

ARE IMPORT PRICES STICKY DOWNWARDS? THE EFFECT OF TARIFF REDUCTION ON SOUTH AFRICA'S WINE INDUSTRY

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Abstract

This paper is introduced with a review of the paradigm shift in international trade policy. The trade liberalization case in South Africa – in general and thereafter, the wine industry specific – follows. The study is conducted at a micro level, and emphasizes the recently neglected side of international trade; imports. Of the many gains from outward oriented trade, two are singled out and researched. The hypotheses are thus: that imported wine prices are sticky downwards, and that reduction in import prices result in increased income inequality. The results failed to reject the hypotheses. These findings are contrary to a priori knowledge, on grounds that the market is not perfect as assumed. The policy implication at the micro level is thus rendered not suitably integrated with the macroeconomic strategy. Relative prices and the depreciation of the rand are revealed to have a negative and perpetual impact on the variability of the outward oriented policy.

1. INTRODUCTION.

The idea that international trade is the engine to economic growth goes back to the times of Adam Smith (Sebastian 1993, 1358). However, its popularity subsided around the 1950s, 60s and 70s, in favour of the 20th century protectionists' theories, especially in the developing countries where Import Substitution Industrialization (ISI) strategies got implemented.

Persistent, independent academic research during the reign of the protectionist paradigm, rejuvenated support for more open and outward-oriented trade. Gradually, the protectionist hold among economic advisors and politicians gave way in the 1980s (Sebastian 1993:1359). Behind the change in paradigm was the widespread debt crisis in 1982 by ISI followers, and the collapse of communism in central and Eastern Europe. The Latin American countries provide examples of many countries left injured by protectionist policies. In contrast was the success story of the East Asian countries, which had intensively adopted the outward oriented strategy. This policy thus gained popularity

among economists, and became preached as indisputable, and recommended as a panacea that transcended a country's initial level of development in its delivery of gains from trade. De Wet (1995) summarized it thus: 'The theory may not have been designed in the first place for these specific countries – Far East Asia Tigers – but their experience still validates the theories'.

Among the many paradigm converts were organizations such as the World Bank, the International Monetary Fund (IMF) and the United Nations Economic Commission for Latin America (ECLA).

Recent developments reveal yet a move away from blanket acceptance of the relationship between free trade and gains from trade (such as: economic growth, improved resource allocation based on comparative advantage, enhanced efficiency accruing from increased low-cost global competition, employment of a large variety of intermediate goods and capital equipment, and thus improving productivity of other resources (Gunnas and Subramanian, 2000). Technological development, increased variety of produced goods, and better prices) to a more qualified situation-specific relationship (Gunnar & Subramanian, 2000 & Srinivasan 1997). There are also doubts as to whether the twin outward-orientation and trade liberalization policy package recommendation is a necessity. Sebastian Roberts (2000:612), Roderick (1995) and Amsden (1989 & 1993) doubted the causality in openness or outward orientation and infrastructure promotion, suggesting that the reverse may be true. Bouare et al (1998) explain the now economically fashionable recommendation of free trade and hands off policies to the developing countries, as simply intended to offer an outlet to developed economies-products; the only way to sustain the levels of development reached in the latter economies.

The East Asian region has been qualified as owing its success to the active role of government in promoting exports while imports had not yet been fully liberalized (Roberts 1993:1360). Further uncertainty prevails on grounds that market failures and

imperfect competition are common occurrences in developing countries (Roberts, 2000). One thus wonders whether the liberalization would elicit the required outcomes.

Ocampo et al (1998) illustrated that trade liberalization in developing countries embraces modest benefits but a large and regressive distribution effect, as well as a negative effect on prices and productivity growth. Suranovic (1997) similarly revealed that over and above the positive effects of free trade, is the income redistribution effect that affects individuals and necessitates consideration of the fairness of this policy. Wang and Zhai showed that trade liberalization can bring about both economic efficiency and income equality in China. However the extent of efficiency gain depends on which tax instrument the government chooses to balance its budget.

It is amidst this cloudy scenario of the benefits from free trade that the South African wine industry is empirically investigated. One country's exports are another country's imports. However, emphasis of the outward-oriented policy ignores the import aspect, and possibly exaggerates the benefits from free trade. This paper thus investigates whether the import prices get lowered when tariffs are reduced. The issue of income redistribution is also pursued. The reliability of the policy in achieving its goal, as well as the policy integration on the micro-macro level, is also touched.

Choice of South Africa for this study is firstly because it represents the typical developing economies (DC's). There is, so far, scanty empirical evidence on open trade paradigm in these economies. The focus for the literature has so far been on developed economies (Hanson & Harrison, 1999). South Africa is also uniquely suitable because it offers a recent and gradually increasing degree of openness, initiated with the abolition of apartheid and the end to international isolation in the early 1990s.

The study is carried out on a micro level. This will enable a more focused and detailed analysis of some benefits from free trade and policy appropriateness. The import considered is wine. This choice is based on several grounds. The commodity (wine) is obtained by processing an agricultural product. It is thus similar to the trend that many

developing countries are undergoing: adding values to their exports. What happens to this wine import is what the modified primary products from developing countries are likely to face in turn. There is also the chance to observe aspects of new trade theory, dominated by two-way trade practices. South Africa (DC) offers an example of this trade practice, for it makes and exports wine which it also imports. The choice of wine is also due to realization of the difficulty of dismantling the effect of price reduction due to lowering of tariffs, from price changes arising from aspects like technological advancement. The latter is expected in case of other imported commodities such as computers.

2. TRADE LIBERALISATION IN SOUTH AFRICA.

Trade liberalization in SA came as a result of the failure of the import substitution approach of industrialization (Roberts 2000:608). An outward-oriented approach was then adopted. This new approach is associated with gain in efficiency that arises when markets are unregulated. A historical voyage of the trade liberalization practices and changes in SA is given below.

During the 1960s and 1970s, SA pursued an import substitution trade policy. It thus instituted high trade tariffs and extensive physical import controls (Gunnar & Subramanian 2000). Before 1983, 79 percent of imports were subject to direct import controls. A positive list of permitted imports was also in practice. Thereafter, endeavors to dismantle import controls were embarked on. A negative list of prohibited imports was put in place (Gunnar & Subramanian, 2000)

An import surcharge was introduced in 1985. Firstly, it was set at 10 percent, but 15 percent and 40 percent levels were levied on different import categories with time. This system was replaced by a generalized export incentive scheme (GEIS) in 1990.

SA also had a highly complex trade regime. The tariff lines exceeded, 13 000 in 1980. The tariff range was also the widest (Belliet al 1993). Some sectors were highly protected; agriculture with 74 tariff lines is an example.

In the 1990's (in agreement with the GATT, Uruguay Round recommendations) SA embarked on liberalizing its trade regime on both multilateral and unilateral trade levels. It was to phase-out tariffs over a 5-year period starting in 1995. The venture entailed reduction in tariff lines; replacement of quantitative restrictions on agricultural imports by tariffs; liberalization of sensitive industries over an 8-year period, and termination of the GEIS by 1997 (Gunnar & Subramanian, 2000). On the unilateral trade level, the tariff changes effected have gone below the bound set by WTO for 2004. To date, virtually all-quantitative restrictions have been eliminated (both multilaterally and unilaterally). Tariff lines and bands have also been considerably reduced. SA's tariff regime is now much simplified (Gunnar & Subramanian, 2000).

In the wine industry, specifically, the following measures have been implemented by S.A in honour of its obligations, in terms of the Marrakesh agreement, to abolish import controls: the board of tariffs and trade (20/11/96) recommended duties based on volumes rather than absolute alcohol - these ad valorem duties were implemented in 1998. Bulk rates at lower levels were also proposed - these come along with domestic (SA) bottling and packing, thus contributing to further job creation. (Board of tariffs and trade, **Report #3639,1996**)¹

The department of agriculture and other role-players had to confirm the proposals. Domestic interest thus received first priority. The monitoring of import controls and in-depth revision of duties was to be executed gradually, putting into consideration the nature and degree of competition from imports.

In terms of the Marrakesh Agreement a bound rate or custom duty not higher than 20 percent and not to be exceeded by the year 2000, was set. The import controls set by the board in SA would not restrict imports significantly. The customs duty base rate that was 122 % ad valorem in 1996 was scheduled for reduction to 67 % by January 2001. A surcharge in the range of 15% – 40 % in respect of wine imports was terminated at the end of 1995. The custom effects on the majority of wines after the removal of the

¹ This source is henceforth referred to as Report # 3679.

surcharge is 25% ad valorem or less. SA is also obliged, through commitment to minimum market access, to provide the opportunity for importation of certain quantities of wine. This provision enables importation of these quantities at a customs duty of 14.6% ad valorem. . (**Report #3639**)

It is also argued that the liquor industry in SA is not a strategic one that requires (additional) protection. Significant protection simply reinforces existing monopolistic interests to the detriment of South African consumers. (Report #. 3639:23).

With the above proposed changes and opinions implemented, the consumer will enjoy greater variety of wine, local and imported. The prices are also expected to be lower, as a result of competition and improved efficiency. Consumers will also get back a great fraction of what they previously contributed towards the duty.

3.THEORETICAL BASE

Trade theory may be broadly categorized into the classical trade theory and the 'new' trade theory. The classical theories embraced in the works of Adam Smith and David Ricardo attribute trade practices to local advantages: absolute or comparative. These are manifest in variation in factor endowments across countries. On the basis of comparative advantage, countries specialize, export the outcomes and enjoy gains from trade. They in return enable their trade partners to enjoy similar trade gains when they import what the trade partners produce. All countries, rich or poor, thus benefit when they participate in trade. On the above basis, allocative efficiency is improved; exports are increased while the domestic consumers benefit from greater import quality volumes and low prices.

New trade theory explains the domination of international trade by two-way trade among similar countries. The products are differentiated and each country specialized in a specific variety and pursues economies of scale in that production: hence reduced unit costs. International trade thus enables the producers to incur lower average costs. The

consumers' welfare is boosted by the variety offered, and the low unit costs. The trade benefits are further complemented by differentiation of intermediate products, transacted in intra-industry trade. The greater variety is also positively correlated with improved productivity that accrues from intensified division of labor.

The distribution aspect of the tariff reduction is captured by the theory on the economic incident of tax. (i.e. the change in distribution of private real income due to a tax) (Rosen, 1995:274-276). The portion of a tariff paid by the importer and the consumer depends on the price elasticity of demand for the commodity. Wine (bought mostly by high-income earners) is relatively price inelastic. Thus a greater portion of the tariff is passed onto the consumer. The opposite would hold if the tariff is reduced or removed. The import price would fall and the consumer would enjoy a big part of the price reduction, previously foregone with the tariff in place.

4 DATA

Three data sources employed are South African Revenue Services (SARS), South Africa Wine Industry Information and Systems (SAWIS) and South African Reserve Bank (SARB). The SARS provides time series data in the quantities and values (FOB) of all wine imports into South Africa (SA) between 1988 and 1999, categorized as 22040030 – 22049999. This data is also employed to establish a foreign price index for wines. SAWIS provides data on domestic good-wine price index for wine sold in bulk. This good-wine price index is utilized as a component of the relative price index, and secondly as a proxy for the retail prices of imported wine. This proxy is adopted due to absence of time series data on retail prices of wines imported into SA. Data on gross domestic expenditure (GDE) and the real effective exchange is drawn from the SARB quarterly bulletin. Given the micro nature of the study, it is deemed desirable to emphasize the single import aspect, by establishing the income - independent variable as a percentage of the value of imported wines on GDE.

The long run wine import demand function thus estimated is:

$$LW_IMP = f(LREL_P, LR_EER, LMPRO_P, LDUTY_R)$$

The double log functional form is employed. The dependent variable LW_IMP is the log of imported wine volumes. The independent variables include: relative prices of wine (LREL_P), real effective exchange rate (LR_EER), the propensity to import (LMPRO_P) and the tariff rate (LDUTY_R), all in log form. Twelve annual observations are afforded ranging from 1988 to 1999. This is due to availability of data constraint and secondly, the reduction in tariff rate having occurred only in the latter part of the period covered. Variation in import categorization provides yet another constraint on the period covered.

RESULTS

The variables were tested for co-integration, and the following results were obtained.

Table 1. The ADF test results.

Variable	Model	Lags	τ_τ	τ_μ	τ	ϕ_3	ϕ_1
LW_IMP	Trend & intercept	0		-1.766609			
	Intercept	0		-0.47125			
	None	0		0.837106			
LR_EER	Trend & intercept	3		-12.44162***		76.00774	
	Intercept	0		-0.891926			
	None	0		-0.34229			
LMPRO_Z	Trend & intercept	0		-1.830181			
	Intercept	0		-0.005743			
	None	0		1.937232			
LDUTY_R	Trend & intercept	0		-1.612086			
	Intercept	0		-0.452266			
	None	0		-1.017272			
LREL_P	Trend & intercept	0		-1.90641			
	Intercept	0		-0.985599			
	None	0		-1.225751			
ΔLW_IMP	Trend & intercept	1		-4.046328*		5.495569	

	Intercept	1	-2.927748*	4.308871
	None	1	-2.254025**	
Δ LREL_P	Trend & intercept	0	-2.45522	
	Intercept	0	-2.643667	
	None	0	-2.629966**	
Δ LR_EER	Trend & intercept	0	-5.276164***	
	Intercept	0	-5.276164***	
	None	0	-2.827647***	
Δ LMPRO_Z	Trend & intercept	0	-3.029436	
	Intercept	0	-2.978043*	
	None	0	-2.349407**	
Δ LDUTY_R	Trend & intercept	0	-3.335381	
	Intercept	0	-3.162276*	
	None	0	-2.999999***	

All variables, dependent and independent in (Table 1) are integrated of order 1 while the residual (Table 2) is integrated of order zero. Thus the requirement for a cointegrated equation is satisfied.

Table 2. The ADF test for the long-run equation residual.

Variable	Model	Lags	τ_τ	τ_μ	τ	ϕ	ϕ
IMPRES	NONE	0	-3.212589***				

Table 3 provides summary statistics of S. A's wine import demand function.

Table 3. The long-run equation for imported wine into SA

Variables	Coefficient	t-statistics
Relative prices	-1.064591	-11.48808
Exchange rate	-2.111091	-3.120019
Propensity to import wine	0.636010	5.497972

Tariff rate	0.318189	0.924724
Constant	9.638558	2.653439

In conformation with a-priori knowledge, relative prices are negatively related and significant in explaining the demand for wine imported in SA. An increase in relative wine prices by 1 percent yields a reduction in the importation of wines by 1.06 percent. The effective exchange rate does not affirm our prior knowledge that depreciation of the rand (by 1%) results in less wine imported. Instead a depreciation of 1% would give rise to an increase in imported wine of 2.1%. Depreciation of the rand renders imported wine scarce and possible more prestigious than the abundant locally produced good-wine. Demand thus increases for the imported wine. When the income spent on imported wine increase by 10 percent, the volume of imported wines would be increased by 6 percent.

The tariff rate variable is revealed to be an insignificant determinant of demand for imported wine. It is also shown to be positively related with the demand for imports. This is contrary to a-prior theory expectation. However, as is, it helps explain the hypothesis that prices are sticky downwards. This may be concluded when the regression results are analyzed jointly with the separate statistical test on the correlation between import prices (FOB plus the tariff rate) and the good-wine (local produce) retail prices. Since the wine that is imported is good quality wine, the local good wine product provides a close substitute to the import and is thus used as its proxy. A reduction in the price for imported wine would thus elicit a similar trend in the price of the local produce. Table 4 below shows correlation results.

Table 4. Correlation results between imported and locally produced wine.

	X	Y
Imported wine prices after the tariff is levied (X)	1.000	-0.590835
Good wine (SA produce) (Y)	-0.590835	1.000

The above reveals a negative correlation between the imported wine prices and the good-wine locally produced. Thus a decrease in the price of imported wines does not elicit the anticipated reduction in the prices of locally produced good-wine, its close substitute.

Combining the findings, one may conclude that when the tariff on imported wine is reduced, the volume of imported wine also falls. This positive relationship accrues from the inverse correlation established above. A reduction in imported wine tariff does not cause a fall in the price of imported commodity as shown by the price of its close substitute. Instead a price increase follows. This points to the stickiness of the imported wine prices downwards. With a rise in price of imported wine, the volumes imported also fall. Thus the positive result shown in the regression.

The importers absorb the tariff reduction on the imported wine prices. This renders the tariff variable an insignificant determinant of imports. The anticipated benefits to the consumers due to opening up of the economy are thus in vain. Instead greater income inequality results. When the tariff is withdrawn or reduced, the importer absorbs the greater portion of the tariff that is paid by the consumer when the tariff is levied (given the inelastic demand nature in case of wine). The result is greater income inequality. Furthermore, the revenue previously collected by the government is not passed on to the consumer as intended, but to the importers.

An error correction model for the imported wine demand function is established to be the following:

Table 5 The ECM for imported wine demand

Variable	Coefficient	Std error	t-statistic
IMPRES_S12(-1)	-0.578478	0.289092	-2.001016
D(LREL_PI)	-1.007986	0.043904	-22.95894
D(LMPRO_ZI)	0.901095	0.083157	10.83606
C	-0.05872	0.027700	-2.119838

Sample period (adjusted): 1989-1999			
R-squared = 0.992943			
Adjusted R-squared = 0.989918			
S.E of regression = 0.070823			
Normality	JB(2)	= 0.070776	[0.965231]
Serial correlation	LM(2)	= 7.992271	[0.018387]
Heteroscedasticity	Arch(1)	= 0.406075	[0.523968]
	White(10)	= 4.443487	[0.616889]
Stability	Reset (2)	= 1.13079	[0.567770]

All explanatory variables in the ECM above: relative prices and the propensity to import wine, are statistically significant in the explanation of the dependent variable. The R^2 (Adjusted R-squared) of 99.2 (98.9) is also a satisfactory explanation of the function. The LM test indicates existence of serial correlation; a likely case when dealing with time series data. Other components of the diagnostic tests are significant at the 5% level, hence suggesting absence of statistical problems such as heteroscedasticity. The standard error of regression (at 7%) discredits the quality of this ECM for it signifies a big margin between the ECM and the actual import value.

EXPLANATION OF THE FINDINGS

Trade experiences in the South African wine import industry cannot be appropriately explained by orthodox trade theory offered by Adam Smith or David Ricardo. The defect lies in the assumption of perfect competition and absence of externalities. There is growing consensus in trade theory that imperfect markets and competition are important and often-appropriate explanation to trade flows (Roberts, 2000:611). This appears to be the case for SA imports.

Given the bond of secrecy between the government and the importers, data on who the importers are; their number and changes in this number over years can only be speculated

upon. However practices in the local wine industry may hint on those of imported wine, since the two are close substitutes.

The local wine industry in SA is dominated by KWV, which acts as a monopoly while pursuing the interest of its 4648 members. It coordinates and controls the wine industry. The price of wine is not established competitively, but set by the KWV (a statutory price) supplemented by volume undertakings and considerations of envisaged wine purchases during the year (Report no. 3639, 8—10). The price set is sustained by a surplus removal system run by KWV. The nature of this industry and the price determination involved, have an impact on the wine imports and their prices.

Disputing Smith and Ricardo's theories as inadequate explanations of international trade, Bouare came up with a theory of comparative profit advantage (Bouare 1998). He argues that countries do not participate in trade because of absolute advantage, or due to incurring relatively cheaper cost in production of a specific commodity, but because they can make relatively greater profit. International trade is thus not always mutually beneficial.

This profit explanation thus unveils the core factor behind trade; a factor that transcends any trade theory attributes, be it classical or new trade theory. In the latter thus, a country allows trade with others in similar commodities on condition that the local producers are sustained in business. Legally permissible practices, such as the exemption clause, are weapons in hand to defend this premise. It thus follows that no free trade exists per se, and that the basis is not gain for all. In SA's case, the country honors and abides by the WTO rules, but behind it all, its major consideration is the defense of its sovereignty. This is supported by the role of the department of agriculture in conforming to the tax reduction proposals, and the government's gradual execution of these trade reductions.

The South African wine industry (Jonker - KWV group- 2001) argues, in its defense, that the tariff reduction and the expected price reduction are partly eliminated by budget increases in excise duty, which at times exceeds the inflation rate. The profit difference is

thus eliminated. This argument fails on grounds that part B (an additional) tariff on imports is equated to the excise duty. There is also evidence that the good-wine price index has not exceeded SA's consumer price index (CPI) over years. (Report number.3639: 20) It is also alleged that the SA industry is in the disadvantaged position vis-à-vis its counterparts (developed countries) that receive substantial government assistance in form of surplus removal and subsidies. Similar (latter) assistance was ended in SA with abolition of the GEIS. Other mentioned local costs include participation in various state-implemented reconstruction programs by local wine producers (Kwv.co.za/article.htm).

5.POLICY IMPLICATIONS AND RECOMMENDATIONS

The outward - oriented trade strategy is part of the bigger growth, employment and redistribution (GEAR) macroeconomic strategy. The latter has been achieved according to the Ministry of Finance's 2000/1 Budget Speech. (Except for aspects like employment creation, effective redistribution and reduction of inequality). The target is now the micro aspects. This paper serves to analyze a part of the whole. It provides some empirical evidence for the assessment of the suitability of the trade liberalization strategy outcomes. If the broader goal is achieved, then a well-integrated policy will imply smooth functioning of the parts.

The findings of this paper do not confirm the desired part- to- part and part -to -whole policy integration. Export promotion is emphasized but minimum attention is paid to the impact of export promotion by South Africa's (SA) trade partners. Opening up is assumed to automatically embrace increased income redistribution, ignoring the complex linkages and the range of possible outcomes. What results depends greatly on the nature of the import market and, precisely, on the response of the importers.

The revealed stickiness of the prices does not confirm the assumed positive relationship between opening up and improved income redistribution. The lower prices are not achieved (partly due to the importers and also due to the depreciation of the rand).

Government revenue is forgone, tariff reduction appears antagonistic to the aim of a broader tax system; attaining a more equitable income distribution. A small (oligopolistic) group in society that is directly engaged in the importing activity absorbs all benefits. We can thus conclude that opening up in case of SA proves inconsistent with the targeted more equitable distribution of income. This thus goes against the RDP statement that: ‘our growth path must ensure more equitable distribution of income’. (Asghar 1996:4).

The United Nations findings aggravate the results. (Asghar:1996:20). They contradict the conventional view that favors challenging income to the rich on grounds that it is they that saved and invest more. Similar endeavours such as reduction in corporate tax, in anticipation that the (rich) businesses will create more jobs, were also proven abortive. Hence if opening up the economy means transferring more money from the consumers (majority) to the importers (minority), and thus amplifying the redistribution problem, then it has no ground for justification. Consumers may have been better off with the tariffs in place if the government allocated the tariff revenue in the public’s interest.

Opening up of the economy (without fully liberalizing the local market) must, therefore, be given a more critical evaluation. The local scenario has to be considered, otherwise the imported policies superimposed into the SA economy irrespective of the differences in setting, are likely to give rise to undesirable results. The general LDCs experiences of this policy dictated by foreign financial institutions in the 80s were not ‘positive’. Therefore, a feedback from these policy outcomes has thus to be sought to enable evaluation of policy suitability in the local context. Emphasis in this evaluation should be put on the issue of favorable income distribution, which appears in most of SA’s policy, strategies or programs such as: RDP, GEAR and the Global Economic Trade Strategy.

The core of this evaluation is the availability of data, or the accessibility of the available data. In the absence of data, one would recommend that SA (and other DC’s) immediately embark on the establishment of a database that will enable appropriate analysis of policy outcomes. This is the way to avoid blanket acceptance of foreign

policy dictates. This data issue is crucial in the case of primary production or, more specifically, agriculture production. The trend in export performance of most developing countries is towards adding value towards their primary or agricultural products. Data is needed to solve production problems and enable making efficient business and policy decisions.

Much as the analysis in this paper is micro based, it still highlights another question of policy variability, relevant to SA and the majority of developing countries: the success of the outward oriented strategy endeavours. The promotion of exportable and the intended improvement in developing countries welfare may not be achieved if the undesirable trend in relative prices and real effective exchange rate persist. The two variables are significant determinants of wine imports and imports in general. Developing countries are destined to continue importing products, especially industrial ones. However, the power to import, boosted by increased earnings from exports, is likely to be watered down by the perpetual currency depreciation common in developing countries.

The commodity studied here has close substitutes in the form of the wine imports. Despite this closeness, a reduction in tariff does not result in more imports since the prices are sticky downwards. The commodity also entails no aspect of change in price due to quality change, or inclusion of new physical components. Based on this, the scenario is likely to be more bleak for SA (and other DC's) in case of commodities like industrials. These have no close, locally produced substitutes. There is yet room to manipulate price increases, in the name of improvement in included item components.

CONCLUSION

The findings of this paper are against blanket acceptance of the outward oriented trade policy. The assumed benefit: lower prices and better income distribution, are not automatically achieved under the rampantly existing conditions of imperfect markets and market failure. Data ought to be collected to analyze the effects on the micro level and thus the policy suitability and integration the broader macroeconomic goal. The trend in relative prices and depreciating currency have a negative effect on SA (and other

developing countries) ability to import, thus undermining the results from outward oriented policy. Depreciation of the rand rendered imported wine scarce (compared to the locally produced wine – a close substitute) and thus boost the demand for the imported wine. However, depreciation of the rand leads to imports becoming more expensive, and thus counteracts the improvement in export performance.

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