

CREDIT NOTES

Tough times ahead for our FRUIT INDUSTRY

BRAZIL:
Plagued by debt and corruption

The dangers of suretyship clauses in credit applications

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CREDIT GUARANTEE

Don't risk it without us.

The key to understanding CHINA

Jonathan Schiessl
Investment manager, Ashburton (Jersey) Ltd

Over the last few years there has been a profound shift in our perception of China and its place in the global economy. It wasn't that long ago that many in the investment world viewed China as an irrelevance. China was more renowned for its Great Wall and the place with a brutal totalitarian regime following Tiananmen Square. It simply didn't matter in the grand scheme of things.

How times have changed! China today is at the centre of everybody's thoughts, be it her impact on commodity prices (both hard and soft commodities), her impact on the currency and bond markets or her impact on global trade. Whilst there is much emphasis in some quarters on China's threat as an aggressive exporter, China's effect on the global economy remains overwhelmingly positive.

But the real question anyone who invests in China and Asia as a whole should ask is, what are you actually buying? Is it merely a dream of the future or the reality of the present? The answer is probably a bit of both, but as ever depends on the timescale of the investment.

China, more than any other country in Asia – perhaps with the exception of India – offers the most mouth-watering prospects. China is critical to understanding modern Asia. It does not take a genius to see the massive shift in economic power going from West to East at a seemingly unstoppable pace.

The real story in China is not about export of cheap manufactured goods, it concerns the unleashing of domestic demand and the development of the domestic economy. The recent revaluation of the Yuan, that many said would never happen, is we believe likely to prove one of the first indications of a significant and permanent shift in Chinese economic policy in the years to come.

China is in the midst of a growth cycle that is typical in transforming economies, only a little quicker than in prior examples but

unparalleled due to its population of 1,3 billion people. At the heart of China's recent growth is urbanisation. Although 65-70% of the population still live in rural areas, an estimated 20 million people are moving to the cities each year. Let's look at a few statistics:

- By 2020, between 950 million and one billion people will live in cities.
- Over the next five years, 115 million people will move to urban areas.
- Globally that is equal to the size of two United Kingdoms. By 2020 it is as if a whole new Europe has been created.

Understanding this massive structural change is the key to understanding China and its likely growth over the next decade or two. The economic impact from urbanisation is enormous, with the resources and investment required far outstripping similar developments in other countries.

But the real impact is actually not from those people who will move to the cities, it's from the millions who have already moved over the last 10-15 years. These people now have higher paying jobs and are climbing up the income scale. As people get wealthier their tastes change, and we begin to see the early signs of consumerism.

Rising consumerism is a theme across the whole of Asia, particularly among young urban Asians. Some have even gone as far as to label young Asians the "me, me, me generation". For example, single young adults (15-24 year-olds) make up 12% of Asia's population, but account for a staggering 47% of total discretionary spending. In monetary terms, this is about US\$308 billion of spending power.

So what could go wrong? Over the last couple of years and especially the last six months, the China bears have been calling a hard landing for the economy. The bears have been predicting the collapse of investment spending, declines in construction, falls in certain consumer goods sales and a sharp slowdown in export growth, led by textiles.

We also now have many analysts predicting a margin and profit squeeze, as a lack of pricing power has combined with rising input costs leading to what some are calling profitless growth. In addition we have concerns mounting recently about higher oil prices impacting global growth.

However, it is worth noting that as 2005 heads steadily toward 2006, the Chinese economy is still well intact, and fears of a hard landing remain elusive. In fact the most interesting thing is how undramatic growth has been. The economy was undoubtedly overheating two years ago with GDP growth becoming unsustainable. The government's response was a monetary tightening specifically aimed to slow those parts of the economy that were growing too fast, primarily some areas of fixed asset investment and also some segments of Shanghai's property market.

Nevertheless, offsetting efforts were/are being made elsewhere (rural areas) so as not to slow the whole economy down. The aim is to create a more balanced, healthy growth, thereby reducing the risk of social instability.

By and large the government's measures have been successful. The economy is slowing, to a more sustainable 7-9% GDP growth, but we

still have some way to go. We do not believe 2006 will be a year of crisis, and expect it to look a lot like 2005 – high growth but not worrying.

Therefore we look for boring normality to continue, unless there are externally generated shocks, namely oil and a slowdown in the US from a combination of rising oil prices and interest rates.

High oil prices have been one of the key risks for Asian economies over the last 12 months. Prices are expected to remain well above US\$40/barrel for the next few years. However it is important to remember that, measured in real terms in local currencies, prices are still below levels reached at the beginning of the 1980s. And Asia is a great deal less impacted today from rising oil than it was back in the 1970s and 1980s.

High oil and commodity prices in general provide another spur for Chinese and Asian currencies to revalue against the US\$. Rising currencies give a positive boost to domestic demand and the consumer, and this in combination with urbanisation is why we believe that the bears' fears are misplaced and the growth pattern of China's economy should remain sustainable for many years to come. ◆

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Young shoppers browsing in a Beijing street. Single young adults (15-24 year-olds) make up 12% of Asia's population, but account for a staggering 47% of total discretionary spending.

The dangers of SURETYSHIP CLAUSES in credit applications

Eric Levenstein & Ryan Tucker
Werksmans Attorneys

If a person signs a credit application on behalf of a company and is not advised that the form also contains a personal suretyship by the signatory, the document would constitute a misrepresentation which induced a mistake by the signatory. Consequently the personal suretyship obligation of the signatory would be invalid.

In the recent case of *Brink v Humphries & Jewell (Pty) Ltd* 2005 (2) SA 419 (SCA), the Supreme Court of Appeal (SCA) has again dealt with the important principle of *caveat subscriptor*. The signature to a document creates a refutable presumption that a person who puts his signature to a document knows what the document contains. If the contents of a document turn out not to be to the signatories liking, he has no one to blame but himself.

The basis of the *caveat subscriptor* rule is a reliance upon the doctrine of quasi-mutual asset, the question being simply whether the other party is reasonably entitled to assume that the signatory, by signing the document, was signifying his intention to be bound by it.

A common defence to the principle of *caveat subscriptor* is the defence of *iustus error*, i.e. unilateral mistake. If a signatory to a credit application form signed the document labouring under an honest misapprehension of the true nature of the document and which mistake was caused by the creditor, such signatory would be able to rescind the contract if his mistake was sufficiently material. The signatory would have to show that he would not have entered into the contract if he had known the truth. (*Kahn vs Naidoo* 1989 (3,) SA 724 (N)).

In *Brink*, Cloete J A confirmed the *caveat subscriptor* principle in that when a person signs a document, he is taken to have assented to what appears above his signature.

Cloete J A referred to the case of *George v Fairmead (Pty) Ltd* 1958 (2) SA 465 (A). In such case the court posed the question - "When can an error be said to be *iustus* for the pur-

pose of entitling a man to repudiate his apparent assent to a contractual term? As I read the decisions, our courts, in applying the test, have taken into account the fact that there is another party involved and have considered his position. They have, in effect, said: Has the first party – the one who is trying to resile – been to blame in the sense that by his conduct he has led the other party, as a reasonable man, to believe that he was binding himself? ... If his mistake is due to a misrepresentation, whether innocent or fraudulent, by the other party then, of course, it is the second party who is to blame and the first party is not bound."

In *Brink*, the SCA confirmed that they would find it unconscionable for a person to enforce the terms of a document or contract where he misled the signatory, whether intentionally or innocently. Where there is such a misrepresentation and it is material, the signatory can rescind the contract because of the misrepresentation, provided he can show that he would not have entered into the contract if he had known the truth. Where misrepresentation results in a fundamental mistake, the "contract" is void *ab initio*.

The court in *Brink* stated that in deciding whether a misrepresentation was made, all the relevant circumstances must be taken into account and each case will depend on its own facts. The court went on to state that the furnishing of a document, which is misleading in its terms, can constitute such a misrepresentation.

The court made the point that one of the deciding factors to be taken into account is whether the person providing the credit application to the signatory informs the signatory to the credit application form whether there is a personal suretyship included in such agreement.

The first question is whether in fact the signatory has been misled. Did the signatory know or realise that the credit application form contained a personal suretyship clause and did he expect the document to have such a clause?

Secondly, had the signatory known or realised that the credit agreement contained a personal suretyship clause, would he have nonetheless signed the agreement? Was the signatory acting

One must look at whether the document proclaims that it is a credit application form or whether it proclaims that it is a credit application form and personal suretyship agreement.

under a misapprehension in signing the credit application form?

The third enquiry that needs to be undertaken is whether a reasonable man would have been misled. This is an objective enquiry which enables the court to prevent abuse of the *iustus* error defence in cases such as the present.

Would a reasonable businessman have anticipated a personal suretyship obligation in an application for credit made on behalf of a company?


In deciding this question, the SCA analysed the following features of the credit application form relevant to that case, which in their view was relevant to the question as to whether a reasonable man would have been misled by the credit application –

- the prominent heading of the document must be taken into account. One must look at whether the document proclaims that it is a **credit application form** or whether it proclaims that it is a **credit application form and personal suretyship agreement**. If it merely states that it is a credit application form and then subsequently includes a suretyship clause, this in itself is misleading;
- whether there was a clear indication in the application form that the signatory was signing in two capacities, i.e. in a representative capacity on behalf of the company and in a personal capacity. The suggestion offered by the SCA is to have provision for two signatures with appropriate wording indicating that the signatory provision pertains to a suretyship obligation;
- does the wording of the credit application form convey to any person who saw it that the signatory was signing in a representative capacity or in a personal capacity? Is the clause which contains the personal suretyship, sufficiently bold and eye-catching to draw the attention of the signatory to this clause? Is the clause conspicuous enough so that it would stand out on its own? Would the wording suffice to alert a signatory to the fact that he or she was undertaking a personal obligation?

In the Brink case, the SCA held that the creditor's conduct in providing the credit application form to the signatory without clearly indicating that it contained a personal suretyship by the signatory was misleading and had induced a fundamental mistake on the part of the signatory. The signatory had been under the impression that he was signing a credit application form on behalf of the company, whereas he had undertaken, in addition, a personal suretyship for the debts of the company. It followed therefore, that the suretyship obligation was void *ab initio*.

Would a reasonable man be misled?

All in all, the creditor must ensure that the individual signing the document containing a suretyship is not misled by the features of the credit application form. One must ask the question as to whether a reasonable man in the position of such person would be misled by signing such form.

If the misrepresentation is material, the signatory would be entitled to rely on the Brink case and argue that the contract should be rescinded because of such misrepresentation and therefore the "surety" cannot be bound by the contract. 

A checklist for creditors in assessing the legality of their credit application forms

- 1 The creditor must inform the person signing the document that the form imposes a suretyship obligation on the individual who signs the document. If the application form states in the heading "COMPANY CUSTOMER RECORD AND CREDIT APPLICATION FORM BETWEEN ..." this in itself is misleading. If the creditor required that the document would also be a suretyship undertaking, the creditor must include such an indication in the heading of the application form.
- 2 If the person signing the document understood that what was required of him in signing the form was a signature on behalf of the debtor i.e. the company, and such application form includes a personal suretyship, then by his signing the application he would have been misled. If the individual signing the document did not realise that the credit application contained a personal suretyship clause and did not expect it to, then he cannot be held bound by the suretyship contained therein. If the individual can categorically confirm that had he realised that the form contained a personal suretyship clause, he would not have signed the document, then that person can rely on the fact that he acted under a misapprehension in signing the credit application form.
- 3 The creditor must ask the question as to whether a reasonable man would be misled in signing the document containing a suretyship undertaking or whether he would understand that he is doing so.
- 4 The creditor must ensure that the point at which signature is requested on the form by the surety is preceded by a space for the capacity of the party signing the document. If this is not done, this further misleads the individual into thinking that he is signing a document in his representative capacity and not in his personal capacity. If a creditor intends that the person signing on behalf of a company be bound also as surety, it must provide for the signing by the individual in a dual capacity i.e. in a representative capacity and in a personal capacity. If there is no provision for two signatures with appropriate wording indicating the dual capacity, then the document is defective.
- 5 The actual suretyship clause must be in capitals and in bold i.e. it must be highlighted. This clearly assists in alerting the signatory to the clause containing the suretyship. The suretyship clause must therefore be conspicuous. The manner in which the personal suretyship clause is included in the form must alert a signatory to the fact that he or she is undertaking a personal obligation.

Tough times ahead for our *FRUIT INDUSTRY*

The fruit industry is suffering due to a world-wide over-supply of fresh fruit and changing climate conditions that affect existing fruit cultivars. It is estimated that 30% of SA's fruit farmers will be insolvent within five years if solutions cannot be found. The local fruit industry stands a better chance of survival if new markets can be opened up and unique deciduous cultivars developed.

The problem with the industry, albeit a very dynamic industry, is that it depends on so many variable factors: International crop size in terms of volume and sizing of fruit; climatic factors such as frosts, hurricanes, freezes that affect international volumes, quality and timing; currency fluctuations; economic spending power of different markets; customer buying habits in warm vs. cold weather and quality of production based on climatic changes.

Mark Jensen of SAFPRO has stated that this year is arguably one of the worst years in the history of the fruit business internationally. Markets have been very poor in Europe, Japan, Russia, Canada and the Far East. This is not just on citrus or deciduous or on the Southern Hemisphere or Northern Hemisphere product, but on all of it.

Jensen believes it is an industry that evolves very much along the economic laws of demand and supply. From a South African perspective, 1999 was a disastrous year for apples and pears, and 2000 for grapes and citrus. After those watershed years the industry consolidated. This, coupled with good market conditions, led to four years of good markets.

These conditions have again in many ways resulted in the fragmentation of supply as it has become "easy" to export fruit, mostly to Europe. Coupled with many climatic factors internationally, this has increased global volumes. In addition, quality problems locally have resulted in the past two grape and stone fruit seasons being very poor, as well as the current apple, pear and citrus seasons being as bad if not worse than in 1999 and 2000.

Most international markets have been running at very low inflation rates for the past decade, which means prices have not increased. Global volumes are continu-

ing to increase and with buying power falling mostly into the hands of the supermarket giants, pressure is mounting on international selling prices.

In reality, forex prices have not increased over the past eight years. With the sustained strength of the rand this means that at current levels the rand selling prices are similar to what they were eight years ago. On the cost side however, global demand for shipping mainly from China has pushed shipping costs to more than double what they were a few years ago.

Added to this is the fact that South Africa's compounded inflation over the past eight years has also increased production and packaging costs by about 50%. Even in normal circumstances this would have put margins under extreme pressure to the point that in a year like this one, most producers would suffer serious losses.

Jensen believes that being part of an international industry, our fruit producers are in for tough times as global volumes continue to grow while costs continue to rise without a reciprocal inflationary weakening in the currency. As a result, the laws of supply and demand will ultimately stabilise the industry, and in the meantime the strongest will survive.

The South African fruit industry had a record year in 2002 due to the devaluation of the rand against most currencies, good supply and a low supply to Europe from competing countries. South Africa exports predominantly to the European Union.

In 2003 and 2004 the dollar depreciated against the euro. With the dollar depreciation South America perceived a better opportunity in Europe and increased supply significantly to this market. South Africa competed for market share with South America's fruit in Europe in 2003/04.

South America exported significant additional volumes of pears to the Russian market (said to be 40% up on 2004) in 2005. Russia closed import channels due to full cooling infrastructure and a saturated market. Significant volumes of fruit were diverted to the Dutch market or returned to Argentina. There were also significant Northern Hemisphere stocks on hand when the South African product landed in the market.



A housewife in Bonn, Germany, shops for fruit at a local market. EU / UK market returns for fresh produce are declining as the population demographics change, supermarkets put downward pressure on prices to match the deflation in these countries, consumers are price sensitive, and the supermarkets are competing to offer the lowest prices.

The European market crashed for most fruit types, in particular apples and pears. The UK is slightly different as the supermarkets control the supply of fruit to the market through their programmes with South African exporters. The grower returns from this market are significantly better than the European market. Consequently, the export of fresh apples and pears is expected to be 20% lower in 2005 for the South African industry.

This was a consequence of the poor demand in Europe and the effect the drought in the Ceres area had on the size and quality of the crop. The UK market is

stronger than Europe's and the prices are at a level which will ensure the growers will cover production costs.

The expected returns from Europe will be below production costs for the 2005 season. Larger exporters cover the UK and Europe where prices could be under pressure. In general, growers have not yet seen the effect in Europe which is expected to be felt in January / February 2006.

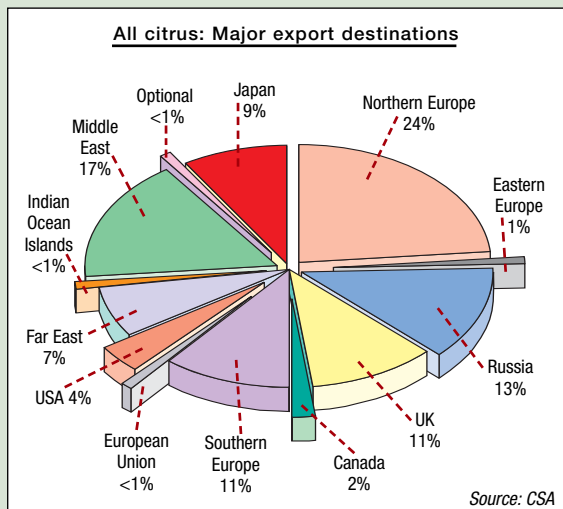
An increasing number of table grape growers in the Orange River area are in an insolvent position and this scenario could well expand to other areas and fruit

types. The European Union / UK market returns for fresh produce are declining as the population demographics change caused by households becoming smaller, supermarkets putting downward pressure on prices to match the deflation in these countries, consumers are price sensitive, and the supermarkets are competing with one another to have the lowest price on the shelf. Add to this the increased competition from the low-cost producing nations (South America, South Africa), and the result is reduced returns to South African growers.

In 2005, New Zealand growers' returns were well below production costs with serious implications for their industry. The South African fruit industry is facing very tough times ahead and the days of producing product and sending it to the market are fast ending. Industry co-ordination and global competitiveness is needed to ensure the South African industry remains healthy.

Citrus fruit industry

South African citrus (oranges, lemons, grapefruit and soft citrus) is grown in eight out of the nine provinces in SA. The citrus season extends from late February to early October and during this period, about a million tonnes of citrus leaves our shores. SA citrus is also exported to the high protocol markets of Japan, the USA, South Korea and Taiwan. Other countries receiving high priority with regard to new access include Thailand, Israel and China.



The citrus industry currently earns nearly R2bn a year, which is approximately 4,5% of the total agricultural gross value of production and although SA's citrus industry produces only 1,5% of world production, it is the third largest exporter of citrus after Spain and the USA. There are approximately 1 300 export farmers and 2 200 small farmers who supply the local market.

The critical constraint for citrus production is soil moisture. Citrus trees thrive in a wide range of climate conditions provided the winters are almost frost-free. The climate of SA varies from the summer rainfall subtropics in the north to a Mediterranean-type climate with winter rainfall in the Western Cape. This enables the production of a wide range of citrus types throughout the country and also ensures the provision of fresh fruit over a long season.

Valencia and navel oranges are by far the most popular types planted in SA, followed by grapefruit, mandarins and lemons. Production is largely limited to the irrigation areas of Limpopo, Mpumalanga, the Eastern and Western Cape and KwaZulu Natal. A total of 1,9mt of citrus was produced in 2002/03.

Citrus production is primarily focused on export and is therefore highly exposed to competition. Maintaining a good cost competitiveness position, high fruit quality and keeping abreast with changes in world market trends are of the utmost importance. On average 54% of the total citrus production is exported, 25% is processed and 21% is consumed locally as fresh fruit. Exports accounts for 81% of the total value of production. Oranges make up 70% of export volume followed by grapefruit (16%), lemons (8%) and mandarins (6%).

SA citrus growers had hoped that 2005 would be a great year for them, but with less than half the season behind them, the mood of optimism has turned to gloom, with most of their markets under pressure and prices collapsing. Prior to the start of the citrus season, exporters confidently predicted strong markets, specifically in Japan and Western Europe. They were also gearing up to launch their first real season in the Chinese market, which is seen as a major growth area for the years to come.

However, by mid-August 2005 the confidence was gone and markets in Russia, all of Western Europe and Japan were under extreme pressure. The Chinese programme has all but come to a standstill due to an administrative bungle, which will do little to instill confidence in SA as a reliable supplier. SA citrus fruit was granted access to the Chinese market in 2004 and after four orchards were approved according to phytosanitary protocol, a few trial containers were shipped during 2004.

Justin Chadwick of the Citrus Industry Association has stated that despite earlier hopes that the big freeze in Spain would leave the market short, SA arrivals in Western Europe have been affected by large stocks left on the market from Morocco and Egypt. In Japan the market was short prior to arrivals due to the mishaps in Florida. Chairman Dole Arend Venter of the Citrus Exporters' Forum revealed that after a recent exporters' meeting all markets except the US were under severe pressure and growers and exporters should think twice before shipping marginal fruit.

Growers who primarily focused on producing oranges had a particularly good season in 2004. The demand for smaller oranges had a positive spin-off for valencia growers with smaller fruit. There was a slight dip in valencia prices towards the end of the season when Spain started with their early citrus.

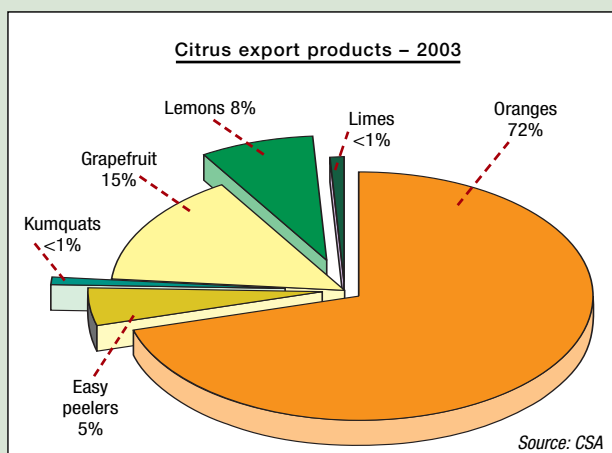
The demand for good navels was seen throughout the globe especially in the USA. Early midnights to the USA did exceptionally well due to the shortage of oranges created by all the hurricanes that affected Florida. The prospects for 2005 look even better with the opening of Chinese markets for SA citrus.

SA exported roughly 30% more lemons in 2004 than the previous year, with increased pressure from Spain and Argentina. Careful planning was necessary to ensure stable returns to producers in a difficult market. This was achieved by good orchard selection and packing the

correct specification for the intended markets.

Most of SA's soft citrus is exported to the UK and unfortunately the prices were not on the same levels as 2003 and 2004. USA helped to stabilise the soft citrus returns. China will no doubt have a positive effect on soft citrus next season. The effect of Chile exporting to the USA will not dramatically affect SA soft citrus.

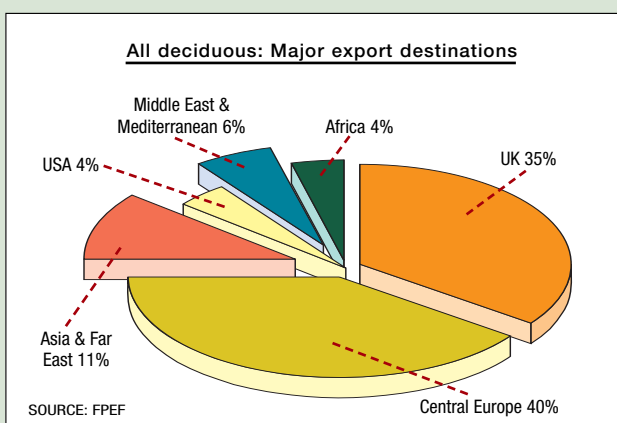
Good quality grapefruit in Japan delivered similar returns as in 2003. Unfortunately, prices in Europe for 2004 were significantly lower than 2003; white grapefruit growers were hardest hit. The hurricanes in Florida will no doubt have an impact on grapefruit for the 2005 season, especially in Japan.



The SA citrus industry has been given a boost with the development of a multi-million rand terminal – Maydon Wharf Fruit Terminal – for specialised citrus fruit. The terminal will allow SA to compete more effectively with other exporters, as it satisfies the stricter contamination protocols of importing countries. The facility is also well placed, as most of the export citrus crop from the eastern and northern parts of the country is processed in Durban.

Deciduous fruit industry

The deciduous fruit industry (grapes, apples, pears, stone fruit) of South Africa thrives in a mild Mediterranean climate. The largest concentration of fruit lies in the Western Cape region. However, other production areas include the Northern Cape, Eastern Cape, Northern Province, Free State and Mpumalanga.



Although a large volume of deciduous fruit is sold on the domestic markets, the industry is primarily export driven.

According to Optimal Agricultural Business System (OABS), international prices have been static and competition from major competitors in the Southern Hemisphere are forcing prices downwards. However, the rand stabilised during the 2004/05 season with prices in rand terms being 30% down from the high levels in the 2000/01 season due to the strengthening of the rand.

Primary production costs, of which about 75% are linked to the exchange rate, have continued to increase despite the stronger rand. Wages have increased by double the inflation rate. But there is no relation between the annual minimum wage increase and the profitability crisis that the industry is currently facing. Packaging material costs have continued to increase despite the stronger rand and attracts a 7% import duty, which effectively reduces competition.

It is estimated that at least 50% of Western and Northern Cape producers will be unable to raise adequate production finance for the next season. Due to the series of consecutive years of lower income, producers are not in a position to replace old plantings / cultivars.

The Hex River experienced its lowest crop in 10 years with a reduced table grape volume of 35%. Untimely rains also caused the outbreak of downy mildew/botrytis, which caused the abortion of berries and berry-burst. Hex, Berg and Orange River – the main table grape production areas – are estimated to record a farm loss of about R30 000/ha, equating to a total farm loss of more than R450m for the table grape industry and a gross loss of more than R1bn.

The total apple and pear crop in the Ceres area is 20% down on normal years due to water shortages and sunburn due to extreme heat conditions. Elgin and Grabouw's apple crop is between 30% and 40% lower due to sunburn, whilst fruit size is of great concern as it will put further pressure on price levels.

In the Villiersdorp / Vyeboom areas an 80% crop loss was experienced due to water shortages and hail damage earlier in the season. Production in the Piketberg area has virtually ground to a halt due to no water being available during the vital fruit development phases.

Farm income will be reduced due to these factors in the apple and pear industry to about R500m and on the stone fruit industry of R50m with the gross value loss of R1bn. The lack of post-harvest irrigation will in most areas be sub-optimal, which will also affect next year's crop.

While South African farmers can compete with the best in the world, they cannot compete with foreign governments. The industry realises that it will probably take years to level the playing field and the obvious way to achieve this is by local policies aimed at reducing production costs. Any government policy that increases farmer's production cost will cause the deciduous fruit industry to be less competitive and will not contribute to land reform and agri-BEE.

A high level of import duties in key European markets

continues despite the SA/EU free trade agreement. Although duties have started to come down in terms of the agreement, the industry still pays more than R300m per annum in this regard. There is over-exposure to traditional European markets that are in decline or stagnant, and too slow entry into new Eastern markets.

The deciduous industry could also find itself losing key markets and failing to enter new markets due to the slow roll-out of critical environmentally friendly techniques. There is inefficiency in the logistical chain due to inadequate infrastructure and operations in ports due to a lack of international standards. Productivity and costs are three to four times more than comparable ports in the East and in Europe.

The SA grape industry has stated that it is in a crisis. While exports have been hit by a strong rand and production damaged by bad weather in certain areas, farmers cite British supermarket price wars as a major reason for financial hardship and bankruptcies. In many cases supermarkets are demanding high standards of production, while not paying the price it costs to produce the grapes.

According to the South African Table Grape Industry, 65% of the country's grape producers are now operating at a loss. Many are being kept afloat by bank loans or credit from their exporters. It is estimated that one in five grape farmers in the Orange River region of the Northern Cape have failed and it is feared that many more are set to follow suit.

The French market has always been a good one for Southern Hemisphere pears, but this year there was a huge volume of European stone fruit, a decrease in buying power and very warm weather, which did not help consumption. To make matters worse, retailers took up less volume and kept prices on the high to boost their margins.

According to a fruit exporter, the recent enlargement of the European Union and the infrastructural improvements in countries such as Poland will have a dramatic impact on Southern Hemisphere suppliers. In September 2005 climate conditions indicated a promising SA stone fruit crop due to cold spells during the early part of winter and the good rainfall. Currently, dams are 25% fuller than at the same time last year.

During the 2004/05 season, the growth and variety in stone fruit exports more than doubled. SA's exports of fresh, dried and canned stone fruits run to more than R1,8bn every year.

Subtropical fruit industry


Pineapples are grown in the Eastern Cape and northern KwaZulu Natal. Other subtropical crops such as avocados, mangoes, bananas, litchis, guavas, pawpaws, granadillas and macadamia and pecan nuts are produced mainly in Mpumalanga and Limpopo at Levubu and Letaba and in the subtropical coastal areas of KwaZulu Natal and the Eastern Cape. In 2002/03 South Africa produced 344 000t of subtropical fruit.

South Africa produces two types of pineapples – the Cayenne and Queen varieties. Virtually the entire Cayenne pineapple crop is used locally for processing purposes while Queen pineapples are air-freighted to Europe in small quantities. Baby pines also find their way to the Middle East and the Far East.

The SA avocado industry has worked closely with other producing countries like Israel, Spain, Kenya and Mexico to co-ordinate export volumes into Europe.

The SA mango is being used increasingly for juice, atchar and dried mango processing industries. Exports of whole fresh mangoes continue while significant work is being done on some of the factors influencing export quality such as prevention of sunburn; the reduction of lenticel damage; the lengthening of the storage period and appropriate external colouring in the orchard and ripening periods.

The macadamia nut is fast becoming a major subtropical crop in South Africa. After Australia and Hawaii, SA is the third biggest producer of these nuts in the world. Using the wet kernel extraction method, the SA cultivars have a good yield and kernel recovery rate. Work is currently being done on the roasting sensitivities of macadamia nuts – something that is particularly important from an export point of view.

Very small quantities of other subtropical crops such as bananas, papayas, litchis and ginger are exported from SA. In the case of bananas, SA is not ideally positioned as a subtropical producer. The equatorial producing countries have distinct, natural advantages against which it is tough to compete. Some exporting has been done to the Middle East recently with mixed results. Colour development, harvest maturity, cooling rates and box designs are being looked at to improve SA's internationally competitive position. 

SOUTHERN HEMISPHERE EXPORTS

| Country | EXPORT VOLUMES 2003 (METRIC TONNES) | | | | | | |
|--------------|-------------------------------------|---------------|------------------|----------------------|----------------|----------------|------------------|
| | Apples | Apricots | Grapes | Peaches & Nectarines | Pears | Plums | Total |
| Chile | 601,248 | 3,843 | 888,483 | 125,521 | 146,920 | 98,613 | 1,864,628 |
| South Africa | 325,809 | 4,911 | 198,264 | 7,223 | 118,253 | 39,876 | 694,336 |
| Argentina | 200,431 | 80 | 39,074 | 9,848 | 328,188 | 15,478 | 593,099 |
| New Zealand | 322,758 | 1,054 | 94 | 73 | 2,616 | 17 | 326,612 |
| Australia | 32,099 | 173 | 38,714 | 8,624 | 14,202 | 10,718 | 104,530 |
| Brazil | 76,466 | | 37,601 | | 8 | 5 | 114,080 |
| TOTAL | 1,558,811 | 10,061 | 1,202,230 | 151,289 | 610,187 | 164,707 | 3,697,285 |

SOURCE: FAQ

*Compiled and researched by
Melanie Da Luz
Economic researcher
Credit Guarantee*

THE FEDERAL REPUBLIC OF BRAZIL:

Prosperity plagued by debt and corruption

Brazil's history is characterised by economic boom and bust while its development attempts have been hampered by high inflation and one of the biggest foreign debts. Yet economic reforms in the 1990s brought stability to the country's finances. Government faces increasing pressure to redress what some say is one of the world's most unfair distributions of wealth. Brazil's Aids programme has become a model for other developing countries after it succeeded in stabilising the rate of HIV infection and reducing the number of Aids-related deaths.

Political climate intensifies

Luiz Inácio Lula da Silva of the ruling Partido dos Trabalhadores (PT) became Brazil's president after his fourth presidency attempt in the 2002 presidential elections. The term of office is four years and a president is permitted to stand for reelection once only. Despite business leaders being wary of him, he is hailed as the working-class hero.

Lula oversaw a stabilisation of the economy during his first few months in office after pledging to meet the International Monetary Fund's (IMF's) targets. He implemented pension fund reforms to reduce a huge budget deficit and pushed through a modest increase in the minimum wage. He had to face a surge of land invasions by activists who were frustrated at the slow pace of agrarian reform. In 2005, his popularity was hurt by claims of corruption in the

ruling party on cash-for-vote schemes in Congress.

Since Lula took office in January 2003, he has won market confidence by showing commitment to stability and reform. The public debt ratios have begun to improve, but he has made little progress in fulfilling election promises to tackle Brazil's high levels of poverty. Government is running a large primary fiscal surplus but has limited control over fiscal solvency, as two-

thirds of domestic public debt is still indexed either to the exchange rate or to the overnight interest rate.

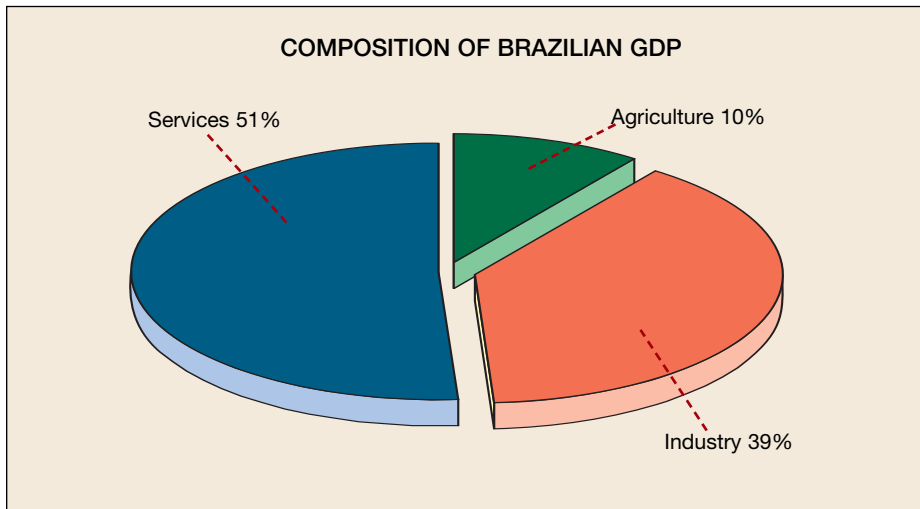
Under the supervision of the IMF, Brazil has adopted inflation targeting as a framework policy in the context of a floating currency. It agreed to cut spending in other areas of the budget to offset a 15% pay raise that lawmakers gave congressional workers in July. Government had not explained where it would cut spending to prevent its budget deficit from widening. The deficit equaled 2.7% of GDP in the twelve months to July, down from 5% of GDP when President Lula took office in January 2003.

The PT is expected to lose significant power in the general elections scheduled for October 2006. Already divided by economic differences with the government, the PT was hit hard by the recent corruption allegations involving the party's former leadership. Brazilian lawmakers ousted

Since Lula took office in January 2003, he has won market confidence by showing commitment to stability and reform.

Slavery sweetened the coffee

The original inhabitants of Brazil were as many as six million Brazilian Indians divided into many tribes that spanned the Amazon Basin. The Portuguese colonists who arrived in the early 16th century persecuted and enslaved the native people and put them to work on the sugar plantations that supported the Brazilian economy. In 1823 Pedro, the Prince Regent, son of King João VI of Portugal, declared Brazil's independence and proclaimed himself Emperor. Coffee replaced sugar as Brazil's primary export and the coffee plantations were worked by slaves until the abolition of slavery in 1888. A military coup in 1889, supported by the main coffee producers, toppled the Empire and the Republic of Brazil was founded, based on a federalist constitution. Today Brazil is one of South America's largest and most influential countries and occupies half the continent. It is becoming one of the world's economic giants and is revered for its coffee production and distinctive music such as samba and bossa nova.



The Brazilian economy seems to have detached itself from the current political debacle and after a GDP decrease of 0,2% in 2003, the country enjoyed robust growth of 4,9% in 2004.

Roberto Jefferson, the lower-house deputy in September. His allegations of Government corruption prompted a three-month congressional probe after he said he received illegal campaign funds.

Jefferson reiterated that the president was a good man and had not taken part in the corruption scheme. Eighteen other lawmakers from Lula's party who face expulsion after graft probes, won an injunction from the country's top court barring their ouster from congress. For the first time in August, an opinion poll predicted that Lula would lose next year's presidential election to José Serra, the man he beat in 2002 and who is mayor of São Paulo.

After four years of complaints from the South American region of being neglected by the United States, President Bush sent Condoleezza Rice on a four-nation tour in April. The US's long standing project for the region, namely free trade among the hemisphere's 34 democracies, is at a stand-still. As US influence in South America has waned, China's has waxed. Brazil is wary of pan-American farm subsidies and suspicious of American military aid to Colombia.

Scandal, receding popularity and slow economic growth are not the best preparation for an election but Lula hopes to win a second term. His popularity, though still high, is slip-

ping. He came back in July saying that fighting corruption and upholding ethics in the public sphere will be central and permanent objectives of his Government.

Economy resilient

The economy is comprised of well-developed agricultural, mining, manufacturing and services sectors. From 2001-03, Brazil absorbed a series of domestic and international economic shocks. The resilience of its economy and the economic programme put in place by former President Cardoso and strengthened by President Lula enabled the economy to absorb these shocks without financial collapse. Three pillars of their economic programme included a floating exchange rate, an inflation-targeting regime and tight fiscal policy.

However, significant economic vulnerabilities regarding Brazil's debt persist. Govern-

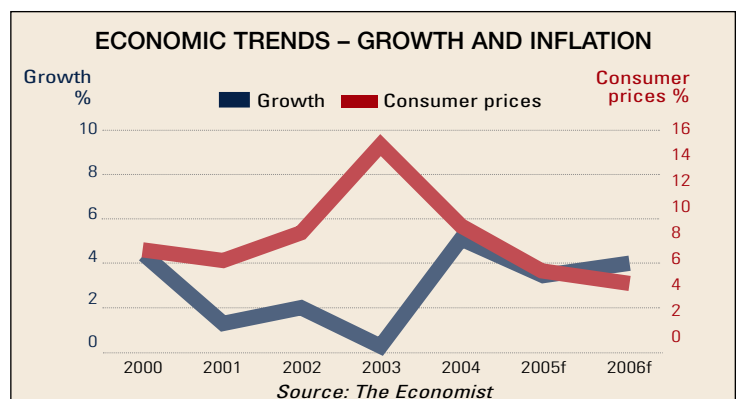
ment's large domestic debt increased steadily from 1994 to 2003 – straining Government finances before falling in 2004. Brazil's foreign debt is large in relation to its small export base. Another challenge is maintaining economic growth over a period of time to generate employment and make the Government debt burden more manageable.

Economic growth slowed considerably to less than 2% in 2001 due to a slowdown in major markets, the hiking of interest rates by the Central Bank to combat inflationary pressures and fears over the economic policies of the new Government before it came into power in 2002. Investor confidence was strong at the end of 2001, in part because of the strong recovery in the trade balance.

Highly unequal income distribution remains a pressing problem. After Lula's inauguration on 1 January 2003, there were some fears that his party radicals might provoke an economic retraction and Brazil would undergo a financial crisis.

However, the Brazilian economy seems to have detached itself from the current political debacle and after a GDP decrease of 0,2% in 2003, the country has enjoyed robust growth of 4,9% in 2004 – its best performance in a decade due to booming export growth coupled with an increase in consumer credit despite the high borrowing costs.

GDP growth exceeded expecta-





Brazilian president Luiz Inácio Lula da Silva and his first lady, Marisa Letícia, wave to the public during a parade celebrating Brazilian Independence Day in the capital, Brasília, on 7 September. A recent opinion poll predicted that Lula would lose next year's presidential election.

tions in the second quarter of 2005 after rising 1,4% quarter-on-quarter. The economy grew 3,4% in the first half of this year on the back of rising exports of sugar, iron and cars. This encouraged the Government's Institute of Applied Economics to raise its 2005 economic growth forecast from 2,8% to 3,5%. Government's revised forecast that economic growth would accelerate to 4,5% from an estimated 3,4% for this year may be raised further, as inflation moves closer to the Central Bank's 5,1% target.

The 2006 budget forecasts 7% increase in minimum wage to 321 reais (\$1 = BRL real 2,23) approved for this year and a drop to 16,75% in the benchmark interest rate for the end of 2006. The Institute

projects GDP of 4% in 2006. The inflation projection was lowered to 5,3% from 6,3% for 2005 and 4,8% in 2006 and will allow for a significant drop in interest rates.

Four months of deflation to June 2005 suggest that the Central Bank succeeded in reigning in prices by raising interest rates nine times between September 2004 and April 2005. Brazilian Central Bank cut interest rates in mid-September from a two-year high to bolster growth. The overnight banking rate was reduced by 0,25% to 19,5%.

Economic trends

Brazil's real gained 23% in the 12 months to August 2005, the best performance against the dollar of the sixty-one cur-

rencies tracked back by Bloomberg. The strengthening currency has encouraged companies to buy additional machinery and other goods abroad as they invest in expansion. Company investments to boost output capacity in the continent's largest economy grew 4% in the second quarter from a year earlier.

Rising international oil prices also boosted the total value of purchases abroad as companies imported oil derivatives and fuel at a higher cost. The currency stands to weaken in the coming months as net inflows of dollars from trade narrow. The real is expected to end the year at 2,52 reais:\$1. The stronger currency helped quell import costs that companies pass on to consumers.

All residents have the right to the best available drug treatment at no cost. Government will spend \$395 million this year on anti-HIV drugs, almost two-thirds of it on three expensive patent drugs.

In July 2005 the Brazilian Government and Abbott Laboratories, an American pharmaceutical firm, announced a stand-off over the cost of Kaletral, Abbott's anti-retroviral treatment. The drug accounts for a third of Brazil's budget for Aids medications, which it provides free to HIV-positive citizens. Government had approached Abbott to cut Kaletral's price by 42% or grant a licence for the state to produce it. Brazil threatened it would otherwise use the compulsory licencing procedure sanctioned by the World Trade Organisation (WTO) to manufacture the pills without the firm's permission.

Under the July deal, Brazil was to have maintained its \$109 million per annum spending level on Kaletra until 2010. The pact lasted a week as the health minister who agreed to the deal was ousted over the voter-corruption scandal and the new health minister wanted additional discounts. Abbott still hopes a deal will be negotiated.

Brazil's handling of the HIV epidemic is regarded as exemplary. In the early 1990s, the World Bank estimated that the number of HIV infections would have risen to 1,2 million Brazilians. Five years after the deadline, the total is 600 000 – half the Bank's prediction.

Brazilian law gives all residents the right to the best available drug treatment at no cost. Government will spend \$395 million this year on anti-HIV drugs, almost two-thirds of it on three expensive patent drugs. Government has exploited every drug loophole to avoid patents and buy or manufacture generic versions of drugs. It spent \$1,8 billion on anti-retroviral drugs between 1996 and 2002 but estimates that early treatment saved it more than \$2,2 billion in hospital costs over the same period.

Brazil's foreign debt stood at

\$198,3 billion at the end of May 2005 – the lowest level since December 1997. Government's policy is to reduce foreign debt by not rolling over maturing debts. In July, Treasury planned to roll over only 80% of the \$11,8 billion in foreign debt which is due to mature in the next two years.

In July, Brazil repaid \$1,5 billion to the IMF ahead of schedule as a surge in exports brought foreign exchange into the country. The loan, which was due in September, was granted to Brazil to support its currency. The Central Bank expected to save \$82 million by paying early. This strengthened the debt profile of the country and made the Central Bank revise its year-end forecast of gross foreign reserves down from \$57,7 billion to \$56,6 billion. As at July, the country owed \$20,8 billion to the IMF.

In the same month Brazil urged the WTO to allow it to block \$3 billion worth of US trademarks, patents, financial and engineering services until Congress ended illegal cotton subsidies to American farmers. Brazil accused the US of breaching commitments signed in 1994. If this is accepted, the sanctions would be the first case where any of the 148 WTO members retaliated by targeting commercial services and property rights.

Brazil cannot afford to jeopardise efforts to contain inflation by raising import costs through the usual mechanism of higher customs duties. Foreign direct investment (FDI) in Brazil, the world's largest cotton producer, is among the lowest in large developing countries. Brazil is pushing to put a quick end to subsidies because the nation's production could double or triple within a few years after US farmers lose their export aid.

The executive director of Brazilian Cotton Producer's Association estimated that US cotton exports will drop by

almost half once aid is eliminated. This would in turn open up new markets for Brazilian farmers who produce about one million tonnes of fibre annually. In the year to July, Brazil received \$10,6 billion in FDI.

Coffee prices improved 21,4% this year compared to 2004 but is still not sufficient to compensate for the losses suffered with last year's poor crop. The industry now wants Government to support the producers who are battling to extend their loan repayment periods. They require funds as their crop needs heavy investments in relation to profits. Coffee is also not easily kept in storage.

Producers are not seeking additional cultivation area as they fear that increased production will lead to a fall in price. World coffee production runs around 120 million sacks annually. The international market currently has 20 million sacks in stockpiles. Brazil hopes to produce 50 million sacks next year.

In 2004, national production of cereals, beans and oilseeds was 119 million tonnes, 3,7% lower than in 2003. The strongest increases were for cotton which grew 62%, rice (29%) and sorghum (22%). The 2005 harvest is predicted to rise 13,3% for cereals, beans and oilseeds, with soya expected to show the strongest growth.

Trade developments

Brazil's nut industry has prompted a boom in Bolivia which has become the world's dominant exporter of Brazilian nuts. Brazil sells boxes of unshelled nuts to Bolivia each year and from there about 520 000 x 23 kg boxes of shelled nuts are exported. Bolivia's exports will total approximately \$80 million this year from \$60 million last year and is expected to grow 60% next year.

Conditions in the industry are

hard and nuts have to be picked at 04:00 due to the hot temperatures in which they grow. It is also highly labour intensive and 80% of its revenues goes to 40 000 people working in this industry. Sixteen nut-processing factories exported 99% of their output. Nut shippers still make most of the money; they buy it from Bolivia for \$5,5/kg and sell it for \$17/kg in European supermarkets.

that the strategic partnership created between Brazil and China would lead to a doubling of trade to \$20 billion within three years. China promised to invest \$10 billion in Brazil's infrastructure.

Brazil, along with Argentina and Chile, were to recognise China as a market economy (which meant not retaliating against imports). Brazil hoped for Chinese backing in its bid to secure

ment estimates that Brazil's exports to China jumped from \$676 million in 1999 to \$5,4 billion in 2004. Imports also grew, but Brazil maintained a trade surplus of \$1,7 billion with China last year.

Brazil's farmers are still angry over China's rejection of their soya shipments last year – which China claimed were contaminated – that cost them hundreds of millions of dollars.



Brazil's President Luiz Inácio Lula da Silva, left, Argentine President Nestor Kirchner, centre, and Venezuela's President Hugo Chavez pose for a photo in Brasilia, Brazil, in May this year. Aiming to boost their global political and economic muscle, leaders and ministers from 34 South American and Middle Eastern nations gathered in Brazil for a summit to strengthen economic ties and discuss such issues as terrorism and the United States' influence in the Arab world. The event bringing 12 South American and 22 Arab countries together for the first time could serve as an initial step toward negotiations for a free trade agreement between two regions that do little business with each other now. (AP Photo/AGÊNCIA BRASIL)

Bridging the continent

President Lula met with Peruvian president Alejandro Toledo last August to lay the first stone of a bridge across the Acre River in Assis. The two parties also signed an agreement whereby Brazil would help finance the upgrade of 700 km of road, much of it a dirt track between Inapari and the coast. By June 2006 a tarred road is expected to run from São Paulo to Lima and, more importantly, from Brazil's soya-growing state of Mato Grosso to Peru's Pacific ports.

The Chinese connection

Chinese President Hu Jintao visited Latin America last November to sign a series of trade investment deals. Lula predicted


a permanent seat in the UN Security Council. Fears are surfacing of rising Chinese imports, disappointment at the pace of investment and Brazilian anger that their Government has weakened the country's trade defences without getting much in return.

Brazilian head of trade says China is not a strategic partner, but merely wants to buy raw materials with no value and to export consumer goods to Brazil. China is also opposing Brazil's joint bid (with Japan, Germany and India) for permanent membership at the UN Security Council (though its block is chiefly aimed at Japan).

China is likely to remain an important part of Brazil's economy, though more as a customer than investor. Govern-

More refining capacity

At last December's South American Community of Nations (CSN) summit, Brazil and Venezuela agreed to build a \$2,5 billion oil refinery so as to process up to 200 000 barrels of heavy oil daily to boost trade and cooperation.

Financing will be equally split between state-run Petroleos de Venezuela and the Brazilian Government's oil company Petrobras. The refinery will be ready to operate in 2010. Petrobras will also receive permission to drill in Venezuela's oil-rich Orinoco Belt area. 

*Researched & compiled by
Lily Moodley
Senior economic researcher
Credit Guarantee
October 2005*

Why a code of ethics?

A strong corporate ethic and culture produces real results for the owners, employees, other stakeholders and the community at large. A code of ethics is an indispensable means of maximising these advantages, argues **Christoph Leisewitz**.

This is the first of a two-part series consisting of an edited abstract from a treatise for an MA degree by the author.

Ethics is often a forceful driver of profitable and long-term wealth-creating business. A business must in the first place be an ethical entity. To achieve this and to remain a respected and trusted organization, a business should draw up a code of ethics (or a policy of conduct) and continuously refine it as circumstances change.

Any business must make certain it conducts its affairs in accordance with the agreed code. A code is worthless if it is not enforced, but by the same token ethics is not an exact science. A code of ethics can therefore be no more than a guideline and actions cannot always be blindly based on such a guideline. Careful reflection, judgment and experience is required when applying the code and deciding on difficult moral questions.

A code of ethics has been defined as a document or agreement that stipulates morally acceptable behaviour within an organization. The Hippocratic Oath, which still governs the ethical behaviour of doctors, was first established more than 2 000 years ago. Ethics in the professions and in business is thus not a new idea or a new vogue.

Ethics guidelines can reside in the head of the owner of a one-man operation, but as soon as the number of persons working in a business increases, the ethics policy needs to be a shared one so that every employee subscribes to it and behaves accordingly.

A code of ethics should be in writing to ensure uniformity and consistency over time, place and person; a written code is needed so that there is no difference in the degree of information for all, so that every employee has ready access to it and so that the actions of every employee and of the business as a whole can be measured against the agreed standard. In the heat of the moment it may be difficult to consider all the ethical issues that should guide the decision-maker. A code of ethics is a fast and comparatively simple tool to direct one toward the relevant reflection and right action.

Although morally wrong actions are always due to personal action, it would be wrong to conclude that it is always only a question of the individual's ethics or lack thereof. The firm is responsible for

ensuring a business climate in which misdeeds (e.g. stealing) are discouraged.

Many corporate moral wrongs or untoward events are the result of a systemic problem. People are often encouraged to act wrongly by the corporate structure (work distribution and integration), by historically grown community values and by inappropriate incentive systems. The decision process of a business must incorporate focused, systematic, co-ordinated and binding ethics guidelines – in other words a code of ethics.

When things go wrong it is not helpful to look only for the guilty individual. Such action excuses everyone else and does not address the administrative processes, policies or values of the company that may have encouraged the bad behaviour.

An example is the Barings Bank debacle a few years ago when one of its (senior) rogue dealers in Singapore, Nick Leeson, committed (apparently unauthorised) the 230-year-old bank to transactions that led to its collapse. Leeson was jailed – correctly, but it seems clear that the bank's policies were either insufficient or not controlled.

The bank's corporate environment (its poor risk management system) encouraged Leeson's behaviour and the bank's compensation policy rewarded success without sufficient consideration of moral issues. The selection, training, mentoring and delegation process was flawed. Thus the bank's management was not blameless.

Self-regulating

A code of ethics is not a legally binding policy but it is a self-regulating measure which provides a guideline and which obtains its force from joint (management, staff and other stakeholders) formulation, from monitoring compliance and from sanctioning breaches. Often the employment contract incorporates the company's ethics policy.

The moral credibility of a business depends on the conduct of its staff and it is therefore crucial that the staff be part of the formulation process and fully subscribes to the final code of ethics.

Ethics management requires "value management", which is needed at all levels of the business decision process. A well accepted value system/code of ethics can be the strongest, simplest, most posi-

Pointing the way to ethics in business

tive and cost-effective management tool. If all people in an organization agreed to a code of ethics, control would be driven by those who agreed and are committed to the code.

The personal commitment supports self-discipline, responsibility, and loyalty to the team. Further, a code of ethics is useful because it has orientation (minimum ethical standards), motivation (joint goals can inspire and sharpen the image of the business) and limitation (the code documents the business's preparedness to accept moral responsibility) functions.

A code of ethics helps a company to take the morally responsible action it wants to pursue, but which it might, under competitive pressures and without a code, not take. Competitive pressure may not allow the time for thoughtful deliberations – a code can provide a ready guide. Competitors who do not care about ethical issues may have an advantage but this is likely to be a short-term, Pyrrhic victory.


The code is an aid in defining ethical issues such as conflicts of interest, receipts of gifts, other questionable payments and actions.

A code of ethics provides us with shared reference points. Without a clear sense of our values we may simply ignore a moral issue – with a code, a value statement, we will at least try to rectify it.

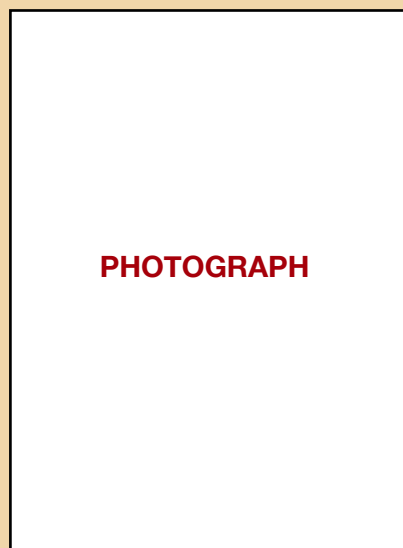
Industry-wide codes can obviate the need for government regulations which are usually expensive to comply with, inflexible, unfair, top-down and therefore demotivating. Government regulations are often seen as challenges to find ways and means to circumvent them rather than to achieve the desired effect.

An ethical code is to the mutual benefit of suppliers and purchasers. A code of ethics can help remove distrust from the prospective customer while at the same time be an assurance to the buyer. An industry-wide code is likely to be obeyed by the competitor as well.

Business should act ethically because moral behaviour is in its long-term interest, because it believes it is the right thing to do and because it is to the benefit of all its stakeholders (including the community in which it operates). That is why business should focus on self-regulation (a code of ethics). This thinking is grounded in the Kantian doctrine: "Do what is right because it is right rather than simply because it is what the law requires" (Immanuel Kant, German philosopher, 1724–1804).

Although Kant addressed this tenet at persons rather than firms, people who run businesses and live this doctrine will have high moral standards and thus steer the business along an ethical path. 

Next issue: Arguments for and against a code of ethics.



PHOTOGRAPH

At an age when most other retired executives would potter with roses in their townhouse gardens or follow from an armchair the sun's progress from east to west, Christoph Leisewitz returned to his books to study for an MA degree in Applied Ethics for Professionals at the University of the Witwatersrand "to keep my brain from becoming addled".

Having retired as managing director and CEO of Credit Guarantee three years ago, he decided to pursue his interest in philosophy, particularly in applied ethics, "in the hope that I could produce a paper on ethics that would be of use to the credit insurance industry".

The result was a formidable study of the subject which eventually covered ethics not only in credit insurance, but in all facets of business.

"Society has become far more ethics conscious through consumer rights groups, NGOs such as Green Peace and various other international organisations," he explains. "Consequently, business cannot afford ignoring others or dealing with people (customers, staff, stakeholders, society at large) in an authoritarian, uncaring, off-hand manner. Treating others in this way will reap the same in return, to the detriment of the business.

"To my mind, it is despicable not to respect human beings, to ignore their dignity and autonomy, or to treat them merely as a means to an end."

Leisewitz believes there is a growing awareness of the importance of ethics in South African business.

"Our history has made us very aware of the absolute need of respecting and treating our fellow men fairly," he says. "Moreover, King II, the South African National Code of Business Conduct and Ethics (Sancode) and our Constitution, all have very beneficial influences on business conduct in South Africa. Business has learned a lot from past cases of corruption and unethical behaviour and the concomitant results."

Credit Guarantee's guide to the Organisation for Economic Co-operation and Development (OECD)

September 2005

Notes: Cover = Credit Guarantee cover. Y = Cover available. CBC = Case by case. N = No cover available under normal circumstances or if there is no request for cover. SC = Special condition. ILC = Irrevocable letter of credit. CILC = Confirmed irrevocable letter of credit. All medium-term transfers will be individually underwritten based on the specific nature and structure of the transaction.

| COUNTRY Govt type/Population/ Pop. growth rate | REMARKS | SHORT-TERM COVER |
|--|--|------------------|
| Australia Democratic, federal-state system recognising the British monarch as sovereign. Population: 20m. Pop. growth: 0,87% | Australia benefited from its natural resources to develop its agricultural and manufacturing industries. It transformed itself into an internationally competitive, advanced market economy. Economic reforms implemented in the 1980s enabled Australia to boast one of the OECD's fastest growing economies during the 1990s. The country's long-term problems include pollution and management and conservation of coastal areas, especially the Great Barrier Reef, and promoting better employment for older people. Its enviable western-style capitalist economy has a per capita GDP of \$30 700 – on par with the four dominant West European economies. Emphasis on reforms, low inflation and growing ties with China is proving to be key factors behind the economy's strength. Drought, weak foreign demand and strong import demand pushed the trade deficit from \$8bn in 2002 to \$13bn in 2004. GDP growth was 3,5% in 2004. Government's main priority this year includes pushing through proposed industrial relations reforms and is likely to expend considerable political capital in doing so. The OECD forecasts GDP growth of 2,5% in 2005 and 3,4% in 2006 and inflation at 2,8% in 2006. (Lost the Ashes!) | Y |
| Austria Federal republic. Population: 8m. Pop. growth: 0,1% | A State Treaty signed in 1955 recognised Austria's independence. This prosperous, democratic country entered the Economic and Monetary Union in 1999. It has a well-developed market economy and high standard of living and is closely tied with other EU economies like Germany. GDP per capita is \$31 300. Approximately 4% of the land is forested, making timber a key industry. Foreign investors have flocked to Austria following its EU membership. Slow growth in Europe has pinned GDP growth at 1,9% in 2004. The OECD estimates that GDP growth will be 1,9% in 2005 and 2,3% in 2006. Harmonised inflation is expected to fall from 2,4% in 2005 to 1,7% in 2006. The aging population coupled with high health and pension costs will further strain tax and welfare policies. The OECD expects the unemployment rate of 5,6% to fall in 2006 as growth begins to strengthen. Austria's fiscal policy faces considerable challenges in the short and medium term. Its Stability Programme envisages a budget balance by 2008, requiring 4% of GDP expenditure cuts which are not yet fully specified. Government debt is relatively high and significant ageing-related spending pressures will remain ahead. A medium-term budgeting framework is missing and fiscal-sustainability calculations are not available. | Y |
| Belgium Federal parliamentary democracy under a constitutional monarch. Population: 10,4m. Pop. growth: 0,2% | Belgium has benefited from its prime location, highly developed transport network and a diversified industrial and commercial base. This is a modern private enterprise economy where industry is concentrated mainly in the populous Flemish area in the north. About 75% of trade occurs with other EU countries. Public debt is close to 100% of GDP. Economic growth made a moderate recovery of 2,6% in 2004, but is expected to slow to 1,3% in 2005 before rising to 2,4% in 2006. Inflation will be 2,2% in 2005 and 1,8% in 2006. GDP per capita is \$30 600. Should there be a persistent decline in working time and no further decrease of the structural unemployment rate, economic growth could fall from an average 2% in the current decade to little over 1% over the period to 2010. Economic growth is forecast by the High Finance Council to decline to 1,5% by 2030. | Y |
| Canada Constitutional monarchy / democracy / federation. Population: 33m. Pop. growth: 0,9% | Canada is endowed with rich natural resources and while becoming a self-governing dominion in 1867, it retains its ties to the British crown. Economically the nation has developed in parallel with the US. Its paramount political problem is meeting public demands for quality improvements in health care and education services after a decade of budget cuts. This high-tech industrial society recently entered the trillion-dollar class. It has a market-oriented economic system and affluent living standards with a GDP per capita of \$31 500. The prosperity of the manufacturing, mining and service sectors were | Y |

| | | |
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| | <p>responsible for transforming this rural economy into an urban and industrial economy. It is also endowed with a skilled labour force and modern capital plant. GDP growth was 2,4% in 2004. Unemployment, at 7,3% in 2004, stood slightly higher than the 6,9% OECD average. The OECD predicts GDP growth of 2,8% in 2005 and 3,1% in 2006.</p> | |
| <p>Czech Republic Parliamentary democracy. Population: 10,2m. Pop. growth:-0,5%</p> | <p>The Czech Republic joined Nato in 1999 and the European Union in 2004 and is one of the more stable and prosperous of the post-Communist states of Central and Eastern Europe. Exports to the EU have been supporting growth. Domestic demand is playing an ever more important role in underpinning growth as interest rates drop and the availability of credit cards and mortgages increases. Current account deficits of about 5% of GDP are beginning to fall as demand for Czech products in the EU rises. Recent accession to the EU gives further impetus and direction to structural reform. Intensified restructuring among large enterprises, improvements in the financial sector, and effective use of available EU funds should strengthen output growth. Per capita GDP stood at \$16 800. GDP growth was 3,7% in 2004. The healthy expansion in the first quarter of 2005 suggests that real GDP growth will be solid until 2006. The OECD forecasts GDP growth of 4,1% in 2005 and 4,3% in 2006. Inflation is seen between 2% in 2005 and 2,5% in 2006. Government is currently in the process of putting together reform proposals for improving bankruptcy legislation and the commercial registry.</p> | Y |
| <p>Denmark Constitutional monarchy. Population: 5,4m. Pop. growth:0,3%</p> | <p>Denmark was once the seat of Viking raiders and grew to become a north European power. It is now a modern, prosperous nation participating in the general political and economic integration of Europe. It joined Nato in 1949 and the EU in 1973. Despite joining the EU, Denmark opted out of certain elements of the European Union's Maastricht Treaty, including the European Economic and Monetary Union (EMU), European defence co-operation, and issues concerning certain justice and home affairs. This modern market economy includes high-tech agriculture, comfortable living standards, a stable currency and high dependence on foreign trade. Denmark is a net exporter of food and energy and enjoys a comfortable balance of payments surplus. The country has exceeded economic criteria for joining the third phase of the European and Monetary Union (EMU), but has declined joining the EU members in the euro despite the Danish krone being pegged to the euro. Government objectives include streamlining bureaucracy and further privatisation. GDP growth was 2,1% in 2004. GDP per capita is \$32 200. The OECD forecasts that Denmark's expansion will continue with exports taking over as the main driver. Danish interest rates are expected to follow the trend of the European Central Bank. The OECD expects GDP growth of 2,4% in 2005 and 2006. Total health expenditure accounted for 9% of GDP in 2003, slightly higher than the 8,6% OECD average.</p> | Y |
| <p>Finland Republic. Population:5,2m. Pop. growth: 0,2%</p> | <p>In the second half of the 20th century, the Finns transformed the farm/forest economy to a diversified modern industrial economy. As a member of the European Union, Finland was the only Nordic state to join the euro system at its initiation in 1999. Finland is now an industrialised, free-market economy with per capita output almost equivalent to that of the UK, France, Germany and Italy. Key sectors include manufacturing, in particular wood, metals, engineering, telecommunications and electronics. Finland excels in high-tech exports such as mobile phones. Forestry is an important export earner which provides a secondary occupation for the rural population. High unemployment at over 8% is a problem. GDP growth was 3% in 2004. GDP per capita is \$29 000. With tax cuts worth nearly 1% of GDP being phased in during 2005-06 and strengthening export demand, the OECD predicts economic growth of 2,2% in 2005 and 3% in 2006.</p> | Y |
| <p>France Republic. Population: 60,1m. Pop. growth: 0,4%</p> | <p>France is one of the most modern countries in the world and is a leader among the European nations. Since 1958, it has constructed a presidential democracy. The no-vote for the EU constitution in May this year considerably weakened President Chirac's power and it is unlikely that he will stand for re-election in 2007. France's reconciliation and co-operation with Germany have proved central to the economic integration of Europe. It is at the forefront of efforts to develop the EU's military capabilities to supplement progress toward a EU foreign policy. France is in the midst of transition from a modern economy with extensive government intervention to one that relies more on market mechanisms. Large companies, banks and insurers are almost fully privatised. Government still maintains control in power, public transport and defence industries. Leaders remain committed to capitalism where they maintain social equity by means of laws, tax policies and social spending that reduce income disparity and the impact of free markets on public health and welfare. GDP per capita is \$28 700. GDP growth in 2004 was 2,1%. The OECD forecasts GDP growth at 1,4% in 2005 and 2% in 2006. Noticing the negative</p> | Y |

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| | effects of the income tax system, government has become increasingly aware of its impact on growth and employment resulting in some reform measures being introduced. | |
| Germany Federal republic. Population: 82,4m. Pop. growth: 0% | <p>Germany is Europe's largest economy and most populous nation. It is a key member of the continent's economic and political organisations. The decline of the USSR and the end of the Cold War allowed for German unification in 1990. Germany has since expended considerable funds to help its Eastern counterpart to boost productivity and wages up to Western standards. In January 1999, Germany and ten other EU countries introduced a common European exchange currency, the euro. Germany is known for its technology-strong economy and is the fifth largest economy in the world. Recently it has become one of the slowest growing economies in the euro zone and many analysts do not foresee a quick turn-around in the near future. The integration of eastern Germany continues to be a costly long-term process. Annual transfers from west Germany amount to \$70bn. Germany's aging population, combined with high unemployment (9,9%) have stretched social security advances to a level that exceeds contributions from workers. Corporate restructuring could allow Germany to meet its long-term challenges of European economic integration and globalisation. In the short run, the fall in government revenues and the rise in expenditures have raised the deficit above the EU's 3% debt limit. Government has revised its budget-deficit forecast upwards from 2,9% of GDP to 3,7% and expects Germany to be in violation of the EU ceiling until 2007. Growth fell shy of 1% between 2001-03, but recovered slightly to 1,7% in 2004. GDP per capita stands at \$28 700. A group of forecasters polled by <i>The Economist</i> predicts that GDP will rise by 1,1% in 2005 and 1,3% in 2006. The OECD is concerned that growth remains heavily dependent on foreign demand and thus projects GDP growth of 1,2% in 2005 and 1,8% in 2006.</p> | Y |
| Greece Parliamentary republic; monarchy rejected by referendum 1974. Population: 10,7m. Pop. growth: 0,2% | <p>Greece joined Nato in 1952. It had a military dictatorship which suspended political liberties in 1967, forcing the king to flee the country. In 1974 democratic elections and a referendum created a parliamentary republic and abolished the monarchy. Greece joined the European community in 1981 and became the 12th member of the euro zone in 2001. This capitalist economy enjoys per capita GDP of \$21 300. The public sector accounts for 40% of GDP. Tourism provides 15% of GDP. EU aid to Greece is equal to 3,3% of annual GDP. The economy strengthened to about 4% in the past two years, largely on the back of the investment boom and infrastructure upgrades for the 2004 Athens Olympic Games. Greece has failed to meet the EU's Growth and Stability Pact budget deficit of 3% since 2000, while public debt, inflation and unemployment are also above the euro zone average. GDP growth was 3,7% in 2004. <i>The Economist</i> forecasts a drastic slowing of growth to 2,7% in 2005 and 2,9% in 2006 due to slackening investment and export growth. The OECD expects that the fiscal tightening will reduce demand and slow growth to about 2,8% in 2005 and 3,2% in 2006. Greece's ability to produce growth higher than most OECD countries has come at the cost of a widening fiscal deficit and high and rising public indebtedness. Hence a major challenge for economic policy will be to rein in government deficits to meet European obligations and to prepare for the spending pressures that will emerge after 2015 from an aging population and unreformed public pension system.</p> | Y |
| Hungary Parliamentary democracy. Population: 10m. Pop. growth: -0,3% | <p>Hungary began liberalising its economy in 1968. Its first multiparty elections were held in 1990 during which time its free market economy was also initiated. It joined Nato in 1999 and the EU in 2004. Hungary enjoys per capita GDP of \$14 900. Its private sector accounts for 80% of GDP. Agriculture contributes 3,3% of GDP, industry contributes 31,4% and services 65,3%. Hungarian sovereign debt was upgraded in 2000 and together with the Czech Republic holds one of the highest rating among the Central European transition economies. Rating agencies are concerned about Hungary's unsustainable budget and current account deficits. Inflation fell from 14% in 1998 to 7% in 2004 and the OECD expects this level at 3,8% between 2005 and 2006. Germany is its largest economic partner. GDP growth was 3,9% in 2004. The OCED expects this level to fall to 3,6% in 2005 and recover to 3,9% in 2006. Plans have been drawn up to address the creaking health-care system and the sizeable informal economy, but other significant reforms are expected to be tackled after the 2006 elections. More progress is required to meet the 2010 target date for the euro adoption.</p> | Y |
| Iceland Republic. Population: 300k. Pop. growth: 0,9% | <p>Iceland has the world's oldest legislative assembly. The Althing was established in 930. The country was independent for 300 years and was subsequently ruled by Norway and Denmark. The Askja volcano in 1875 devastated the economy and caused widespread famine. Over the next quarter century 20% of the island's inhabitants emigrated to Canada and the US. Iceland received total independence in 1944. Its Scandinavian-style</p> | Y |

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| | <p>economy is largely capitalistic with an extensive welfare system present. It has low unemployment. The fishing industry sustains the economy by providing 70% of export earnings while employing 8% of the labour force. The country lacks natural resources. Government is opposed to EU membership due to its concern about losing control over their fishing resources. Iceland has persevered with diversifying its economy over the last decade into manufacturing and services industries. Barring the 2002 global recession, growth has been relatively steady between 3%-5% during 1996-2001. GDP growth was 5,2% in 2004 and the OCED estimates 6,2% in 2005 and 5,3% in 2006. Per capita GDP is \$31 900. The OECD notes that the economy is overheating. Its huge external deficits and debt levels, waning capital inflows as large-scale investment projects gear down, could lead to a reversal of the substantial currency appreciation. This could lead to high interest rates and a recession like the previous overheating period in 2002.</p> | |
| <p>Ireland Republic. Population: 4m. Pop. growth: 1,2%</p> | <p>In 1948 Ireland withdrew from the British Commonwealth. It joined the European Community in 1973. Irish governments sought the peaceful unification of Ireland and have co-operated with Britain against territorial groups. A peace settlement for Northern Ireland, known as the Good Friday Agreement and approved in 1998, is being implemented with difficulties. Ireland is a small, modern trade-dependent economy. Agriculture, once the backbone of the economy, now falls behind industry and services and only contributes 5% of GDP. Industry accounts for 46% of GDP, about 80% of exports and 29% of the labour force. The economy has been boosted by the increase in consumer spending, construction and business investment. Per capita GDP of \$31 900 is the second highest in the EU behind Luxembourg. A series of national economic programmes designed to curb price and wage inflation, reduce government spending, increase labour force skills and improve foreign investment have been implemented over the past decade. <i>The Economist</i> does not have much confidence in its economic reform programmes owing to the strong opposition from public-sector trade unions and an unwillingness to take unpopular decisions ahead of elections next year. GDP growth averaged 7% between 1995 and 2004 and was 5,1% in 2004. The OECD predicts growth of 5,3% in 2005 and 5% in 2006. Unemployment stood at 8,1% last year.</p> | <p>Y</p> |
| <p>Italy Republic. Population: 58m. Pop. growth: 0,1%</p> | <p>A democratic republic replaced the monarchy in 1946 and economic revival followed. Italy was a charter member of Nato and the European Economic Community. The country faces persistent problems such as illegal immigration, organised crime, corruption, high unemployment, sluggish economic growth and the low incomes of southern Italy compared to the prosperous north. This capitalistic country has a diversified industrial economy, which is divided into a developed industrial north, dominated by private companies, and a less developed welfare-dependent agricultural south with 20% unemployment. Italy pursued a stringent fiscal policy over the past decade to meet requirements of the Economic and Monetary Union. The country has moved slowly on implementing needed structural reforms such as lowering the high tax burden and overhauling its rigid labour force and generous pension system due to opposition from labour unions. It enjoys per capita GDP of \$27 700. GDP growth was 1,3% in 2004. The economy fell into recession in early 2005, but is projected to strengthen towards the end of 2005. GDP is forecast at -0,6% in 2005 and 1,1% in 2006.</p> | <p>Y</p> |
| <p>Japan Constitutional monarchy with a parliamentary government. Population: 127m. Pop. growth: 0,1%</p> | <p>During the late 19th and early 20th centuries, Japan became a regional power that was able to defeat the forces of both China and Russia. After the second World War, it became a strong ally of the US. While the emperor retains his throne as a symbol of national unity, actual power rests in networks of powerful politicians, bureaucrats and business executives. The economy experienced a major slowdown starting in the 1990s following three decades of growth, but remains a major economic power in Asia and around the world. This year saw Japan begin a two-year term as a non-performing member of the UN Security Council. Government-industry co-operation, a strong work ethic, mastery of high technology has helped Japan advance to the second most technologically-powerful economy in the world after the US. One characteristic of the economy is the working together of manufacturers, suppliers and distributors in closely-knit groups called keiretsu, and the guarantee of lifetime employment for a large portion of the urban labour force. Both features are now eroding. Industry is heavily dependent on imported raw materials and fuels. The tiny agricultural sector is highly subsidised and protected. Growth averaged over 10% in the 1960s, 5% in the 1970s, 4% in the 1980s and 1,7% in the 1990s. In 2004, growth improved to 2,9% and fears of deflation lessened. Japan's huge government debt (over 160% of GDP) and the aging population are two major long-term problems. Per capita GDP is \$29 400. The OECD forecasts growth of 1,5% in 2005 and 1,7% in 2007. Unemployment stood at 4,9% in 2004 – relatively low in OECD standards.</p> | <p>Y</p> |

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| <p>Korea (South)</p> <p>Republic. Population: 48m. Pop. growth: 0,4%</p> | <p>Korea was an independent kingdom under Chinese suzerainty for most of the past millennium. During the Korean Wars, US and other UN forces intervened to defend South Korea from North Korean attacks supported by the Chinese. The peninsula was split in 1953. Thereafter South Korea grew rapidly with its per capita income rising 14 times that of North Korea's. The relations between North and South Korea have subsequently improved after both parties opened communication lines last year. Korea's incredible growth record began in the 1960s when the country integrated into the high-tech world economy. In 2004, it joined the trillion-dollar club of world economies. Korea's success was achieved by a system of close government/business ties including direct credit, import restrictions, sponsorship of specific industries and a strong labour effort. The Asian financial crisis of 1997-99 exposed longstanding weaknesses in the country's development model, including high debt/equity ratios, massive foreign borrowing and an undisciplined financial sector. Growth fell from 8,5% in 2000 to 3,3% in 2001 due to the slowing global economy. It rebounded to 7% in 2002 before falling to 3,1% in 2003 due to a downturn in consumer spending and recovered to 4,6% in 2004. Infrastructure spending is on the cards in 2005. Moderate inflation, low unemployment and an export surplus characterise this prosperous economy. Korea enjoys a per capita GDP of \$19 200. The OECD forecasts growth of 4,3% in 2005 and 5% in 2006.</p> | Y |
| <p>Luxembourg</p> <p>Constitutional monarchy. Population: 469k. Pop. growth: 1,3%</p> | <p>Luxembourg was founded in 963 and became an independent state under the Netherlands in 1815. It gained full independence in 1867. It was overrun by Germany in both World Wars and ended its neutrality in 1948 when it joined the Benelux (Belgium, Netherlands, Luxembourg) customs union and joined Nato a year later. In 1957, Luxembourg became one of the six founding countries of the European Economic Community and joined the euro currency area in 1999. This country is characterised as a stable, high-income economy with solid growth, low inflation and low unemployment. The industrial sector was initially dominated by steel, but has now diversified to include chemicals, rubber and other products. The financial sector accounts for 22% of GDP. Most banks are foreign owned. The economy depends on small foreign and cross-border workers for more than 30% of its labour force. Per capita GDP is \$58 900. GDP growth was 2,3% in 2004. The OECD projects a slowing of growth to 3,3% in 2005 and 3,9% in 2006 owing to weakening exports.</p> | Y |
| <p>Mexico</p> <p>Federal republic.. Population: 106m. Pop. growth: 1,2%</p> | <p>A devaluation of the peso in late 1994 threw Mexico into economic turmoil, triggering the worst recession in over half a century. The nation continues to make an impressive recovery. Ongoing economic and social concerns include low real wages and underemployment for a significant portion of the population. The July 2000 elections marked the first time since the 1910 Mexican Revolution that the opposition defeated the party in government, the Institutional Revolutionary Party (PRI). Vicente Fox of the National Action Party (PAN) was sworn in in December 2000 as the first chief executive elected in free and fair elections. This free market economy recently entered the trillion-dollar club. Per capita GDP is one-fourth that of the US at \$9 600. Income distribution remains highly unequal. The implementation of Nafta in 1994 led to the tripling of trade with the US and Canada. Government is aware of the need to upgrade infrastructure, modernise the tax system and labour laws and provide incentives to invest in the energy sector, but these reforms will become the responsibility of the government that comes into power in December 2006. Economic cycle will remain closely tied to the cycle of the US. High oil prices will underpin fiscal results. Data reveals that the economy will continue to slow in the second quarter of this year. GDP growth was 4,1% in 2004. The OECD estimates that GDP growth will be 4,4% in 2005 and 3,7% in 2006. Mexico needs to raise human capital and remove obstacles to private investment. The education system has to be improved further to narrow the human capital gap with other OECD countries at a faster pace and to better prepare children for life and work in a modern economy. Mexicans spend fewer years in formal education and the quality of the education is lower.</p> | Y |
| <p>Netherlands</p> <p>Constitutional monarchy. Population: 16m. Pop. growth: 0,5%</p> | <p>This is a modern, industrialised nation and a large exporter of agricultural products. It was one of the founding members of Nato and the former EU and participated in the introduction of the euro in 1999. The Netherlands has a prosperous open economy which depends heavily on foreign trade. It has stable industrial relations, moderate unemployment and inflation, healthy current account surplus and is an important European transport hub. Its highly mechanised agricultural sector employs a maximum of 4% of the labour force. Growth slowed between 2001-04 due to the global slowing and was 1,2% in 2004. Per capita GDP is \$29 500. Growth turned negative in the first quarter on 2005 reflecting the deterioration in net exports as a result of the euro's appreciation. The OECD forecasts GDP growth at 0,5% in 2005 and 1,7% in 2006.</p> | Y |

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| <p>New Zealand</p> <p>Parliamentary democracy. Population: 4m. Pop. growth: 1%</p> | <p>The British colony of New Zealand became an independent dominion in 1907 and supported the UK military in both World Wars. New Zealand's full participation in a number of defence alliances lapsed by the 1980s. In recent years, the government has sought to address longstanding Maori grievances. During the last two decades, New Zealand transformed its agrarian economy dependent on concessionary British market access to a more industrialised free market economy that would be globally competitive. This dynamic growth boosted real incomes, broadened and deepened the technological capabilities of the industrial sector and contained inflationary pressures. Per capita GDP is \$23 200. The economy is heavily dependent on trade. A four-way trade agreement between New Zealand, Chile, Brunei and Singapore will take effect from the beginning of 2006 from which time around 90% of total trade in goods between signatories will be tariff-free. GDP growth was 4,8% in 2004. The OECD estimates GDP growth at 2,9% in 2005 and 2,4% in 2006.</p> | <p>Y</p> |
| <p>Norway</p> <p>Constitutional monarchy. Population: 4,5m. Pop. growth: 0,4%</p> | <p>In 1949, Norway became a member of Nato. Discovery of oil and gas in the late 1960s boosted Norway's economic fortunes. The current focus is on containing spending on the extensive welfare system and planning for the time when petroleum reserves are depleted. In referendums held in 1972 and 1994, Norway rejected joining the EU. Norway is a prosperous bastion of welfare capitalism that includes free market activity and government intervention. Government controls important sectors like petroleum. The country is richly endowed with natural resources such as petroleum, hydropower, fish, forests and minerals. The economy is highly dependent on its oil production and international oil prices as oil and gas account for a third of exports. With arguably the highest quality of life worldwide, Norwegians per capita GDP is \$40 000. GDP growth was 3,3% in 2004. The OECD forecasts GDP growth at 3,1% in 2005 and 2,5% in 2006.</p> | <p>Y</p> |
| <p>Poland</p> <p>Republic. Population: 39m. Pop. growth: 0,03%</p> | <p>Poland is an ancient nation that was conceived near the middle of the tenth century. A shock therapy programme during the early 1990s enabled the country to transform the economy into one of the most robust in Central Europe, but Poland suffers low GDP growth and high unemployment. It joined Nato in 1999 and the EU in 2004. The country has religiously followed a policy of economic liberalisation throughout the 1990s and today stands out as a success story among transition economies. The privatisation of small and medium-sized state-owned companies and a liberal law on establishing new firms has encouraged the development of the private business sector, but legal and bureaucratic obstacles alongside corruption are hampering development. The agricultural sector is handicapped by surplus labour, inefficient small farms and lack of investment. Restructuring and privatisation of sensitive sectors like steel, railroad and energy, have stalled. Reforms in health care, education, the pension system and state administration have resulted in larger-than-expected fiscal pressures. Government has introduced social and administrative spending cuts to reduce public spending by about \$17bn through 2007. Additional reductions are in the pipeline, but could be postponed with the upcoming year-end elections in 2005. Increasing exports to the EU has boosted growth to 5,6% in 2004. Per capita GDP is \$12 000. Weaker demand will cause growth to fall to 4,2% in 2005 and 4,5% in 2006.</p> | <p>Y</p> |
| <p>Portugal</p> <p>Parliamentary democracy. Population: 10,6m. Pop. growth: 0,4%</p> | <p>Once a world power, Portugal lost most of its wealth and status with the destruction of Lisbon in a 1755 earthquake, occupation during the Napoleonic Wars and the independence in 1822 of Brazil as a colony. A 1910 revolution deposed the monarchy and for most of the subsequent six decades repressive governments ran the country. In 1974 a left-wing coup introduced broad economic reforms and the following year, Portugal granted independence to all of its African colonies. Portugal is a founding member of Nato and entered the European Commission in 1986. The economy has since been diversified to become an increasingly service-based economy. Successive governments over the past decade have privatised many state-owned firms (including the financial and telecommunications sectors) and liberalised key areas of the economy. Economic growth has been above the EU average for most of the past decade but fell between 2001-04. Per capita GDP is \$17 900. GDP growth was 1,1% in 2004. The OECD forecasts GDP growth at 0,7% in 2005 and 2,1% in 2006.</p> | <p>Y</p> |
| <p>Slovakia</p> <p>Parliamentary democracy. Population: 5,4m. Pop. growth: 0,2%</p> | <p>The Slovaks and the Czechs agreed to separate peacefully on 1 January 1993. Slovakia joined both Nato and the EU in the spring of 2004. Slovakia mastered the difficult transition from a centrally planned economy to a modern market economy. The Dzurinda government made significant progress during 2001-04. It implemented macro-economic stabilisation and structural reform. Major privatisations are close to completion and the</p> | <p>Y</p> |

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| | <p>banking sector is almost completely in foreign hands. Slovakia's economic growth exceeded expectations in 2001-04, despite the global slowing. High unemployment (over 18% in 2004) remains the country's biggest problem. It is not expected to fall below 17% before 2007. Per capita GDP is \$14 500. GDP growth was 5,3% in 2004. The costs of reform have caused a sharp decline in the governing parties' popularity. Fiscal policy outcomes have been good, but the plan to adopt the euro in January 2009 will remain credible only if strict adherence to planned expenditure cuts is achieved. The OECD forecasts GDP growth at 4,8% in 2005 and 5,7% in 2006.</p> | |
| <p>Spain Parliamentary monarchy. Population: 40m. Pop. growth: 0,2%</p> | <p>Failure to embrace the mercantile and industrial revolutions made Spain lag behind Britain, France and Germany in economic broadening and political strengthening. But in the second half of the 20th century, Spain made inroads in catching up to the western international community. It joined the EU in 1986. The economy boomed from 1986 to 1990 averaging annual growth of 5%. Spain has a mixed capitalist economy with a per capita GDP of \$23 300. The centre-right government of former President Aznar gained admission to launch the euro in January 1999 with the first group of countries. This government persevered with liberalisation, privatisation and deregulation of the economy and introduced some tax reforms. Unemployment fell steadily under the Aznar administration but remains high, in excess of 10%. The governing Socialist Workers' Party is expected to intensify reform efforts over the next 18 months. Spain managed the slowing of the European economy to post growth of 2,6% in 2004. Its main challenges over the next few years include the Basque Fatherland and Liberty (ETA) terrorism, adjusting to the monetary and other economic policies of an integrated Europe, reducing unemployment and absorbing widespread social changes. The OECD expects growth to accelerate to over 3% by 2006 on the back of dynamic domestic demand. Continued efforts to improve productivity growth and a reform of the wage bargaining system would help to halt the deterioration in competitiveness.</p> | <p>Y</p> |
| <p>Sweden Constitutional monarchy. Population: 9m. Pop. growth: 0,2%</p> | <p>Sweden was a military power during the 17th century. Its long successful economic formula included a capitalist system interrelated with welfare elements. This formula came into question in the 1990s when unemployment increased but the country's fiscal discipline helped weather the storm of global economic downturn. Sweden joined the EU in 1995, but waived the introduction of the euro in 1999. It achieved an enviable standard of living under its mixed system that combines high-tech capitalism with extensive welfare benefits. Per capita GDP is \$28 400. It has a modern distribution system, excellent internal and external communications and a skilled labour force. Timber, hydropower and iron ore form the country's prime resource base. Private firms account for 90% of industrial output of which the engineering sector accounts for 50% of output and exports. Agriculture contributes 2% of GDP and absorbs 2% of the labour. The Swedish central bank focuses on price stability with its inflation target of 2%. In September 2003, Swedish voters again turned down entry into the euro system, concerned about its impact on democracy and sovereignty. GDP growth was 3,6% in 2004. The OECD forecasts growth at 2,8% in 2005 and 3,3% in 2006 as the export sector picks up with business investment playing an increasing role. Its key challenge is to maintain the core of its welfare system despite a graying population. Public finance will be squeezed from several quarters for social services as people get older and ongoing tax pressures caused by globalisation and economic integration in Europe.</p> | <p>Y</p> |
| <p>Switzerland Formally a confederation, but similar in structure to a federal republic. Population: 7,5m. Pop. growth: 0,5%</p> | <p>Switzerland's independence has long been honoured by the major European powers. It was not involved in either of the two World Wars. Switzerland's role in the economic and political integration of Europe over the past half century as well as its involvement in many UN and international organisations has strengthened its ties with its neighbours. The country only became an official UN member in 2002. Switzerland remains active in many UN and international organisations, but retains a strong commitment to neutrality. This peaceful and prosperous modern market economy has low unemployment (half that of the EU), a highly skilled labour force and per capita GDP of \$33 800, which is higher than that of the big Western European economies. To enhance its international competitiveness, Switzerland has brought its economic practices more in line with that of the EU. It remains a safe haven for investors due to its degree of bank secrecy and has kept up the franc's long-term external value. GDP growth was 1,8% in 2004 after recovering from a contraction of 0,3% a year earlier. The OECD forecasts GDP growth at 1,3% in 2005 and 2% in 2006. Inflation will be 1,1% in 2005 and 0,9% in 2006.</p> | <p>Y</p> |

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| <p>Turkey</p> <p>Republican parliamentary democracy. Population: 70m. Pop. growth: 1,1%</p> | <p>Modern Turkey was founded in 1923 from the Anatolia remnants of the defeated Ottoman Empire by national hero Mustafa Kemal. Kemal introduced social, legal and political reforms under his authoritarian rule. Turkey explored multiparty rule in 1950, but democracy has been fractured by periods of instability and intermittent military coups. It joined the UN in 1945 and became a member of the European Community in 1964. The past decade was characterised by many reforms to strengthen its democracy and economy, enabling it to begin accession talks with the EU. This economy is a complex mix of modern industry and commerce with a traditional agricultural sector that accounts for approximately 35% of employment. It has a strong and rapidly growing private sector. The state plays a role in industry, banking, transport and communication. The largest industrial sector is textiles and clothing, accounting for a third of industrial employment. The automotive and electronics industries are growing in importance. Despite strong economic gains in 2002-04 – which were largely due to renewed investor interest in emerging markets, IMF support and tighter fiscal policy – the economy is still plagued with high debt and deficits. Foreign direct investment (FDI) is low in Turkey averaging less than \$1bn a year, but additional judicial reforms and prospective EU membership are expected to boost FDI. GDP growth was 8,2% in 2004 – its third consecutive year of high growth. <i>The Economist</i> anticipates the EU to begin accession talks with Turkey by October this year and expects a strong chance of rejection at the end of the process. The OECD expects GDP growth of 6,3% in 2005 and 6,1% in 2006 with inflation falling below 7%.</p> | <p>Y</p> |
| <p>United Kingdom (Britain)</p> <p>Constitutional monarchy. Population: 60,4m. Pop. growth: 0,3%</p> | <p>Great Britain was the dominant industrial power of the 19th century when it stretched over a quarter of the earth's surface. Its strength was depleted in both the World Wars. The second half of the 20th century saw the dismantling of the Empire and the UK rebuilding itself into a modern and prosperous European nation. It is one of the five permanent members of the UN Security Council and a founding member of Nato and the Commonwealth. It is currently studying the degree of its integration with continental Europe. As a member of the EU, it chose to remain outside the Economic and Monetary Union. The Scottish Parliament, the National Assembly for Wales, and the Northern Ireland Assembly were established in 1999, but the latter is suspended due to problems over the peace process. The UK is one of the trillion-dollar economies. Government has reduced public ownership and contained the growth of social welfare programmes over the past two decades. The UK is endowed with large coal, natural gas and oil reserves. Services such as banking and insurance account for the largest portion of GDP, while industry continues to shrink in importance. Growth recovered to 3,2% in 2004. The economy is one of the strongest in Europe with inflation, interest rates and unemployment remaining low. Government has speeded up the improvement of education, transport and health services at the cost of increased taxes. Per capita GDP is \$29 600. With leading indicators showing that the UK's prolonged consumer boom is coming to an end, real GDP is set to slow sharply in 2005-06. The OECD expects GDP growth of 2,4% in 2005 and 2006.</p> | <p>Y</p> |
| <p>United States of America</p> <p>Constitution-based federal republic; strong democratic tradition. Population: 296m. Pop. growth: 0,9%</p> | <p>Britain's American colonies broke away from the mother country in 1776 and were recognised as the new nation of the United States of America following the Treaty of Paris in 1783. This economy is characterised by steady growth, low unemployment (5,6% in 2004) and inflation and rapid advances in technology. The reason for low unemployment is that people are able to find jobs quicker in the US than anywhere else in the world. The US is the largest and most technologically powerful economy in the world with a per capita GDP of \$40 100. It has a market-oriented economy where private individuals and business firms make the most of the decisions and the federal and state governments buy needed goods and services largely in the private marketplace. Companies enjoy greater flexibility than their counterparts in Western Europe and Japan in decisions to expand their capital plant, to lay off surplus staff and to develop new products. Growth of 4,4% in 2004 was supported by labour productivity, but the economy suffered from the sharp increase in energy prices in the second half of the year. Long-term problems include inadequate investment in economic infrastructure and sizeable trade and budget deficits. The OECD predicts that growth will be 3,6% in 2005 and 3,3% in 2006.</p> | <p>Y</p> |

Researched and compiled by Lily Moodley, senior economic researcher: Credit Guarantee
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Philip Reynolds

Partner, Deloitte & Touche

I recently attended an Insol conference in Sydney on the topic of turnarounds. The most striking thing I took home from the conference is that, in the context of the dominant international perspective on turnarounds, INSOL is truly a misnomer. Probably 90% of the conference had to do with restructuring and rescuing distressed companies.

Insolvency is a last-ditch effort when it comes to international thinking, and there is a strong and prevalent approach that turnaround is the way to go. Rescue and work-out thinking is supported by all the players in the situation, including banks, to realise the maximum for a company's debt.

I believe that this mindset change is

all. Trade creditors may have to write off all or part of the debt, but retain an ongoing relationship with their customer.

But ultimately, a business has been saved and all are better off than they would have been had this not been possible.

What is required to effect a turnaround

1. A viable business

The first step in a turnaround situation is to establish whether there is indeed a viable business. If there is no viable business, the outcome will be major corporate surgery or insolvency.

2. Information

Information that is credible for creditors and funders, including predictions based on sound accounting principles, is essential to make turnaround decisions.

3. Time and money

The most important challenges for a distressed business are time and money. If you can find ways to buy time and manage the capital and cash flow issues, you give the business an opportunity to recover. It is apparent that business rescue legislation around the world seeks to address these issues, as well as providing the company with an opportunity to inform its creditors of its current situation and rescue plan.

If there is no cash, the choice is between new money and insolvency.

When it comes to financing, lenders in South Africa, with some notable exceptions, tend to pay lip service to turnaround and go into recovery mode at an early stage. In other countries, particularly the United States, there has been a culture shift and there are more financing options available to execute turnarounds. For example, a highly developed "vulture fund" or

Why TURNAROUND is bet

taking root in South Africa, but is not yet entrenched, and we continue the tendency to leap on the insolvency bandwagon as a primary option. We need to drive a different approach here in line with our international counterparts, learn from the approaches of different countries, and educate professionals on the options available.

Defining a successful turnaround

What defines a successful turnaround? Is it when creditors get paid? Is it when a business is saved? Or is it a matter of restructuring debt, with part of it forgiven?

Ultimately, there is a difference between saving a company versus saving a business.

The point is, turnarounds can still be considered to be successful, even if all the boxes aren't ticked. Providers of capital frequently don't get paid, as they are last in the queue. The security for secured creditors must be left in place, but it may be restructured. Many employees may lose their jobs, but not

Information is like oxygen in a distressed situation and without it the company will almost definitely die. In order to assess the best way to proceed, the management, board of directors, shareholders, labour and creditors must have credible, reliable information that benchmarks the various options against formal insolvency.

A fact that was drummed home by many speakers at the Insol conference was the importance of effective communication from the outset. The main stumbling block in opening communication channels often lies with the distressed company who would prefer to delay rather than alert their bankers to the crisis at hand. Part of the onus for driving this culture lies with the lenders, who need to demonstrate to borrowers that they will get a reasonable reception.

The information has to be benchmarked against the law governing formal bankruptcy, and only once this has been done can decisions on how to proceed be made by the key stakeholders.

hedge fund will provide high-risk capital, obviously at a discount, and advanced instruments and lending products are more easily accessible. Banks will very often sell off their exposures to these funds, which are much less risk averse.

Although our industry is on a much smaller scale, our finance industry could learn from products and models that are working elsewhere, particularly in Europe and America. I believe this is starting to happen here and we are on the right track.

Many distressed businesses will need some funding to pay for the restructuring process. Legislation around the world deals with this in a variety of ways. For example, in the US, Chapter 11 makes provision for debtor-in-possession financing, whereas in contrast, the administrator in Australia is able to use unencumbered working capital to fund the process.

4. Co-operation

In each recovery, legal teams, turnaround practitioners and banks are the key players.

These players need to work together in a co-operative team. South African thinking needs to switch from the mode of “attack, liquidate and write it off as quickly as possible”. An important learning is that this requires teamwork and partnerships, and more of this partnership at early stages between company management and banks would facilitate an early warning system to avoid the necessity for turnarounds.

5. Turnaround specialists

Turnarounds are essentially about people, and frequently very stressed people. The same people who built the business up and managed it, are the people who, with proper guidance from a consultant, should turn it around. The biggest economy in the world, the USA, believes in the debtor-in-possession principle, and it seems to work.

Executives at this point however often can't see the wood for the trees and need expert, third-party help to gather

A lot of work over the last ten years has culminated in a draft business turnaround act, which is constantly being discussed but not yet in Parliament. Hopefully when we get some new business rescue legislation, it will be simple and cost effective in providing the troubled company with the time and money to embark on a rescue process.

Without this legislation, we as turnaround specialists need to deal with the current reality, a reality in which liquidation at a premature stage is still too often the approach taken.

Turnaround rather than liquidation

I cannot emphasise enough that liquidation is a destructive process and should only be used as a last resort.

In a liquidation situation you have a much weaker negotiating position than if you are seeking to save the business.

When a company is placed in liquidation

are better suited to formulating a feasible restructuring strategy than judges or liquidators; and

- secondly, that formal proceedings or liquidations result in a loss of control and that maintaining control over the process is more advantageous.

The advantages of turnarounds are that they are faster, less expensive, less disruptive, management controls the process, adverse publicity can be avoided and parties are able to negotiate the best solution for all stakeholders.

The disadvantages, however, are that there is no moratorium, there is a focus on funding debt obligations, there can be a holdout by minorities, turnarounds require a higher percentage of creditor, vendor and labour co-operation, and directors run the risk of insolvent or wrongful trading actions should the turnaround fail.

ter than LIQUIDATION

and analyse the right information and recommend the appropriate way forward. I recently read an article saying that turnaround experts should have the bedside manner of an old family doctor – listening, providing advice, building confidence and not adding to the stress of the situation.

A term coined internationally for this “family doctor” is a chief restructuring officer, or CRO. A CRO should be appointed as soon as possible in the process to analyse information, get a moratorium and prepare for the restructuring to achieve a viable business.

The legislation we need

One thing I recognised at the Insol conference is that wherever business rescue laws were in place, irrespective of which country, they worked. Although there are rescue operations underway in our economy which you don't hear about, very often the lack of a correct legal framework makes it difficult and gives unscrupulous creditors a way of manipulating a turnaround effort for their own advantage.

by the owners, it is difficult for them to get involved in the restructure. A new investor is necessary, or you are doomed to lose the business. This new investor may not have the intrinsic knowledge of the business or sufficient access to the right information needed to make appropriate turnaround plans.

Liquidations may seem more appealing for creditors – but they are frequently very time-consuming and creditors can end up waiting a long time for their money.

The only possible benefit of a liquidation is that it is easier to manage the labour situation, as the ability to reduce staff numbers facilitates restructuring the labour force. This can often be absolutely key to the turnaround, and can be a difficult point to negotiate with unions. In my experience, the key is to be open about the situation and communicate your plans.

The two key concepts that seem to underpin an out of court restructuring or turnaround situation are that:


- Firstly, all of the key stakeholders have to realise that business people

Conclusions

It is obvious that those countries with rescue laws and a regulatory framework are more effective in providing solutions for distressed companies.

Ultimately, the success or failure of a turnaround rests upon the shoulders of a business' most valuable assets, albeit not shown on any balance sheet: its turnaround leadership, its owners and lenders, its management and its employees all dedicated to turning the company around.

It is upon their effort, performance, credibility, and commitment that the turnaround specialists, lenders and creditors, and the marketplace, ultimately rely.

The turnaround practitioner in South Africa is part of a changing and evolving landscape. Although we're not at the bottom of the pile when it comes to international progress, in order to adopt and enforce best practices from around the world, we need to foster an environment of co-operation and trust. 

Time to consider proposed environmental regulations

The proposed new environmental impact assessment regulations first published in terms of the National Environmental Management Act in August 2004 are far-reaching and will impact on several industries. Two official drafts of the regulations have already been published and although there remains uncertainty regarding when precisely the regulations will be finalised, companies should use the delay in commencement to properly consider the impact of the regulations on their business.

The proposed procedures may certainly benefit from further amendment in the light of public comments submitted. However, statements made in some quarters that the proposed regulations will undermine or weaken protection of the environment seem premature.

The existing 1997 regulations have been criticised because whether or not an activity is subject to the regulations is determined by whether that activity falls within a definition. This at times results in an inflexible approach with no or little regard to the actual environmental impact of the activity itself or the geographic area (and the sensitivity of the environment) in which the activity occurs. There are also no thresholds in the existing regulations so, for example, any use of "virgin soil", no matter how small, is subject to the procedures in the regulations.

Unnecessary delays

The current regulations are also sometimes used to delay development by those who claim to be flying the banner of environmental conservation when in fact their motives are premised on economic self-interest or prejudice. This can, for example, result in unnecessary delays in the delivery of housing or other infrastructure. In this context, new regulations benefiting from more than five years of learning and implementation could serve a useful purpose.

The purpose of the regulations is apparently to try and ensure that time and effort is properly focused on those



The author, Andrew Leontsinis, is a partner in Bell Dewar & Hall Inc

activities with the most adverse environmental consequences. The procedures therefore provide for an initial assessment of certain categories of activities in order to determine whether there is a likelihood of significant impacts requiring further investigation.

This will be an improvement on the current practice in terms of which the granting of exemptions is used to "screen out" applications which technically fall within the definition of an "identified activity", but are considered to have no or limited impact on the environment. The exemption provisions were never intended for this purpose and the procedures used are largely improvised by the administrators concerned.

Provisions to take note of

Some of the more significant provisions of the regulations and the identification of activities which should be noted are:

- The identified activities are not limited (as is currently the case) to new activities or the upgrading of existing activities but include closure or decommissioning of existing facilities or infrastructure. It is arguable whether or not the same procedures applicable to new activities can


appropriately be applied to the closure of those activities.

- The regulations require the payment of application fees by the applicant – the fee payable is not specified.

The regulations do not materially change the existing requirements that investigations be undertaken by environmental assessment practitioners or require the registration of environmental practitioners as contemplated by 24(5)(e) read with 24H of the National Environmental Management Act.

- Where there is a change of ownership of property where a listed activity takes place or where there is a transfer of ownership of an authorised activity, an application is required to transfer the authorisation to the new owner.
- The competent authority may vary an environmental authorisation at any time where, for example, it is necessary or desirable to prevent deterioration of the environment.
- An environmental impact assessment must contain a draft environmental management plan. This differs from the existing regulations in which an environmental management plan may be required as a condition of authorisation.
- An environmental authorisation may require that the holder of the authorisation furnish "security for any mitigation or rehabilitation measures required in the environmental authorisation". This appears to be an attempt to introduce a requirement that financial provision be made for future rehabilitation obligations and closure costs similar to existing mining law.
- Most but not all identified activities in term of the existing regulations remain scheduled activities. Mining and prospecting, which are not currently identified activities, are included in the list of identified activities.

Conclusion

The regulations and their implementation will have to strike a fine balance between the consideration of environmental impacts and consultation with affected parties on the one hand and the need to cut red tape, promote growth and deliver infrastructure on the other. 

World markets update

*The following credit classifications were recently updated.
For information regarding other countries, please contact Credit Guarantee.*

AFRICA

CÔTE D'IVOIRE

Rating: 3C

There has been a recent surge in the number of refugees returning home from Côte d'Ivoire as conditions within Liberia improve and the security situation in the volatile west of Côte d'Ivoire deteriorates. According to the EIU, Côte d'Ivoire's political situation is expected to remain extremely tense in 2005-06 and uncertainty over whether and how the October 2005 elections will be held will dominate the political scene. Political uncertainty has clouded the economic outlook for 2005, with fear among Ivoirians spreading, foreign investment contracting, businessmen fleeing, travel within the country falling and criminal elements that traffic in weapons and diamonds gaining ground. Donors will be unwilling to make substantive commitments until durable peace has been established and the overall economy will continue to suffer from the ongoing crisis. Côte d'Ivoire is among the world's largest producers and exporters of coffee, cocoa beans and palm oil. Consequently, the economy is highly sensitive to fluctuations in international prices for these products and weather conditions.

EGYPT

Rating: 2B

The president was previously nominated by the People's Assembly, but for the first time in Egypt's history, the constitution was amended to permit multiple candidates to be elected by popular vote for a six-year term on 7 September 2005. According to official results on 9 September 2005, President Mubarak won the elections with an 88% victory based on a turnout of 23% of registered voters. Egypt, being one of the more prosperous economies in Africa, has sought to implement many measures since 2004 to boost foreign direct investment. It introduced custom reforms, proposed corporate and income tax reforms, reduced energy subsidies and privatised several enterprises. The development of an export market for natural gas bodes well for future growth prospects. Fuel products account for 43% of commodity exports and manufacturers account for 30% of merchandise exports. Cotton is the single most important agricultural export. Manufacturing contributes 19% of GDP.

ETHIOPIA

Rating: 3C

In May 2005 the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) of incumbent premier Meles Zenawi won bitterly contested elections, paving the way for his third, five-year term as prime minister. The 2005 election aftermath has had negative impacts on the economic development of the country. Ethiopia's poverty-stricken economy is based on agriculture, accounting for half of GDP, 60% of exports and 80% of total employment. The agricultural sector suffers from frequent droughts and poor cultivation practices. Coffee is critical to the Ethiopian economy. The

How we rate them

Country classifications are based on a numeric and alphabetic basis associated with each country, with the numeric indicator showing the political rating of the country and the alphabet indicating the commercial risk. These range from 1 to 3 on the political rating with 1 being your lowest risk and 3 the highest. Likewise the A, B and C are relevant to the commercial rating – A being the lowest risk and C the highest risk.

Usually the two ratings are closely linked because the political rating of a country will impact directly on its commercial rating.

Factors taken into account when assigning ratings include the following:

Political rating

Assessing political and economic conditions and stability:

- Environment
- Economic policies
- Forex reserves – ability to generate
- Rule of law
- Access to legal system
- Banking and commercial infrastructure
- Past history as trading partner
- Utilising various sources of information such as D & B, Moody's, S+P, various publications, Internet, Berne Union, ICIA, PASA, IMF, World Bank, etc
- Negotiating country limits with reinsurers
- Country reports prepared by Credit Guarantee's economic researchers
- Credit Guarantee's country underwriting committee.

Commercial rating

Commercial ratings are based on the financial strength of buyers in a particular country as well as their ability to repay amounts within terms afforded:

- Underwriting experience of other credit insurers on buyers in a particular market.
- Number of insolvencies/ liquidations in a country.
- Access to funds for buyers in the market.
- Reliable credit information from the respective market.
- Trade references within markets.
- Global and domestic industry trends and their impact on a market.

*Compiled and researched by Melanie Da Luz
Economic researcher, Credit Guarantee
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spike in world oil prices will have a detrimental impact on growth in fiscal 2004/05 by inhibiting consumption and investment, as Ethiopia imports 100% of its fuel requirements. Approximately 3.8m Ethiopians urgently need food assistance this year to prevent starvation and possible death. Relations with Eritrea will continue to dominate foreign policy in 2005 and 2006. Ethiopia remains heavily dependent on high levels of donor support. The high donor inflows are helping to ensure that foreign-exchange reserves remain high. Economic activity in all sectors will benefit from ongoing structural reform and substantial external support, particularly donor-funded projects in transport infrastructure, which should bring down transaction costs and open up new markets.

GABON

Rating: 3C

President El Hadj Omar Bongo Ondimba is one of the longest-serving heads of state in the world and has dominated the country's political scene for almost four decades. Presidential elections scheduled for December 2005 are unlikely to bring change since the opposition remains weak, divided and financially dependent on the current regime. Gabon is known as one of West Africa's more stable countries. Its heavy dependence on oil (over 50% of GDP) has made its economy – and political stability – hostage to fluctuations in oil prices. According to the IMF's latest review of Gabon's economy, the country is in no current need of financial support from abroad. Increasing revenues from the oil sector and reforms to control government spending have re-established government's control over its economy.

GAMBIA

Rating: 3C

Gambia is one of Africa's smallest countries and unlike many of its West African neighbours it has enjoyed long spells of stability since independence in 1965. Gambia has no significant mineral or natural resource deposits and has a limited agricultural base. Approximately 75% of the population depend on crops and livestock for their livelihood. Small-scale manufacturing features the processing of peanuts, fish and hides. Re-export trade normally constitutes a major segment of economic activity, but a 1999 government imposed preshipment inspection plan and instability of the Gambian dalasi (currency) have drawn some of the re-export trade away from Gambia. Unemployment and underemployment rates remain extremely high; short-run economic progress depends on sustained bilateral and multilateral aid, on responsible government economic management, on continued technical assistance from the IMF and bilateral donors, and on expected growth in the construction sector. Gambia relies on foreign aid to fill the gaps in its balance of payments. Tourism is an important source of foreign exchange.

GHANA

Rating: 3C

Ghana enjoys double the per capita output of poorer countries in the region, but income of its 22m citizens is among the lowest in the world. The country is well endowed with natural resources such as gold, timber and cocoa, which make up the backbone of foreign exchange earnings. Agriculture is still conducted on a subsistence level while accounting for 34% of GDP and employing 60% of the workforce. Growth in gold and cocoa production will drive economic growth over 2005-06. The effect of domestic fuel price increases will make it difficult to bring inflation under control. Ghana remains heavily dependent on international financial and technical assistance.

GUINEA

Rating: 3C

Unrest in Sierra Leone and Liberia has spilled over into Guinea on several occasions over the past decade, threatening stability and creating humanitarian emergencies. Guinea possesses major mineral, hydropower and agricultural resources but remains an underdeveloped nation. The country possesses over 30% of the world's bauxite reserves and is the second-largest bauxite producer. Long-run improvements in government fiscal arrangements, literacy and the legal framework are needed if the country is to move out of poverty. Fighting along the Sierra Leonean and Liberian borders as well as refugee movements have caused major economic disruptions, aggravating a loss in investor confidence. Guinea is not receiving multilateral aid, as the IMF and the World Bank cut off most assistance in 2003. The currency has continued to come under pressure owing to increasing oil prices and low foreign reserves.

KENYA

Rating: 3C

The proposed new constitution will remain one of the chief battlegrounds in Kenyan politics. Kenya continues to play a key mediating role in the conflicts in neighbouring Somalia and Sudan, a resolution of which would do much to enhance regional stability and prosperity. Public procurement has been one of the biggest sources of graft in Kenya. Senior government officials and politicians often set up their own firms to win tenders at hugely inflated costs or help cronies in return for kickbacks. The greatest risks in Kenya consist of the weather conditions, political uncertainty and relationships with donors. Ongoing corruption and weak public-spending management have caused delays in the disbursement of budgetary support. However, in late 2004 the IMF endorsed progress to date and disbursed fresh loans. The spread of HIV/Aids is crippling the economy and unless it is checked, it will reduce economic growth by 10% in five years. Old Mutual has warned that the current inflation rate is eroding interest earnings and leading investors to move their money out of the country. The Central Bank of Kenya will continue to favour a gradual depreciation to preserve the competitiveness of the shilling in the face of double-digit inflation. However, the bank will intervene in the market if the rate of decrease is perceived to be faster than warranted by economic fundamentals or to be the result of speculation.

MALI

Rating: 3C

Mali is one of the biggest producers of cotton and has significant reserves of gold, but economic advancement has been hampered by a chronic foreign trade deficit, rendering the country heavily dependent on foreign aid and remittances from emigrant workers. Activity in this poor economy is confined to the riverine area irrigated by the Niger, as 65% of its land is desert or semi-desert. About 10% of its 12m people are nomadic with 80% of the population involved in farming or fishing. Industrial activity revolves around the processing of farm commodities. Government has continued its successful implementation of an IMF-recommended structural adjustment programme that is helping the economy grow, diversify and attract foreign investment.

MAURITIUS

Rating: 1B

Mauritius is a stable democracy with regular free elections and a positive human rights accord. In July 2005 former prime minister Navin Ramgoolam of the Social Alliance returned to power after defeating Paul Berenger of the Mau-

ritian Militant Movement in the elections. The country has attracted considerable foreign investment and has earned one of Africa's highest per capita incomes. Recent poor weather and decreasing sugar prices have slowed economic growth, leading to some protests over standards of living in the Creole community. Since independence in 1968, Mauritius has developed from a low-income, agriculture-based economy to a middle-income diversified economy with growing industrial, financial and tourist sectors. Government's development strategy centres on expanding local financial institutions and building a domestic information and telecommunications industry. The short-term consequences of the textile quota removal will negatively impact the growth of the economy. In 2005 and 2006 government will support the implementation of economic reforms to strengthen the sugar and textile sectors and reverse the rapid increase in unemployment. Both the sugar and the textile industries are threatened by imminent changes in preferential trade agreements and will need to improve productivity if they are to remain competitive on the global market.

MOZAMBIQUE

Rating: 3C

Mozambique is one of the poorest countries in the world. It has a small, relatively well-diversified economy. Agriculture, which contributes 20% of GDP, remains largely subsistence, but a small fast-growing commercial farm sub-sector is emerging. The country's economic structure is slowly shifting towards more value-added production spurred on by the country's attractiveness to foreign investors. Donors are expected to carry on supporting the country, although with a slightly wary attitude until they are convinced that the new administration will not dramatically break away from the economic policy that has prevailed over the past ten years.

SENEGAL

Rating: 3C

Senegal is a member of the African Economic and Monetary Union and is working towards greater regional integration through a unified external tariff. Government will pursue a donor-supported economic reform programme, but results will be mixed owing to a lack of capacity and mismanagement. Senegal still relies heavily upon outside donor assistance. The country is a beneficiary of the Highly Indebted Poor Countries (HIPC) initiative for debt relief and reached completion point in April 2004. Senegal is confronted by pressing problems of chronic unemployment, juvenile delinquency, drug addiction and severe poverty in both urban and rural economies. The effects of the 2004 locust invasion will continue to impact on the agricultural sector. Groundnut production will continue to be hampered by marketing difficulties and farmers' distrust of new marketing systems, which will reduce the impact of an increase in the growing area.

SWAZILAND

Rating: 3C

Sugar and wood pulp remain important foreign exchange earners, while mining has declined in recent years with coal and quarry stone mining staying active. Unfavourable export prices for sugar and textiles will further hinder economic growth. Sugar exports are expected to be hit hard by the price cuts of the European Union. To exacerbate matters, the South African and Swazi sugar industries have deadlocked over their trade agreements prompting government intervention to avoid further problems for local producers and growers. As one of the poorest countries in Africa, the kingdom is faced with another food crisis and farmers are unwilling to plant additional maize as they are battling to recover costs of fertiliser, tractor rental and transport to the market. About a

quarter of its citizens are dependent on food aid. Swaziland has surpassed Botswana with the world's highest HIV infection rate. Its adult prevalence rate is close to 40% of its 1.2m population.

TANZANIA

Rating: 3C

Tanzania is one of the poorest countries in the world. The economy depends heavily on agriculture, which accounts for almost half of GDP, provides 85% of exports and employs 80% of the work force. Topography and climate conditions limit cultivated crops to only 4% of the land area. Industry traditionally featured the processing of agricultural products and light consumer goods. The World Bank, the IMF and bilateral donors have provided funds to rehabilitate Tanzania's out-of-date economic infrastructure and to alleviate poverty. Recent banking reforms have helped increase private sector growth and investment. Strong expansion in the manufacturing sector and in retail trade and infrastructure development, notably road building and investment in electricity and water infrastructure, is expected in 2005 and 2006. Growth in tourism-related activities is expected to continue over 2005 and 2006. Mining sector growth will slow over 2005 and 2006, as further large investments are not expected, although existing gold mines will increase production.

ASIA PACIFIC

CHINA

Rating: 2B

China began transforming its economy from a centrally planned style to a more market oriented system in 1978. The system operates within a political framework of strict Communist control but the economic influence of non-state organisations and individuals is steadily increasing. The authorities have switched to a system of household and village responsibility in agriculture in place of the old collectivisation. Foreign investment remains a strong element in China's remarkable economic growth. Accession to the World Trade Organisation (WTO) will help strengthen China's ability to maintain strong growth rates while the organisation increases pressure on the country's hybrid system of strong political controls and growing market influences. The WTO deadline for the entry of foreign banks is looming and Beijing is at last taking restructuring seriously. Under government's far-reaching WTO commitment to fully open the banking sector to foreign competition by December 2006, there is increased urgency in restructuring the major banks and improving the competitive strength of local commercial banks.

HONG KONG

Rating: 1A

China controls Hong Kong's foreign and defence policies, but the territory has its own currency and customs status. Hong Kong has a free market, entrepot economy and is highly dependent on international trade. Natural resources are limited and food and raw materials must be imported. Hong Kong has been further integrating its economy with China because China's growing openness to the world economy has made manufacturing in China much more cost effective. Hong Kong's re-export business to and from China is a major driver of growth. Although the Severe Acute Respiratory Syndrome (SARS) outbreak battered Hong Kong's economy, a boom in tourism from the mainland because of China's easing of travel restrictions, a return of consumer confidence and a solid rise in exports has resulted in the resumption of strong

growth. In May 2005 Hong Kong placed a cap on its currency's exchange rate to the US dollar. Government set a trading band on the Hong Kong dollar, with a floor of HK\$7.85/US\$ and a ceiling of HK\$7.75. The change was aimed at reducing the Hong Kong dollar from being used as a proxy for speculation on the Chinese currency (yuan/renminbi).

INDIA

Rating: 2C

India's diverse economy encompasses traditional village farming, modern agriculture, handicrafts, a wide range of modern industries and a multitude of services. Services are the major source of economic growth, though two-thirds of the workforce is in agriculture. Government will do more to liberalise investment in civil aviation, telecom and insurance sectors in the near term. Privatisation of government-owned industries have proceeded slowly and continues to generate political debate. India still faces substantial disparities such as the growing void between the country's richer and poorer states. Reducing poverty stands as one of its biggest challenges. Fitch credit ratings agency has upgraded India's investment ratings from BB to BB+ reflecting growing confidence in the Indian economy. Standard & Poor's has also raised its rating from BB to BB+, citing a stable outlook for the economy.

INDONESIA

Rating: zz (=off cover)

On 15 August 2005 a formal peace accord was signed by government and the separatist Free Aceh Movement (GAM). However, there remains the risk that progress on the accord will be hampered on the ground by recalcitrant rebels, reluctant to give up arms, or members of the military, reluctant to withdraw from the province. Indonesia, a vast polyglot nation, has restored financial stability and pursued sober fiscal policies since the Asian financial crisis, but many economic development problems remain, including high unemployment, a fragile banking sector, endemic corruption, inadequate infrastructure, a poor investment climate and unequal resource distribution among regions. Indonesia became a net oil importer in 2004 due to decreasing production and lack of new exploration investment. Following this, Jakarta is not reaping the benefits of high world oil prices and the cost of subsidising domestic fuel prices has placed an increasing strain on the budget. The key to future growth includes internal reform, building up the confidence of international and domestic investors and taking advantage of strong global economic growth. President Yudhoyono has initiated a revitalisation plan for the agriculture, fisheries and forestry sector as part of government's efforts to achieve higher economic growth and reduce unemployment.

MALAYSIA

Rating: 2B

Malaysia is now an emerging multi-sector economy almost exclusively driven by exports. Healthy foreign exchange reserves, low inflation and a small external debt will make it unlikely that Malaysia will experience a financial crisis similar to the one in 1997. Most analysts agree that the ringgit, fixed to the dollar at 3.80 since the Asian financial crisis in 1998, is undervalued by around 10%. It is uncertain whether Prime Minister Badawi will risk upsetting the currency regime. Some believe that Malaysia's decision is linked to China's foreign exchange policy. The central bank reiterated at the end of May 2005 that the ringgit was still fairly valued and ruled out any moves to free-float the currency as it may lead to volatility. The economy remains dependent on continued growth in the US, China and Japan – top export destinations and key sources of foreign investment.

MALDIVES

Rating: 3C

The country is set to introduce multi-party politics for the first time, after parliament backed the change in June 2005. Political parties had previously been banned, although there had been no official ban on political activity. Tourism – Maldives' largest industry – accounts for 20% of GDP and more than 60% of its foreign exchange receipts. Over 90% of government tax revenue comes from import duties and tourism-related taxes. Fishing is a second leading sector, accounting for 7% of GDP. Agriculture and manufacturing continue to play a lesser role in the economy, constrained by the limited availability of cultivable land and the shortage of domestic labour. Most staple foods must be imported. Industry, which consists mainly of garment production, boat building and handicrafts, accounts for about 18% of GDP. The Maldives has made progress in developing its infrastructure and industries, including the fisheries sector and in improving health, education and literacy. Maldivian authorities worry about the impact of erosion and possible global warming on their low-lying country. 80% of land area is one metre or less above sea level.

PHILIPPINES

Rating: 3C

The Philippines faces higher oil prices, higher interest rates on its dollar borrowings and higher inflation. Fiscal constraints limit its ability to finance infrastructure and social spending. Its consistently large budget deficit has produced higher debts and has forced Manila to spend much of the national government budget on debt service. Large, unprofitable public enterprises, especially in the energy sector, contribute to government's debt because of low progress on privatisation. Fitch Ratings has revised its long-term foreign currency and local ratings from negative to stable on account of the passage of revenue measures to restore public finances to a sustainable path over the medium term.

THAILAND

Rating: 2B

Thailand has a well-developed infrastructure, a free enterprise economy and welcomes foreign investment. The highly popular government's expansionist policy, including major support of village economic development, has raised concerns about fiscal discipline and the health of financial institutions. Bangkok has pursued preferential trade agreements with a variety of partners in an effort to boost exports and maintain high growth and in 2004 began negotiations on an FTA with the US. The country's diversified export sector has proven surprisingly resilient amid rising competition from its low-cost peers, helped by a slew of free-trade pacts with major trading partners and progress in establishing itself as a key regional player in strategic manufacturing sectors. Rising interest rates at commercial banks and a reduction in excess liquidity through accelerated loan activity are evidence that the "liquidity trap" that has haunted the Thai financial system for the past seven and a half years is almost eliminated.

MIDDLE EAST

BAHRAIN

Rating: 2B

Tension between the ruling Sunni minority and the less affluent elements of the Bahraini society, made up largely of the Shia majority, is expected to continue in 2005-06. Bahrain

was one of the first Gulf states to discover oil and to build a refinery, but its levels of output failed to reach that of Iraq and Kuwait, which forced the small kingdom to diversify its economy. Petroleum production and refining accounts for 60% of exports, 60% of government revenue and 30% of GDP. In September 2004, Bahrain signed a Free Trade Agreement with the US – the first such deal of a Gulf state. Unemployment and the depletion of oil and underground water resources are major long-term economic problems.

IRAN

Rating: 3C

Tensions over Iran's nuclear programme continue to intensify. The Central Bank of Iran stated that foreign exchange reserves are forecast to amount to \$46bn by March 2006. Despite higher oil revenues, Iranian budget deficits remain a chronic problem. The Central Bank of Iran has stated that Iran's foreign liabilities are lowest among transitional economies, leading to an improvement in the country's credit rating abroad. Iran's economy relies heavily on oil export revenues, as it is around 80-90% of total export earnings and 40-50% of government's budget. Strong oil prices over the past few years have helped Iran's economic situation drastically. Record high oil prices have led to a steep increase in international prices of seeds, chemical fertilisers, pesticides and transportation costs creating a lot of problems in meeting the demand for essential commodities.

JORDAN

Rating: 2B

Jordan is a small Arab country with fundamental problems such as debt, poverty and unemployment. The export market is heavily dependent on Iraq and as such, it was affected by the war, but it recovered quickly while contributing to the Iraq recovery effort. Jordan's main challenges include reducing its dependence on foreign grants, reducing its budget deficit and creating investment incentives to promote job creation. Difficult times lie ahead for ordinary Jordanians following government's recent decision to raise fuel and utility costs in a bid to curb the surging budget deficit. As part of the kingdom's restructuring plan, Jordan aims to gradually remove subsidies and adopt methods to price oil according to the world market trend.

SAUDI ARABIA

Rating: 2B

Saudi Arabia possesses 25% of the world's proven petroleum reserves, ranks as the largest exporter of petroleum and plays a leading role in Opec. Government is encouraging private sector growth to lessen the kingdom's dependence on oil and increase employment opportunities for the swelling Saudi population. Economic reforms proceed cautiously because of deep-rooted political and social conservatism. Saudi Arabia has emerged from being an underdeveloped desert kingdom to become one of the wealthiest nations in the Middle East region due to vast oil resources. Oil revenues, the government budget surplus and the current account surplus will all register all-time highs due to exceptional oil prices and high oil production. In spite of the recent surge in its oil income, Saudi Arabia continues to face serious long-term economic challenges, including high rates of unemployment, one of the world's fastest population growth rates and the consequent need for increased government spending.

SHARJAH

Rating: 2B

Sharjah is the third largest emirate of the UAE. It is the fastest growing industrial base of the states with over 50% of the UAE's manufacturing base located in Sharjah. Sharjah's

economy has been growing rapidly during the last few years. Sharjah announced the setting up of a private equity investment company, The Group, with a capital of Dh200m in June 2005. The Group already received the initial approval of the Economic Department of Sharjah. The company will focus on tapping potential investment opportunities in all the emirates and it will offer them a chance to benefit from the unlimited prospects the booming investment sector throws up. The UAE is developing its oil and gas production and supply facilities to double oil and gas output by 2006. Its oil reserves of 98m bpd account for 9.1% of global oil reserves. Sharjah contributes 1.5m bpd to UAE's overall supply.

S./LATIN AMERICA

ANTIGUA & BARBUDA

Rating: 2B

Tourism continues to dominate the economy, accounting for more than half of GDP. The dual-island nation's agricultural production is focused on the domestic market and constrained by a limited water supply and a labour shortage stemming from the lure of higher wages in tourism and construction. Manufacturing comprises enclave-type assembly for export with major products being bedding, handicrafts and electronic components. Prospects for economic growth in the medium-term will continue to depend on income growth in the industrialised world, especially in the US, which accounts for slightly more than one-third of tourist arrivals.

BRAZIL

Rating: 2B

Brazil has a history of boom and bust, with its attempts at development hampered in the past by high inflation and one of the biggest foreign debts. Possessing large and well-developed agricultural, mining, manufacturing and service sectors, Brazil's economy outweighs that of all other South American countries and is expanding its presence in world markets. Economic growth is poised to slow this year as interest rates climb and manufacturers such as steelmaker Usinas Siderurgicas de Minas Gerais SA work at full capacity and are unable to boost production. Government stated that Brazil's improved fiscal performance had reduced its vulnerability to shocks on global markets, reducing its need for IMF support. Fiscal discipline and the taming of inflation have improved Brazil's growth prospects. A reversal of the current account into surplus has also made the country less vulnerable to volatility in foreign investment. However, Brazil still has too much public debt and too high a tax burden. The resumption of trade negotiations and their successful completion is of utmost importance for improving the country's access to world markets, fostering the expansion of trade and investment in the country.

CHILE

Rating: 2A

The ruling centre-left Concertación coalition will benefit in the December 2005 elections from strong economic growth and the popularity of the president. Chile has a market-oriented economy characterised by a high level of foreign trade. The stability of the peso in 2005-06 will be underpinned by continued growth in export earnings and sustained FDI inflows. Unemployment remains stubbornly high.

COLOMBIA

Rating: 3C

Two of Colombia's leading exports – oil and coffee – face an uncertain future. New exploration is needed to offset decreasing oil production, while coffee harvest and prices are depressed. Government's economic policy and democratic security strategy has engendered a growing sense of confidence in the economy, particularly within the business sector. The IMF is concerned that Colombia has too much debt and lost an opportunity to pass legislation that would boost tax revenue. Colombia hasn't pared debt enough and should continue to reduce debt to 40% of GDP over the next 10 years. Government needs to restrict spending and keep debt levels under control if it is to see economic growth in the longer term. It needs to create a more efficient tax system while broadening the tax base and improving tax administration, particularly to ensure more federal funds make their way to local governments. High unemployment, poverty and public debt levels continue to trouble Colombia. Economic performance has continued on an improving trend over the past two years and near-term prospects appear generally sound, although external and election-related risks are significant. Higher oil prices, low international interest rates and strong external demand have helped improve economic performance.

ECUADOR

Rating: 3C

Relying heavily on petroleum resources, Ecuador suffered an economic crisis in 1999 due to the commodity's sharp price decrease. During this time the banking system also collapsed and Ecuador defaulted on its external debt. The currency depreciated by 70% in 1999 and on the brink of hyperinflation, the then Mahaud government dollarised the economy. The economy has subsequently recovered but political uncertainty remains a deterrent to investment. Ecuador is the world's biggest exporter of bananas, mainly to the EU and Russia. The EU's attempt to force a tariff to replace the quota system was marked unfair by the WTO. The new system, which will come into effect in 2006, will have dire consequences for Ecuador. The risk of investing in this country has risen after the energy minister stated that current oil contracts with foreign companies would be reviewed.

EL SALVADOR

Rating: 3C

Government is striving to open new export markets, encourage foreign investment, modernise the tax and health-care systems and stimulate the sluggish economy. Implementation of the Central America-Dominican Republic Free Trade Agreement, ratified by El Salvador in 2004, is viewed as a key policy to help achieve these objectives. With the adoption of the US dollar as its currency, El Salvador has lost control over monetary policy and must concentrate on maintaining a disciplined fiscal policy. Poverty, civil war, natural disasters and their consequent dislocations have left their mark on El Salvador's society, which is among the most violent and crime-ridden in the Americas. Fiscal policy will remain tight, a necessity following the introduction of dollarisation in 2001, as well as owing to specific challenges in public finances. These include the increased cost of pension reform, continued post-earthquake reconstruction and a rising debt-service burden.

GUATEMALA

Rating: 3C

Guatemala is the largest and most populous of the Central American countries with agriculture still accounting for a significant percentage of GDP. The EIU stated that although the economic growth outlook remains positive, a poor policy-making environment could affect Guatemala's growth

prospects. The 1996 signing of peace accords, which ended 36 years of civil war, removed a major obstacle to foreign investment, but widespread political violence and corruption scandals continue to dampen investor confidence. Ongoing challenges include increasing government revenues, negotiating further assistance from international donors, upgrading both government and private financial operations, curtailing drug trafficking and narrowing the trade deficit.

HONDURAS

Rating: 3C

Honduras – one of the poorest countries in the Western Hemisphere with an extraordinarily unequal distribution of income and massive unemployment – is banking on expanded trade under the US-Central America Free Trade Agreement (CAFTA) and on debt relief under the Heavily Indebted Poor Countries (HIPC) initiative. Growth remains dependent on the economy of the US, its largest trading partner, on commodity prices, particularly coffee and on reducing of the high crime rate. Honduran society is rife with economic inequality. Poverty and the prospects offered by drug trafficking have contributed to a virulent crime wave, conducted mainly by youth gangs known as "maras". Government will continue to pursue an IMF-backed economic policy programme that it hopes will yield debt relief in 2005. However, popular protest at the adherence to the programme will continue, as presidential, congressional and municipal elections approach in November 2005. This will make it more difficult for government to keep its economic policy on track, although the temptation for a pre-electoral spending spree is mitigated by the fact that the incumbent, President Maduro, is ineligible to stand again for the presidency. Although interest rates have fallen in the past year, investment is still being inhibited by the cautious lending practices of banks. Honduras is an oil-importing nation where inflation is sensitive to the volatility in the oil price.

JAMAICA

Rating: 3C

The economy is heavily dependent on services, which currently accounts for 60% of GDP. The country continues to derive most of its foreign exchange from tourism, remittances and bauxite/alumina. The global economic slowdown, particularly after the 9/11 terrorist attacks in the US, stunted economic growth; the economy rebounded somewhat in 2003-04, with brisk tourist seasons. The economy faces serious long-term problems: High interest rates; increased foreign competition; a pressured, sometimes sliding, exchange rate; a sizeable merchandise trade deficit; large-scale unemployment; and a growing internal debt, the result of government bailouts to ailing sectors of the economy. The ratio of debt to GDP is close to 150%. Uncertain economic conditions have led to increased civil unrest, including gang violence fueled by the drug trade. In 2004, government faced the difficult prospect of having to achieve fiscal discipline in order to maintain debt payments while simultaneously attacking a serious and growing crime problem, which is hampering economic growth.

PANAMA

Rating: 3C

Panama's dollarised economy rests primarily on a well-developed services sector that accounts for four-fifths of GDP. Government has been backing tax reforms, reform of the social security programme, new regional trade agreements and development of tourism. Unemployment remains high. President Martin Torrijos who took office for a five-year term in September 2004, continues to attract widespread public support. However, his government is now facing a more challenging period, which will be characterised by the introduction of unpopular reform measures aimed at addressing structural imbalances in the economy.

PARAGUAY

Rating: 3C

Landlocked Paraguay has a market economy marked by a large informal sector. This sector features both re-export of imported consumer goods to neighbouring countries as well as the activities of thousands of micro-enterprises and urban street vendors. A large percentage of the population derive their living from agricultural activity, often on a subsistence basis. Most observers attribute Paraguay's poor economic performance to political uncertainty, corruption, lack of progress on structural reform, substantial internal and external debt and deficient infrastructure. Aided by a firmer exchange rate and perhaps a greater confidence in the economic policy of the Duarte Frutos administration, the economy rebounded in 2003 and 2004, posting modest growth each year. Unemployment and poverty levels remain high, underscoring the importance of pressing ahead with the structural reform agenda.

PERU

Rating: 3C

Peru has abundant mineral resources and excellent fishing grounds. However, overdependence on minerals and metals subjects the economy to fluctuations in world prices and a lack of infrastructure deters trade and investment. Despite the strong macro-economic performance, the Toledo administration remained unpopular in 2004 and unemployment and poverty have stayed persistently high. Economic growth will be driven by the Camisea natural gas project, as well as by mining and exports.

PUERTO RICO

Rating: 1B

Puerto Rico enjoys a highly diversified economy, a strong tourist sector and good trade relations with the US, its largest trading partner. Despite mixed current economic indicators, Puerto Rico's short-term economic outlook looks relatively positive given the strengthening of the US economy. Over the past year, high oil prices have had an adverse effect on the country's economy and inflation, as the Commonwealth is heavily dependent on oil imports to meet its domestic energy needs, particularly for electricity generation. A Banco Bilbao Vizcaya Argentaria (BBVA) report stated that each \$10 increase per barrel of oil imported to Puerto Rico costs the local economy an estimated \$750m. If oil prices stay above \$40 per barrel, the recovery of the economy will weaken. Construction, especially by the public sector, will continue to contribute substantially to growth. Manufacturing and retail trade, the two largest sectors, which remained sluggish for most of 2003/04, should benefit in 2004/05 from the continuing robust performance of the US economy, boosting export demand. However, retail trade is expected to recover as higher employment and income levels translate into growing consumer demand.

VENEZUELA

Rating: zz (=off cover)

Venezuela, which is endowed with the world's largest-known oil deposits, is highly reliant on its petroleum sector which accounts for a third of GDP and 80% of export earnings. Fitch Ratings has affirmed the international debt ratings of Venezuelan banks in May 2005 and revised the outlook to "negative" from "stable". This rating follows the recent measures taken by local financial authorities to further control a number of bank activities and consequently restrict their financial flexibility. The rating agency maintains that government intervention remains one of the main risks for Venezuelan banks as it reduces flexibility during an economic downturn. Both inflation and unemployment remain fundamental problems.



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Gauteng: Telephone (011) 889-7000
Credit Guarantee House, 31 Dover Street, Randburg
P O Box 125, Randburg, 2125
Fax (011) 886-1027 or 886-5715

Business development consultants:

Anne Drynan Malcolm Kourie Nici Large
Linda Frederickson

Service consultants: Llewellyn Paulsen Nazel Veldtman

Business researcher: Renate Dedekind

Western Cape: Telephone (021) 421-7830
13th Floor, No 1 Thibault Square, 1 Long St, Cape Town
P O Box 6018, Roggebaai, 8012
Fax (021) 419-7586

Business development consultants:

Patricia du Preez Claire Marx

Service consultant: Danie van Niekerk

Business researcher: Marita Proctor

Eastern Cape: Telephone (041) 363-4024
First Floor, Mutual Place, cnr Cape Rd &
Langenhoven Drive, Greenacres, Port Elizabeth
P O Box 27154, Greenacres, 6057
Fax (041) 363-3750

Sales & service consultant: Ilse Strydom

Business researcher: Brenda Perry

Kwazulu/Natal: Telephone (031) 566-1738
The Annexe, 2 Frosterley Crescent, La Lucia Ridge,
Umhlanga Suite 58, Private Bag X01, Umhlanga Rocks, 4320
Fax (031) 566-1781

Senior sales & service consultant: Lorraine Abbott

Business researcher: Andrew Reed

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