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@ A testing time for

Pretoria as capitalism

goes on trial: Page 2

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FINANCIAL TIMES SURVEY

SOUTH AFRICA

@ The right wing on the
march towards a third
freedom struggle: Page 4

Monday June 11 1990

SECTION III

As apartheid

vanishes on to the

scrapheap of history,

South Africa is

poised for a

compromise. Patti Waldmeir looks

at the prospects for a peaceful

transition from white domination, to

a constitutional solution that will

satisfy the aspirations of all races

Pretoria takes
the plunge

THE END of apartheid in South Africa is now a foregone conclusion. With a sigh of relief which is distinctly audible in the corridors of power, the ruling National Party has begun to divest itself of 40 years of apartheid baggage. There can be no turning back: â\200\234If you think we are going to cancel this, forget it,â\200\235 says Mr Barend du Plessis, the Finance Minister and an influential Nationalist. â\200\234Weâ\200\231ve jumped.â\200\235 The supreme irony of South African politics is that only the African National Congress (ANC) can hold the net for the Nationalists. After 30 years as a banned organisation, the source of the â\200\234swart gevaarâ\200\235 (black threat) and the excuse

for Pretoriaâ\200\231s policy of â\200\234total

onslaughtâ\200\235, the ANC has re-entered centre stage as the white manâ\200\231s saviour.

The reversal has been dramatic: seemingly overnight, the state-controlled South African Broadcasting Corporation stopped demonising the ANC, and switched to transmitting a hagiography of its leader, Mr Nelson Mandela, released from 27 years in jail on February 11.

Since that time, Mr Mandela

and Mr F.W. de Klerk, the
South African: president, have

undergone an extraordinaryâ\200\235

bonding. The first official photograph of the two, released on the eve of Mr Mandelaâ\200\231s release, showed them as stiff and uneasy. Yet, at their last joint appearance, following the talks between Pretoria and the ANC last month, Mssrs de Klerk and Mandela outdid one another with courtesy and warmth. In the words of one National Party MP: â\200\234They are like Siamese twins; neither can survive on his own.â\200\235

For the forces of change are propelling both men towards the same bit of political ground: the territory inhabited by perhaps half of the 5m whites, as well as 1m Indians, 3m coloureds (mixed race peoples), and of the 27m Africans, many who yearn for peace.

In the process, each has alienated radical constituencies which oppose a negotiation. The Nationalists have lost support to the ultra-right Conservative Party, and inflamed the passions of the para-military right, including groups such as the Afrikaner Weerstandsbeweging (AWB). And the ANC risks leaving behind a large proportion of the youth,

the â\200\234lost generationâ\200\235 of the

mid-1980s which learned the politics of confrontation

â\200\234township streets.â\200\235=

President F.W. De Klerk and Mr Nelson Mandela: â\200\234they are like Siamese

Even within the ANCâ\200\231s own broad anti-apartheid front, there are signs of opposition to the septuagenarian moderation of men like Mr Mandela. The South African Communist Party â\200\224 a powerful, or even dominant influence within the ANC national executive - remains loyally on-side for the moment. But its programme goes well beyond that of Mr Mandela and the African nationalists. At some point, their interests must diverge.

The survival of both the

National Party and the ANC may depend on their ability to do a speedy deal on a post-apartheid constitution which they can present as a fait accompli to the radical left and right.

It is this imperative which has dictated the pace of change over the nine months since Mr de Klerk came to power in last September's general elections. The ANC has been kept almost

pg{ _nâ\200\230anentâ\200\231lx# off ,g%ggwib%.â\200\230, M.

boldly even when caution

would have been excusable. First he legalised peaceful

political protest; then lifted

restrictions on the ANC and

other anti-apartheid organisations altogether. Political prisoners have been released, and others will come out soon; exiles have returned; repressive legislation (including the state of emergency imposed

four years ago tomorrow) has

been eased or repealed.

The aim is to normalise political activity, and interrupt the process of radicalisation among blacks which was the consequence of oppression.

That normalisation process

is still under way; so far, Pretoria and the ANC have taken only tentative steps towards negotiating a new constitution. But the process has brought arch-enemies into civilised contact for the first time; and in the words of Mr Thabo Mbeki,

the ANCâ\200\231s shadow foreign nun

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e two sides may yet find e more common ground between African and Afrikaner

mnalism. For the natural coalition in South African politics is arguably not a conservative grouping â\200\224 uniting, say,

â\200\230the National Party, the col-

Labour Party and Zulus
sented by Chief Mangosu-
uthelezi.

more powerful alliance
I ht span the broad political
centre â\200\224 possibly including
the Nationalists (with their
rtise and their finance)
he ANC with its superior

~ For the moment, both sides
shake their heads in disap-
proval at such a notion. But
even if formal alliance is a dis-
. perhaps an impossible
the past few months have
dy brought the ANC and
â\200\230Igatlonal Party into de facto
ion. The two sides have
d to collaborate on ending

e twins; neither can survive on his ownâ\200\235

contact. Members of ANC-affili-
ated trade unions are con-
sulted by government on
issues such as labour law
reform and privatisation. And
there is more co-operation
between black community
groups and white-controlled
local government structures.
Still, the gulf between the
two sides is huge. Progress is
being made on removing what
both groups see as obstacles to
formal talks on a new constitu-
tion: the release of remaining
political prisoners, the return
of all exiles, the repeal of some
security legislation; and from
Pretoria, the demand that the
ANC end its armed struggle.
But on the issue of the con-

_ stitution itself, neither is will-

ing to concede much common ground â\200\224 either publicly or privately. The ANC is sticking to its insistence on a majority-rule constitution, with a bill of individual rights to protect

ANC officials say they are committed to non-racial multi-party democracy; when asked about specific constitutional guarantees for whites or other minorities, they bridle.

â\200\234That would just perpetuate apartheid under a different guise,â\200\235 says Mr Pennuel Maduna, a member of the ANCâ\200\231s constitutional committee. Mr Mandela has said he would consider â\200\234structural guarantees for whitesâ\200\235; but Mr Maduna dismisses the notion. And the ANCâ\200\231s continued insistence on an elected constituent assembly to draw up the constitution could prove a major stumbling block; to accede to that, Pretoria would be giving up without a fight.

The Nationalists envisage a constitution which will bring blacks to power, but without wholly marginalising whites. White dominance will go, but some measure of power must remain; anything else would be political suicide.

They are exploring constitutional models which could form the basis for compromise, with the favoured option at the moment a two-tier American-style parliament. The lower house would be elected by proportional representation (viewed as the best way of ensuring minority representation); while the upper house would reflect a more explicit attempt to give whites a disproportionately large voice.

Minorities would be represented in this house according to some as yet undefined notion of â\200\234groupsâ\200\235 â\200\224 interest groups, language groups, or something else altogether. Ministers insist that race will not be the criterion; but it is hard to see how race can be avoided.

Crucially, many powers

would devolve downward from the parliament to local or neighbourhood structures. By using health, safety or crowding standards, neighbourhoods could ward off integration - and schools, through the medium of privatisation, could remain segregated.

On the economy, there may be even less common ground. For apartheid has bred economic disparities which are grotesque even by Third World standards:.. the average white income per capita is 12 times

[0 The economic realities of South Africa; The ANC's economic debate; Black trade unions; Sanctions Page 2

[J Right-wing politics; Beyond the revolution; black politicians come of age; The homelands - dumping grounds of apartheid Page 4

[O President De Klerk comes in from the cold; Natal's battleground Page 5

[0 Gold begins to lose its polish; Manufacturers eye overseas markets Page 68

[Agriculture; Crisis in black education; Privatisation loses its appealcccccc Page 7

[J Tourism recovers; Changes in the financial sector ..Page 8

Editorial production: Roy Terry

redress these imbalances, with a ' R3bn trust - fund for socio-economic development. But the ANC insists on a more active form of redistribution of wealth; and the South African Communist Party is eager to begin the transition to socialism.

The Communist Party believes that it is not socialism, but bureaucratic centralism which has been discredited in eastern Europe; its goal is to save socialism for posterity, by proving it can work in South Africa.

Both sides say they expect negotiations on a new constitution to begin late this year or early in 1991. Even the most optimistic think the process will take two to three years and will yield a transitional constitution, rather than the final document.

But, by the standards of recent South African history, three years is a long time: time enough for violence from left and right to sabotage negotiations; perhaps too long for the stamina of the 71-year-old Mr Mandela. Still, the prospects of a historic compromise in South Africa are better now than ever before. The transition

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DEVELOPMENTS IN THE SOUTH AFRICAN ECONOMY

by
DR. C.L. STALS

Governor of the South African Reserve Bank

Slower Economic Growth

After almost three years of an upswing in economic activity, the South African economy slowed down from the beginning of 1989. Real gross domestic

product expenditure declined in 1989 by almost 1 per cent, compared with an increase of 7½ per cent in the preceding year. This decline can be attributed mainly to a substantial decrease in inventories at constant prices, while

increases in real private consumption expenditure and real gross domestic fixed investment decelerated. In contrast, real government consumption expenditure continued to increase sharply, mainly as a result of an abnormally large increase in the first quarter of 1989. During the rest of the year real government consumption expenditure declined sharply.

The growth in the real gross domestic product for 1989 nevertheless still amounted to somewhat more than 2 per cent. Although this increase was lower than the growth rate of 3½ per cent recorded in 1988, it was higher

than

the average annual growth rate of 1½ per cent during the 1980-1983s.

The relatively soft-landing of the economy can mainly be attributed

to favourable agricultural conditions and a continued rise in the demand for South African goods. The real value added by the agricultural sector

increased by just more than 10 per cent in 1989, owing especially to a sharp

increase in summer crops. After an increase by 5½ per cent in 1988, real

exports of goods and non-factor services rose by a further 9½ per cent in 1989.

Labour and Inflation

Total employment in the non-agricultural sectors of the economy increased by 0,9 per cent in the first nine months of 1989 compared with the corresponding period in 1988. This slower rate of increase in employment than in the economically active population implies a corresponding increase in unemployment in the country. An additional disturbing development that occurred in the labour market was a significant increase of almost 18 per cent in the nominal wage per worker during the first nine months of

1989, despite a marked slow-down in productivity.

Although the inflation rate is still high, there are nevertheless signs that the expansion rate has recently started to decelerate slightly. The annualised quarter-to-quarter rate of increase in the consumer price index name-

ly declined from a peak of 184 per cent in the second quarter of 1989 to

14,7 per cent in the first quarter of 1990. Recent developments in the production price index is even more encouraging. The rate of increase in this index measured over twelve-month periods also declined from a peak of 15,8 per cent in May 1989 to 14,1 per cent in January 1990 and then to 12,9 per cent in February.

) Balance of Payments and Foreign Reserves

In line with the deflationary strategy of the authorities, the surplus on the current account of the balance of payments rose from R2,9 billion in 1988 to R4,1 billion in 1989. The improvement on the current account in 1989 occurred chiefly in the second half of the year, and can be ascribed mainly to the high growth in the volume of exports as well as a significant fall in the volume of imports. Over the past five years this surplus amounted to R26,3 billion, or an average of 3 per cent of gross domestic product.

The capital account of the balance of payments also improved in 1989, but net capital outflows were nonetheless R5,6 billion as against R6,5 billion in 1988. These sustained capital outflows consisted mainly of scheduled debt repayments, but there was also a sharp increase in the foreign short-term assets of the country, apparently connected with the growth of its exports.

- The improvement in the current account combined with the net outflow of capital, resulted in an increase of only R201 million in the country's gold and other foreign reserves. Preliminary data indicate that the capital

account started to improve dramatically during the beginning of 1990. This

development in conjunction with the sustained strength of the current ac-

count, caused South Africa's total net gold and other foreign reserves to rise by R2,9 billion during the first two months of 1990. Over the same period South Africa's total gross gold and other foreign reserves rose by R1.4 billion to R8,3 billion at the end of February 1990. As this level still

covers only about 1½ months of imports of goods and services, the declared intention of the monetary authorities is to strengthen these reserves further.

Exchange Rates of the Rand

The improvement in the overall balance of payments resulted in a much more stable exchange rate of the rand. The effective exchange rate of the rand, which dropped by 22,5 per cent in 1988, declined only moderately by 4,3 per cent in 1989. Appreciations of the rand against sterling and the

yen were overshadowed by depreciations against all other major currencies. In the first four months of 1990, the effective exchange rate of the rand declined further by 3,9 per cent.

The financial rand appreciated by 40 per cent from its lower turning-point on 25 August 1989 to 6 February 1990. This improvement could be attributed mainly to increased foreign demand for South African securities and improved perceptions regarding socio-political developments. Subsequently it depreciated again by 21,2 per cent up to the end of April 1990.

Monetary and Fiscal Developments

The excessively rapid increases in monetary aggregates and in credit extension by monetary institutions which started in late 1987, began to slow down markedly in 1989. Nevertheless, in the view of the monetary authorities the growth in money supply and bank credit remained too high. The twelve month rate of increase in the broad money supply (M3) declined from a peak of 27,9 per cent in August 1988 to the still high level of 21,4 per cent

in February 1990. Similarly, the twelve month rate of increase in credit extended to the private sector by monetary institutions came down gradually from 29,9 per cent in January 1989 to 18,6 per cent in February 1990.

In view of these circumstances, the high rate of inflation, continued compulsory repayments on foreign debt and the low level of the foreign reserves, the authorities continued to apply a restrictive monetary policy. The Bank rate was increased in three further steps during 1989 to 18 per cent and greater pressure was placed on the banks by means of moral suasion and penalty rates on a part of the accommodation at the discount window. The authorities also reduced the guidelines for the growth in money supply between the fourth quarter of 1989 to the fourth quarter of 1990 to 11 to 15 per cent from 14 to 18 per cent in the previous year.

Strict discipline was adhered to by the fiscal authorities. In fiscal year 1989/90 government expenditure rose by 16,2 per cent, while revenue increased by 28,2 per cent. The deficit before borrowing relative to gross domestic product accordingly amounted to a mere 1,6 per cent, against the original Budget estimate of 4,1 per cent.

Structural Adjustment

These short-term economic stabilisation measures are reconcilable with the increased emphasis placed by the government on a long-term structural adjustment programme. In view of serious structural problems which beset the South African economy as well as political reforms undertaken by the government, three broad structural policy considerations were formulated by the Minister of Finance in his 1990 Budget speech, namely:

(i) The economy must be restructured so as meaningfully to raise the living standards of the entire South African population. Since the private sector is the prime wealth creator, those factors leading to income and wealth generation by that sector must be promoted.

(ii) High priority will have to be given to the urgent socio-economic development issues of poverty and the backlogs in housing, education and training, literacy, basic health needs and other factors impeding both participation in the economy and the raising of living standards. But fiscal discipline must not be jettisoned in the process: there must be a thorough determination and rearrangement of priorities, and also greater cost-effectiveness.

(iii) Apart from these long-term issues, macro-economic policy in the short-term must remain focused on the stabilisation of economic activity over the course of the business cycle.

In view of these broad considerations, the Minister also stated that the following structural problems in particular would receive attention:

• The gradual reduction of the inflation rate to levels comparable with those of South Africa's trading partners;

• the restoration of savings;

• the reduction of the tax pressure on households in comparison to companies;

• the encouragement of responsible wage bargaining,

• the promotion of the competitive ability of South African industry; and

• the elimination of factors preventing the relative prices of factors of production correctly reflecting the relative scarcity of such factors.

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FINANCIAL TIMES

MONDAY JUNE 11 1990

CAPITALISM is on trial in South Africa, and the trial period is perilously short. Over the next two years, perhaps less, Pretoria must persuade blacks that capitalism is not the cause of deprivation, but its remedy. The system of economic apartheid inherited from 42 years of National Party rule makes black leaders sceptical of this message: and with economic growth depressed, now is the worst time to be putting

â\200\230the free market to the test.

â\200\234It is a tragic irony that negotiations are getting under way just when the economy is on the downturn,â\200\235 says Mr Barend du Plessis, the South African Finance Minister, a member of the National Party team negotiating with the African National Congress (ANC).

â\200\234What we need is an economy which supports the negotiation process,â\200\235 Mr du Plessis argues. â\200\234It canâ\200\231t just be the cherry on the cake; it must be the very wheels that carry negotiations to their destination.â\200\235

But it is difficult to see the 1990 economy providing the Nationalists with much ammunition for their battle against

socialism. Economic growth

Patti Waldmeir discusses the downturn in t

he economy

Born again into capl

has been negative for the past two quarters, and even the most sanguine forecasters expect at best 0.5 per cent real GDP growth this year.

Mr du Plessis argues that the basis has now been laid for sustainable growth, following an intensive period of structural adjustments aimed at

reducing the role of government in the economy (through privatisation and deregulation), and at introducing fiscal and monetary discipline.

â\200\234We had to telescope into a very short period of time structural adjustments which normally take place over a much longer period â\200\224 and we were

forced to do it without access to international financial resources.â\200\235 .

Mr du Plessis, and his leagues in other economic industries and departments, clearly proud of the Gov! mentâ\200\231s recent record of economic reform. For, aiter decades of Afrikaner socia

BALANCE OF PAYMENTS (annual figures, Rm)

	1985	1986	1987	1988	1989	
Merchandise exports	20,465	25,048	25,146	31,472	39,146	5
Net gold exports?	15,460	16,719	17,792	19,622	19,22	
Service receipts	5,796	6,222	6,453	7,504	8,100	
less Merchandise imports?	23,045	25,514	28,320	39,170	44,110	
less Payments for services	13,109	15,664	15,350	16,882	20,300	
Total goods and services	5,567	6,811	5,721	2,548	35,000	
Transfers	358	385	431	393	881	
Balance on current account	5,925	7,196	6,152	2,939	4,000	

1 Published figures adj for
2 Net foreign sales of gold plus changes in go

of pay
Id holdings of th

ts purposes.

e Reserve Bank and other banking institutions.

Source: South African Res

THE African National Congress (ANC) is clear about its economic objectives: to abolish white economic privilege along with political privilege; to democratise and deracialise the exercise of economic power; to eliminate the gross economic inequalities fostered by apartheid.

But it has only just begun drawing up policies to achieve those objectives. The ANC returns from 30 years in exile with few of its own position papers on vital economic issues, and only a handful of trained economists.

Now, though, economic debate within the ANC has begun in earnest. South African and foreign academics, trade union economists, and the local business community are being called on to contrib-

ute. The result, in many cases, is confusion. For the moment, the ANC is experimenting with numerous policy options.

The clearest indication yet of the direction of its thinking came last month when Mr Nelson Mandela, ANC deputy president, addressed a conference in Johannesburg bringing together ANC officials and some 400 local businessmen.

He was at pains to stress that the ANC was not blindly committed to nationalisation

â\200\224 an impression which he M, MÃ¢bymoï¬\202 om

The ANCâ\200\231s economic debate

Mandela policy statement

previous statements on the issue, which precipitated sharp falls in the Johannesburg Stock Exchange and in the value of the rand.

â\200\234The ANC has no blueprint that decrees that (privately-owned) assets will be nationalised ...But we do say that this option should be part of the ongoing debate ...It should not be ruled out of the court of discussion simply because of previous bad experience or because of a theological commitment to the principle of private property,â\200\235 Mr Mandela said.

He acknowledged â\200\234the critical importance of such matters as the confidence. .. of both the national and international business communities,â\200\235 adding that the ANC â\200\234can have no desire to go out of our way to bash them and to undermine or weaken their confidence in the safety of their property and the assurance of a fair return

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&

would have to realise that an ANC government would have to respond to â\200\234justified popular concern about the grossly unequal distribution of eco-

conomic powerâ\200\235.

Apart from these general statements of intent, Mr Mandela made passing reference to issues such as the use of anti-trust legislation to limit the concentration of economic power; the appointment of state and trade union representatives to the boards of private sector businesses; land reform and taxation.

Mr Mandela chose his words judiciously to avoid alarming his listeners. But his bottom line was that redistribution of wealth must take place â\200\234in conditions of a growing economyâ\200\235, that public spending must be redistributed in favour of the disadvantaged, and that â\200\234growth by itself will not ensure equityâ\200\235. This could best

tive national planâ\200\235 drawn by a future parliament â\200\234together with the public large,â\200\235 he said. However, it would be ous to draw too many sions from Mr M speech. It is not clear closely the speech reflects views of the ANCâ\200\231s most prominent economic thinker â\200\231 Slovo, an influential member of the ANC national executive and general secretary of the South African Communist Party...: i 94 Mr Slovo argued in an article that â\200\234the resc which have to be general correct inherited imbalance and deprivations of the necessity demand, in the first place necessary degree of state trol (involving selective of ownership and participation; over strategic sectors of economy.â\200\235 1 â\200\234In short,â\200\235 argued Mr Slovo,

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â\200\234liberation can have little meaning without disturbing the existing access to and dis--

resources.â\200\235 Mr Slovo pr
nothing so dramatic as Â¢
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be shared by many with
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lism

â\200\224 the heavily interventionist
economic system which
uplifted the Afrikaner, but led
to inefficiency and waste â\200\224
Pretoria has been born again
_into the capitalist faith.
Ironically, international
sanctions appear to have

. played a large role in spurring
. the Government on to reform.

Â£ Without steps to promote

_exports, and reduce imports,
â\200\234 South Africaâ\200\231s balance-of-pay-

i ments situation would have
. been untenable: since 1985,
; when Pretoria declared a par-
| l tial debt moratorium, South
| Africa has seen a total net cap-

?'. ital outflow of R30bn (\$13bn).

That situation has eased recently: according to Mr Chris

. Stals, governor of the South African Reserve Bank (central

bank), the net capital outflow in the first quarter of 1990 was

~ zero; and in the past five

months, foreign reserves have risen by \$1bn. Outflows will increase as South Africa repays the \$1.2bn of debt maturing this year (total debt

t| maturing in 1990 is estimated

by Mr Stals at \$2.1bn to \$2.2bn, but a large portion has been or will be rolled over).

" However, Mr Stals sees no

difficulty in meeting these payments, with the surplus on the current account of the balance ~ of payments running at R5bn to R10bn at the moment. And, by the end of 1991, Pretoria will be over its debt repayments hump, left with no more than \$1bn in foreign debt to repay in

| any one year.

For the first time in years,

| South Africa will then be able to determine economic policy

without the constraint of running a large balance of pay-

a | ments surplus. Mr Stals esti-

mates that if the net outflow could just be stopped, 3 to 4 per cent growth is possible, while - growth of more than 4 per cent would require an inflow of foreign capital.

Mr du Plessis forecasts that by the end of 1991, the economy will have entered a new growth phase (provided, of course, that the gold price holds up). The ground has been prepared by a mildly stimulatory budget for 1990-91. The strategy now is to stimulate

the economy on supply side principles, while making mas-

sive investments in social g

Economists fear, however, that Pretoria's commitment to fiscal discipline may not survive the pressures of politics in the transition to a new South

- Africa. Mr Gerhard Croeser,

director-general in the Department of Finance, says government remains firmly wedded to discipline. But he admits Pretoria will henceforth need to consult more widely on the budget. ANC officials will almost certainly have an input, if not in the next budget then in the following one and it will be difficult to deny their demands.

For the disparities between white and black are huge. Per capita spending on black education (excluding capital spending) totalled R765 in 1988/89, against R3,082 for whites, while health spending was R137.84 per capita for blacks, and R597.11 for whites. Housing is perhaps an even more urgent problem: the Urban Foundation calculates that nearly half of all African families are housed in shacks.

According to Mr Servaas van den Berg, an economist at Stellenbosch University, the cost of abolishing fiscal apartheid (introducing parity between white and black benefit levels) in the fields of education, pensions, health and housing would be some R75bn, more than the whole of the 1990/91 budget.

Yet, according to Mr Stals, growth of more than 4 per cent cannot be achieved without foreign capital. And most economists and government officials are extremely cautious about likely inflows post-apartheid. South Africa does not qualify for direct World Bank assistance because per capita income is too high; with its balance of payments surplus it would not qualify for assistance from the International Monetary Fund (IMF), even if

politics did not prevent its access; and Eastern Europe may well prove stiff competition when it comes to other sources of capital.

Much will depend, of course, on the economic policies of a post-apartheid government. If you put nationalisation to the vote it would win, says Mr Stoffel van der Merwe, a member of Pretoria's negotiating team with the ANC. But people who understand economics can be persuaded, Mr van der Merwe believes. When it

comes to the point of discuss-

ing economic issues we will have strong arguments. The next few months will begin to

Population
Africans

ATeRA" 20 i v e S 1,223,226 sq km (includes homelands_;
..35.9m (1988 est including homelands

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ASIANS i R e
WhItES | <0 ey, s ignas,
Head of State

74.9%
8.7%
2.6%

CURreNCY: ...k o st it s e 100 cents=1 Rand
Exchange rate (1989 average)c.c..ccoenee \$ = R2.622
ECONOMY

1988 1989
Total GDP (\$M).....ccccouvvnreinienne 87,993 89,409
Real GDP growth..... 3.7% 2.0%
GDP per capita (\$).....c..cc..... 2,451 not avail
Current account balance (\$m)... 1,272 1,695
Budget deficit as % of GDP..... 4.4% 1.5%
External debt as % of GDP..... 24.1% 23.0%
Debt service/exports..... 9.6% 8.9%
Exports incl non-factor svcs
(SRt o r et A A e e o 22.4 24.3
Imports incl non-factor svcs
(SN ety e MO S by 17.2 18.8
Trade balance (\$bn)..... L) 55
Export volume growth rate..... 5.7% 9.5%
Import volume growth rate..... 22.5% 0.0%
Inflation v Â¢1 on R L sl 12.9% 14.7%

* Exports plus imports as % of GNP :
Source: EIU, Reserve Bank Quarterly Bulletin

Black trade unions

Gearing up for
- militancy

IT IS a heady time for black
trade unionism in South
Africa.

After four years at the fore-
front of the black political
struggle against Pretoria, trade
unionists congratulate them-
selves for hastening the end of
apartheid. Union leaders
expect to play an important
role in negotiating a post-apart-
heid constitution, while their
members, spurred on by rising
political expectations, are gear-
ing up for industrial militancy.

The legalisation of black
unions a decade ago drove the
first important wedge in the
edifice of white power. Since
that time, and especially dur-
ing the darkest days of the
state of emergency imposed in
1986, black unions assumed
(along with the churches) the
leadership of the anti-apartheid
struggle.

Pretoria barred the unions
from political activity in Feb-
ruary 1988; but they managed
to keep the spirit of resistance
alive. Meanwhile, union lead-

audited.

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and headed by Dr Marius de Waal - Chairman, and Dr Anton Moolman - Managing Director. A business like any other business ie. profit-orientated, tax-paying and privately ~

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, | Philip Gawith looks at sanctions

' THE CONSENSUS in South

Africa is that sanctions are yesterday's topic - the world has done its worst, the country has taken the pain and from now on things can only get better. While this may be so, the economic legacy of sanctions

| will live on long after they

have been lifted.

Attempting a political audit of sanctions - whether, if at all, they pushed the Government towards political reforms - is an impossible task: the subject is so emotional, subjective and intangible. The truth is probably that sanctions were among many factors which influenced Government thinking.

A cost-benefit analysis is even more vexed, although business has no doubts. Mr Lesley Boyd, chairman of Highveld Steel and of the South African Chamber of Business, says: "The damage caused by sanctions is far greater than any contribution they may

| have made to the political pro-

cess in the country."

In more sanguine moments South Africans argue that sanctions have had some benefits for the country. Mr Stef Naude, director-general of the Department of Trade and Industry, notes: "The determination to rectify the structural problems in the economy was the result of sanctions. We're coming out of this leaner and meaner. The private sector has lost its flabbiness."

The problem is the country has lost a lot more than flab. A study by the Washington-based Investor Responsibility Research Center (IRRC) estimates sanctions cost between \$15bn and \$27bn and that the economy is 20 to 35 per cent smaller than it would have been without restrictions on capital inflow and costly import substitution strategies.

Sanctions divide into three main categories: financial sanctions, restrictions on markets for exports and disinvestment.

Few dispute that financial sanctions have hit the country hardest. According to Mr Chris

Stals, governor of the Reserve Bank, net capital outflows from South Africa in 1985-89 totalled R30bn. That meant running a current account surplus which, given the import propensity, has meant a ceiling of about 3 per cent on GDP growth. For a capital-hungry, developing country these outflows have seriously constrained growth.

Most South African export-

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ers who lost markets in 1986-87,

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Harmful but also helpful

when the US, Canada, Scandinavia and the EC implemented sanctions, found alternative outlets; but the cost was high. The deciduous fruit industry lost 17 per cent of its export markets and 12,000 seasonal workers lost their jobs. This bears out the IRRC conclusion that boycotts of South African goods have been regressive in impact, with blacks suffering a

larger proportionate decline in income than whites.

South Africa had quotas to export 500,000 tonnes of finished steel to the US and the EC. These markets constituted 40-50 per cent of the industry's exports. In 1986-87, they were lost. According to Mr Boyd, they have been replaced; but this has prevented normal growth of the industry.

The impact of disinvestment is difficult to measure. In general, business has gone on either via a licensing arrangement or through local companies buying the assets, often at knock-down prices. There have also been impressive turn-arounds, such as with Delta which bought out General Motors. Anecdotal evidence indicates, however, that the withdrawal of a parent company leads to local companies falling behind in technology. But the main problem comes in the long term - there is little reason to believe a different political dispensation will bring back the multinationals.

Perhaps the most insidious effect of sanctions was their impact on industrial strategy. The oil and arms embargoes forced the country to seek self-sufficiency in these areas; strategic, rather than economic, considerations determined investment decisions.

The oil embargo hurt in two main ways. First, it caused the stockpiling of oil at considerable cost. The second major cost came from synthetic fuel projects: Sasol, which extracts oil from coal, and Moss gas, (oil from gas). There have been repeated calls for the abandonment of Moss gas which is seen as a white elephant.

Recently there has been evidence of greater normality in the running of economic affairs. Mr Dawie de Villiers, Minister of Mineral and Energy Affairs, announced an investigation into the deregulation of the liquid fuels industry. And Mr Naude said that direct trade with traditional foes such as Africa, China and eastern Europe was growing as a result

of political reforms afoot.

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skills; in wage talks with employers â\200\224 influencing the ANCâ\200\231s eventual decision to negotiate with Pretoria, and providing skilled operators for the time when formal talks begin.

Already union leaders are moving towards a less adversarial relationship with Pretoria and the employers. Officials of the Congress of South African Trade Unions (Cosatu), the largest union federation, and of the National Union of Mineworkers (NUM), the most powerful union, have met Government officials on numerous occasions recently to discuss industrial relations and broader political issues such as privatisation of state enterprises.

It is difficult to avoid the conclusion that the unions, like the ANC, are participating in a de facto coalition with the National Party.

â\200\234Weâ\200\231re meeting ministers almost every day,â\200\235 says one enthusiastic NUM official. The gap between the two sides is still huge: after a recent meeting with ministers, union officials issued a statement criticising Pretoriaâ\200\231s privatisation policy. But contact is at an early stage, and common ground may yet be found.

Two meetings last month, both held on the same day, illustrated the radical change in union relations with Pretoria and the employers.

In Welkom, the scene of racial attacks which left more than 10 people dead in one week last month, NUM officials held a meeting with the Minister for Law and Order, Mr Adriaan Vlok, and mine management. Mr Vlok, who ordered the detentions of more than 30,000 people during the state of emergency and is hated by many blacks, must

have been astounded to hear
Mr Cyril Ramaphosa, the NUM
general secretary, refer to him
as â\200\234our ministerâ\200\235.

And later that day in Cape
Town, it was time for union-
employer solidarity: union offi-
cials went into joint caucus
with employer representatives
to determine a strategy for
their meeting with Mr Eli
Louw, the Minister of Man-
power.

Unions and employers â\200\224
represented by Cosatu and the
smaller union federation,
Nactu (National Council of
Trade Unions), and by the
employersâ\200\231 federation, Saccola
(South African Coordinating
Committee on Labour Affairs)
â\200\224 presented to Mr Louw joint
proposals on amending South
Africaâ\200\231s labour laws.

The proposals were thrashed
out during two years of union-
employer consultations, and
have yet to be accepted by gov-
ernment. In themselves, they
represent little more than a
return to the status quo ante,
before the adoption in 1988 of
the Labour Relations Amend-
ment Act which outlawed sec-
ondary strikes, introduced

N

d.their. negotiating

Cyril Ramaphosa

Union membership
Million

1976 8

89

Source: Levy Piron Associates

tougher definitions of unfair
labour practices, allowed the
Industrial Court to interdict
lawful strikes, and held unions
financially liable for damage
during unlawful strikes.

The Cosatu/Nactu/Saccola agreement provides tentative evidence of a new maturity in the country's labour relations. But union officials argue that much remains to be achieved: despite the breathless pace of political change, workers have so far seen no improvement in material conditions.

Labour consultants predict a high level of industrial action in coming months, with workers' demands inflated by political expectations. Man days lost due to strikes in the first quarter of 1990 were four times as high as the same period of 1989, according to consultants Levy, Piron and Associates. They were estimated at 500,000 to 600,000 compared with 140,000 in the same period of 1989, while violence, damage to property and serious assaults also increased. And public sector workers, including hospital employees, are showing greater militancy.

It is too early to say whether 1990 will see a repetition of the bitter 1987 miners' strike, however. The NUM has demanded an average 35 per cent wage increase, and there seems little hope that employers will agree. But with 50,000 miners made redundant since the last strike, the miners' union will be in no hurry to repeat the 1987 experience.

In economic terms, now is the worst time for industrial action. Real economic growth is projected at no more than 0.5 per cent for 1990, and company profits are already reflecting the downturn. The trade-off between jobs and wages could well come sharply into focus: according to Levy, Piron, employment in manufacturing has risen only 5.6 per cent since 1980, while black wages in manufacturing have increased by 19 per cent per annum. Without large productivity gains in 1990, further pressure could be placed on jobs.

In the meantime, the unions appear eager to see liberal labour legislation put in place before a new Government

takes over. This government
may well be dominated by the
ANC - with whom the unions
are strongly allied. But union
leaders are anxious to protect
the independence of the trade
union movement. Given the
experience of labour unions in
the rest of Africa, they would
do well to ensure that now.

Patti Waldmeir

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FINANCIAL TIMES MONDAY JUNE 11 1990

IT SEEMED more of a family
outing than the launch of what
Mr Andries Treurnicht, leader
of the far right Conservative
Party, proclaimed as the â\200\234third
freedom struggleâ\200\235 of the Afri-
kaner nation.

The aroma of roasting boere-
wors (sausage), colourful beach
umbrellas, and children queue-
ing for refreshments in the
huge amphitheatre below Pre-
toriaâ\200\231s Voortrekker Monument,
looked more like a vast picnic
for 50,000 people than a show
of strength by right-wing
South Africa.

On the same day last month,
President FW de Klerk reaf-
firmed the policy that is divid-
ing Afrikanerdom, addressing
a crowd at Jan Smuts airport
after his nine-nation tour of
Europe.

â\200\234The new South Africa is in
the process of being born, and
nobody can stop it,â\200\235 he said.

So far it seems that Mr de
Klerk is holding his own.

While the CP is able to play on the deep-rooted fears held by many whites about a post-apartheid South Africa, it is unable to present a credible alternative.

The party stands for the old impractical apartheid ideal that racial groups should exercise their right to self-determination in their own states under their own governments, as the party's manifesto says. In his speech at the Voortrekker Monument rally, Mr Treurnicht's language was fiery, although his delivery was flat.

You do not have enough jails to keep Afrikaner nationalism imprisoned, he declared. We warn: this is an unfair government which no longer represents the volk (people).

But Mr Treurnicht offered little in the way of strategy.

A 10-point plan of action included a call for support at the Umlazi parliamentary by-election; further efforts to collect one million signatures

Apartheid rally: horseback parade in Pretoria

RIGHT-WING POLITICS

Third freedom struggle

for a petition opposing government policy; and negotiations for a white homeland - although it was too soon to set out its borders.

The party's strong showing in last week's Umlazi by-election, failing by a few hundred votes to take over a National Party stronghold, has boosted morale. But the next step is uncertain. Given that the CP has considered, but rejected, both a national strike by its members, and the resignation of its 39 MPs in order to challenge governments popularity at a mini general election, the plan of action must have seemed dull fare for any law-abiding party supporter.

Hence the mood at the rally

was subdued and reflective,
rather than suggesting over-
whelming enthusiasm for the

third struggle. (The Anglo-
Boer war of 1899-1902 is known
as South Africa's second war of
independence). But the spectre
of a right-wing backlash
against the dismantling of
apartheid nevertheless worries
many observers.

The CP, the Afrikaner Weer-
standsbeweging (AWB), the
extreme right para-military
organisation led by Mr Eugene
TerreBlanche, and several
smaller extremist groups,
enjoy considerable support
from within the ranks of the
police and armed forces,
although exactly how much is
difficult to assess.

A recent outbreak of vio-
lence in the the mining town of
Welkom, Orange Free State,
showed how explosive an
encounter between gun-toting
white vigilantes and black

- AWB was involved.

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South Africans express their

rights could be.

Bloodshed was almost inevitable with the combat of armed AWB vigilantes trying to evict blacks from the town

centre, a retaliatory boycott of |

white businesses by black consumers, and tension in the mines with black workers demanding an end to discriminatory practices. In March, two blacks died at the hands of vigilantes, although police say they do not know whether the

Further violence -occurred last month, when two whites were murdered by black mine-workers, and nine blacks died

when police opened fire on a |

crowd leaving a meeting. Ironically, a decision to call off the business boycott was made at the meeting.

Police and army reinforcements restored authority, but for about 48 hours, the town had the ingredients of a South African nightmare. :

The fact that order >returned j however, and that no similar racial clashes have occurred elsewhere, suggests that so far

at least, the extreme rightâ\200\231s |

maintain and expand the front
| it formed for the liberation
| struggle: with the South Afri-

bark is worse than its bite - although danger remains of an assassinâ\200\231s bullet, be fired by an angry white at either President de Klerk or Nelson Mandela.

Whether the far right threat can be contained as the full implications of Mr de Klerkâ\200\231s policies sink in is another matter. J

Frustrations could grow as changes to apartheid. take effect â\200\224in health services, for example, and public amenities, | Conservative Party MPâ\200\231s can do little to stop the process, despite the partyâ\200\231s substantial and growing, supportâ\200\231 from white voters. oy

Senior officials of thegruhngâ\200\230
National Party privately
acknowledge that if an election
was held today, it could lose,
notwithstanding support from
the middle-of-the- road Demo-
cratic Party.

The officials are in no doubt
that party popularity hĩ¬\201is fallen
since last Septemberâ\200\231s general
election, when the CP gained
31.3 per cent of the vote and
won 39 seats, the DP 20 per
cent (33 seats) and the NP 48.6
per cent (93 seats).

But this assessment is httle
comfort to the CP.

There is no constltutlional
requirement to hold an elec-
tion before 1994, and when Mr
de Klerk puts the outcome of
constitutional negotlatlons to
the white electorate, it will
almost certainly be at a refer-
endum.

In the meantlme the
National Party hopes iâ\200\230t can |
keep the far right at b ay, as it

rebuilds its constltue,ncy- 111, r

readiness for this critical test
of white opinion. o w

. community

Michael Holman

Black politics is in a state of great flux, says Patti Waldmeir

Beyond the revolution

â\200\234WEâ\200\231VE MOVED beyond being
revolutionaries. When we go
out now, we wear a coat and
tie.â\200\235 So says Mr Claude Mal-
lins, a young African National
Congress (ANC) activist who
learned his politics in the
street battles of the mid-1980s
in the Western Cape.

He has shed more than just
the uniform of the struggle.

He is making the transition
with the rest of the ANC from

liberation fighter to platform politician. And he has no doubt where that leads him - towards the middle ground in black society where most of the voting power lies.

The challenge for the ANC is to coax or drag a host of other more radical groups - especially students and unionised workers - along with it on the path towards the centre.

To do this, the ANC must

can Communist Party (SACP), one of the few communist parties in the world with expanding membership; with the Congress of South African Trade Unions (Cosatu), the largest union federation; and with churches, youth groups and organisations whose opposition to Pretoria has been far more effective till the ANC's military struggle.

President FW de Klerk is counting on the ANC's ability to hold itself together long enough to ensure an orderly transition to a post-apartheid future - and hopefully long enough to allow common political values to grow between

- black and white.

But with black politics in a

more fluid state than at any

time since the ANC was formed in 1912, it is difficult to predict the outcome.

Political activity by blacks-

has been stifled for more than

30 years.

When Mr de Klerk

announced its liberalisation on

February 2 - unbanning the ANC, SACP and Pan-Africanist Congress (PAC) - he released the pent-up force of years of anger and deprivation.

~ Politically-inspired violence surged through the country and in the black homelands, but organisational structures did not exist to channel it

towards a goal.

facing the AN

Its spokesmen regularly contradict one another on important issues, and the group

~Lack of organisation is probably the\most important issue'

seems to have no coherent strategy in areas such as economic policy. Its grassroots structures are embryonic. -

Without them, ANC leaders will find it difficult to bring their constituents around to the idea that whites are not simply going to hand over power. And they may find themselves unable to stop another wave of violence.

But while the ANC organises on the ground, holding membership drives and opening offices throughout the country, its deputy president and acknowledged leader, Mr Nelson Mandela, has made some progress in broadening the anti-apartheid front.

He persuaded four of the six

leaders of non-independent black homelands to boycott a recent meeting with President de Klerk. He is also able to count the leaders of independent Ciskei and Transkei as ANC supporters.

But there are important segments of the non-white population which do not pledge allegiance to Mr Mandela.

A surprisingly large number of coloureds and Indians â\200\224 and not a few blacks â\200\224 say they would vote for President de Klerk in an election.

So far, there is only anecdotal evidence of such support. But political scientists, and those who work in non-white communities, say they believe it could be significant.

Tribalism is one motivation: the ANC hierarchy is dominated by Xhosas and non-Xhosas fear they might be left out

when the ANC distributes the spoils of liberation.

3 More important is the nftâ\200\230

with Chief Mangosuthu Buthelezi, chief minister of the Kwa-Zulu black homeland, leader of Inkatha, the Zulu political

organisation, and a member of the Zulu royal family.

Every day in Natal, Chief Butheleziâ\200\231s supporters battle with Zulus who support the United Democratic Front (UDF), an ANC affiliate. More than 400 people have died in the black townships of Natal so far this year.

Mr Mandela has made clear his desire to meet Chief Buthelezi to seek an end to the carnage in Natal. But when he attempted to do so in April, Mr Mandela said he thought his supporters would â\200\234throttleâ\200\235 him. To them, Chief Buthelezi is a collaborator â\200\224 a black who chose to operate within the apartheid system, rather than fighting underground.

The ANC appears to be trying to isolate him as the only homeland leader of any substance who continues to co-operate with Pretoria.

ANC officials believe this strategy is working. The international community has backed away from the Zulu leader; Pretoria is more interested in the ANC; and the ANC is making inroads in Natal. Chief Buthelezi, whose Inkatha movement claims 1.5m members, is thrown back on his xenophobic rural power base.

The Zulu leader could be a dangerous man if cornered, and it is difficult to see a resolution in Natal unless he is brought on board.

More nebulous is the threat from the PAC, the ultra-radical black group which opposes negotiation with Pretoria and has as its slogan â\200\234one settler,

one bullet.â\200\235 e
; â\200\234PAC could easily

â\200\234The

become the party of the dispos-
- sessed and of the youth if the

ANC is seen to give away too
much to Pretoria: for example
an agreement on protecting

Chief Buthelezi, Chief Minister of the KwaZulu homeland: could be a dangerous man if cornered

white rights. PAC's insistence
that the land be returned to
African ownership is an issue
which the ANC largely avoids
which could also prove popular.

The PAC seems likely to
remain on the fringes of black
politics, however, although
that fringe may eventually
prove large enough to cause
considerable disruption.

Apart from these external
threats, the ANC must also
determine its relations with
the SACP. At a recent meeting
of youth in the Western Cape,
young members made clear
their support for the Commu-
nist Party. Several said they
would vote for Mr Joe Slovo,
the white general secretary of
the SACP, before Mr Mandela.

The SACP's aim of a phased
transition to socialism goes far
beyond the programme of the
Freedom Charter, the 1955 doc-
ument which embodies ANC
policy. But the party appears
to have considerable support
among the youth and trade
unions.

It could not survive on its
own. But its leaders, who are
believed to represent a large
proportion of the ANC national
executive, exert a dispropor-
tionate influence.

These leaders deny that east-
ern Europe represents the fail-
ure of socialism. They say it is
bureaucratic centralism that
has failed and they plan to
save socialism by proving it
can work in South Africa.

The party's secrecy and ten-
dency to Stalinist authoritari-
anism is an unwelcome influ-
ence within the ANC. But for

there is no pros-
pect of the ANC dissolving.

Their historical ties are strong, and both still need each other to drive the best bargain with Pretoria.

Patti Waldmeir analyses the failure of the homelands experiment

Dumping grounds of apartheid

OF ALL the grand designs of apartheid, none is grander - or more brutal - than the policy of separate development, aimed at ridding white South Africa of blacks.

This particular apartheid experiment, which involved banishing millions of South African blacks to 10 remote tribal homelands, has now been quietly abandoned by the National Party government.

The party has acknowledged

the failure of its policy of. . .ish apartheid while leaving the

ensuring, in the words of Mr Connie Mulder, a former National Party minister, that there will be not one black man with South African citizenship.

Mr Stoffel van der Merwe, Pretoria's minister in charge of the homelands, told the Parliament last month that the Government would no longer press homeland leaders to accept

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independence. Only four of the 10 ever did so - Transkei, Ciskei, Bophuthatswana and Venda and their status was

never recognised by the international community.

The constitutional future of the six self-governing (non-independent) territories will be a matter of negotiation,â\200\235 said Mr van der Merwe.

On one level, the minister was doing no more than stating the obvious: that the National Party cannot demol-

cornerstone of the edifice â\200\224 the homelands â\200\224 untouched.

Even before Mr van der Merweâ\200\231s statement, the homeland system seemed on the verge of collapse.

When political activity was freed by the Government in February, demonstrations broke out in several homelands. Residents challenged the legitimacy of governments led by men widely viewed as pup-

_| pets of Pretoria, many of whom

have used brutal methods to maintain power.

In Ciskei and Venda, military coups took place.

Last month the Chief Minister of the KaNgwane homeland, Mr Enos Mabuza, a longtime ally of the African National Congress (ANC), called for homeland political

structures to be phased out. He told the territoryâ\200\231s legislative assembly: â\200\234Our demise as a political body is upon us.â\200\235

And in Transkei and Ciskei, it was announced that referendums would be held on whether to renounce independence and rejoin the Republic.

Meanwhile, Mr Nelson Mandela, deputy president of the ANC, was busy wooing homeland leaders to fall in behind the ANC in opposing Pretoria.

He managed to persuade four of the six leaders of self-governing homelands to boycott a recent meeting with Mr F W de Klerk, the President. Pretoria has acknowledged it can no longer count

on them as allies.

But however precarious the future of the homelands as political structures, their existence cannot simply be wished away by a new government.

The feat of social engineering which led to their creation in the 1960s and 1970s could have lasting consequences.

Pretoria, for its part, seems eager to see the homelands transformed into semi-autonomous regional political structures, able to limit the power of central government under a new constitution.

The ANC rejects this view, arguing for a system of major-

ity rule in which the homelands would have no place as separate political entities.

But the ANC faces one powerful opponent in the homelands: Chief Mangosuthu Buthelezi, Chief Minister of the most populous territory, KwaZulu. He rejects any suggestion that the KwaZulu Government or legislature will be abolished.

The Zulu nation was not created by the homeland policy, he argues, and so cannot be demolished along with it.

But even if a future government succeeds in dismantling homeland political structures, huge administrative bureaucracies will remain.

ANC officials expect a big economic boost from attacking what Mr Mandela has called 'the multi-headed hydra' of apartheid administration, including the homelands.

Some economists argue, however, that reducing the duplication inherent in the apartheid system would yield only limited savings.

For while South Africa might no longer need 10 homeland ministers of education and 10 ministerial limousines, it would still need regional governments and regional bureaucracies. And given that per capita spending on pen-

sions and other social services

for homeland blacks is lower than for blacks in the Republic, equalising spending might offset savings gained by eliminating the duplication.

Mr Simon Brand, chief executive of the South African Development Bank, argues that the direct costs of duplication are not as high as is popularly believed. But he believes big savings can be achieved by phasing out Pretoria's industrial decentralisation policy which involves heavy subsidies to industries setting up in homeland or border areas.

About R700m a year is spent on such subsidies, although a recent report commissioned by Pretoria found that 74 per cent of decentralised firms were unprofitable and the number of jobs created was disappointing.

But it is not clear yet whether an ANC government might wish to maintain some industrial subsidies to rural areas. And an ANC government could come under heavy pressure to reward former combatants with positions in homeland bureaucracies.

Whatever the complexion of a future government, resources for improving the appalling living standards which prevail in most homelands will be difficult to come by.

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