Equipment	89	
Electric & Electronic Equipment	71	
Transportation Equipment	141	
Other Manufacturing	(D)	
Wholesale Trade		166
Banking		(D)
Finance/Insurance/Real Estate		(D)
Services		118
Other Industries		(D)
TOTAL ALL INDUSTRIES		2,826

(D) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.