

INSIDE

- Negotiations: lessons from Codesa I Page 1
- Warning signals for negotiations Page 3
- The government's normative economic model Page 5
- Prospects for the South African economy Page 6
- The EC and South Africa: the scope of the new political relationship Page 7

The past month

- 2 **May** – Zimbabwean Foreign Minister Mr Nathan Shumuyarira, whose country has avoided contact with Pretoria, meets SA Foreign Minister Mr Pik Botha for the first time in Johannesburg.
- 3 **May** – The Azanian People's Liberation Army (Apla) claims responsibility for the terror attack at an East London hotel which killed five people.
- 4 **May** – A cooperation agreement is signed between the largest employer bodies of SA and India.
- 5 **May** – In an address to a joint sitting of two houses of the British parliament, ANC president Nelson Mandela urges Britain to invest in SA as soon as a date for non-racial elections is announced.
Apla claims responsibility for the murder of four police officers at Dobsonville, Soweto, bringing police deaths so far this year to 68.
- 6 **May** – 6 000 militant rightwingers meet at Potchefstroom and vow to reject government by the ANC and PAC.
- 7 **May** – Under the chairmanship of former SADF chief General Constand Viljoen, 18 right-wing groups, excluding the Afrikaner Weerstandsbeweging, form a popular front, The Afrikaner Volksfront, to coordinate demands for Afrikaner self-determination within a federal state.
- 10 **May** – Azapo reaffirms its opposition to multi-party talks and its commitment to all forms of struggle for liberation, including armed struggle, and only bilateral talks with government.
SA reopens its diplomatic mission in Angola.
- 11 **May** – SAP Commissioner General confirms a police investigation of four right-wingers plotting to assassinate SA Communist Party chairman Mr Joe Slovo.
SA mining house Gencor announces that it will unbundle its non-mining assets, in line with views of investors worldwide that conglomerate structures were inefficient. Sankorp sells 10% percent of its 40% stake in Metropolitan Life to a black-owned company, MetLife Investment Holdings, that is seen as a first step towards setting up a large black-owned insurance company.
- 12 **May** – Police reservists in the eastern Transvaal are called up for service to improve security following nine attacks,

continued on page 2

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Negotiations: lessons from Codesa I

Our transition has progressed since Codesa collapsed – but not to the stage where a stable settlement is assured.

Steven Friedman, director, Centre for Policy Studies

As our negotiated attempt at transition enters another series of breakthroughs, breakdowns and delays, it is useful to compare progress at this forum with that at the last one, the Convention for a Democratic South Africa. A recently published Centre for Policy Studies' book* argues that Codesa was never, as we were led to believe, "agonisingly close" to a settlement.

The main reason was that both the presumed major parties, the National Party and the African National Congress, joined Codesa with hopelessly inaccurate strategic assessments of each other. The ANC assumed it had come to the World Trade Centre to accept the NP's surrender; the latter believed it had come to negotiate participation in an NP-ruled state.

That gulf was never bridged at Codesa. Inevitably, albeit tragically, it took four months of conflict after the convention's collapse for the parties to form a more sober view of the compromises they could ask and would have to make – and to begin negotiating again.

Codesa had one other flaw worth recalling; it was never clear how many sides there were to the negotiating table. Ostensibly, Codesa was a multiparty forum. In reality, it was a thinly-disguised two-sided table: consensus was what the two "big" parties said it was and it was assumed that the others would largely fall in behind one of the two major patrons. Most did: but the Inkatha Freedom Party later made it clear

that it believed the table had three sides.

If this year's round at the World Trade Centre is to deliver the settlement which last year's could not, then the parties will have learned from 1992's miscalculations.

On the surface, they have. Having learned the limits of their own power and the extent of their partners', the ANC and the NP, we are told, have agreed on a compromise settlement which allows for a new order which is neither minority surrender nor white rule with some black faces. IFP mobilisation since Codesa, and the formation of the Concerned South Africans Group (Cosag), has ensured that the multi-party talks are indeed at least a three-sided affair.

Yet, doubts that Codesa's lessons have been learned linger. If the delays continue and a settlement remains "just around the corner", the doubts will grow. But, even if an agreement is signed, caution might be needed.

Firstly, the NP and the ANC may not be as firmly hooked onto the same wavelength as they would have us believe.

Behind the happy haze of agreement there are apparently serious differences. These may be sorted out – but they do imply continuing disagreements on the central issue in the transition: whether the parties are to share power or rule with each other's help. More immediately, the two have not progressed beyond a fudged agreement on the role and powers of the transitional executive councils which are to be established before an election.

The ANC wants the Transitional
continued on page 2

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The South Africa Foundation is an independent organisation, financed entirely by private enterprise, which strives for a better understanding of South Africa, in the international context, through research, distribution of information and direct contact at top level throughout the world.

Being an information and communication organisation it has two basic functions – to provide facts about South Africa to a world audience and, by analysing and explaining the nature, sources and purposes of various international pressures on South Africa, to engender a responsible and sophisticated reaction to such pressures among South Africans themselves.

The past month *continued*

assumed to be politically motivated, on farmers and the elderly in the area.

- 13 May** – President of the newly established Nigeria-Southern Africa Development Consortium, Dr S Odogwu, arrives in SA with a 20-man business and government delegation.

The Afrikaner Weerstandsbeweging, the Mineworkers' Union and the Iron and Steel Labour Union announce their intention to gain membership of the Afrikaner Volksfront.

- 14 May** – In a ground-breaking socio-economic development deal, the SA Life Offices Association agrees to a R500 million tranche to part finance Eskom's R3 billion "electricity-for-all" drive.

SA and Zimbabwe sign an agreement to link these countries' electricity networks.

- 15 May** – Mr Ferdi Hartzenberg is chosen as the new leader of the Conservative Party.

- 18 May** – The technical negotiating committee on constitutional issues tables a report wherein the ANC accepts the principle of a federal state with constitutionally entrenched powers for regional governments. Such 'self-determination' will be finalised by the multiparty forum rather than a future elected constituent assembly.

- 19 May** – At the formal launch of the 17 group Afrikaner Volksfront, CP leader Dr Ferdi Hartzenberg, is elected chairman, with the convenor of the Committee of Generals, former Chief of the Defence Force, General Constand Viljoen, head of the directorate. The Afrikaner Volksunie is not represented on the executive due to its opposition to the non-citizenship of blacks in a future homeland.

- 20 May** – At the end of a two-day education crisis summit, President FW de Klerk announces the formation of a comprehensive forum to address the problems facing black students and reopens negotiations on teachers' salaries.

- 24 May** – SA Foreign Minister Pik Botha visits Egypt on a three-day visit to expand unofficial ties despite a continuing Arab ban on formal diplomatic relations.

- 25 May** – Forty-nine PAC and Apla members, inclusive of national executive members, are arrested in country-wide raids in connection with alleged criminal acts.

- 27 May** – Chairman of the EC's Council of Ministers, Niels Helveg Petersen, arrives in SA on a three-day visit to indicate EC support for SA's democratisation process.

- 1 June** – A row erupts over the newly appointed SABC board, as Frederik

continued from page 1

Negotiations: lessons from Codesa I

Executive Council (TEC) to run the country, at least in areas directly related to "levelling the field" before an election; the NP wants to continue deciding, advised by the TEC.

The current agreement suggests that, in specific areas, the TECs and the government will rule together; it is difficult to see how this could work, very easy to imagine endless SABC Board-type squabbles about who has the power to do what. All this means that the NP and the ANC are still fudging the divide between them, because some unrealistic expectations that dogged Codesa (minority rule with majority participation on the one hand, the reverse on the other) are still alive.

The negotiators may well now harbour realistic expectations; many in their constituencies do not. At this stage in our transition, the ANC has proved far better than the NP at dealing with unrealistic expectations in its constituency; as a result the delays on the road to a settlement have not, in the main, been of the ANC's making.

This is not particularly surprising. It is the ANC – as it was in the later stages of Codesa – which is in a hurry to settle: it faces strong pressure from its constituency to negotiate the end of white rule as soon as possible.

So it has been willing to make significant compromises and, at least in some cases, to sell them to its constituency. The most important examples are its strategy document, 'A Strategic Perspective', which commits it to a form of power sharing, and the concessions it has made to strong regional government. The ANC has also sent out signals indicating that it accepts that the transition needs a strong NP.

But the ANC's urgency does not seem to be shared by the NP. This, too, is not surprising since its constituency is in no hurry for a settlement; parts of it insisted earlier this year that the NP was moving too quickly towards a deal and was making unnecessary concessions en route.

The NP's constituency also seems far more divided – at least at national level – than the ANC's. There are divisions in the cabinet on how hard a bargain the party should drive with its chief partner. It is not at all clear that the NP has spelled out to its constituency the implications of the deal to which it is committed. It continues to try to behave, for example, as though it is in sole control of the country and will continue to be for the foreseeable future – despite the fact that it is being continuously reminded

that neither assumption is accurate.

As a result, the NP seems unsure which lessons it has learned and where it wants to go. It is, for example, forced to make heroic stands – on capital punishment or an education forum – only to abandon them when reality intrudes. Much of this may reflect attempts to reassure its constituency that the old guard is still around and will continue to be so. It has precisely the opposite effect, since inevitable government retreats simply confirm some whites' worst fears.

This has not directly affected negotiations as much as we might expect. But there are indications that the NP may respond to constituency pressure and a lack of clarity on what it is hoping to achieve, by advancing a version of regional government which could place NP-ANC relations under strain.

NP ambivalence also shows itself in an area of direct importance to negotiations – its attitude to the IFP in particular, Cosag in general.

The ANC wants to leave the third party behind if it seems to be obstructing a settlement. The NP doesn't seem sure: parts of its constituency want to delay a settlement until Cosag is on board, parts give priority to a deal with the ANC. If there are three sides to the table, then all three need a realistic assessment of what compromises are possible, and it is debatable whether the third party has.

Here, the key player is the IFP. There is no prospect of a deal that can satisfy both the Conservative Party and anyone else; nor are the Bophuthatswana and Ciskei governments' hopes of remaining where they are now attainable. The Volksunie's proposals are likely to be accommodated only if it accepts that an Afrikaans-majority region is possible only if "Afrikaans" is not code for "white". The last two parties are not indispensable to a settlement. Neither, despite the bellicosity of the right, is the Conservative Party nor the Afrikaner Volksunie.

The key question, however, is whether the IFP harbours a realistic assessment of what it can achieve. If it, too, hasn't learned the lesson, it may force a reluctant NP to choose between it and the ANC; the NP will choose the ANC.

Our transition has progressed since Codesa collapsed: but not to the stage where a stable settlement is assured. If we expect an instant unity of purpose once the transitional structures are established, we will be disappointed. If we expect, amid inevitable tensions, steady progress towards stable government, we may be pleasantly surprised.

**The Long Journey: South Africa's Quest for a Negotiated Settlement, Ravan Press. ■*

The past month continued

van Zyl Slabbert declines the chairmanship. He agrees to serve as chairman until the end of July.

2 June – The Swiss government approves the sale of 60 Pilatus training aircraft to SA, saying they will be modified so that they cannot be used for combat.

3 June – Winnie Mandela has four criminal counts for being an accessory to assault, arising from the death of Stompie Seipei and the kidnapping of three other youths, set aside by the Appeal Court. Her five-year jail sentence for kidnapping is commuted to a R15 000 fine.

11 June – The Afrikaner Volksfront announces that it is to embark on a passive resistance campaign, including strikes and mass action, later this month.

13 June – Dutch economic affairs minister, Koos Andriessen arrives in SA to meet political, business and labour leaders.

15 June – The US-SA Business Council, founded by major US corporations, is launched in Washington.

16 June – April 27, 1994 is the provisional date set by the multiparty negotiating council for SA's first all-race general election.

IFP leads Cosag in a walkout of the multiparty negotiating council.

18 June – Finance Minister Derek Keys is confident of meeting the Budget target of a deficit about 6.8% of the GDP and expects the economy to move into a growth phase this year despite speculation that the deficit would return to 9% during 1993.

24 June – A peace summit between ANC and IFP leaders, Mr Nelson Mandela and Chief Mangosuthu Buthelezi, forges a fresh commitment to end the carnage between their supporters.

25 June – Armed rightwingers storm the World Trade Centre at Kempton Park and occupy the building where SA's top negotiators are gathered.

Hyatt International announces its intention to build a R165m hotel in Rosebank.

28 June – State President F W de Klerk goes to Austria on a four-day unofficial visit.

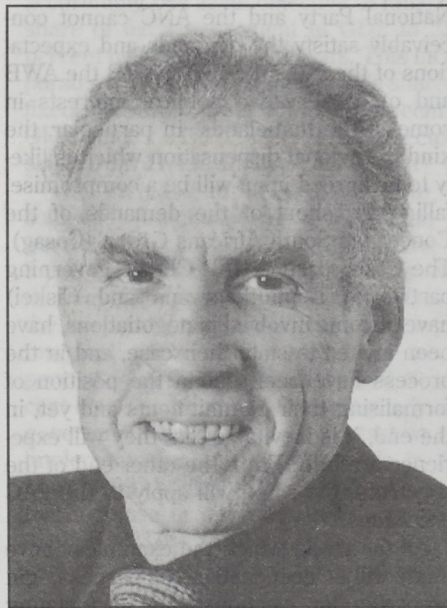
29 June – Bilateral talks between the government and the PAC break down as the PAC refuses to give an undertaking to suspend the armed struggle.

The President of the European Community's Development Council, Mrs Helle Degn, arrives in SA for a four-day visit.

30 June – The EC pledges more aid once a transitional executive council is installed.

Warning signals for negotiations

Against a background of failed elections in Angola and Nigeria, the serious national fragmentation which has occurred in parts of Eastern Europe and the former Soviet Union, the prospects of a generally acceptable outcome of negotiations are hardly reassuring.



**Professor Lawrence Schlemmer,
general manager, Group Social
Dynamics, HSRC**

One of the more basic laws of politics must surely be the principle of "unravelling". Agreements, strategies and policies, unless implemented with determination and promptness, have an awful tendency to fall apart. All indications are that this is what is happening in South Africa's much vaunted negotiated transition to democracy at the moment. While there are powerful forces propelling the process of political settlement, the parties which will have to implement it are becoming increasingly frayed. Unless the settlement process is reinforced very quickly and substantially, the vehicle of negotiations which is to convey the country into its democratic future could quite conceivably disintegrate.

Shortly after the ANC and other parties were unbanned and Mr Mandela and other imprisoned leaders released in 1990, the outlines of an effective route towards an inclusive political system emerged. Although largely unstated, the route was expected by many participants to be based on a deal; a contract between the major parties to accommodate each other for the foreseeable future.

The viability of that assumed deal lay in the fact that the respective leaderships of the ANC alliance, on the one hand, and of the government and the Inkatha Freedom Party on the other, could secure enough compliance across the political spectrum, to jointly shepherd the society into a new political order.

If that deal had been secured early, and implemented by establishing a joint governing council, adding a few more leaders, including a credible and flexible right-wing politician, and by leaving the detail to be worked out in the course of time, the resulting joint authority might have been effective, albeit sullied in terms of democratic ideals. In fact, most idealists, ideologues, journalists, political scientists and armchair critics, with considerable justification, would have muttered darkly about "a cartel", "political elitism", anti-democratic practices, South American-type "corporatism" and the like. By today, however, the country would have enjoyed perhaps two and a half years of joint rule in which a strategic grouping of top political leaders and their lieutenants would have assumed joint responsibility for repairing the damage to the economy and restoring growth. As the economy began to increase general levels of welfare, and as sound administration was restored to the townships, the joint council would have been able to begin planning the country's first open elections.

The brief hypothetical picture above, while obviously a compromise on democracy, is one historically proven method of ushering a country into a radically different type of political system. It is futile to dwell on it, however, because we took a different route – a route in which we have attempted to work out much of the detail before implementing any political deal.

In early 1990, a process commenced of "clearing the way" for negotiations. This involved the tortuous problems of the release of political prisoners, the suspension of armed struggle by the former liberation movements and the lifting of the state of emergency. Later, the nature and form of negotiations became the issue. These and other vexed issues all had to be negotiated between parties which distrusted one

continued on page 4

continued from page 3

Warning signals for negotiations

another and which had no guarantee of an outcome. The negotiations soon became highly competitive; a process of point-scoring between long-delayed breakthroughs. The fierce competition for political advantage has made effective cooperation to stabilise the country and restore confidence to the economy impossible.

One need elaborate no further. Today, substantial progress has been made and there is at least basic agreement on things like proportional representation, a bill of rights, a two-tier system of central and regional government, an initial period of agreed coalition government or power sharing and a Transitional Executive Authority to level the political playing-field for elections.

These achievements, however, have taken time; time in which all kinds of factions below the level of the negotiating leadership have had time to mobilise. In order to reach the agreements mentioned, the negotiating parties have all had to make major concessions and shift their ground. The concessions have created uncertainty and disunity within the parties, however. And, all along, the negotiating parties have had one eye on the negotiations and another on the expected elections. In other words, the transition process has become a bewildering maze of agendas at different levels, of double agendas and contradictions.

Taking stock of the situation in mid-1993 is a very disturbing exercise. Success in the further transition depends on the unity and coherence of the major parties, because only they can ensure that major mobilised political interests will accept the outcome of negotiations. Yet this unity and coherence is far from guaranteed:

- One recent opinion poll (Research Surveys), suggests that the National Party has lost support quite dramatically to the right wing, and now may have less than one-third of white support. The particular poll may have exaggerated the problem, but the trend is valid. The NP is also losing support to the IFP, particularly in Natal. Its ratings are probably at an all-time low in the public service, at least seven out of ten of whom, according to Human Sciences Research Council (HSRC) research, are at best uncertain about the implications of a negotiated future for themselves.
- The ANC is experiencing problems in maintaining its own coherence. The ANC Youth League appears unwilling or at least reluctant to accept the ANC's prohibition of a particular chant ("Kill the Boer, kill the farmer") which has clearly affected stability in the country. A recent nation-wide teachers' strike organised by South African Democratic Teachers' Union (SADTU) which is broadly aligned

to the ANC, was organised despite ANC unhappiness at the development. ANC-aligned "Self Defence Units" in some townships, by promoting instability, have embarrassed the organisation. Some leaders in the Civic movement have taken positions clearly at odds with the ANC. Opinion polls show substantial support of almost 20 percent for the PAC among 16- to 24-year-old blacks.

These are simply some of the difficulties being experienced within two of the major negotiating organisations. The process is even more problematic on either side of these two parties.

The nature of the political and constitutional deal likely to emerge between the National Party and the ANC cannot conceivably satisfy the demands and expectations of the PAC, the IFP, the CP, the AWP and of conservative political interests in some of the homelands. In particular, the kind of regional dispensation which is likely to be agreed upon will be a compromise, falling far short of the demands of the Concerned South Africans Group (Cosag). The Cosag parties (IFP, CP, the governing parties of Bophuthatswana and Ciskei) have become involved in negotiations, have been invited to state their case, and in the process have been put in the position of formalising their commitments and yet, in the end, it is inevitable that they will experience a rebuff. From the other end of the spectrum, the same will apply to the PAC and Azapo.

All the strain which the examples above imply will be deepened as the parties begin preparing for elections and start stating their commitments to followers. Above all, however, there is ongoing political violence and intimidation which, although not necessarily increasing in its scope, is deepening in intensity and loss of life.

Against a background of failed elections in Angola, Nigeria and, to some degree, Kenya, the serious national fragmentation which has occurred in parts of Eastern Europe and the former Soviet Union, the prospects of a generally acceptable outcome of negotiations, and of what will probably be highly troubled elections in South Africa, are hardly reassuring.

Two major factors are reassuring, however. First, there is the relative sophistication of the facilitating and monitoring agencies in South Africa - the Goldstone Commission, the Peace Accord structures, the international monitoring industry which is growing daily. The second is the realisation within the two major parties, the ANC and the NP, that they have done their best to destroy each other in the past and have failed. For them, compromise is the only alternative left.

This realisation, however, is not shared by the smaller parties, all of whom are bound to feel that the money and other resources of the two biggest parties have stacked the odds against them. We also have to note that each one of the smaller parties has substantial support among

various types of security forces, in central government or in the homelands. These parties have also demonstrated their willingness and capacity to cooperate. By any standards of judgment, South Africa is living very dangerously indeed.

It is no use crying over spilt milk. A comprehensive pact between top leaders of all the parties with the capacity to destabilise the outcome was an opportunity missed in 1990, that will not return. South Africa is therefore committed to attempting what many experienced political scientists would regard as impossible - simultaneously introducing a competitive democracy, restructuring a weakened economy and ending endemic political violence which is more serious than anywhere else outside of declared war zones in the world today.

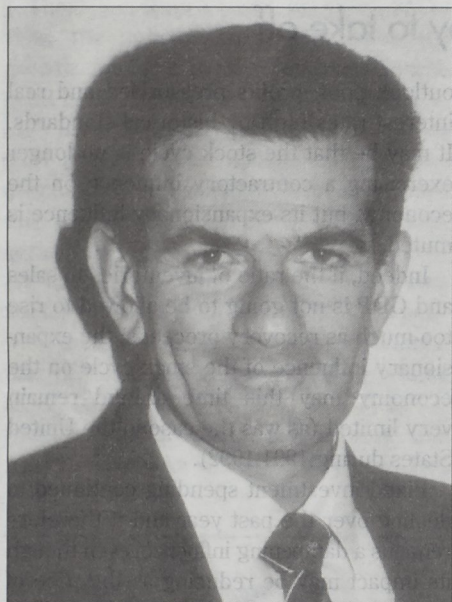
It may not be too late, however, to build some stabilisers into the immediate transition and the political system after the first election. One is reluctant to make suggestions from the margin of politics; hence the following questions are raised merely as a basis for discussion:

- Is it wise to base the shift to multiparty rule on a single, high-key and fiercely, even violently competitive event in the form of a general election? The 1994 election will undoubtedly be the greatest moment of risk in the transition.
- Should the first step to shared rule not be a governing council, established for a finite period, which includes leaders of, or people credible within, the political factions which could destabilise the outcome of power sharing? This council could be based on the Transitional Executive Council which will shortly be established.
- Should electoral competition not be defused, by, for example, first holding municipal elections on a staggered time scale?
- A senate or house of referral, elected on a different basis than a legislative assembly has much to commend it as a stabilising constitutional device. Should elections for a senate not be held in regions before a general election, in order to offer smaller parties their best chance of achieving some electoral successes before the torrid test of a general election?

These questions might very well fall on deaf ears in the current enthusiasm for a "milepost" general election among the larger parties. The international community is likewise promoting a high key single test of electoral strength with a vigour which must surely contradict its own experience of democracy in the third world.

The point is, however, that the party which wins the eventual election must enjoy its right to govern. The signs of unravelling and resistance in this pre-election phase must cast significant doubt on that right. Is this not the time for careful strategies to make sure that we do not follow in the footsteps of Angola and Nigeria? ■

The government's normative economic model



Dr Azar P. Jammie, director and chief economist, Econometrix Pty Ltd

One of the most encouraging aspects of the South African economy at present is that it is no longer deteriorating to the same extent as it did in 1992, despite the continuing violence and political tensions. On the assumption of a reasonably successful and relatively peaceful political transition, it is not difficult for an optimist to envisage a confluence of developments which could turn the country's depressed economy around. The end of the drought, sustained higher gold prices, lower interest rates and reduced inflation, and global economic recovery could pave the way for an export-led upswing. Furthermore, with the help of World Bank and other foreign government loans in the wake of democratic elections, various social upliftment and public works programmes could provide an added lift. However, unless the window of opportunity presented by an upswing of this nature is used to address the more deep-seated structural weaknesses of the economy, the upswing, like many others before it, will prove to be temporary, to be followed by renewed recession.

It is in the light of these comments that one welcomes the government's Normative Economic Model (NEM), published in March. The NEM represents a laudable attempt by the authorities at identifying the structural impediments to sustained economic growth, and developing a comprehensive and integrated long-term economic strategy for eliminating these with a view to getting the economy to achieve a sustainable growth rate of 4,5 percent per annum.

Possibly the most important structural weakness identified by the NEM is the

rise, in both public and private sectors, in consumption at the expense of fixed investment, whose share of GDP has declined from 27 percent in 1980 to only 16 percent at present. This is serious because if the process were to continue, the country's capital infrastructure would eventually be unable to provide the goods and services which its population will desire. The NEM accordingly has as its objective to raise the share of fixed investment in GDP to 23,1 percent over the next five years. This incorporates a rise in the public sector's share of fixed investment from 4,5 to 7,8 percent of GDP, and a rise in the private sector's share from 11,4 to 15,3 percent of GDP.

The increase in investment is to be achieved principally by a reduction in government consumption expenditure by 3 percent per annum in real terms, paving the way for investment-enhancing cuts in the corporate tax rate as well as the top marginal tax rate on individuals to 40 percent from their erstwhile 48 and 43 percent levels respectively. Encouragingly, the government speedily made a start to the implementation of such proposals in the March 1993 budget. It budgeted for a nominal increase in government consumption for the 1993/94 fiscal year of only 3,5 percent (excluding interest on public debt), and for a substantial 27 percent increase in its capital expenditure budget. In addition, the government introduced the Secondary Tax on Companies, which reduces the effective corporate tax rate from 48 percent to anywhere as low as 40 percent, depending on the size of profit retentions. By encouraging companies to retain as much of their earnings as possible, it is hoped this will free up resources for extra fixed investment.

Another important structural weakness identified and quantified by the NEM is the high level and complex nature of the country's system of protection, which has raised the cost structure of South African industry, imbued it with an anti-export bias and generated all sorts of structural distortions in industry. Its recommendations to abolish protective tariffs gradually over time on a studied basis fits in well with its proposal that another structural impediment, namely exchange controls and the dual exchange rate system, also be phased out over time. The two issues go together because without the removal of foreign exchange controls, it is impossible to know the true market-related value of the exchange rate of the rand in order to determine whether an industry can survive and remain competitive at a market-related exchange rate if protection is removed. The NEM's intention is not to throw highly protected industries to the wolves by removing protective tariffs, but to intro-

duce anti-dumping measures and to do away with import surcharges and export subsidies as and when the situation permits, depending on factors such as developments at Gatt, exchange rate movements, technological considerations and the nature of wage bargaining.

The NEM also identifies lack of competition in both product and labour markets as important additional structural weaknesses. In respect of the former it advocates the replacement of decisions taken by the Competition Board with an independent judicial system, and recommends legislation against some forms of anti-competitive behaviour. It also recommends stricter control of motivations for acquisitions, and a reconsideration of agricultural marketing boards. In respect of the latter, the NEM recommends more decentralised bargaining, and makes a proposal that wage increases be limited to at most 0,75 percent above the rate of inflation, unless accompanied by increases in productivity.

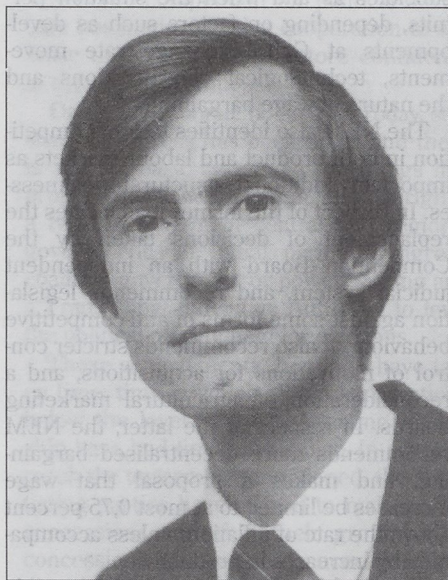
The final important structural economic factors which the NEM identifies as needing to be addressed are the encouragement of small business and the informal sector as keys to reducing unemployment, and the need for appropriate education and training with a view to developing technical and entrepreneurial skills.

In sum, the NEM has gratifyingly omitted very few of the structural problems faced by the economy in its analysis and recommendations. Some of its recommendations can be criticised. In particular, scepticism must be expressed regarding the ability of a future government, faced by enormous demands from its constituency, to contain government consumption. One also wonders if the incentives offered to business to increase investment are indeed sufficient to generate an investment boom in a future environment likely to be characterised by a high degree of uncertainty. One laments the absence of any reference to the notion of privatisation as a means of mobilising resources to fund social upliftment. Finally, one can be critical of the lack of imagination with regard to tax reform, a vital requirement if funds are to be diverted away from financial assets into productive economic activity.

However, the NEM does represent a constructive and positive effort at grappling with the economy's underlying problems. If the broad tenet of its analysis and recommendations is put into practice by a future government, there is a real chance that an economic upswing following a democratic election can be capitalised upon to make appropriate structural adjustments, which might convert an otherwise short-lived economic recovery into a sustained era of growth and prosperity. ■

Prospects for the South African economy

It could still take another six to twelve months for the economy to take off



Dr C W Bruggemans, group economist of First National Bank

Reports of the economy turning in the first quarter of 1993, though hopeful, may just prove to be slightly premature. After the Central Statistical Services reported a 0,8 percent increase in GDP for the first quarter (at a seasonally adjusted annual rate, and compared to the previous quarter), the Reserve Bank detects further evidence in the form of a small increase in real consumer spending, a slight measure of restocking, and a further slowing in the decline of fixed investment spending. These estimates come in addition to earlier perceptions that manufacturing production, retail trade volumes and new car sales were all higher in the first quarter of 1993 compared to the second half of 1992. Whether this is indeed the beginning of a cyclical revival, or merely a correction after the exceptional mid-1992 declines, is still very much debatable, not least as some of this first quarter strength may be attributed to distortions such as pre-Vat buying. The reasons for believing that a cyclical turn is taking place are nearly all of a supply-side nature. Agricultural production is about to come back strongly, and the stock cycle and investment spending may indeed be in the process of reversing their influence on the economy.

Inventory levels are at exceptionally low levels as a ratio to final sales and GDP (quite possibly at post-war lows). It is

therefore only natural to expect at least a slowing in the pace of destocking. Similarly, fixed investment spending has fallen to exceptionally low levels (as a ratio to GDP) and it is only to be expected that some kind of stabilisation would eventually occur.

An upturn in real consumer spending would be more remarkable at a time of great political uncertainty, low confidence, and falling employment, wage and credit growth. Any consumer revival earlier this year may just be a statistical correction after the exceptional fall-off in the preceding quarters of 1992, in addition to special factors such as pre-buying ahead of the expected Vat increase.

After all is said and done, what is finally coming into view is the next upswing in the business cycle. This year will undoubtedly be a "churning" year in which nothing will improve quickly.

But even the supply side improvements can at this stage be questioned for their contribution towards a cyclical "turning". The agricultural rebound will essentially be a "one-off", except if the next two years were to enjoy even better climatic conditions.

Inventory levels may be exceptionally low, but whether there will be a traditional stock cycle-led recovery can be seriously questioned. As in other parts of the world, the corporate sector has been drastically changing its operational techniques involving inventory. The full extent of these changes remains difficult to evaluate. However, it would appear premature to expect too much of a inventory rebuilding as final demand remains depressed, the

outlook poor, profits pressurised and real interest rates high by historical standards. It may be that the stock cycle is no longer exercising a contractory influence on the economy, but its expansionary influence is muted.

Indeed, if the ratio of inventories to sales and GDP is not going to be allowed to rise too much as recovery proceeds, the expansionary influence of the stock cycle on the economy may this time around remain very limited (as was the case in the United States during 1991-1992).

Fixed investment spending continued to decline over the past year and it therefore remains a dampening influence, even though its impact may be reducing as the pace of decline slows down. Only from mid-1993 may this stabilise more visibly as a start is made on a few very large private sector investment projects (eg, Alusaf, Columbus, Namakwasands and others). These projects will make an even bigger contribution next year and in 1995.

That would be the first, really believable cyclical booster since the business downswing commenced in early 1989. Two other boosters would be an increase in public sector investment, hopefully from next year, and an improvement in export performance once the world economy is more firmly established on its recovery track. A further decline in interest rates over the next two years would complete the condition for cyclical recovery in a broader context.

In the meantime, the key economic statistics still have to start absorbing the March 1993 budget and its impact. Evidence suggests that the second quarter of 1993 was a poor one. Some blame political unrest, others blame the budget. Whether the budding recovery, noticeable in manufacturing production, retail trade volumes, new car sales, real consumer spending and overall GDP earlier in 1993, can withstand this reality remains to be seen.

Certainly, surveys of business conditions and consumer confidence as undertaken by the Bureau of Economic Research (BER) do not provide any reason for believing that the first swallow that was the first quarter can be taken as the heralding of spring. Employment levels and wage

continued on page 7

and credit growth are all still falling. Traditionally, this is the case in any cyclical revival as the corporate sector is the first to succeed in improving its position. However, the latter has as yet not taken place. Corporate profitability remains depressed instead of signalling cyclical recovery.

Therefore, from a business cycle point of view, the anticipation is for export-led growth, for the effects of "inspired" investment in the private sector and "social backlog" investments in the public sector to start providing real booster value to the economy. In the meantime, it is to be hoped that any stabilisation of the stock cycle, agricultural improvements and lower interest rates succeed in neutralising the contradictory effects of the March 1993 budget.

As an afterthought, it may be mentioned that the minister of finance cannot claim, as he has, that the budget deficit is not widening to R30 billion and beyond, and that the economy will grow this year. In a

way, these are mutually exclusive propositions. If there is GDP growth this year (at the first decimal point level), it will be entirely due to agriculture. The March budget will be a factor in keeping the non-agricultural part of the economy down, unless the minister allows spending growth far in excess of budgetary intentions.

After all is said and done, what is finally coming into view is the next upswing in the business cycle. This year will undoubtedly be a "churning" year in which nothing will improve quickly. The real hope must be that the process of recovery is in preparation and the next upswing should therefore be within reach before long.

However, it could still take another six to twelve months for the economy to take off, not least because it will require progress on the political front, the normalisation of external financial relations and recovery of the world economy at large. It is these realities that ultimately will prove to be the real

engines for sustainable cyclical recovery in the second half of this decade.

The Reserve Bank has meanwhile also expressed confidence that the inflation rate can be expected to decline further this year and next year. With the tax effects coming out in April-May 1994, and assuming that the minister will not have the scope to increase indirect tax rates further, the year-on-year inflation rate can only be expected to drop deeper into single digits.

Credit growth is firmly under control. The foreign reserves are likely to benefit over the next 18 months from greatly improved access to foreign capital. And the budget deficit should prove containable as and when the tax base is inflated through economic growth. Together, these factors would allow scope for further interest rate cuts. Prospects therefore remain encouraging for one more one percent interest rate cut this year and possibly three more such cuts next year. ■

The EC and South Africa: the scope of the new political relationship

Abridged address by Mr K R S von Schirnding, director general of the South Africa Foundation, at the Forum Europe conference held in Brussels on 28/29 June 1993



There is a pessimistic view in some circles in South Africa that once apartheid has been finally laid to rest, Europe will forget us. The turmoil in the former Eastern Europe and Soviet Union, and domestic political concerns, in this view, will absorb all Europe's attention, to

the detriment of Africa, while the single European market will, through tariff and non-tariff barriers, act as a barrier to African exports.

I believe, however, that this pessimism is overstated. Europe and South Africa are bound together by history, by shared cultures and languages, by the presence of large communities of immigrants of European origin in South Africa, and by strong trade and investment links. A weak and destabilised Africa is not in the interests of Europe, and South Africa can play a pivotal role in partnership with Europe in redeveloping the subcontinent.

This is why, I believe, the chairman of the EC said that Africa and South Africa would remain "a priority" for the EC.

In addition the issues in South Africa are of intrinsic interest to Europeans and these issues are very vigorously debated in South Africa. They include the future of socialism, the debates concerning the role of big capital and private sector conglomerates in society; minority rights and the place of ethnicity in cosmopolitan political systems; race and racial discrimination and

gender issues. Moreover, and very regretably, political competition in South Africa is likely to remain very muscular, with episodes of violence and conflict. Given the fact that the intellectual classes in Europe have taken sides in our political conflicts, there is, unfortunately, much that is likely to fuel their sense of outrage in future years. South Africa's conflict appears to be something which, like the whales, the Amazon and nuclear waste will keep on arousing passions.

Last, if South Africa can regain an image of stability, its incredible variety of natural and cultural attractions should make for a healthy flow of tourists from Europe.

At the level of formal interstate relations our interaction with Europe has intensified over the past three years since President de Klerk unbanned the liberation movements and embarked on a process of reform and negotiation.

There is sustained and consistent European encouragement of the negotiation process in South Africa; various contributions by European countries to the moni-

continued on page 8

continued from page 7

The EC and South Africa: the scope of the new political relationship

toring of the peace process have been made. There is also the participation of several European countries in an election monitoring group.

South Africa's relations with a new Europe are likely to be complex, as is always the case when a country interacts with a confederation of states, each of which enjoys considerable autonomy. Up to now South Africa has tended to underplay the significance of the European parliament and government, mainly because it has such very long-standing relations with member countries; the UK, Germany and France in particular. The relations with major individual European countries is underpinned by very substantial investment and hence these countries are unlikely to "cede" the responsibility of interacting with South Africa to a European bureaucracy.

As regards relations with the EC, the key issue will be that of South Africa's access to European markets. The debate as to whether or not, for instance, South Africa should join the Lomé Convention is not nearly as simple as it appears and needs to be very carefully debated. Whatever is finally decided, since Europe is our largest single trading partner the reduction of tariff and non-tariff barriers to South African exports is very important to us.

European aid to South Africa will be another source of official interaction. Foreign aid, in quantitative terms, however, is not likely to be a very significant factor in South Africa's economic recovery. Its role will be qualitative, in the sense that it could assist in capacity-building projects which do not normally attract private investment. Its role, therefore, is more that of helping to implement socio-economic and community-based development policy.

The strength of South Africa's economic relationship with Europe depends very largely on whether or not European countries increase their investments in South Africa. If this occurs it will enrich South Africa's technological capacity and help to ensure a sustained growth in exports of manufactured goods, including exports to Europe.

The future of European investment in

South Africa is the million dollar question. The South Africa Foundation has conducted investigations into the image of South Africa in Europe and, as would be expected, great caution about the economic future of South Africa was the major response. Surveys among investment analysts and bankers reveal that South Africa was perceived to have great advantages for investors, namely its financial services, its internal economic linkages and supply capacity, its infrastructure, and the fact that compared with many overseas countries, it is not over-borrowed externally. Its deficits were seen to be the endemic violence, the threat of market-unfriendly economic policies in the future, its exchange control

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European investment in South Africa will be limited.

mechanisms, the low productivity and relatively high cost of its labour, its militant trade unionism, and future economic policies. A great deal will thus depend on how South Africa's politics will be analysed and understood in the years to come.

There is already agreement between the present government and the ANC that the new government will be based on power sharing between the major parties at least until close to the turn of the century, when open elections will (hopefully) be held for the second time. This power sharing is really forced on the major parties, because without the participation of at least the ANC alliance and the present ruling party, the country will be ungovernable.

This guaranteed "coalition", however, will be very competitive. While its mem-

bers are forced to cooperate by the realities of their respective power situations, they represent widely divergent interests and have spent the past decades in fierce, often violent, opposition to one another.

Hence the new power-sharing cabinet will be, at one level a forum of cooperation, but at another level it will be an arena of fairly hot competition and political power play. Very often rhetoric will be used to balance pragmatic concessions made by the parties. Furthermore, largely outside the joint cabinet there will be parties which will be even more hostile to the pragmatic politics in the coalition.

Of all the major political blocs in the world, however, Europe is the most mature and experienced in its understanding of interest-based politics, and is least inclined to be either sentimental or absolute in its judgments. If we in South Africa do our job of analysing our own situation well, and we are able to point out that the instability in South Africa appears to be more dangerous than it really is, I would expect that European analysts will be able to form a balanced judgment of our situation. Underlying the politics of rhetoric and populism, will be a foundation of interdependence in our new politics which, if recognised, should reassure investors.

The points I have made, taken together, suggest that even after the international focus on apartheid and minority rule has passed, there will be a richer and more varied interaction between South Africa and Europe than is likely to be the case with most third world developing nations. For this reason, and for the reason that South Africa is likely to continue to receive better than average press and media coverage in Europe, as well as a possible fear that conflict in a future South Africa could have repercussions within Europe, official interaction between the European community and member states will be more than merely formal and diplomatic. Active European involvement in the safeguarding of our brittle new democracy can be expected.

Aside from relatively limited aid and some trade concessions, however, economic relations will rest mainly on trade. Unless European analysts are able to "decode" the South African political situation, and realise that the society is not quite as unstable as it is often likely to appear, European investment in South Africa will be limited. It is our role in the South Africa Foundation and the role of workshops like the present one, to provide the evidence for a balanced understanding of South Africa, now and in the future. ■