

NORTH WEST PROVINCE'S BATTLE TO DIVERSIFY

*New customs and practice
for letters of credit*

MOVING BEYOND POLITICAL RISK IN DEVELOPING COUNTRIES

Australasia: ISLANDS OF UNREST IN THE PACIFIC

COVER FEATURE



PICTURENET AFRICA

A Papua New Guinea Fuzzy Wuzzy Angel war veteran shows off his headgear at the annual ANZAC Day parade through the streets of Sydney earlier this year. See p. 10.

New customs and practices for letters of credit – p 2

North West: Mineral-rich province battles to diversify – p 4

Moving beyond political risk in developing countries – p 7

Easy guide to paying less tax – p 9

Australasia's islands of unrest in the Pacific – p 10

Credit Guarantee's guide to Asia – p 14

World markets update – p 18

Which ethical theory should guide the decision-maker? – 21

New customs and practices for letters of credit

by Linda Holtes

On 1 July this year the new **Uniform Customs and Practices for Documentary Credits**, published by the International Chamber of Commerce (ICC) (publication No 600) came into effect.

The ICC was established in 1919 and the first Uniform Customs Practice was published in 1933, with the sixth revision being the UCP 600. It is the product of efforts to simplify the former UCP 500 rules and regulations for letters of credit and the never-ending attempt to keep abreast of latest technologies such as electronic data interchangeable documents.

This publication took three years to complete with input from more than 5 000 individual comments from 23 countries (including South Africa) which served as the advisory body, reacting to and proposing changes.

The stated goal of the current revision has been the same as previous ones, this being to take into account new developments in all aspects of international trade, including banking, transportation and insurance industries.

The other major issue for review was the wording of the UCP 600 to avoid conflicting interpretations and applications of rules. The ICC has worked closely with the International Standard Banking Practice (ISBP) thus resulting in a document that speaks more to banks than to international traders.

The latest revision has been labelled as "the most comprehensive in the entire history of the rules". However, this comprehensiveness did not lead to substantive changes and reading the UCP 600, one has to ask after three years of development: Do these changes really meet the needs of international traders and make letters of credit easier to implement globally?

The ICC has reduced the number of articles from 49 to 39. This change is mostly cosmetic however, since those substantive changes (if not hard to find) could directly lead to more confusion.

Definitions and interpretation

One of the most important changes of the UCP 600 is the introduction of articles pertaining to the definitions (Article 2) and interpretation (Article 3). These new articles summarise what in the UCP 500 consisted of various articles, allowing the reader to understand at a glance pertinent definitions and hopefully to be able to better interpret them.

The goal of the UCP 600 was to reduce redundancy, but it remains questionable, whether these summaries, in particular Article 3, are useful to the reader.

Article 2 of the UCP 600 introduces new definitions such as:

- **Banking day** means a day on which a bank is regularly open at the place at which an act subject to these rules is to be performed.
- **Complying presentation** means a presentation that is in accordance with the terms and conditions of the credit, the applicable provisions of these rules and international customs and practices.
- **Honour** means
 - to pay at sight if the credit is available by sight payment,
 - to incur a deferred payment undertaking and pay at maturity if the credit is available by deferred payment,
 - to accept a bill of exchange (draft) drawn by the beneficiary and pay at maturity if the credit is available by acceptance.

• **The nominated bank** means the bank with which the credit is available or any bank in the case of a credit available with any bank

The term **to negotiate** has been newly introduced (Article 2 UCP 600) and means "the purchase by the nominated bank of drafts ...by advancing or agreeing to advance funds to the beneficiary on or before the banking day on which reimbursement is due to the nominated bank".

Article 3 contains, in 12 separate paragraphs of completely differing content without any numbering or divisions starting with:



- the concept of irrevocability of letters of credit,
- the creation of original documents,
- time-related concepts like "on or about", "to", "until", "till", "from" and "between", and "beginning", "middle" and "end" of a month.

The above are to prevent inaccurate interpretations key issues relating to letters of credit, particularly those issues relating to time.

The most important practical change is the reduction of time to examine documents from formerly seven bank working days (UCP 13 b UCP 500) to five (Article 14b UCP 600). But it is not clear whether this will lead to a quicker examination of documents, as is the ICC's purpose, or rather that this will convince banks to use the entire time allotted for examination.

Other changes

The criterion of inconsistency of documents in Article 13, sentence 3 UCP 500, was changed to read: "Data in a document, when read in context with the credit, the document itself and the international standard banking practice, need not be identical to, but must not conflict with, data in that document, any other stipulated document or the credit" (article 14 d UCP 600).

This allows international traders to present documents with a description that is not in strict accordance with the letter of credit, provided that this description does not conflict with the definition of the said letter of credit. In my opinion this allows for interpretation by the bank as to whether the description is conflicting or not and could create problems for the trader.

The criterion that documents have to appear to comply "on their face" is only mentioned in Article 14a UCP 600. This leaves open that one does not have to

consult the underside of the document. The requirement that documents have to be examined whether they appear to comply "on their face" has not changed. Article 14a UCP 600 now adds, whether the documents appear to "constitute a complying presentation".

This addition should not be interpreted as a softening of the standard of documentary compliance.

Fewer words, but...

The UCP 600 can be summarised as:

Article 1 - 5 Definitions, interpretation, independence of credits and underlying contracts.

Article 6 - 10 Availability, expiry date and place, obligations of issuing and confirming bank, advising credits and amendments.

Article 11 - 17 Pre-advised credits, nominated bank, reimbursement arrangements, complying presentations and discrepant documents, waiver, original documents and notices.


Article 18 Commercial invoice.

Article 19 - 27 Transport documents.

Article 28 Insurance documents.

Article 29 - 37 Extension of expiry date, tolerances, partial drawings and partial shipments, disclaimers.

Article 38 - 39 Transferability of credits and assignment of proceeds.

My own understanding of the UCP 600 is certainly that of fewer words but this is not an immediate indication that this is a user-friendly document. Banks in South Africa need to ensure that their staff are fully trained in all aspects of the UCP 600 as many articles allow for interpretation by the bank. Traders are going to be relying on their bankers for advice and guidance with the interpretation of these new rules. 

AIPSA elects first non-practising chairman

Gideon Bochedi, senior manager: Risk Evaluation and Salvages at Credit Guarantee, has been elected chairman of the Northern Region Committee of The Association of Insolvency Practitioners of Southern Africa (AIPSA). In this capacity, he will also serve on the main council of AIPSA.

This is the first time that the association has elected a chairman who is not a practising member and who represents the interest of creditors.

"We can look forward to a particularly challenging time ahead with the promulgation of the new Companies Act which embodies business rescue legislation," commented Bochedi.

"While we fully support the noble intentions behind business rescue, we also recognise that it will have a major impact on creditor companies as well as the 'liquidation' industry," he said.

The Column

by Roger Munitich

GM: Marketing and R&D,
Credit Guarantee

The gods are smiling

...Well, not really if the order you have just received arrives out of the blue and is completely unsolicited.

A red flag should immediately be raised, especially if the fax / email originates from a 'remote' address like a Postnet outlet or a News Café for example.

Be scared; be very scared if you are asked to have the goods ready for collection and if the payment is COD.

Cheques have this frightening ability to bounce, especially if they are also fraudulently drawn.

Of course you don't want to look a gift horse in the mouth, but equally you don't want to look like the horse's rear end when your goods disappear along with payment.

This type of incident is not covered by any credit insurance policy, so exercise a great deal of care.

Another ruse, which everyone should by now be aware of, is the unexpected deposit being made into your business account and a fax arriving from SARS requesting an immediate refund into some obscure bank account. Alert your staff and wait until the deposit is cleared. Don't buckle under pressure – you are within your rights to withhold payment.



Mineral-rich

Kgosi Leruo Molotlegi, king of the Bafokeng tribe, visits a platinum mine near Phokeng, the Bafokeng capital. The Bafokeng, a small tribe in North West Province, are receiving royalties from the large-scale platinum mining in the area and have accumulated considerable wealth.

Profile

Apart from its vast mineral resources, **location** is one of North West Province's greatest natural advantages. It is bordered by Botswana and four of South Africa's provinces; Limpopo, Gauteng, Free State and Northern Cape. The main Cape Town to Zimbabwe railway line passes through Mafikeng via Botswana, with a feeder line to Angola. In terms of roads, the vital east-west corridor linking Maputo on the eastern African seaboard and Walvis Bay on the western African seaboard runs through the North West Province.

The province's positioning will be further augmented by the planned Trans-Kalahari corridor through Botswana and Namibia, truly justifying its claim as South Africa's gateway into Africa. The proposed route will ensure synergistic growth, increased investment and employment opportunities.

Mining metropolis

The province is predominantly rural, with

its economic centres self-contained and strategically located. The most important industry in North West is mining, which contributes about 42% to the province's GDP. The province accounts for 31% of South Africa's mineral earnings and 39% of total employment in the country's mining sector.

With about 87 large-scale active mines, the province has more mining activity than most countries in the world. It holds 64% of South Africa's platinum, 32% of its chromite and 25% of its gold. South African mines are the world's primary producers of the platinum group metals (PGM): platinum, palladium, rhodium, ruthenium, iridium and osmium.

Although overshadowed by the mining sector, agriculture in North West is critical to both the regional and national economy. The province accounts for over a third of total SA maize production and a considerable share of livestock production in the country; 13% of the cattle, 3% of pigs and over 11% of goats. Milk production

Regional report researched
and compiled by
Sindiso Valerie Mpofu

North West, our 'gateway to Africa'

exceeds 11% of total SA production.

Manufacturing is to a large extent dominated by mining-related industries. The finance and real estate sectors are booming and this growth is shouldered by the recent boom in the province's property market, especially in the Rustenburg area. The increased demand for both residential and commercial property has presented the construction industry in the province with considerable opportunities for continued and expanded growth.

Recent developments

The impact of platinum mining on the South African economy is growing, both in terms of export earnings and as a significant employer of

State provinces (Mpumalanga had a good rainy season but produces mainly yellow maize). In an effort to help emerging black farmers to survive the current drought spell, the North West Agriculture Department is to provide farmers with fertilizers and other farming essentials. The department will also revive communal dams in an effort to ensure that local farmers have enough water for future use.

The province has been able to increase its market share of foreign visitors to the country from 9% to 12% in 2005 and has about a 6% share of the domestic tourist market, despite limited resources and a fierce competitive market environment. Efforts to market North West as a destination in

existing infrastructure. An industrial development park adjacent to the airport will open numerous economically sustainable opportunities into Africa and further into the rest of the world.

Investment opportunities

An independent investment organisation 'Invest North West' is coming up with new strategies to increase foreign direct investment into the province. Its main goals include promoting the image of the province as a preferred destination for business and investment.

Tourism has been earmarked by government as one of the province's key strategies to achieve growth and development. South Africa is the fourth

province battles to diversify

labour. Platinum Australia and African Rainbow Minerals (ARM) received a new-order prospecting right for an extended area near the Kalahari Platinum (Kaplats) project in North West.

The project covers an area 20 km to the north and 18km to the south of the existing Kaplats area, making it one of the largest PGM projects in South Africa in potential strike length. The company expects Kaplats to be developed initially as a major open-pit mine producing between 160 000 and 200 000 ounces of PGM a year, with a life span of more than 10 years.

In April this year, Wesizwe Platinum revealed that it might build a platinum mine near Sun City at a cost between R3,5–R3,8bn, after completing the feasibility study. The results are expected to be released in the first quarter of next year.

Maize crop hit by drought

Grain South Africa expected this season's maize crop to deteriorate further after the drought caused damage throughout the maize-growing region, especially in the North West and Free

the international media included advertising in the **Chinese Observer**, **New York Times** and **Fortune** magazine.

Towards 2010

The effective execution of the Vodacom Soccer Challenge as a catalyst event to revive the economy of Mafikeng for the past four years in succession will help to market the province's tourism products en route to 2010. Rustenburg will be one of the host cities for the 2010 games as the Royal Bafokeng Stadium has been selected as one of the venues. The Royal Bafokeng Stadium is one of five South African football stadiums that will undergo major renovations for 2010 to meet FIFA standards and the capacity of the stadium will be increased to 40 000.

The successful hosting of the 2006 Women's World Cup of Golf at Sun City led to an agreement with the event organisers to host the event up until 2010. The redeployment of the Mafikeng International Airport (MIA) as an international port of entry and a hub for non-scheduled international air cargo services will extend the capital's

most visited African destination and is regarded as one of the most promising. North West is ideally suited, being close to recognised tourist destinations such as game reserves. Klerksdorp in particular has a high rate of business tourism.

With platinum set to take over from diamonds and gold as the jewellery resource of choice, North West is developing a platinum beneficiation park to teach students how to produce platinum jewellery. The park will eventually be used by small and medium mining enterprises as a training facility and a visitor's centre.

Diamond exchange

The R56m Mafikeng minerals cluster project at Mafikeng Airport, which was driven by the private sector, will act as a Southern African Development Community regional diamond exchange and has the potential to create more than 13 000 jobs.

In 2005, the auto industry consumed 46% of the world's platinum supply, mainly used for the production of catalytic converters. China's auto indus-

To next page

AT A GLANCE

Capital: Mafikeng

Main cities/towns: Rustenburg, Brits, Mafikeng, Potchefstroom, Klerksdorp, Vryburg

Population: 3,7 million

Key sectors: Mining and minerals beneficiation, manufacturing, agriculture and agro-processing (maize, wheat, tobacco, cotton, citrus, sunflowers, groundnuts, horticultural products, fresh vegetables, cattle, poultry), tourism.

Investments hotspots: Platinum Spatial Development Initiative (SDI), Treasure Route SDI, Western Frontier SDI, Mafikeng Industrial Development Zone.

try is the fastest growing worldwide and it is estimated that by 2011, China will produce 8 million vehicles or twice as many as current production. From 2000 to 2005, the import share of platinum from South Africa into China increased by an average of 42,8% per annum.

Vehicle production is the second biggest industry in South Africa's manufacturing sector and one of the fastest growing. Component export statistics

show that catalytic converters are at the top of the list, followed by stitched leather seats. Vehicle exports have grown ninefold since 1994 and now account for nearly 7% of the country's exports. The Motor Industry Development Plan (MIDP) which was introduced in 1995 has also boosted exports. With platinum prices set to reach record highs, the province can only but grow.

Recent challenges

A major challenge for the provincial economy has been the extent of its dependence on the performance of a few economic sectors.

This has emphasised the urgency with which diversification of its economy must be addressed, away from primary activities and towards secondary and tertiary sectors.

The Chamber of Mines has said the second draft of the Mineral and Petroleum Resources Royalty Bill, which proposes charging royalties on mineral revenue rather than profit, would damage growth, investment and empowerment in the sector.


An R850m project intended to produce more than 40 000 tons of biodiesel a year and create more than 10 000 jobs in North West has been put on hold. In the six months to March this year 47 workers who were employed to start a nursery

of 400 000 trees, including the renowned *Jatropha curcas* oil seed tree, have been laid off as funding has run out, while the North West government and the company employed to manage the project have been haggling over ownership and share-holdings. Most of the 400 000 trees worth R2m planted to kick-start the project are dying.

Biodiesel

The domestic demand for biodiesel at a 5% blend with fossil diesel has been confirmed to be about 1,3bn litres a year. The 5% blend of biodiesel with fossil diesel is the minimum recommended for South Africa to reach the targets as set in the Kyoto protocol, to which South Africa is a participant.

The agricultural sector in North West has continued a steady decline from a high in 2002 due to declining producer prices and the strong rand in recent years. Climatic conditions have also been unfavourable and recent droughts have ravaged both crop and livestock producers.

Land reform projects involving groups of beneficiaries were so much trouble that the North West Department of Agriculture was steadily moving away from them and would concentrate in future on servicing individual farmers. A large proportion of the land is turned into housing and group dynamics come in. 

Maize harvesting in progress on a farm near Schweizer-Reneke in North West province. The agricultural sector in North West has continued a steady decline due to low product prices, the strong rand and droughts, but the prospect of biodiesel production from maize has brought new hope to farmers.



Moving beyond political risk in developing countries



The first part of this article concluded that the issue of "structural vulnerability" has (and will always have) adverse implications for investment patterns. These risks hold large potential for retarding or delaying investment in ways that penalise not only host country but global welfare, living standards and prospects for economic growth.

This final part looks at what can be done to allow promising private infrastructure projects to move forward despite on-going vulnerability to political risks, and what mechanisms are available to mitigate the burden of political risks.

Compiled by Dr Willa le Roux

Manager: Credit policy and risk analysis, Export Credit Insurance Corporation of SA

Managing political risks

Research on the topic "how to manage political risks" provides a cautionary tale for the utility investor, the financial institution as well as the insurer. While private infrastructure projects stretch across a wide variety of activities, they are likely to involve large fixed investments, relatively stable technologies and goods and services without a large degree of brand identification, especially in the power, water, and transportation sectors. Private infrastructure investors find themselves in the contemporary period without many of the tools that other kinds of investors have been able to use to mitigate the possibility of an adverse political event.

Managing today's political risks requires that the investor, financial institution and the insurer take a systematic and comprehensive approach to risk identification and risk assessment – a brief assessment may overlook some types of risk (seeing a national guarantee against expropriation, for instance, while overlooking the potential for creeping expropriation through punitive regulatory measures).

A few basic techniques to mitigate political risk in private infrastructure investment include:

- **Contractual undertakings with government**

Although contracts cannot prevent a government from exercising its sovereign rights to change laws and policies, investors can establish a right to compensation if the government does make such changes to the detriment of the successful completion of the project.

Enforcement may be assisted by an agreement to refer disputes to international arbitration. Governments may also waive sovereign immunity to the enforcement of such awards in national courts.

- **Involving local private interests**

Local joint venture partners can help screen the local political scene and exercise more influence over government policy-making. More importantly, governments are less likely to act to the detriment of domestic enterprises and thereby damaging local interests. Joint venturing with the government is less desirable. Historical analysis suggests that public/private joint ventures are more, not less, likely to be subject to expropriation and that such joint ventures may perform less efficiently than even wholly government-owned enterprises. Also, the government's roles as owner, operator and regulator are easily blurred.

- **Community relations**

Common measures include educating the public on the benefits of foreign investment and the role of the private sector in providing previously public services. Schemes to promote social welfare (schools, roads, hospitals etc) and rural development are of extreme importance for the successful delivery of an infrastructural project.

- **The use of insurance, guarantees and other risk reallocating products offered by third parties**

In addition to the risk mitigation techniques described above, many companies have turned to political risk insurance cover as an effective means of managing their political risk exposures. Political risk insurance encompasses a very broad family of related insurance products designed to insure against government acts (or failures to act).

Policies are often written to address specific concerns of investors or lenders. Political risk insurance is available from both private sector companies and government agencies such as the ECIC. Furthermore, multilateral institutions such as Miga of the IFC are often willing to take part in infrastructural projects, enhancing the bargaining power of investors with host governments.

In addition to the above, the existence of independent regulatory agencies and international treaties in those countries where the would-be investor or lender wants to invest, are two major bonuses:

- **Independent regulatory agencies**

Why is the existence of independent regulatory bodies in infrastructure industries so important? In sectors characterised by a mix of competitive and natural monopoly activities, such as many utility sectors of late, independent regulators are meant to **shield market interventions from political and commercial interference**. In addition, independent regulatory bodies serve as an alternative to a mix of policy, regulation, ownership and industry promotion tasks inside line ministries, and as a result, processes are more streamlined and regulators are more approachable. The existence of independent regulators often limit opportunistic behaviour on the part of local authorities.

- **The use of international treaties**

There are two principal ways in which international legal agreements, including bilateral, regional and multilateral treaties, can enhance the flow of private investment into infrastructure projects: Firstly, by providing substantive protections against political and

regulatory risks; and secondly, by facilitating dispute settlement between investors and host authorities.

The great majority of the more than 1 200 bilateral investment treaties that are in place around the globe have been negotiated in the last ten years. Most of them contain provisions on expropriation, on currency convertibility and transferability as well as general assurances against discriminatory treatment. A number of regional trade agreements, such as the North American Free Trade Agreement (Nafta) and the two Protocols to Mercosur, also include provisions on investment protection.

It is not difficult to make the case that there has been a dramatic change in the climate for infrastructure investment over the past decade. Led perhaps by countries in Latin America such as Chile and Argentina, a broad array of states have been transforming the conditions in which private infrastructure investment can be undertaken.

Does this mean that the riskiness of the environment for infrastructure investment in these countries has been transformed as well? Or otherwise stated: To what extent are these political risks likely to continue having a negative effect on investment in infrastructure projects, not just in isolated cases, but systematically across countries and types of political regimes?

What the future holds

How the political risk environment will change and how it will impact on private investment in infrastructure projects in the future is difficult to establish as world events remain unpredictable. In the opinion of many, "would-be" investors, financiers and insurers focusing sharply on the potential rise of extremists, are likely to miss the real signs of danger. Today's political risks rarely arise from direct host government action intended to drive investors from the country.

There are important trends in the present day that suggest ongoing sources of political threat to the future of private investment in infrastructure projects. These include:

- **Decline of authoritarian states** gives more leeway to ethnic tensions and separatist movements, leading to armed upheaval and destruction as well as attempts to hold private infrastructure plants and employees hostage (sometimes literally) for extortion, etc.
- **Decentralisation of power.** Centralised command economies have gone out of style and democracy is spreading. As a result, provinces, states and other local authorities are gaining in political power relative to central governments. This generally positive trend has some unfortunate side effects. In many instances, investors reported that local governments have overturned or failed to enforce agreements that had been carefully negotiated with central authorities.
- **Decentralisation** and the decline of authoritarian states enlarged the opportunity and enhance motivation for "opportunistic behaviour" on the part of host country political authorities. Narrow-minded politicians could continue to feel the pressure and see the temptation to constrain the operations of private infrastructure investors who cannot easily defend themselves in the short run.
- **Dysfunctional legal systems.** Globalisation is putting increasing strain on national systems of contract and property rights laws. Legal systems tend to exhibit corruption, political influence, and anti-foreign bias. Problems in this area have been widely reported.
- **Issue-based protectionism.** There is an increasing concern for the protection of human rights, labour standards and the environment. Once again, this positive trend can have detrimental side effects, as local special-interest groups use issues to bludgeon foreign investors.
- **Democratic transitions.** The spread of democratisation enhances the salience of popular opinion and populist reactions. Democratic governments change more often than dictatorships. Democratisation

tends to decrease the risk of military coups and violent revolutions, yet frequent leadership changes increase the likelihood that agreements with governments will be renegotiated or terminated. The Global Competitiveness Report, published by the World Economic Forum, often singles out governments who are among the worst offenders in failing to honour the commitments of their predecessors.

- **Terrorism.** The use of suicide attacks has drastically increased the threat of terrorism, resulting in severe loss of life and damage to property, airports, business centres, etc.
- **Stronger local firms.** Multinationals are facing increasing competition from domestic businesses in developing countries. In many instances this competition includes the unfair use of political influence (most often in courtrooms or local legislatures) against the foreign investor.
- **Civil and ethnic war.** Despite the end of the Cold War, political violence (especially involving ethnic conflict) continues to disrupt businesses.
- **Macroeconomic crises.** Emerging markets remain exposed to crises as globalisation continues to open stock, bond and currency markets to countries without the policy competence, legal transparency and political stability to handle the resulting pressures.


As is evident from the long list of possible reasons for the prevailing high political risks around the globe, 2007 and beyond will probably not be the safest period in which investors, financial institutions and insurers would like to conduct business. Many challenges remain, the biggest of which is without doubt to find some mechanism that helps ensure the "credibility of commitments". Lack of credibility in honouring commitments is so costly that strategic negotiators in all kinds of arenas will search for ways to demonstrate that they have bound their own hands and the hands of their successors to enforce their promises. In the absence of such credibility, the outcomes of negotiations fall short of what is best for both parties and short of what is socially optimal for global welfare.

Moving beyond political risk

Today's political risks are not the classic risks associated with communist takeovers or post-colonial outbursts of anti-foreign sentiment. They are more subtle, arising from legal and regulatory changes, government transitions, type and size of investment, environmental and human rights issues, currency crises and terrorism.

Nonetheless, all is not lost. Today there is more widespread appreciation of the advantages developing countries can enjoy from modernly equipped and competently managed infrastructure industries. The demonstration effect of host country benefits from private infrastructure investor activity might serve, over time, to overcome pure "opportunism" on the part of host authorities.

There is a strong realisation that regulatory reform, constitutional and legislative measures to ensure the protection of private property and the enforcement of contracts, the strengthening of an independent and effective judiciary and the creation of autonomous regulatory agencies are central to establishing an environment in which private infrastructure companies can invest and thrive.

It might be plausible to conclude that the susceptibility of private infrastructure projects to political risk might indeed be at a stage where developing countries and economies-in-transition might pass through and move beyond. 

** The information presented in this report is an interpretation of various World Bank research documents, the Wharton Institute, Economic Research Institution (ECON) and CRG (Control Risk Group).*

EASY GUIDE TO PAYING LESS TAX

- Are you paying the minimum amount of tax required by law?
- Is your company exposed to any tax risks?
- Do you understand what administrative rights you may exercise when dealing with SARS?

The answers to these and many other tax questions are contained in the latest edition of Deloitte's **Pay Less Tax** (19th edition).

Tax experts at Deloitte, Mark Silver and Anthea Scholtz, in association with LexisNexis Butterworths, have produced an authoritative and practical guide for taxpayers, which is fully up-to-date with all the tax changes applicable to the 2006/2007 tax year.

Deloitte's **Pay Less Tax** is essential reading for all employees, tax managers, payroll administrators, human resource managers, financial managers and small-business owners.

In simple terms, the book

- explains the complex South African tax laws;
- assists corporate taxpayers to identify potential tax risks or tax pitfalls in their companies;
- provides assistance to individuals on how to complete their personal income tax returns;
- considers tax issues specific to employees, business owners, retirees, investors, transfers of capital, foreign income and trusts; and
- provides strategies that can be applied to save tax.

It covers the following important tax changes which were implemented during the 2006-2007 tax year:

- the relaxation of the tax legislation governing the taxation of so-called independent contractors and personal service companies;
- special tax deductions available to small businesses;

- the small business tax amnesty provisions;
- the deductions which employees may claim against their employment income and other income;
- the new anti-avoidance legislation which became effective on 2 November 2006; and
- SARS's new advance tax ruling system which was introduced with effect from 1 October 2006 and which enables taxpayers to obtain binding tax rulings from SARS.

Says Scholtz: "This book will provide taxpayers with a broad, practical knowledge of the South African income tax system. It can be used as a quick reference guide by anyone who has ever struggled to understand their own or their company's tax obligations. We use practical examples throughout **Pay Less Tax** to clarify the tax laws. It is therefore a useful tool for those seeking a better understanding of the complicated subject of tax."



We'll help you find the right candidate for that international trade and logistics job

The Chamber of Commerce and Industry – Johannesburg, a leader in the promotion and facilitation of international trade, and Platinum Mile Consultants have established a division specialising in the recruitment of candidates for positions in the field of international trade and logistics.



This new Chamber division deals exclusively in the permanent placement of international trade personnel in the Gauteng area. Together, the management team has more than 28 years of experience in all aspects of international trade and the recruiting field.

With our extensive hands-on experience in these fields and our wide network of contacts in the industry, the Chamber is perfectly positioned to assist companies in finding the right candidates for the job — or finding the perfect job for any candidate.



Contact LINDA HOLTES – telephone: +2711 726 5300, email: export@ods.co.za

Australasia's ISLANDS OF UNREST in the Pacific

Growth for some, huge challenges for others

Researched and
compiled by
LILY MAHARAJ
Economic Services,
Credit Guarantee.

THE DEVELOPMENT performance of the Pacific Development Member Countries (PDMCs) over the past decade has been mixed. A measurable decline in key economic and social indicators has occurred in some countries. In most PDMCs outcomes have been less than hoped for by government.

There are significant differences among the economic circumstances and performance of the PDMCs but the most common scenario is one of disappointing economic growth since the macroeconomic and fiscal reforms implemented in the mid-to-late 1990s. The fortunes of the PDMCs are closely tied to external events and conditions. All the countries are highly open to trade, rely heavily on imports and depend on international tourism.

The smaller Pacific island economies recorded divergent economic performances in 2006. A boost in tourism and remittances served most islands well, while others endured a decline in aid or farm output. GDP growth increased in about half the economies, with rates in excess of 5% in Solomon Islands and Vanuatu and Palau. Higher imported fuel prices impacted on inflation rates. The Asian Development Bank (ADB) member countries are forecast to grow by 4,5% in 2007 due to acceleration in growth in Papua New Guinea and recovery in East Timor. The Pacific countries grew on average by 3,1% in 2006 from 2,5% in 2005.

Civil unrest in the Pacific region in 2006 will cast long shadows on

regional growth for the coming year, according to the ADB. The cause of the unrest includes high levels of youth unemployment, which has yet to be addressed. The Bank says that the key to raising economic growth and generating employment in the region is structural reforms, sustainable fiscal policies and prudent monetary policy.

The challenges facing the Pacific are significant for the region as a whole and for the weaker performing countries. For example, it will take Solomon Islands a long time to rebuild its weakened institutions, while Nauru faces a difficult future with few remaining assets or resources. There are also favourable opportunities like the reform progress in Samoa, strong private sector performance in Cook and Fiji Islands and advances in agriculture in Papua New Guinea.

Australia

Head of government: Prime minister John Winston Howard – for Queen Elizabeth II.

Government type: Federal parliamentary democracy.

Population: 20 million.

Australia has an enviable Western-style capitalist economy that boasts GDP per capita on par with the four dominant western European economies. Aboriginal settlers arrived on the continent from Southeast Asia about 40 000 years before the first Europeans began exploration in the 17th century. The country took advantage of its natural resources to rapidly develop agricultural and man-

ufacturing industries and to make a major contribution to the British effort in World Wars I and II.

The Aborigine community was not counted as part of the population, but instead existed only under the country's fauna and flora laws. A 1967 vote extended Australian citizenship to Aborigines. Australia's 460 000 Aborigines make up 2% of the population and are consistently the nation's most disadvantaged group.

Australia has been riding the global boom in commodities, benefiting increasingly from its proximity to Asia, but its series of structural reforms and the introduction of a robust macroeconomic framework which have bolstered resilience, has also boosted the economy.

Its top ten export destinations in order are Japan, China, US, South Korea, United Kingdom, New Zealand, India, Singapore, Taiwan and Thailand. These partners consumed over 70% of its total exports in 2005-06 which are predominantly coal, iron ore, gold, aluminium, meat, wheat, oil and gas. GDP growth was 2,8% in 2006 and the IMF forecasts economic growth of 2,6% in 2007 and 3,3% in 2008. From its total annual aid budget, Australia sets aside a third each year for the Pacific countries.

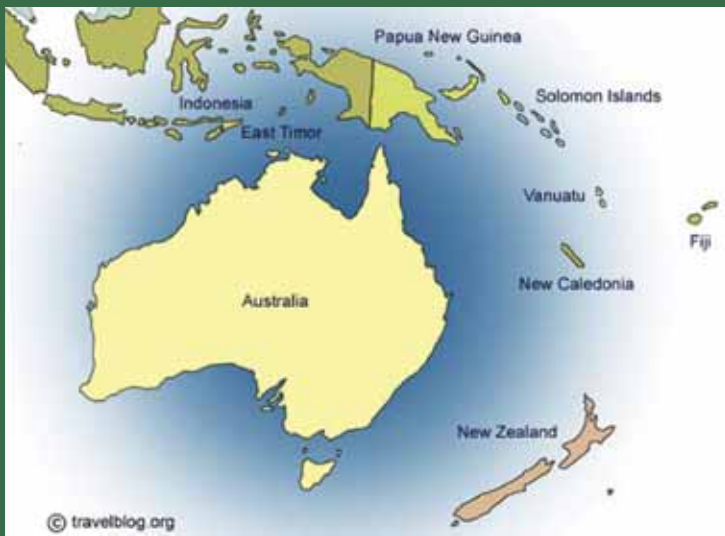
Fiji

Head of government: President Ratu Josefa Iloilovatu Uluivuda.

Government type: Republic.

Population: 1 million.

After being re-elected in May 2006, prime minister Laisenia Qarase was ousted in a December 2006 military



AUSTRALASIA is a geographical region consisting mostly of Australia, New Zealand, Papua New Guinea, as well as the thousands of coral atolls and volcanic islands of the South Pacific Ocean, including Melanesia and Polynesia groups. Geopolitically, however, Australasia is a term often used to describe Australia and New Zealand only. The Pacific Islands Forum is an intergovernmental organisation formed in 1971. Its members include Australia, Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, the Marshal Islands, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Samoa, the Solomon Islands, Tonga, Tuvalu and Vanuatu. It aims to enhance cooperation between the countries and economic and social well-being of the people of the region.

coup led by Commodore Voreqe Bainimarama who initially appointed himself acting president. In January 2007, Bainimarama was appointed interim prime minister.

The island achieved economic growth of 3,4% in 2006 on the back of a pick-up in sugar production, expansion in construction and growth in services stimulated by consumer demand, but the economy continues to face difficult structural challenges. The political situation of late 2006 is expected to impact on economic growth this year and the ADB expects negative GDP growth as a result.

Visitor arrivals on the islands amounted to 545 000 in 2006 – 0,9% lower than the previous year. Copra output, one of its key agricultural products, fell by 10% from the previous year. About 3 000 jobs were lost as a result of poor tourist visits coupled with the closure of the Emperor Gold Mining (EGM) company last December. As such, the economy is expected to contract this year.

Government has identified expenditure cuts accordingly to maintain

the target deficit at 2% of GDP. The Asian Development Bank is helping government to foster private sector-led growth, provide affordable basic social services and establish effective development institutions. The interim government is determined to move the nation to a path of economic growth, by recognising that investments and exports are not the only pillars of the country but critical to its long-term economic prosperity. Foreign direct investments (FDI) currently make up 15% of the country's GDP and the interim government's target is to increase that to 20%.

The erosion of preferential arrangements in key export markets has exerted extreme pressure on total exports, which has been on a downhill trend for the past five years. Key commodities affected are sugar and garments which once generated significant FDI. The exports of new products have been particularly slow and government is committed to increasing investments in non-preferential products. Government is working with Fiji's Coconut Industry Development Authority to revitalise the industry. In the 1960's copra

production was over 40 000 mt per year and is less than 20 000 mt per year now.

New Zealand

Head of government: Prime minister Helen Clark - for Queen Elizabeth II.

Government type: Parliamentary democracy.

Population: 4 million.

New Zealand has undertaken a wide range of reforms over the past 20 years and now has one of the most flexible and resilient industrialised free-market economies in the OECD, but its low household savings, high inflation and large external deficit indicate an unbalanced growth pattern.

Despite strong economic growth since the early 1990s and policy settings in product and labour markets to enhance efficiency, total economy labour productivity growth has been lackluster. Many factors affected productivity, but the persistent gap in living standards with the rest of the OECD is still not well understood.

Key challenges for New Zealand include maximising improvements in living standards and to absorb pressures for increasing health and superannuation spending as the population ages. GDP growth was 1,9% last year and the IMF forecasts 2,5% in 2007 and 2,6% in 2008.

Papua New Guinea

Head of government: Prime minister Sir Michael Somare – for Queen Elizabeth II.

Government type: Constitutional parliamentary democracy.

Population: 6 million.

Papua New Guinea is richly endowed with natural resources but its exploitation has been hampered by rugged terrain and the high cost of developing infrastructure. According to the ADB, PNG grew 3,7% in 2006 aided by strong commodity prices and favourable supply responses from agriculture and mineral sectors together with sound fiscal and monetary policies. The economy has the potential to expand faster but it needs to address law and order issues, strengthen infrastructure and ensure proper delivery of public services.

The Development Cooperation

Strategy will support PNG to reduce poverty and promote sustainable development through support for government's efforts to implement its medium-term development strategy with focus on improved governance and nation building, sustainable broad-based economic growth and increased productivity, improved service delivery and stability, and a strengthened coordinated and effective response to the HIV/Aids epidemic. The new strategy will reflect a genuine partnership between PNG and Australia.

PNG has the highest incidence of HIV in the Pacific region with 2% of the population (about 64 000) now HIV positive. An Aus-AID-commissioned report concluded that unless interventions to address the spread and impact of HIV/Aids in PNG are scaled up by 2025, over 500 000 people will be living with HIV/Aids, 117 500 children will have lost their mothers to Aids, the workforce will have declined by 12,5%, GDP will be 1,3% less than predicted and 70% of all hospital beds will be needed for Aids patients. Australia will provide \$100m in a five-year programme started in January 2007 and will

The key to raising economic growth and generating employment in the region is structural reforms, sustainable fiscal policies and prudent monetary policy.

focus on preventing the spread of the disease, providing treatment care and support for those infected.

Samoa

Head of government: Prime minister Sailele Malielegaoi Tuila'epa

Government type: Mix of parliamentary democracy and constitutional monarchy

Population: 214 000

The economy of Samoa has traditionally been dependent on development aid, family remittances from overseas, agriculture and fishing. The country grew at an estimated rate of 4,6% last year. Among its stronger performing sectors were the construction, commerce, public administration and finance and business services sectors. Inflation accelerated through the second half of 2006 to

average 3,8% for the year.

The island's trade deficit worsened due to the high imported oil costs coupled with lower export earnings from fish, coconut cream, taro and nonu fruit. GDP growth is expected to slow to 3,1% this year as agricultural expansion moderates and construction growth eases after the completion of facilities for the South Pacific Games in August-September 2007. Tourism is expected to boost hotels, restaurants, and transport and communication areas.

The island needs to strengthen itself against economic shocks, reduction in aid flows and remittances by developing a business environment and boosting growth in exports. The infrastructure development for the fishing industry is expected to encourage a turnaround of the decline in commercial fishing of recent years.

According to the ADB, Samoa's economic growth was underpinned by expansion in construction, services and public administration. Its growth was expected to be between 4,6% and 5,7% in 2006. Government has called for deregulation of the financial sector, encouragement of investment, and continued fiscal discipline, while protecting the environment. The flexibility of its labour market is a basic strength for future economic advances.

Solomon Islands

Head of Government: Prime minister Manasseh Sogavare – for Queen Elizabeth II.

Government type: Parliamentary democracy.

Population: 557 000.

Solomon Islands is one of the least developed Pacific island countries. It lacks adequate social infrastructure and services and does not have sufficient income-generating opportunities for a fast growing population – 50% of whom are below 25 years of age and about 85% live in rural areas. Unemployment is rising, malaria shows high incidence and HIV/Aids has become a worrying issue. Riots broke out in the capital Honiara in April 2006 after the new prime minister was named which resulted in serious damage to property.

The economy grew by an estimated 5,3% in 2006 with log production

growing at a high rate, expanding fish production and palm oil contributing to the GDP for the first time since 1999. There was new investment in the Gold Ridge mine and the services sector also showed signs of growth. The pegging of the Solomon Islands dollar to a weakening US dollar led to the domestic currency's depreciation against its main trading partner currencies last year.

A new foreign investment act was approved last year which included reforms of business laws and is expected to make it easier to conduct business. The locals will be encouraged to engage in business through the provision of training and establishment of credit guarantees operated by the central bank.

GDP growth is expected at 5% in 2007 and 4% in 2008 with the expected slowing in logging. Aid and foreign direct investment inflows will ensure foreign reserve levels provide about five months of import cover. The Asian Development Bank is focusing on improving the country's transportation infrastructure and services and the business environment.

Tonga

Head of government: Prime minister Dr Feleti Sevele – for King George Tupou V.

Government type: Constitutional monarchy.

Population: 116 000.

Tonga is a constitutional monarchy, unique in the Pacific. With the death of King Taufa'ahau Tupou IV last year, his eldest son was proclaimed king on 11 September 2006 and will reign as King George Tupou V.

Riots last November destroyed most of the central business district and resulted in a number of deaths. It damaged infrastructure and many businesses that were uninsured against civil unrest. Reconstruction costs will probably exceed \$50m and reestablishing businesses and confidence in the sector will be a medium-term exercise. Government was under fiscal pressure before the rioting from a 2005 agreement to increase salaries of civil servants by 60%-80% and from payout package resulting from a consequent 18,5% cut in civil service in mid-2006. Australia and New Zealand helped restore law and order.



Tonga has a small open economy with a narrow export base which relies heavily on private remittances from communities living abroad. Recent growth figures show a marked decline from 1999-2000 when GDP was 6,5%. Agriculture is the leading productive sector with squash pumpkin exports to Japan in recent years forming the main agricultural activity. Efforts to diversify from the current dependence on Japan have resulted in South Korea as a new market. Vanilla and kava and fisheries are chief export earners. Japan and the US receive 60% of Tonga's exports.

All the land belongs to the monarch and is administered by the minister of lands as the king's representative. Australia has strong economic and social ties with Tonga. Australia's merchandise trade with Tonga totaled \$14,14m in 2005-2006. Imports from Tonga totaled \$640 000. Australia is also Tonga's most important provider of development aid which is expected to total \$13,4m in 2006-07. Economic growth slowed to 1,9% in 2006 from 2,3% in 2005.

Vanuatu

Head of government: President Kalkot Matas Kelekele.

Government type: Parliamentary republic.


Population: 211 000.

Vanuatu gained its independence from the British and French in 1980. The economy is based primarily on small-scale agriculture which provides a livelihood for 65% of the population. Fishing, offshore financial services and tourism are other mainstays. Even with a respectable level of growth (by Pacific standards), the island is struggling to move ahead as its annual population growth is one of the highest in the sub region. GDP per capita is lower now than twenty years ago.

Unlike many other Pacific nations, Vanuatu does not have easy access to migration and/or overseas work opportunities to reduce its population pressure. Stronger economic growth is needed to create employment and ensure access to basic social services. Its economy grew by an estimated 5,5% in 2006 – a fourth straight year of growth,

but lower than the two previous years. Growth slowed in the services sector, while it accelerated in tourism-driven transport, hotels, and restaurants, and small industry sector. Agriculture lifted production from the 2005 contraction.

The private sector needs to be free of political instability and weak governance in order to be developed. Development of rural infrastructure will be supported through a "millennium challenge compact" of \$66m, expected to be spent between 2007 and 2011. The compact will include funding for eleven transportation infrastructure activities designed to benefit poor rural agricultural producers and providers of tourism-related goods and services. Government forecasts growth of 4,6%–4,7% in 2007 and 2008.

The Asian Development Bank's strategy for Vanuatu is to address the need for sustainable, private sector-led economic growth. It supports the development of an environment for private sector development by focusing on strengthening the policy, institutional and regulatory reform of the commercial framework and increasing access to finances. 

A hot-air balloon sails in the clear sky near Christchurch, New Zealand. This country's image of a safe haven from the world's troubles has turned this remote South Pacific nation of 4 million into a must-see location for millions of visitors each year.

Credit Guarantee's guide to ASIA

June 2007

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 conditions. 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/ 2005 Pop. growth rate	COMMENT	SHORT-TERM COVER
Bangladesh Parliamentary democracy Population: 151m. Pop. growth: 2,1%	West Pakistan separated from British India in 1947 to become Pakistan while East Bengal became East Pakistan. Unhappy with this arrangement, East Pakistan seceded from its union with West Pakistan and in 1971 became Bangladesh. The president is elected by national parliament for five-year terms. Bangladesh battles against poverty, is overpopulated and is governed inefficiently. The services sector generates over half the GDP, but the majority of the population is involved in agriculture, focusing primarily on rice – its single most important product. Political infighting and widespread corruption impedes reform efforts. Economic growth has been steady for the past several years, averaging 5%-6%. GDP was estimated at \$69bn and growth at 6,1% in 2006.	CBC
Bhutan Absolute monarchy Population: 2,3m. Pop. growth: 2,1%	The 1865 treaty of Sinchulu governed that Bhutan receive an annual subsidy in exchange for ceding some of its border to British India. Bhutan allowed Britain to direct its foreign affairs. The role was assumed by independent India after 1947. King Jigme Singye Wangchuck introduced reforms in the March 2007 government draft constitution. A referendum date for the draft's approval is expected in 2008. In December 2006, the king abdicated his throne to his son Jigme Khesar Namgyel Wangchuck to give him experience as head of state before the democratic transition. Bhutan has one of the world's smallest economies that is based on agriculture and forestry. Bhutan has strong trade and monetary links with India and is dependent upon its financial assistance. Bhutan's hydropower potential and its attraction for tourists are key resources. Each economic programme considers government's desire to protect the country's environment and cultural traditions. GDP was estimated at \$840,5m and GDP growth at 8,8% in 2005.	No demand
Brunei Constitutional sultanate Population: 375 000 Pop. growth: 1,8%	Brunei gained independence from Britain in 1984 and has been ruled by the same family for the past six centuries. Sultan and prime minister Sir Hassanal Bolkiah has been in power since 1967. Brunei is comprised of extensive petroleum and natural gas fields, the source of one of the highest per capita GDPs of \$25 600 in Asia. Crude oil and natural gas production account for over 50% of GDP and over 90% of exports. Brunei is a rich economy that has foreign and local entrepreneurship and village tradition. Government provides for all medical services and free education up to university level and subsidises rice and housing. The banking and tourist sectors will be the focus of future growth while limiting unemployment. GDP was estimated at \$9,531bn and GDP growth at 0,4% in 2005.	Y
Cambodia Democracy under constitutional monarchy Population: 14m. Pop. growth: 1,7%	Cambodia was part of French Indochina before gaining independence in 1953. In April 1975, Communist Khmer Rouge forces captured the capital Phnom Penh which resulted in numerous executions, forced hardships or starvation. Vietnam invaded Cambodia in 1978, which sparked a ten-year Vietnamese occupation and touched off almost 13 years of civil war. In 1991, the Paris Peace accords mandated democratic elections and a ceasefire. The UN-sponsored elections in 1993 restored some normalcy under a coalition government. Elections in July 2003 were peaceful but the coalition government took a year of negotiations among the political parties. King Norodom Sihamoni has been in power since October 2004. A bilateral textile agreement between Cambodia and the US provided Cambodia with a guaranteed quota of US textile imports and established a	N

	<p>bonus for improving working conditions. While economic growth depended on the garment and tourism sectors during 2001-2004, expansion in 2006 was due primarily to the garment sector. The long-term development of the economy to employ its growing population remains an overwhelming challenge. GDP was estimated at \$6,6bn and GDP growth at 13,4% in 2006.</p>	
<p>China Communist state. Population: 1,3bn. Pop. growth: 0,6%</p>	<p>Despite the increasing opportunity for personal choice, political controls remain tight. President Hu Jintao has been in power since March 2003 for a five-year term. The next election is due in March 2008. On a purchasing power parity, China stood as the second-largest economy in the world after the US in 2006, but in per capita terms the country is still lower middle-income and 130m Chinese fall below international poverty lines. Government's challenges include sustaining adequate job growth for the millions of people laid off from parastatals, migrants, and new entrants to the job market, reduce corruption and other economic crimes and restrict environment degradation. China had the largest current account surplus of close to \$180bn last year. GDP was estimated at \$2,512 trillion and GDP growth at 10,5% in 2006.</p>	ILC
<p>India Federal republic. Population: 1,1bn. Pop. growth: 1,6%</p>	<p>Chief of state since July 2002 is president APJ Abdul Kalam. The president is in power for a five-year term with unlimited terms. India has a diverse economy that includes modern agriculture and traditional village farming. It also has a wide range of modern industries and services. The services sector occupies a third of the country's labour force and produces half of its output. The next sector that employs a significant percentage of the population is agriculture. Government recently allowed higher foreign direct investment limits in a few key sectors such as telecommunications. Tariff hikes in sensitive categories and incremental progress on economic reforms still hinder foreign access to India's vast and growing market. The economy has grown at a 7% average over the past decade and has reduced poverty by 10%. GDP was estimated at \$796,1bn and expanded at a rate of 8,5% in 2006.</p>	Y
<p>Indonesia Republic. Population: 235m. Pop. growth: 1,2%</p>	<p>This is the world's largest archipelago state and home to the world's largest Muslim population. In 2005, Indonesia reached a historic peace agreement with armed separatists in Aceh which led to democratic elections in December 2006. The Asian crisis had created a severe challenge for Indonesia who is still grappling with persistent poverty, high unemployment, endemic corruption, a fragile banking sector and a poor investment climate. Progress to rebuild the country after the devastating December 2004 tsunami and the earthquake in central Java in May 2006 continues at a slow pace. Combined damages cost \$3bn. Declining oil production and the lack of new exploration investment turned Indonesia into a net oil importer in 2004. Three reform packages were introduced in 2006 to improve the investment climate, infrastructure and the financial sector, but the key to future growth remains in internal reform. GDP was estimated at \$264,4bn and GDP growth at 5,4% in 2006.</p>	CBC
<p>Japan Constitutional monarchy with parliamentary democracy. Population: 127m. Pop. growth: -0,1%</p>	<p>After three decades of uninterrupted growth, the Japanese economy underwent a major slow-down in the 1990s. The economy continues to be an important economic force on the continent and the world. Emperor Akihito has been in power since January 1989 with prime minister Shinzo Abe since September 2006. As the second most technologically powerful economy in the world after the US and the third largest economy after the US and China, Japan's GDP stood at \$4,911 trillion in 2006. It maintains one of the world's largest fleets and accounts for nearly 15% of the global fish catch. Growth slowed in the 1990s as a result of the overinvestment and an asset price bubble during the late 1980s that required a protracted period of time for firms to reduce excess debt, capital and labour. In 2002-2006, growth improved and the lingering fears of deflation in prices and economic activity lessened. Its huge government debt (176% of GDP) coupled with its aging population present two long-term problems. GDP growth was 2,8% in 2006.</p>	Y
<p>Malaysia Constitutional monarchy. Population: 25m. Pop. growth: 1,7%</p>	<p>Malaysia was formed in 1963 when the former British colonies of Singapore and the East Malaysian states of Sabah and Sarawak on the northern coast of Borneo joined the federation. Following the election in December 2006, paramount ruler Sultan Mizan Zainal Abidin came to power for a five-year term. This middle-income country diversified itself from a producer of raw materials into an emerging multi-sector economy. The economy grew by 4,9% as it was unable to escape the effects of the Severe Acute Respiratory Syndrome (SARS) and the Iraq War in 2003.</p>	Y

	<p>Growth topped 7% in 2004 and 5% in 2005-06, profiting from global energy prices. Malaysia unpegged the ringgit from the US dollar in 2005 and saw its currency appreciate 6% in 2006. Healthy foreign exchange reserves and a small external debt reduce Malaysia's risk for financial crisis over the near term. GDP was estimated at \$131,8bn and GDP growth at 5,5% in 2006.</p>	
<p>Maldives Republic. Population: 369 000. Pop. growth: 2,7%</p>	<p>President Maumoon Abdul Gayoom is in his sixth term in office and has dominated much of the island's politics. The August 2004 riots led government to embark on democratic reforms. Progress has been slow and many promised reforms have been postponed indefinitely. Tourism and fishing are growing in importance. Tourism accounts for 28% of GDP and 60% of forex. GDP growth averaged about 7,5% for a decade before the tsunami struck and reduced GDP growth to 3,6% in 2005. A rebound in tourism in 2006 coupled with the development of new resorts pushed growth to 18% last year. The island's long-term concern is about the impact of erosion and possible global warming on their low-lying country. GDP was estimated at \$906m last year.</p>	N
<p>Mongolia Mixed parliamentary/ presidential. Population: 2,9m. Pop. growth: 1,5%</p>	<p>Mongolia gained its independence from China in 1921 with Soviet backing. President Nambaryn Enkhbayar has been in power since June 2005 for a four-year term. Herding and agriculture are conventional activities of the economy. The break-up of the USSR led to the suspension of Soviet assistance and resulted in deep economic recession due to political inaction and natural disasters. Economic growth later in the decade was a result of the reform measures including extensive privatisation of the formerly state-run economy. GDP growth was 10,6% in 2004, 5,5% in 2005 and 7,5% in 2006 on the back of high copper prices and new gold output. China is Mongolia's chief export partner and main source of 'grey' economy. Money laundering is a growing concern. GDP was estimated at \$5,781bn in 2006.</p>	N
<p>Myanmar Military junta. Population: 47m. Pop. growth: 0,8%</p>	<p>Myanmar (Burma) was also conquered by the British and joined to its Indian empire until 1937 when it became an independent colony. The military junta refused to hand over power to the main opposition party after the latter won the elections in 1990. Its leader Aung san Suu Kyi remains under house arrest. The junta attempted to liberalise the economy in the early 1990s after decades of failure under the 'Burmese way to socialism' but these efforts stalled. Most foreign development assistances ceased after the junta began suppressing the democratic movement from 1988. The economy is now characterised by serious macroeconomic imbalances. The country's most productive sectors continue to be in extractive industries like oil and gas, mining and timber. Since 2006, the largest private banks operate under tight restrictions limiting the private sector's access to formal credit. GDP was estimated at \$9,6bn and GDP growth at 2,6% in 2006.</p>	N
<p>Nepal Parliamentary democracy. Population: 29m. Pop. growth: 2,1%</p>	<p>Citing dissatisfaction with government's ability to address the Maoist insurgency and corruption in February 2005, the king dissolved the government and declared a state of emergency and assumed power until April 2006. The king allowed parliament to reconvene at the end of April. The November 2006 peace accord between government and the Maoists led to an interim constitution where the Maoists were allowed to enter parliament in mid-January 2007. Constituent elections are planned for June 2007. Depending on agriculture, Nepal is among the poorest and least developed countries in the world. Tourism was affected by the Maoist conflict in 2006. GDP was estimated at \$7,154bn and GDP growth at 2,4%.</p>	N
<p>Pakistan Federal republic. Population: 165m. Pop. growth: 1,8%</p>	<p>General Pervez Musharraf was sworn in as president of Pakistan in November 2002 after a military takeover in October 1999. Pakistan is characterised as impoverished and underdeveloped. Poverty levels have decreased by 10% since 2001 and development issues are increasingly gaining priority in a bid to repeal the broad underdevelopment of its social sector. Supported by expansion in the industrial and service sectors, GDP growth remained buoyant at 9% in 2005 before easing to 7,9% in 2006. Central Bank is pursuing tighter monetary policy, while preserving growth. GDP was estimated at \$124bn in 2006.</p>	CILC
<p>Philippines Republic. Population: 91m. Pop. growth: 1,7%</p>	<p>Decades of Muslim insurgency in the southern Philippines have resulted in a peace accord with one Muslim group and an ongoing ceasefire and peace talks with another. Philippine's economy has been influenced by the Asian financial crisis in 1998 and the global economic slowdown in 2001 as well as political and security concerns. Average GDP growth accelerated to 5% between 2002 and</p>	Y

	<p>2006 due to the continued resilience of the services sector and improved exports and agricultural yield. However higher sustained growth is required to alleviate poverty. Large unprofitable public enterprises especially in the energy sector contribute to government's debt. Credit rating agencies have at times expressed concern about the country's ability to service debt though central bank's reserves appear adequate. GDP was estimated at \$116,9bn and GDP growth at 5,4% in 2006.</p>	
<p>Singapore Parliamentary republic. Population: 4,5m. Pop. growth: 1,3%</p>	<p>Singapore is one of the most prosperous countries with strong international trading ties. President SR Nathan has been in power since September 1999. The president is elected to rule for six-year terms. This is a highly developed and successful free-market economy. Fiscal stimulus, low interest rates, a surge in exports and internal flexibility led to healthy growth between 2004 and 2006 with real GDP growth averaging 7% annually. New growth points that can withstand the global demand cycle for information technology products will take priority. The country will focus on making Singapore Southeast Asia's financial and high-tech hub. GDP was estimated at \$121,5bn and GDP growth at 7,4% in 2006.</p>	Y
<p>South Korea Republic. Population: 49m. Pop. growth: 0,4%</p>	<p>President Roh Moo-hyun has been in power since February 2003 and the next election is due in December 2007. Integration into the high-tech modern world economy and its strong growth separated this country from the poor states on the continent. Increasing consumer spending and exports supported growth in 2002. Softer global growth underpinned GDP growth to average 5% between 2003 and 2006. The country experiences restrained inflation, low unemployment, an export surplus and fairly equal distribution of income. GDP was estimated at \$897,4bn and GDP growth at 4,8% in 2006. Per capita GDP amounts to \$24 200. South Korea and the EU began their first round of free-trade talks that would enable Asia's third largest economy to become a free-trade hub linking Asia with the US and Europe. The EU invested \$5bn in South Korea last year – 45% of its total foreign direct investments.</p>	Y
<p>Sri Lanka Republic. Population: 20m. Pop. growth: 0,9%</p>	<p>The country continues to lose tens of thousands of people in persisting ethnic conflict. Violence between the Tamil Tigers and government forces intensified in 2006, but neither side has formally withdrawn from the ceasefire. President Mahinda Rajapaksa has been in power since November 2005 and is elected for a seven-year term. The recent change in government has brought about some policy reversals. The ruling Sri Lanka Freedom Party has a more statist economic approach which seeks to reduce poverty by channeling investment to disadvantaged areas, developing small and medium enterprises, promoting agriculture and expending the already enormous civil service. Barring the recession of 2001, growth averaged 4,5% over the last ten years. Partly spurred on by the reconstruction, growth reached 5% in 2005 and 6% in 2006. Sri Lanka's most dynamic sectors include food processing, textile and apparel, food and beverages, port construction and telecommunications. GDP was estimated at \$27,4bn in 2006.</p>	ILC
<p>Thailand Constitutional monarchy. Population: 65m. Pop. growth: 0,6%</p>	<p>Thailand is currently facing separatist violence in its southern ethnic Malay-Muslim provinces. With the Asian financial crisis behind, Thailand emerged as one of East Asia's best performers from 2002 to 2004. Investment stagnated in 2006 due to jitters over the Thaksin administration's political problems. A military coup in September brought in a new economic team at the central bank. Exports grew nearly 17% in 2006. GDP was estimated at \$196,6bn and GDP growth at 4,8% in 2006.</p>	Y
<p>Vietnam Communist state. Population: 85m. Pop. growth: 1,0%</p>	<p>President Nguyen Minh Triet has been chief of state since June 2006. The president is elected for a five-year term. The densely populated, developing country has experienced ravages of war, the loss of financial support from the old Soviet bloc and the rigidities of a centrally-planned economy in its history. Vietnam joined the WTO in January 2007, which is expected to boost the economy and should help to ensure the continuation of liberalising reforms. Agriculture's share of economic output has continued to shrink from 25% of GDP in 2000 to 20% in 2006. Authorities have tightened monetary and fiscal policies to stem high inflation. An economic growth rate of 7,5%-8% is the target for the next five years. GDP was estimated at \$48,26bn and GDP growth at 7,8% in 2006.</p>	CILC
<p>Researched and compiled by Lily Maharaj, senior economic researcher: Credit Guarantee June 2007</p>		

CORRECTION: The population of the Seychelles is 82 000 and not 82 million as stated in the previous issue of Credit Notes.

World markets update

The following credit classifications were recently updated.

For more information on these and other countries please visit our website: www.creditguarantee.co.za or contact our Export Department.

AFRICA

BURKINA FASO

Rating: 3C

The country is characterised by substantial gold reserves but cotton production remains its economic mainstay. New technology is expected to raise cotton production by 30% per hectare as well as reduce the costs of insecticides. Government has joined forces with three other cotton-producing countries in the region – Mali, Niger and Chad – to lobby for improved access to Western markets.

CAMEROON

Rating: 3C

Progress in Cameroon is reportedly being hampered by one of the highest levels of corruption in the world. The IMF and the Bank of Central African States (BEAC) both project growth at 4,1% in 2007, although administrative bottlenecks are expected to continue hindering private-sector development.

CONGO

Rating: 3C

Congo is struggling to build on a peace accord signed with southern rebels in 2003. A large number of illegal small arms remain in circulation in the Republic posing a security risk to the Central African country which has been plagued by conflicts in the recent past. A meeting was held to raise the awareness of parliament and government officials of the threats that illegal weapons pose to national security ahead of the legislative elections scheduled for June and July.

ETHIOPIA

Rating: 3C

Analysts have expressed fears that Ethiopia and Eritrea, still at odds over their unresolved 1998-2000 border conflict, may fight a proxy war in Somalia. The Ethiopian economy has made good progress in recent years; over the past three years growth has averaged 11% per annum while real per capita income has increased at about 7% per annum.

GABON

Rating: 3C

President El Hadj Omar Bongo has been in power since December 1967. Having ruled this country for over forty years, he has become Africa's longest-serving leader. It is among Africa's most stable economies and dependent on oil production, but the country's wealth is said to have been mismanaged by government.

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 **Sindiso Valerie Mpfu**

Economic researcher, Credit Guarantee

JUNE 2007

GAMBIA

Rating: 3C

Peanuts are the country's principal cash and export crop, and account for one third of the country's export earnings. Tourism and remittances sent by Gambians living abroad are important sources of foreign exchange.

GHANA

Rating: 3C

The AU summit that convened at the end of January to elect the new annual president unanimously chose Ghanaian president John Kufuor, while snubbing Sudan's second request for the post. Ghana celebrated 50 years of independence in March 2007 and was the first sub-Saharan country to gain independence in 1957.

LIBYA

Rating: ZZ

The USA in 2006 agreed to remove Libya from its list of state sponsors of terror in an attempt to forge renewed relations with the oil-rich country after three decades of hostility. In a bid to attract increased foreign direct investment, Libya will pursue reforms and the EIU expects a two-speed reform process to emerge with government prioritising the development of the oil industry.

MALAWI

Rating: 3C

Malawi's former president, Bakili Muluzi, who is under investigation for corruption, looks likely to seek a political comeback as his party renewed calls for him to run in the 2009 presidential elections. The government is optimistic that the economy will improve since the World Bank and the IMF cancelled most of the country's external debt of about \$2,97bn in September last year.

NIGERIA

Rating: 3C

Alhaji Umaru Musa Yar'Adua took over the reins of governance in May 2007 as the third democratically elected president of Nigeria. He succeeded President Olusegun Obasanjo, marking a successful civilian-civilian transition. Tension has remained high since the outcome of the April presidential election results. Violence has surged in Nigeria's Delta region since February last year, cutting a third of Nigeria's output and forcing thousands of expatriates to evacuate the volatile region.

SENEGAL

Rating: 3C

President Abdoulaye Wade has been in power since April 2000 and was re-elected in February 2007 to serve a five-year term. The country celebrated 47 years of independence on 4 April 2007. Senegal implemented a reform programme in 1994 which has boosted its economic growth to average 5% between 1994 and 2006. However, it remains heavily dependent on foreign aid.

SUDAN

Rating: ZZ

To improve security in the Great Lakes region, Uganda, DRC and South Sudan have resolved to jointly fight terrorists operating along their common borders. Sudan has large areas of fertile land as well as gold and cotton. The US special envoy to Sudan has called it a 'potential breadbasket for Africa'. It believes that with the introduction of modern agricultural technology, Sudan could one day be transformed from a place of perennial famine to a continental breadbasket.

SWAZILAND

Rating: 3C

The implementation of the new constitution in 2006 is not expected to lead to any real transformation of the current political system. Although the legalisation of political parties remains unclear under the new constitution, some groups are operating openly and have applied for registration. Real GDP is expected to remain subdued at around 2% this year as crop failures continue.

TOGO

Rating: 3C

In August 2006, the ruling party and all opposition parties signed an agreement to form a transitional government of national unity, intended to bring about stability, and paved the way for holding the first free parliamentary elections in decades in mid-2007. Togo has been in economic decline and the IMF has recommended that it must address the legacy of political instability, governance problems, weak state-owned enterprises and banks and excessive public debt, to revive economic growth.

TUNISIA

Rating: 2B

President Zine al-Abidine Ben Ali has undertaken gradual free-market economic reforms since the early 1990s. The country's diverse economy includes significant agricultural, mining, energy, tourism and manufacturing sectors. Tunisia is working on negotiating a free trade agreement with the US.

UGANDA

Rating: 3C

The current security situation in northern Uganda has improved but remains fluid and unpredictable. Uganda will host the Commonwealth Heads of Government Meeting (CHOGM) due in November this year. Services are the main driver of economic growth but the impact of electricity shortages is forecast to dampen real GDP growth potential.

ASIA

CHINA

Rating: 2B

President Hu Jintao has been in power since 2003. The next election is scheduled for March 2008. China had the largest current account surplus in the world in 2006 – a total of

\$180bn – and is poised to overtake Japan to become Asia Pacific's largest auto maker by 2010 with an annual output of 11 million light vehicles, while Japan's output is forecast to fall to 10 million by 2010.

AUSTRALASIA

NEW ZEALAND

Rating: 1A

Agriculture is the economic mainstay, but manufacturing and tourism are important. The country is heavily dependent on trade, particularly on agricultural products, leaving New Zealand vulnerable to slumps in commodity prices and global economic slowdowns. Efforts to further the development of an Australia-New Zealand Single Economic Market have been strengthened by the Reserve Bank of New Zealand and the Australian Prudential Regulation Authority (APRA) in an Act that came into force in December last year.

EUROPE

DENMARK

Rating: 1A

The Danish economy has in recent years undergone strong expansion fuelled primarily by private consumption growth, but also supported by exports and investments. Denmark is a net exporter of food and energy and enjoys a comfortable balance of payments surplus. The economy is highly open with Danish exports and imports accounting for 49% and 44% of GDP respectively.

GERMANY

Rating: 1A

Despite new threats against Germany by Islamists, the federal government intends to maintain its engagement in Afghanistan. Germany has proposed inviting leading nations from Africa, Asia and Latin America to all G8 summits. It won back its place as the driving force in the European economy, expanding by 2,7% last year, its fastest growth since 2000.

IRELAND

Rating: 1A

Ireland has a vibrant open economy with GDP per capita second only to Luxembourg and one of the lowest debt/GDP ratios in the EU. *The Economist* expects that economic growth of 6,2% in 2006 will mark the peak of the cycle and will moderate to average 3,5% from 2009-11. Over the past decade, Irish whiskey sales have soared with annual double-digit sales growth to 30 million bottles in 2006. Americans were the biggest buyers of Irish whiskey, while the Irish themselves consume about 6 million bottles, followed by the French.

ISLE OF MAN

Rating: 1A

The Isle of Man's economy started out with small farms and basic livestock and fishing in nearby streams and rivers. Tourism later overtook the fishing industry and together with shipping, became the driving forces of the island. Today the economy is based around financial services. The island forms part of the EU single market and VAT area but is otherwise not part of the EU fiscal area.

PORTUGAL

Rating: 1B

Portugal will hold the EU presidency in the latter half of 2007. Portugal's persistent loss of market share and weak export growth in recent years have raised concerns about its external competitiveness. The government faces tough choices in its attempts to boost Portugal's economic competitiveness while keeping the budget deficit below the euro zone's 3% ceiling.

SPAIN

Rating: 1B

Spain's main economic sectors include agriculture (especially fruit and vegetables, olive oil and wine), fish, textiles, automobiles and tourism. Weak points in Spain's economy include high inflation, a large underground economy, low productivity and one of the lowest rates of investments in R&D. During the last four decades, Spanish tourism has grown to become the second biggest in the world, worth approximately €40bn in 2006. Spain was ranked the 15th most attractive environment for developing the travel and tourism industry, out of 124 countries surveyed.

SWEDEN

Rating: 1A

The general election last September saw victory for the centre-right Alliance for Sweden Party, ending 12 years of Social Democratic Party (SAP) rule. Foreign trade, which keeps this economy buoyant, depends on the timber, hydro-power, iron ore, information technology, telecommunications and services industries. GDP growth expanded 3,4% in 2006 and the IMF expects growth to reach 2,2% in 2007 while *The Economist* forecasts growth of 3,5% in 2007 and 2,6% in 2008.

SWITZERLAND

Rating: 1A

Chief of state since January 2007 is President Micheline Calmy-Rey. The president and vice-president are elected by the Federal Assembly from the members of the Federal Council for a one-year term. The next election is scheduled for October 2007. Its recent focus has been to bring its economy in line with the EU's practices to enhance their international competitiveness. It was ranked the most competitive economy in the World Economic Forum's 2006 Global Competitiveness Report.

Which ethical theory should guide the decision-maker?

*In his first article on **Dilemmas in Business Ethics** (Credit Notes, November 2006) the author discussed the process that business could employ in order to address ethical questions. Business's moral duties, its values and the ethics which need to support the firm's objectives were discussed in the April 2007 issue and he also touched on the two main ethical theories (Utilitarianism and Kantianism).*

In this (final) article, he suggests which of these two ethical theories should guide one, and how, when dealing with moral dilemmas.

JAMES RACHELS in his book *The Elements of Moral Philosophy* lays out what he sees as a satisfactory moral theory. He makes the following points:

- As Kant said, because we are rational beings, we can take some facts as reasons for acting in a certain way but we should act from duty, not from inclination. We ought to do the act supported by the weightiest reasons.
- Kant also said that the categorical imperative (see page 26 of the April 2007 issue of Credit Notes) is binding on all rational agents simply because they are rational. Non-acceptance means not only immorality but also irrationality. This is so because a moral judgment must be based on good impartial reasons.
- But if you accept any considerations as reasons in one case, you must also accept them as reasons in another similar case. One cannot accept reasons some of the time and not at another time nor can one expect others to accept reasons but make an exception for oneself. People have different merit and this means what people deserve, their "desert", is dictated by their behaviour. A person's voluntary action (which dictates its desert) justifies treating one person differently from another as long as such treatment is consistently applied. This is in line with Kant's imperative that we should respect the dignity,



Chris Leisewitz is a former managing director and CEO of Credit Guarantee.

the autonomy of persons – that we should never merely treat a person as a means but always as an end.

- Rachels says "only a philosophical idiot would propose to eliminate love, loyalty and the like from our understanding of the moral life".
- Drawing on Henry Sidgwick, Rachels suggests as single moral standard an ethic that values "the interest of everyone alike". Such an ethic would support the good that people be as well-off as possible and such an ethic should be used in measuring institutions, laws, motives and traits of character. It would be consistent with

love, friendship, loyalty, pride in one's work, keeping promises and so on.

- While merit needs to be considered when deciding on treatment in order to be just and fair, the question as to why one appears to have greater merit than another must be answered in order to show the actual desert, e.g. natural advantages of birth are not legitimate bases of desert.

Rachels's moral theory is essentially founded on Kant's theory of ethics and his suggested moral standard of valuing "the interest of everyone alike" dovetails with Kant's categorical imperative. The notion to treat people according to their desert does not violate Kant's theory, provided the treatment is always consistently applied. It supports Kant's demand that we should respect the dignity and autonomy of others.

A rational being is morally entitled to choose and act according to her wish (although such an act is not necessarily ethical, only rational decisions that are acted upon from a maxim that is universalisable – see page 26 of the April 2007 issue of Credit Notes – are morally right) and she is responsible for what she has elected, provided the decision was made freely, without coercion and with the full knowledge of all the relevant facts.

As has been shown, ethical decision making depends on both the decision-making process itself and on the experience, intelligence and integrity of the decision makers. To many competing ethical claims one cannot often find satisfactory solutions. In the end executives resolve conflicts in their own minds and hearts. But what is clear is that if management's total loyalty is towards the maximisation of profits, achieving higher standards of ethical practice will be impossible. Defining the purpose of the company as exclusively economic is a deadly oversimplification which allows overemphasis on self-interest at the expense of consideration of others.

The decision maker must know that no ethical theory gives a reliable answer in all situations. When moral conflicts are involved one has to carefully consider one's action and must keep the consequences of one's actions in mind, e.g., what action do I take as a medical doctor if I can save the life of only the mother or the child?

As Bernd Noll proposes in his book entitled *Wirtschafts- und Unterneh-*

mensethik in der Marktwirtschaft, because different ethical theories all have very valuable inputs but are not in harmony, a compromise needs to be found. Noll recommends that usually one should follow Kantian theory: If an action complies with the categorical imperative it should be preferred over one that does not. But it could be that the consequences of an action are of such importance or have such a severe impact that they cannot be ignored and that the utilitarian theory (see page 26 of the April 2007 issue of Credit Notes) must dominate over Kantian theory. Noll calls this the “substitution principle”.

because this test demands of us to think carefully whether our proposed maxim could in similar circumstances be acted upon by all other rational beings, i.e., we show respect for the autonomy of others.

While it has been argued that the universalisation requirement is very onerous, rigid and void of all emotions, I doubt that this was really Kant’s intent. We need to employ rationality rather than emotion in arriving at a decision or action, but this does not mean that emotional facts should be ignored and that rationality cannot be applied when

A decision needs to be taken in a rational manner, from good will as Kant would say, from duty only and not based on the decision-maker’s own inclination, but all the above and other relevant facts must be taken into consideration.

But as Noll points out, there can be the exceptional circumstance that will result in a ghastly consequence if one strictly abides by the categorical imperative, e.g., if one knows that a terrorist group has planned and is perfectly capable of executing the killing of a large number of people (think for instance of the recent horror attack on the school in Beslan, Russia) and one can avoid this dastardly deed only by obtaining information from one of their number in custody. As painful and horrifying as it may be, one may have to employ coercion in order to obtain that information from the imprisoned terrorist.

A rational being is morally entitled to choose and act according to her wish and she is responsible for what she has elected, provided the decision was made freely, without coercion and with the full knowledge of all the relevant facts.

I believe, as enunciated by Noll, that although Kantian moral philosophy should always be given primacy, one needs to be tolerant of the utilitarian ethical theory and that one should be open to use it with integrity where on the rare occasion it is called for in setting one’s own ethical guidelines and those for a business.

However, discipline and objectivity need to be employed – one cannot use one theory today and another tomorrow depending on one’s inclination or on what would seem to be the most prudent. To do that would result in subjective, illegitimate and probably immoral decisions and actions.

Kant’s categorical imperative that one should always treat the humanity in a person as an end, and never merely as a means – that one should respect the dignity and autonomy of the individual is for me an overriding ethical principle. Kant said that the three elements of his categorical imperative (universalisation, treating people as ends, and the ideal kingdom of ends) really all express the same thing. The kingdom of ends refers to the community of people and if one accepts the need for respecting the dignity of a person, one automatically acknowledges the truth of the kingdom of ends.

Respecting the dignity and autonomy of all rational beings is also expressed in Kant’s imperative that we should act only on maxims which one can will to be universal laws of nature. This is so

designing a maxim for an action dealing with emotional issues. For instance, the decision to dismiss a loyal employee because of cost-saving measures must take into consideration all the relevant facts – even those that are emotional, e.g.:

- The years of service;
- the loyalty and commitment to the company displayed by the employee over the years;
- the contribution made by the employee to the company;
- the circumstances – financially, health-wise, in the job market and so on – in which the employee will find her/himself; and
- the real savings that the company would achieve.

Such action seems in line with Rachels’s thoughts that people should be treated according to their deserts and it would certainly be in line with the utilitarian doctrine of the greatest happiness for the greatest number of affected people. Kant might not be partial to such an action because it goes totally against his respect for the dignity of the individual concept (although he favours treating people according to their desert) and his claim that coercion is morally not permissible (even though Kant supports punishment).

Some philosophers believe that Kant’s prohibition of extreme acts such as killing, lying and coercion are interpreted too severely. They believe that Kant would in fact allow such extreme acts in certain desperate situations. As James Rachels suggested: We ought to do the act supported by the weightiest reason

Develop your capacity to reason

The Applied Ethics for Professionals (AEP) Programme offered by the Wits Philosophy Department is currently accepting applications from experienced and well-qualified professionals, executives and leaders in all fields. Meeting on occasional Saturday mornings, the AEP Programme is designed to accommodate the schedules of working professionals in the Gauteng area. The Programme is intellectually challenging and develops participants’ capacity to reason critically, constructively and responsibly about a variety of significant ethical issues. It leads to a Postgraduate Diploma (by course work) in 1½ years or a Master of Arts degree (by course work and research report) in 2–2½ years. For more information about topics, methods and courses of study, email the AEP Programme Director, Dr Brian Penrose, at penroseb@social.wits.ac.za or call the Philosophy Department at 011 717 4345.

but we need to do this rationally, not because our personal inclination may put greater weight on an act than logic would.

This is a difficult question because it can also be claimed that departing from a narrow, strict interpretation of Kantian prohibitions may lead to introducing "slippery slope" arguments into his theory. Nevertheless, as signalled earlier, I support the more lenient interpretation of Kant's injunctions, presupposing always that the agent acts from a universalisable maxim. Careful reflection on and definition of the meaning of some of the extreme actions is needed.

Whatever action the agent decides on, it will be a painful action because it involves coercion, betrayal or inflicting suffering or even death. Such situations are referred to as "tragic dilemmas", the solutions of which will not fill the virtuous person with happiness. But because a virtuous person would have acted in a temperate manner, she ought not to feel guilty or bad for having found herself in the invidious position where she was forced to perform the act.

It is very unlikely that such drastic decisions need to be made in business. However, management can be confronted with similar situations, e.g., withholding information considered highly confidential by the owners of the business which may mean deceiving a party who would be put into the position of making a decision without being in posses-

One should primarily be guided by Kant's categorical imperative but consider the consequences carefully and if these seem too severe, it may be right to introduce utilitarian theory into the decision process.

sion of an important and relevant piece of information.

In summary, one should primarily be guided by Kant's categorical imperative but consider the consequences carefully and if these seem too severe, it may be right to introduce utilitarian theory into the decision process, employing Noll's "substitution principle". It may be argued that relying on the "substitution principle" is merely another form of introducing "slippery slope" arguments into dilemma solving.

Such an argument would be fallacious I believe, because the Kantian moral theories will not be compromised by "slippery slope" arguments if acts comply with the Formula of Universal Law. Rather, Kantian and utilitarian ethics will be applied in their pure, unsullied form in an honest attempt to solve a dilemma by finding the right answer that does not have consequences that are too appalling.

In the hustle and bustle of everyday business there is no time to go into such detail when having to decide on an action other than the most important or difficult decisions. It is for this reason that a code of ethics is necessary because it should provide a much simpler and faster pointer toward the ethically correct action and help to ensure consistent behaviour. I dealt in some detail with codes of ethics in the October 2005 and May 2006 issues of Credit Notes.



Accredited Financial Services Provider #17691



CLIENT CARE/NEW BUSINESS HOTLINE: 011 889 7365

Visit our website at www.creditguarantee.co.za

E-mail: #info@cgic.co.za

Gauteng: Telephone 011 889 7000

Credit Guarantee House, 31 Dover Street, Randburg

P O Box 125, Randburg, 2125

Fax 011 889 7518 or 011 886 5715

Business development consultants:

Malcolm Kourie Chantelle Davies Llewellyn Paulsen

Service consultants: Nazel Veldtman Tracey Dansie

Business researcher: Renate Janse van Rensburg

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:

Claire Marx Willie van den Berg Nikki Kruger

Service consultant: Danie van Niekerk

Business researcher: Marita Procter

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: Ilsé Strydom

Business researcher: Brenda McEwan

Kwazulu/Natal: Telephone 031 265 0300

Suite 7, No 4 The Crescent, Westway Office Park, Westville

P O Box 2756, Westway Office Park, 3635

Fax 031 265 0323

Senior sales & service consultant: Lorraine Abbott

Business researcher: Andrew Reed

CREDIT NOTES is published by Credit Guarantee Insurance Corporation of Africa Ltd, (Reg No 1956/000368/06), PO Box 125, Randburg, 2125.

For subscriptions and information, please contact Vicki Sokolich at tel 011 889 7281, fax 011 686 9581 or e-mail at vickis@cgic.co.za.

Credit Guarantee does not necessarily endorse opinions expressed in this publication. Although all reasonable care is taken to ensure the correctness of facts and figures, Credit Guarantee accepts no responsibility for the results of actions based on anything published in this issue.

EDITED, DESIGNED AND PRODUCED BY TOPMEDIA - 012 653 0301