

INTRODUCTION

Policies that make an economy open to trade and investment with the rest of the world are needed for sustained economic growth. The export push strategy of East Asia's high performing economies (HPAEs) is the one which can be applied to South Africa to boost exports. According to Edwards and Golub (2002) the determinants of export performance are industry concentration, utility costs, skill constraints and tariffs. According to Edwards (2003) South Africa is a price taker in the international market, therefore exports are on average supply constrained. Thus, in order to come up with policies to boost exports, more emphasis should address domestic constraints to export supply.

Exports of manufactures have increased since the election of a democratic government in 1994 but not enough to generate an export led growth boom similar to those of Asia (RSA, 1999). South African manufactured exports remain capital and skill intensive, which is illogical given the abundance of labour (Tskikata, 1999; Allenye and Subramanian, 2001). South African exports are also resource-based and the country has failed to diversify into new and fast growing export sectors (Kaplan 2003). Relative prices and excessive price increases in South Africa negatively affect export growth. According to Lall (2000) exports are classified into primary products, resource based manufacturing, low technology manufacturing, medium technology manufacturing and high technology manufacturing. Therefore, policies to boost South African exports should address both manufactured products and primary products such as agricultural products.

In the manufacturing sub sectors and agricultural production prices determine output supply and input demand. Manufacturing export supply is very inelastic with respect to export prices, as well as domestic prices and import prices and wages (Rankin, 2002). This means that price changes have a very small impact on the amount of exports supplied. Changes in the price of intermediate imports or the price of domestic goods have a larger impact on the quantity of exports supplied than do changes in the price of exports.

According to Rankin (2002) domestic supply and exports respond negatively to exchange rate devaluation. This is due to an increase in the price of intermediate imports caused by



U209

devaluation. Domestic prices determine export supply and labour demand. Policies which increase these prices will boost exports and the demand for labour. Policies increasing firm efficiency stimulate domestic demand such as decreasing taxes (Rankin, 2002). The price of intermediate imports impact on the quantity of exports produced. A decrease in this price through a reduction in tariffs would increase the quantity of exports; domestic goods produced and also increase labour demand.

POLICIES WHICH INCREASED ASIAN EXPORTS

Policies that favored the production of import substitutes to the loss of exports were abandoned in Asia (Anon 1, 1993). Governments of High Performing Asian economies (HPAEs) including Hong Kong, Indonesia, Japan, Malaysia, the Republic of Korea, Singapore, China, and Thailand adopted strategic pro export policies that established a free trade regime and offered a range of other incentives for exports (Lecraw, 1993). Their industries moved rapidly towards international standards for export growth. Asian governments had access to imports at world prices which in turn improved their export performance (RBEPAG, 2000). Governments found ways to grant exporters access to imports at world prices including free trade zones, export processing zones and tariff exemptions. Export financing assisted Asian countries to boost their exports (Anon 1, 1993). Every HPAE has had some program to ensure access to credit, often at subsidized prices.

Asian governments recognized the difficulty exporters faced in penetrating into foreign markets and encouraged exporters to overcome the difficulties. Some directly subsidized export activity by direct income tax incentives, some subsidized market penetration through exporter associations, some subsidized small and medium-size exporters to offset their difficulties in market penetration, and some promoted the creation of international trading companies (Anon 1, 1993). According to IMF (2001) Asian countries became successful because they participated in global trade, attracting the bulk of foreign direct investment (FDI) in developing countries. China and India embraced trade liberalization and other market oriented reforms (IMF, 2001). Progress has been less rapid in South Africa in contrast to the Asian countries because Asian countries accessed imports at world prices, both long and short term financing, market penetration and flexibility.

Supply side conditions have often been the more important constraint on export performance in South Africa and the Middle East, compared to trade barriers or demand condition (Fugazza, 2004). Constraints on supply response are best addressed by specific sectoral policies, and not just macroeconomic policy reforms. Macroeconomic and political stability as well as policy predictability are necessary foundations for agricultural and industrial sectoral policies in South Africa (Mohamed, 2003). Export development requires more than trade liberalization, and that trade policy needs to be closely linked to sectoral development policies. Exchange rate policy, the fiscal and monetary policy tools should be part of an export push strategy.

The success of the East Asian economies has been based on policies that have not allowed their exchange rates to become overvalued (Athukorala, 1991). The uncertainty of exchange rate fluctuations decreases the incentive for firms to invest in export capacity. South African exporters can avoid the risk of loss through adverse exchange rate fluctuations by invoicing in rand, whereby risk is passed on to the foreign importer (Gidlow, 2006). Using offshore finance whereby exporters raise foreign finance in the currency in which export proceeds are to be received, and for an equivalent amount eliminate the exchange risk. Using forward exchange contracts whereby a contract between a customer and his bank agrees to deliver a certain amount of one currency in exchange for a certain amount of another currency, at an agreed rate of exchange at a specified future time also eliminate the exchange risk.

POLICIES TO ENHANCE SOUTH AFRICAN EXPORT OF MANUFACTURED PRODUCTS

Improving the microeconomic determinants of efficient manufacturing production can increase exports. Productive capacity of the manufacturing sector can be enhanced by increasing the competitiveness of manufacturing firms, helping the expansion of firm size and facilitating firm access to factors of production in order to invest and grow (United Nations, 2008).

Increasing firm competitiveness

Competitiveness has to be made at firm and economy level. Productive infrastructure such as power generation and support infrastructure needed for exporting including roads, railways and port facilities has to be built up. South Africa should stimulate external capital for infrastructure

finance. According to the United Nations (2008) this can be done by using private flows for infrastructure development in Africa coming from sovereign and other investment funds, particularly those from the Middle East.

Firm competitiveness could be enhanced through increasing labour output by promoting job training and use of best production practices. Building firm level technological capabilities developing suitable incentives to orient manufacturing production towards the export market could improve competitiveness (United Nations, 2008). This could be done through an efficient export promotion agency tasked with providing information on market opportunities, standards and other export requirements.

The need for large manufacturing firms

Policy changes should address measures to encourage more small businesses to begin exporting or to expand their export operations. Large firms in South Africa's manufacturing sector must be increased in order to boost exports. Many firms are so small that growth and exporting is not their objective. The main objective is to sustain the livelihoods of their owners and their families. A viable export sector can be created if assistance is concentrated on the needs of a relatively small number of large firms. The policy objective focus should be on the creation of large firms by encouraging foreign direct investment (FDI). FDI is a company from one country making a physical investment into building a factory in another country. According to Graham and Spaulding (2005) FDI can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills, financing and provide a strong drive to boosting exports.

Facilitating access to credit to invest and promote firm growth

Policy changes should include measures to promote an improved services export performance, including financial services. If firms easily access factors of production, mainly credit, in order to invest and grow, in the long run they could reach the large size needed to be competitive in export markets(Edwards, 2003). This can be attained by easing access to credit and fostering interactions between financial institutions and the private sector.

Credit information agencies should be created to narrow the information asymmetry between small credit applicants and financial institutions. The government could help the private sector in establishing such agencies, through public private partnerships. Creating a structure of communication between financial institutions and the private sector could help to link the information gap between the demand for and supply of credit (United Nations, 2008). This can be achieved by organizing regular contacts between representatives of the private sector and the banking system, to exchange ideas on issues of shared interest.

POLICIES TO ENHANCE SOUTH AFRICAN AGRICULTURAL EXPORTS (PRIMARY PRODUCTS)

The benefits of trade liberalization for the agricultural sector have been limited. Lack of complementary policies to address structural, institutional and socio economic constraints restrain agricultural supply response and exports. The problems facing South Africa's agricultural exports are due to conditions in global markets. The strategy to promote agricultural exports must be based on agriculture sector policies by the government.

1. Supply side constraints

Supply side constraints should be addressed to create greater incentives to encourage investment in the agricultural sector; and to improve agricultural productivity and exports; and enhance the competitiveness of South African agricultural exports versus global exports. A full package of fiscal and other incentives to investors in the agricultural sector should be developed.

Incentive package

The incentive package can be developed by setting up an input subsidies programme, carefully designed and targeted at specific groups to improve agricultural productivity; Improving access to credit by enhancing the efficiency of the financial sector, including reducing segmentation between formal and informal sectors, and improving interactions between financial institutions and the private sector; Setting up special export development and investment funds to provide financial resources in support of business ventures in agriculture.

Enhancing productivity in the agricultural sector

Policy changes should include measures required to improve export performance, including the relationship with domestic policy settings and productivity enhancing policies (Rankin, 2002). The government and private sector should raise the level of investment in technology, infrastructure and extension services. Supply of inputs, research and development to improve productivity and quality of smallholder farms should be enhanced. Marketing systems should be improved. Increases in productivity and in agricultural supply response could be attained through supporting poor farmers in remote rural areas, providing health, water and educational facilities as a means of improving the overall quality of rural life.

Reforming socio-economic institutions

Socio economic institutions preventing the efficient use of different factors of production must be addressed by the government. These consist of land tenure systems and associated inheritance systems and gender relations governing the division of labour and division of income accruing from farming ventures. This will need particular policies for land reforms and improving the property rights of women.

2. Diversification and value addition

Policies and programs that will promote high value added exports, enhanced levels of productivity and improved international competitiveness need to be adopted by the government. The government has to develop programmes that promote diversification towards higher value added product (United Nations, 2008). These will enable South Africa to increase gains from agricultural production and trade. It will also permit government to reduce their vulnerability to commodity price volatility.

3. Market access

Policy changes should include measures to expand market access opportunities for South African exporters of goods and services. Improving market access requires the need to adapt to increasing global integration and its associated challenges of increased competition. These challenges imply to South African producers that they must increase their participation in global value chains in order to be able to access the markets of developed countries and emerging economies (United Nations, 2008). Participation in these chains gives producers access to information about markets and enables buyers to obtain information about and develop confidence in, the supplier (Roberts, 2000). The government and exporters associations should set up capacity building programmes to assist with trade standards compliance. Collation and dissemination of market information to producers should be done to promote market penetration and improved market access.

4. Private sector development

South African entrants face the challenge of how to identify market opportunities and meeting the specific requirements for each market. In the Asian development process, the private sector served as an important engine of growth. Governments in Asia recognized the private sector as a main partner, and relied to a large extent on market mechanisms to guide public interventions (Anon 1, 1993). Partnership between the public and private sectors was important in the success of the Asian development experience. Exporters associations and producers cooperatives should form partnerships with the government to enforce contracts so as to meet specified standards in order to increase exports.

5. Trade development

Policy changes should include measures which will improve the capacity of new and existing exporters to expand their export base and take optimal advantage of the expansion and evolution in international trade and investment. According to Tsikata (1999) regional economic cooperation so as to overcome the constraints of small domestic markets and diversifying away from traditional bulk primary commodities into market dynamic products need to be promoted.

6. Expanding South-South cooperation

South Africa must adjust its existing trade and development strategies and reorient its external trade towards exporting to Asia, Brazil and the Russian Federation. This can be achieved by export promotion authorities and exporters associations increasing their participation in various South-South arrangements for example, forum on Asia-Africa Cooperation in Export Promotion (Anon 2, 1994). The aim should be to identify export market opportunities in Asian/emerging markets. Government and the private sector should explore for the increasing trade and financial links with China, India and other emerging economies by encouraging foreign direct investment (FDI) into their agricultural sectors.

CONCLUSION

Promoting sustainable export development in South Africa will require sharing of experiences; human resources and institutional development; enhancing productivity in the agricultural sector; financing development and development cooperation between Asia and Africa. The government should put into practice good governance, including transparency, accountability, flexibility and practicality. South Africa should strengthen basic education and reorient educational policies and vocational training programmes to respond to changing needs and requirements of export markets.

Policy changes should include measures to promote a more intensive and coordinated national approach to lifting export performance. Governments have to make complex policy choices and carefully weigh the trade offs before agreeing on any policy package to diversify and enhance agricultural exports. Policy changes should include the government's overall approach to budget policy, support for the multilateral trade system and the initiatives the government is in the process of implementing.

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