ECONOMY — 1993

APRIL — JUNE

Double vision needed to lift SA from fog

Star 1/4/93

(3044) (49)

The new president of the South Africa Foundation believes this country must face blunt reappraisal from both the inside looking out and the outside looking in when it seeks a new status in the international business world, reports MICHAEL CHESTER.

Sharpen focus ... SA Foundation's Meyer Kahn.

DOUBLE vision at first sounds like an enormous drawback for anyone selected by the South African private sector to act as its special ambassador in the international business world.

Yet that was precisely what the South Africa Foundation was seeking when it elected Meyer Kahn (53), chairman of SA Breweries, as its new president in Johannesburg last week.

It means the ability to view South Africa not only from the inside looking out — but also to view South Africa from the outside looking in. In absolute frankness, without fanciful gloss, warts and all.

Ideally, both visions should at least be in sharp focus, if not a precise match. Instead, at the moment, the view from each angle is fog-bound and in dire need of improvement:

- From the inside, South Africa glares with resentment at an outside world that it blames for not coming forward with rich rewards for its struggle to bring down apartheid and build a new democracy from the debris — new investments, development aid programmes, closer trade ties.
- From the outside, businessmen seem to be turning a cold shoulder on South Africa, or looking ultra-cautious about engagement, as images of politi cal oppression are replaced by images of political rows, violence and economic malaise.

The objective of the SA Foundation is to improve the view from both sides and put South Africa firmly back into the international business arena.

The post that Meyer Kahn takes over from Barlow Rand chairman Warren Clewlow has long been regarded as supremo of a private diplomatic corps at work behind the scenes at home and abroad, nurturing global business links.

To associate Meyer Kahn with double vision would cause waves of derision among peers who credit him with an uncanny 20-20 sharpness of perception in any boardroom.

There seemed to be little evidence of double vision as Kahn, the affable "Boykie from Brits", was rocketed by sheer business acumen from management trainee at OK Bazaars to managing director and now executive chairman of one of the largest conglomerates on the African continent.

Nor was it suspected as he was awarded accolades such as Marketing Man of the Year in 1987, Business Achiever of the Year in 1990, Professor Extraordinaire at the Graduate School of Management at the University of Pretoria, a seat at the State President's Economic Advisory Council....

Kahn himself, however, now puts the ability to "see double" as a crucial asset in his new role.

"Unless the focus is sharpened," he says, "South Africa will slip lower and lower down the list of international priorities. As overseas countries strike apartheid and sanctions and boycotts off their agendas, there are real dangers that South Africa will slip off the agenda entirely.

"It has become crucial to improve the image we project — from the present negative image to a positive image."

The first objective must be firm evidence of political and socio-economic stability.

The reluctance of foreign donors and investors to plough funds into South Africa at the moment is understandable, says Kahn, in view of their sad experiences elsewhere in Africa.

"Investors like winners, or at least potential winners," he adds. "We shall only capture their serious attention when we stop whining about the shortage of outside help and start laying the foundations of dynamic new democracy ourselves."

Rather than concentrate on its handicaps, South Africa should start counting its assets — from a sound infrastructure to a vibrant private business sector, and now the first flicker of optimism about good economic management.

Next, South Africa needs to make a frank reassessment of its prospects on world export markets, to earn the income to finance its socio-economic programmes. Exporters had to re-evaluate the products they were trying to sell.

"We should concentrate on products we know best — simple consumer products in high demand in low-income markets," says Khan.

He argues: "The first essential is real evidence that South Africa is prepared to press on with shaping its own new future — alone if necessary.

"That is the image, from the outside looking in, that will draw the earnest attention of the World Bank and the International Monetary Fund and investors who can press the buttons to accelerate the motors." □

SA left's embrace of pluralism is incomplete

BDay 1/4/93.

(49)

KIERAN O'MALLEY

ONE of the standard responses of the SA left to the collapse of socialism in the Soviet Union and in her colonies in eastern Europe is to argue that it was the absence of democracy and pluralism, and not socialism itself, that caused the collapse of these states.

This, the central assertion of Joe Slovo's 1990 article Has Socialism Failed? explains why the left in SA so suddenly became concerned with the issue of social and political pluralism.

As used in this context, pluralism is understood as describing a situation where social and political formations exist independently of the state and are allowed to function autonomously in both aggregating and articulating the perspectives of voluntarily constituted individuals and/or groups in society.

Pluralism at its core thus revolves around the fragmentation or dispersion of power — political, economic and social — in society and lies thus at the core of democracy.

While Slovo's argument glosses over the fact that the apparently intrinsic Marxist/socialist penchant for centralisation contradicts the essence of pluralism, one should not underestimate the importance of the shift in focus to issues concerning social and political pluralism.

The idea of a vibrant civil society which would be able to restrain potentially authoritarian and Jacobin measures from a post-apartheid government has of late become one of the major issues of debate in SA political circles.

This shift in focus towards issues relevant to social and political pluralism — for example civil society, multiparty politics, the rule of law and Bills of Rights — is a welcome one and has widened the common ground between liberals and the left in SA.

The current incompleteness of the left's recognition of social and political pluralism should not, however, be overlooked. The anti-pluralist consequences of, among other things, three decades of clandestine underground politics, the SACP's Stalinist heritage, the siege mentality which accompanied domestic "struggle politics" during the '80s and liberation politics in exile from 1960 to 1990 have left deep scars which will take time to heal.

For example, until very recently the left talked simply of a monolithic civil society in SA. Recognition was not accorded the fact that distinct black and white civil societies in fact exist.

Civil society in SA was simply equated to black civil society (or, as the "nonracial" left would prefer, nonracial civil society). The emphasis and concern with creating a strong civil society was thus only superficially a nod in the direction of a genuine pluralism in SA.

A genuine pluralism would have to recognise — especially in the short to medium terms — the existence of distinct white and black sub-societies and civil societies. This does not mean that all organisations within a future civil society will, or ought to be, divided along ethnic lines — simply that the social legacy of decades of apartheid will not disappear overnight. A "pluralism" which fails to recognise this is the antithesis of genuine pluralism.

Other indications of the SA left's incomplete digestion of pluralism include the ANC's and other charterist organisations' reference to themselves as "the democratic movement" and widespread use — even outside of the left — of the term "the people".

Both are problematic. The first because it implies that some political formations in the new SA are to be *primus inter partes* and the second because it denies the individuality of the separate persons who constitute the collective.

In liberal circles in SA there is a growing awareness of the dangers inherent in collective and de-individualising concepts such as "the people" — although the concern has yet to spread to a wider constituency.

The conflict-producing potential of a political actor or sector adopting for themselves "universal" terms such as "the democratic movement" has surprisingly not been noted in SA.

The SA left's handling of pluralism is limited by the majoritarian political perspective that continues to inform its political vision and by its neglect of the crucial political dimension in recognising pluralism.

To the degree that the former sanctifies winners and losers in the political system, it is antiplural. And the fact that the latter limits the recognition of pluralism to allowing Afrikaners to speak Afrikaans and play jukskei in private is nonsense.

Cultures are either recognised as political factors and as sources of power or they wither and die. This crucial political dimension of recognising pluralism has yet to be conceded by the domestic left.

These concerns and problems surrounding current perceptions of pluralism need to be highlighted and addressed. If they are not, the chances of an even remotely inclusive new policy will remain tiny.

☐ **O'Malley teaches political science at Unisa.**

NEWS IN BRIEF

BDAY 1/4/93

Miners resume work

NORMAL underground work has resumed at Genmin's Beatrix Gold Mine. All workers, except for 400 Zulu speakers whom management moved to the St Helena Hostel after they clashed with Pondos, reported for duty on Tuesday.

Gengold spokesman Albert de Beer said a peacekeeping committee of workers and management would monitor the hostels and mine main entrance..

BDAY 1/4/93

Film subsidies returned

THE Home Affairs Department said in Pretoria yesterday film companies which misappropriated government subsidies had paid back more than R1m. Some companies, however, still faced criminal charges.

BDAY 1/4/93

'Last post' sounds

THE SA Defence Force's first retrenchment parade took place at Cape Town Castle yesterday when about 400 Western Province Command members were bid farewell to the strains of Auld Lang Syne.

Nearly 6 000 SADF personnel have been retrenched recently. The SADF budget has been slashed by more than a third in the past five years.

BDAY 1/4/93

'Call up jobless only'

THE unemployed should be called up for national service to combat crime and violence and unionists who instigated labour unrest should be held criminally responsible, SA Iron and Steel Union manager Nic Celliers said yesterday. The suggestions are part of a security and commerce plan the AWB and the union want to discuss with President F W de Klerk.

BDAY 1/4/93

Employment Act

WE REPORTED incorrectly yesterday that "As legislation now stands, the Basic Conditions of Employment Act will grant to farmworkers the right to strike" The Act does not deal with strikes. Business Day regrets the error.

REPORTS Business Day Reporters, Own Correspondent Sapa

AHI wants ceiling on wages, prices

(49)

BDAY 1/4/93

TIM MARSLAND

THE Afrikaanse Handelsinstituut (AHI) has asked its members to hold wage and price increases to 5% or lower for the next two years in line with the declining trend in money supply growth and inflation.

AHI chief economist Nick Barnardt said yesterday his organisation had taken the decision in line with its support of Reserve Bank policies to combat inflation.

The decision was also aimed at trying to prevent further declines in business volumes.

"The AHI general management accepted a motion at its six-monthly meeting to encourage members to hold price and wage increases to below 5% The message of discipline should be communicated to members and the broader business sector," he said.

Inflation would peak close to 11% as a result of the VAT, fuel price and other increases included in the Budget, Barnardt said.

However, he saw it falling sharply after that, possibly to 5% in 1994.

He said any temptation to raise interest rates to protect the balance of payments should be resisted in light of the decline in inflation and money supply growth as well as the deepening recession.

The pressure on the balance of payments should rather be managed by mainly continuing the fluid exchange rate policy and the "overall laudable monetary policy flexibility" of the past six months.

In the current recession, a moderate real depreciation of the rand would have a minimal negative effect on inflation, but would actively encourage exports.

He said the AHI continued to support the Reserve Bank's focus on disciplined monetary expansion, which implied that interest and exchange rates were largely determined by the markets.

Once the balance of payments stabilised, he expected a further cut in interest rates in response to low credit demand.

This would partially offset negative effects the hike in VAT and other taxes would have on the business cycle and could help prevent a deepening of the recession, he said.

Talk of VW layoffs 'premature'

BDAY 1/4/93

ERICA JANKOWITZ and EDWARD WEST

VW SA said yesterday it was too early to say it would be retrenching more than 2 000 workers this year.

But up to 1 000 workers were in danger of being laid off in the near future. VW human resources director Brian Smith said 500-1 000 jobs at the Uitenhage plant were "currently under review" because of a sharp drop in exports and a declining local market.

Numsa national organiser Gavin Hartford said on Tuesday the car manufacturer had proposed rationalising 2 270 of its workforce this year.

VW said talks of staff reduction was "premature" and dependent "on the impact of the recent Budget on the local market, the outcome of various export orders currently under discussion and the success of the new Golf and Jetta range".

Smith stressed the company would try to "achieve reductions through voluntary packages offered to all employees, early retirements, outsourcing and natural attrition".

He said VW SA was renegotiating a contract to supply Jettas to China. The future of workers involved with exports to China would depend on the outcome of the negotiations and on local market conditions.

Putco, Sabta pledge not to raise fares

BDAY 1/4/93

THEO RAWANA

PUTCO and the SA Black Taxi Association (Sabta) fares will not increase when fuel prices go up tomorrow.

Putco MD Jack Visser said yesterday the bus company would absorb the increase of 16c/l on diesel for three months. Sabta also said it would not increase its fares and was negotiating with the Mineral and Energy Affairs Department for a "special consideration" for taxis.

Visser refused to say how much it would cost Putco to absorb the increase. "We are so close to our annual increase on July 1 that we did not feel it necessary to raise fares now."

Sabta public affairs manager Cyprian Lebese said the organisation had given Mineral and Energy Affairs "a few options" The taxi organisation expected a reply today

Postal tariffs and suburban train fares went up at midnight last night and petrol will cost 15c/l more at the coast, and 16c l more in the interior.

Postal tariffs will cost an average of 30% more. A stamp for a standard letter will cost 45c from today.

Suburban train fares will cost an average of 9,75% more, but the SA Rail Commuter Corporation has assured its customers that there will be no further fare increases this year

Sapa reports that cheaper dialling times for overseas telephone calls will be introduced today.

Telkom said the standard rate to more than 100 countries would drop by about 7% and the new off-peak rate would be up to 20% cheaper than the standard rate. But VAT on calls would increase to 14% on April 7

...n Organisation CE Alan Munroe, Chamber of Mines president Bobby Godsell and CSIR president
... ceremony which marked the creation of the Division of Mining Technology, a merger between

Picture ROBERT BOTHA

Size of govt impedes growth hopes — BoE

49

B/Dm 1/4/93.

LINDA ENSOR

CAPE TOWN — The vision for economic growth outlined in Finance Minister Derek Keys's economic model would never be realised unless the size of government was substantially reduced, Board of Executors (BoE) senior portfolio manager Rob Lee warns in the latest Investment Outlook.

Disappointingly, the Budget failed conspicuously to make progress in this regard.

The substantial 12,5% increase in government spending budgeted indicated that the brave utterances by President F W de Klerk and Keys about downsizing government were so much hot air. As a consequence the individual taxpayer had to bear a higher direct and indirect tax burden in a situation of lower wage and salary increases, "punishingly high" real interest rates and continued retrenchments.

"The net result is that consumer spending is bound to fall substantially in real terms again this year," Lee said. He believed the Budget would depress economic growth further.

Hopes of an investment and export-led boom in SA were pie in the sky unless politicians facilitated its implementation.

Preconditions for realising these hopes were a sustained international economic upturn; a reasonable degree of political stability and certainty; a reduction in violence; the consistent pursuit of stable, predictable and sensible economic policies; a considerable cut in the relative size of the public sector and a more realistic and competitive exchange rate.

The exchange rate should be lowered "by eliminating exchange control and reducing the level of protection and subsidies and not by depreciating the currency through excess money creation".

Lee believed the underlying trend in inflation was still downward. Inflation was expected to fall to about 8,5% in March, jumping thereafter to between 10,5% and 11,5% before returning to single digits.

He was optimistic that the 1994 inflation rate would average less than 10% on account of the weak domestic economy, low international inflation, the fall in money supply growth and a strengthening of reserves which would stabilise the rand.

A further cut in Bank Rate could be expected in the second half of the year as long as pressures on the capital account eased after the installation of a transitional government.

Regarding international economies, Lee believed a sustained recovery was unlikely. The recovery in the US economy and signs of a UK revival were being counterbalanced by continued weakness in Japan and collapsing production in France, Germany and the Netherlands.

Taxman nets R2,5bn

GERALD REILLY

PRETORIA — Inland Revenue inspectors and auditors had recovered a record total of R2,577bn in unpaid taxes in the 1992/93 year, a spokesman said yesterday.

The amount netted by the taxman's team was up 25% on the previous year.

But tax authorities admitted that there were still tens of millions of rands escaping the tax net annually.

They stressed, however, that there was no tax collection system anywhere in the world which was 100% "dodge-proof".

According to Inland Revenue, tax on undisclosed company and individual income was R1,653bn, unpaid PAYE came to R84m and regional services council levies to another R16m.

Unpaid VAT amounted to R368m, special income tax audits to R329m and unpaid GST to R153m.

Earlier this week, ANC economic spokesman Trevor Manuel said there was no need to tax more heavily if more efficient collection methods were used.

The Inland Revenue spokesman said the record recoveries in the 1992/93 tax year were mainly due to an inspectorate and audit staff that had been increased by more than 30% in the past ~~two~~ years to 1 500.

A tighter ~~and~~ more sophisticated tax tracking strategy was also being used, he said.

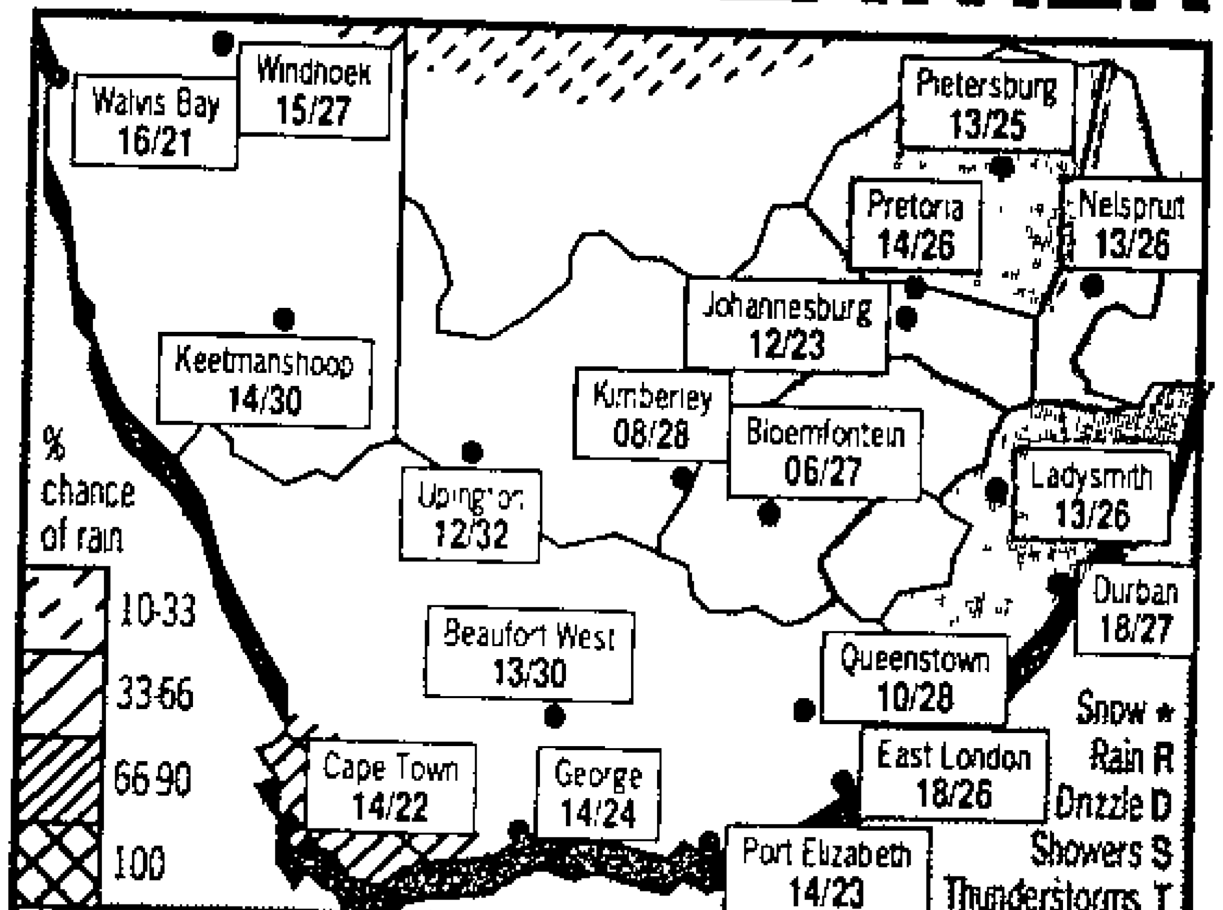
Currently, summonses on tax defaulters were being issued at a rate of about 14 000 per month.

Of the 6 770 000 returns posted to taxpayers for the 1991/92 tax year, more than 60 000 were outstanding.

Other authorities said although the figures indicated some success in finding unpaid taxes had been achieved, the answer seemed to be to further enlarge the inspe...ate staff.

For every R1 spent on an expanded staff, there could be a return of R10 for the fiscus, they speculated.

TODAY'S WEATHER



TRANSVAAL E SE MILD to warm	NORTHERN CAPE WARM to hot
TRANSVAAL W SW CLOUDY and warm	CAPE PENINSULA COOL with light rain
TRANSVAAL N NW CLOUDY and warm	REST OF CAPE COLD to warm with light rain in places

SA faces big rivalry for foreign cash

Star 2/4/93

(49) (48) (60) (920)

By Des Parker

DURBAN — South Africa's prospects for international investment hinge directly on the attitude a new government takes towards the domestic business sector, says Old Mutual's London-based investment director Kevin Carter.

He says perceptions of SA held abroad are likely to continue to be dominated by its political situation.

A new regime will need to make a special effort if it is to attract investment dollars because competition is growing rapidly for capital among newly-emancipated developing economies.

Durban-born Dr Carter said in a presentation to financial journalists here that an unprecedented overhaul of the world economy was taking place as a result of the freeing up of once centrally-controlled ~~developing~~ economies.

Because their wage rates were much lower than those of developed countries, these countries were increasingly attractive as investment destinations, which would lead to rapid growth in their economies.

By contrast, developed countries were stagnating, with structural unemployment a growing phenomenon and low and falling inflation a consequence.

This "mobilisation of low-cost labour" combined with falling money supply growth would result in low global inflation stretching at least into the next century.

On an index where expensive German manufacturing labour was 100 and low-cost China was one (Russia was below one), South Africa would probably weigh in at 10 or less.

It had competitive advantages in a number of areas, such as tourism and natural resources, but the key lay in a government sympathetic to the needs of business.

Worldwide

"Because investors have a choice, there is tremendous competition going on worldwide for the investment dollar.

"Countries which are unable or unwilling to make themselves attractive to foreign capital simply get none, or very little.

"So emerging countries typically attempt to outdo each other in the deregulation and liberalisation stakes in order to make themselves as relativeldy appealing as possible."

Dr Carter forecast a notable decline on Wall Street towards the end of the next 12 months as price:earnings ratios fell back to the 10-12 region in response to the reduced potential of American companies for recovery as a result of the changing world economy.

At the same time, institutional investors worldwide would look increasingly at the growth opportunities in developing countries.

They would place special emphasis on markets where they could get the best possible return for the least amount of risk.

He estimated they would shift increasing amounts of their portfolios to areas giving returns of 20 to 30 percent a year.

MONEY MARKET

New deal

FM 2/4/93 (49)

The Reserve Bank's new accommodation system, which comes into effect at the beginning of next month, is designed to give the bank a firmer hold on monetary policy. It will halt what the Bank calls the "open-ended facility whereby bankers' acceptances can be readily created and tailored to achieve liquid status."

Previously, banks could tap the discount window at seven different rates *(Economy* March 19) against a number of securities including bankers acceptances. From next month the Bank will grant only overnight loans and the liquid assets eligible as collateral will be: Treasury bills, Reserve Bank bills, Land Bank bills and central government bonds. Borrowers will be charged at Bank rate against liquid assets with a maturity of up to 91 days, and Bank rate plus one percentage point for instruments with a maturity between 92 days and three years.

When discussion papers were distributed in June a penal rate above prime was suggested for banks for securities which did not qualify as liquid assets (*Economy* March 19). But this option will not be available.

However, under "exceptional circumstances and for limited periods," banks facing severe liquidity problems will be able to get assistance. Rates and assets accepted will depend on the bank and the circumstances.

Bank treasury GM Andre Kock says it is unlikely banks will face a liquidity squeeze. "These days there can be up to R14bn worth of short-term Treasury bills, Land Bank bills, Reserve Bank bills and government bonds floating around in the system in 91-day instruments. We've never had a (money market) shortage that large. Even taking new minimum liquid asset requirements into account banks should be able meet their liquidity needs at the two rates." ■

UNKINDEST CUTS IN STATE SPENDING

(49)

FM 2/4/93.

Civil servants could find themselves obliged to pay back unauthorised departmental spending out of their own pockets. This follows an announcement last week by State Expenditure Minister Amie Venter, which changes the tradition of routinely voting expenditure, over and above the amount voted in the Budget.

Venter told parliament last week: "The Additional Estimate in its current form is to be abolished," said Venter. "(It) will be replaced by a new measure whereby only unforeseen and unavoidable expenditure . . . will be authorised by parliament." (Transfers between votes and the carrying forward of funds will also be sanctioned but these are largely technical matters.)

Expenditure not authorised by parliament will have to be recovered, says a spokesman for Venter's office: "Under article 33(4) of the Exchequer Act, if the accounting officer cannot, or is unwilling to, recover the amount concerned from the beneficiary or the person responsible for the unauthorised expenditure he will have to pay it back himself."

Supplementary expenditure proposals, announced in the Budget speech, are voted on during the main Budget, after the first reading of the Budget Bill.

A Treasury Committee, consisting of the Ministers of Public Enterprises, State Expenditure and Finance, will determine what is unforeseen and unavoidable It will then make recommendations to the Cabinet who will decide on the validity of the expenditure. Expenditure which is regarded as justified will eventually be sanctioned by parliament under new legislation which will replace the now defunct Additional Appropriations Act.

These measures are part of a 12-point plan to reduce current expenditure by R5bn in equal portions over two years.

Multi-year expenditure planning is to be encouraged by allowing unexpended funds to be carried forward to the following financial year — in the form of cash rather than stores and equipment. "Such funds will be deposited in the Exchequer Account and reappropriated in the ensuing year," says the spokesman.

MONEY SUPPLY

FM 2/4/93

Monthly blip

(49)

Year-on-year figures hide a surge in broad money growth in February. Though the provisional figure for M3 is up only 5,4%, growth in the month is 2,1%.

There are two reasons for the apparent anomaly:

☐ Month-on-month declines in January and December; and

☐ A monthly jump of about 2% in February last year.

The February effect is evident in the seasonally adjusted, annualised growth rate, measured from base of the current target year — the middle of the fourth quarter of 1992. It is 1,4%, up from -4,8% in January, but still well below Reserve Bank guidelines of 6%-9%.

Credit extension figures for February, which will be available at the end of this month could give a clue as to why money

FM 2/4/93 . (49)

supply departed from its earlier trend, in February.

Updated and revised figures for January's monetary aggregates reveal across-the-board rises over the year, in spite of declines in the month:

☐ M0 grew 23,1% over 12 months, but declined 6,1% in the month,

☐ M1A up 19,4%, -1%;

☐ M1 up 14,4%, -7,1%;

☐ M2 up 8,1%, -2,8%; and

☐ M3 up 5,3%, -1,8%.

Credit figures for January are in line with that month's downturn in money growth. Though total inland credit (10,4%) and claims on the private sector (8,4%) grew over 12 months, changes in the month were mostly downward. Private-sector credit stayed virtually unchanged at R209,5bn, with only mortgage finance growing significantly, by 1,5% to R83,6bn.

Total inland credit fell 1,1% in the month to R214,4bn. ■

Moose for key Aspen conference

49

STAR 2/4/93.

By Hugh Roberton
Star Bureau

WASHINGTON — The full US Senate yesterday confirmed the nomination of George Moose as Assistant Secretary of State for Africa, and he will be sworn in today, just in time to catch a plane to South Africa to attend the Aspen Institute's conference on developments in the country, which is to be attended by many prominent Americans and South Africans.

While it was merely fortuitous that his first official duty should be a visit to South Africa, the event nevertheless signifies the importance which the Clinton administration will be placing on policy towards South Africa.

Even the resumed fighting in Angola, and the US's mediating role in the conflict, and the imminent prospect of a US-led United Nations operation in Mozambique, have taken second place to the Aspen conference and the opportunity it will give Moose to meet President de Klerk, Nelson Mandela and many other key participants in the negotiating process.

The new administration appears to have enthusiastically embraced the idea of a revitalised South Africa serving as the springboard for the economic regeneration of the southern Africa region.

No relief on the horizon

C/Mail 2/4 - 7/4/93.

(49)

By REG RUMNEY

JUST when business thought it was safe to go back into the water the fin of further recession is seen skimming the waves ahead.

The *Budget Review,* released with Finance Minister Derek Keys' speech, assumed a measly growth rate for this year of 0 to 0,5 percent. Only weeks after the tabling of the Budget that higher figure already looks optimistic.

A rather contractionary Budget designed to tackle the country's structural problem of a burgeoning deficit, continuing recession in world economies, and an outflow of money which puts foreign reserves under pressure are all grounds for pessimism.

Many economists are expecting either zero growth or a slight contraction in the economy this year. And that comes after two previous contractionary years.

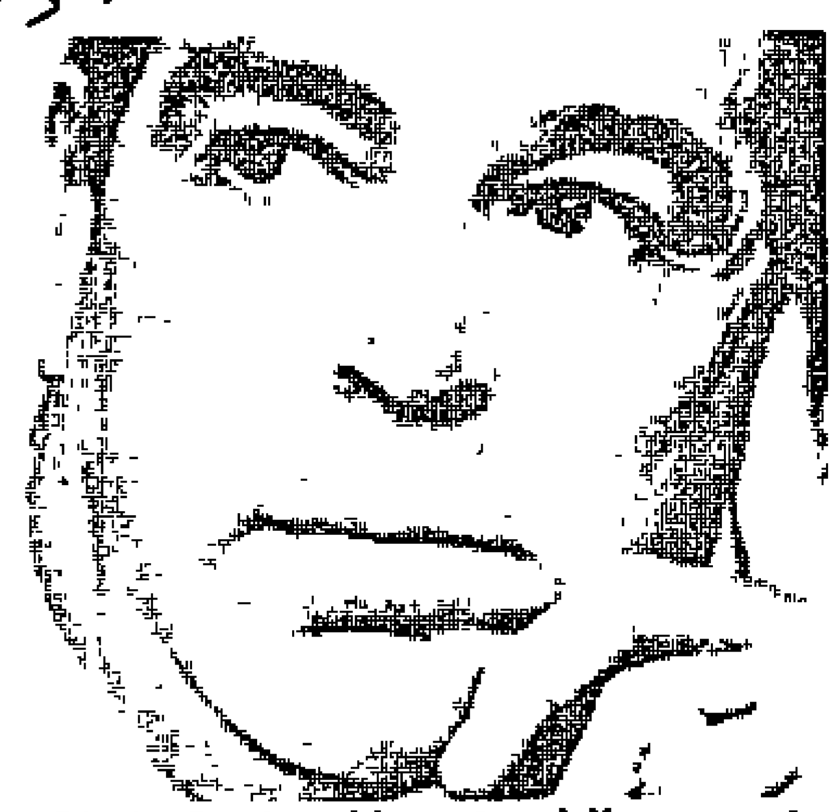
For one thing, the Budget's increase in Value Added Tax, an increase, through fiscal drag, in income tax, higher excise and fuel taxes, and the capping of public service pay increases to five percent will all hit ordinary consumers in their pockets.

Private consumption expenditure, which has been the main motor of growth, looks likely to stall as consumers pay off or consolidate debt.

Frankel Max Pollak economist Mike Brown reckons the Budget, by taking R6-billion to R7-billion out of private consumption spending through taxes, knocked 0,5 percent real growth off gross domestic product, the key indicator of economic activity.

Pre-VAT increase buying may give a temporary fillip to sales of some durable goods, but that will be followed by a steep drop after April 7.

So the outlook is bleak. Comments Rand Merchant Bank chief economist Rudolf Gouws: "We



Chris Stals .. No rates hike — yet

would have to have a pretty strong recovery in consumer spending in the third and fourth quarters of this year to have positive growth."

Real government consumption spending will decline, and fixed investment won't recover this year. Monetary policy will remain tight.

Indeed, Reserve Bank governor Chris Stals looks as if he will put more interest rate cuts on hold indefinitely. In theory, Stals should consider a rise in the bank rate, the Bank's mechanism for influencing interest rates to protect South Africa's gold and foreign exchange reserves.

An increase of R1,7-billion in South Africa's reserve-related liabilities and small positive valuation adjustments meant the gross gold and foreign reserves fell only R1,3-billion in the fourth quarter of last year, according to the Reserve Bank's quarterly report.

For 1992 as a whole, total net foreign reserves fell by R2,3-billion.

At the end of last year, South Africa still only had sufficient gross gold and foreign reserves, at R11,2-billion, to pay for around two months' imports. Reserves fell last year because of the deterioration in the capital account of the balance of payments.

Reserves have come under more pressure because of the recent sudden strength of the dollar. The rand has fallen around 17 percent since September's European Monetary System crisis sent the dollar soaring.

Short-term outflows have resulted from a switching away from more expensive foreign trade finance to cheaper domestic finance and a situation of "leads and lags" where importers hurry up paying for goods while exporters drag out payment in expectation of getting more rands, says Southern Life chief economist Mike Daly.

Daly says South Africa stands a good chance of hitting a cashflow problem later this year. However, he notes that Stals has access to R5-billion of foreign interbank credit to boost gross reserves.

Stals told an Afrikaner Sakekamer meeting this week the continuing decline in reserves since August last year had not only put pressure on the exchange rate but was also draining liquidity from the system and putting pressure on interest rates to rise.

Daly considers a rise in rates, politically a step with enormous consequences, unlikely. However, a further cut in interest rates soon is now not on the cards. Gouws adds that interest rates have never risen in the latter stages of a recession, and if they did it would be a temporary measure.

To add to the woes of the man-in-the-street, the Budget's excise and fuel tax increases — and the four percentage point VAT rise, temporarily — will push up inflation, which has fallen to single figures.

But, if Nedcor chief economist Edward Osborn is right, underlying inflation — as measured by the year-on-year consumer price index — is around 12,5 percent rather than nine or 10 percent. Osborn expects inflation to move up to about 13,5 percent from April onwards.

That's bad news, but it does mean real interest rates — adjusted for inflation — are actually not as high as they might seem now.

Which social system best serves the deprived?

BDm 2/4/93. (49)

RED ALERT

JOE SLOVO

I INVITE you to take a short journey into misery. Imagine, if you can, that Sandton or Observatory is not your home Conjure up in your mind a vision that you and your family are among the massive majority of human beings. You are, therefore, hungry, malnourished, disease-ridden, illiterate, underemployed, and with little chance of reaching your biblical lifespan allotment of three score years and 10. You are part of a world in which 15-million children die of malnutrition every year.

Visualise also, before you tuck into your high-fibre muesli this morning, that you have woken up in a shack with no clean water, electricity, treated sewage, and so on. In other words you are no longer free, because without access to the very basics of life all other human rights sound to you like glossy commercial adverts.

Franklin Roosevelt's aphorism that necessitous men are not free men would ring a bell in your mind.

Having taken your imagined journey, you are now better equipped to judge whether capitalism has proved superior to socialism in responding to human needs.

Prof Vicente Navarro, an eminent health luminary of Johns Hopkins University, disputes the mainstream wisdom that the historical conflict between two approaches to human social development has been resolved in favour of capitalism. He insists that the superiority of one system over another can be demonstrated by showing the evolution of health indicators in comparable countries that have followed the two different paths of development.

Navarro argues (in the International Journal of Health Services, volume 22, 1992) that the health of a population is the outcome of a whole set of social, economic and political interventions in which medical care plays only a minor role. His study proves that, at least in the case of the developing world, it is "socialism rather than capitalism that better responds to the immediate needs of the majority". And he concentrates on the experiences of mainly two continents, Latin America and Asia, drawing largely on World Bank and UN statistics.

Fidel Castro marched into Havana in 1958. Navarro measures Cuba's performance since then against the performance of comparable capitalist Latin American countries. The latter had a similar demographic distribution and similar or even better levels of economic and social development than Cuba. Within 25 years of socialist rule, Cuba had overtaken all of them in every indicator of the population's health and wellbeing.

By the mid-'80s life expectancy in Cuba rose from 59,5 to 75 years. Infant mortality dropped from 81 to 13 per 1 000. Cuba had achieved the highest literacy rate (96% of the adult population), and lowest level of malnutrition in the continent. In 1956 only 35% of Cubans lived in homes connected to a water supply system and 42% had sewage disposal systems. By 1980 the figures were 74% and 91% respectively.

If the rest of Latin America had the same infant mortality rate as Cuba, more than 2-million children's lives would be saved each year.

The contrast between socialist China and capitalist India is even more stark. These two demographic giants both won their sovereignty at the end of the '40s. India had a headstart in every compartment — a higher life expectancy, a lower infant mortality rate, a higher per capita calorie and protein consumption and a higher literacy rate.

By 1987 China had left India way behind in every quality of life indicator. Life expectancy in China rose from 34,1 to 69,5 compared to India's rise from 41 to 57,9. Infant mortality dropped from 236 per 1 000 to 32. The drop in India was from 140 to 99. Calorie and protein consumption per capita rose significantly in China whereas it either fell or rose only minimally in India.

Within India itself, the socialist-governed (since 1957) state of Kerala shot ahead of the rest of India in every indicator. For example, infant mortality was similar in Kerala and the rest of India until the late '50s. By the '80s it dropped 73% in Kerala compared to a 26% drop in all India.

Starting with the same life expectancy in 1970, Kerala's rose to 67,5 years for males and 73 years for females by 1987. In the same year it was 56 for males and 56,5 for females in all India. There was also a sharp contrast in literacy rates.

The same contrast in quality of life achievements showed itself between the Asian republics of the former Soviet Union and their neighbours like Turkey and Iran.

All this has special meaning for those in our own squatter shacks, townships and rural areas who crave, in the first place, enough food, education, medical care, a job, clean drinking water, electrification and other basics. Navarro demonstrates that, for the deprived, socialism is, by far, the better answer.

But most of the readers of this column will wake up tomorrow in the northern suburbs and not among the multitudes of Latin America, Asia or SA. Your big headache will not be hunger but, more likely, how to cut down calorie intake. I, therefore have no illusions.

My evangelism for the positive aspects of socialism may, in the main, fall on deaf ears. However, I keep at it in the hope that you might be jolted by the facts into concluding that, when it comes to basic socioeconomic human rights, socialism has demonstrated its superiority over capitalism.

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THE gap between the affluent and the deprived is illustrated in an old Jewish anecdote. A portly merchant stands outside the entrance to his firm watching passers-by and jingling coins in his pocket. He is approached by an emaciated beggar who pleads: "Mister, I haven't been able to eat for five days."

"I can see, my friend," comes the answer, "You look terrible. You must really force yourself."

LETTERS

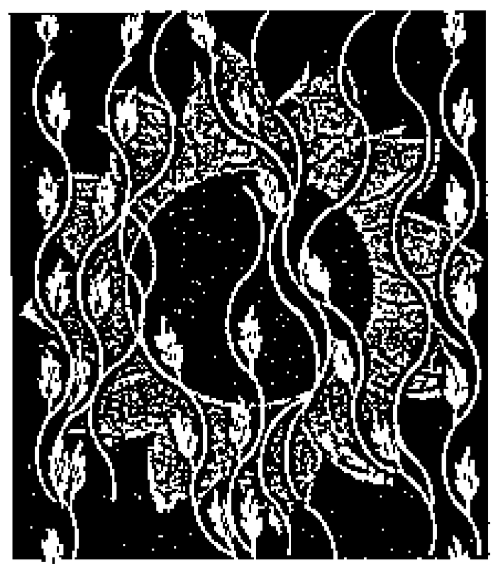
THE ECONOMY

FM 2/4/93

(49)

Relying on animal spirits

Growth is in prospect — but it requires careful nurturing



What businessmen want to know is whether there will be at least some positive economic growth this year. The first three years of the Nineties saw nothing but decline — at a rate of 0,5% in 1990 and 1991 and 2% last year. Business people have soldiered on and are, for the most part, lean and mean, but their animal spirits are at a low ebb.

There have been many reasons for this prolonged decline: poor and uncertain policy, official extravagance, bad luck, the end of the unusually long boom among our trading partners, and what amounts to economic sabotage at home and abroad. So it must seem to some in business that the current economic trough is endless.

Patently, this year we are not about to swing into anything like the growth achieved in the peak years of the Eighties, when the economy grew 6,6% in 1980, 5,1% in 1984 and 4,2% in 1988.

But, political or other catastrophes aside, there are still reasons to expect at least a small upswing this year — if only because a return to the normal rainfall pattern this summer could bring an additional 1% growth in GDP from agriculture. Any upswing needs to be nurtured with confidence and enhanced by faith.

Last year, imports consumed a large portion of national income because of the drought-induced failure of the maize and wheat crops. "In a normal year, agricultural imports average about 5,5% of total imports," says Simpson McKie's Graham Boyd. "And in 1992 the proportion was over 8%." The impact of this on the economy can be seen in the table showing the performance of the components of GDP.

This year, the outlook is considerably brighter Reserve Bank economics chief Ernie van der Merwe estimates that 8,5 Mt of maize will be harvested (see page 31). "This means maize imports valued at R2bn will not be needed. Unfortunately, the wheat crop has failed as a result of last year's drought and about R500m worth will still have to be imported; so the value of total agricultural imports will decline only R1,5bn in the full year. But this will be enough to break even on the agricultural trade account."

Of course, a reversal in the agricultural sector's prospects is not enough to cause a resurgence in economic growth. Even in a good year, agriculture contributes less than 5% of GDP. There are other reasons growth will be circumscribed. Briefly, they are:

- ☐ Depressed demand for exports and low commodity prices because of the poor performance in most of the major economies, especially Japan and Germany,
- ☐ A declining trend in domestic capital expenditure (capex);
- ☐ The continuing rate of retrenchments in all industries but gold mining;
- ☐ An erosion of disposable income. "This is the first time in many years a Budget has given no relief for fiscal drag," says Old Mutual's Rian le Roux, "while incomes generally increased by less than the average 10% inflation for 1993;" and
- ☐ No political settlement yet to curb violence and nurture fixed capital investment.

All this is compounded by the excessive proportion of GDP consumed by the State (*Leaders* January 22) It is projected at even more than fiscal 1992/1993's 30% of GDP. So additional government spending, which could boost GDP short-term, will be counter-productive in the long run.

More spending now cannot be financed by higher taxes because the rate at which tax revenues will increase has probably passed the point of no return — it is about 25% of GDP, up from about 22% last fiscal year.

Nor would it be prudent to continue borrowing to finance consumption spending and capital spending that does not add to productive capacity. But there are also encouraging developments:

- ☐ Greater price stability;
- ☐ As the inflation rate declines, disposable income will increase;
- ☐ The outlook for other exports is reasonable. The Reserve Bank *Quarterly Bulletin* reports that, in 1992, merchandise export volumes rose 5%. The SA Foreign Trade Organisation is predicting a 2,5%-3% real rise in nongold exports during 1993, as the US recovery gets under way. It notes that SA's competitive disadvantage — higher inflation than in trading partner countries — is being reduced as producer price inflation falls. This has dropped from 15,2% in 1989 to 11,4% in 1991 and 8,3% in 1992, narrowing the inflation differential.

Martin & Co's Carmen Maynard says: "Industrial production growth in the US should go some way towards arresting the decline in commodity prices, but a key element in predicting an upturn in the commodity cycle will be the speed with which the Japanese and Germans turn their economies around and the prognosis for Russian sales which have flooded key metal markets;"

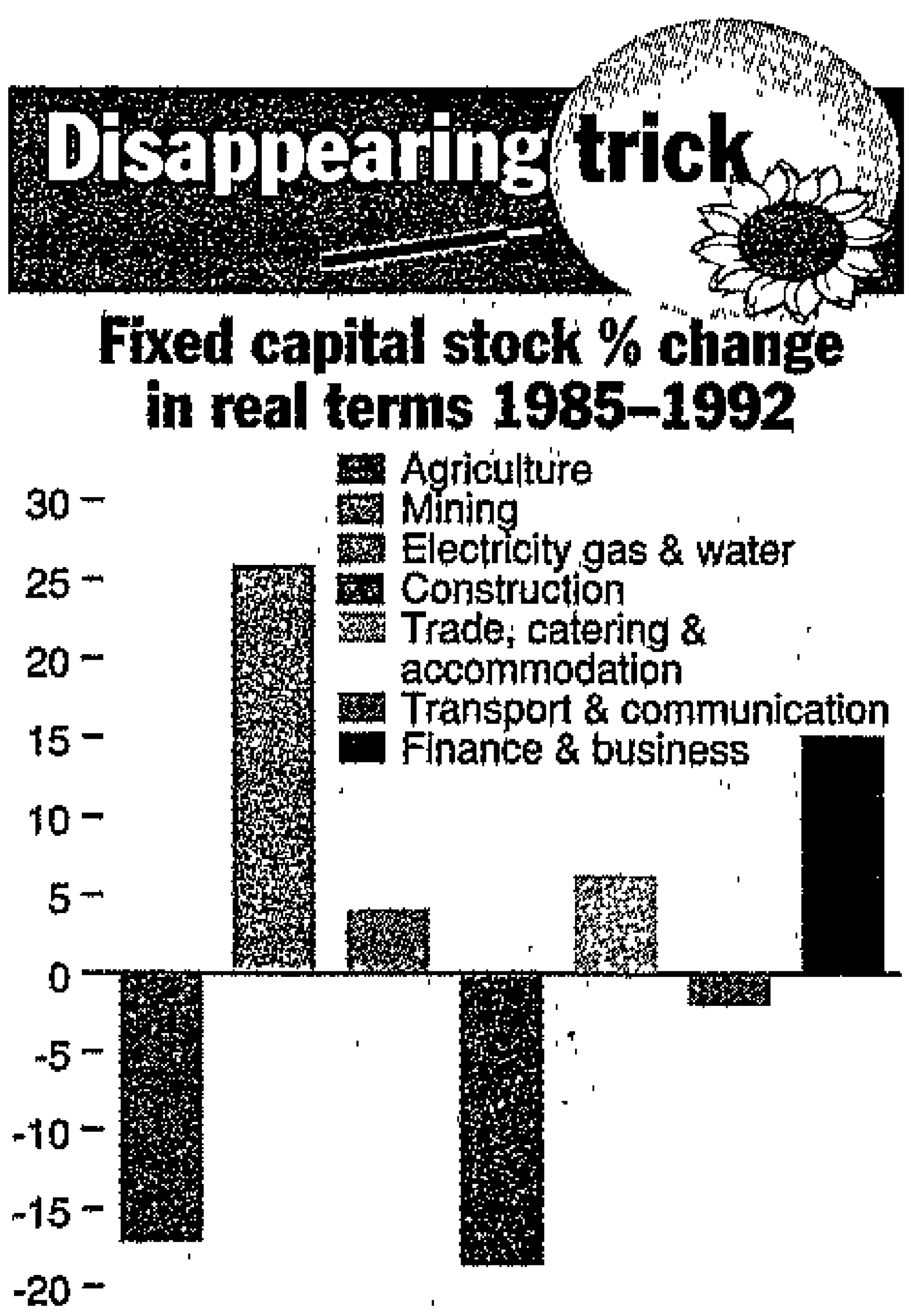
- ☐ There is the possibility that an improved political climate will foster investor confidence and labour productivity. The relative absence of labour unrest in the fourth quarter of 1992 and the first quarter of 1993 is at least one immediate and visible benefit. First-quarter figures from Andrew Levy & Associates show that, including the teachers' strike, a loss of 65 000 man-days was recorded in the first quarter of 1993, compared with losses of 135 000 in first-quarter 1992 and 180 000 in first-quarter 1991.

And the experience of the gold mines is evidence of realism in the labour force. Profit-linked and productivity-linked wage agreements allowed the industry to reduce its nominal working costs by 0,9% in 1992, says Chamber of Mines chief economist Francois Viruly. Working profits, he points out, also declined — by 6,7%. Without the innovative wage settlements, marginal mines would would have been in danger of closing and the damage to the industry could have been permanent At least the rate of retrenchments is falling,

- ☐ Another unquantifiable source of growth is the more appropriate allocation of resources in the economy that the removal of apartheid laws — such as influx control — and widespread deregulation has brought about. The consequent growth of an urban informal sector has made it possible for countless people to survive the recession instead of starving in rural wastelands.

At the same time, it has increased efficiency at the bottom end of the distribution chain, expanding the market for a wide range of goods. In the formal sector, new competitive pressures, as in the airline industry, have reduced prices and therefore increased real disposable income, says Wits business economics professor Duncan Ree-

cont →



FM 2/4/93. (49)

Bottom line

Expenditure on GDP in constant 1985 prices

	1991	1992	% change
Private consumption	76,3	74,3	-2,6
Government consumption	25,7	25,8	0,3
Gross domestic fixed investment	23,6	21,2	-9,9
Final demand	125,5	121,3	-3,4
Change in inventories	-2,6	-1,3	
	123,0	120,0	-2,5
Residual item	-2,6	-1,9	
Gross domestic expenditure	120,3	118,1	-1,9
Net trade	12,6	12,0	-4,6
GDP	132,9	130,1	-2,1

Figures are rounded off

kie.

One sector that is normally very sensitive to the business cycle is the furniture industry. It is showing signs of buoyancy. And Furniture Traders' Association director Frans Jordaan reports that much of the impetus has come from black consumers.

Amrel's Derek Kirsch, the association's national president, says the turnaround took place towards the end of September and was first seen in the organisation's figures in October, when turnover rose 14,5% compared with the previous October; November-November growth was 17,5%, December-December 12,9%. These figures were all a few percentage points above the inflation rate January figures were down — growth of only 8,7%, one percentage point below January inflation — but this is at least partly seasonal.

The growth trend is reflected in recent results from furniture groups. Retailer Ellerine Holdings reported after-tax earnings up nearly 60% to R18,6m. Retailer and wholesaler Morkels reported a 78% increase to R1,6m in the nine months to December. And retailer JD Group's profits are up 21% to R39,3m in the 12 months to December.

Of course, other factors — such as cost-cutting and marketing strategies — played an important part in achieving these results. But, coming from a sector of the economy that is traditionally hit hardest in a recession, the figures are encouraging.

Inventories are another economically sensitive indicator. Says Simpson McKie's Boyd: "In almost any scenario, inventories emerge as a positive factor since they have merely to fall at a slower rate to deliver some thrust to GDP." Most analysts are predicting a small rise after the sharp falls over three years

Taking all these factors into account, economists are predicting growth of between -0,5% and 1%. Even the lower figure will mean a substantial swing in business activity from the depths of 1992.

While that is a welcome development, it too has insufficient impetus to propel the economy into the growth needed to preserve productive capacity, let alone increase it. And that is critical to the provision of sufficient jobs to meet the rapidly growing and urbanising workforce.

To meet that need, new real investment must start now The losses, not only of the current downturn but of a decade of falling real investment, are not easily retrieved. Shrinking capex in seven of the past 10 years has reduced growth potential so drastically that a turnaround is no longer enough to generate confidence in consumers and businesses.

Though traditionally capex is a lagging indicator, after so many years of decline - from a ratio of 27,9% to GDP in 1982 to 15,9% in 1992 — the lag might now have been foreshortened.

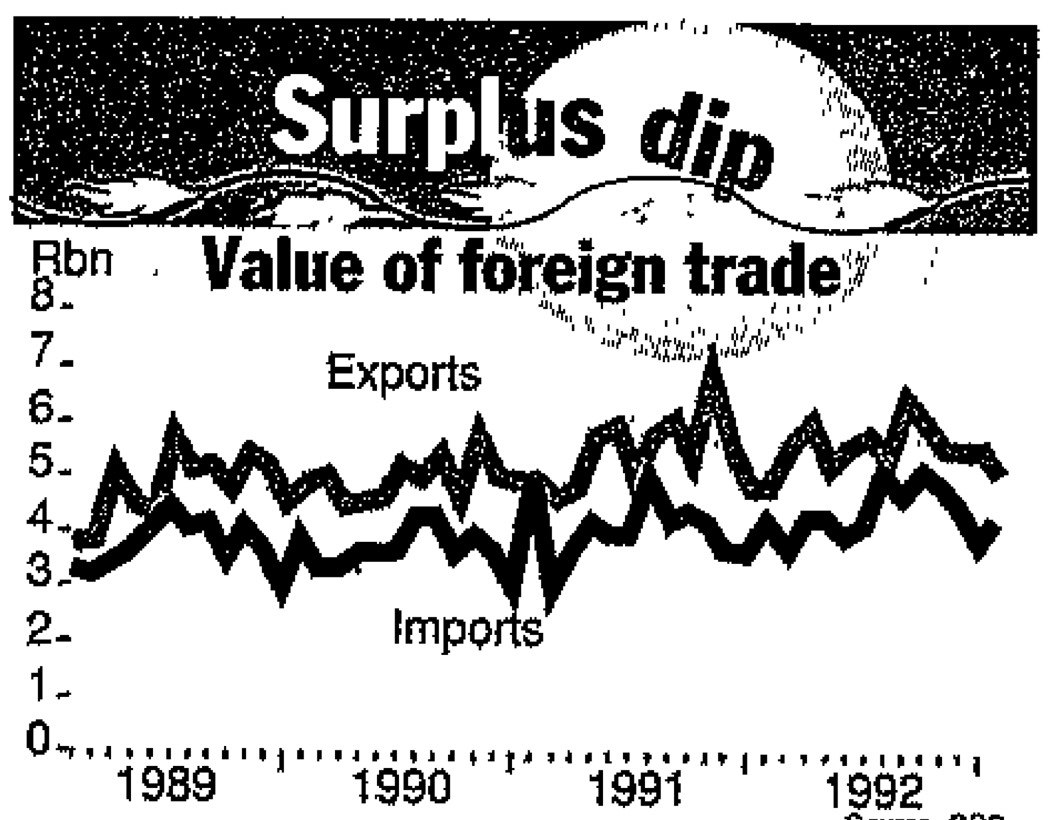
While capacity usage was as low as 77,6% in September, the lowest level since the second quarter of 1986, industrial and commercial inventories are also at historically low levels — 17,6% of GDP in 1992, down from 29,7% in 1978. A revival of consumer demand could reduce inventories and put pressure on existing capital stock at a faster rate than in the past.

Much of that plant and equipment, moreover, is outdated and due for replacement. JCI economists Ronnie Bethlehem and Peter Perkin say new domestic fixed investment, as a percentage of GDP, has fallen from 14,1% in 1981 to 2,2% in 1991 and an estimated 0,8% in 1992. And they predict that fixed capital stock will fall, in real terms, in 1993 for the first time since 1947.

A tentative recovery might get an early boost from a capex boom — perhaps starting in 1994. The importance of this is that it will sustain the upturn and help redress a huge structural imbalance after a decade of excessive consumption spending.

Financial resources are a restraint because domestic saving is low and foreign capital scarce. Since the breakdown of Codesa last year, long-term foreign loans have dried up. No new bond issues were placed in international markets and a large maturing loan was not renegotiated because the cost proved prohibitive.

But the problem, it is hoped, relates to the past, not the future. Whatever the caveats about the availability of international capital, if political negotiations proceed and are ultimately successful, SA will be able to end the debt standstill and its financial standing will improve considerably



Aid organisations will be prepared to finance infrastructural developments It will once again be possible to raise money on capital markets Banks will be more willing to provide short-term funds And loan capital from the private sector will become more accessible as the risk:reward ratio improves relative to the ratio in other countries And it will For recent events in SA are only a part of a broader global transformation The end of the Cold War presented SA with an alternative to the Ian Smith/Mugabe kind of confrontation To the credit of President F W de Klerk and his Cabinet, and to the ANC leadership and its allies, they all took that opportunity.

Critical now to the revival of the animal spirits of SA business people - - apart from the obvious need to curb violence — is access to the balance of payments support finance of the IMF It will enable the monetary authorities to take a more sanguine attitude to interest rates as inflationary pressures subside But such finance is being blocked by the US at the behest of various "liberation" movements and an increasingly Marxist clergy.

All of them — including the US — need to reflect on the economic consequences of their dogmatic refusal to confront reality. The factors outlined here that will eventually bring about a mild upswing will not be thwarted easily Economic logic will eventually prevail, provided the political position does not deteriorate The US, the "liberators" and a dogmatic clergy are capable of prolonging the agonies of mass unemployment by a political stance that not only frustrates new investment but is eroding the capacity of what we already have.

The consequences of that are serious indeed. If prolonged, it will reduce the economy's self-sufficiency when the weight of an exploding population is increasingly turning the country towards the seemingly irreversible poverty of sub-Saharan Africa. It is not a trend that can be reversed with ease and it rubs the already raw fears of future uncertainty.

They are doing so, they claim, on the pretext that the Nats are recidivistic and that they are the cause of continued violence in black society. That is so patently absurd that it virtually amounts either to negotiation in bad faith or more sinister anarchistic motives reminiscent of Yugoslavia. Mass hardship is being prolonged for dubious political gain

Investment is always an act of faith by the investor We believe sufficient reasons exist — and we have outlined them here — for businessmen to commit themselves to the future of SA But can their recalcitrance be blamed when "liberation" politicians and clergymen have allowed their faith in mankind to be overwhelmed by political intrigue and their compassion for the poor by the conceits of political power? ■

Africa deeper in debt

STRUCTURAL adjustment programmes are bringing little good to Africa, the ICFTU has concluded in a report it released at a meeting in Harare this week.

The report, researched in 29 countries, reveals that foreign debt has increased to $237-billion today from $165,9-billion in 1984. (49)

Unemployment has grown by 10 percent annually between 1986 and 1990 and in sub-Saharan Africa, 70 percent of the economically active population lives off the informal sector. W/M ~~au~~

The number of undernourished people has climbed by 68-million to 168-million in the past 10 years and 13-million children under the age of five die every year from diseases directly attributable to malnutrition. 2/4- 7/4/93.

'Unbundling the pyramids'

'Let the good firms be'

ARG 3/4/93

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☐ Dr Jos Gerson against government protectionism.

■ Lack of competition is not caused by giant South African companies, but by government protectionism says Cape Town economist

BRUCE CAMERON
Business Staff

A witch hunt should be launched against barriers preventing effective competition rather than against companies which dominate the South African market.

Speaking at a Free Market Foundation conference on anti-trust legislation, Dr Jos Gerson, group economist for stockbrokers, Davis Borkum Hare, warned that politicians and lawyers who tampered with the corporate structures, built under free market conditions, risked damaging the efficacy of the large companies.

This was particularly the case in international competition.

Dr Gerson said the United States has been able to get away with a tough trust-busting policy because of the enormity of its internal market.

But even in the US the policy "is no longer pursued with any vigour and conviction because Americans, too, are now reluctant to damage their international competitiveness."

Dr Gerson said he was not implying there should be tolerance of the monopolies that depended on government support and protection for their existence.

However, firms such as SA Breweries, which had achieved a dominant position through sheer efficiency and innovation "ought not be tampered with."

South African consumers paid a heavy price for the protection the State gave local companies against foreign competition. The solution is not to initiate a witch hunt against large firms, but to remove the barriers that prevented effective competition.

Dr Gerson said the accusation of excessive concentration of ownership resulted from the relatively small number of powerful families who controlled most of the large companies, invariably with a minority of the underlying shares.

Dr Gerson said in South Africa this was achieved by listing a "pyramided" holding company with an owner having 50 percent of a holding company, which in turn held 50 percent of an operating company. The result was that control was maintained with only an effective 25 percent of the underlying equity held in the business.

However, only entrepreneurs with outstanding reputations "will receive sufficient investor support to be able to issue shares in such a structure."

Pyramids and similar devices were suppressed in Britain and the US, largely because they violated the "fanciful notion of shareholder democracy", but were commonplace in Europe and Asia.

In large companies with thinly spread shareholdings the devices enabled powerful entrepreneurs to exercise effective control and, where necessary, to hold management to account.

Dr Gerson said the devices overcame the problem of large quoted companies in the US where wayward managers voted themselves enormous remuneration packages.

Shareholders prefered to sell out when the going got tough rather than use their votes to put matters right.

The calls for "unbundling" in South Africa often meant the abolition of our pyramid structures.

Dr Gerson said "unbundling" was a lamentably ambiguous word because it also inferred milder restructurings such as selling off non-core businesses.

"Many of those, who call for a tougher competition policy and the dismantling of pyramids, do so in the name of the free market."

But Dr Gerson said this showed a limited understanding of what markets were all about.

"The role of the market in setting prices through supply and demand is obvious."

But the market fufilled another role functioning as a long-run adjudicator, constantly choosing between alternative ways of organising firms and institutions.

"In this Darwinian landscape, superior firms gradually drive out inferior ones.

"We ought therefore to respect the institutional and legal outcomes that emerge ynder free market conditions in the long-run. The market always has a good reason for its verdict.

Often, it favours the fortunes of large firms but not always."

FM BOARD OF ECONOMISTS

FM 9/4/93 .

(49)

The outlook after Keys's first Budget

Recovery is dependent on more than a political settlement

The *FM* Board of economists discusses the post-Budgetary economic outlook. This session's members are Louis Geldenhuys (of stockbroker Senekal Mouton Kitshoff), Rudolf Gouws (Rand Merchant Bank) and Prof Brian Kantor (UCT). As usual, Sacob DG Raymond Parsons poses the questions.

***Parsons:* How would you describe the broad economic background to the Budget?**

Gouws: The Budget was read on technically the fourth birthday of the current downswing. Consumer spending may be levelling out but the economy is still in serious recession Keys had to address the fiscal problem at an inopportune time. He had to impose a pro-cyclical policy that will make recession even longer and deeper.

The poor government finances, the biggest Budgetary deficit and dis-saving ever and rapid run-up in goverment debt meant he had to find a balance between not making recession too much worse on the one hand and addressing the huge fiscal problem. To my mind he found a good balance.

Kantor: Recession certainly deepened in 1992 — in fact, I was distressed how weak final-quarter consumption spending was. This indicates how unimportant fiscal policy is in determining the pace of the economy and how much more important other factors are, like monetary policy and politics.

Geldenhuys: The economy is still in a downturn. Given the momentum of economic processes and the lags we have to work our way through we are still in for a tough time. The only thing changing is agriculture.

***Parsons:* Have we reached a turning point in this recession?**

Kantor: There are obviously some positive signs. One is that real money started to grow. As the inflation rate came down, the real stock of money was actually increasing. You won't get an economic recovery without a recovery in real money supply. Unfortunately, Vat and presumably a higher rate of inflation will take something away from money supply this year.

I expect the money supply targets to be maintained and the target of between 6%-8% to be met. That represents a limited opportunity for the economy to recover

The other negative is that the capital account of the balance of payments turned unfavourable in the final quarter of last year, putting pressure on the foreign reserves and discouraging the Reserve Bank still further from any interest rate reduction. We had a bit of relief recently when the dollar weakened and the gold price went up a little.

Geldenhuys: I see no turning point before the end of this year.

Gouws: At least we're falling at a slower pace. A number of indicators, like retail sales and manufacturing output, are not perhaps quite as dire as in the third quarter of 1992

Geldenhuys: It was widely expected that the Vat rate would go up, so retail sales have benefited from pre-emptive purchases.

***Parsons:* How does the outlook for the world economy affect SA?**

Geldenhuys: Problems with the unification of Germany will ripple out to the rest of Europe. Japan has short-term problems too. The only ray of hope is the US, where there's a meaningful recovery. One can only hope that that will spill over into the rest of the world in 1994, but for 1993 the prospects for SA are not that good.

Kantor: The UK economy seems to be turning. The US recovery is well established. A weaker dollar is helpful to us; it reverses leads and lags on our foreign exchange reserves, which is an important concern. Clearly the world economy is no worse off than it was a year ago.

"If I were poor I would prefer 10c or 20c less on my bread to some programme designed to help me"
KANTOR

***Parsons:* Against that background, how do you assess the net impact of the Budget on the prospects of recovery?**

Kantor: I don't think that is putting the question the right way round One should rather ask what an economic recovery, if any, will do for the Budget. I don't see the Budget as having much direct impact.

From a Keynesian perspective it's mildly contractionary in that spending growth is down and expected tax revenues are up Whether those taxes are collected will depend very much on the economy If the economy stays weak, they'll have difficulty in collecting them.

Gouws: The order of tax increases is just over R6bn, to which you can add about R2,5bn fiscal drag If you take that quantum of extra money out of the economy, it equates to almost 2,5% of GDP, which is equal to just about 4% of last year's personal disposable income. That must have a material bearing on consumer spending

Kantor: The corporate tax cut is positive for business and investment. But the idea that you can raise Vat without affecting other tax revenue is naive. If economic conditions are deteriorating, companies won't be able to recover those price increases.

***Parsons:* Do you hear a strong echo of the Normative Economic Model in the Budget?**

Gouws: Only a faint echo The model suggests that we should close the gap between direct and indirect taxation. Unfortunately, the Budget does this only from one side. Indirect taxes have been raised substantially, but fiscal drag has not been addressed on the personal tax side and depending on the extent to which companies change their behaviour, he won't get much less in company tax than he would have from the old system.

The model suggests that government dis-saving should be extinguished by 1997 If this Budget is adhered to, the dis-saving will be diminished by about a fifth, so it does start to make headway in that direction.

Geldenhuys: I agree. And with a 27% increase in capital spending in the Budget, there's also been some attempt to overcome the imbalance between capital and current spending. It's limited, but maybe the circumstances are too demanding to expect more.

Kantor: Building hospitals and additional office blocks for bureaucrats may be classified as capital items, but to me are not investment expenditure. They don't produce future income. On the other hand, we call expenditure on education "consumption"

***FM* board** ... *Gouws, Geldenhuys, Kantor, Parsons* and if anything should produce increases in income, it's spending on education. I have a real problem with the arithmetic of the economic model.

***Parsons:* Broadly speaking, does the Budget improve our tax regime? Is it a step in the right direction and should business be happy?**

Geldenhuys: I doubt if business will be happy on balance, though there are a few plus points, like the improvement in staffing of the Receiver and the encouragement to unbundle. The zero-rating of some goods will make implementation of Vat more difficult and the new company tax may be creative, but it's also complicated. And the import surcharges are still there.

Kantor: Vat is the right way to collect indirect tax and the new rate is what it should have been last year. The handling of Vat last year was both a public relations and an economic disaster. The rate is now closer to where it could provide relief for income and corporate tax. The cut in company tax is a bit of sleight of hand but it is a real reduction. It's a positive signal to business that the cost of capital has declined more in line with international costs.

Government is spending its way through the political transition at an enormous rate, paying off old friends and trying to buy new ones. There is a reason for this, but as yet we don't see any signs that spending is under proper control. And why didn't Keys scrap Marketable Securities Tax?

Gouws: I've found businessmen's reaction to the company tax change to be positive, but the overall package will depress demand, especially in the second quarter, so that when they realise the total implications business confidence will take a knock.

***Parsons:* Will zero rating of food items build up pressure to do the same for things like medicine and education, or was it a reasonable trade-off for a 14% Vat rate?**

Kantor: It must cause trouble. Pandora's box is open, so the lobbies will be out to influence the status of different goods. Whether it could be avoided, I don't know. Keys clearly won himself a lot of ground by essentially buying off the trade unions. Of course, few countries are Simon-pure in this regard.

Geldenhuys: It does create a precedent but as we move more democratically, a democratic government must listen to what the people want.

Gouws: Around the world, hardly any countries have only one Vat rate. We are fortunate that we have not got a multirating — 5% and 10% rates on goods which some bureaucrat decides are or are not a luxury.

Kantor: The plan to target spending on the poor and compensate for a higher Vat rate clearly didn't work It was not well sold and all you do is target expenditure on the bureaucrats that administer the programme If I were poor, I would prefer 10c or 20c less on my bread to some programme designed to help me, even though rich people spend more on bread than poor people.

***Parsons:* How feasible will it be to meet government spending targets? Is the interest burden the main problem?**

Gouws: With all the corruption and scandals and so on coming to the fore, it is easy to be cynical whether the Budget target of R114bn will be met. I am somehow less cynical. In the last two years, there was first an overrun of 0,5% the previous year and in the year now ending, if you exclude the bunching of drought aid, it was 0,9%.

I think government is getting its act together on the perennial overshoots. Excluding the sharp rise of 26% in the interest burden and allowing for R3,4bn drought aid in the base year, the Budget increase in total current spending is 8,2%. That's a brave target and I believe it'll be met.

Kantor: The targets will be met, but that's not the problem. We just can't afford spending at these levels. I estimate the economy's tax capacity around 24%-25% of GDP at most — and that in a good year. In 1985/1986, when we were in severe recession the tax ratio was 22%; last year, 22,9%. We have not actually been able to raise taxes. You have to control spending or you get these big deficits which mean that debt grows and the interest burden grows and you start running down that slippery slope.

Maybe when the transition's over we can get more discipline on spending. Still, it's better than war. There's a certain sense to it, but it has held back the economy in that there has been no room to do the fundamental restructuring of the tax system.

Since 1985-1986, spending has been growing close to 6% in real terms, against an economy growing by less than 0,5%.

Geldenhuys: It is difficult to say where you enter a debt trap but what has happened of late is meaningful. For a number of years the proportion of current tax revenue that went to pay interest on government debt averaged around 17%-18%. In the new fiscal year it'll be 25%. As a percent of GDP it's risen from about 4% three years ago to 6,1% in the new fiscal year. That's becoming a main problem.

Kantor: In 1985-1986, the deficit was basically small, equivalent to 10% of tax revenues. Last year it was 37%. This year it is expected to be 28%. Fortunately we are starting off with a low debt ratio around 45% of GDP, but it is rising fast. I am not worried about it and it is just as well future taxpayers will pay for this buy-out.

Gouws: Future taxpayers are already paying. You can argue about the definition of dis-saving, but it has been going on since 1982 We must not burden them overly.

Kantor: Keys could have gone for an even higher Vat rate or petrol duty or income tax, but he would not have got the money You can't avoid big debt deficits with these levels of spending. The economy being what it is, if you try to raise taxes against this background, all you'll do is hold back the economy further. You are in slumberland.

***Parsons:* Would reintegrating the Department of State Expenditure with the Department of Finance facilitate fiscal discipline?**

Geldenhuys: In the past two years Amie Venter and his department have held spending close to the targets, but I am not sure that that justifies a different department.

Gouws: I would think that business in general and both business and ANC economists agree that this is an unnatural split. A senior Minister with two strong deputies could do the job even better, with a closer synthesis.

***Parsons:* Is there a risk that the curbs on consumption in the Budget will work, but the incentives for investment will fail?**

Kantor: I don't think anybody wants to curb consumption spending, which is low. The only reason could be that the balance of payments won't support it. That's the key issue. Will we get some foreign capital inflow which will enable consumption spending to pick up again? You can't hope to encourage investment spending when consumption spending is falling. If the capital account improves because of a political settlement, that would generate confidence and some financial capacity and encourage the Reserve Bank to lower interest rates.

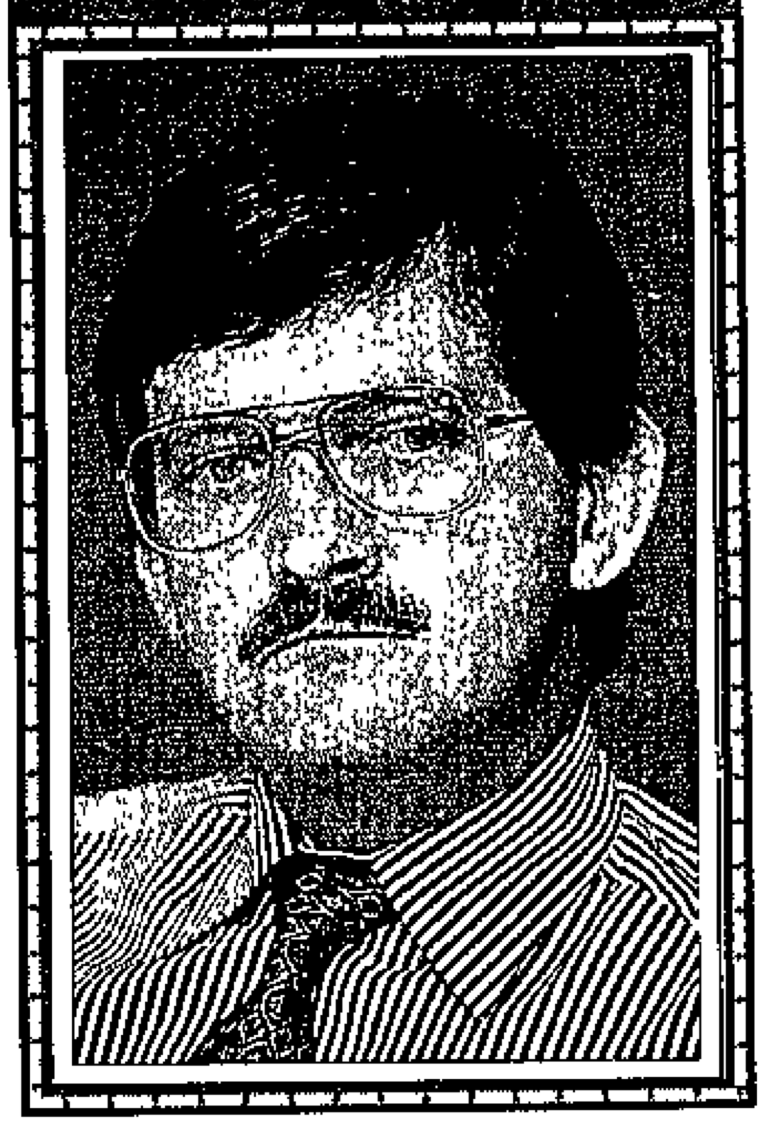
Gouws: Real personal disposable income fell last year by 1,7%. I have great difficulty in it looking any better this year So private consumption expenditure will remain weak, capacity utilisation will fall — especially in the second quarter — and that will act as a psychological deterrent to private-sector investment. But then again, throughout this cycle, the fall in private-sector investment has not been that great. It is as if people are looking ahead to something better

Geldenhuys: For the household sector, the Budget brought four types of tax increase. The biggest is Vat, then fiscal drag, the fuel levy and excise taxes. Add them together as a percentage of their own base — not the overall tax rate — and the effective increase in the tax burden was 13,1% That's hefty.

Even before the Budget I thought consumption spending would fall; now it'll fall even more steeply. The company tax reform is excellent, but when it comes to invest-

cont p

"If the economy continues weakening, we may find ourselves in an even more difficult fiscal situation one year from now"
GELDENHUYS



Keys answers Budget questions

THE South African economy was still functioning and, in many respects, had even improved its capacity for future growth despite adverse circumstances, the Minister of Finance, Mr Derek Keys, said yesterday.

Replying to debate on the first reading of the Budget, he said his general feeling was that the economy had "had about as much as it could take" of counter-productive actions during the past year.

This included mass action as a political strategy, continued political violence, increased crime, political posturing and the slowness of political groups to realise the damage which they had done, and were continuing to do, to the country's domestic and foreign image.

"What do we have to do to make people realise that trying to use the economy to extract forced bargains from political opponents not only does not work, but devalues permanently the opinion which objective outside observers have of this country as a place where honest economic effort will be allowed to earn and keep its just reward."

Mr Keys said improvements such as the reduced inflation rate and foreign debt, and the growth in manufactured exports would prepare the economy for future growth.

The first reading was approved following divisions in the House of Assembly and the House of Representatives. The objection of the Democratic Party was recorded in the House of Delegates.

Mr Keys also said that the VAT rate would have to be raised to 15,5 percent if the government were to accede to demands to zero-rate products and services including doctors' bills, medicines, meat, water and municipal rates.

He said that during the debate MPs had urged zero-rating on doctors, dentists and specialists' fees, hospital fees, medicines and therapeutic equipment. This would mean a loss to the exchequer of R550 million.

Zero rating of water, sanitary services, rates and refuse removal would account for another R570 million, and zero-rating of red and white meat, excluding sausage, would entail a loss of R1,75 billion.

(49)

"It is also important to realise that zero-rating does not necessarily bring about the advantages that its proponents seek," he said.

ARG 3/4/93

"The State therefore focuses rather on provision of affordable medical services and in some cases it is in fact free. A zero rate on medical services would mean in addition that everyone would benefit, including those who can get by without it."

Mr Keys also disclosed that foreign dividends would be allowed as a credit against dividends declared to exclude them from secondary tax on companies (STC).

It had always been the objective to exclude foreign-sourced profits, including foreign dividends, from STC because they did not benefit from the lower normal tax rate. — Sapa.

Budget bonus

S1 Times (B4557) 4/4/93

By DON ROBERTSON

MINISTER of Finance Derek Keys has given taxpayers a small measure of assistance and has cleared up several confusing points raised in his March 17 Budget.

In the first reading of the Budget debate in Parliament on Friday, Mr Keys assured taxpayers that no penalties would be levied on late taxes, provided they are submitted before August 31. (380)

This will apply to returns on which no assessment has been issued and to those who have neglected to register.

He also clarified some of the confusion regarding secondary taxation of companies by adding that foreign dividends received by South African companies with overseas operations would be allowed as a credit on dividends paid in SA. (49)

Shares issued in lieu of dividends would not be taxed.

Mr Keys also contradicted opponents who have criticised government spending by announcing that there might be a slight real decline in the past fiscal year and that spending could be down by about 2,5% in the current year, before taking into account rises in indirect taxation, which could reduce the figure to more than 3%.

Although depleted, the trees are still a feature of Hout Bay, but the picturesque fishing village has numerous other holiday attractions. PENNY SWIFT reports

Contrasts abound

ALTHOUGH there are only remnants of the forests which gave Hout Bay its name, there is nothing like the threat of the removal of trees to get residents up in arms.

41

When Victoria Road was widened several years ago, ratepayers were furious that trees were to be removed — especially the line of palm trees adjacent to Mount Rhodes and one special pine tree which had become a landmark over the years.

Oak trees

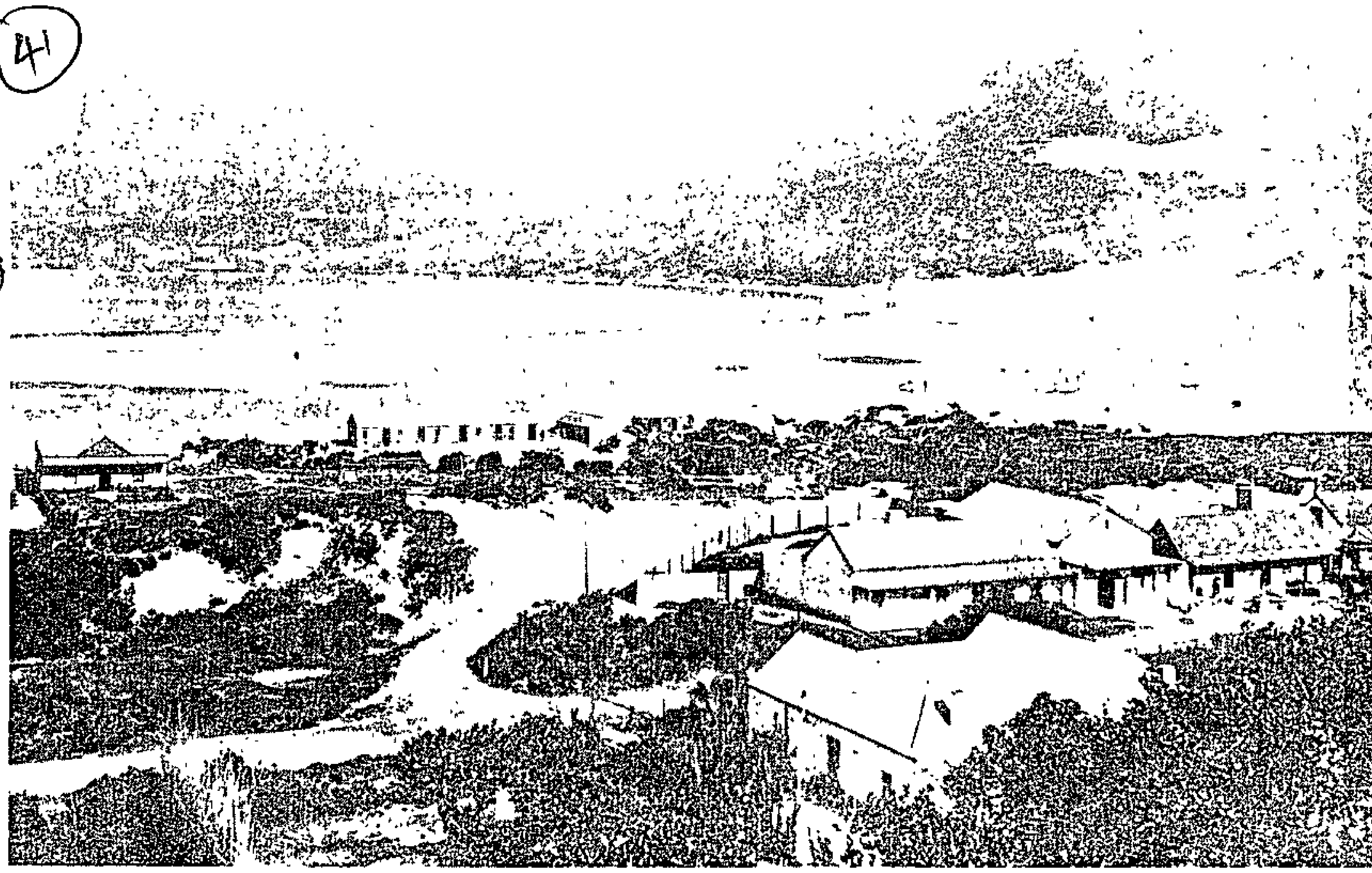
For more than a decade, there has been a continuing dispute between the authorities and residents about the possible removal of oak trees lining Main Road. Some say they are diseased and dangerous, while those who have grown to love the winding approach to the valley are willing to put up with the odd inconvenience after storms of branches in the road.

Origins

And then, of course, there is the debate about the advisability of removing pine trees — which are alien — from the hillside which now accommodates a growing informal settlement, Imizamo Yethu. The argument is that these will at least shield the area from general view.

While Hout Bay has origins which can be traced to the late Stone Age, its recorded history dates to 1607 when an English sailor, John Chance (after whom the place was originally named Chapman's Chance), noted its position. Less than 10 years later, another English sailor took wood from the forest to mend his boat, and then, in 1652, Jan van Riebeeck named it Hout Bay, after describing its forests as the finest in the world.

In those days, according to the Hout Bay Museum, the forests extended along the south facing slopes of the mountains and in shaded ravines, covering an area as close as 50 paces from the sea. In 1668, the first permit to cut and saw wood in the Hout Bay forest was granted, and little less than a decade later, the government's head woodcutter was based there.



LOOKING BACK . Hout Bay nearly a century ago. Today this main road is lined with supermarkets and shops. Picture HOUT BAY MUSEUM

It was Governor Simon van der Stel, who perhaps fortunately failed to set up a saw mill in Hout Bay because the forest was already dwindling in the late 17th century, who began planting alien trees in the area.

The woodcutters have all left and there is no threat of milling, and those who walk in the area can still enjoy the beauty of the forests that remain on the slopes of Grootkop (adjacent to Orange Kloof), in Myburgh's Ravine and in Myburgh's Corner. There are also small original forest trees in the ravines on the Constantiaberg and a grove of Yellowwoods on the Karbonkelberg, and most of the residents will continue to fight to ensure that these are not destroyed.

When a group of Hout Bay separatists declared a republic seven years ago, the cynics said it wouldn't last. But it has — in its own way.

The president still does his civic duties (from time to time) and tourists flock to shops selling passports. Furthermore, stories abound about people using these to cross into once forbidden lands. During the season, the powers that be, in that part of the world, traditionally close the borders without warning, "fining" both tourists and locals without passports R10 for one of the remarkably authentic looking documents — the proceeds going to charity.

Originated as a means to raise money for the local service clubs, this unique passport policy has earned significant funds for a variety of charities over the years. And it's been cause for a lot of fun, which underlies the policy of the people of Hout Bay in general.

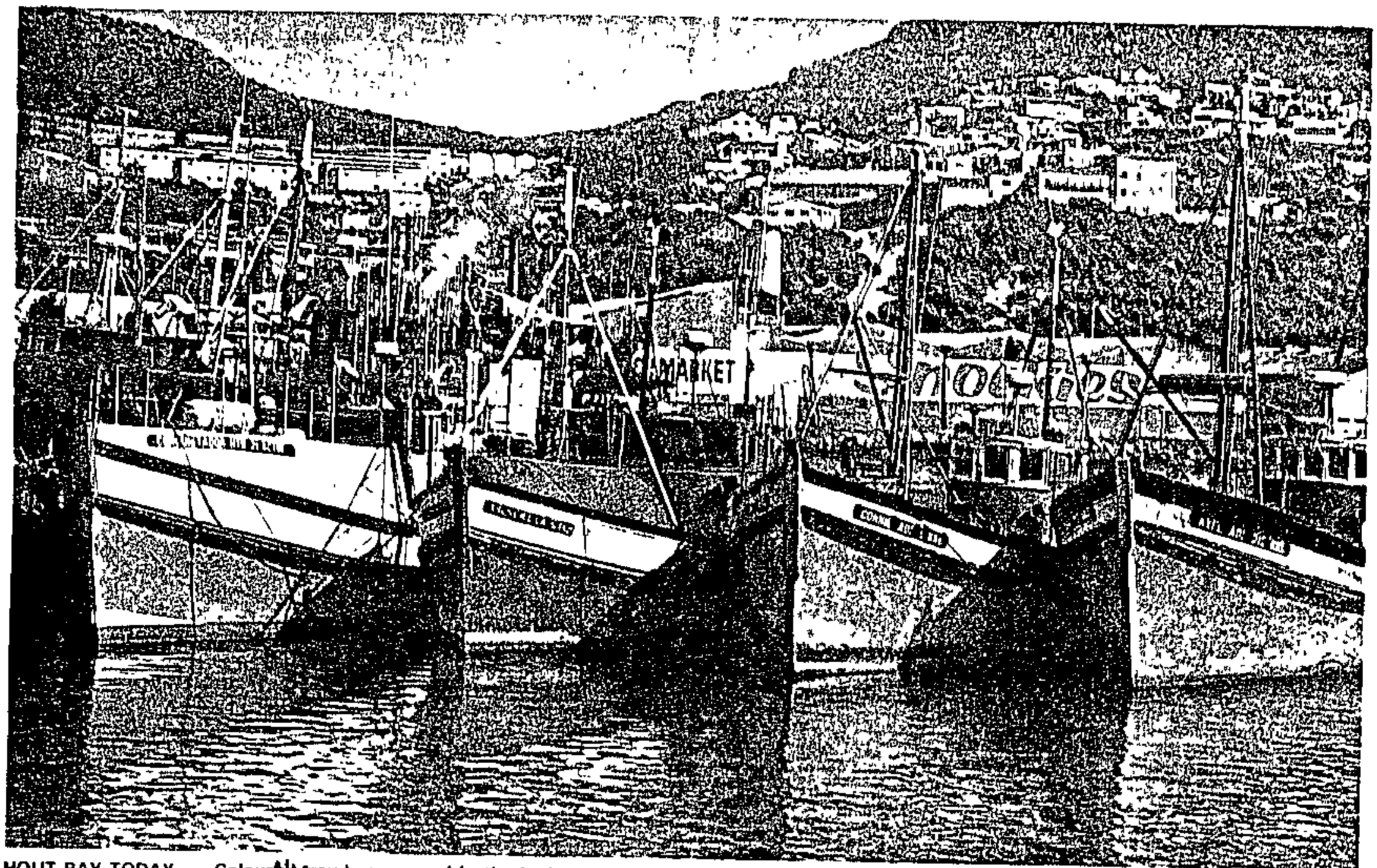
There are regular craft markets and fairs

PRESIDENTIAL ROLE . . Hout Bay president Len Pothier fulfils civic duties at many of Hout Bay's functions — particularly those organised to raise funds for charity

☐ To page 9

BIRD LIFE . Walter Mangold with two colourful Mackaws against a backdrop of flamingoes in the World of Birds, the largest bird sanctuary in Africa

in historic Hout Bay



HOUT BAY TODAY .. Colourful trawlers moored in the harbour create a picturesque scene

Pictures: JANEK SZYMANOWSKI

STimes [C(metro)] 4/4/93.

□ From page 8

in Hout Bay, and of course numerous resident shops which offer everything from fashion clothing to gifts, stationery, books, toys and jewellery You'll find everyday items, be it groceries or motor spares, and there are hairdressers aplenty, several banks, chemists, service stations and even a colour photocopying service And if you want to visit a farm stall, you'll find that too

If you want to buy in the area, there are also a legendary number of estate agents guaranteed to find exactly what you want.

Then there's the rock shop, with a delightful pebble-picking patch where you can gather your own polished semi-precious stones, and of course the internationally famous World of Birds which houses hundreds of different species from penguin to flamingo, and owl to eagle In cleverly landscaped aviaries, they behave just as they would in the wild — and you are on the inside looking out.

Of course there is the opportunity of numerous walks (alone or with a museum guide), of horse riding, or of scenic sea trips

People have been farming in Hout Bay for more than three centuries, and so it is not surprising that there are still operating farms, including one that encourages visitors to pick their own grapes Smaller enterprises grow bonsai trees, herbs, vegetables and flowers

There are several fish shops — and not all for hungry tourists One, for instance, stocks a wide variety of Japanese koi, goldfish, tropical fish and marine species for ponds, tanks and bowls

Still, as the local museum points out, fishing has been important since the khoi-khoi first gathered shellfish from the rocks and trapped fish in the Disa River estuary

According to the museum the first farmers were also fishermen using small boats and trek nets from the beach But it wasn't until the 1920s that fishing became a major industry

Emporium

Development of the harbour began in 1937 when the first breakwater was built Today two large companies operate from the harbour which is also home to fish shops and a nautical emporium with shops and restaurants

Nearby there is the well-equipped marina as well as the republic's own warship, the SAS Pretoria, an old minesweeper, now a floating private museum

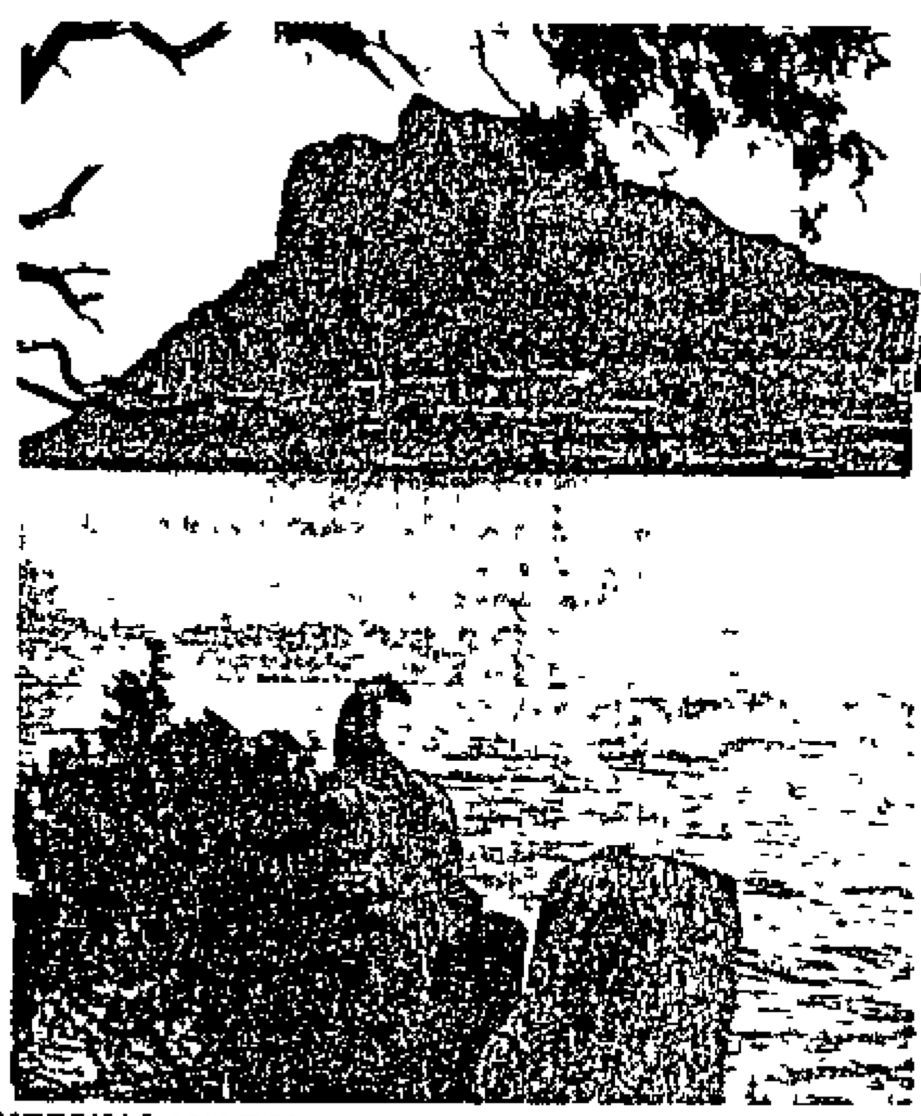
There are two libararies — one in the village and another in the harbour area — and the delightful Hout Bay Museum which boasts a shipwreck display and veldkos garden which have captured the imagination of many

Historic

Those people wanting to stay in Hout Bay have a reasonably wide choice of establishments, ranging from the historic local hotel to lodges and self-catering accommodation, guest houses and rooms in private homes

Restaurants are varied and include one situated outdoors (November to April only) Whether you want seafood, a good steak, a pub lunch or a champagne breakfast, you've got a good chance of getting it

CATCH OF THE DAY .. An old salt waits patiently while the catch of the day is offloaded



KEEPING WATCH .. The leopard keeps a watchful eye over the Sentinel

International financier to encourage reform

STAR 5/4/93. (49)

By Magnus Heystek

International financier and philanthropist George Soros (63) arrived in South Africa over the weekend to oversee the setting up of the local chapter of his Open Society Foundation.

Soros is one of the most successful investment fund managers in the world and shot to public prominence in September last year when his strategy concerning the British pound netted his fund management company well over £1 billion (about R4,7 billion).

In one of the most successful coups on world financial markets yet, Soros, through Quantum Investment Fund, went "short" against the pound in September last year.

He firmly believed that the British pound was heavily overvalued and when the subsequent free-fall of the pound indicated his beliefs, his company made "about one billion dollars in one day and maybe two billion in the days thereafter".

But despite being considered the world's foremost fund manager — a distinction he has earned for almost two decades now — he spends most of his time running the Open Society Foundation, funded almost entirely from his own pocket.

The Foundation's primary objective is to encourage free enterprise and democratic reform in formerly oppressed countries.

Soros said a total of $15 billion (about R45 billion), spread out over three years, would be used to facilitate the transitional process in South Africa.

If the funds are used effectively, Soros is prepared to commit more to this country for another three years.

He will meet several people who have been invited to become trustees of the Foundation. He would not reveal who has been invited, but did indicate that the infrastructure of the Institute for a Democratic Alternative in South Africa (Idasa) is to be used.

He said Dr Van Zyl Slabbert and possibly Peter Sullivan, Editor of the daily Star, would be invited to serve on the board.

Soros said he would leave the application of the funds to the board of trustees, but did indicate that one project could involve the training of black civil servants at the University of the Western Cape.

Hungarian-born Soros set up his Foundation in the early '80s. He funded political movements which contributed to the downfall of the communist government in eastern Europe.

He was previously involved in South Africa in a personal capacity when he funded scholarships for 80 black students at the University of Cape Town.

Financial genius . . . George Soros will set up a chapter of his Open Society Foundation.

Visitor warns of investors' caution

Star 5/4/93

(49)

By Peter Fabricius
Political Correspondent

CAPE TOWN — Former German Economic Affairs Minister Otto Count Lambsdorff has warned South Africa that it will take years before foreign entrepreneurs feel confident enough to invest in the country.

Lambsdorff, chairman of the Free Democratic Party, a member of the German coalition government and president of Liberal International, was speaking at an informal press briefing in the winelands.

He is visiting South Africa as a guest of the Democratic Party, a fellow member of Liberal International, and of the German embassy

He is meeting political leaders, including President de Klerk, ANC leader Nelson Mandela, IFP leader Mangosuthu Buthelezi, DP leader Zach de Beer, Cosatu general secretary Jay Naidoo and Mr Justice Richard Goldstone, head of the commission on political violence.

Lambsdorff said that even after a government of national unity was installed it would take years before foreign entrepreneurs were sure the climate was safe for investment.

There would be no overnight miracle and he was concerned that so many people would be disappointed because they equated political freedom with material well-being.

They would have to learn to be patient. Even in former East Germany, into which the German government was pouring billions of marks, the results were not yet being fully felt by ordinary people.

He said he would not advise investors to invest yet. "I would say look carefully. Don't decide now. But don't go away either."

Knowledge as a post-capitalist tool

BIOMY 5/4/93. (49)

POST-CAPITALIST SOCIETY, by Peter F Drucker (In UK, Butterworth Heinemann £16,95)

IN THE two dozen books which the encyclopaedic Peter Drucker has written since 1939, he has dealt in various combinations with philosophy, politics, economics, ancient and modern history, sociology, science, technology and — most notably — the management of all types of organisations, ranging from businesses to non-profit bodies and even governments.

Occasionally, this still-fresh 83-year-old has turned his hand to integrating all these themes into one volume, in a manner rivalled by few writers over the past 50 years. Yet Drucker's reputation among most "educated persons" (the object of the slightly teasing conclusion of this volume) rests on his seminal writings about business management.

With Post-Capitalist Society, Drucker has reverted to weaving all the threads together into a universal tapestry. For readers uninitiated in his power and range, the book should put an end to his narrow reputation. It reveals him better than ever as an acute observer of the underlying trends in each subject area, and his erudition and perspective help him knit them together persuasively.

We have entered a "post-capitalist" era, says Drucker, in the sense that the "capitalist" society of the mid-1800s to mid-1900s was dominated by two forces: capital and labour. Now, and increasingly over the next two decades, we will move rapidly into a "knowledge" society, in which the most vital factor of production will no longer be natural resources, capital or labour — all of which can be obtained with relative ease today — but knowledge.

By the year 2000, he predicts, there will be no developed country where workers making and moving goods account for more than one-sixth of the labour force.

Instead, the two key classes of society, with a greyer line between them than there has been between capital and labour, will be knowledge workers and service workers. He argues that the main economic and social challenges will be, respectively, the productivity of the former and the dignity of the latter, whose numbers will be slightly greater.

Lest his "post-capitalism" should confuse, Drucker makes it clear it is in no way anti-capitalist. It is centred upon the free market, as the only proven economic mechanism, although some of its institutions will have to change their roles. Commercial banks, for instance, will make their money increasingly by receiving fees for information, rather than by earning a return on money.

Among the other characteristics of post-capitalist society, he says, will be the confusing economic, political, social and managerial effects of constantly see-sawing tension from tribalism, nation states, regionalism and "transnationalism".

For all his illuminating discussion of this phenomenon, Drucker is at his most thought-provoking on the economics and productivity of knowledge, and on organisational issues such as why specialisation is almost always more effective than diversification, whether it is in a business or a hospital.

In an especially intriguing chapter, he points out the difficulty of quantifying knowledge, and therefore calculating a return on it.

At a more down-to-earth level, Drucker dwells on the need in a knowledge-intensive society to take education out of the traditional classroom and, by the use of technology, to make it available — and attractive — to people throughout their lives.

Universal "literacy" will consist not just of reading, writing and arithmetic, but also of fully fledged numeracy, an understanding of science, technology and foreign languages, plus "learning how to be effective as a member of an organisation". Above all, it will require better "process knowledge" — including "learning how to learn" — as distinct from traditional subject knowledge.

To lay the foundations of this society, Drucker argues that schools and colleges will have to become open to all ages, as well as more competitive and accountable for their performance.

Drucker is nothing if not eclectic. After all the torrential, overcooked outpourings of American futurologists, this slim volume makes a meatier yet more elegant and refreshing change of menu. — Financial Times.

CHRISTOPHER LORENZ

Star 5/4/93

Keys affirms pledge on state spending cuts

CAPE TOWN — The Government has every intention of carrying out plans to cut state spending, and there are indications that there could have been a slight real decline in the 1992/93 fiscal year, says Minister of Finance Derek Keys.

Speaking in the Budget debate in Parliament on Friday, he said opposition speakers who suggested the Government's plan to contain expenditure was "some kind of ritual obeisance to sound principles which we don't intend to carry out" were wrong.

Most speakers who claimed spending was not declining made the mistake of including in their calculations items such as interest on the national debt and other transfer payments, which were not part of the internationally recognised definition of general government spending.

(49)

Government spending figures, which were now complete to December 1992, showed that the growth in the spending level had started to slow down in the past year.

Calculations by the Department of Finance on assumed figures to the end of March this year indicated that there might even be a slight real decline in the 1992/93 fiscal year.

"We shall have to see, but whatever this level of spending, it is only the base for the period on which our attention has been concentrated — namely, the budget year which has just started."

The department's calculations for 1993/94 indicated a drop in the level of spending, as defined, in the order of 2,5 percent.

This was before allowing for the full impact of the rises in indirect taxes which departments would absorb and which would take the planned reduction somewhat over the three percent originally targeted.

"Those in my audience who still doubt the Government's will in this matter ought surely to come to a different conclusion when they see the pressure that the Government is steadfastly withstanding on its limit of public sector pay rises and the clear evidence of cuts in personnel complements." — Sapa.

Manuel spells out tough plan

CT 5/4/93 (49)

Economic policy welcomed

Own Correspondent

DURBAN. — A select group of businessmen has welcomed a tough nine-point reconstructive economic policy spelled out by ANC economic planning chief Mr Trevor Manuel at a business forum here.

The audience included Mayor of Durban Mrs Margaret Winter, Johannesburg Stock Exchange director Mr Rajen Pillay and ANC secretary-general Mr Cyril Ramaphosa

Mr Manuel said the reality of the apartheid economy was horrifying.

"Our economy is not just going through a bad cycle . . but a very, very deep structural crisis," he said.

He claimed the government's latest economic plan was cosmetic and would not address the problem of 42,6% unemployment among economically active people.

The ANC's nine-point plan aims to:

- Add value to raw exports by building up the manufacturing sector.

"We can't compete with the Pacific Rim (Japan, Hong Kong, Singapore and California) in the manufacture of electronic goods."

- Restructure banking and demonopolise the private sector.

"On the JSE, 84,6% of shares are owned by six conglomerates . . . There are too many pyramids that squat across everything that moves in our society . . Trends are towards building massive office blocks and shopping malls instead of job-creation and township infrastructure."

- Enshrine free and fair competition.

"I could import cement into the country from China more cheaply than you can acquire it here, but there are tariff barriers that prevent this"

- Broaden control and ownership of business.

"We need to create new stakeholders in terms of the ownership and control of businesses."

- Stimulate investment.
- Understand the country's markets and trading advantages
- Review budgeting

"We spend more than most countries on education and health, yet our infant mortality rate is higher than Sri Lanka's."

- Review monetary policy.

"Astute accountants have found loopholes that undermine the financial rand."

- Restructure markets and labour.

Asked whether the ANC had not softened its line on the redistribution of wealth, Mr Manuel said the organisation's budgetary and anti-monopolistic policies were "unashamedly redistributive".

Unbundling measures could focus on special scrip dividend

BIDAY 5/4/93.

(49)

LINDA ENSOR

CAPE TOWN — Inland Revenue is considering structuring its draft legislation on unbundling on the declaration of dividends in specie — a special scrip dividend — as a way for groups to get rid of their pyramid structures.

An Inland Revenue spokesman said at the weekend that no finality had been reached on draft legislation to support unbundling but that it would be ready shortly.

Finance Minister Derek Keys said at the conclusion of the first reading on the Budget debate on Friday that draft legislation to support unbundling would be introduced during this parliamentary session.

Unbundling measures would initially apply to groups with a listed company, but he would consider extending them to unlisted companies if they were effective.

The Inland Revenue spokesman said consideration was being given to structuring the draft legislation on the basis that holding companies which stood between the trading company and its ultimate parent company could declare dividends in specie up the pyramid ladder to the parent company without being liable for payment of the secondary tax on companies and of non-residents tax on interest.

Long-term assurers, which paid tax on dividend income, would also be exempted from paying tax on the dividend in specie received.

The Inland Revenue spokesman said no final decision had been taken on whether to limit tax exemptions to a specified percentage shareholding, as was the case when the moratorium on the payment of stamp duty on intra-corporate transactions was introduced in the late 1980s.

In this case, only where the shareholding was 75% or more were the transactions exempt from stamp duty

It was likely that exemptions would initially be effective for a limited period, with the possibility of extensions later.

Exemption from stamp duty, initially in effect for one year, was extended twice and had been helpful in cleaning up corporate structures, the spokesman said.

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$15m kick-start for new development foundation

LINDA ENSOR

CAPE TOWN — International financier and US billionaire George Soros has donated $15m for the establishment of an Open Society Foundation in SA. The foundation was launched last night.

Soros has established 19 similar foundations in eastern Europe. The foundations are involved in a broad range of programmes including education, institution building and media development.

He is president of the New York-based Soros Fund Management and is chief investment adviser to Quantum Fund, a $2,5bn international investment fund which has had the best performance record in the world during its 23-year history.

Soros said his investment in SA was an expression of his hope and confidence in the country's future. "The building blocks for a successful transition are there — the process is well under control."

This was in contrast to his feeling in 1979 when he considered and rejected the idea of establishing a foundation in the country which then seemed like a "vale of tears".

Priority projects for the foundation would include training a new cadre of civil servants for a new government and fostering the plurality and professionalism of a free Press which Soros regarded as vital for an open society.

His investment had a strict three-year limit to ensure the speedy use of the funds in practical projects which assisted in the creation of a new society after which the foundation would have to dissolve.

Political analyst and Idasa trustee Van Zyl Slabbert was appointed chairman of the foundation's board of directors. Other members of the board include Fikile Bam, Alex Boraine, Anthony Heard, Rhoda Kadalie, Mamphela Ramphele, Kehla Shubane, Peter Sullivan and Helen Zille.

Slabbert said the foundation would promote political pluralism and individual liberty under the rule of law and the acceptance of legitimate dissent and of civil society as a strong, pluralistic and autonomous institution. These values would be translated into practical projects during the transition.

"The underlying philosophy of the foundation will be to anticipate what a transforming state will have to do in order to transform society and to provide role models for this."

He said the projects would be more long-term and enduring than those directed to short-term transitional objectives such as voter education.

One aim would be to provide rural women with skills to enable them to transcend the cycle of poverty and the system of triple discrimination under which they suffered.

BD 7/4/93

Swiss-SA pilot swap 'a poor decision politically'

BD 7/4/93

BERN — A secret exchange programme involving Swiss and SA pilots in the '80s, when SA was still under apartheid rule, was "negative" for Swiss foreign policy, Swiss Defence Minister Kaspar Villiger said on Monday.

Instructions had been issued so that such a decision — taken by air force chiefs without informing the Swiss defence ministry — would not happen again.

Villiger said the programme — from 1982 to 1988 — involving three Swiss and six SA pilots had been a technically useful experience, and international law had not been broken, but the decision made no political sense.

The Zurich newspaper Tages Anzeiger reported on Monday that the Swiss aimed to obtain information about Soviet MiG aircraft during the exchanges.

The newspaper, quoting a military officer, said the SA Air Force, which had fought against Cubans in Angola and Angolans "provided Switzerland with details on the flight behaviour of the Soviet fighters".

The Citizen newspaper published a photograph on Monday of a Swiss-made Pilatus training plane with SAAF markings flying over the Alps and said the picture was taken "in Switzerland last year".

The UN recently asked Switzerland to ban the planned export to SA of 60 Pilatus trainer aircraft.

Pilatus, which is part of the Oerlikon-Buehrler armaments group, announced the sacking of director Walter Gubler after media reports that the company sold its planes to several countries knowing that they would be converted for military use. — Sapa-AFP.

Beuthin to call McCauley

SUSAN RUSSELL

A RAND Supreme Court judge authorised the issuing of subpoenas on Monday to evangelist Ray McCauley and the SAP's Brig "Blikkies" Blignaut as witnesses for Gary Beuthin in a bail application.

Beuthin told the judge that McCauley and Blignaut were among 10 witnesses he would call.

Beuthin, who has been in custody since his arrest last May, notified the court of his intention to apply for bail during his trial last week. He has pleaded not guilty to charges of kidnapping and attempting to murder Jill Reeves, 33, in May last year.

Beuthin was brought back into court at his own request on Thursday after his trial had continued without him for three days

The bail plea and trial, before different judges, continue on Tuesday.

George Soros . . . launches a R45 million fund to promote democracy in South Africa.

On the fund's board . . . Tony Heard, Mamphela Ramphele, Alex Boraine and Peter Sullivan.

I'm just an ordinary man, claims philanthropist Soros

STAR 8/4/93. 49

Own Correspondent

CAPE TOWN — Before "Black Wednesday" last September, when George Soros netted R5 billion in the financial coup that plunged Britain into a currency crisis, the international financier and philanthropist had spent most of his life as "an ordinary human being", he claimed in Cape Town this week

But since yanking the rug from under the Bank of England and almost single-handedly bringing down sterling, he has become an instant celebrity.

The 62-year-old financier told the Cape Town Press Club "I have become something of a media personality as a result of Black Wednesday, but I have spent most of my life as an ordinary human being

It is in his capacity as an international philanthropist and democrat, not as a speculator, that he is in South Africa -- specifically to launch a R45 million fund to promote democracy in the country.

The Open Society Foundation, which was launched in Cape Town this week, will get the money over a three-year stretch — and there may be more in the offing if all goes well And he firmly believes it will

The South African foundation is one of a network of 18 worldwide. He founded the Open Society Fund in 1979, the Soros Foundation in Hungary in 1984 and the Soros Foundation in the then Soviet Union in 1987. They were designed to help provide the infrastructure and institutions for open societies and to support a variety of educational, cultural and economic restructuring activities.

The foundations seek to provide educational opportunities for individuals, to encourage reform of the educational system and to support the revision of economic structure to encourage private enterprise and a market economy.

"I set up an open society fund when I came to feel that I had made more money than what was good for me .. I really cared about the concept of an open society, having grown up in Hungary as a Jew in the '30s and living through the Nazi occupation.

Ironically, his first effort was in South Africa in 1981.

"I set up scholarships for black students but withdrew in 1983 because I felt the situation was hopeless as a very efficient machinery of oppression was in power "

However, he now believes South Africa's moment of "great hope and possibility" has arrived.

"I followed events in South Africa from a distance and I felt it was time for me to do something.

"But I did not have the energy to deal with it So I have found people here to carry on with the job," he said

The chairman of the new fund is Dr Van Zyl Slabbert, policy director of Idasa, which is to administer the fund

The board of the fund also includes Idasa's Dr Alex Boraine, Tony Heard, Peter Sullivan, Helen Zille and Dr Mamphela Ramphele

Soros said he did not expect the board to act as trustees, but they were in charge of the fund's money and were to "treat it as their own"

"I hope that the funds will be committed with due speed as a lot of things need to be accomplished.

"I have a certain perspective on what is going on in the country and it strikes me as being more hopeful than that in Russia "

Soros believed South Africa had the transition process "under control" and as long as it did not relinquish this, it had a chance at success.

One of the first question put to him after he had addressed the Cape Town Press Club was if he had any investment tips to share

"No," the unequivocal reply shot back.

Known as one of the world's most successful investors, Soros is president of Soros Fund Management and chief investment adviser to Quantum Fund NV, an international investment fund which is generally recognised as having had the best performance record in the world during its 23-year history.

The author of three books, *The Alchemy of Finance*, *Opening of the Soviet System* and *Underwriting Democracy*, Soros has also received honorary doctorates from the University of Oxford, the Budapest University of Economics, Yale University and the New York School for Social Research.

of communism, exper- fate which SA had to avoid.

ed to be increased by all players.

summer, Heathrow could not guarantee similar landing slots for the English winter fleet featuring aircraft of an

Road accidents expected to drain R7,8bn from economy

ANDREW KRUMM

MOTOR vehicle collisions would cost the SA economy an estimated R7,8bn in 1992, a Directorate of Traffic Safety spokesman said yesterday.

"However, I must caution that the exact 1992 figures are not yet available, and the estimate was based on an inflated 1991 figure — which ran to R7,011bn," the spokesman added

He said the estimated cost of collisions in 1992 averaged out to a loss of more than R28m every working day.

"This figure includes the repair and write-off bills for damaged vehicles, as well as the human costs, such as hospitalisation and loss of work."

Unlike similar surveys done in the US and UK, the directorate had not included "pain and suffering" costs in its estimates. "The human costs rise dramatically with the severity of the accident, taking up an increasing proportion of the total bill."

For example, every fatal collision cost an average R184 604 in 1991 (1990: R252 507), while the average cost of a minor accident ran to R9 754.The comparable costs for 1992 could be obtained by inflating the 1991 figures by about 11,5%.

Meanwhile, according to the SA National Association of Automobile Manufacturers, the number of motor vehicles on SA roads totalled about 5,22-million in June 1991. Taken with the survey figures, which recorded 443 569 collisions in 1991, this meant about 8,5% of all vehicles were involved in accidents last year.

"This is significantly higher than the rest of the world, and appeared to remain so in 1992 Our fatality rate is 11,4 people per 100-million vehicle kilometres travelled. If you compare that to America, which had about 1,2 fatalities per 100-million vehicle kilometres, we still rank as a Third World country in terms of driver safety," the spokesman said.

The reason for the higher deaths was apparent in various "disobedience factors", such as speeding and the failure to wear seatbelts.

"We are trying to get it right. The directorate implemented a total traffic safety system on April 1 this year, which aims to decrease fatalities as well as collisions."

The new system would be phased in over the next five years, he said.

Tourist accommodation grading awaits Bill

THEO RAWANA

THE new voluntary grading and classification scheme for tourist accommodation would be implemented on July 1, Satour said yesterday.

The implementation of the scheme, which would replace mandatory registration and grading, had to be postponed from April 1 because it could not be effected before the Tourism Bill was tabled in Parliament, Satour standards director Greg McManus said.

"The Bill will now be tabled during the next parliamentary session later this month," he said.

He said the aim of the scheme was to promote acceptable standards of accommodation and to bring the industry in line with international trends.

Participants would enjoy benefits such as inclusion in a Satour guide, access to its data base and to tourism development funding.

BDAY 8/4/93

New SA 'will need to earn foreign investment'

LLOYD COUTTS (49)

A SOCIALIST post-apartheid SA would follow most of sub-Saharan Africa into total economic marginalisation, German liberal Count Otto Lambsdorff said in Johannesburg yesterday.

Lambsdorff is chairman of Germany's Free Democratic Party and president of Liberal International. He told an SA Institute of Race Relations (SAIRR) meeting that foreign investment would come to SA only if the country followed sound economic policies and guaranteed democratic stability, not as a moral reward for the end of apartheid.

Liberals believed individuals who could not participate fully in the economic system of a country had to be protected through a national pension, a national health service and national unemployment scheme.

"Where social and economic advantage do not rest on personal merits but on racial discrimination, they have to go. For this you will not need an all-mighty state, but an efficient national government.

"A government which does not wait for foreign money to pour into SA just because SA has overcome a racial dictatorship. I can tell you that foreign investment will not come to SA as a kind of moral reward for the end of apartheid.

"My East German fellow countrymen had to learn that there is no such a thing as a charitable investment. Foreign money will only come if SA follows sound economic policies and guarantees democratic stability." BDAY 8/4/93

Lambsdorff said he did not see a post-apartheid SA as a centralised state governed like Namibia or Zimbabwe. Federalism, he said, could make an important contribution to maintaining peace, stability and democracy in the country.

He said federalism was not an easy device to escape strife and the unpleasant side of a society which had been based on racial discrimination.

"Federalism must be seen by the people as a succesful road towards more participation in political life, healthy competition among political actors and policies and as the best way to preserve and even strengthen the fundamental richness of SA; the diversity of her peoples."

BUSINESS CONFIDENCE (49)

Pessimism in the Cape

Most western Cape businesses are banking on an interim government to boost the economy. Even then they don't see a turnaround this year. FM 9/4/93

Their views were published recently in the fifth annual survey of 460 western Cape owner-managed businesses by accountants Arthur Andersen and the University of Cape Town's Graduate School of Business. The survey shows that business people clearly do not believe the forecasts for key economic indicators. They believe that the economy will shrink again this year and that inflation will return to double digits.

Their averaged predictions include a prime overdraft rate of 16,75% by June, falling to 16,25% by December, and inflation of 15% by June, up from 9% for February. A similar survey of executives of the JSE's top 100 industrial companies put inflation at 13,1% by June.

More than 55% of the Cape respondents say sales levels stayed the same or fell in the past year and 49% predict an unchanged or worse situation in the next 12 months. In 74% of the companies, staff numbers remained static or decreased and 75% predict the same trend this year.

The business owners list the most significant threats to economic growth and business survival as political instability, recession, inflation, violence, the lack of capital, high interest rates and domestic competition.

Foreign competition is seen as the least important of 12 threats. The school's Bruce MacDonald says this reflects a lack of insight. "Business owners are likely to be shocked out of their complacency once they meet competition from world players."

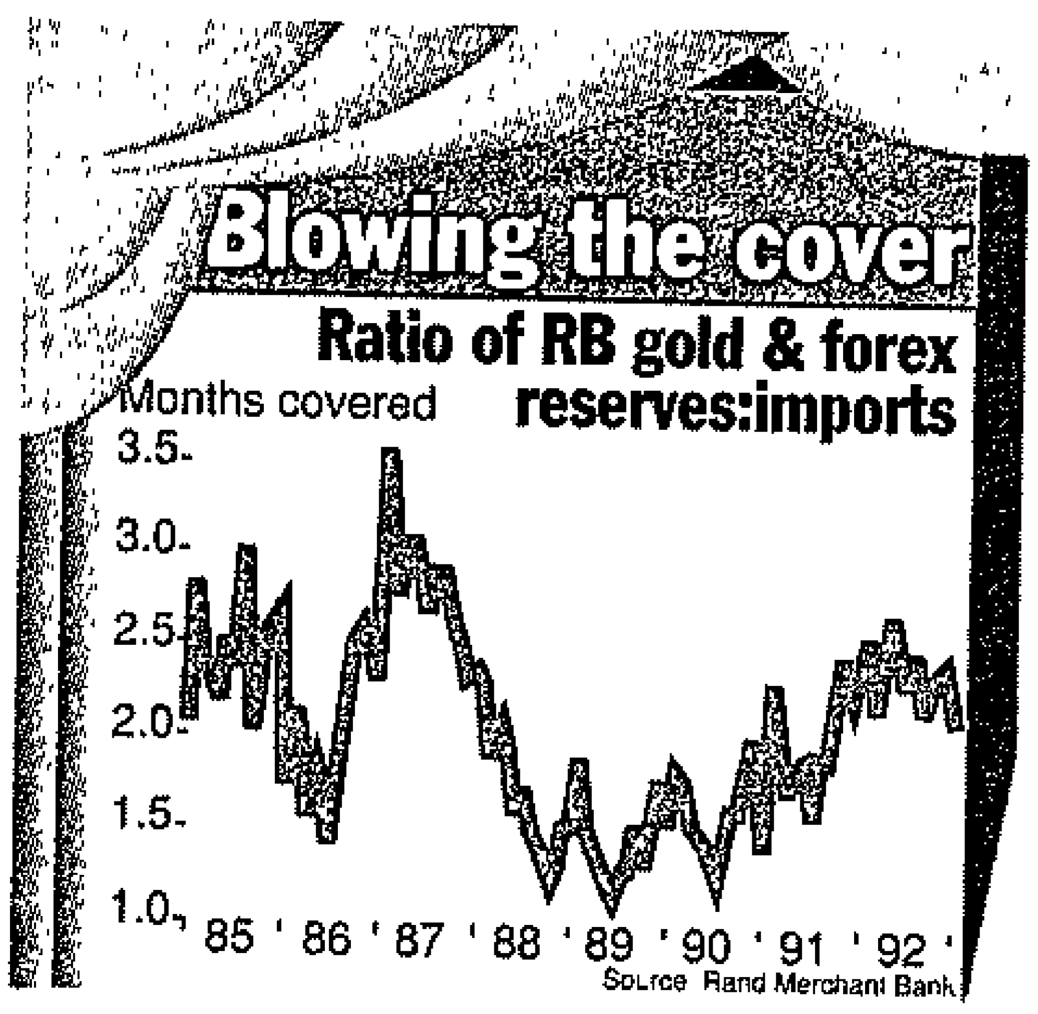
The survey also shows that exports are becoming increasingly important. In spite of the international economic slowdown, 45% of the companies surveyed increased their export business in the past year. ■

LITTLE IN RESERVE

FM 9/4/93

49

Deterioration in the Reserve Bank's gross gold and foreign exchange reserves is undermining any hopes of lower interest rates this year. Reserves have declined from R11,5bn in August to R8,3bn in February. Reserve Bank Governor Chris Stals says about R1,4bn in other liabilities was incurred to bolster gross reserves. If this is stripped out of reserves the figure is less than R7bn.



The decline follows a fall in the trade surplus and large outflows of both short- and long-term foreign capital since September. No wonder the money market is feeling the pinch of lower liquidity and Stals is talking of maintaining interest rates or even of pushing up Bank rate before the year is out.

Already short-term market rates have moved up. From a level of around 11,6% in the middle of February for three-month liquid BAs the rate has now moved to around 11,9%. The rates on negotiable certificates of deposit have also risen from February levels of around 11,9% for three-month instruments and 11,85% for one-year paper to 12,1% and 12,35%.

Import cover, which had grown through most of 1991 and 1992, has fallen since September (see graph).

The situation should improve later in the year. A normal agricultural year will eliminate drought-related imports and the higher Vat rate applicable from this week could curb the demand for imports.

Forgetting old free-market friends

(49) FM 9/4/93.

Free markets, deregulation and democracy have triumphed around the world, so why are the organisations that promote these classically liberal values having such a hard time finding funds here in SA?

Some blame it on the new political correctness as the possibility of an ANC government looms larger, others chalk it up to the recession or that there are more hands being held out every day. The Liberty Life Foundation, which spent or committed R50m last year, gets up to 20 applications for aid every day, and the Anglo American Chairman's Fund gets 6 000 requests a year.

Most organisations say they are holding their own with long-standing supporters, but there's just no new money around so belts are being tightened:

□ The Free Market Foundation is selling its headquarters, its R1,5m Johannesburg mansion, as part of a major restructuring. Five years ago, 95% of its revenue came from memberships. That's down to 40%, with the difference made up by its training programmes and other money-spinners;

□ The Sunnyside Group, a coalition of 60 organisations that lobbies for deregulation of small business and the informal sector, made its fund-raising pitch to 30 companies last year Only one made a pledge; and

□ The SA Institute of Race Relations decided not to cut its 70-strong staff, but for the past two years raises have been well below inflation and it just managed to break even. "It's going to be a tough year financially," says executive director John Kane-Berman.

For some, the tough times have proved too daunting. The SA branch of the International Freedom Foundation, a free-market think-tank based in Washington, last week said it is downscaling its operation and becoming a consulting group. Executive director Russel Crystal estimates that it lost half of its local funding in the past year, though only 20% of its total budget comes from SA sources.

"There's been an amazing reaction in the business community," Crystal says. "They seem to have developed paranoia when it comes to supporting free-market policies. They wish we had another name for it."

Temba Nolutshungu of the Free Market Foundation's office in Cape Town agrees. "Considering we're disseminating free-market ideas that will set in motion a more open society, of course we expect them to be our natural backers. But local companies have yet to put their money where their mouth is."

The problem is that business has never been crazy about Adam Smith and his invisible hand. Says Andrew Feinstein of the Consultative Business Movement: "Executives do not adopt a philosophy at either end of the spectrum. I think businesses feel comfortable with what could be described as a neo-corporatist model, not a free-market mould."

Anglo-American's Michael O'Dowd, who heads the Chairman's Fund, says most companies are run by "rent-seekers" devoted to securing government protection and concessions, not a free market "As long as there is a pork barrel, people will queue for it"

And the Free Market Foundation's Leon Louw is even more blunt, calling them "corporate prostitutes" willing to do anything to keep on the inside track. "The most enthusiastic supporters of the Nats are now the most supportive of who they believe will be the new government. Maybe they're right. Maybe they are serving their shareholders."

Says Mashudu Ramano of the Sunnyside Group: "We're talking about deregulation, and big businesses feel that maybe that's not in their interest " But the group is finding a lot more interest in its work from overseas donors, such as the US and EC.

The Free Market's Jaftha Nyama .. *teaching business basics*

Across the board, however, the groups are reluctant to discuss who funds them, by how much and who's cutting back. Most corporations are equally close-mouthed. Sasol, for one, says: "We're not willing to divulge details of the donations we grant "

Others, such as the Chairman's Fund, are more forthcoming. It supports all the organisations named in this story. "Political correctness has never been our concern," O'Dowd says. "We didn't toe the line under the old government and we have no intention of toeing the line under a new government."

Nevertheless, political correctness exists and it's nothing new. Louw says companies wouldn't support the foundation in the Seventies because government didn't believe in free-market issues. And when government did get on the bandwagon, companies begged off from contributing because they saw it as mission accomplished. And now that the ANC is espousing a lot of the old Nat policies, the companies once again refuse to be seen taking the wrong side.

The free-market label is a handicap, concedes Hylton Appelbaum, who heads the Liberty Life Foundation, which does contribute to the Free Market Foundation. "for a lot of people, free markets meant job reservation, single-sex hostels, discriminatory practices. Rightly or wrongly, it meant exploitation."

But ironically, as companies distance themselves from pro-market groups in a scramble to buy political insurance against nationalisation and other interventionist policies, the ANC is moving away from those policies. Donors concerned with doing the right thing have been slow to see this shift Last week ANC economics head Trevor Manuel came out against exchange controls. The ANC also is questioning high tariffs while privatisation is no longer a dirty word.

The Free Market Foundation's Justice for All and Job Creation training programmes, which have reached 1m people with their pro-market pitch, have received high marks from the ANC and NUM, which have paid to put members through the programme

"Big businesses are much less wary about giving us money for promoting free-market principles if we add job creation to it," says the foundation's Marc Swanepoel "They want us to dress it up, so we combine the basic business and economic principles with practical information on how to make a living."

Of course, the ANC hasn't embraced every idea or organisation Last September, the Institute of Race Relations inflamed the Left when it issued a report that said published statistics on violence were inaccurate and misleading. Opponents attacked the report, saying it proved the institute's alleged bias in favour of Inkatha

Some corporate donors considered pulling back But institute stalwarts Harry Oppenheimer and Helen Suzman backed the report and Kane-Berman says some member companies called to "express their concern that the criticism not deflect the institute from its course."

Despite the recession, Kane-Berman says there is money to be had, but it takes more hard work than ever to get it "We have got to keep our product top-of-the-range We're constantly refining what we do so we can attract business and other members." One recent refinement is the addition of a chapter on the environment to the annual race relations survey.

Adds Kane-Berman: "No-one owes this organisation a living We have got to convince people we're worthwhile and relevant as far as building a new SA. If not, we will not get the support."

Maureen Sullivan

Capital spending does not guarantee growth

BDM 27/4/93. (49)

ANDRE ROUX

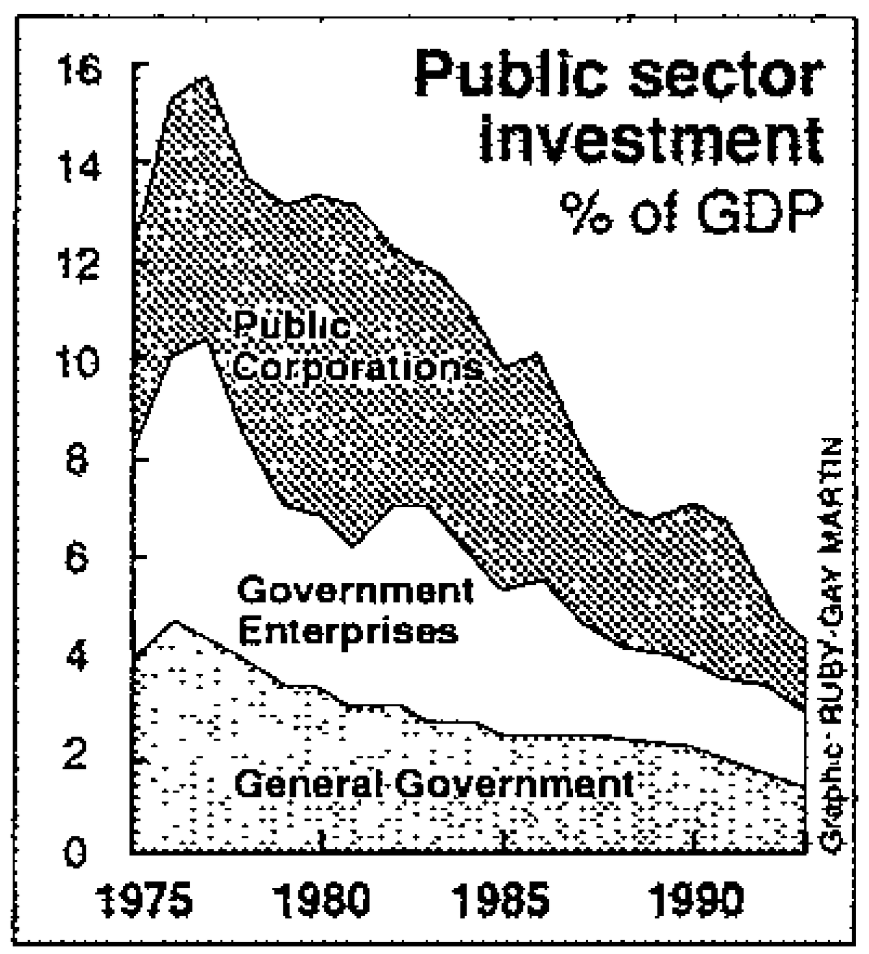
SA's fiscal policy is in the grip of a new orthodoxy. The height of imprudence, it is said, is to finance current expenditure through borrowing. Let us, instead, switch from current to capital spending as this would release resources for productive investment by eliminating government dissaving.

It is in this spirit that the Finance Minister has promised to increase public sector investment from its present level of 4,5% of GDP to 7,8% by 1997.

Although this package might be politically palatable, its economic merits are open to doubt. One point, however, should be clarified from the outset. No one can quarrel with the need for fiscal discipline. But this only means that government borrowing has to be brought down to more sustainable levels. What is in dispute is the suggestion that a deficit on the government's current account — which is disapprovingly classified as dissaving — is somehow less desirable than a deficit on the capital account.

In the context of a private business it is obviously prudent to link long-term borrowing to the acquisition of income generating assets. The analogous argument, applied to the public sector, holds that government borrowing should pay for itself by expanding the tax base through growth. This self-financing principle, however, relies on an arithmetic that does not add up, since tax revenues amount to at most 25% of income on average. Financing through growth therefore requires an implausible return on government projects of at least four times the rate of interest on public borrowing.

The more fundamental problem with the call for the elimination of government dissaving, though, is that we simply do not know which types of spending contribute directly towards growth. There certainly can be no presumption that this exalted status should be reserved for expenditure on bricks and steel.



We know, for example, that growth may be facilitated through current expenditure on education, although it has been difficult to prove this conclusively in view of the long gestation periods involved. With regard to capital expenditure, a recent IMF cross-country study concluded that investment in health, housing and welfare may boost growth in the short term, while expenditure on infrastructure and directly productive capital may have little, or even a negative, influence on growth.

A more subtle defence of loan financed capital expenditure is based on the idea that future generations are the main beneficiaries, and should thus be expected to pay their share. Borrowing to finance investment is justified since it passes the burden on to the recipients.

While the benefit principle has certain merits, a serious difficulty arises from the definition of capital expenditure. An overemphasis on fixed assets is clearly inappropriate as it is obvious that other forms of public expenditure, and especially investment in human capital, confer benefits on future generations. But once this concession is made, one immediately enters a grey area in which the cut-off point can be tailored to suite anyone's perspective. Witness the Clinton administration, where everything, short of transfers, is classified as "investment".

These issues may at first seem to be of academic interest only. Unfortunately, there is a real danger that the allocation of public expenditure could be grossly distorted by a misplaced faith in the virtues of public sector investment. The Minister has already laid down targets for capital expenditure. These appear, moreover, to be entirely arbitrary as we have not been given any concrete reasons to support the reallocation of spending priorities.

It is certainly true that capital expenditure has been on a declining trend (see graph). But this is something to be applauded as there is ample evidence from the '70s of excessive, inefficient, and security driven investment in physical infrastructure. The shift towards current expenditure, on the other hand, was accompanied, and partly caused, by a welcome change in emphasis towards social expenditure.

We will, in the final analysis, not solve the microeconomic problem of allocating public expenditure by binding the Budget to a set of macroeconomic conventions designed by national accountants.

It may well be that a shortage of schools is a critical bottleneck in the education system, or that more clinics are vital to improved delivery of health services. Then we should, of course, amend the relevant budgets to resolve the problems. But before we do so, let the specialists in the respective areas argue their case. Then at least, one may begin to feel that the allocation between capital and current spending is based on rational grounds.

☐ **Roux is economics professor at the University of Western Cape and consultant to Investec Asset Management.**

A billionaire who showed us how to open window of hope

(49)

STAR 10/4/93,

UNDERCURRENT AFFAIRS

SHAUN *Johnson*

SOROS started out by saying we 'can forget about' being saved by foreign aid or investment. We are but a sideshow on the world's stage.

THERE was a lunch for George Soros in Johannesburg on Monday. The billionaire international financier didn't pay for the food, even though his word would have been good enough to buy the entire building. The Star coughed up for Mr Soros's grub — and that of the 16 or so senior local businesspeople who were invited — and we got more than our money's worth.

It wasn't just that Soros has thumbed his nose at international indifference, and dug R45 million out of his pocket for a South African democracy fund. (Although that was welcome news indeed.) It was that, in believing in us and our ability to fashion a just and workable future, he demonstrated just how much creativity and guts there still is among South Africans, and how it can be released again. Let me tell you what happened.

Soros, if you haven't heard by now, is the financier who made R5 *billion* in one go on "Black Wednesday" last September, at the time of the sterling crisis. He was born in Hungary and, as a Jew, lived through the Nazi occupation. His incredible talents saw him overcome all obstacles, and take him eventually to the pinnacle of the world's money mountain.

When he reached it, he said to himself — most unusually, for this is an unusual human being — that he thought he had more money than was good for him. And so he became a philanthropist. And so he landed up in Johannesburg at the end of the South African summer of 1993, having set up "Open Society" foundations worldwide.

The gut-level attraction of meeting the man, as all who are honest will admit, is that one is unlikely ever again to shake the hand of someone so stupendously, mind-bogglingly, interstellarly rich. One would like to check whether the hand is encrusted with gold, for example. But within minutes of Soros's beginning to speak to his small audience on Monday, the listeners were rapt for another reason.

Soros, who self-deprecatingly stresses his lack of intimate knowledge of the South African situation, was inspiring the tired, reinvigorating the disillusioned, getting their creative juices working again.

His message, to put it too crudely, was that understanding and action are indispensable to one another. We seem not to be understanding too well, and therefore to be frozen in inaction. In South Africa — which, he said, was a country in a far more hopeful position than, say, Russia — some hard realities had to be grasped, and then something could be done about them. This required cleverness, and commitment.

Soros started out by saying we "can forget about" being saved by foreign aid or investment. We are a sideshow to the world's centre stage. His lunch partners chewed gloomily on their starters; they knew that already.

But capital flight could be stemmed and even reversed, he said, if everyone in their own way made the decision to take hold of their own destiny once more. He expounded his theory of an open society, and how we South Africans — all of us — had at all costs to avoid replacing our old closed society with a new one, also closed. The debates intensified and then, suddenly, the floodgates were opened.

The local businessmen started providing answers. The nervous capital which is locked up within South Africa had to be put to work again, they said. Political leadership — and a unifying, common, realistic vision — was desperately needed, but could not be left to the politicians alone. "It's my feeling," said one of the guests, "that people out there are desperate to do something, to take hold. They are saying: 'Show us the hill, and we'll run for it'."

"History," said another, "will record that we are not thinking creatively. It will come back to haunt us." Statistics flew around: fewer than 28 000 houses built last year; brickworks closed down, not because there wasn't a desperate need for construction, but because there was no belief in the future.

Soros said he thought a housing boom for the poor — even if it was not sustainable for a long period — could and should be created. Myriad other plans were floated. Soros said again and again that South Africa's transition was under control, unlike Russia's, and that we should recognise and act on that great advantage.

Interim government was discussed, so was stability, so was redistribution, and so was the fact that conviction itself can breed confidence and hope — the most powerful engines for progress known to man. People were enthused, reanimated.

Of course Soros — or a hundred like him — could not save us, and why should they? At the end of the discussion, no one was under any illusion that salvation, economic and political, lay in anyone's hands but their own. The difference was, if I read things correctly, that they felt some power in those hands again. Now to change the defeatist mindset of so much of the rest of the country: Nil desperandum!

'Free market a must if SA to survive'

(49)
ARCT 10/4/93

SOUTH AFRICA has to adopt a democratic free-market approach with no half measures if the potential of economic growth rates of at least five percent are to be achieved.

This is the conclusion of a study undertaken by the Board of Executors of the three major scenario-planning exercises conducted in South Africa.

BOE chief economist Mr Rob Lee, who undertook the study, used the scenarios of Anglo American's Mr Clem Sunter on the "High road, low road" options; the Nedcor/Old Mutual one on kickstarting the economy; and, the Mont Fleur group one on political, social and economic restructuring.

The exercise was undertaken to enable the finance house to pull out common implications of these scenarios to manage investment assets in a new South Africa.

A political and economic profile was constructed and conclusions drawn on how assets best could be managed.

The problem for investors is to find secure investments where hard-earned rands won't be devalued by this government or the next through a combination of inflation and

■ The economic and tax policies of governments in a new South Africa are going to be crucial for any investor. Cape-based finance house, Board of Executors, has studied the problems.

BRUCE CAMERON
Business Staff

punitive taxes as a result of unsound policies.

Mr Tom Boardman, Cape executive director of BOE, said the common thread which ran through all three scenarios was that South Africa had to succeed both politically and economically.

High economic growth required political confidence and an economic restructuring programme.

Of importance was the fact there was no middle road.

South Africa had been on a "middle-road, muddle-through" course since President De Klerk launched the country on its new path. The middle road eventually would lead to the low road. Signs of this were already in evidence with endemic violence in some areas.

The potential for growth rates of five percent or more were supported by sound evidence and were not a pipe-dream.

The key factor was the acceptance of the conclusion that "our political and economic futures are completely interdependent".

Mr Boardman said it was not merely a matter of who won the first fully democratic election. If the system could not deliver, the second election would see South Africa falling into the hands of people promising radical redistribution policies and creating further instability.

However, even if South Africa did take the high road it would still be dogged by problems. These included:

■ A relatively high level of crime and violence could be expected, although political violence would be reduced from its present high levels and crime could become manageable;

■ Inner-city decay and informal housing would continue, but uncontrolled, poverty stricken housing similar to that in Nigeria could be avoided. Informal housing could take on the image of Rio de Janario where there were basic amenities and electricty; and

MORE REPORTS, page 3

Move into SA, investors told

LONDON — Stockbrokers James Capel have urged international investors to move into SA now to reap high nominal bond yields, despite political uncertainty.

Capel analyst Jon Bergtheil said the investment picture had improved now that the ANC and government had pledged to hold a national election by April 1994.

"They said (on Friday) they will set a date within four weeks for an election. After that SA will have access to IMF and World Bank facilities — access to international capital it very much needs." US pension fund clients, in particular, were holding back until a date was agreed on.

"About 70% to 80% of people who have had moral concerns will drop them once that date is announced," Bergtheil said. (49)

"Our biggest trade in the past two months has been with US funds, some of them municipalities, which are sensitive to ethical concerns and are often geared to black Americans."

Capel first recommended buying SA bonds in March on the back of a rising discount between the commercial and financial rands, indicating nervous foreign investor sentiment. That gap widened after the murder of SA Communist Party leader Chris Hani on April 10. BDM 11/5/93.

But bond yields moved higher, offering even better value.

"SA remains a buy, with yields at around 21,5%," said Bergtheil.

The financial rand correlated well with the gold price.

The domestic fundamental outlook was more bullish with inflation contained at 9,7%, money supply under control and an end to the severe drought of 1992, which on its own had caused a 2% drop in gross domestic product, Capel noted. — Reuter.

Unions widen the recruitment drive

BDM 11/5/93.

ERICA JANKOWITZ

COSATU affiliates are embarking on a drive to recruit monthly-paid, skilled workers in what has been termed the "second wave" of unionisation.

SA Labour Bulletin editor Karl von Holdt, writing in the latest issue of the journal, says Cosatu and Nactu have been successful in organising weekly-paid workers in lower skills categories.

However, these federations have been prevented from recruiting other categories of workers by closed shop agreements and restrictions placed on bargaining unit composition by recognition agreements.

Unions, having realised the limitations they have been placed under, are now looking at ways of getting around this obstacle.

For example, the NUM opened its 1993 wage proposals to the Chamber of Mines with a demand for the amendment of its recognition agreement to grant it "the right to represent employees in all categories of employment in the collective bargaining process".

Von Holdt says the NUM is not opposed to the closed shop per se, but wants the establishment of a multi-union shop which would allow unions to compete for members within the closed shop. It would also give members the freedom to choose which union to join.

Von Holdt says under present bargaining arrangements, talented worker leaders are often "promoted out of their bargaining unit and so out of the union".

Therefore, if unions can recruit more widely, they stand to gain additional members, their skills and "their influence in the workplace". Their subscriptions, usually set as a percentage of gross income, could also help the unions' cash flow problems.

However, Von Holdt recognises the role played by craft unions which have traditionally represented white collar workers. He says the benefits offered by these unions — such as pension and medical schemes — could not be matched by Cosatu.

Also, most Cosatu organisers have come through the blue-collar ranks and are unfamiliar with "grievances and working conditions of monthly-paid artisans, clerical workers and technicians", he says.

Von Holdt argues that in the medium term "craft unions are likely to survive and retain their influence".

Business urged to 'green your contract'

MARIANNE MERTEN

ENVIRONMENTAL issues which might affect business decisions have become part of a Johannesburg law firm's legal information sheet.

Werksmans' newsletter Envirowerks has highlighted environmental concerns such as integrated environmental management and how to "green your contract".

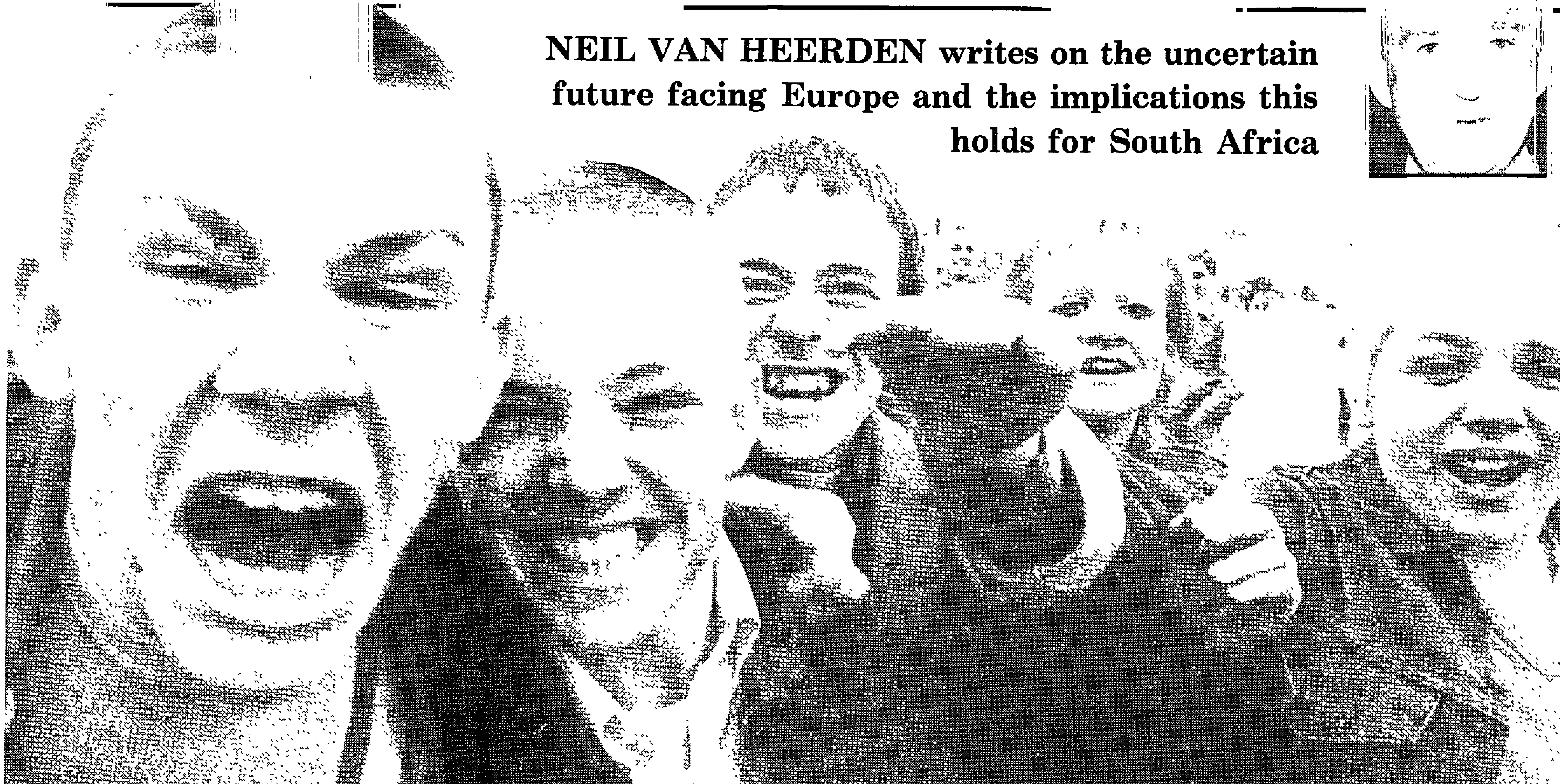
The most recent issue dealt with the consequences of SA's increasing international acceptance and return to international trade.

SA had been excluded from many environmental legislative developments governing international trade over the past 20 years, it said. Legislation which could "force compliance with or adoption of national domestic standards in other countries" would affect SA's trade potential.

EUROPESSIMISM

IS THERE LIGHT AT THE END OF THE TUNNEL FOR SOUTH AFRICA?

NEIL VAN HEERDEN writes on the uncertain future facing Europe and the implications this holds for South Africa



EUROPE IN TURMOIL . . . rampant unemployment caused by an influx of cheap labour from its eastern neighbours is sparking racial tensions and divisions which threaten economic stability

IT HAS been a winter of discontent for Europe.

At the first session of the new year, European parliament president Jacques Delors said: "The economy is in crisis, society is in crisis, democracy is foundering . . . The very idea of a united Europe is in peril."

While some will dismiss this statement as an overdramatisation, it does encapsulate the considerable pessimism which has come over Europe. Since the Danes last year rejected the Maastricht Treaty which was to take Europe over the next threshold on the road to integration, there has been a loss of confidence on the part of the Europeans in their ability to grow closer.

It is true that 10 out of the 12 members of the Community have in effect ratified Maastricht and the German chancellor has indicated that the 10 should not be held back if Denmark and Britain fail to accept the next step. Nevertheless, the experience of the past year has led to greater humility about the objective to forge unity out of such diversity.

But Europessimism has also been fuelled by more tangible developments such as the very difficult economic conditions and bleak prospects for the next year. High levels of unemployment in most European countries are swelled by regular announcements of further retrenchments.

continued

ST Times 11/4/93

4-9

S. Times 11/4/93

Germany, until now regarded as the motor of European success, is experiencing serious problems — with the shortest working hours in the world, the most holidays and the youngest pensioners, investors are looking elsewhere, frequently east. At Volkswagen's car plants in the Czech Republic labour costs of 1,7 ECU (European Currency Unit) an hour apply, compared with 19 ECU an hour in Germany.

Every day, television screens are filled with scenes of a real and particularly vicious war which is raging within a few flying hours of most European capitals. Ethnic cleansing and the systematic rape of thousands of Muslim women remind Europeans of the vehemence of the re-awakened forces of nationalism at play here.

The Vance-Owen attempts at a negotiated settlement have not, to date, stopped the killing and the destruction in the former Yugoslavia. This has led some commentators to doubt whether the Europeans really have the will and the unity of purpose to deal with this massive tragedy right on their doorstep.

Some have referred to it as a case of Eurosclerosis. Apart from the potential for regional destabilisation throughout the region, the consequences make themselves felt in the very real form of hundreds of thousands of refugees or potential refugees, looking west, to a world where they are poorly equipped to compete.

It is not only the desperate people of the former Yugoslavia who are attracted to the "good life" of Western Europe. In most of the countries on the perimeter of the EC, (Eastern Europe and the Mediterranean) conditions prevail which are in stark contrast to the high standards of living which now exist in Western Europe.

Since the demise of communism in Eastern Europe these discrepancies have become larger as a result of the breakdown in the capacity of these countries to generate and distribute supplies of basic necessities. At the same time the Berlin Wall came down and most borders became soft. Thus the scene was set for enormous pressure from immigration flows into the already densely populated western part of Europe.

THE new arrivals fuel resentment by competing for scarce employment opportunities and by simply being different. This is giving rise to racial tension which is by no means restricted to Germany.

Europe is also undergoing a crisis of public morality which has led to a loss of confidence in the established order, and a deep weariness with government. Political scandals and evidence of corruption have rocked many of the member countries of the EC, causing serious government crises in Denmark, France and in Italy.

The wintry landscape has further been sullied by a change in the quality of the trans-Atlantic relationship. The solidarity of the Cold War era has been replaced by short tempers and ominous signs of protectionism arising from trade disputes.

The European Community as an entity, and European integration as an ideal, have not remained unaffected by these events. The next logical step, after the European Single Market came about at the beginning of 1993, was to have been the implementation of the Maastricht Treaty. The treaty envisages common foreign and security policies and a monetary union — measures which require a significant sacrifice of sovereignty. This deal has been met with stronger than expected reticence.

Some describe these doubts as purely cyclical in the process of European integration. EC bureaucrats in Brussels generally take the attitude "we've seen it all before, it will go away". Others insist that rejection by the Danes and the British, would kill Maastricht. The truth probably lies somewhere in between.

The objective of some form of European integration will remain, but the pace and the scope of the integration process will most likely have to be adapted. Fears on the part of ordinary Europeans of bureaucratic strangulation become understandable if one looks at the size and the complexity of the Community's structures in Brussels and elsewhere (2 300 full-time translators working in nine languages, to name only one statistic).

Despite difficulties, what is emerging in Europe could be the shape of the future — the partial sacrifice of national sovereignty in the interest of a wider communal goal. Greater regional solidarity is bound to result from the probable emergence of trade disputes between economic blocs now being formed.

IN the case of Western Europe, what started essentially as a free trade area is attempting to grow into a federalising core of states. It is a bold but difficult process — such as most pioneering endeavours are. Although on a much lower scale, the North American Free Trade Area and Mercosur, an organisation for economic co-operation in South America, could be signs on the same road.

More than 50 percent of South Africa's global trade is conducted with the EC (this also constitutes 50 percent of our GNP). Europeans are the largest foreign investors in South Africa. The EC currently spends ECU 90-million a year on developmental programmes in South Africa — the largest allocation of its kind to any single country receiving assistance from the EC.

Apart from trade, the EC represents a part of the world with which South Africa has historically maintained strong ties in many fields. This makes for a great deal of interest in what happens in South Africa.

For many Europeans, South Africa is a little "different" to most other faraway places and they want us to succeed as a nation, even if they do not always agree on what success should mean.

Economic sanctions were finally lifted in 1992 and there remains only a ban on the sale of military equipment and nuclear co-operation.

Yet, there is a residual lack of normality and at times it would seem the Cold War still flickers on in certain pockets of the EC/SA connection. We can talk about tariffs and trade restrictions but the facilities of the European Investment Bank and the benefits of scientific and other exchanges are waiting for "the lights to be switched to green".

On both sides of the political divide there are networks doggedly committed to their allegiance to some part of the political spectrum in South Africa. They have firm and frequently prescriptive ideas about what the future of South Africa should look like and what form a future relationship between the EC and South Africa should take.

The question as to whether or not South Africa should join (and be accepted into) the Lomé Convention (a co-operation agreement between the EC and the developing countries of Africa, the Caribbean and the Pacific) becomes a litmus test and firm and elaborately documented views exist both pro and contra.

In fact, much more thought has gone into this issue in Brussels, it would seem, than is the case in South Africa — where the debate must be conducted.

HOW should the new South Africa relate to Europe to ensure the best access to this very important market and source of investments and technology? In this regard the question arises whether we see ourselves as a developed country (as we are currently classified under the General Agreement on Tariffs and Trade) or whether we should accept that we are in actual fact a developing society, with the majority of our people living in the third world.

Are we a poor member of the club of wealthy nations of the world, or a wealthy member of the poor group of countries? These questions raise issues which will need to be addressed when we consider our future relationship with the EC.

There is also the question of what role should South Africa assume in our region? The Europeans would mostly prefer to see South Africa as part of an arrangement which also benefits its neighbours — a sensible view also shared by most in South Africa, although some would point out that we should avoid being cast in the role of regional benefactor.

It is important that we realise that the countries of the EC will increasingly be occupied with their immediate surroundings. The spectre of large numbers of refugees makes it imperative for the EC to concentrate its efforts to provide economic stability and security in these countries. The task of development and stabilisation will be gargantuan, leaving less energy and resources for other causes further afield.

Much as the Europeans object to the concept "Fortress Europe", there is no denying that the European Community also means the pooling of interests and the closing of ranks to the exclusion of all who are not part of the club.

Europe is engaged in a difficult exploration of an unknown future. South Africa should ensure that it remains abreast of these developments, and that it is positioned to negotiate a mutually beneficial partnership as it emerges from its own transition.

□ *Neil van Heerden is the former director-general of foreign affairs who now serves as South Africa's ambassador to the European Community.*

Edited by JEREMY WOODS

Time right to invest in SA, says billionaire who's doing just that

St Times CC/Med 11/4/93

By JEREMY WOODS

THE time is right to invest in South Africa, says billionaire dealer and philanthropist, George Soros, who last year made another cool R5-billion — at the Bank of England's expense — when sterling was devalued.

And to back up his view on South Africa, Mr Soros is donating R46-million to the newly formed Open Society Foundation, to fund a range of projects that will help the country's transition to democracy and non-racial government.

"I am very encouraged by what I see happening in South Africa and I am looking to the future of the new South Africa with great optimism," he said this week.

Speaking at a Cape Town Press Club lunch, Mr Soros, neat and bespectacled and looking more like a doctor than a billionaire, said he often thought of his money-making and philanthropic enterprises as a digestive tract.

"The money comes in from one end and goes out from the other," he said.

Passions

While one of Mr Soros' passions is making money, another is the freedom of an individual in an open society, free of tyranny.

Asked about the reasons behind his philanthropic work, Mr Soros said: "I was born a Jew in Hungary. If my father had not obtained false papers to get us out of the country I would probably have died, as many others did, in the gas chambers."

Was there a conflict of morality between the harm done to a country's currency while making huge killings on the international markets and his philanthrophy?

"I have no problem or sense of guilt from the two activities. On the money-making side we play by the rules of the game and these are strictly enforced."

Impossible

He said the R5-billion he made out of the sterling crisis by taking large short positions against the pound, was "certainly" made at the Bank of England's expense.

"But the British Government was trying to maintain an impossible position with the pound. When the government realised it could not stem the tide of money against sterling, it took sterling out of the ERM and devalued it."

Mr Soros believes that that had a beneficial effect on the British economy.

"It allowed interest rates to drop dramatically which in turn has lifted the prospects of economic recovery in that country."

Did he have any hot investment tips for would-be billionaires?

"Of course I do," he smiled. "But I prefer to keep them to myself."

Star 12/4/93

World Bank aid waiting on go-ahead from ANC

(49)

By Bruce Cameron

CAPE TOWN — The World Bank is standing by to pump millions of dollars into development aid, education, health care, electrification and the alleviation of poverty in South Africa.

But the bank will only initiate the aid when the ANC gives the green light, says Harry Schwarz, South African Ambassador to the United States.

At a function organised by stockbrokers, Davis, Borkum, Hare in Cape Town, Scwharz said remaining US sanctions would stay in place and access to International Monetary Fund (IMF) stand-by facilities would be blocked until the ANC gave the signal.

The World Bank development aid would be followed by significant aid from the US, he said, but warned that American private sector investment would not come until there was stability and political certainty.

Schwarz said President Bill Clinton's administration was showing sympathetic support for South Africa in the move away from apartheid and could prove to be the salvation of South African minority groups because of commitment in foreign policy to a liberal democracy and human rights.

The administration also favoured a federal system, similar to that in the United States, for South Africa.

Schwarz said two scenarios were being painted for South Africa.

South Africans should be under no illusion that the remaining sanctions would be lifted before there was what was termed "internal consensus" — meaning until there was ANC agreement.

The World Bank had gone ahead with various studies on various aspects of the South African economy and was poised for the next step.

The bank realised that unless some expectations could be satisfied in the short term, South Africa's democracy would be very fragile.

Its next step would be to plan strategies to deal with poverty alleviation, electrification, education and health care.

Schwarz said it was now urgent that the ANC give the go-head for the project-planning stage.

Even if the go-ahead was given now for the planning, nothing would come to fruition until after the first elections.

Schwarz said a major impetus would come from the World Bank, but that it would also be boosted by increased US aid.

US aid would be given because it was felt there would be a moral obligation to make good the damage caused by sanctions and because there would be a better return in South Africa than anywhere else because of the infrastructure.

The US would also seek to ensure the survival of democracy in South Africa in an attempt to spread democracy through the rest of Africa, he said.

SA markets react nervously after death of Hani

(49)

ARG 13/4/93

BRUCE CAMERON, Business Staff

THE assassination of South African Communist Party leader, Mr Chris Hani, took its toll on South Africa's foreign exchange and share markets today along with other factors such as a falling gold price and a big drop in the country's foreign currency holdings.

Stocks weakened in opening trading on the Johannesburg Stock Exchange today in reaction to the assassination but stabilised by mid-morning partially recovering earlier losses.

The volatile financial rand, which normally reacts strongly to internationally publicised, politically oriented acts of violence, weakened by 17 cents against the dollar since the close of the markets for the Easter weekend on Thursday.

It opened today at R4,66 to the dollar, slipping to R4,72 by mid-morning. Dealers expected stabilisation at this point.

On the JSE the overall index was 21 points lower at 3 568 at mid-morning with the industrial index three points lower at 4 366 and gold index down 36 points at 1 224.

Dealers pointed out the slump in the JSE was led by a softening in gold shares after an easing of the gold price which opened in London today at $336.

Early trade on the JSE was described as "nervous".

In the capital market rates moved sharply higher with the yield on the benchmark Eskom 168 up from 14,83 percent to 15,10 percent.

Key to both the JSE and the financial rand will be events during the week, particularly tomorrow, to mark the death of Mr Hani.

Top businessmen remain optimistic about future

BDAY 13/4/93 (49)

SUSAN RUSSELL

SA's business leaders are optimistic about the future in spite of the current climate of uncertainty, according to market research conducted among more than 250 of the country's top executives.

Strategic Associates, which conducted the survey, said the findings were in sharp contrast to the mood reflected in the business confidence indices earlier this year, but were confirmed by the latest Sacob business confidence index released on April 7.

The researchers found that executives saw SA's present economic plight as a temporary barrier. And the businessmen believed their organisations had a significant degree of control over their own destiny, as well as some influence over the country's future.

A report on the research project, which contains a detailed analysis of leading executives' views on strategic planning and the planning environment, will be published this week.

Strategic Associates said the executives whose views were reflected in the report were mainly directors or executive chairmen of major companies, and their counterparts in parastatals, universities, research institutions and large professional partnerships.

In general, the mood among business leaders was that change was inevitable, and they had an urgent desire to "just get on with it", the survey found.

Top executives were committed to strategic planning, although success levels had been mixed, the study found.

The report identified 15 critical factors for successful strategic planning.

These covered participative versus top-down planning, organisational responsibility for planning, strategising tools and techniques.

Mood, climate and concerns were particularly topical, researchers found.

The report also contained chapters by businessman Colin Adcock, who acted as special adviser to the project, Dr Andy Andrews and Dr Patrick Ncube.

MONEY MARKETS by Tim Marsland

Tight liquidity may boost rates

BDAY 13/4/93

THE money market shortage leapt to a record R5,7bn on Thursday, leaving most treasurers taking the view that it was better to sit out this round than try to outguess the market.

The rising shortage has been blamed on dwindling reserves and people drawing money for the long weekend.

Borrowing money from the Reserve Bank is a costly business, particularly when the shortage gets so high. Banks start having to dust off lesser-quality assets — which attract higher interest rates — to hand in at the window as collateral.

But stop for a moment and suppose — as some market players suggest — that the Bank wants to see interest rates higher. What better way to do this than by keeping the clamp on liquidity?

Certainly, capital outflows and the like are draining liquidity — but so is selling government debt.

Why would the Bank choose to sell more than R2bn debt into an illiquid market?

There may not be anything sinister in this — it may have sold the debt simply to take advantage of opportunity. On the other hand, it could be that the Bank is keen on nudging the banks to up interest rates without it having to resort to pushing up Bank rate to achieve the same effect.

Hiking Bank rate would destroy any remnants of positive sentiment in the market. So it may feel it is better to prod the banks into "doing the right thing" by charging market-related interest rates.

This was one of the spinoffs of scrapping liquid bankers acceptances. The Bank apparently felt that the paper was being abused and firms were borrowing money too cheaply.

Seen against that action, there could be some truth to the theory that the shortage might reflect a programme to boost interest rates.

Melamet report could serve as 'world model'

BDAY 13/4/93.

LINDA ENSOR

CAPE TOWN — The recommendations of the Melamet committee report in support of the comprehensive regulation of financial services would, if implemented, give rise to a unique system of regulation which could become a model for other countries.

This was comment by financial regulatory systems expert Prof David Llewellyn of Loughborough University in the UK.

The committee proposed that a super-regulatory body, the Financial and Investment Services Commission (FISC) be established to guard against systemic risk and promoting reasonable investor protection through the regulation of all activity in the financial services sector. The report was released last week for comment.

In comment included in the report, Llewellyn said he strongly supported the proposals and institutional arrangements which represented "a unique approach at addressing the problems of regulation, supervision and the optimum structure of regulatory institutions that are common to all financial systems".

"It has the potential of serving as a model," he said.

"A properly co-ordinated, planned, directed and resourced holistic regulatory structure for SA is a very real need," the report said, referring to the conglomeration of the financial sector and the emergence of multifunctional structures.

The report recommended that the present Financial Services Board Act be used as legislative basis for the new dispensation. Later a comprehensive Financial Services Act could be promulgated.

The Financial Services Board (FSB) would become the FISC and its jurisdiction would be broadened to incorporate the supervision of banks, building societies, companies and close corporations.

It was necessary to include companies as this was where much of the public's savings were mobilised for high-risk investment. However, the Securities Regulation Panel, which regulates the conduct of mergers and takeovers, would continue to operate as an independent statutory body within the framework of the FISC.

Insofar as the Reserve Bank was responsible for protecting the banking system from systemic risk, the new legislation would make statutory provision for a close relationship between the FISC and the Reserve Bank. A senior Bank representative would sit on the FISC policy board and the FISC would be statutorily obliged as the Bank's agent to consult with the Bank.

The committee did not consider it appropriate for the Bank to retain its supervision of banks and building societies as this would mean there would have to be a system of co-ordination between separate supervisory institutions. The committee said this would undermine the holistic approach to regulating the financial services sector and emphasised that what was required was a central, "top-down" structure having authority and responsibility.

In terms of the proposed structure the FISC would be governed by a policy board, responsible to the Finance Minister, consisting of mostly private sector members.

Of cardinal importance would be a distinction drawn by the FISC between prudential supervision aimed at protection against systemic risk and supervision of business conduct to protect investors.

The FISC would be self-funded, deriving its funds from levies or licence fees on financial institutions. Great emphasis was placed on cost-effectiveness.

A basic operating principle of the FISC would be a reliance on the efficiency of markets. Consultation with the market, rather than unilateral imposition of its views would be its modus operandi. The emphasis would be on self-regulation.

However, the FISC should have statutory powers to act quickly in the public interest. But, the committee said, the role of protecting the public interest should not be construed as an official guarantee of the safety of a financial activity.

The FISC would, however, require good disclosure so that financial service users and investors could identify the nature and extent of their risks.

Economists fly in to aid ANC

Own Correspondent CT 14/4/93

JOHANNESBURG. — A team of top foreign economists arrived in South Africa yesterday to help the ANC/Cosatu/Sanco-aligned macro-economic research group formulate policy. (49)

The group is speeding up the its recommendations, which are expected to form part of ANC economic policy, to be ready in time for an early transitional government and general elections.

The visitors will help the research group in reaching "a single practicable vision" for the SA economy, a spokesman said. By September the research group hopes to present a coherent set of policies available in a full technical version and in an edited, accessible format.

"Several of the economists have been involved for a considerable time in research specifically on the SA economy and represent some of the best available resources for information and analysis on this economy," the spokesman said

"Others bring to the SA debate valuable experience of working directly with government in a range of countries on forming economic policy."

The foreign experts will attend workshops this week.

Yesterday monetary and exchange rate policy was discussed. Also on the agenda are the role of the state, the incorporation of the homelands and fiscal policy.

Foreign input for economic policy

BDay 14/4/93

(49)

GRETA STEYN

A TEAM of top foreign economists arrived in SA yesterday to provide input for policy formulation by the ANC/Cosatu/Sanco-aligned macroeconomic research group.

The group has decided to speed up the formulation of recommendations, which are expected to form part of ANC economic policy, to be ready in time for an early transitional government and general elections. The foreign experts will play a key role in the process by drawing together and drawing on the work of SA researchers to reach a "single, practiceable vision" for the SA economy, a spokesman said.

By September, the research group hoped to present a coherent set of policy options. These would be available in a full technical version and in an edited, accessible format.

The foreign economists include Canadians Gerry Helleiner and John Loxley, Sweden's Mats Lundhal, Tanzanian Benno Ndulu, Germany's Heribert Weiland, Laurence Harris and Ben Fine from the UK, Alice Amsden from the US, Australian Peter Brain and India's Prabhat Patnaik.

While the people invited by the ANC are internationally acknowledged in the field of development economics, they represent diverse interests. Amsden is an expert on the Korean miracle, Brain on social contracts, Lundhal has been involved in recent policy formulation in Latin America and Africa, Helleiner has provided advice on IMF strategy and Harris has defended nationalisation and price controls.

"Several of the economists have been involved for a considerable time in research specifically on the SA economy and represent some of the best available resources for information and analysis on this economy. Others bring to the SA debate valuable experience of working directly with government in a range of countries on the formulation of economic policy," a group spokesman said.

Also on the reference team are South Africans Servaas van der Berg, John Sender, David Lewis and Vishnu Padayachee. While the research group has come under fire for the heavy foreign presence, it emphasised that policy recommendations would not be imposed from outside but would be rooted in the work of the group's academic researchers.

The foreigners will attend workshops this week where researchers will provide feedback on initial conclusions. Yesterday monetary and exchange rate policy was discussed. Also on the agenda are the role of the state, the incorporation of the homelands and fiscal policy.

Star 14/4/93.

Revenue collection up

49

Revenue collected by the Exchequer in the first 11 months of the 1992/93 financial year was 80,1 percent of the amount budgeted for, figures released by the Central Statistical Services on Tuesday show.

Total revenue collected from April 1992 to February 1993 amounted to R67,905 billion and is 2,6 percent higher than the amount collected in the same period in the previous year.

SE

However, the CSS says an increase of 13,2 percent was budgeted for in the 92/93 fiscal year.

The slight increase was largely due to increases in revenue from gold mine income tax of 14,9 percent to R384,4 million, from excise duty of 24,7 percent to R3,970 billion, and from the fuel levy of 32 percent to R6,240 billion. — Sapa.

Revenue falls short by 19,9%

(49) CT 14/4/93

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The slight increase was largely due to increases in revenue from gold mines income tax of 14,9% to R384,4m, from excise duty of 24,7% to R3,970bn, and from the fuel levy of 32% to R6,240bn.

However, these increases were offset by a 11,5% decrease in general sales tax and VAT to R14,917bn, as well as a substantial 24% fall in non-tax revenue to R373m.

● The Inland Revenue Department would clamp down on **informal sector traders** evading income tax, chief director, policy, Trevor van Heerden warned yesterday.

The moratorium on tax evasion would end on August 31, after which informal sector traders — particularly flea market traders — would be "vigorously investigated"

Flea markets' growing popularity made them a good source of revenue, with traders liable to submit returns after earning about R12 000 a year.

"We are concerned about the situation and have recently sent people overseas to see what measures are being used to police flea markets and bring traders into the tax system," said Van Heerden

Stayaways cost economy dear

Star 15/4/93

(49)

Massive worker stayaways and social unrest pounded SA's already faltering economy yesterday as chaos gripped major urban centres and townships in the wake of the assassination of Communist Party chief Chris Hani.

Lost production as a result of an almost complete stayaway in the key industrial areas of the PWV, Cape Town and Durban, combined with weakening foreign investor confidence in the country as a result of the violence, had hit the economy hard, economists said.

"The cost of the stayaways is estimated to amount to R500 million per day of production that is lost," Econometrix's Tony Twine said.

A South African Chamber of Business (Sacob) survey found worker absenteeism at 90 to 100 percent in Johannesburg, Pretoria, Cape Town and Port Elizabeth.

But, said Twine, the ultimate cost to the economy thanks to negative international sentiment and sliding domestic confidence was large and impossible to estimate.

Sacob director-general Raymond Parsons said the "disorder and chaos is definitely going to have a negative impact on business confidence".

There would be further downward momentum in economic activity and Sacob's monthly business confidence index would reverse from its recent firmer levels.

Although anti-apartheid leaders urged calm and restraint in commemorating the death of Hani yesterday, shootings, looting and related unrest broke out in the central business districts of Durban, Pietermaritzburg and Cape Town. There were reports of deaths in townships.

"The damage done to confidence, and to real levels of production are historically bad enough.

"Somebody's got to get the message home that acting irresponsibly doesn't just cost the economy now, but also leads to delays and even the cancellation of investment decisions.

"It puts limits on the economy to grow out of the dire position it's in now," Twine said.

Gross domestic product (GDP) shrank by two percent last year, on top of an average decline of just under one percent in the previous two years.

Economists expect there to be very little or no growth this year. Gross domestic fixed investment fell sharply in 1992, with real fixed capital stock marginally growing by half-a-percentage point.

"If this trend of lowed fixed investment is maintained, it could seriously impede the growth potential of the economy," the Reserve Bank warned in its March report.

Parsons said the impact yesterday's chaos and possible further violence in the next few days would have to be assessed after Hani's burial on April 19.

"Hopefully, the violence will subside as quickly as it has arisen. Provided we can get over this situation, we can still look forward to something better in the economy later in the year as political negotiations make progress," he said.

"We still have a very resilient economy, although it's taking a tremendous battering at the moment," Parsons said.

Twine said political leaders would have to ensure their supporters' discipline and follow through with their determination for poltical negotiations to succeed if the country was to avoid an outflow of capital.

South Africa last year experienced a large outflow of capital as a result of socio-political unrest and the reluctance of domestic organisations to renew maturing debt because of the higher financing costs charged by risk-wary foreign borrowers. — Sapa.

Economy could improve soon

Sowetan 15/4/93. (49)

PROGRESS South Africa's economic recovery depends on the political situation:

By Mzimkulu Malunga

ECONOMIC growth in South Africa will depend on the political situation, how the business community receives the Budget and developments in the world economy, a top economist has said.

Dr Ben van Rensburg, economic policy director of Sacob, says: "We are standing on the threshold of an upturn but the situation remains fragile." Negative developments on the political front could have the same influence on the economic sphere, he says.

If the business community views Derek Keys' Budget to have given the correct signals, confidence could improve, leading to increased investment. Also, if the major economies in the industrialised world show signs of improvement, such a development will have a positive influence on the South African economy as these are the country's major trading partners.

So far only the British and United States economies have shown signs of picking up, while the German and the Japanese economies remain in a recession. This month's four percentage point increase on the rate of Value Added Tax will obviously have an effect on consumer spending, says Van Rensburg.

JSE share
Star 15/4/93
prices dive

Share prices on the JSE tumbled for the second day running yesterday as most buyers were absent from the market. (49)

Stockbrokers said that significant buying would not resume until the crisis over the Chris Hani assassination was resolved. Overseas investors were actively selling South African shares.

"It's violence that outside investors fear most," said one London dealer. "It's blood, blood and more blood that is causing most concern." — Finance Reporter.

● **Full report — Page 15**

Foreign investor confidence maimed by unrest — Stals

Star 16/4/93

(49)

By Sven Lünsche

Reserve Bank Governor Dr Chris Stals has described the unrest following the assassination of Chris Hani as a major setback to the process of rebuilding foreign investor confidence.

In an interview yesterday Stals said foreign investors had been encouraged by recent progress towards a political settlement.

"Following on the latest events, however, foreign investors have expressed their extreme disappointment with the turn of events.

"We are effectively back to square one," Stals said.

The crisis threatens to further strain the already squeezed balance of payments and the gold and foreign exchange reserves.

Over the past six months the reserves have plunged from $4,2 billion to $2,4 billion.

Since agricultural conditions have improved materially over the past three months, the decline can only be attributed to a continuation of the substantial capital outflows which began in the last quarter of 1992.

The latest events are not likely to alleviate the balance of payments problems, with grave consequences for economic growth.

Stals previously warned that the fall in reserves made an easing of monetary policy impossible. He reiterated this point yesterday.

"The further decline in the foreign exchange reserves prevents us from dropping interest rates, which would have been the natural course as credit demand in the economy is still very low," he said.

Chris Stals . . . back to square one

He added, though, that in view of poor credit demand, interest rate hikes were also highly unlikely.

Representatives of foreign businesses confirmed that investor confidence had been dealt a blow by recent events.

"This is not surprising, given that foreign media coverage of the assassination and the memorial services would have focused on the violence and thuggery," said Michelle Cohen, executive director of the American Chamber of Commerce.

"US investors are definitely more concerned than they have been for a long time," Cohen said, adding that several US businesses had recalled their local representatives in the wake of the violence.

She said trading with SA was becoming more expensive as companies had to pay a hefty insurance premium, which put SA in the company of Bosnia and Vietnam.

She added that many companies would wait until Monday, when Hani will be buried, before taking a decision on their role in SA.

Cohen's counterpart at the SA-German Chamber of Commerce, Klaus-Volker Schuurman, said the "tragic events" of the weekend would not be the material factor influencing the decision of potential German investors.

"German companies in general are awaiting more concrete evidence that political negotiations will proceed and details of the economic and social framework in which these negotiations will take place."

Schuurman was confident SA would remain an important trading partner for German industry.

Share prices on the JSE staged a strong recovery yesterday. The overall index, which shed 89 points on Tuesday and Wednesday, clawed back 47 points, while the gold index regained well over half of its 51-point loss of the previous days.

Dealers said, however, that the weaker financial rand — which shed 2c yesterday to R4,85 — provided foreign investors with cheap access to local counters, particular gold stocks which were buoyed by the strong gold price.

But local institutions stayed on the sidelines, concerned about the violence that could erupt on Monday.

Prosperity linked to low inflation

Star 16/4/93

By Stephen Cranston

There would be no long-term prosperity in any country if inflation persisted, visiting Governor of the Bank of England Robin Leigh-Pemberton said yesterday.

Speaking at Nasrec where he was addressing an international conference on beef production, he said the battle against inflation, which involved the maintenance of high interest rates had caused difficulty for small businesses.

He said it was important for the Reserve Bank to continue to bear down on inflation. The UK had inflation of 10 percent last year and now inflation was in the 3,5 percent to 3,7 percent range.

(49)

The Bank of England aimed to bring inflation down to two percent or less, which represented price stability.

Physical controls such as limits on borrowing levels and income policies had not proved effective in reducing inflation.

Leigh-Pemberton said the more competitive the environment in which farmers and businessmen operated, the greater their productive efficiency.

This had the inevitable effect that in a depressed market, such as the present beef market, many producers were forced out.

The agricultural sector had been forced to borrow heavily.

No country, however, could expect its central bank to nurture unrealistically low interest rates for any lengthy period, particularly not a country with SA's large social and human development needs.

The long-term development of food production would depend on the successful conclusion of the Gatt negotiations.

The reinforcement of multilateral trading systems and fresh liberalisation of world trade through a successful Uruguay round could do more than anything to improve the world economic outlook.

March

Star 16/4/93

may hit business

(49)

Staff Reporters

Although it will be business as usual in the Johannesburg city centre tomorrow, the Johannesburg Chamber of Commerce and Industry says it fears the planned ANC march through the CBD will have a devastating effect on trade.

A chamber spokesman said the march would disrupt business.

He hoped there would be no damage or loss of life, and had been assured that adequate measures had been taken to protect property.

Meanwhile, supermarkets and financial institutions are adopting a wait-and-see attitude.

"We have seen many marches and have never been attacked. We were open on Wednesday, so we'll definitely be open on Saturday," a cafe owner said.

"There's no march that lasts five hours, so we'll close when marchers approach and open when they've passed," said Clicks Stores chief executive officer Trevor Honeysett.

'Economic destruction nearer'

BDom 16/4/93

(442) LLOYD COUTTS (49)

WEDNESDAY's stayaway had pushed SA closer to the abyss of economic destruction, CP general secretary J A L Theron said yesterday.

Theron said in a statement the stayaway had cost the country millions of rands in lost production, and the accompanying violence, looting and destruction of property had resulted in disastrous consequences yet to be appreciated.

"The SA economy, already in tatters as a result of distorted 'affirmative action' and devastated by Cosatu strikes, communist redistribution of wealth, endemic state corruption and an overtaxed, punch-drunk white middle class, received a further push towards the abyss of economic destruction on April 14," Theron said.

He asked the people and parties of SA whether the new SA depicted on April 14 met with their approval.

Meanwhile, CP trade and industry spokesman Daan Nolte called on government to abandon its "experimental" reforms.

"The only solution, with special emphasis on the economy, is to create a political division between race groups with normal business activity to the advantage of all in SA and the greater southern Africa." (242)

He said a total lack of confidence in the economy was reflected by the growing flight of capital as the new SA approached.

This flight of capital, he said, had increased dramatically in recent months, and net reserves for March alone had plummeted by R5bn.

"The price of the 'new SA' for foreign and local investors, especially on an economic level, is become clearer and less acceptable."

CP law and order spokesman D S Pienaar said he had conveyed the concerns of East Rand residents, fearing violence and damage to property during the Chris Hani funeral, to police headquarters.

"The CP warns government that it would be reckless to allow funeral arrangements without concurrent guarantees to interested parties that they will be protected," Pienaar said.

INTEREST RATES FM 16/4/93. (49)

Upward pressure: the price of violence

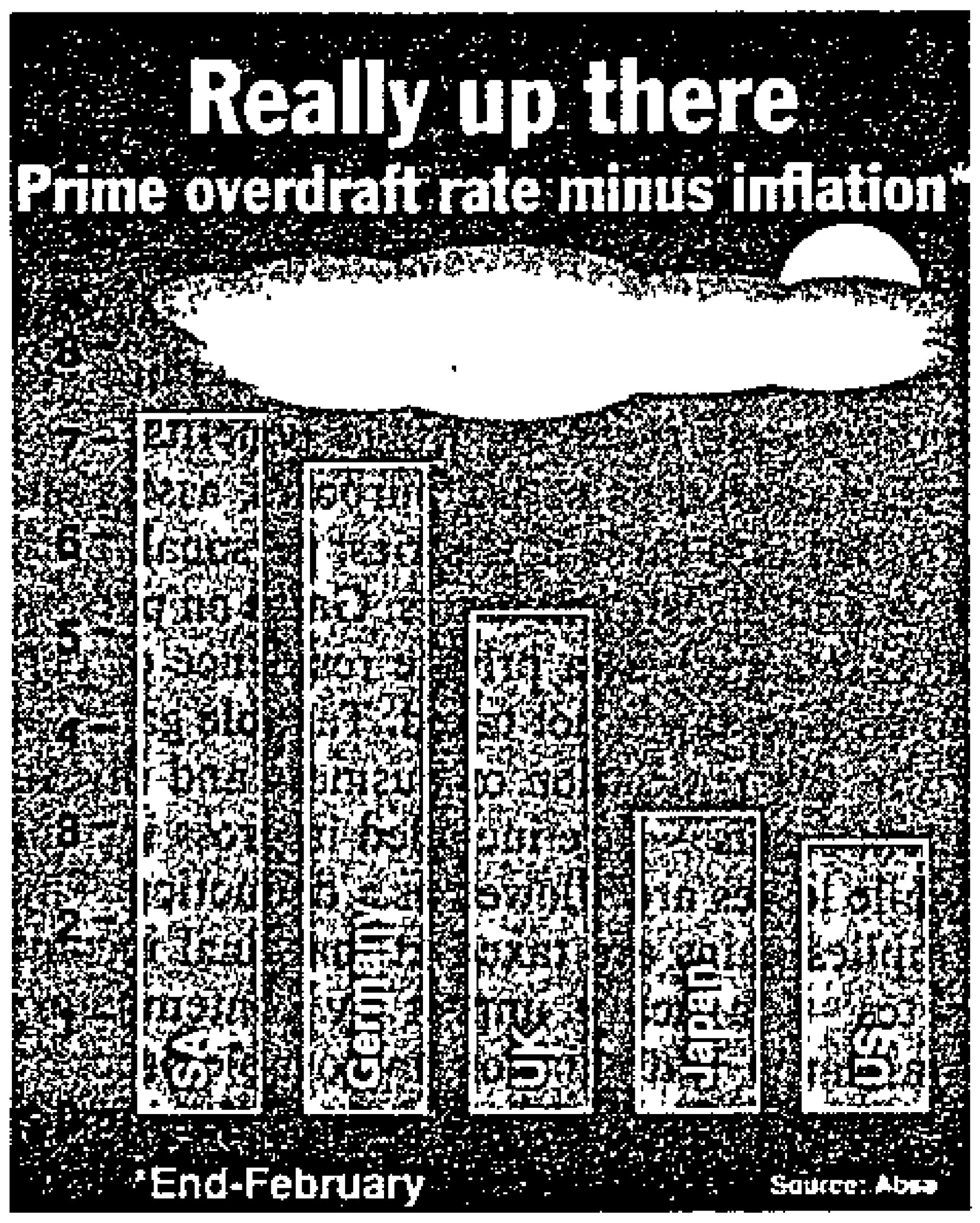
The bullet which ended Chris Hani's life last Saturday and the turbulent days which followed, could see a premature reversal in the interest rate cycle.

The depletion of foreign reserves, which helped create a record money market shortage last week (see box) is a measure of the damage already inflicted by political events. After the massacre at Boipatong in June last year and the breakdown of Codesa, the premium which SA borrowers pay on foreign funds rose from about 1,5 percentage points to three percentage points. Not even the resumption of negotiations and the more realistic approach of the participants had eroded this margin of safety required by foreign lenders (*Economy* April 9).

Unable to afford the prohibitive cost of servicing foreign debt, domestic borrowers reduced their foreign liabilities over the past eight months, creating net outflows of foreign reserves.

The Reserve Bank's official gross gold and foreign exchange reserves fell by R818,5m to R7,5bn (US$2,4bn) in March — the fifth successive monthly decline, considerably down from the peak of R11,5bn (US$4,2bn) in August. This was despite the R2,1bn, in short-term finance, raised by the Bank abroad The end-March level covers only one month's worth of imports, compared with the three months the Bank sees as desirable.

Expectations are that the surplus on the current account of the balance of payments



will improve later this year when drought-related imports are no longer reflected in the bill. A projected current account surplus of R5bn-R5,5bn should offset the capital outflows. But, even if this improvement materialises, SA cannot continue to finance capital outflows and achieve meaningful growth. In such circumstances, it is doubtful whether the shrinkage which has been taking place in the economy in the past three years can be halted.

Unless confidence is restored and net outflows reversed, the import bill will have to be slashed. And borrowers will have to be persuaded to seek funds abroad at domestic rates, which are higher than the combined cost of offshore interest charges and forward cover. Which means a rise in interest rates.

This tightening of monetary policy will further suppress demand for credit and, therefore, for goods and services — after four consecutive years of declining gross domestic expenditure.

Ironically, the latest threat to interest rates comes when:

- ☐ The official inflation rate has been in single digits for three months;
- ☐ Twelve-month growth in the broad money aggregate M3 fell to 5,4% in February, following 5,3% in January — below the Bank's target range for growth for the current guideline year of 6%-9%; and
- ☐ Credit extension remains weak, with 12-month growth in claims on the domestic private sector below 9% in January.

And it comes when the gap between the prime lending rate and the inflation rate is seven percentage points. This makes real rates in SA higher even than rates in Germany (see graph), whose central bank is renowned for monetary discipline and who has been holding out against pressure from its EC partners to reduce what they see as unreasonably high interest rates.

Fortunately, there should be a hiatus in repayments of foreign debt by government and semi-State organisations as well as payments under the debt standstill until August.

Clearly, the events of this week — and foreign perceptions of the way in which the key players respond to these events — will be critical. ■

REGULATION

FM 16/4/93

The most controversial of recommendations submitted by Judge David Melamet to Deputy Finance Minister Theo Alant last week is the merging of the Companies Act with other legislation relating to financial services.

This is an attempt to regulate the issue of debentures by companies, following the collapse of Masterbond whose unscrupulous fund-raising schemes fell outside the ambit of legislation.

However, while the banking and insurance sectors fit comfortably within one comprehensive piece of legislation, the inclusion of companies in the same framework raises the question of whether it is desirable to attempt to supervise the operations of companies. Fund-raising forms only a fraction of their activities.

Copies of the report are available from the Financial Services Board. Comment is invited.

TAXATION FM 16/4/93

New order

Lesotho tax rates will be reduced, the base widened and new concepts including a tax on capital gains (at income tax rates) and fringe benefits introduced. The Income Tax Order 1993, prepared with IMF help, took effect on April 1.

The changes will affect expatriates working in Lesotho — for example on the Lesotho Highlands Water Project — but the approach to a capital gains tax is too radical to offer guidance to SA policymakers. Lesotho Commissioner of Income Tax adviser Kieran Holmes says the Order is the culmination of several years' work in reform, started in 1990 with a tax on parastatals and a reduction in the number of exemptions All personal rebates, apart from a single abatement for

cont

MONEY MARKET

The average daily level of accommodation at the discount window rose from a low of R1bn in April last year to R4,1bn in October. On Wednesday last week it soared over R5,5bn, on Thursday it hit R5,8bn and on Saturday dropped marginally to R5,7bn. These figures were the highest since the R5,5bn shortage in January 1990.

But both figures are lower, in real terms, than the R2,8bn shortage recorded in July 1984 (a year when gross domestic expenditure rose more than 7%). According to the Reserve Bank, this would have equalled a shortage of over R6bn at January 1990 levels.

Last week, liquidity was drained by government funding at the start of the fiscal year, as it was by drawings of notes and coins during the Easter holidays, coming on top of continuing capital outflows.

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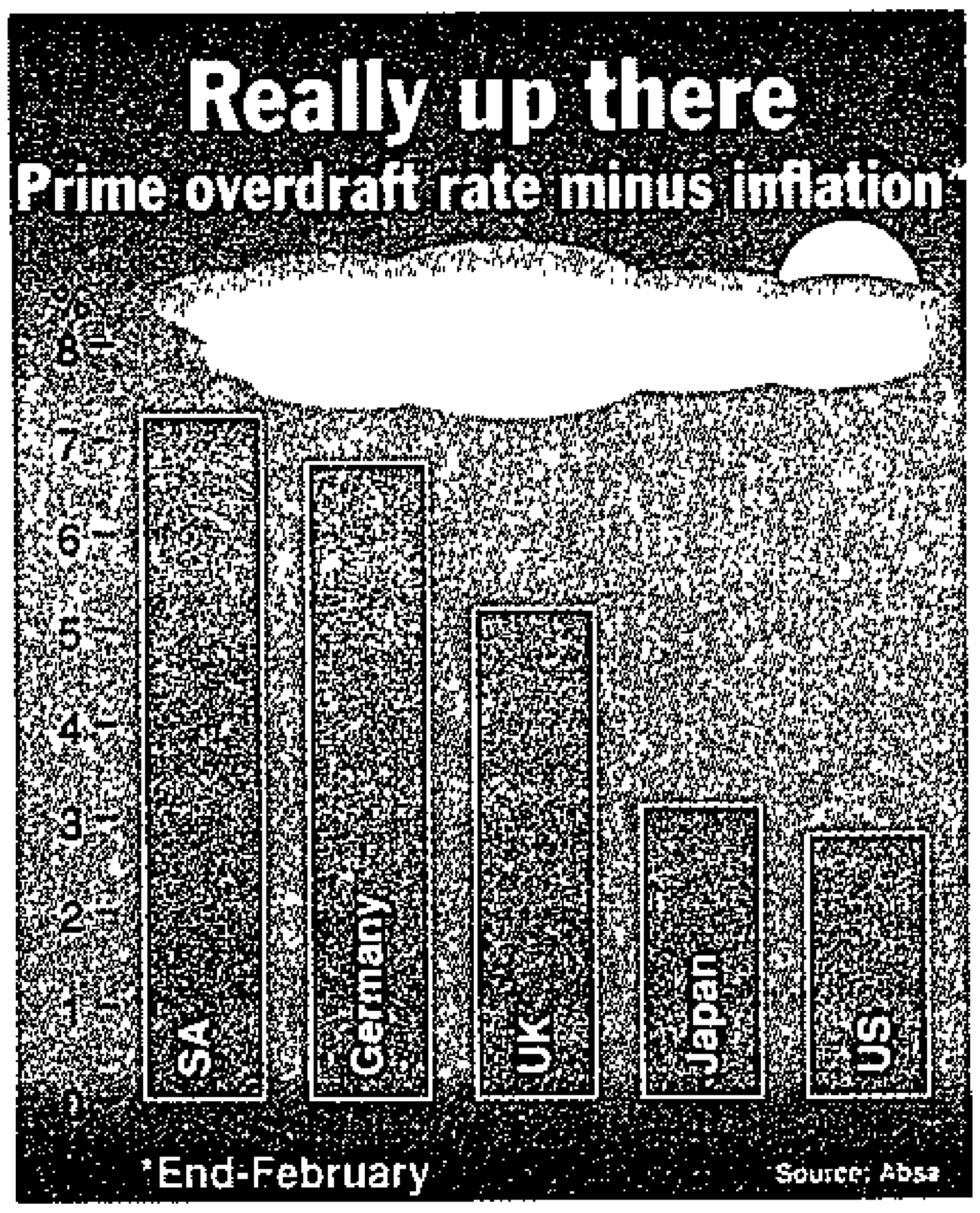

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Wage policy hangs on competitiveness and productivity

BDAY 16/4/93

JONATHAN MICHIE 49

SHOULD wage bargaining be centralised or decentralised? And should other issues — such as investment and pricing policies — be included in the bargaining process? Should government be involved?

These questions have been disputed in policy debates throughout the world, including in SA. Many contributions have focused on Sweden's "social corporatist" arrangements, and that country's relative success in preventing mass unemployment in the '70s and '80s. Such arrangements are thought to deliver improved economic performance by being able to produce different outcomes in the wage bargaining process than would otherwise occur.

Restraining money wages need not effect real wages, provided inflation falls fully in line. The difficulty is to ensure that a reduction in money wage increases does indeed result in inflation falling to the same degree, rather than feeding through into higher profits and allowing firms to continue using outdated equipment which would otherwise have had to be replaced.

However, a separate argument is that the growth of real wages should indeed be reduced. Workers, it is argued, price themselves out of jobs and restraining real wage growth would improve competitiveness, allowing increased production and hence increased employment.

But wages have a complex relationship with employment. In the short-term, wage restraint might encourage individual firms to take on more workers because their wage costs are lower. But low wage dependency has two long-term costs to the national economy. In the first place, it redistributes income towards the relatively better off who consume a higher proportion of imported goods, reducing demand and causing unemployment. In the second place, it eases pressure on firms to replace their outdated equipment and managerial methods, with the result that innovation slows down and international competitiveness is lost.

These problems could be tackled by a package of measures including labour market policies for centralised bargaining, which do not aim at reducing real wages.

In Britain, though, incomes policies in the past made it increasingly necessary for organised workers to make concessions on employment levels, working practices and other forms of job control in return for securing wages above the norms set by government policy. Such changes could be effectively achieved only at local level. At the same time, it was at the local level that wage bargaining was most effectively hidden from government surveillance. So, ironically, the imposition of centralised income policies itself led to a decentralisation of bargaining.

Incomes policies also had a detrimental effect on the institutionalised relationship between organised labour and government. Traditionally, the labour ministry and its successors had been the sponsors of good industrial relations and guarantors of effective and fair labour standards. From the early '60s onwards, the use by governments of wage councils and of the ministry's arbitration and conciliation machinery for the purpose of pay restraint brought about an erosion of its credibility in the eyes of organised labour.

The wider failure of incomes policies lay in their inability, over the longer term, to produce the circumstances for higher levels of investment and productivity. Separately from the claims that pay restraint is necessary in order to curb the "inflationary" tendencies of collective bargaining, incomes policies have at various times been advocated as a means of diverting resources from wages and consumption into investment for securing national competitive advantage.

In practice this did not happen in Britain in the '60s and '70s, largely because the private sector did not respond by increasing investment as expected. Instead it used the surpluses from wage restraint for other purposes, such as increases in dividends. The failure to put into place effective mechanisms for directing investment meant many of the potential economic gains of income policies were lost, and the "sacrifice" of lower wage growth wasted.

The Swedish strategy of solidaristic bargaining, on the other hand, involved, first, a restrictive fiscal policy designed to minimise the risk of demand-induced wage and price inflation and, second, the adoption through centralised wage bargaining of wage levels and employment standards observed by the more profitable and efficient enterprises in a given sector. Less efficient enterprises which were unable to pay the higher wages had then either to increase productivity or close down.

The third element was an active labour market policy, whose function was to compensate for the consequences of structural adjustments in the economy caused by the other two parts of the strategy, by encouraging training and job mobility for employees. Retraining programmes served to transfer labour from stagnating to prosperous industries and to reduce the danger of overheating from labour shortages.

Swedish "social corporatism" was, then, a force for structural change throughout the '50s and '60s, forcing the progressive modernisation of the economy through tight fiscal policies combined with rising national wages, forcing a high rate of economic scrapping but backed up by an active labour market policy to encourage the switching of labour to high productivity sectors. Thus the Swedish economy was well placed to meet the global shocks of the '70s, and the operation of their "social corporatist" institutions resulted in low rates of unemployment compared with other OECD countries.

However, although the success of the Swedish model of economic regulation came to be demonstrated when faced with global pressures, it is in the face of further global integration that this system of regulation is now disintegrating. While this may appear paradoxical, it is perhaps not surprising that it is precisely when the system is called on to deliver in the face of adverse circumstances, requiring a redistribution of losses rather than gains, that the system should crack.

International experience has naturally varied tremendously, and reading from it lessons for SA would not be straightforward. Britain experimented with a number of labour market policies, but never succeeded in using centralised bargaining to force through modernisation, as happened in Sweden. Other countries varied their institutional arrangements in face of global changes, while in Sweden these are only now being faced.

Detailed work by SA's Macroeconomic Research Group has shown how Australia's social accord, for example, was launched as one component of an ambitious program of economic and social reform. But when the other elements in the reform programme faltered, the wages policy alone was left to bear the brunt, and suffered accordingly.

The key lesson from the experience of both Sweden and Britain, though, is that achieving full employment combined with low inflation requires improved productivity and competitiveness. The focus of any labour market policy should therefore be on how to force industries to match best practice through investment, and to ensure that the resulting productivity gains are passed on in reduced output prices.

□ Michie teaches at the Institute of Management Studies at Cambridge University. He is visiting SA.

Bank promoting foreign credit use

BDay 16/4/93.

(49)

GRETA STEYN

THE Reserve Bank had cut the cost of forward cover in an effort to encourage foreign borrowing, market sources said yesterday.

The Bank declined to comment, confirming dealers' belief it was playing its cards close to its chest in the spot and forward commercial rand markets. However, they said the Bank's pricing of forward cover in recent days suggested strongly the Bank wanted to encourage major corporations to use foreign credit lines rather than domestic credit.

The move is widely seen as motivated by an urgent need for new dollar inflows to shore up ailing foreign exchange reserves. SA's net reserves fell to a two-year low at the end of last month and have been on a declining trend since the end of August.

The cost of forward cover, if it was entirely market-determined, would be based on the differential between SA interest rates and the Eurodollar rate. But the Bank is able to manipulate the price by playing around with the interest rate differential. While in the past two years it gradually reduced its intervention to 0,65 percentage points, the present margin is about 1,25 percentage points.

Bankers said the fall in SA interest rates had encouraged local companies to switch from foreign to domestic finance for short-term trade-related borrowing. There were already signs that the Bank's move would spur a fresh inflow of short-term dollars.

There was also speculation that the Bank was using the forward cover market to access dollars to support the rand. There has been active intervention in the spot market in the past two weeks.

Dealers said less market-related forward cover rates could result in losses for the Bank. The dollar bull run had already triggered losses of more than R1bn, with last week's Bank balance sheet indicating losses of R100m in March alone.

Violence blow to investor confidence

Star 16/4/93

(49)

By Sven Lünsche

The Reserve Bank has warned that foreign investor confidence was dealt a severe blow by the violence following the assassination of Chris Hani.

"We are effectively back to square one," the Bank's Governor, Dr Chris Stals, said yesterday.

The crisis also threatens to further strain the country's gold and foreign exchange reserves and create pressure for a tighter monetary policy.

Stals said that while interest rates would not be lowered in the near future, the poor demand for credit in the economy also effectively ruled out interest rate hikes.

Representatives of foreign businesses in South Africa confirmed that foreign investor confidence in the country had been dealt a blow.

Goldstone 'on hit list of nine'

By GUY OLIVER

MR Justice Richard Goldstone was on the "hit list" of Mr Chris Hani's alleged assassin, it was revealed yesterday.

The list of nine, which included Mr Hani, was removed by the police from Mr Janusz Walus's flat the day of the murder and was disclosed to the Cape Times by a reliable source yesterday.

The names on the list are: ANC president Mr Nelson Mandela, SACP chairman Mr Joe Slovo, ANC executive member Mr Mac Maharaj, Minister of Foreign Affairs Mr Pik Botha, Mr Justice Goldstone, Mr Hani, Sunday Times editor Mr Ken Owen, the Beeld's constitutional reporter Mr Tim du Plessis and Rapport's political correspondent Ms Karin Brynard.

CT 17/4/93

Police spokesman Major General Leon Mellet declined to release names on the hit list, but said the list was viewed as "serious, very much so".

The details of the "hit list" came as the PAC claimed its members had received death threats and that there was a plot to assassinate its leadership.

Stals: Setback temporary

49

CT 17/4/93

THE increased outflow of capital from the country following the assassination of Mr Chris Hani was hopefully "a temporary setback", Reserve Bank Governor Dr Chris Stals said yesterday.

He said capital outflows had been relatively large since August. "South Africa has gone through quite a number of shocks in the last two years, including Boipatong and the breakdown of Codesa.

"The events of the last few days have been a further setback and it will take us time to work back to the position we were in a few months ago.

"I think this is just a temporary setback but it may take us longer to regain the confidence of foreign investors."

● At a University of Stellenbosch Business School economic conference in Bellville yesterday, Professor Willie Esterhuyse said Mr Hani's death was a "catastrophe".

● **No need to up bank rate now — Stals — Page 5**

Assassin's bullets cut deadly path through the economy

The ripple effect of Chris Hani's assassination will further delay economic recovery. This report by BRUCE CAMERON, Business Staff.

(49) ARG 17/4/93

THE four full metal jacket 9mm bullets that took the life of Chris Hani cost no more than R8 but they will ricochet through the economy, costing South Africa billions of rands directly and indirectly.

The direct costs, which on their own could reach into the billions of rands, are enormous, but the indirect costs will be greater, further delaying a recovery in the economy and costing urgently needed jobs.

The final cost to the economy will be impossible to quantify, from the riot damage to the effects of the loss of investor confidence and the ripple effects of both.

Apart from the loss of investment in the economy other indirect effects include possible costly delays in:

■ Re-accessing the international capital markets to ease the pressure on South Africa's foreign reserves.

■ Negotiating a final debt standstill agreement later this year.

■ Accessing IMF standby facilities.

South Africa was slowly starting to pull back from the Boipathong massacre of last year and the failure of Codesa, retrieving both local and international confidence, when Mr Hani was shot.

The only major factor which has tempered the consequences has been the reaction of ANC leaders and their commitment to speeding up negotiations.

But the response of the financial markets was immediate. The financial rand, the surest barometer of international feeling toward South Africa, went into a spin losing seven percent over the week as foreign investors jumped out.

The Johannesburg Stock Exchange also took a knock but was saved to some extent by the falling financial rand which pushed up the cost of disinvestment for non-residents.

Direct costs to the economy have been the loss of production (estimated at R500 million a day) and the destruction of property which, combined, could reach well into the billions of rands depending on how long the violence and disruptions to the economy last.

But it is the indirect costs that are of greater concern to the managers of the South African economy.

Reserve Bank governor Dr Chris Stals said in an interview this week the indirect losses would be impossible to quantify. He expressed concern in particular about what the shooting would do to foreign investment confidence.

"This is another setback to investor confidence which can be very fickle." Dr Stals emphasised the confidence of investors, in particular foreign investors, was the key to the recovery of the economy.

The director-general of finance, Mr Gerhard Croeser, in an interview expressed concern about the immediate effect on South Africa's ability to reaccess the international capital markets.

Atlantis factory wins R75m bid

TOM HOOD
Business Editor

AEG 17|4|93

AN ATLANTIS electronic factory is to increase its staff by 50 percent as a result of winning a R75 million contract to make prepayment meters for Eskom.

AEG Energy Control director Mr Paul Hastie said the contract is worth R25 million a year and the company will have to supply 75 000 meters a year.

"We will have to increase our staff of about 100 people by 50 percent in the next six weeks," he said.

AEG made about 400 meters a day, which would now go up to 14 000 a month.

'Billions needed to bolster SA'

(49)

CT 17/4/93

From SIMON BARBER

WASHINGTON. — To get unemployment under control within the next decade, South Africa will need a 5% annual growth rate and up to $4bn in foreign loans and investment, World Bank staff members said here this week.

They were addressing a closed door meeting of US policymakers and businessmen hosted by the Centre for Strategic and International Studies' SA Working Group.

They said the Bank was ready to establish a mission in SA and start formal discussions on lending as soon as there was "consensus" among the Bank's members.

A representative of Chase Manhattan Bank pressed them to be more specific but they declined, participants reported.

A key feature of the South African economy was the 20-year-decline in the productivity of capital, which they attributed in part to large state projects and import-substitution.

They were also highly critical of South Africa's tariff structures, which they described as among the most byzantine in the world and which they said inhibited the growth of medium-sized manufacturing companies.

They noted that large corporations had enormous lobbying power which put smaller businesses — those that offered the best potential for employment gains — at a major disadvantage.

Major structural changes were needed to put the economy of an export-led growth path.

It was also essential, they said, for government to reduce current expenditures on salaries, pensions and the like, and to increase long-term capital investment.

While agreeing on the need to cut spending, several participants were concerned that the Bank might encourage the state to expand the public sector in the name of increasing capital investment, thus repeating the mistakes of the past.

The staff-members, all of whom have been intimately involved in the Bank's preliminary studies of the SA economy, also cited research on workforce motivation.

● One key finding was that because of apartheid, the average commute for SA workers — 37km — was far higher than in other countries.

This was one reason the average SA worker paid more for transportation than for housing — an unique phenomenon.

Economy set for a nosedive

S/Times (Buss. Times) 18/4/93

(49)

THE ANC's proposed six-week mass action campaign looks set to send the economy nosediving to depths uncharted before.

The planned campaign, announced on Friday in the wake of the assassination of Chris Hani, could result in greater economic decline than 1992's disastrous third quarter following the Boipatong and Bisho massacres.

Reserve Bank governor Chris Stals says the planned mass action campaign will hit business confidence — already at a low after nearly four years of recession.

"I doubt it will have any immediate effect on the financial markets, but the secondary effects are likely to be felt once the campaign starts."

Unlike Boipatong, Mr Hani's death has come at a time when SA's foreign exchange and gold reserves are at a two-year low.

Inflation is also already set to rise after the VAT and other tax hikes announced in the Budget.

Further mass action will also accelerate the flight of capital out of SA — putting further downward pressures on SA's reserves, which have fallen by R2,5-billion to a parlous R7,5-billion during the past seven months.

Before the ANC's announcement, economists were saying that the weak balance of payments position, together with the aftermath of Mr Hani's death, could delay interest rate cuts.

Some believe the situation could even force Dr Stals to increase the Bank rate.

Further shocks to an already weak economy, together with a BOP under pressure, will leave the authorities with few stimulatory options.

"It shows that we were right all along to maintain a restrictive monetary policy. This adds to the present economic uncertainty," says Dr Stals.

By ZILLA EFRAT

But he added that mass action will not create any further pressure for a rise in interest rates.

Economists say that higher interest rates will do little to halt an exodus of capital and a lot to dampen local demand.

They say Mr Hani's assassination has dented the already fragile business and consumer confidence and will further delay investment decisions.

Most believe signs of stability and a fast movement towards a political settlement could go a long way towards limiting the damage.

Victim

Afrikaanse Handelsinstituut economist Nick Barnardt estimates that production losses from last Wednesday's stayaway could amount to R400-million.

It is, however, generally believed that these could be made up fairly easily because of the current low capacity utilisation in the economy.

One sector of the economy that has already become a victim of Mr Hani's death is tourism.

Satour executive director Spencer Thomas says that, after widespread international coverage of Wednesday's disturbances, there have been numerous cancellations of visits, including some from large incentive travel groups.

Some economists fear that recent events will be perceived internationally as worse than the Boipatong and Bisho massacres and even former state president PW Botha's 1985 "Rubicon" speech, which triggered a "run" on SA by foreign banks.

CITY

Warning to whites

Help have-nots or face cycle of violence — Meiring

49

MICHAEL MORRIS
Political Correspondent

WHITE South Africa would have to reach out to the have-nots in a major effort to tackle backlogs and promote upliftment, or face a cycle of destruction and regression, Administrator Mr Kobus Meiring warned.

He told MPs at the end of the two-day provincial budget debate that the well-off could not afford to "shy away" from the pressing realities of South Africa, and the needs of the have-nots.

"We have no option but to reach out and try to meet each other half way," he said.

"We have to address the existing backlogs by reaching out and promoting upliftment. There is no time to shy away and to try to isolate the haves from the have-nots."

The Cape, and South Africa as a whole, faced a "walloping shortage" of houses and jobs.

"Combine these two effects of urbanisation and you get a series of potential socio-economic disasters which put pressure on available resources and impede further possible economic growth and political stability.

"These factors create a cycle of destruction and regression which, in the end, will devour the existing infrastructure and positive work already done towards the development of South Africa."

Mr Meiring said South Africa would be roughly divided into two categories ... "the rich and the poor, the haves and the have-nots".

Citing scenario-planner Mr Clem Sunter's notion of the world being made up of 15 percent of "rich old millions" and 85 percent of "poor young billions", Mr Meiring noted: "This is the same in South Africa."

He added: "Internationally, the 15 percent isolate themselves through tariff walls and passport control. In South Africa, the 15 percent literally build walls around themselves."

This was untenable.

Unless key "realities" were confronted and addressed, "we can draw up plans and negotiate until we are blue in the face".

Key goals were ending violence, creating representative government, achieving economic growth and tackling under-development.

Mr Meiring said it was natural that change created discomfort, disorientation and instability.

But he said South Africans dare not turn back. They had to accept the challenge to make change occur.

Body formed to aid accord on economy

(49) 19/4/93

GREETA STEYN

GRETA STEYN

THE national economic forum has appointed a committee to resolve squabbles over model-building between government economists and those aligned to the ANC and Cosatu.

A source said the decision to form a committee came after a technical debate threatened to bog down forum discussions and divert the focus of attention away from policy issues.

Cosatu-aligned Stephen Gelb, from the University of Durban-Westville, and Massachusetts Institute of Technology academic Lance Taylor, who recently released their model, are represented on the committee, as is government's main economic architect Jan Dreyer.

Also on the committee are Lieb Loots from the University of the Western Cape, who is working on an econometric model comparable with the Keys approach.

Business is represented by Simpson McKie's Graham Boyd, Sankorp's Peet Strydom, and a representative from Anglo American.

Sources said the committee members had impeccable technical credentials and it was hoped their co-operation would free the forum to make progress in drawing up policy priorities.

One of the main issues to be resolved by the committee is government's failure to divulge the econometric equations which form the basis of the Keys model.

Gelb has released the mathematical details of his work, and Loots has committed himself to making his available as well.

Sources said Dreyer had indicated he would follow suit.

Dreyer could not be reached for comment at the weekend.

It's wait-to-see on the JSE

MARC HASENFUSS, Business Staff

TRADE on the Johannesburg Stock Exchange came to a virtual standstill this morning as investors anxiously watched developments at the funeral of Communist Party leader Chris Hani. (49)

"Hardly anything is trading anywhere," a dealer said. "Most of the trade is on the gold board but these shares don't look like they are going anywhere in a hurry."

The overall index and industrial index were each up a point at 3 564 and 4 368 points respectively. The gold index was unchanged at 1 203. ARGT 19/4/93

The dealer said many orders had been cancelled as investors preferred to adopt a wait-to-see attitude.

He said, however, that institutions had kept buying orders in the market.

The financial rand retreated in nervous trading as news of sporadic violence related to the funeral service at the FNB Stadium in Johannesburg filtered in. The currency was quoted at R4,97 to the dollar in morning trade, compared with a R4,89 close on Friday.

The commercial rand stood firm at R3,1920 to the dollar, slightly up on Friday's R3,1930 close.

Gold was markedly stronger in London today, opening at $340,10 today. The metal closed in London at $337,85 at the weekend with economic fundamentals, rather than local political developments, driving the metal higher.

Cash crunch in money market

BDAY 19/4/93. 49

GRETA STEYN

HEAVY selling of government stock by the Reserve Bank — to the tune of R2bn — had drained liquidity out of the money market, Bank Deputy Governor Chris de Swardt said at the weekend.

He was commenting on Friday's surge in the market shortage to R6,8bn from R5,2bn. He added institutional investors were exercising options to buy government stock issued by the Public Investment Commissioner last year.

The cash crunch put upward pressure on short-term interest rates and fuelled bearish sentiment in the capital market. Gilt rates rose 10 points on Friday, bringing the rise since the murder of SACP leader Chris Hani to more than 40 points. Short-term rates also rose with the liquid BA rate quoted at 12,15%-12,25% from 11,85%-12%.

The surge in the money market shortage towards the end of last week aggravated an already tight situation. De Swardt said the outflow of foreign exchange reserves as a result of a capital drain had affected money market liquidity, but there had not been signs last week that the foreign exchange reserves situation had worsened.

Bankers said since liquidity pressure had not been caused by demand for credit, it was unlikely Bank rate would be raised.

Business community welcomes relative calm

Star 20/4/93

49

By Derek Tommey

Bankers, businessmen and senior public servants will have breathed a sigh of relief over the limited violence accompanying the funeral of SACP leader Chris Hani yesterday.

SA is facing a major balance of payments crisis that is threatening to dash any hope of an improvement in living standards.

A resumption of violence on any major scale yesterday would have frightened away foreigners yet again, intensifying the crisis and forcing the authorities to take measures that could further depress the economy.

It is clear that the ANC hierarchy made tremendous efforts to ensure the affair passed off as peacefully as possible.

The crisis and the effect it is having on the economy were highlighted by the Governor of the Reserve Bank, Dr Chris Stals, at the weekend.

He was extremely concerned about the balance of payments situation, he said, adding that net gold and foreign exchange reserves had been cut by a third over the past nine months.

He warned: "People should expect the economy to be depressed when there is a deficit on the overall balance of payments and only limited access to foreign finance."

He said the solution lay in a sustained and dynamic export drive and serious efforts to make SA attractive to foreign investors.

The crisis is the result of export earnings showing little growth because of the worldwide recession and the heavy net outflow of capital caused by SA having to repay foreign debts while, for political reasons, being unable to borrow more long-term funds abroad.

Last year there was a net capital outflow of R6,5 billion after net outflows of R6 billion in 1991, R2,9 billion in 1990 and R4,3 billion in 1989.

There has also been a heavy capital outflow this year following the repayment of a substantial portion of the R4,8 billion now falling due.

With export earnings flagging, this has put pressure on foreign exchange holdings, which have dropped significantly, despite the Reserve Bank borrowing short-term funds overseas.

This outflow of funds, together with central bank borrowing, has led to a tightening in the money supply.

And with the Reserve Bank refusing to offset this tightness by creating more money, it has led to higher interest rates.

In the past three weeks, the Eskom long-term rate has risen from 14,8 percent to 15,31 percent. The three months' bankers' acceptance was slow to respond until yesterday to the changed money conditions when it jumped from 11,95 percent to 12,25 percent.

Inevitably, the firming of interest rates has led to speculation of a rise in the commercial banks' lending rates.

But Dr Stals has said this is unnecessary in view of the already wide margins between the cost of borrowing money and their lending rates.

Nonetheless, these developments must cause some uncertainty among borrowers.

It is clear SA must greatly increase its foreign earnings.

With the economies of two of its major customers, the US and Japan, expected to show some growth this year, an increase in export income could occur towards the end of the year.

A further and substantial rise in the gold price would also be extremely useful, as would a period of peace leading to a revival in the tourist industry.

However, this will take time and it is a moot point whether enough extra foreign income will be generated to solve the balance of payments crisis this year.

Therefore more attention must be paid to creating conditions which persuade foreigners that SA has a bright future.

Naive assumptions and assertions in Govt economic model, writes **Jonathan Michie**

The crawl towards El Dorado

STAR 20/4/93

(49)

THE Government's "Normative Economic Model" was presented last month "as a basis for public discussion". This generous invitation to comment is welcome.

The model correctly identifies defects in the political, economic and social system as including: inappropriate education and training; costly functional and physical separation of people; inadequate access to economic opportunities; unsettled community life; inadequate entrepreneurship; and ineffective financial intermediation between savings and development investment.

On the neglect of training, the share of GDP devoted to this is reported at only 2 percent, as against typically around 5 percent in other countries.

Welcome too is the recognition of the need for safety net measures by the Government, for example to redeploy those displaced by the necessary restructuring of the economy.

But there are also a number of naive assumptions and assertions:

● Central to the Government's strategy "is the need for the Government sector to free national resources for more investment, mainly by the private sector". But there is no automatic mechanism whereby resources "freed" by the Government will reappear as private investment; those resources risk instead lying idle, thereby reducing national income.

The approach is too static, implying a given national cake, so that if the public sector takes a smaller slice, a larger piece will be left for the private sector.

Instead, the size of the national cake is itself a product of public as well as of private spending and investment. Reducing the size of the public sector's "slice" may simply result in a smaller cake being generated. And since much private sector activity is linked to public sector spending, such cuts may hit private sector production, leading to the cake shrinking further. The private sector's increased share of the cake may be smaller in absolute terms than now.

● The rise in general Government employment witnessed through the 1980s is to halt. This would make sense in a situation of full employment where the growing labour force could be absorbed by the private sector, but in present circumstances of mass unemployment such a halt to employment growth could be disastrous economically as well as politically.

Public sector employment in the 1990s is likely to benefit the private sector rather than compete with it; people working on public sector schemes will be more attrractive to the private sector as future recruits than if they had remained long-term unemployed. And public sector provision of goods and services itself generates demand for private sector activity and hence employment.

● Rising unit labour costs are identified as harming competitiveness, with wages seen as the culprit. But these rising costs are due not to wage increases — real wages fell between 1985 and 1991 — but to falling productivity. Hence the real need is to upgrade and modernise.

● The model correctly identifies increased investment as the key. However, in listing five determinants of investment it ignores the role of demand, as well as missing out the importance of the productive infrastrucure.

Investment is unlikely to be forthcoming unless there is a demand for the resulting output. And even then, investment may fail to deliver without the necessary productive infrastructure in terms of transport and communications, education and training, and strong links between the private and public sectors.

● The criticism of centralised collective bargaining ignores international experience, where decentralised bargaining loosens the pressure on inefficient firms which a centralised system can deliver, and results in productivity gains in the efficient firms going in increased wages rather than in reduced prices, increased output and growing employment.

The potential benefits of progressive labour market policies have been analysed in detail by South Africa's Macroeconomic Research Group (MERG), drawing on international experience to show the pitfalls, as well as the potential benefits, of various institutional arrangements. The Government's model is sadly shallow by comparison.

● The prescription of financial deregulation as a mechanism for creating new institutional arrangements to provide increased investment in domestic capital formation flies in the face of international experience throughout the 1980s and 1990s. Increased property prices would be a more likely outcome, with any real investment being diverted to yet more shopping malls, or whatever else promised short-term returns.

● Globalisation is interpreted in a one-sided way, in terms only of weakening the efficacy of national economic policy levers.

But the other side of the globalisation coin is that gains in national competitive advantage are then magnified in international markets. Economic policy may be more difficult, but it also becomes more important.

The above points are of course inter-related. The key problem with the Government's model is its presumption that the free market models from academic textbooks can come to life to transform the South African economy. But even if we were to rely on an expanding private sector, the interests of that sector are not synonymous with the wishes of individual private sector firms.

For example, it was pointed out long ago that private firms may wish the wages of their own workers to be low in order to boost profits, while wanting the wages of other firms' workers to be high in order to boost sales. The best collective outcome will not necessarily emerge from the natural workings of the free market. □

● *Dr Michie is a Fellow of Robinson College, Cambridge, who has been visiting Wits University.*

NEWS IN BRIEF

SA to increase aid

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8/10 7) 20/4/93

SA, ITSELF struggling with a deeply depressed economy, would nonetheless increase its aid to Zambia to help improve health and water services, SA representative to Zambia Sam Sternban said in Lusaka at the weekend.

SA's aid to Zambia — with which diplomatic contacts were formalised in October — last year totalled R1,3m, Sternban said.

Countries' growth rate to double

BDay 20/4/93 (49) (35)

WASHINGTON — Developing countries are expected to grow about 4,7% a year going into the next decade, nearly double the economic vitality they showed in the 1980s, the World Bank said on Sunday.

In a report, the international lending agency said the increased economic might of poorer countries reflected hard-won reforms rather than vastly increased activity by wealthier countries spreading largesse.

"This brighter outlook is to a large extent the dividend of the wide-ranging economic policy reforms of the past decade," the bank said in it Global Economic Prospects and the Developing Countries 1993 report.

Developing countries grew by 2,7% a year between 1982 and 1992.

The study said that developing countries in recent years have transformed much of the behaviour that has caused problems, dealing with their commercial bank debt, slowing inflation and liberalising trade.

At the same time, the report cautioned that there were many risks involved in the forecast, citing the inability of the global community to complete work on Uruguay Round trade talks under the General Agreement on Tariffs and Trade (GATT).

"While the importance of a successful conclusion to the Uruguay Round is widely proclaimed, there has been almost no forward movement in the round in over two years," acting World Bank chief economist DC Rao told reporters.

"A more open trading system globally is particularly important for those developing countries committed to trade reform, and expanding trade opportunities are vital for the reforming countries of eastern and central Europe," Rao said.

The report comes out against a backdrop of a global economy in which developed countries, with the possible exception of the US, are suffering economic malaise.

Bank officials said its projections are based on the assumption that the economic recovery that appears to be consolidating in the US spreads to western Europe and Japan within the next 12 months and that major industrial countries begin to grow at close to their potential by 1994.

In Europe and central Asia, which includes eastern Europe and the former Soviet Union, growth is expected to increase by about 2% a year as the shift to a market economy begins to provide dividends.

Latin America is expected to continue its recovery with growth of 4% achievable over the long-run. Sub-Saharan Africa is expected to show improved growth, but not at rates much higher than population growth.

The Middle East and North African region, however, is expected to show some of its greatest growth since the 1970s, moving ahead by 4% or 5%.

East Asia, which includes China, is forecast to show significant growth levels, although somewhat lower than in the previous decade.

South Asia's growth is projected to average around 5% annually in the 1990s, with faster growth in the second half of the decade as reforms take hold in India. — Sapa-Reuter.

Finrand, gilts take a knock on violence fears

(49) CT 20/4/93

By ARI JACOBSON

ANTICIPATED violence as Chris Hani was laid to rest pushed the finrand down 11c to a low of R5 to the dollar early yesterday before foreign buying of gold shares spurred a late revival in SA's investment currency.

The finrand finally closed out at R4,97 to the dollar helped by a firmer bullion price intent on stabilising about the $340 an ounce mark.

In further reaction to the burial of Chris Hani, capital market rates moved sharply higher as a sell-off of bonds pushed rates on the benchmark E168's 10 percentage points up to 15,33% (but off a high of 15,39%) and dealing rooms at commercial banks were forced to close at mid-day due to a shortage of staff, although informal trading continued throughout the day.

Uncertainty on the JSE was reflected in the fact that the weak finrand and firmer precious metal prices had only a minimal positive effect on rand hedge shares. Leading industrials took the brunt of the downturn, with the index falling 34 points to 4 333.

Fears of political turmoil bolstered precious metal prices, with the rand gold price rising to R1 080 to come close to its 1989 peak.

But players did not fully trust the gains as the prices were expected to retreat if calm returned to SA. Some operators opted for an insurance hedge by buying Krugerrands, which rose R17 to a new year high of R1 127.

The JSE Gold Index gained five index points on the day to close out at 1 208, while the Overall Index lost five to close at 3 588.

A major factor on the day was the performance of gold bullion which some analysts argued had been stirred to a $341 an ounce high by the possible impact of mass action on local gold production, while others saw the sharp gains as a reaction to a weaker dollar.

Gold's future path

Opinions diverged even further when considering gold bullion's future path — some feeling that the gold price would consolidate at these levels, while others like Frankel, Max Pollak's Adrian Finch argued "there is only one direction for bullion and that is down".

The yellow metal which traded in a narrow band between $227 and $332 an ounce for three months broke out in early March and has recently reached a higher trading band at the $340 mark.

But Finch is betting on the price dipping down again once the protest action dissipates over the next week.

He points to similar mass action which triggered sharp moves in the bullion price last May, as high as the $360 level, only for the price to fall back to its previous trading range at the $335 an ounce level, once the situation was stabilised.

"This time the protests have been worse but the reaction of bullion has been surprisingly weak," he said.

But Davis Borkum's Dave Giese feels that this is an incorrect interpretation because "there is plenty of gold bullion in central bank vaults and there have been no disruptions to local production."

Giese adds that the gold price rise has been "purely a function of the dollar getting slammed against the yen".

Syfrets' gold fundi Peter Major considers bullion's current trading range between $338 and $340 an ounce as "solid".

To support his view he points out that gold bullion has been rising in the currencies of those countries that purchase the yellow metal.

Here he points to the Far East currencies especially those of Hong Kong and Red China who have been consistent buyers of the metal — and in turn the gold price has escalated in those currencies.

Major says: "It's ridiculous to plot gold bullion's performance against the strong currencies".

However he feels that gold bullion will be rising in every currency, except the Japanese yen, in the next six months.

drought was largely responsible for the lower surplus on the current account because this led to an increase in imports and a drop in the exports of agricultural products. In turn, leads and lags in foreign payments and receipts contributed to the larger capital outflow These speculative capital movements were generally related to the appreciation of the USA dollar on international markets and the availability of funds on the domestic market. There were also certain repayments of maturing long term debt while no new loans were negotiated in this period.

(2) No.

Capital outflow

*5. Mr J CHIOLÉ asked the Minister of Finance:†

What was the total net (a) long-term and (b) short-term capital outflow out of the Republic since 1 January 1990 up to the latest specified date for which figures are available? B590E

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The MINISTER OF FINANCE:

(a) The total outflow of long-term capital amounted to R6,2 billion during the three calendar years 1990 to 1992.

(b) The total outflow of short-term capital (including unrecorded transactions on the current as well as the capital account) amounted to R9,3 billion in the corresponding period.

Diepkloof Prison: grievances/demands of employees

*6. Mr D J DALLING asked the Minister of Correctional Services:

(1) Whether the authorities at Diepkloof Prison were recently handed a memorandum setting out various grievances and containing certain demands by members of the South African Police and a certain civil rights union, the name of which has been furnished to the Minister's Department for the purpose of his reply; if so, (a) when, (b) what specific and/or general (i) grievances were set out, and (ii) demands were contained, in this memorandum and (c) what was his Department's response to this memorandum;

(2) whether he or his Department intends taking any steps pursuant to this memorandum; if not, why not; if so, what steps? B628E

The MINISTER OF CORRECTIONAL SERVICES:

(1) Yes

(a) 20 March 1993

(b), (i) and (ii)

A copy of the memorandum is attached for the hon member's convenience.

(c) and (2)

The Department has taken note of the standpoints which were raised by the particular organization In this regard it should be mentioned that in reaction to a letter from the particular organization containing similar standpoints to those contained in the memorandum, an invitation was issued on 18 February 1993 to discuss these standpoints with the Deputy Commissioner Personnel Services. To date there has been no reaction to this invitation. It should however be categorically stated that this particular organization is not representative of the members of the Department of Correctional Services and consequently cannot be recognized as or act as a mouthpiece for the members of this Department. On the contrary, many members of this Department totally distantiate themselves from this organization.

It is this Department's policy to have discussions with its personnel in cases where specific grievances have been brought to the attention of management or where members indicate that they have a problem which they would like to discuss However, the grievances in this memorandum are vague and lack a factual basis with the result that it is not possible to react specifically to

each supposed grievance In general all managers are continually sensitized to give a hearing to, attend to and resolve the grievances of their members within reasonable limits.

With regard to the demands made in the memorandum it should be mentioned that some time ago the Department of Correctional Services took the initiative to evaluate its labour relation arrangements with a view to possible future adaptations to the present systems.

In the normal course of events Departmental policy makes provision for members to have access on a well-ordered basis via the command structure to the highest level—even to the Minister.

Furthermore, all members of the department have unrestricted access to the Ombudsman.

I would like to reconfirm the invitation which was extended on 18 February 1993 and request that it be utilized. After such a discussion the Deputy Commissioner concerned will give me a full report whereafter further action will be considered.

POPCRU

Police and Prison Civil Right Union
Polisie en Gevangenis Burgerregte Vereniging
(Established in Nov. 1989)

1st Floor, Office 7 P.O. Box 260100
Darragh House Excom 2023
Wanderers Street Phone: (011) 294200
Johannesburg 2000 Fax: (011) 294200

20 MARCH 1993

Memorandum to the Commissioner of the Department of Correctional Services

We, the members of POPCRU in the Transvaal Region are very much dissatisfied about the attitude of the Department of Correctional Services whenever we voice our demands. This Department has failed to address our problems from as early as 1990. The Pietermaritzburg issue is a proof of that. Unless this Department addresses our problems satisfactory the conflict-confrontation will continue to exist. The channels of communications that are imposed on us have been a failure, the workstations have never taken off the ground because they are undemocratic and have been unilaterally formed to serve the interest of the management

POPCRU is seen by members of both the department of the Correctional Services and Police Department as an adequate structure to address their problems at workplaces. We are informed by our reliable source that you refuse to recognise POPCRU because it is an affiliate of APLA and that our closeness to Cosatu gives you problems. How misinformed are you. We wish to state categorically that we are apolotical and independent. Dismissing us whenever we complain will not deter us Many other people have paid much regrettable prices for the truth.

We therefore demand:

(1) Recognition of POPCRU

(2) Unconditional re-instatement of warders dismissed in Pietermaritzburg with immediate effect.

(3) 30% increase across the board.

(4) Better working conditions.

(5) The stopping of victimisation and harrasment of POPCRU members.

(6) Freedom of Association.

(7) Stop unilateral restructuring of the Department.

(8) Stop the retrenchment of black POPCRU members in the form of the so-called Board of Inquiries.

We expect respond soon.
KENNETH MTHOMBENI
REGIONAL SECRETARY
Forward to Peace and Justice!

Complaint in terms of Protection of Information Act

*7. Mr D S PIENAAR asked the Minister of Justice:†

(1) Whether, with reference to the reply by the Minister of Law and Order to Question No 77 on 16 March 1993, the attorney-general concerned has received the docket in respect of the complaint lodged by Mr O J F Hartung in terms of

cont →

Investors flee after stayaways

Sowetan 21/4/93.

■ LONG-TERM EFFECT Mass action could set the country's economy back until 1996:

(49)

Sowetan Correspondent

Lost productivity because of two stayaways in a week could cost R2,4 billion but even worse is the long-term effect which could be felt until 1996, Econometrix said yesterday.

Claiming events triggered by the assassination of SA Communist Party leader Chris Hani had set back to September last year "timid but growing" business confidence spokesman Mr Tony Twine warned that while the country could ill-afford to lose even one of its 250 annual production days, the result of shelved future investments was critical.

He doubted if the country could recover financially within five to 10 years if threats of further "rolling mass action" materialised.

As the country counted the cost of what the SA Chamber of Commerce has dubbed "a disaster month", the SA Labour Bulletin claimed that Monday's stayaway figure in the PWV was at an all-time high of 92 percent.

Putco managing director Dr Jack Visser said damage to more than 500 buses which the bus company had put on the roads in the PWV in co-operation with the ANC, was "relatively mild" compared with previous years.

Most of the damage was to windows but in some cases commuters to and from South Park Cemetery where Hani was buried had taken out the windows and placed them safely on the floor, Visser said.

A national survey by two of the country's largest organisations representing the formal business sector, the Afrikaanse Handelsinstituut and the SA Chamber of Business, revealed varying figures for the number of workers who heeded the call for a stayaway, with the PWV, the Durban-Pinetown-Maritzburg areas of Natal and the Eastern Cape the worst affected.

Soccer City Trust, which administers the FNB Stadium, said it would send an inspection team to the stadium where 80 000 people packed the soccer ground.

FW urged to resolve nightmare in Atlantis

(41) ARG 21/4/93

MICHAEL MORRIS and DENNIS CRUYWAGEN Political Staff

PRESIDENT De Klerk has been asked to intervene personally in helping to resolve the socio-economic crisis in Atlantis.

ANC MP for Simon's Town Mr Jannie Momberg made the appeal during debate on the President's budget vote, urging that the community's R228 million debt — which included R18 million in service charge, rental and rates arrears — be written off and a moratorium be declared on evictions and arrests for debt.

Earlier five community leaders told a Press conference that people of Atlantis were at the end of their tether and that if the government failed to act decisively, there was no way of knowing how the community would react.

The town was in decline with more than 46 percent unemployment. Crime was soaring.

Community leaders wanted an injection of state funds for development, not just to prop it up "artificially".

Mr Noel Williams said: "The state created the problem — but we are prepared to help find the solution."

Community leaders believed the money could be channelled through the widely representative Atlantis Economic Forum and spent on projects devised by people who understood the problems.

Mr Momberg said Atlantis was a living example of apartheid's failure. People had been settled far from the city, but today there was no work in Atlantis. Almost 40 percent commuted daily to Cape Town.

Leaders said they had turned to Mr Momberg after appeals to NP MP for Mamre Mr Abe Williams had failed.

● At an impromtu meeting under the statue of Boer War hero Louis Botha outside Tuynhuys, Mr Karl Cloete said Atlantis residents were tired of handing in memoranda.

Earlier about 200 placard-carrying, singing Atlantis residents marched behind an ANC flag to parliament, watched by police with shotguns and monitored by peace observers.

PROTEST: Atlantis residents display their grievances as they face Tuynhuys with placards and banners. Picture ROY WIGLEY, The Argus

Counting the cost of old-style politics

BDAY 21/4/93.

(49)

NICOLI NATTRASS

PRIVATE-sector economists have been busy "counting the costs" of mass action. Estimates range from R5m to R500m a day. Nobody explains how these figures are derived, but they presumably include damage to property, lost production, lost wages and depressed sales.

These thumbsuck numbers are pure hogwash. It is impossible to come up with a sensible estimate of the "costs" of mass action. One can of course get some idea of the costs of looted goods, broken windows, burned cars and so on. But these costs are insignificant at an economy-wide level (especially once you deduct the benefits to firms such as P G Glass, printers, T-shirt manufacturers, and so on).

The major economic costs are potentially large. But slapping on a price tag is misleading political propaganda, not economic accounting.

How can you estimate lost production when, for example, you have no idea how many employers and workers negotiated the rescheduling of production? And as for the notion that consumer spending has suffered — how can you estimate the extent of lost sales if people simply defer their spending until after the demonstration? Economists are dangerous animals at the best of times, but when they start quantifying the unquantifiable, they should be sent to the cooler.

Perhaps the only sensible point that has been made about the cost of mass action is the negative impact it may have on investor confidence. But even here, private sector economists have been extraordinarily short-sighted. Investor confidence has been rock bottom in SA for over a decade — largely as a result of our unsatisfactory political situation.

SA lacks a suitable investment environment because the NP is baulking at transferring power to a democratically elected government. As government continues to dither, refuses to place the security forces under joint control and avoids acting against the white right, so our political situation grows more volatile.

Until we build a nonracial democracy in this country, there is no hope for significant investment. Disenfranchised and alienated South Africans will continue to express themselves politically in the only effective avenue available to them — by taking to the streets. Mass action is a symptom of SA's malaise, not the cause of it.

It is thus absurd to accuse the ANC of wreaking havoc on our economy through mass action. Indeed, if it succeeds in speeding up the transition, then one could argue that mass action is ultimately in the interests of economic growth.

In fact, the creation of a transitional government may also do very little for investor confidence. A transitional government is by its very nature transitional. As such, it cannot provide investors with the kind of stability they require. Investors are waiting for SA to introduce a stable, sustainable democratic system.

The NP government's tired invocations of "law and order" and the economic "costs" of mass action merely distract attention from the government's unwillingness to democratise. The government lacks any real vision of the future. It cannot even deal with the present. When Chris Hani was assassinated, Nelson Mandela and the ANC leadership managed the crisis; F W de Klerk holidayed in Hermanus. When Hani was buried, the ANC held an impressive state funeral; ANC leaders, marshals, monitors and police together kept disruption and violence to a mercifully low level. In these sad days, the ANC has been more than a government in waiting — it has practically been the government.

De Klerk considered it divisive to heed the DP's call to adjourn Parliament during Hani's burial. He has chosen to pander to conservative white parties and voters. Has it not occurred to him that more people protested on the streets last Wednesday than voted for the NP in the last election? And, most disturbingly, can he not see that the ANC's nonracialism is all that stands between SA and Sarajevo?

Apartheid's leftovers in the NP are out of touch with the political realities of SA. They are doing more harm to SA's economic prospects than a thousand violent looters.

☐ **Nattrass teaches economics at UCT.**

Spear 2/4/93

Money market rates rise in response to acute shortage

49

By Sven Lünsche

Money market rates have finally responded to the acute shortage on the market, which over the past week has exceeded R6 billion.

Reserve Bank Governor Dr Chris Stals last week expressed surprise that market rates had not increased in view of higher government borrowings and the sharp fall in gold and foreign exchange reserves.

The 90-day non-liquid bankers' acceptance rate rose from 11,9 percent last week to 12,5 percent on Monday before retreating slightly to 12,4 percent yesterday.

The shortage on the money market surged to R6,82 billion last Thursday and has remained above R6 billion since.

Stals said the shortage reflected the fact that nine months ago commercial banks were seeking R1 billion a day at the Reserve Bank's discount window. This amount was now at the maximum of R6 billion a day.

He said upward pressure was being placed on interest and inflation rates by government borrowing to finance the budget deficit, pressure on reserves and the increase in production costs.

The latest increase in money market rates, however, "is a reflection that the market has taken a dim view of rates falling in view of these economic developments," deputy governor Dr Jaap Meier said yester day.

He said the Bank expected a further tightening of the shortage over the next few weeks.

"This will drive home the point that banks should make increased use of their overseas funding facilities to protect gold and foreign reserves."

A faltering beat in the heart of nation's economy

Bdorg 22/4/93. (49)

RICHARD TOMLINSON, ROLAND HUNTER and RENOSI MOKATE

NOT only is the economy of the central Witwatersrand — Johannesburg, Randburg, Sandton — in decline, it is declining more rapidly than the economies of SA's other major urban centres.

From the point of view of spurring future growth, manufacturing and financial and business services are crucial, as is tourism (located within the commercial sector). The rest of the commercial sector, and community, social and personal services largely respond to the growth of disposable household income and government spending, and are not themselves propulsive.

On the other hand, since community, social and personal services comprise a high proportion of public sector employment, in a declining economy this sector is generally more stable than the others.

The table uses employment data derived from recent censuses which were provided by David Viljoen of the Development Bank of Southern Africa's development information group. It shows a particularly disturbing situation for the central Witwatersrand and most large centres aside from Pietersburg, East London and Cape Town.

The central Witwatersrand and Durban saw marked declines in formal sector employment between 1980 and 1991. Declines were also evident in the PWV as a whole, Bloemfontein and Port Elizabeth. The decline was most marked in the manufacturing sector where the central Witwatersrand and the PWV respectively lost 39,5% and 27,5% of manufacturing jobs. Only Bloemfontein experienced an equivalent deterioration. Over the same period, SA as a whole showed a slight increase in manufacturing employment.

All centres benefited from growth in financial and business services, but the growth rate of the central Witwatersrand was about half that of Cape Town and the rest of SA. This is surprising given that the central Witwatersrand includes the Johannesburg and Randburg magisterial districts and so incorporates Rosebank and Sandton. It might have been assumed that this sector represents the central Witwatersrand's competitive advantage, but the data argue otherwise. Indeed, Business Day's rebuke, to Cape Town's suggestion that the JSE move southwards, may be premature ("And pigs can fly", March 26).

The central Witwatersrand even experienced a delcine in commercial employment. This is unexpected due to increasing incomes among employed blacks and the seeming concentration of expenditure from Soweto in Johannesburg's CBD.

The advantage of a large public sector share in local employment is apparent from the decline in employment in community, social and personal services in the central Witwatersrand, and its growth in the PWV (primarily Pretoria). This sector grew in Cape Town, declined in Durban, but increased in Maritzburg.

The general picture is so extreme that one wonders how it might be explained and even whether the statistics are valid. A number of observations seem relevant.

Firstly, when companiés are taxed for employing labour — the RSC payroll levy — there is an incentive to reduce the size of the labour force, to evade accurate reporting, and to engage in a process of "outsourcing" — subcontracting aspects of production. When outsourcing is accompanied by "informalisation" employment is underreported.

Outsourcing may also be relevant when it comes to understanding the manufacturing data. As manufacturing becomes information intensive, functions previously performed within manufacturing enterprises and classified as manufacturing are now often supplied by consultants and classified as a service.

Secondly, industrial decentralisation is relevant in two respects. Rhodes University's Prof Trevor Bell has shown that decades ago foreign competition prompted decentralisation among labour-intensive industries such as clothing and textiles to improve access to cheaper labour. The 1982 decentralisation concessions were so exorbitant that they led to a marked increase in decentralised employment. At considerable cost they spatially rearranged the nation's manufacturing employment.

Thirdly, the central Witwatersrand's poor manufacturing performance also reflects its industrial mix. More than a third of the manufacturing sector's output is contributed by metal, machinery and equipment firms tied to the declining mining industry.

Fourth, violence in Johannesburg's CBD and problems in sustaining the accommodation industry may explain the loss of commercial employment.

So, while it seems possible that certain factors may exaggerate the apparent decline of manufacturing employment in most centres, and the worse performance of the central Witwatersrand may have specific explanations, it is clear that, compared with other centres, the central Witwatersrand's economy is coping poorly with the country's economic malaise.

This picture confounds a number of assumptions. The central Witwatersrand and the PWV are being treated as "golden geese" from which resources are extracted for development elsewhere. Japie Jacobs, special adviser to the Finance Minister, feels confident that the central Witwatersrand is bearing a more than proportionate fiscal burden to the benefit of other regions.

However, the central Witwatersrand's economy is deteriorating most rapidly and it is unwise to discriminate against it. This is especially the case given the population growth and unemployment expected in the area.

For the central Witwatersrand itself, the question is whether there is a path out of this morass. Local economic development planning holds considerable potential. Joint public/private partnerships involving collaborative relationships between local government, the private sector, unions, and community organisations, have helped improve economic conditions in a number of cities throughout the world.

We can hope for an improvement in the national economy, but in the meantime cities are not helpless.

☐ Tomlinson and Mokate are at the Development Bank of Southern Africa. Hunter is at Planact. This article is based on a report presented by them to the Central Witwatersrand Metropolitan Chamber's economic development working group.

Employment: % change per economic sector 1980-1991

Area	Agriculture, hunting, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Commerce, catering and accommodation	Transport and communication	Finance, insurance, business services, real estate	Community, social and personal services	Total
PWV	-19,6	-22,2	-27,5	16,9	15,1	11,3	7,3	44,3	9,3	-2,3
Central Wits	-32,8	15,9	-39,5	12,5	7,6	-6,3	3,4	22,0	-1,6	-8,9
Durban	-21,3	-41,5	-20,2	-35,9	-10,6	16,1	-30,5	35,9	-3,7	-7,0
Cape Town	-10,2	-21,1	-16,1	-17,3	13,7	31,0	-6,5	43,5	10,3	6,7
Bloemfontein	-19,7	-47,9	-37,1	145,7	-1,1	13,6	-29,6	35,3	3,8	-1,6
East London	-31,7	4,1	6,4	-50,2	34,6	17,0	-21,9	32,2	35,3	11,0
Maritzburg	-7,4	27,6	-8,6	86,6	-4,2	-4,5	-12,6	37,8	5,5	0,3
Pietersburg	-7,7	61,9	24,2	-3,3	-4,9	66,8	3,5	118,3	45,5	25,0
Port Elizabeth	-31,3	-37,8	24,8	3,3	26,7	15,4	-22,3	21,5	14,6	-1,8
South Africa 80-85	-10,8	0.4	3,7	18,8	17,4	7,1	-9,9	47,2	15,7	6,9
85-91	-2,1	-6,9	-1,9	-8,9	-6,6	-2,2	-8,0	4,2	0,5	-2,1

Sources. 1 Economically active population per economic sector 1980 1985 and 1991 population census reports
2 Formal employment from the standardised employment series as published in SA Labour Statistics, 1992

Vision, faith and sense go well together

Star 22/4/93

Profile

"I'm the minister of the bloody obvious," Finance Minister Derek Keys tells PATTI WALDMEIR and PHILIP GAWITH.

DEREK KEYS, South Africa's Finance Minister, makes everything he says sound both simple and obvious. In the mad world created by apartheid, where concepts have been twisted and language deformed to fit the needs of an impossible ideology, that is a considerable strength. In the 11 months since becoming Finance Minister, Keys has used it to advantage.

(49)

He has used common sense, the moral sense of the Bible, from which he quotes liberally, and the commercial acumen developed over 30 years as one of South Africa's top businessmen, to induce sanity among the politicians.

"I'm the minister of the bloody obvious," he says.

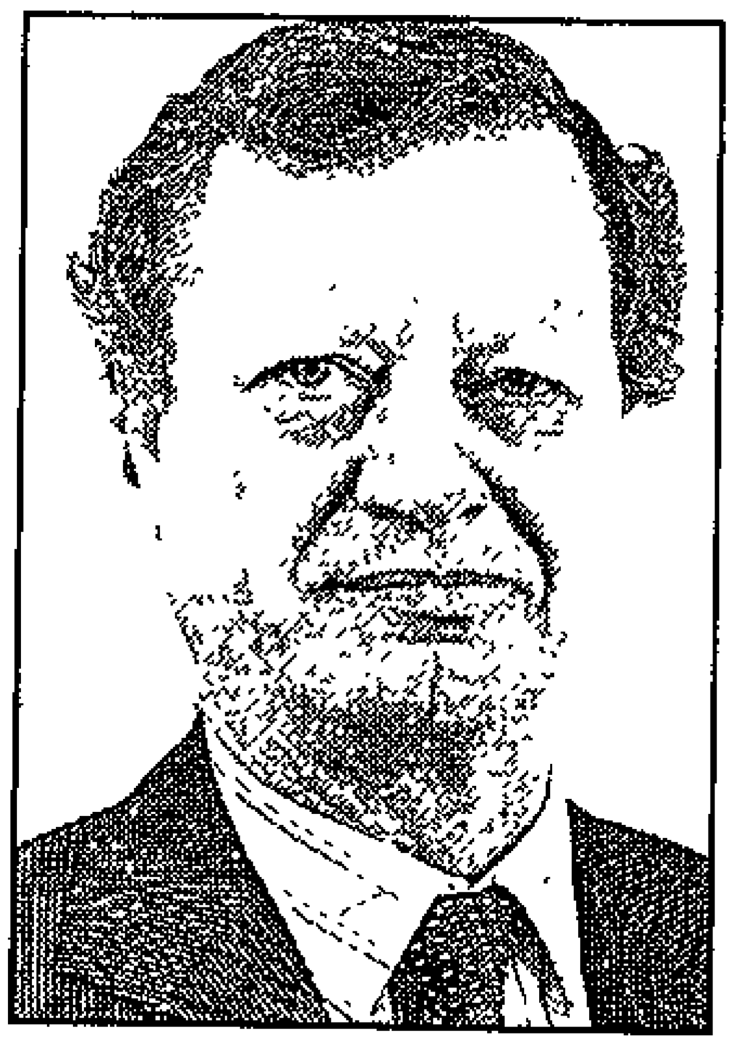
"I see myself as someone who jollies people along to do what common sense dictates they ought to do."

He is someone (he does not say it) who has not only the clarity of vision to see what needs to be done but the political skill to persuade the ANC, the black trade unions, the business community and the Cabinet that they saw it first themselves.

The message he delivers is a tough one: the economy must undergo radical restructuring, Government consumption spending must fall sharply to boost critically low investment, civil service numbers and pay have to be cut sharply, unions must agree on a virtual wage freeze, interest rates must remain high to tame inflation.

So far, he can boast a surprising degree of credibility. The ANC's economic policy chief, Trevor Manuel, is known to respect him, and Jay Naidoo, general-secretary of the Congress of South African Trade Unions, happily tolerates him after attacking his predecessor.

Business is delighted to have a voice in Pretoria. (Keys came to the job from the post of executive chairman of Gencor, the country's second-largest mining house.)



Keys . . . credibility transcends political spectrum.

The technocrats of the Finance Ministry seem somewhat in awe of him. Never before have they had a minister who had no desk. ("A desk is separation, assertion of authority, subservience to constraints, secretiveness.")

His basis for optimism is, oddly for a businessman and Government minister, partly religious. Keys consults the Living Light, a publication which provides daily lessons from scripture, every night before retiring and on rising every morning. He acts according to its guidelines.

That, he says, is his recipe for health. "When I was at Gencor I had to go for the annual check-up and the doctor said: 'How are you handling this stress so well?' I said: 'It's my daily exercises.' He said: 'What do you do?' I said. 'On my knees, twice a day.'"

His faith in President de Klerk is also unshakeable.

But his confidence in South African businessman, white or black, is less strong.

So how will South Africa prosper, in an atmosphere of low labour productivity, social strain and potential economic conflict?

"The question is not, can these people be like the Japanese," he says, somewhat irritably, "but can they improve?

"So I think if I were to approach my job on the basis that I had to produce Korea in three years, of course I'd be on the wrong tack.

"But if you say, 'you have to produce something noticeably better in three years', then we're away." — Financial Times. □

Japie Jacobs strikes gloomy note

GERALD REILLY

SOWETAN 22/4/93

IT WOULD be straining optimism to expect a positive growth rate this year, special economic adviser to the Minister of Finance Japie Jacobs said yesterday.

Depending on the extent of the disruption caused by the weeks of threatened mass action, the consequences could contribute to the "demise" of the economy.

Jacobs said business confidence had taken a severe beating recently. Production losses like those inflicted in previous stayaways would never be recovered.

There was an attitude and an expectation among many workers that they should be allowed to take part in mass action without being penalised by employers.

"You cannot manage an economy with any degree of efficiency if there is massive and frequent worker absenteeism." (49)

Jacobs said mass action could accelerate the spread of poverty and unemployment, when job creation was crucial. There seemed, too, to be a lack of understanding of the consequences on a fragile economy.

Other economists said production losses could amount to several billion rands if the stayaways persisted during May.

They agreed there was a need for a more acute understanding of the damage which could be inflicted on the economy by irresponsible and politically motivated action.

CAPITAL CONTROLS

Breaking free

FM 23/4/93.

With the financial rand falling, and reserves sinking, it is difficult to look beyond the country's immediate problems and contemplate long-term economic policy, particularly changes to the system of exchange control. But it is important, in a time of rapid political transition, to keep in mind the economic reforms needed to launch the country on its growth path.

Included in the package should be the eventual abolition of exchange control.

The IMF has published an occasional paper on capital account convertibility which explores the use and elimination of capital controls since World War 2. It argues that there are a number of benefits for easing capital controls:

- Financial specialisation is more easily achieved, which promotes efficiency;
- Competition from abroad is introduced to the financial sector;
- Enterprises are encouraged to diversify activities abroad and to adopt new technologies and managerial techniques;
- Access to international financial markets is improved; and
- Borrowing costs are reduced.

To date only nine industrial countries and 21 developing countries have abolished capital controls. Though developing countries face greater obstacles than do industrial countries, both groups are more likely to sustain convertibility if policies are credible and consistent, say the researchers.

Argentina, Uruguay and Chile, for instance, undertook to liberalise their capital accounts in the Seventies but inconsistencies between fiscal reforms and other financial policies triggered capital flight and their stabilisation programmes were abandoned. Mexico, on the other hand, liberalised its capital account as part of a comprehensive and consistent adjustment programme in the Eighties. In late 1988, to boost the credibility of the exchange rate policy and to lower real interest rates, the economic reform programme was revised. In this way the government avoided having to reintroduce controls on capital.

The success of New Zealand (mid-Eighties) and the UK (late Seventies), suggests that a credible anti-inflation policy is crucial, say the researchers.

They list a number of preconditions for capital convertibility:

- The differences between domestic and external financial markets must be reduced;
- Wage inflexibility must be reduced;
- Taxes on income, wealth and transactions must be limited;
- The fiscal deficit must be reduced and financed in a non-inflationary way;
- Interest rates must be flexible; and
- The financial system must be strengthened as must prudential supervision of financial institutions.

The researchers point out that the policy mix varies among those countries that have maintained an open capital account. And, because there are so few, it is difficult to determine the common denominator. ■

FINANCIAL MARKETS (49)

FM 23/4/93

Striving for an even keel

It's early to count the cost, in rands and cents, of Chris Hani's death. The plunge in the value of the financial rand, production forgone in two nationwide stayaways, the loss of life and damage to property, are only early indicators of the damage the event could inflict on the economy.

The real cost is in confidence to take long-term decisions. The images of chaos flashed round the world's TV screens, the fears of many South Africans that they may become the victims of random violence or revenge, and the alienation of the millions who believe Hani's death should have been avoided, could reduce the country's potential to invest

FM 23/4/93.

and produce. And the economy will continue to shrink. (49)

SA has rarely been more financially vulnerable, except perhaps in mid-1989, when it would have been without official foreign exchange reserves if it had not had the benefit of a loan to the central bank.

The slide in reserves — from a peak of US$4,2bn in August to $2,4bn in March — continues to be reflected in unprecedented shortages in the money market: a peak of R6,8bn on Thursday last week, about R6,4bn on Friday and Saturday, and R6,2bn on Monday.

The impact of net outflows of foreign reserves on the market has been compounded by unrelated factors such as the extent of notes and coins in circulation. And participants believe the Reserve Bank has been actively selling government stock as part of this fiscal year's fund-raising programme. If true, this would confirm fears that interest rates are about to rise.

But, unlike June 1989, the country is far better placed to replenish reserves because political prospects have improved dramatically since the days when the policies of Verwoerd, Vorster and Botha severed us from the international community. A negotiated settlement would immediately reduce the cost of foreign borrowing and reverse net outflows of foreign reserves.

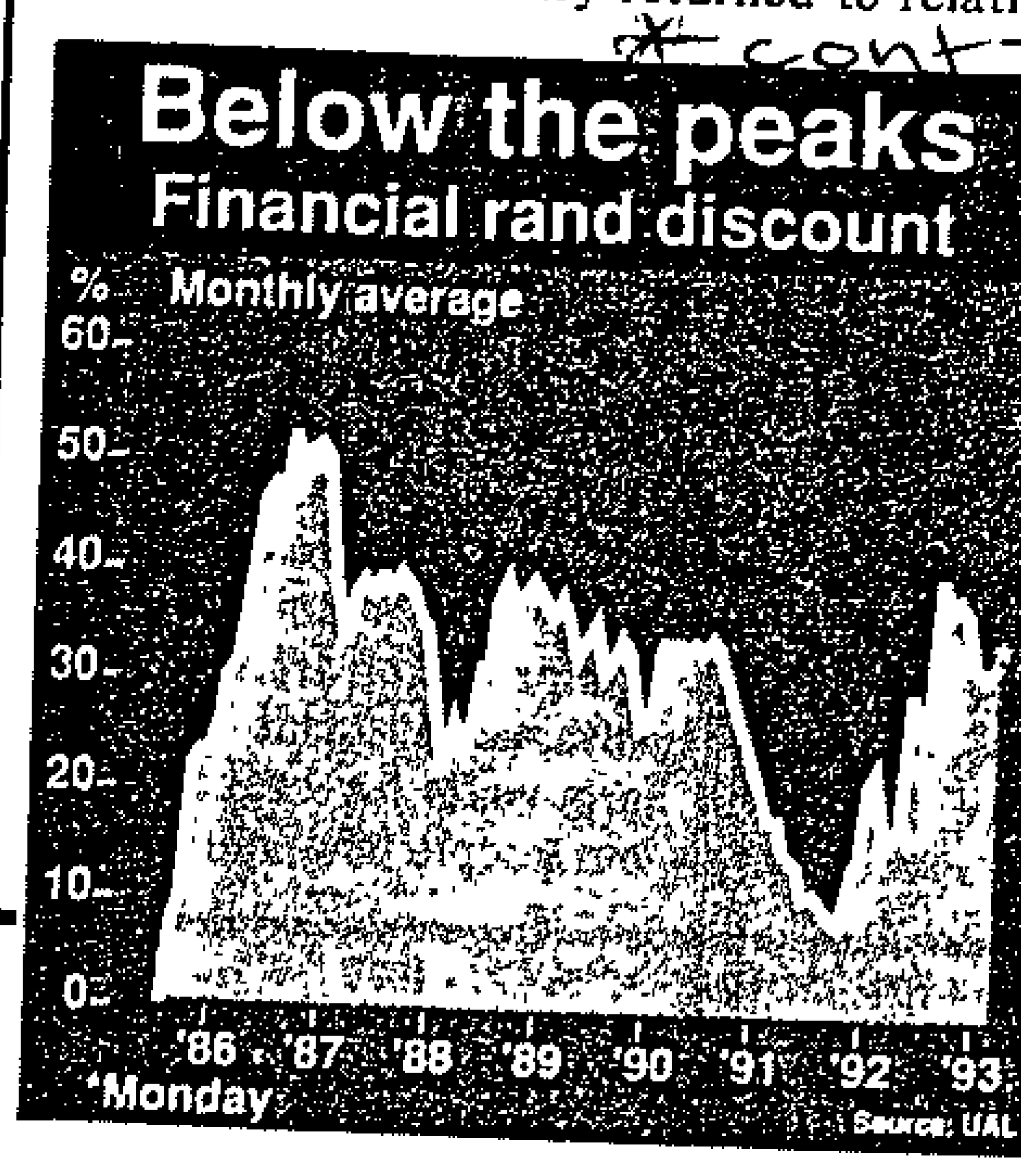
Damaging as the episode has been in terms of investor confidence, the financial rand discount remains well below the peaks of the past (see graph). UAL economist Dennis Dykes points out that, at about 34% at the start of this week, the discount was well below the 52,7% seen in October 1986.

And the value, at about US20c on Monday, was above the US17,9c on August 7 1986. Even against the D-mark, says Dykes, the currency was not at an all-time low.

"At DM0,3239 on Monday, it was higher than the DM0,3089 in October last year."

Financial markets began to recover on Tuesday as the country returned to relative

cont



Below the peaks
Financial rand discount

FM 23/4/93 (49)

normality. The financial rand, which traded at a low of US$/FinR5 on Monday, reached a morning high of FinR4,64, gaining over one US cent to top US21,5c.

Short-term interest rates, of course, remain under pressure. Rates on six-month certificates of deposit at 12,4% on Monday and Tuesday were up on Friday's 12,35% — though the rate on bankers' acceptances fell from 12,5% on Monday to 12,15%, (still up from Friday's 11,9%)

Long-term interest rates eased with the benchmark Eskom 168 dropping to 15,12% on Tuesday morning, from 15,31% and the lowest level since the 14,82% when the market closed for the Easter weekend

The immediate problem is the impact of events on reserves and hence on short-term interest rates; if the outflow on reserves is not reversed the official Bank rate may well rise, triggering a shift in the pattern of interest rates And the fundamental problem is that SA's productive potential must not be further eroded after four years of recession.

Political leaders must work for a speedy conclusion to negotiations and ensure a peaceful transition (see *Leaders*) ■

UNREST FM 23/4/93

Forget insurance (30)

Businesses that lost sales as a result of the unrest days following Chris Hani's murder can expect little compensation from the SA Special Risks Insurance Association (Sasria). There will be payouts for broken windows and looting but people who, out of fear

FM 23/4/93

or political sympathy, decided to close shop during the turmoil cannot claim against Sasria (30)

Sasria executive chairman Oosie Oosthuizen does not expect valid claims against the fund to exceed R15m, based on experience and what he has witnessed of the unrest. There could be additional claims against conventional insurance policies covering business interruption but the success of these is in doubt

As claims against Sasria are usually made through brokers, it might take weeks before the total is known But Oosthuizen says it seems there will be many small claims Sasria can pay up to R250m on a single loss but has never been confronted with such a claim It has reserves of more than R3bn.

Oosthuizen says Sasria, set up with government as underwriter of last resort, pays out claims that result from specific political and unrest events. He emphasises that there must be "an event" A march through an urban centre does not fall in this category but the smashing of shop windows during a march probably does. A restaurateur who decides not to open for business, because of politically motivated action, will not have a valid claim against Sasria

Owners of buildings damaged during unrest events will be covered if their insurance policies are suitably worded. It is possible, says Oosthuizen, that some business losses caused in the past 10 days will be covered by special clauses in insurance contracts with the direct insurers, such as those policies covering loss of earnings.

But the opportunities for repudiation are numerous: loss of earnings clauses will usual-

FM 23/4/93

ly cover situations outside the control of the proprietor, such as flood or fire. Most insurers are likely to argue that losses caused by the proprietor's decision to close were never contemplated in the insurance contract. And diminished earnings resulting from a decision by "normal traffic" not to enter a trading area would not be entertained by Sasria and, in terms of most policies, by the direct insurers. (30)

The issue of what constitutes unrest or politically motivated damage is not always clear though. Oosthuizen says that no claim could be made against Sasria for a car damaged by a stone thrown six weeks ago, during political calm, as that would have been a criminal incident But Sasria would have to consider a claim for a car stoned on Monday, when tensions were high ■

UCT professor attacks Bank governor's policy

BDay 23/4/93 (49)

LINDA ENSOR

CAPE TOWN — Capital outflows in the period 1985 to 1992 represented 3,5% of GDP, indicating that SA's poor economic performance during this period was more a function of foreign perceptions of political risk than structural weaknesses in the economy.

That was said yesterday by UCT economics professor Brian Kantor at the annual congress of the Southern African Institute of Chartered Secretaries and Administrators.

He said that assuming retention of this capital inside the country, plus an additional inflow of foreign capital of R1bn a year, SA would have achieved a respectable growth rate of about 4% without any other structural changes.

Kantor made a biting attack on Reserve Bank Governor Chris Stals's anti-inflationary monetary policy, particularly as it entailed maintaining the exchange rate of the rand. The price of this policy was that the rand had been strong and rand incomes had risen faster than the exchange rate had decreased.

"Many overseas experts . . . would recommend weakness in the exchange rate in return for the structural reform of our tariff structure."

Standard Bank group economist Nico Czypionka told the conference government should consider the creation of new specialised institutions to cater for the financial needs of the Third World sector of the economy, as the main function of commercial banks was to service the formal, First World sector.

Czypionka said these specialised lending institutions would serve those segments such as small farmers, small businessmen and aspirant home-owners, whose needs commercial banks could not meet.

Africa facing deeper gloom

Guardian \W in W\Mail 23/4-29/4/93.

By Alex Brummer 49 258

ECONOMIC growth among the developing countries is expected to improve markedly in the 1990s, the World Bank asserts this week in its 1993 Global Economic Prospects report.

But the pattern of improvement will be uneven. Conditions in sub-Saharan Africa could worsen dramatically, while the Chinese economic zone experiences an unprecedented boom, eventually making it as prosperous as the richest industrial nations. Latin America will also continue to make a rapid comeback.

Overall growth, across the range of developing countries, is forecast to climb to an average of 4.7 per cent per year in the 1990, as against 2.7 per cent over the last decades, far better growth than expected in the industrial nations.

The World Bank attributes the improvement to "wide-ranging and often painful economic reforms" in the developing countries, notably in the management of public finances, privatisation and debt reduction. But the World Bank warns of a number of risks, including failure to complete the Uruguay round of the Gatt trade talks.

Despite the optimism of the Global Prospects report, the section on sub-Saharan Africa makes depressing reading. Growth is expected to rise over the decade from 2 per cent per year to 3.7 per cent per year, but the population increase means that per capita income will be under severe strain.

If conditions are not to worsen the World Bank believes three problems need to be addressed — environmental degradation which makes the region prey to drought; the Aids epidemic which could be deleterious for growth, with up to 30 per cent of the labour affected in Malawi and high levels in Uganda and other countries; and the drying-up of high levels of international aid, available to Africa over the last decade but now in demand for other regions, notably the former Soviet Union.

The numbers of poor in Africa could increase from 200 million in 1990 to 300 million by the year 2000. In sharp contrast the World Bank believes that the Chinese Economic Area, consisting of the People's Republic, Taiwan and Hong Kong, is developing into a "fourth pole" of the global economy which by the year 2002 will challenge for a place in the G7 in terms of size.

Throughout the decade the World Bank forecasts growth of 7 per cent per annum for the region, so that by the end of the period its gross domestic product will rank well ahead of France, Italy and Britain. It will be three to four times larger than that of the former USSR, and could be approaching that of Germany and Japan.

Global Economic Prospects and the Developing Countries 1993. Published by the World Bank, Washington DC

There's only one way to go

W/Mail 23/4-29/4/93.

It may be grasping at straws, but a recent World Bank report offers some hope for the South African economy. After all, it can't get much worse.

By **REG RUMNEY**

49

WHEN it comes to the economy, South Africans don't have much to rejoice about So they are likely to grasp the small comfort offered by World Bank economists in a recent informal discussion paper

The paper, by several World Bank economists, remarks that the task of reviving economic growth and enabling substantial and continuing wealth redistribution is clearly formidable

The authorities, say the economists, face severe problems:

●Declining growth in both living standards and, a key measure of economic well-being, per-capita gross domestic product (GDP)

●Rapidly growing unemployment, particularly among blacks

●Extreme inequality in income distribution

●Extreme inequality in provision of publicly provided services and facilities.

The task ahead is made harder by political uncertainties, violence and social unrest.

Peter Fallon, Ataman Aksoy, Yvonne Tsikata, Pedro Belli, and Luiz A Pereira da Silva note, however, three auspicious features of the economy:

●Years of recession give a low base off which growth can surge during a new administration. The economists estimate GDP could be raised by as much as five percent with a level of investment only just sufficient to maintain existing levels of the capital stock.

●A hangover of past overspending on public sector capital projects means we don't have to spend any more money on things like electricity generation and big parts of the transport and communications systems for a while

●Financial sanctions have saved us from mortgaging the country to the hilt, as has happened in South America and eastern Europe. So, the bank's economists reckon, if foreign finance can be secured a faster growth path can be financed by external sources.

The economists then go on to mention what they see as some difficult growth-inhibiting features, such as a tendency towards capital intensity, an inward-looking industrial structure with a oligopolistic and sometimes monopolistic structure; an undertrained and undereducated labour force; an urban structure inhibiting productivity of unskilled labour and militating against the informal sector; and an industrial relations crisis.

Not a few of the above opinions have been called in to doubt by various commentators.

So the paper, a review of World Bank economists' thinking, and a distillation of some papers which have been put out from time to time by the bank, is likely to be hotly debated The paper isn't bank policy, but it does illustrate typical bank thinking on the way South Africa should go.

Much of the rest is the familiar The stress placed by bank economists on exports as an engine of growth is not new. And the anti-export bias the bank perceives in the economy has been reported by *The Weekly Mail*.

The bank also outlines a basic strategy to achieve both higher growth and continuing redistribution This seems less controversial. As well as shifting manufacturing orientation towards exports it proposes.

●Government spending be reshaped to raise public investment in areas of infrastructure and publicly provided services, targeting this at the poor; and at the same time limiting growth of recurrent spending to meet budgetary targets

●Rapid growth be encouraged in skilled labour, particularly by upgrading the skills of existing semi-skilled and unskilled workers.

Hani: Impossible to count the cost

WMail 23/4 -29/4/93. (49)

Gauging how much recent stayaways have hurt the economy is almost impossible — but it's political uncertainty, not mass action, that does the lasting damage, reports **REG RUMNEY**

MUCH has been made of the damage to foreign investor confidence of the stayaways and accompanying violence that followed the assassination of Chris Hani.

And, as with past politically motivated mass action, big figures have also been bandied about in an attempt to quantify the more immediate hurt to the economy. The South African Chamber of Business has mentioned losses of at least hundreds of millions of rands.

What such guesstimates do is to provide the National Party with a stick to beat the tripartite alliance.

The two stayaways undoubtedly disrupted business activity, coming as they did in the middle of a public holiday-ridden month. But the economic effect of the stayaways and sporadic violence that occurred, as University of Cape Town economist Nicoli Nattrass points out, is impossible to gauge accurately.

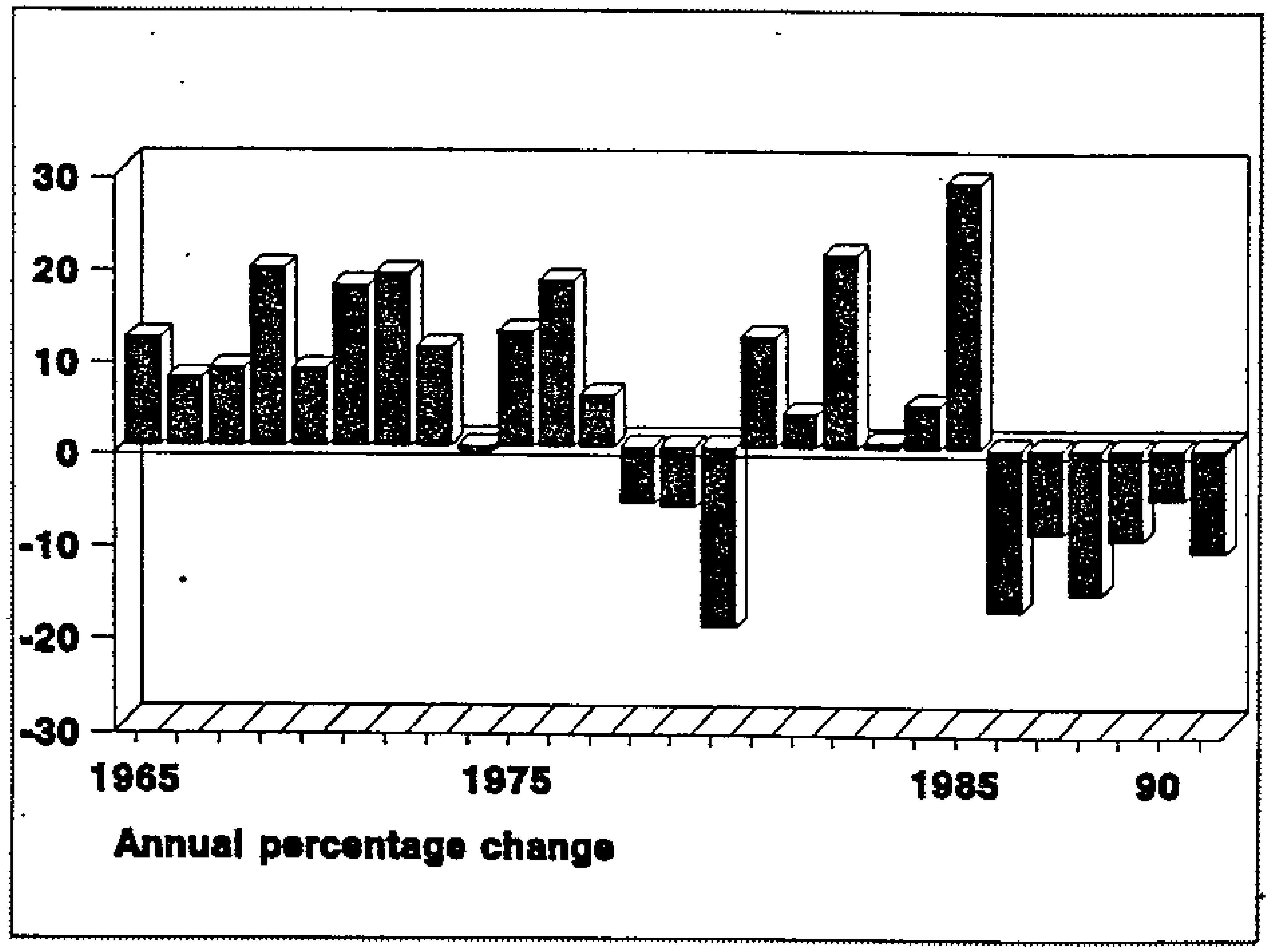
They are misleading thumbsucks and arguably pale by comparison with the damage done to the economy by 40 years of politically motivated economic mismanagement. The effects of this are still visible in the form of, for instance, the Mossgas white elephant.

Harder to dismiss are charges that such mass action deters much-needed foreign investment and that the economic effects of this will not be immediate.

Firstly, in the short term no great blow has been dealt to already low investor confidence. First National Bank senior general manager Norman Axten says South Africa has seen sporadic investment since the release of African National Congress president Nelson Mandela, but some sanctions are still in place and anyway most potential investors have adopted a wait-and-see attitude.

An interim government would encourage the return of a few investors, Axten says, but the main spur to new investment would be political stability. He also points out that investors would wait a while to see if a return of the rule of law to ungovernable townships and an abatement of violence was permanent.

The tangible indicator of investor confidence in South Africa is the level of the financial rand, and specifically the finrand discount. Simply put, the gap between the commercial rand and the financial rand shows the kind of discount disinvestors are prepared to pay to get out of the country.



Disinvestment ... The graph shows foreign capital inflows as a percentage of total gross fixed investment over the past 25 years Source: Platform for Investment Scenario

That gap has widened after recent political tragedies, such as the Boipatong and Bisho massacres. The finrand discount once again widened after the Hani assassination. The day after the funeral the discount rose a full nine percent to 55 percent as the finrand hit $1 = R4,9650. Midweek the finrand had recovered again to $1 = R4,6130, and the discount had narrowed to 46 percent.

The return of optimism to the capital market was less marked, with long-term rates easing slightly.

The volatile finrand hides the longer term disinvestment trend. As the accompanying graph shows, foreign investment outflows started in 1976 and after a brief respite in the 80s began again in 1985.

The International Monetary Fund has pointed out that from being a net importer of capital of around three percent a year before 1985 South Africa became a big net capital exporter from 1985 on.

The World Bank's view, quoted in the Platform for Investment scenario, bears repeating. This is that solid domestic investment growth will be the signal for foreign investors to re-engage, and South Africa could then comfortably become a moderate capital importer.

Focusing on the need for investment in a sense puts the cart before the horse, as Nedcor chief economist Edward Osborn has stressed. The demand for investment will re-emerge with the return of business confidence and political certainty. These in turn will depend on a speedy solution to the political crisis.

In the short term, mass action will add to uncertainty. But it could be argued that mass action, if in the medium term it aids the progress towards a negotiated solution, will actually foster economic revival.

Political crises undoubtedly help keep in place "financial sanctions". It is reported from London that anti-apartheid campaigners are urging lenders not to sign a new debt rescheduling deal until an unambiguous structure for moving towards elections is in place.

Whether foreign banks need such urging is moot. Had the Hani mourning erupted into serious widespread violence, they certainly would need no further encouragement not to roll over loans.

A necessary but not sufficient condition for new inflows of both new loans and investment is the kind of political certainty that would accompany a legitimately elected government.

Having a popular, legitimate government would not automatically mean foreign investment taps are turned on. But it removes a big hurdle. Investors can discount for risk, but not for uncertainty.

The International Monetary Fund/World Bank stamp of approval would also follow legitimacy and make it easier to get foreign loans. Access to IMF loans would also take the pressure off the current account in the short term — but, as numerous commentators have emphasised, it would mean incurring new and fairly onerous foreign debt and should be approached with care.

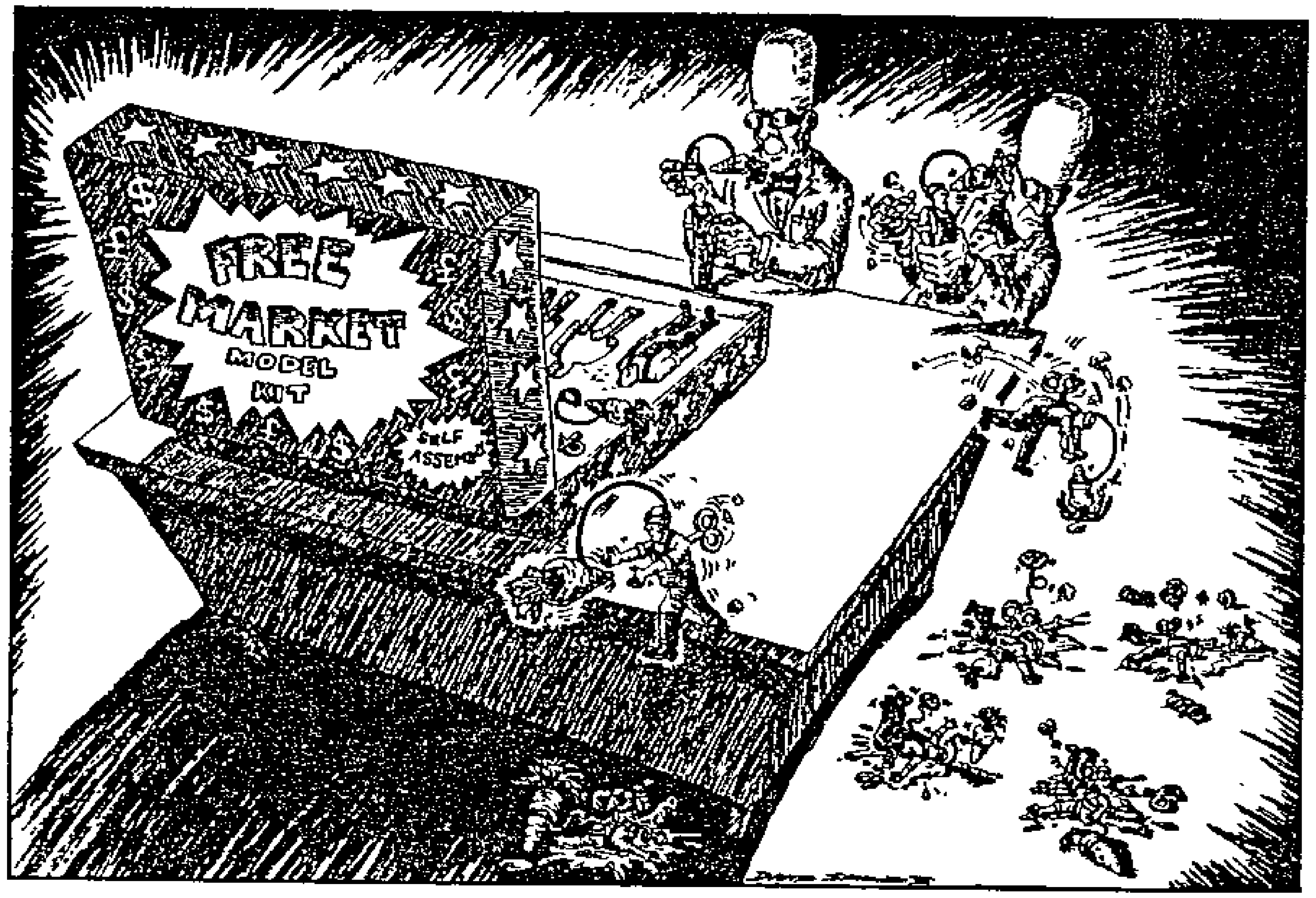
Free market theory meets its match

49

Guardian W in w/mind

The high priests of monetarism face an aggressive challenge from US economists. **Will Hutton** reports

23/4 - 29/4/93



NEW economics is struggling to be born that promises to turn the world on its head It will challenge the orthodoxies of Treasury and City, it will transcend the debate between interventionists and free marketeers, and it will rob the new right of its dominance of the economic and political agenda. With luck and a fair wind it could be the basis of economic regeneration and a renewed liberal consensus

There are three inter-related themes that between them make free market truisms untenable, as one intellectual pioneer, Robert Lane of Yale University, describes it They are that economic man cannot be assumed to have perfect foresight, that the purpose of work is not to satisfy wants but is a basic source of human well-being; and that it is not true that as output expands, costs must necessarily at some stage rise. Put these ideas together and the intellectual foundation upon which the new right draws collapses, there is nothing left of the body of theory which gave us Thatcherism and the market revolution.

Typically, almost all the new thinking is going on in the US — and the conduits into British intellectual life are gummed up by a lethal combination of complacency and lack of curiosity. Yet it is this body of emerging theory, and the policy recommendations based on it, that is giving President Clinton an intellectual head of steam.

For the aim of the last generation of free market thinkers, notably Hayek and his followers, was less to build a robust view of what actually happens in a market economy than a model that could compete with Marxism. The aim was ideological and required all kinds of contortions to produce the desired result As a source of inspiration in a battle of ideas which the West needed to win, it worked, but as a source of policy recommendations, millions have reason to curse the theory for the avoidable suffering exacted in its name.

For whether it is the scaling back of social security benefits to persuade rational economic men to search harder for work, or the removal of government support for high technology industry, it has been the same body of theory standing behind the change "There is no alternative," gimlet-eyed trade, treasury and social security ministers have intoned in turn What they actually mean is that, given the implausible assumptions that govern their actions, no other course of action is open — a rather different statement.

The assumptions that drive the model are simple: that the purpose of economic activity is the maximisation of money income, that all economic agents from workers to bankers are infinitely clever, capable of foreseeing all the contingencies and ramifications of what they do, and of choosing the best strategy to secure their ends, that each component of the economy necessarily experiences negative feedback — typically higher costs and prices as output expands — that prevents activity growing explosively and pulls the system to a point of balance With these assumptions a free market will move to the best outcome for everyone — and foster individual freedom and responsibility, a property stressed by Hayek

Thus if men and women work only to earn money, then it follows that high social security benefits will deter them from gainful employment. If industry is subsidised then the natural forces that distribute resources between competing industries will be inhibited. Indeed if any obstacle, such as regulation, is placed in the way of infinitely clever economic actors arriving at necessarily the best outcomes then, necessarily, the world is worse off. It is this heartland of new right economic theory that is now being questioned more aggressively than ever before.

The most comprehensive assault is Robert Lane's new book*, which in time may rank with the classics of political economy — even if it is a mortal blow to the propagandists of conservative England. Lane marshals research to challenge the concept that work can be regarded, as market economists must, as a "disutility".

In the classic economic story a worker surrenders leisure for work up to the point that the extra hour of pay exactly compensates for the utility lost through giving up leisure. The purpose of life is to consume, not produce; and to give up leisure is to surrender the chance of pleasurable consumption. Work is a disutility requiring compensation, the more people are paid, and the less they are taxed, the harder they will work. Production is conceived as a tiresome bore, the economic McCoy is consumption

Not so, says Lane. Production and work are key sources of satisfaction and utility. Work fosters personal development, deepens skills, humanises and structures lives; above all it makes us cleverer and independent. The process of production is a source of profound satisfaction in its own right, and money income contributes very little to a sense of personal well-being.

In one astonishing chapter that will cause heart failure in the Institute of Economic Affairs and Adam Smith Institute, Lane even argues that money values obstruct rational market behaviour. Why? Because money is a symbol as well as a sender of economic messages A growing body of research shows that money symbols trigger non-rational signals ranging from moral evil to shame These symbols, says Lane, hinder rational judgment and undermine utility maximisation in a market.

If even a fraction of Lane's insights are accepted as true the new right's sneering attitude to "producers", and the celebration of "consumption" as the be-all and end-all of economic activity, will have to be qualified The way will be open to consider the process of production as the source of human satisfaction, and how best to stimulate it.

Here too the new economics is making waves. Professor W Brian Arthur describes in the New Scientist how he and colleagues at Stanford University and the Massachusetts Institute of Technology contest another part of the new right economic story — that economies are always driven to stable outcomes because at some point production costs rise.

A small example illustrates the point In coal mining, expansion into harder-to-reach seams gets more expensive — so it becomes worthwhile not to mine more coal, but to explore for oil. Consumers' willingness to pay for oil, technology, and the availability of the raw materials will dictate how much coal and oil should actually be produced. The system will find its way, unguided, to the best outcome

But, says Arthur, costs in high technology industries do not always rise, as they must be assumed to do if a free market is to work. They fall And once a product gets ahead of its rivals in price and quality, then it can get even further ahead. Technology is subject to increasing, not diminishing, returns Industries can "lock in" their competitive advantage which becomes impossible for new entrants to break; countries or regions which manage to establish an early lead can stay ahead — for example pharmaceuticals in Switzerland or consumer electronics in Japan. Free market economics disputes that this should happen, but it does. Industrial policy, in the sense of giving a particular industry a head start through favoured treatment, can thus make perfect sense; and industries can decline even if wages and prices are low. They cannot break into the virtuous circle.

Last but not least in the new economics' assault, there is the assumption of rational economic man who forms perfectly rational expectations. Nobody but the zealots ever believed in this, it is just that, until now, dropping the assumption and replacing it with the reality — that economic agents make mistakes, follow patterns and learn by trial and error — has produced results beyond the competence of mathematics and computer intelligence.

At the Santa Fe Institute, two Nobel prize winners are using super-computers to model a world in which "adaptively intelligent man" replaces "perfectly intelligent man" The resulting economic models produce booms and busts, inflation and unemployment — all in a free market. Market models with more realistic assumptions produce unstable and irrational results

But, it may be objected, if this new economics holds up it would mean that Britain has been the subject of an absurd 14-year experiment that could only work poorly; that if the lessons were applied worldwide there would be instability and recession; that there is a case for state intervention, a strong social security system, and vigorous support of production. But that can't be right, can it?

* *The Market Experience, Robert E Lane, Cambridge*

Four shots that cost SA R3 billion

Sowetan 23/4/93.

(49)

■ DAMAGE CONTROL After the assassination cost the country dearly:

By Mathatha Tsedu and Ruth Bhengu

FOUR shots cost the country close to R3 billion. That is the estimated cost to the country of the murder, protests, investigations and burial of the late SACP chief, Mr Chris Hani.

From the moment the assassin pulled the trigger and shot Hani at his No 2 Hakea Street, Dawn Park, home on April 10, he unleashed an elaborate chain of events, the effects of which will be felt for a long time to come.

From discussions with several organisations and institutions, the following emerged:

The police deployed 23 000 police officers at a cost of at least R5 million. These costs derive from transport, accommodation and catering for policemen on special duties.

In addition, the SADF, air force and navy were also dragged in, with many soldiers on patrol duty in black and white areas.

The cost is estimated at about R2,5 million.

The Johannesburg, Germiston, Alberton and Boksburg traffic departments put over 1 000 officers on duty at a cost of just over R1 million.

The costs in other towns, as 84 major rallies were held countrywide, on Wednesday April 14, have not been collated, but also run into millions considering the damages incurred in centres such as Cape Town, Port Elizabeth, Durban and Pietermaritzburg.

And then add the costs of the ANC, SACP and Cosatu alliance. The massive publications in the form of glossy posters, pamphlets, stickers and T-shirts cost over R500 000.

The elaborate marshalling arrangements, which involved over 14 000 men and women. And the food, which alone cost about R1 million

Transport for regions to converge on Johannesburg cost close to another R1 million.

The two-day work stayaway cost the economy more than R2,4 billion.

Added to these are the costs of the local and international peace monitors.

Legal costs are estimated to be over R1,5 million. Damage to cars, graves, the stadium, buses, houses and shops run into millions. The burial costs are estimated at R15 000.

Rains may lighten the gloom

W/Mail 23/4 - 29/4/93. (49)

By HILARY JOFFE

THE dire state of South Africa's foreign reserves and lost production resulting from the past fortnight's stayaways have made the outlook for the economy this year appear even gloomier than before. But the boost to agriculture provided by good rains may prevent a further slide in the economy.

Gold and foreign exchange reserves have fallen back to 1991 levels after declining by around $2-billion in recent months. This leaves little room for economic growth, says Old Mutual chief economist Dave Mohr.

The fall in the reserves has been mainly because of large outflows on the capital account of the balance of payments which have resulted from repayments of foreign debt. In addition to the payments due in terms of the debt standstill agreement, first instalments have fallen due on long-term loans created when the "exit clause" of the standstill agreement was used to convert debt inside the net to long-term debt outside it. Added to this are sizeable amounts due by certain parastatals such as Eskom.

In theory some of these repayments needn't be made — debts could be rolled over instead. But foreign lenders have hiked up the interest rates on new lending in response to political events in South Africa over the past year or so. It is believed that where a year ago foreign lenders were asking 1,5 points over Libor (the London Interbank Lending Rate) and in the second half of last year were asking two percentage points over, they could now be asking three points or more. This would be similar to the rates charged Latin American countries such as Mexico. The Reserve Bank might well not want South Africa to be classed in the "three percent" category as it might never get out of it.

The low level of gold and foreign exchange reserves means Reserve Bank governor Chris Stals will be watching carefully for a run on the capital account which could occur because of debt due later in the year, says Econometrix economist Tony Twine. The rand would take a battering on the foreign exchange markets and that would fuel inflationary pressures into next year.

Stals seems to be choosing instead to protect the rand by allowing market interest rates to creep up. This, notes Mohr, is in striking contrast to the pre-Stals era when the rand probably would have fallen in response to the fall in gold and forex reserves.

Most economists had been expecting at least another one percentage pont cut in Bank Rate this year — an unchanged rate could dampen growth prospects (such as they are).

And there are now louder calls for the rand, rather than interest rates, to take the balance of payments strain: *Finance Week* deputy editor Howard Preece, for example, wrote recently: "The case made out there, and shared by *FW* among others, is that a resumption of economic growth and a reversal in the frightening slide in gross domestic fixed investment should take priority for the moment over inflation reduction."

As it is, few economists have been forecasting more than minimal growth (of at most 0,5 percent) this year, following three years of economic decline. And the stayaways of the past fortnight may further cut growth prospects.

The two stayaways probably knocked a day's production out of the economy, says Econometrix's Twine, although he concedes that some of the lost production could be made up later, especially since the stayaways were early in the year. He adds too that consumer expenditure was expected to slow down once the 14 percent VAT rate became effective, so that the timing of the stayaways might not have made producers that unhappy.

Twine's "guesstimates" that the first stayaway, on April 14, accounted for R500-milion to R800-million of lost production, and Monday's, which mainly affected the PWV, for R350-R500 million. The total is equivalent to South Africa's daily production of around R1,25 billion — or 0,4 percent of gross domestic product.

But recent rains may mean positive growth is still possible. Twine points to the better than expected recovery in the summer grain crops, which will not only boost production in the economy as a whole but also reduce import requirements. Econometrix now estimates the maize crop at around 8 million tons — a little better than the average. This may well offset production losses associated with the stayaways as well as balancing the effects of an unchanged interest rate.

Free market theory meets its match

49

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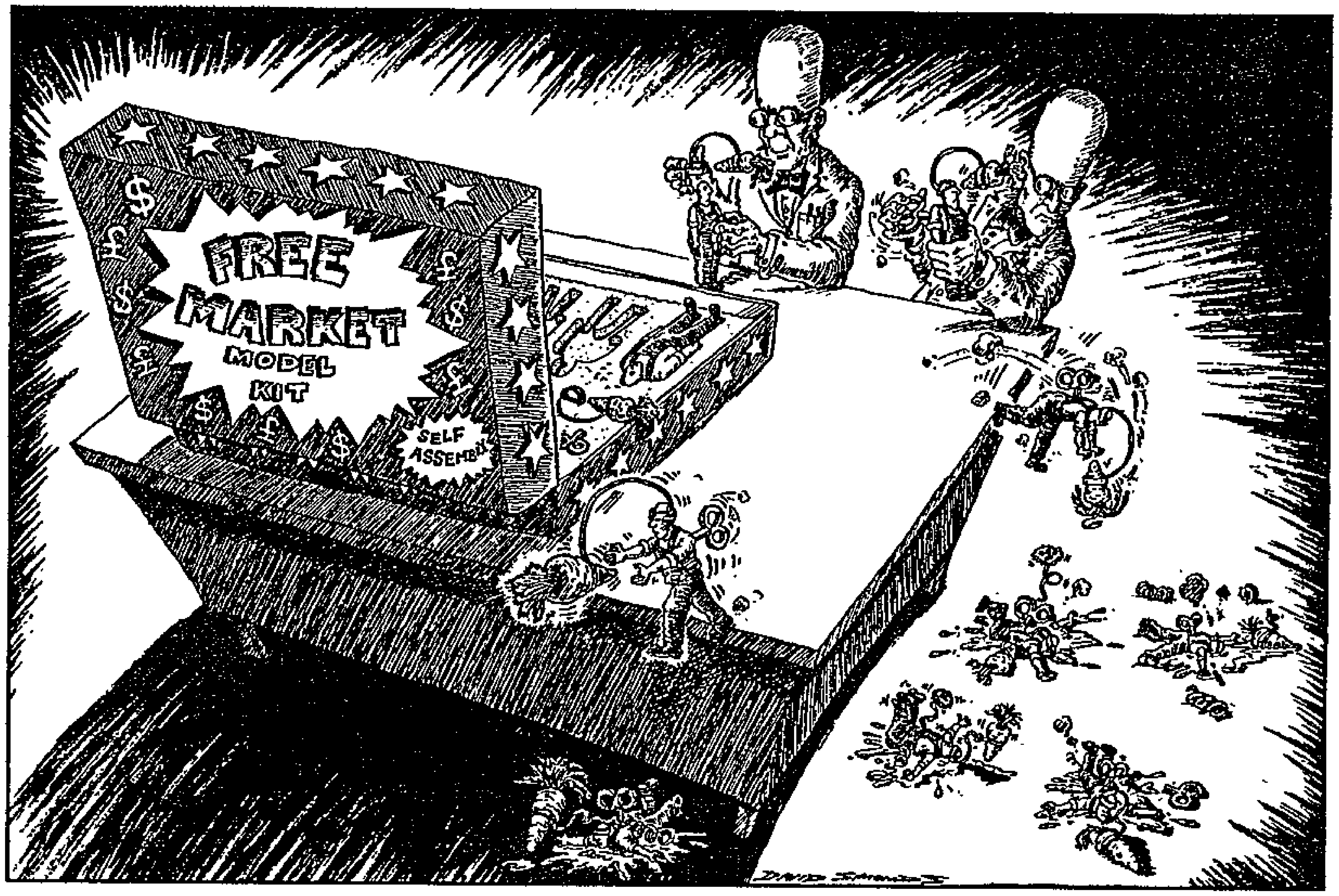
23/4-29/4/93



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* *The Market Experience, Robert E Lane, Cambridge.*

THE ECONOMY AND MASS ACTION

Lighting a fire

(49)

FM 23/4/93.

There are three official public holidays in April, and three more in May (one of which, happily, falls on a Saturday). On top of that, we have already had one national "day of mourning" for Chris Hani, plus another extensive stayaway on the day of his actual funeral; and now we are faced with a six-week "rolling resistance" programme, which threatens even further harm to the economy.

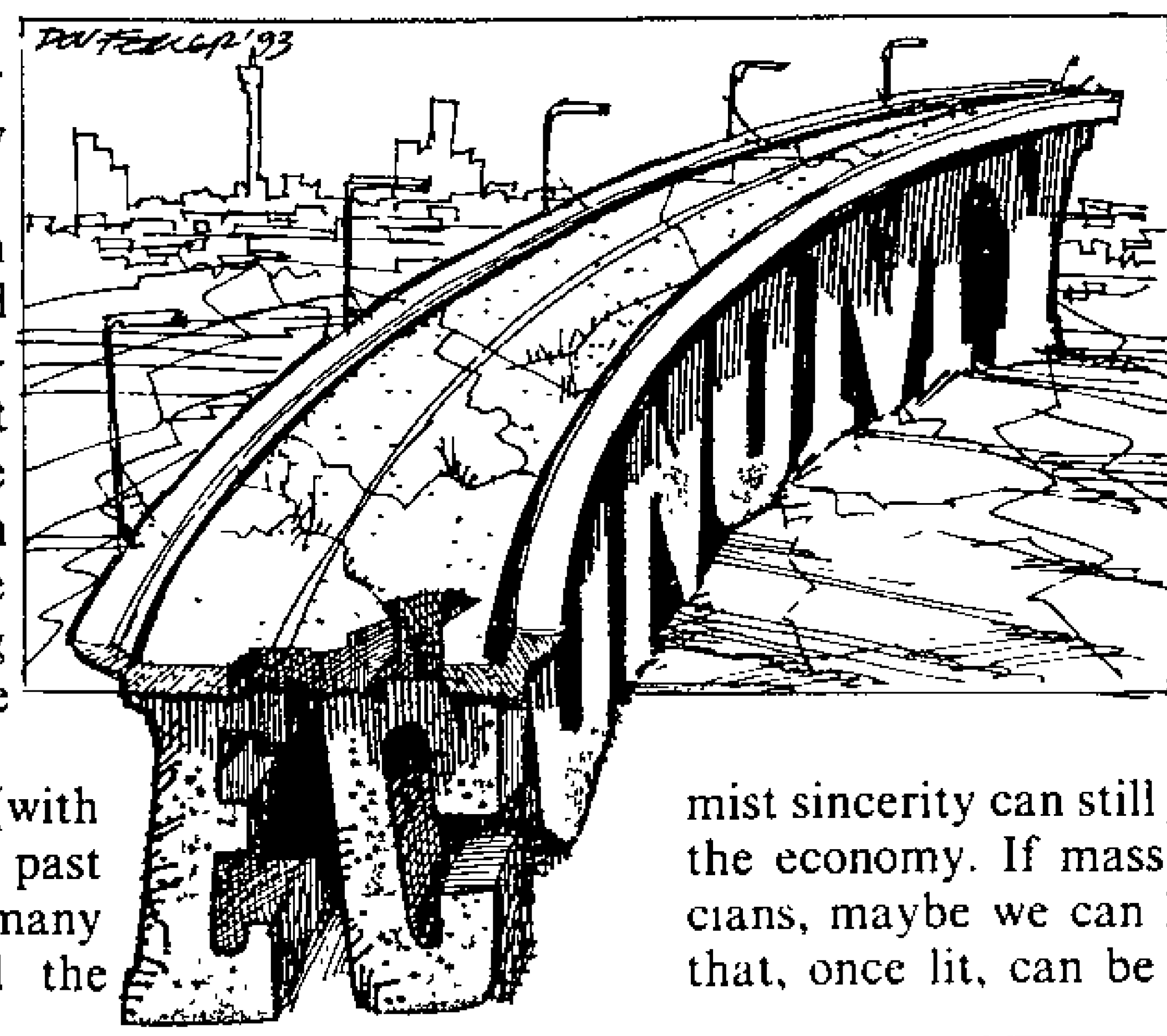
No reasonable person will object to the proper show of respect to a man who, whatever his background, in recent months was a tireless worker for conciliation and peaceful reform, cut down in such an abhorrent, barbaric way. And one must beware of simplistic assessments of how much the economy "loses" by holidays and stayaways, which sometimes seem to be calculated in no more sophisticated a manner than simply dividing annual GDP by 365.

But the fact remains that an economy facing its fifth year of recession just does not need these additional shocks to the system. And they come when, for the first time, there are signs that some fundamental problems are being overcome.

Inflation, for example, despite the latest blip in PPI (see *Economy)* and an imminent boost from the higher Vat rate, seems to be under control at last. Internationally, even though not all the portents are favourable, there is hope that the US, UK and Japan at least may be over the worst.

If a political settlement could bring renewed access to IMF and World Bank facilities, even the balance of payments squeeze that has taken over from inflation as the main reason for Reserve Bank Governor Chris Stals's continued tight monetary policy could be relaxed.

But whatever the fundamentals, no economy can grow unless those who take economic decisions enjoy a feeling of confidence in the future. And even if the tragic events of the past fortnight have concentrated the minds of politicians (from all points on the spectrum) on the need for a settlement, they can only have heightened businessmen's lack of confidence.



That, in the long run, is far more serious than any loss of output or wealth creation caused by stayaways and other mass action. Experience has shown that, within reason, lost output can be recouped remarkably quickly; deferred investment decisions can take not just months but years to make up. The key phrase, of course, is "within reason" — occasional days are one thing, but a programme extending over six weeks goes well beyond the bounds of reason.

Then, it's all very well to say (with justification) that the unrest of the past week has been a lot less than many people feared, and to commend the ANC marshals for their handling of a near-impossible task — mostly, with a good deal more sensitivity than the security forces showed.

Trouble is, even one TV shot of burning houses, overturned cars and rampaging mobs is one too many — which, of course, is no argument for not reporting what actually happened. There's no long-term benefit in conning foreign businessmen about the state of our society.

What is significant about the rampaging mobs is that they consist largely of the lost generation of unemployed youth, who have nothing to lose by disrupting — even destroying — a system that gives them nothing. The *FM* has said before, but it cannot be repeated too often, that this will be one of the most intractable problems facing *any* new government.

The suggestion of a Peace Corps-type youth corps is a good one; but even if it's named after Chris Hani, there is little point in even considering it till a transitional government is in place. Any action by this government would automatically damn the idea in the minds of the masses, raising comparisons more with Hitlerian forced labour than the contemporaneous similar projects of the US New Deal.

And it can never be more than a palliative, a short-term expedient to keep people off the streets and give them some sense of dignity. It can neither create nor form part of a soundly based sustained period of genuine economic growth.

It's significant, though, that the suggestion has been endorsed by senior ANC figures, indicating that the economic education of the ANC has progressed another important stage. Having already come to accept the importance of a vibrant private sector, they are now coming to realise that in future they will bear the brunt of unfulfilled expectations.

The assassination of Chris Hani has no doubt swung some black potential voters from the ANC to the PAC, but is unlikely to have a decisive effect on the first election under a new constitution.

But, as in their different ways both post-colonial Africa and post-communist eastern Europe and central Asia have found, the second election is what counts. If too many expectations remain unfulfilled, the extremists move in. The ANC won't want that; nor will the business community. As the white government becomes more and more a lame-duck regime, so the interests of business and the ANC — and the economy as a whole — will converge.

Only lingering (and understandable) fears of government's reformist sincerity can still justify ANC actions that will damage the economy. If mass action lights a fire under the politicians, maybe we can live with it for a while, but fires like that, once lit, can be difficult to put out. ■

IN PERSPECTIVE

FM 23/4/93 (49)

"Improving economic welfare is a complex and often perplexing business," Bank of England governor Robin Leigh-Pemberton observed at a Witwatersrand Agricultural Society function last week. "It is particularly ironic that liberalisation of trade — one of the simplest and demonstrably most successful means of achieving this — tends to be one of the first casualties when economic conditions weaken."

Leigh-Pemberton

The protracted period of international economic weakness, he said, "is giving rise to frustrations and tensions among policymakers. The most visible and potentially most damaging manifestation of this is the current slide towards protectionist sentiment. But we should not lose sight of the fact that the trade liberalisation which has occurred in the past four decades has served the world economy very well indeed."

He pointed out that SA's long period of isolation stimulated protectionist tendencies within the country. "Similarly the debt crisis led to the reimposition of exchange controls.

"And, as many other countries have discovered, the consequent insulation of financial and other markets from foreign competition can have extremely damaging effects on the efficient allocation of resources." Despite recent reforms, he said, "SA is less far down the road than many other countries."

Limited growth in '93 predicted

BDAY 23/4/93

(49) (90)

TIM MARSLAND

THE economy was likely to show growth — albeit limited — during 1993, according to two economic reviews released yesterday.

Nedbank forecast in its Monthly Economic Profile real growth of 0,75% for 1993, while Absa said in its Quarterly Economic Monitor it expected real growth of 0,5%.

Nedbank pointed to the better agricultural crop, improved prospects for global economies and the weaker rand exchange rate as being positive factors for the economy.

It said the the estimated 8-million ton maize crop raised the possibility of increased maize exports. Growth in major global economies improved the prospects for commodity prices, which would benefit SA. The unshackling of the rand/dollar rate boded well for some export industries, notably gold mining, which brought about an improvement in earnings and profitability.

However, it said economic activity in most other sectors was likely to remain subdued, at least for the next few months, as the budgetary effects of the higher VAT rate and other taxes resulted in lower retail sales.

It said that while political violence continued to affect business and consumer confidence, the assassination of SACP leader Chris Hani could "turn out to be a force for good by highlighting the urgency of political change".

It said monetary policy was unlikely to ease in 1993 as the foreign exchange reserve position remained precarious ahead of the expiry of the foreign debt standstill arrangements.

Absa said it was possible the Bank rate would decline by one percentage point later in the year. It said money market rates had tended to move sideways of late. But weak demand for bank credit and a possible improvement in the current account surplus in the second half of 1993, accompanied by a moderate decline in the inflation rate, could lead to a modest fall in money market rates, paving the way for a Bank rate cut.

It said that while inflation was likely to rise to double digits again in 1993 — because of the VAT and other tax hikes — the downward trend in "core" inflation remained intact.

The dramatic downturn in the country's foreign exchange reserves position had heightened the need for a strong export performance in the year ahead, to accommodate continued capital outflow.

Housing forum may get extra R400m

GRETA STEYN

THE National Housing Forum is expected to get a further R400m allocation from government this fiscal year, over and above the R400m allocated in the Budget last month.

The forum and the National Housing Department said negotiations on a further allocation from the state were continuing, but declined to elaborate because of the "sensitivity" of the issue.

They said forum and government representatives had met after the Budget to discuss the availability of finance in the state's Housing Fund that could be re-directed to a joint initiative between the forum and government.

A source close to the National Housing Forum said the forum was hoping for about R1bn from government, but early indications had been that the amounts available would fall short of that target.

A government source said the focus was on funds allocated to housing in the 1993/94 fiscal year, rather than unspent amounts from previous fiscal years. Funds that had not yet been committed to specific projects could be given to the forum.

A total of R1,66bn was allocated to housing in last month's Budget. The Finance and State Expenditure Departments were kept up to date on developments.

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Housing

BDM 23/4/93. (49)

□ From Page 1

It is understood that the fund is considering three different approaches to spending state-allocated funds. The initial idea was on IDT-type site-and-service projects, but the suggestion was not accepted unanimously because of opposition to the style of housing involved.

A second suggestion is to involve the private sector by using the state allocation to gear up through a housing guarantee fund. Employers and banks would get involved in terms of the suggestion, understood to have the backing of major players in the mortgage market. However, fears that employers would not want to become involved have arisen. The third suggestion is for pilot projects to test ideas before launching a major initiative.

Before the Budget, the forum asked government for an allocation of more than R1bn. Finance Minister Derek Keys said in his Budget speech he had decided against making a big allocation, partly because "the unexpended funds under previous budgets together with those allowed for in the 1993/94 Budget substantially exceed those which the forum requested". He allocated R200m to the forum from the housing budget for 1993/94, and said that if the need arose, a further R200m could be made available in the Additional Appropriation.

BUSINESS ON SATURDAY

Govt's Normative Economic Model 'out of touch with reality'

Trevor Manuel

Business Editor

THE government's new Normative Economic Model has "failed to come to terms with the realities of the economy" and the need for a new, holistic, strategy, Trevor Manuel, head of the ANC Economics Department, said yesterday

He told the annual conference of the SA Institute of Chartered Secretaries and Administrators that the ANC would encourage foreign investment through the establishment of "a climate of political stability, economic growth and transparent, consistent economic policies.

"Foreign investors should have access to foreign exchange for the purpose of remitting after-tax profits, debt service on approved foreign loans and the repatriation of the proceeds on the sale of assets."

Pointing out that there are major weaknesses and loopholes in foreign exchange controls, he said: "Given the fact that capital outflows have been linked to political events, we are convinced that in the medium to long term exchange controls should be removed

"Once stability returns to the economy and to the capital account of the balance of payments in particular, the removal of controls should be easy."

Manuel said the ~~main~~ planks of ANC economic policy were: (49) CT 24/4/93

- An industrial ~~strategy~~;
- The encouragement of trade and foreign investment;
- Encouraging financial institutions to participate fully in the growth and development path;
- An anti-trust policy encouraging real competition;
- Land reform;
- Economic co-operation in Southern Africa;
- A monetary policy which included the maintenance of positive real interest rates; and
- A fiscal policy resulting in effective social expenditure.

The ANC's industrial strategy entailed both the production of quality goods and services to meet the needs of the majority and the restructuring of industry in accordance with international costs and prices

"Manufacturing must enhance allocative and operational efficiency, become responsive to the external environment and remove its anti-export bias.

"Simultaneously the regional and racial disparities will have to be overcome and the comparative advantages of our economy must be examined — in other words, should we compete with Hong Kong in the manufacture of digital watches or look at the beneficiation of minerals?

"Some of the policy considerations must include human resource development, longterm planning which includes the trade unions and a programme for research and development."

Trade policy must be linked to overall economic policy including monetary and industrial policies.

"We have already embarked on discussions with major trading blocs like the European Community to try and secure the best trade relations for a democratic SA.

"In addition we identify two-way trade with Africa as being of central importance to our longterm growth"

Discussing financial institutions, Manuel said an ANC government would encourage them to channel resources into productive investment rather than office blocks and shopping malls, and to end discrimination against lending to blacks, women and the informal sector.

"In addition, new institutions and new instruments will have to be created."

Discussing anti-trust policies, Manuel said the ANC was not against large firms as such. But unbundling would have major spin-offs such as the creation of new opportunities for ownership and control and the establishment of small and medium enterprises.

Smaller firms had shown themselves to be generators of growth and creators of jobs.

Discussing social expenditure, Manuel said costed expenditure programmes would have to be designed and the delivery systems completely overhauled. "The ANC favours multi-year budgets which allow for development planning."

However, Manuel stressed, the "maximum co-operation of all the country's key actors in the economy" would be necessary to carry out this strategy.

Striking a balance

So rolling mass action will not damage the economy

■ Mass action is to be put on a cost/benefit basis, says a leading ANC planner, but in eschewing marches and stayaways he points to another major threat.

BRUCE CAMERON, Business Staff

THE rolling mass action campaign planned by the ANC/SACP/Cosatu alliance to force a speed-up of elections will probably be steered away from action that damages the economy.

ANC economics department chief Mr Trevor Manuel said in an interview that the alliance was looking at something different from "the rituals of marches and stayaways."

Mass action had proved itself but now action would be on a cost/benefit basis.

It was estimated that for every day lost to stayaways cost to the economy was more than R400 million in lost production.

Sanlam chief economist Dr Johan Louw warned in the latest Sanlam economic survey the economy could no longer afford mass actions and stayaways.

Mr Manuel, who was punched in the eye while trying to restore order during Cape Town's Chris Hani march, said it should be accepted that alliance leadership was confronted with a very real problem in channelling anger.

The alliance knew workers suffered from loss of pay during stayaways. They had in fact borne the brunt of mass action in the past. But the country's workers were becoming a minority because the majority of people were unemployed.

Mr Manuel said South Africa was seen as two worlds. And the world that was well off but threatened had to understand the other world.

In the other world, the young were saying: "It's a white man's economy. It doesn't matter if it is destroyed."

Mr Manuel said a liferaft had to be designed to rescue "marginalised" youth — or the position would become worse.

He added that actions taken over the murder of SACP leader Chris Hani had on the whole been successful — and this this had been proved by the way the financial markets rebounded.

AUG 24/4/93

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Matie ire over Hani sympathy veto

(48)

SOUTH 24/4-28/4/93.

By Edwina Booysen

DISSATISFACTION is brewing in the academic community at Stellenbosch University following the overruling last week of a decision to express condolences after the assassination of South African Communist Party secretary-general Mr Chris Hani.

SOUTH learned that the executive committee of the university drafted a statement last Tuesday to express shock at the murder as well as to call for tolerance and reconciliation among South Africans. The executive is made up of deans the faculties.

The Universities of the Western Cape and Cape Town publicly expressed outrage and condolences and closed last Wednesday and this Monday.

Professor Andreas van Wyk, rector-designate of Stellenbosch University, is understood to have wanted the statement endorsed by the chairman of the university board, Dr David de Villiers, who ruled against it.

According to sources, De Villiers said the statement would be issued "over my dead body".

Van Wyk dismissed the allegations and said they "were devoid of all truth".

De Villiers, chairman of Sasol and a director of Nasionale Pers, is a prominent member of the Broederbond and a group of conservative Cape Afrikaners said to control Stellenbosch University with an iron hand.

Driving force

He was the driving force last year behind legislation to establish Afrikaans as the only official language at the university. The legislation was pushed through parliament despite fierce opposition that it boiled down to discrimination against people with a limited command of Afrikaans — black students.

A growing contingent of deans and lecturers have repeatedly asked members of the council belonging to the Broederbond to resign from the secret organisation to free the university to meet the needs of a future South Africa. None have so far responded.

● A storm was also unleashed after a Communist Party flag was displayed at a memorial service last Wednesday in the NG Student Church on campus.

The service was requested by members of the Hani family who live in Kayamandi at Stellenbosch.

Enraged members of the church have resigned while others said they would stop paying tithes.

They were also furious about "toyi-toying in our church" and accused dominees and some members of being "communists".

Members of the NG Synod also condemned the incident.

Simon's Town MP and ANC member Mr Jannie Momberg, who led a march from Kayamandi to the church, said only one person displayed an SACP flag while other mourners heeded a call to fold theirs before entering the church.

Dr Martin Pauw, chairman of the Council for Interchurch Cooperation, who led the service, said the toyi-toyiing was part of religious activity and sermons in most black Christian churches.

STIMES (49)
Manuel's strategy
(Buss. Times) 25/4/93 (180)

ANC economics head Trevor Manuel says the restructuring of the economy would be based on a "comprehensive and sustainable growth and development strategy which simultaneously comprises redistribution programmes to meet the basic needs of the majority of South Africans".

He says the ANC is committed to implementing anti-trust policy according to international practice, but is not necessarily against large corporations.

Keys model needs to take a closer look at demand

BDAY 26/4/93 (49)

GRETA STEYN

SOME quite basic economic terms have acquired a far bigger meaning than their textbook significance. They have become loaded with ideological innuendo. Take those most basic of economic concepts — supply and demand. Demand, as it appears in Finance Minister Derek Keys's normative economic model, is something of a left-wing threat to sustained economic growth.

"Demand", "consumption" and "kickstart" appear to be swear words in the economic vocabulary of the model. Policies that emphasise demand are firmly rejected in favour of a supply-side approach.

What is the role of demand within the economic framework sketched in the model, and is it the right approach?

In the model, demand is associated with the "so-called kick-start approach" — an apparent reference to infrastructure programmes such as the Nedcor/Old Mutual suggestion of housing and electrification. The model argues such a demand stimulus would cause balance of payments problems and inflation. A pick-up in demand would cause a rise in imports and a weakening of the rand, which would filter through to inflation. Heightened consumption would further fuel inflation, which would force the authorities to abort the boom.

A strong stance is taken against consumption, with the authors arguing that if consumption stayed at its present level as a percentage of GDP, there would be "catastrophic results" for economic growth and employment. Private individuals would have to join government in cutting back on consumption in real terms over the next few years.

Consumption is the villain of the piece — it knocks the BoP, fuels inflation and reduces the finance available for increasing the productive capacity of the economy.

The hero of the piece is fixed investment by the private industrial sector. If SA's economy was to grow at an average 3,6% a year, real fixed investment by the private industrial sector would have to surge, from 3% of GDP, to 5%.

In summary, SA's long-term growth prospects hinges on private investment in industry financed by cutbacks in government and private consumption.

The focus then becomes the determinants of private fixed investment. What will spur entrepreneurs to invest? It is in answering this question that the model reveals a serious shortcoming. Its treatment of demand as a determinant of investment is fragmented over a number of chapters; it is sketchy and ambiguous.

Without consumption demand, entrepreneurs are unlikely to want to expand productive capacity. Hence consumption cannot be cast as the villain of the piece; its role is far more complex.

The model does not ignore that demand has a role in determining investment. It is included in its list of the determinants of investment: "Over and above internal demand conditions, the investment behaviour of private business enterprises in the industrial sector is also influenced by factors such as the foreign demand for SA products, the cost of capital, the tax burden, and political, social and macro-economic stability as reflected by price, interest rate and exchange rate stability."

It further acknowledges the role of demand by noting: "Higher levels of capacity utilisation seem to be a precondition for an increase in the industrial investment ratio."

How is this increase in demand — a precondition for industrial investment — to be attained? The chapter on investment fails to address the issue, although there are clues elsewhere in the model.

The chapter on investment makes the mistake of not explicitly attaching a relative importance to the different variables noted as the determinants of private fixed investment. If it regards investment as relatively insensitive to demand — as the sketchy treatment suggests — and more sensitive to lower taxes and stability, it should make this clear. The discussion glosses over the role of demand, failing to take a standpoint, and discusses the other influences in far more detail.

The discussion on investment largely centres around finding the funds to finance the investment needed to achieve an average annual growth rate of 3,6%. Personal, corporate and government saving will not be enough — foreign finance will be needed. The right "climate" should prevail to ensure the availability of finance is translated into private fixed investment.

Implicit in the discussion is that a freeing up of finance through eliminating government dissaving, cutting of corporate taxes and macro-economic and political stability will be enough to trigger the investment required. The model fails to address seriously the possibility that deficient demand could mean that the available finance is not translated into private investment.

Why is it important to address the issue of demand in relation to fixed investment? Simply because if demand is important, policies to spur demand become important. The model, in its desire to take a strong stance against a "kickstart" demand stimulus, chooses to skirt around the issue.

There are some clues, however, in an earlier chapter as to what should spur demand: "The next economic upturn will have to be led by increased exports and import substitution . . . and by investment in productive economic and socio-economic development projects including infrastructure development projects." The model says these activities will stimulate private consumption spending, and as economic recovery gains momentum, the climate for private fixed investment will improve.

This means demand should be taken care of by an increase in exports and infrastructure development projects. The model does not elaborate much on the nature, extent and financing of infrastructure programmes as a spur to economic growth. The chapter on investment fails to mention these programmes again as a trigger for demand and hence industrial investment. Its emphasis in that chapter on the BoP problems inherent in expanding domestic demand suggests rising exports will be the main influence on demand via a multiplier effect. Hence it all boils down to foreign demand for SA goods. Will this be enough to raise private investment in manufacturing by almost 80% in real terms over five years?

Some economists would argue that cutting government spending, reducing taxes and creating a stable environment would not be enough to spur such a massive surge in private industrial investment if it seemed domestic demand was deficient. Sharp cutbacks in government consumption could dampen demand and hence investment, instead of having the opposite effect.

Other economists would argue that the huge investments in Alusaf and Columbus — done on the basis of a tax break with no guarantee that demand will be present — strongly suggests that demand has a lesser role to play in investment decisions. If that is government's view, it should say so.

Government's economic modellers have projected an 80% real increase in private fixed investment in productive capacity over a five-year period without dealing properly with the demand implications. Economic policymakers will have to be more explicit about the assumed relationship between consumption demand (domestic and foreign) and the decision to invest in productive capacity in the private industrial sector. Even if demand is the "bad guy", it has to be tackled, not evaded.

MONEY MARKETS by Tim Marsland

BIDay 26/4/93

Development tool whose time has come

(49)

SEKUNJALO! Ke Nako! — now is the time — goes the ANC's election slogan, and this may be true at least for the capital market.

The capital market will channel the funding needed for development, which means the status quo may have to change.

Money is available for development — it has simply become bogged down in the bureaucratic channels.

Dealers agree that a key obstacle to raising such funds is the plethora of development agencies — all with their own demands for funds and many of them wearing the wrong school ties.

Foreigners

As things stand, institutions desperately need to be seen to be doing the right thing. They need to be able to proclaim that they have loosened their purse strings to develop SA. Some have made a start, Eskom in particular.

But other major areas of need are housing, health care, education and the like.

And do not forget the foreigners. As things stand now, they have tended to dish out $100m here and $50m there. Insignificant amounts on their own, but put together, could add up to a sizeable amount ... if a single fund existed.

The difficulty with the current ream of agencies is that they lack the clout size would give them. Such a development stock would command a better interest rate by virtue of its size, which would also lend itself to market-making activities.

An added advantage of a single, privately managed fund is that it is easier to see the benefits of the money. This is not the case with taxes, for example, where it may take years to filter through to projects on the ground. The government route has in any case been tried, with little success so far.

Also, private sector funds tend to be better managed than government funds, and the temptation to milk the cash cow is less.

A key factor to overcome will be the punitive rates such a bond will attract. However, guilt could easily overcome the greed factor.

The sooner a start is made on setting up such a development bond the better, for at the risk of stating the obvious, without tools, people cannot work.

Keys model details are still secret

GRETA STEYN

GOVERNMENT economists last week cancelled a national economic forum subcommittee meeting at which they were expected to hand over the mathematical equations forming the basis of Finance Minister Derek Keys's economic model.

Members of the economic modelling subcommittee declined to comment, but it was confirmed that the econometric model still had not been made public despite repeated requests for its release by ANC, Cosatu and business-aligned economists.

The model projects the creation of 1,3-million jobs, a growth rate of 4,5% and inflation of 5% by 1997 if certain policy prescriptions are implemented.

Economic forum spokesman Deborah Marsden said the forum's long-term working group would meet today to define a clear brief for the modelling committee, as there had been "some confusion".

She said the working group was also set to finalise its overall work programme on long-term policy and would make an announcement about it this week.

The modelling subcommittee was created when debates on model building threatened to bog down forum discussions in a technical mire.

Many forum members were understood to have argued that the role of economic modelling in policy-making was not important enough to warrant the forum proceed-

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Keys model

BDay 26/4/93 (49)

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ings being held up by a technical debate. It was hoped that the committee would ensure model building could play a constructive part in the forum's work.

Members of the committee include the main architect of the Keys' model, Jan Dreyer, who has said the equations underpinning the model would be released "eventually". Dreyer and Keys were not available for comment at the weekend.

Other members include Cosatu-aligned Stephen Gelb and Massachusetts Institute of Technology academic Lance Taylor, who have just released their model and the equations underpinning it, and ANC-aligned Lieb Loots of the University of the Western Cape, who is working on an econometric model. Business is represented by Simpson McKie's Graham Boyd, Sankorp's Peet Strydom and an Anglo American representative.

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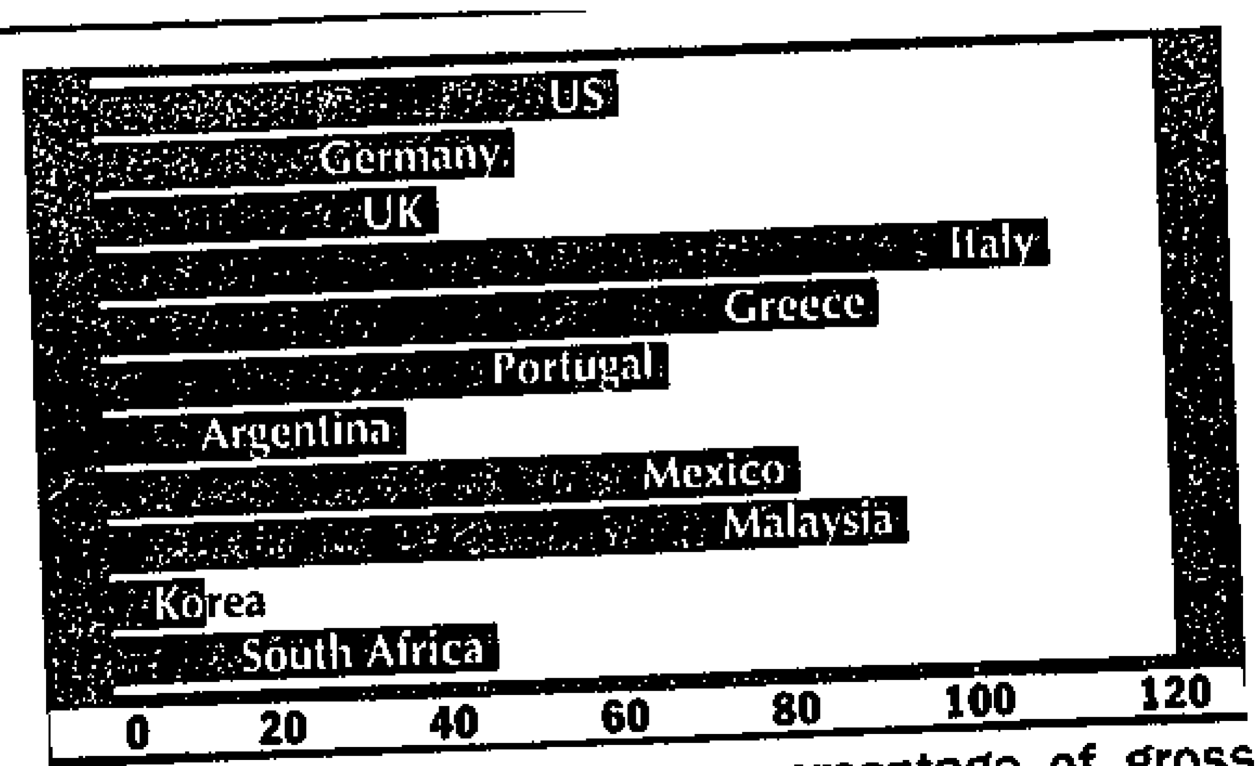

Gross debt expressed as a percentage of gross national product

Star 26/4/93

Govt capital spending comes in for criticism

By Sven Lünsche

49

The Government has been criticised for its rigid insistence on boosting capital spending at the expense of current spending.

Economics Professor Andre le Roux of the University of the Western Cape writes in Investec's Focus on the Economy that future spending allocations "could be grossly distorted by a misplaced faith in the virtues of public sector investment".

He was responding to recent government guidelines, which aim at eliminating government dissaving and boosting capital spending.

"We simply do not know which types of spending contribute directly towards growth," le Roux says. "There certainly can be no presumption that this status should be reserved for spending on capital goods."

Le Roux pointed out that the shift towards current spending over the past few years had been accompanied by a welcome change in emphasis towards social spending.

He also stressed that recent fears of a debt crisis facing SA "were exaggerated" as SA's gross debt as a percentage of GDP at 44 percent was low by international comparison. (see graph)

While tight fiscal policies had become unavoidable, "Mr Keys had to be wary of overkill".

Le Roux said the debt ratio could rise as high as 55 percent of GDP before a debt crisis could even be considered.

ANC seeks change in financing

Bi Day 26/4/93.

LINDA ENSOR

CAPE TOWN — The ANC would introduce mechanisms to encourage private and public sector financial institutions to channel resources into productive investment, ANC economic planning department head Trevor Manuel said on the weekend.

Addressing the annual conference of the Southern African Institute of Chartered Secretaries and Administrators, Manuel said these institutions would also be encouraged to develop the "basic needs" sector of the economy and to end lending discrimination against blacks, women and the informal sector.

Furthermore, specialised institutions and new instruments — such as subsidised interest rates — would have to be created to facilitate investment.

Manuel said public sector financial institutions such as the Industrial Development Corporation (IDC), Small Business Development Corporation (SBDC), Land Bank and the Development Bank had to be substantially transformed. The IDC had given birth to unviable projects such as Mossgas, the SBDC allocated 73% of its net lending to whites and the Land Bank aimed to keep white farmers on the land.

One of the problems with the private sector financial institutions was that they were owned by the large conglomerates, which dominated the economy, acting in effect more as treasuries for these corporations than as banks.

Manuel questioned whether sound banking principles had not been eroded by the conglomerates' liquidity requirements.

The cost of capital was prohibitive and created difficulties of access for the small and medium sized entrepreneur. Not having had the opportunity to accumulate assets and own land, blacks generally did not have the necessary collateral.

"Vast segments of the community are unbanked or underbanked while the products of financial institutions are by and large not user-friendly," Manuel said.

He stressed the need for the entire financial sector to be restructured.

Bank rate relief mooted in survey

(49) TIM MARSLAND (86)

SA BUSINESS can still expect relief in the form of a one percentage-point cut in Bank rate later this year, SPL Treasury Services' interest rate forecasts released at the weekend indicate.

SPL gathers economic forecasts from a number of top economists and slots these into an interest rate forecasting system. SPL clients include the Reserve Bank and Eskom.

The forecast puts the chances of a one percentage-point cut in Bank rate by September at 55%, with this percentage improving to 84% by March 1994.

It sees no chance of a two percentage-point cut by September and a 37% chance of such a cut by next March.

"It can be concluded that, even though a number of economic indicators might be favourable for a further relaxation in monetary policy, the panel of economists are still of the opinion that the overall economic conditions justify at least one more reduction in Bank rate".

A disturbing trend in the forecasts is early signs that the interest rate cycle is turning, with a move to a negative yield curve. This means the economists see the cost of short-term borrowings rising relative to long-term borrowings, reflecting longer term uncertainty on interest rates. B|Day 26|4|93

SPL said the growing uncertainty over future developments was also shown by the resistance of the long-dated Eskom bond to follow the downward trend ...me and bankers acceptances (a ...terest rate) by the same

Govt economists fail to deliver

49

CT 26/4/93

Own Correspondent

JOHANNESBURG. — Government economists last week cancelled a national economic forum sub-committee meeting at which they were expected to hand over the mathematical equations forming the basis of Finance Minister Mr Derek Keys's economic model.

Members of the economic modelling sub-committee declined to comment, but it was confirmed that the econometric model still had not been made public despite repeated requests for its release by ANC, Cosatu and business-aligned economists.

The model projects the creation of 1,3-million jobs, a growth rate of 4,5% and inflation of 5% by 1997 if certain prescriptions are implemented.

Economic forum spokesman Ms Deborah Marsden said the forum's working group would meet today to define a clear brief for the modelling committee.

'Zero growth for SA'

(49)

CT 26/4/93

By ARI JACOBSON

EXPECT no economic growth in 1993 is the warning of Sanlam's chief economist Johan Louw in its latest economic review.

And the high level of unemployment, which he described as "serious and worsening" made the rolling mass action campaign totally inappropriate.

"It's to the detriment of all but particularly to those who can least afford it."

Louw made a plea for "more job creation" as only about three million of the economically active population, estimated at 14 million, are being accommodated at present in the formal sector.

"New job creating investments to expand the country's production capacity is of utmost importance."

"South Africans will have to wait until late in the year or even next year for the beginning of the recovery phase."

He pointed out that SA's living standards had declined by 13,5% in the current recession, which began in late 1989.

Louw added that the economy would not recover easily "from these depths" with exports sluggish because of poor growth in foreign countries.

He mentioned the large capital outflows and diminished investor confidence both locally and abroad which would accentuate the tough time ahead for the country.

Boost for economic forum

GRETA STEYN (49)

MOVES towards reaching consensus between labour, business and government on long-term economic policy were boosted yesterday when the national economic forum agreed on a detailed work programme on policy issues.

The forum's long-term working group said last night it had agreed to focus on four critical areas: investment, finance, foreign trade and labour markets.

Its statement indicated that major emphasis would be placed on fixed investment by the private sector, with public investment playing a lesser role by acting as a spur to private investment. The discussion of public investment would only be in relation to private investment.

The statement said the initial investigation would focus on the level and nature of public investment that would be compatible with increased private sector investment. On private investment, one factor would be the main focus of attention in the initial stages — the impact of political circumstances on investor confidence.

In addressing finance, the long-term working group would examine the role of financial institutions and instruments in the mobilisation and allocation of savings. The establishment of new institutions and instruments would be considered. Under consideration would be steps to encourage broader based share ownership.

The working group would also analyse initiatives to create conditions to reduce capital outflows. Another aspect of the work on finance would be government dissaving — the practice of financing current spending with long-term loans. While the study would focus on ways to reduce dissaving, it would also look into "what would constitute an acceptable level". An economist said the statement showed official government policy of zero dissaving had not been accepted as a point of departure.

On trade policy, the forum wanted to establish a task force to address all aspects

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Economic forum

(49) ☐ From Page 1

of policy. "While recognising the existence of several industry task forces, the (forum) believes there is merit in the establishment of an overarching task force." It would also consider helping establish sectoral task forces in industries where these had not yet been established.

On labour, it was decided to liaise with the national training board as a matter of urgency. It would also look at job creation and consider the possibility of establishing a task force on productivity.

The technical subcommittee on economic modelling would underpin the work programme by providing a basis for determining the macroeconomic consistency and efficacy of proposed policy measures.

8/11/4/27

Economy: 'SA on edge of an abyss'

Business Staff (44) ARG 27/4/93

JOHANNESBURG. — South Africa stands on the edge of an abyss, with 1993 quite possibly the fourth successive year of economic decline, says Luke Doig, senior economist at Credit Guarantee.

And the planned month of mass action could finally see South Africa decline into a fully fledged Third World country.

Addressing delegates at a credit management workshop here, Mr Doig said prospects for economic recovery were dim unless a dramatic turnaround occurred within the next three months.

CBD development will enhance city's appeal to investors

BDay 27/4/93

THE marked improvement in the degree of co-operation between the public and private sectors in the development of Pretoria's CBD will enhance the city's appeal to potential investors and the general public, property development experts believe.

On the other hand, the city has enjoyed one of the most stable residential markets in the country and no major changes in this sector are envisaged.

A balance exists between the plans for the redevelopment of the CBD and addressing the obvious demands of the retail public in Pretoria's expanding suburbs, says the EG Chapman Group, which has been actively involved in the Pretoria property market for the past 25 years.

With the high growth Pretoria has enjoyed over the past years, there has been an increase in the number of decentralised retail and office complexes in prime localities such as the eastern suburbs of Menlyn and Brooklyn.

However, to meet the demand for smaller commuter-orientated convenience centres close to the CBD and at key points on the periphery of the city, the Chapman Group is engaged in a development programme for such centres — the first being the Pretoria Gateway project, which was recently completed.

The growing black consumer market has also not been ignored, and in acknowledging the increasing needs and sophistication of this market, the Chapman Group has identified key locations, both in the CBD and in decentralised mainly black consumer areas. This includes the Centre Forum in Van der Walt Street and an imminent development at Kudube, where the Kopanong shopping centre will serve more than 60 000 day commuters and 40 000 residents in the Kudube, Hammanskraal and Babelegi areas.

Specialising in property development, management, conversions, syndications and real estate sales, the Chapman Group says Pretoria will retain its status as the country's capital.

"We do not see a dramatic decentralisation of government requirements away from Pretoria.

"In addition, the availability of premises would make decentralisation an unviable proposition in terms of accommodation costs for any new government to consider as a major step," EG Chapman Property Development Holdings MD Arthur Barclay says.

44

The group's ~~continuing~~ strategy is based on the assumption that from the growth of the country, its economy and its population, there will be an ongoing increase in the requirements for government offices and allied interests.

Your business is in good hands

'New skills for changing time'

(49) WILSON ZWANE (482)

MANAGING an economy in times of recovery and growth will demand different philosophies and skills from those SA has used in the past, says a top international resources specialist. BIDAY

European Outplacement Association chairman Peter Kruythoff says some of companies which have managed to survive throughout the recession will disappear as they find themselves "unable to cope with the differing demands of growth". 27/4/93

"Executive teams built up within a corporate culture of cost-cutting, risk-minimising and safe decision-making are notoriusly ill-equipped for managing a situation which demands vision and entrepreneurial flair," says Kruythoff.

He says there will be massive shifs of labour — both in the public and private sectors — in the next five years as dynamics of change take their effect in SA.

He says SA will have to face up to the need for "more general aggression and desire for leadership", if it is to compete successfully on world markets.

Kruythoff says the processes of changing and fine-tuning the country's "executive teams" will require not only general commitment at all levels of management but also the specialised skills of human resources professionals, including outplacement services.

Star 28/4/93

Parties 'lack will to end violence'

49

By Sven Lünsche

Political parties lack a "resolute commitment to ending violence and the acceptance of peaceful dissent", De Beers chairman Julian Ogilvie Thompson says in his 1992 chairman's statement.

Ogilvie Thompson, one of the most influential businessmen in the country, warns that a fundamental economic recovery cannot proceed without political progress.

"While recent events have clearly had a sobering effect on most political players, courageous leadership will be required to stand firm against recalcitrant elements on both extremes," he says.

The fundamentals of the economy were improving but much still depended on a world recovery and, above all, on the restoration of confidence "that would flow from clearly perceived political progress and a reduction in the appalling violence".

He added that in economic, social and political terms the country had suffered enormous damage following the collapse of Codesa talks and the subsequent mass action campaign.

Ogilvie Thompson urged the immediate resumption of multiparty negotiations "to resolve outstanding difficult core issues such as the powers to be exercised by the regions".

In contrast to the political sphere, he said, progress towards consensus on sound economic policies had been achieved with the establishment last year of the National Economic Forum.

"The Budget provided further evidence of political and economic realism, obtaining a broad measure of support for being more sharply focused on the real priorities of fiscal discipline and growth.

"We must hope that discipline (in Government spending) is achieved, for growth and other broader-based development will otherwise prove ephemeral," Ogilvie Thompson concluded.

●De Beers annual report - Page 24

Talks delays hurt economy

Political Staff CT 28/4/93

THE economy was being held to ransom by delays in reaching a political settlement, the DP said yesterday.

Co-ordinator of the DP's negotiation team, Mr Ken Andrew, said sustained growth was dependent on successful political negotiations.

"The assassination of Mr Chris Hani was a major setback to our economy," he said. The negotiating council's failure to produce positive results on Monday would further diminish investor confidence. (49)

Keys sees lift in reserves

Star 28/4/93

(49)

CAPE TOWN — Finance Minister Derek Keys said yesterday that a rise in interest rates as a result of the recent drop in the gold and foreign exchange reserves could be prevented.

Presenting the budget vote in Parliament, Keys emphasised that the factors, which had weakened the reserves, were "cyclical and inherently temporary" and that the reserves had already shown a "definite and satisfactory" increase since April.

The reserves have fallen over the past few months to a two-year low of $2,4 billion in March.

Keys said the drought was the single biggest contributor to the drop in the reserves.

To a lesser extent the reserves were also affected by the decision not to reduce the State's oil reserves in the past year.

Instead, there was an increasing tendency for greater commercial supplies to be carried in the private sector, for which forex reserves have had to pay

There had also been a temporary halt in 1992 in the strengthening of the public market in SA securities overseas.

The rise in margins had been checked by the breakdown in negotiations, the call for mass action, and the direct appeal of the ANC to overseas banks not to trade in these securities.

"International markets do not like to see the economy being made the plaything of a political process," he said. — Sapa.

Star 28/4/93

SA 'robbed of R53-bn'

The dual exchange system was being abused through corruption and should be phased out, Louis Pienaar (NP Maitland) said yesterday. Speaking in debate on the finance vote, he said corruption had increased alarmingly since 1985 and the economy had been robbed of R53 billion over the past eight years. — Sapa.

Star 28/4/93

Keys warns on growth

Economic growth would be indefinitely delayed unless the legitimate interests of business were cherished, Minister of Finance Derek Keys said yesterday. Introducing debate on the finance vote, he said events in 1992 had led to a halt in the strengthening of the market in SA securities overseas. The rise in margins had been checked by the breakdown in negotiations, the call for mass action, and the appeal by the ANC to overseas banks not to take part in any actions which could assist this market. — Sapa.

(49)

13 Final Report on the Violence at Mooi River

14 Third Interim Report

15. Report to the State President on an investigation by the Commission's Natal Investigation Team into Allegations of the Presence of Renamo Soldiers in KwaZulu.

16. Third Interim Report to the Commission by the Committee inquiring into Public Violence and Intimidation in the Taxi Industry.

17. Report to the Commission by the Committee appointed to inquire into the Organization and Conduct of Mass Demonstrations.

18. Fourth Interim Report to the Commission by the Committee inquiring into Public Violence and intimidation in the Taxi Industry.

19. Report of the Committee conducting a Preliminary Investigation into the Activities of the Azanian People's Liberation Army (APLA).

Banking groups: assistance by Reserve Bank

*9. Mr K M ANDREW asked the Minister of Finance: (49)

(1) Whether the Reserve Bank rendered any assistance to two banking groups, the names of which have been furnished to the Minister's Department for the purpose of his reply, during the latest specified 5-year period for which information is available; if so, (a) what are the names of these banking groups and (b) (i) what were the terms and conditions of this assistance and (ii) why was it rendered;

(2) whether the said terms and conditions have been adhered to by the parties concerned; if not, why not; if so, to what extent?

(3) whether he will make a statement on the matter? B695E

The DEPUTY MINISTER OF FINANCE:

(1) and (2) As lender of last resort, the Reserve Bank provides financial assistance to banks on a regular basis. The normal banking business code applies to such transactions, namely that transactions between the Reserve Bank and its clients cannot be disclosed to third parties. (49)

(3) No.

Banking groups: audited accounts

*10. Mr K M ANDREW asked the Minister of Finance:

(1) Whether two banking groups, the names of which have been furnished to the Minister's Department for the purpose of his reply, submitted audited accounts in respect of the period 1 January to 31 March 1992; if not, (a) why not and (b) what steps were taken or are to be taken in this regard; if so,

(2) whether these audited accounts have been made public; if so, when; if not, why not;

(3) what are the names of the banking groups in question? B696E

†The DEPUTY MINISTER OF FINANCE:

(1) Audited financial statements for the following companies have been submitted to the Registrar of Companies in respect of the period to 31 March 1992:

— Amalgamated Banks of South Africa Limited ("Amalgamated Banks");

— ABSA Bank Ltd.

Only the financial statements of Amalgamated Banks, a listed public company, have been sent to its shareholders.

(2) Bankorp Holdings Limited and Bankorp Limited are wholly owned subsidiaries of Amalgamated Banks. The formal annual general meetings of Bankorp Holdings Limited and Bankorp Limited will take place before 30 June 1993. When the financial statements of these companies are sent to their holding company (sole shareholder), copies thereof will simultaneously be lodged with the Registrar of Companies.

Press freedom

*11. Mr P G SOAL asked the Minister of Defence: 327

Whether, with reference to the reply by the then Minister of Home Affairs to Question No 7 on 18 March 1992 regarding legislation allegedly detracting from the free flow of information and restricting the Press from reporting, any steps have been taken or are being contemplated in respect of the repeal or partial repeal of certain Acts, particulars of which have been furnished to the South African Defence Force for the purpose of the Minister's reply; if not, why not; if so, (a) what steps and (b) when? 327 B693E

The DEPUTY MINISTER OF DEFENCE:

The Government supports the fundamental principles of media freedom and the free flow of information. A Bill of Fundamental Rights should contain such a stipulation which is entrenched in a constitution—in the interim and finally. Laws administered by the SA Defence Force will have to be amended step by step to adapt to such a Bill of Rights and a changing security environment This last-mentioned statement however allows for the standpoint that certain information, which could be of advantage to a potential enemy, will be worth protecting according to the universally accepted principle in this regard.

Mr P G SOAL: Mr Chairman, arising out of the hon the Deputy Minister's reply, may I ask him if he would please bring the contents of that reply to the attention of the hon the Minister, because that hon Minister was a member of Working Group 1 at Codesa last year, and supported the repeal of these Acts.

The DEPUTY MINISTER: I will definitely do so. May I just say that the hon the Minister was called away at very short notice. That is why he is not here.

INTERPELLATION

The sign * indicates a translation. The sign †, used subsequently in the same interpellation, indicates the original language.

Own Affairs:

Registration for military service: principals

1. Mr E W TRENT asked the Minister of Education and Culture: 354

Whether principals of high schools are required to assist in the registration of 16-year-old White males for military service in the South African Defence Force; if so, why; if not, what is the position in this regard?

B720E.INT

The DEPUTY MINISTER OF EDUCATION AND CULTURE: Mr Chairman, I want to say at the outset that compulsory military service for White males is not under discussion today If hon members want to discuss this they should participate in the Defence debate.

What is under discussion, however, is whether headmasters of schools are rendering assistance to the Defence Force by registering 16-year-old White males for military service. Yes, they are.

As a matter of fact, they have done so since 1968, and I am under the impression that many headmasters regard this as a duty to their country. Proof of this is that of the 38 355 forms dispatched to 776 schools, 14 840 have already been returned from 385 schools. It is very important, however, to point out that they give this assistance on a voluntary basis. They are not obliged to do so When a school does not give its co-operation, the matter is handled by the individual pupils themselves.

I find it unfortunate that the hon member created a false impression in his press statement that was released on 20 April. In this press statement the hon member said that the NP Government was attempting to force school principals to become agents of apartheid. [Interjections.] I have here the original circular. Let me quote from it:

> As in the past, this office is dependent on your kind co-operation. It would be appreciated if the completed registration forms could be forwarded.

There is no question whatsoever of enforcement. I think the party leadership should take disciplinary steps against the hon member for broadcasting a wrong impression. [Interjections.]

Mr E W TRENT: Mr Chairman, I am very glad that the hon the Deputy Minister referred to my press statement. I know that this practice has been in progress for many years. To use schools as a means of applying racial discrimination once again demonstrates how totally insensitive the Government is.

Cont→

Washington considers tapping pension funds for investment in SA

BDM 28/4/93

KELVIN BROWN

THE US government was examining the use of US pension and endowment funds to invest in bonds for housing, electrification and small business development in SA, US ambassador to SA Princeton Lyman said yesterday.

"We are examining, with both SA and American experts, the possibility of new financial instruments that will tap into yet another source of private investment capital, the pension and endowment funds in the US. Many of these funds were in the forefront of the sanctions and disinvestment movement," he said.

Speaking at the Seeff/Radio 702 Business breakfast, he also disclosed that his government was hoping to announce a new US investment in SA next month.

He said new sources of private investment from abroad and finance from multilateral institutions such as the World Bank and the African Development Bank could see about $2bn to $3bn in foreign assistance and investment coming into SA annually — if the local business community showed more of a commitment to SA.

28/4/93

"The private sector, which prides itself on analysing and taking risks, must now take some greater risks on behalf of growth and development," Lyman said.

He warned that foreign capital would not materialise if SA investment did not match, if not exceed, foreign investment.

The business community could not put the whole burden on the politicians. "The politicians of this country, such as those in the ANC, have already gone a long way to assure the business community about future economic policy."

The private sector in SA needed to demonstrate that the faith parties had in the private sector was not misplaced. "We look to the politicians to take risks in a political settlement, but we are asked to understand the businessmen and women's unwillingness to do so."

Everyone in SA was being asked to take risks, Lyman said.

"The liberation movements are being asked to risk their credibility with their constituents by agreeing to coalition government and dependence on the private sector from which they have been traditionally excluded."

The vast majority were being asked to risk their dreams of better education, housing, jobs and basic health services on a long-term programme of growth rather than radical redistribution.

However, Lyman also criticised the ANC for not calling for an end to sanctions. "If sanctions were only removed when there was a newly elected government, it would take two years before this assistance could be utilised."

There was a lead time of 18 months to two years between the beginning of project development and implementation.

New mass action campaign may be steered away from economy

(49) ARG 08/4/93

BRUCE CAMERON
Business Staff

NEW-FOUND and developing consensus among political parties, business and labour is likely to ensure that the forthcoming mass action campaign in the wake of the Chris Hani assassination is aimed away from economic targets.

Gradually agreement is developing that the battered economy should be removed from the arena of conflict-politics.

In the process, the government has started to move away from autocratic decision-making and the ANC appears to be accepting that it may well be beating itself by using the economy as a political club.

Progress has been made since Finance Minister Mr Derek Keys bluntly warned all political parties and the government of the consequences of delaying political agreement and went ahead last year with the national economic forum. The forum, although it lacks decision-making powers, is already quietly starting to produce results.

And it is probably because of the easing of tensions through the forum that Mr Keys was able to navigate the Budget, and particularly the four-percent increase in VAT, into decidely calmer waters than the tempest that greeted the introduction of VAT.

The forum is proving successful in other ways. The forum is searching for both short-term and long-term political solutions, with South Africa's enormous unemployment the most pressing problem.

Cosatu, which over the years has been adamant about minimum wages, has been quietly giving way on this point for public works' programmes, while the government also appears to be accepting that the stalled programmes require community support.

It is not without purpose that many aspects of this year's Budget leaked out before delivery like water from a rusty old bucket full of holes.

Not only were many key details common knowledge before Budget Day, but Mr Keys went out and negotiated a deal with Cosatu under which he agreed to Cosatu demands for a zero VAT rating on a range of products in return for the hike in VAT.

It is this openness in the Budget process that Mr Keys is talking about when he refers to "transparency".

The government has committed itself to discussing with forum members the Budget as well as its greater proposals contained in the recently published normative economic model on which it would like to base economic recovery.

It has also established a series of function committees which will assist in budget planning. Different factions of business, labour and political parties are being invited to join the committees.

The almost reckless attitude of the ANC to the economy three years ago has mellowed considerably, with studied and serious remarks being made by the ANC.

Although the ANC has painted itself firmly into its sanctions position it often catches overseas visitors by surprise by its attitude to foreign investors.

The ANC now correctly points out that some of the main reasons for foreign investor wariness are the result of the lack of political agreement and uncertainty about what the economic politics of a post-apartheid government will be.

On the assumption that it will be the next ruling party the ANC's economic spokesmen are now going from platform to platform attempting to reassure potential investors with commitments of economic reasonableness.

Its representatives abroad have also been instructed to reassure potential investors and actively garner their future support.

Mr Trevor Manuel, head of the ANC economics department, has identified the problems of foreign investors — from the need for political stability through to consistent economic policies; repatriation of profits and sales of assets; and even the eventual lifting of exchange control and the scrapping of the two-tier exchange rate system.

He realises there is a large question mark over the ANC's ability to deliver, given the expected pressures on the fiscus with the high expectations of the ANC constituency.

This is why Mr Manuel talks of a redirection of spending priorities, public performance auditing and long-term budgeting.

Significantly it has been Mr Manuel who has signalled that there will be caution over any economic tactics in the mass action campaign.

There are still wide differences between the NP and the ANC on economic policy and even gaps in ANC economic policy, but its appears the all important economic debate is making faster progress than the debates in other political arenas.

New mass action campaign may be steered away from economy

(49) ARG 28/4/93

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Talks warning: Lay off economy

MICHAEL MORRIS, Political Correspondent

(47) [illegible] 28/4/93

FINANCE Minister Mr Derek Keys has warned bluntly that there will be no economic growth if the economy is turned into a political football.

His warning is echoed in a strongly worded Democratic Party statement charging that more than half the delegations in the present, desperate round of negotiations have "some vested interest" in blocking a breakthrough and that the economy is being held to ransom by the delays.

Mr Keys told parliament that political events last year had been a setback and if the legitimate interests of the business community were not "cherished" convincingly, it was his duty to warn that realising the potential for economic growth would be delayed indefinitely.

At the same time, the co-ordinator of the Democratic Party's negotiating team, Mr Ken Andrew, castigated negotiators for dithering over details instead of setting clear overall goals and said: "The failure of the negotiating council to produce any positive results at its meeting (on Monday) will diminish investor confidence further."

"South Africa desperately needs a durable political settlement. This will be achieved much quicker if the negotiators follow proper, logical procedures."

Mr Keys told parliament: "International markets do not like to see the economy, or their business interests and prospects, being made the plaything of a political process, however noble the aims of such a process may be.

"Offers to lift sanctions — to behave normally in economic terms — are entirely counter-productive in this sphere when linked to political demands.

"Far better for the reputation of the offeror in the markets to have said nothing, for he has only provided another illustration of the economy being used as a political football.

"Surely this can't be unrecognised in the quarters where these decisions are made?"

"Held to ransom"

Mr Andrew said the South African economy was being "held to ransom" by delays in the negotiating process.

"Small improvements in our desperate economic situation can take place as a result of monetary and fiscal policy, increased exports, or normal business cycle fluctuations, but sustained economic growth is dependent on successful political negotiations."

He urged parties to focus their attention on overall goals and reach agreement on these before tackling details.

"The lack of agreed goals and processes results in the current negotiations being directionless."

In a sharply critical statement on the failure of some of the country's most influential politicians to achieve any positive results at the opening round of talks on Monday, Mr Andrew declared that:

- Some of the delegations "don't want a negotiated non-racial democracy". ("This is particularly true of the Conservative Party, but also applies to elements within other parties such as the National Party, the IFP, ANC and PAC.");
- "More than half of the delegations will disappear as soon as democratic elections are held — so the majority have some vested interest in the status quo", and that
- Some of the larger organisations, feeling insecure about holding on to their support bases and gearing up for an election, "continue to permit violence, terrorism, inciting war talk and other inflammatory statements".

Mr Andrew also criticised the ANC and National Party for "trying to direct the process on the basis of bilateral agreements while paying lip service to inclusiveness".

He said that while bilateral discussions were essential, "accusations that anyone opposed to elements of ANC/NP bilateral agreements is being obstructionist are unacceptable".

● See page 6.

Govt to farm out R5bn to banks

Reserves on the rise again, says Keys

(49) BIDAY 28/4/93

TIM COHEN

CAPE TOWN — SA's gold and foreign exchange reserves had turned around in April after months of unabated pressure, Finance Minister Derek Keys said yesterday.

Introducing the Finance budget vote in Parliament, Keys said SA's gold and foreign exchange reserves, which slumped R800m to a two-year low of R7,48bn in March after a lengthy downward trend, had shown "a definite and satisfactory increase in April".

He said pressure on the balance of payments had been aggravated by temporary factors — a combination of the drought's effects on imports, the interest rate differential between SA and its trading partners and "leads and lags" in foreign payments triggered by the rise in the US dollar.

"Leads and lags" are a reference to importers speeding up payment of foreign currency and exporters delaying payment on the expectation that the rand will weaken. The effect is to cause foreign exchange cashflow problems.

"The US currency recently started weakening again which caused the leads and lags to swing in our favour," he said.

Foreign exchange reserves net of foreign bridging finance had also improved in April. The downward trend in reserves had been one of the major obstacles to the maintenance of a softening in monetary policy, he said.

While the temporary factors affected short-term capital movements, long-term capital flows depended on perceptions of the political situation in SA. Issuing a warning about the ANC's proposed mass action campaign, Keys once again stressed that international markets did not like to see the economy being made "the plaything of a political process, however noble the aims of such a process may be".

A response was needed from all to indicate an awareness "that the legitimate interests of business in the community now needs to be cherished".

"If this can't be convincingly demonstrated, then it is my duty to warn that realising the potential for economic growth will be indefinitely delayed."

SA would have to curb imports to continue running current account surpluses that would finance debt payments.

Keys also announced that R5bn in government cash surpluses would be farmed out to commercial banks in an effort to increase government interest earnings.

Dealing with improvement to government's system of monetary control, Keys said many of the Reserve Bank's interventions in the money market were the result of huge movement in funds between private banks and government's account at the Bank. The net result was that billions of rands flowed into and out of the private banks which had to be offset so that monetary control aims were not frustrated.

Almost all the work could be avoided if the state's accounts, or a section of them, were held in the private banking sector. Provision would be made in legislation for a reasonably limited amount of the current year's funds to be included.

The new system would initially be limited to the four major banks.

● See Page 3

ANC dismisses fears of talent flight

Biday 28/4/93

ANDY DUFFY

THE ANC has rejected claims that barring directors from sitting on the boards of competing companies could lead to a flight of SA's entrepreneurial talent.

Deputy economics department head Tito Mboweni said yesterday that banning "interlocking directorships" should lead to an increase in opportunities for SA executives.

He was responding to the decision by government economic advisers to remove a proposal to ban the practice from Finance Minister Derek Key's normative economic model, because it could unsettle SA's already fragile business community.

The Competition Board, which launched an investigation into the issue last week, is also proceeding cautiously to avoid disrupting SA business.

Mboweni said such an excuse was "a lie".

"SA is not short of entrepreneurs," he said.

The ANC has already set its face against the practice.

In its US-style anti-trust legislation proposals, it would outlaw interlocking directorships, unless these could be proved to be in the public interest.

Mboweni said he would like to see the proposals brought in on the "first day" of the interim government.

Such a move would have a great effect on some of SA's major corporate players.

"Where is the public interest in terms of interlocking directorships between Anglo American and JCI," he asked.

"It would be very difficult to prove public interest."

The ANC had a clear idea of those companies targeted, though Mboweni declined to name them: "I'm sure some of them know themselves."

Discussions on the issue between the ANC and several SA companies had so far failed to find any common ground.

The attitude among some companies was, "We're alright, Jack," Mboweni said.

"Business people represent the conservative system. They would rather have the status quo."

The Competition Board investigation showed there was a policy conflict within government over resolving the issue, and that the board was just "muddling along".

"As far as the ANC is concerned," he said, "this (the investigation) is a bit late in the day."

(22) (49)

Star 28/4/93

Survey attacks stayaways

South Africa's high level of unemployment and declining per capita income means the country can no longer afford mass action and stayaways, according to Sanlam's latest economic survey. (49)

● Reports by Staff Reporters, Own Correspondents and Sapa.

Strikes cost economy dearly in 1992 – report

Star 29/4/93

(49)

CAPE TOWN — Heightened strike action had cost the economy 1,9 million man-days in 1992 — a year marked by acute unemployment and frustration in the quest for labour policy consensus, according to the National Manpower Commission's 1992 report.

Writing in the report tabled yesterday, newly-appointed NMC chairman Dr Frans Barker said the gross domestic product had dropped by about 1,7 percent in the preceding year.

Retrenchments had also caused considerable tensions.

The negative economic situation had seen wage increases averaging between 12 and 13 percent against an inflation rate of 15,1 percent in the first nine months of 1992.

Difficult economic circumstances were one of the main causes of violence and crime, aggravated by the uncertainty associated with political transition.

Most interest groups had become aware that a solution lay deeper than just a political settlement. — Sapa.

Culture to counter crisis

Sowetan 29/4/93.

■ **NINE MONTHS** Programme for Saturday mornings and one night a week:

By Mzimkulu Malunga

A MAJOR training scheme aimed at stimulating a "culture of development" is to be launched in Soweto next Monday.

This nine-month programme in development studies is championed by the Institute for African Alternatives, an organisation established to seek developmental options for African countries as many of the continent's economies plunge into crisis.

IFAA Soweto office's education officer Mr Danny Kekana says the programme aims to equip community-based organisations with the ability to transform different groups into developmental units.

The programme is being co-ordinated by former lecturer in development studies at the University of Dar es Saalam Dr Ernest Maganya.

Training has been broken into three categories. The major one which is compulsory focuses on stimulating the culture of development, says Kekana.

Two other sections concentrate on basic issues of running an organisation effectively such as communication skills, organisational methods and office administration. These sections also cover gender issues and affirmative action and are optional.

Students have to complete seven courses to qualify for a certificate in development studies issued by the Centre for Continued Education at Wits University.

The fee for the course is R150 a participant.

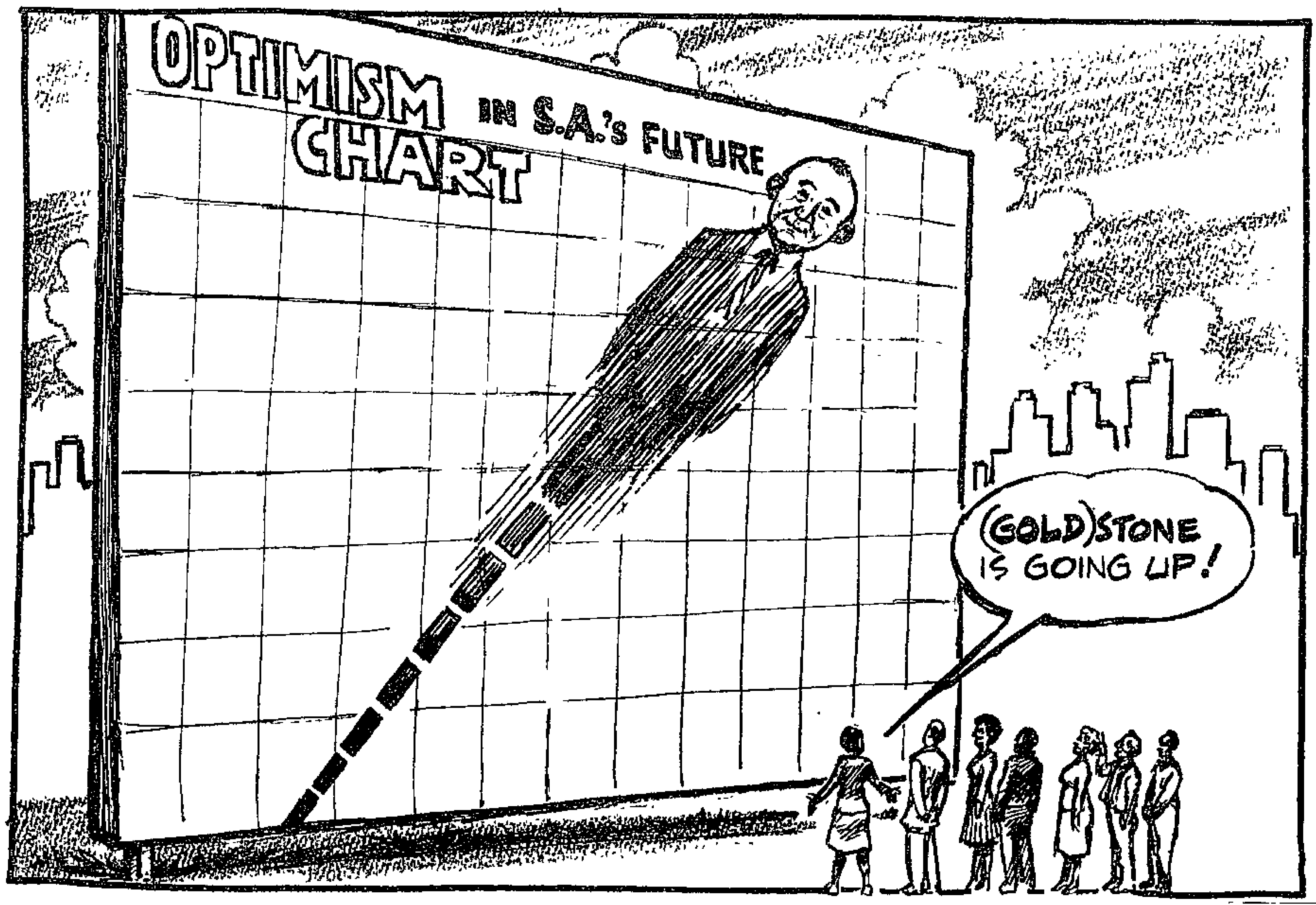
Kekana says the participation of civic organisations, trade unions and other community structures in the running of the country is crucial for development in South Africa.

The course will attempt to answer questions relating to alternative strategies this country could follow to impact on lives of ordinary people.

Classes will run on Saturday mornings and once a week in the evenings.

The IFAA's Soweto office number is 938-1485.

FOCUS *Expert warns that the country faces a bleak economic future*



focus on economy

The Nongqawuse option faces South Africa if political activists continue to batter the economy, Standard Bank economist Nico Czypionka told *Sowetan* Consumer Reporter **Joe Mdhlela:**

Sowetan 29/4/93

(49)

SOUTH Africans face a Nongqawuse choice if political activists continue to batter the economy the way the do.

This is the view of Standard Bank's chief economist, Mr Nico Czypionka, following the loss of production after Mr Chris Hani's death.

Hani, the slain SACP general secretary, was killed at his home at Dawn Park near Boksburg, allegedly by a Polish immigrant said to be opposed to Hani's communist beliefs.

Czypionka also suggested that even the political dispensation to emanate from the multiparty talks, might be negated by the poor state of the economy, exacerbated by the loss of production hours.

He admitted that the political dynamics were going on "fine" until the assassination of Hani, who related well to the radical youths.

"We were getting somewhere ... we were starting to be accepted by the international community but the positive signs may be lost," he said.

However, secretary-general of Cosatu Mr Jay Naidoo disagreed and suggested that it was apartheid that had brought about the stagnation of the economy.

"All evidence proves that apartheid is causing the lack of growth in the economy,"Naidoo said.

He said the prerequisite for growth of the economy rests on a rapid transition to democracy.

Nonetheless, Czypionka insisted that the many holidays over Easter, and the fact that stayaways were staged to mark the death of Hani, could have a destabilising effect on the economy.

"There was very little productive activity during the past month. This may cost jobs, a factor that will worsen the state of economy,"Czypionka said.

He said the planned mass action by the ANC-SACP-Cosatu alliance would have the effect of scaring away investors, both within the country and internationally.

"You cannot afford to disappoint the investors, the very people who are the lifeblood of any economy," he said.

The fact that the local labour force appeared to be unreliable, unable to meet deadlines, was one factor that did not augur well for the salvation of the economy.

And if Nongqawuse option came about, the country would discover it had fewer friends, so that even the new government may not be in a position to fulfil the demands that its constituency may require, he said.

He predicted that the mass action would not bolster the economy. On the contrary, political as well as economic chaos would ensue, with the result that the new order may not instil confidence, even among those who voted it into power.

Nico Czypionka

Expanding on his Nongqawuse theory, Czypionka said just as the fabled Nongqawuse instructed the Xhosa to destroy their cattle, sheep and valuable things, the analogy holds true for all those who are calling for the destruction of the economy by promoting stayaways.

"The point I am making is that the call for stayaways may have the same detrimental effects the Nongqawuse deception had, with the result that thousands of people may be deprived the opportunity of getting jobs because of the inability of the economy to provide jobs," he said.

It is in this context that Czypionka thinks the tragic events of the past days, coupled with lost production time, have placed the economy in a bad shape that could only be ameliorated by sound decisions.

The South African Chamber of Commerce and the Afrikaanse Handelsinstituut appeared to back Czypionka sentiments.

~~FF04~~ (44)

In a statement, both organisations pleaded with the ANC-Cosatu-SACP alliance "to act with restraint and in a responsible manner in considering its proposed extended period of mass action."

The organisations said they fully endorsed "the need for a realistic outcome to the political negotiations because of the interdependence of economic growth, stability and political progress.

Sacob and AHI end their statement by saying:"We wish to emphasise that any future government which inherits an economic wasteland will find it impossible to meet even the basic expectations of all South Africans for jobs and improved standards of living."

These are pitfalls labour movements are aware of but over a period of time Cosatu has accused the Government of not showing interest in a negotiated settlement.

Naidoo insists that rather than blaming the decline of the economy on mass action by organised labour, employers should pressure the Government into ushering in a democratic order, replacing the "unrepresentative minority" Government of De Klerk.

He said Cosatu would continue to use their "feet" and street politics to make their point, given the intransigence of the Government

Nongqawuse

The *Standard Encyclopaedia of Southern Africa* has this to say about Nongqawuse: In 1856 the young girl declared that the ancestral spirits had spoken to her and that the Xhosas were to kill all their cattle and destroy their grain.

She went on to say that on a certain day the sun would rise blood-red, the cattle-pens and the grain pits would be filled again, the old chiefs would rise from the dead and whites would be driven into the sea.

Great numbers of cattle, estimated at between 300 000 and 400 000, were killed and grain was destroyed.

World Bank official warns there'll be no soft loans for SA

Star 29/4/93

(49)

WARMBATHS — South Africa should not expect a windfall in loan aid or greatly favourable lending conditions from the World Bank, according to the Bank's southern African department senior economist Peter Fallon.

Speaking at the Idasa conference near Warmbaths yesterday, he said World Bank lending to the country would only resume once there was broad-based consensus domestically and internationally for it.

However, "Bank finance will be only mildly concessional, future governments should be sure that projects are worthwhile".

Per capita income

He said, in a paper to the conference, South Africa would definitely be treated as a country eligible only for loans from one of the Bank's agencies, the International Bank for Reconstruction and Development.

This was due to the country's higher per capita income of around $2500 a year, compared with loans from the International Development Agency for countries with per capita income figures of $765 or less.

IRBD loans were on "harder terms" than IDA loans which were interest free and paid back over a longer period of time with a period of grace.

"However, it must be remembered that, bilateral aid apart, IRBD loans are a significantly cheaper source of foreign finance than that available from commercial sources," Fallon said.

Another advantage from Bank financial support would be its catalytic effect "upon the willingness of other external financial sources to lend to South Africa".

Mr Fallon also stressed the importance of World Bank support for South Africa outside of lending agreements, through economic analysis and policy advice.

He said the Bank was likely to recommend as one of its main policy directions that the South African economy move more onto an export-oriented growth path.

"This could be encouraged by a systematic overhaul of South Africa's system of trade protection.

"This would entail: the introduction of new policy devices such as a transparent and easily managed duty drawback scheme; a widespread simplification of the protection system; and a gradual phase-down of tariff levels."

Fallon said the Bank would recommend that South Africa restructure government expenditure within the limits of a sustainable deficit.

Furthermore, state expenditure should be redirected to focus on capital spending as a redistributive measure and to engender social stability.

"Massive investments are needed in those urban areas in which much of the disadvantaged majority of the population live, while increased capital expenditure is also badly needed in education and health," Fallon said.

The Bank was also likely to give considerable emphasis to human capital formation in its policy advice.

Labour force

"The South African labour force is relatively unskilled for a country at this stage of economic development. This is both a potential impediment to a growth revival in the economy and . . a major source of inequality," he said.

The Bank would probably support policies aimed at increasing the rate of job creation, in areas like agriculture and small business development.

Fallon however stressed that the Bank would encourage a future South African government to choose its own approach to restructuring the economy, and then to maintain consistency and transparency in its implementation.

"This will be essential to ensure that hoped-for responses emerge from economic agents and that a level playing field emerges," he said.— Sapa.

'Develop manufactured exports'

As South Africa re-entered world trade, the country would stand to gain more by developing its manufactured exports, an international trade expert said at the Idasa conference.

Harvard University professor Robert Lawrence said South Africa had to take account of the trends in the world economy. World trade had become increasingly integrated, characterised by the expansion of direct foreign investment and growth in manufactured goods to achieve global success.

In addition, there was an "adoption of outward oriented policies by most developing countries and an emphasis on regional policies".

Prof Lawrence illustrated that South Africa's exports as a share of its gross domestic product had virtually remained stagnant over the last three decades.

BUSINESS

World's recovery heads G-7 agenda

BD DM 29/4/93 (49)

WASHINGTON — The US and its rich allies have been put on the spot to come up with a strategy for reviving the global economy and helping poor nations as the world's chief economic forum got under way yesterday.

IMF MD Michel Camdessus said it was that the Group of Seven (G-7) industrial nations worked together to boost growth and set the stage for a sustained recovery in the struggling world economy.

"It is now indispensable, it is possible and I have no doubts that the ministers will find the determination to send a strong message of confidence to the world," he told reporters ahead of the semi-annual meeting of the IMF and the World Bank.

Policymakers from the G-7 nations — Britain, Canada, France, Germany, Italy, Japan and the US — meet here this week to explore ways to do just that.

The US cleared the way for the meeting to concentrate on global economic growth by acting on Tuesday to defuse a potentially damaging currency dispute with Japan.

US Treasury Secretary Lloyd Bensten, seeking to dispel what he called misperceptions about US policy, signalled that Washington would not welcome any further rise of the high-flying Japanese yen.

Those comments — backed by US purchases of dollars for yen on the New York foreign exchange market — came as welcome news for Tokyo, which has voiced fears that its surging currency will hurt the fragile domestic economy.

"The major challenge facing the G-7 is to restore growth and to ensure that the composition of growth in the US and its major trading partners contributes to the reduction of (trade) imbalances," US Treasury Under-Secretary Lawrence Summers said.

Faster economic growth would help not only the rich nations of the G-7. It would also be good for the world's poorest nations in Africa and Asia and for Russia and the other former republics of the Soviet Union.

World Bank president Lewis Preston is expected to make an impassioned plea on behalf of the world's poor at the forum.

Developing nations on the whole have fared well during the past year, reaping the benefits of tough reforms despite sluggish growth in the industrial world.

Russia and the other former Soviet republics also face tough going on the economic front. The IMF expects them to suffer a steep, 12% drop in output this year and inflation of about 600%.

Treasury Under-Secretary Summers urged Russian leader Boris Yeltsin to push ahead with his country's painful economic reforms now, following his victory in Sunday's referendum on his rule.

"It is our hope President Yeltsin and his government will seize this moment to implement bold measures to move toward a market economy," he said. — Sapa-Reuter.

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President pays no tax — and has no plans to do so

BIOM 24/4/93 (49) (300)

Political Staff

CAPE TOWN — President F W de Klerk pays no income tax as head of state and he is not planning to follow the British Monarch by becoming a taxpayer.

Deputy Finance Minister Theo Alant said yesterday it had always been the position in the republic that the head of state paid tax on his income from private sources. The exemption, in terms of the Income Tax Act, was restricted to salary and emoluments paid by the state.

In reply to a question in Parliament from Northern Cape MP Desmond Lockey, Alant said any change to this dispensation could be made only during negotiations and if this happened an adjustment would have to be made to his salary to compensate for any tax he would have to pay.

Lockey raised the same issue during question time, with De Klerk stating that removing exemption would also affect the President in a new dispensation.

Lockey had asked whether it was fair in hard economic times for the President to refuse to pay a cent of his "royal" income of R21 090 a month.

De Klerk said his salary was determined by Parliament. "If they feel I am getting too much they are welcome to reduce it."

Sapa reports that in answer to another question, De Klerk said government would seriously consider sensible initiatives for progress in negotiations if it appeared that the multiparty talks were close to a dead end at the end of May.

But government was not thinking of "absolutely unilateral action", and there had never been any intention of setting up a specific six week deadline for progress.

Green Point MP Hennie Bester had asked whether government would consider setting up an interim multiparty executive if the talks did not achieve specific goals. De Klerk said this would depend on the progress made in the next five weeks.

In answer to a question from Sandton MP Dave Dalling, De Klerk said government had never threatened the TBVC states to give up their independence.

A recent government document on reincorporation had been drawn up not as a threat, but as a basis for discussion, because government believed it would be better for them to become part of a SA in a strong system of regional government.

Dalling also asked whether De Klerk believed it was correct for the SA taxpayer to foot the bill for illegitimate governments which were blocking negotiations.

De Klerk said by focusing on the Ciskei and Bophuthatswana, and not mentioning Transkei, Dalling showed that his concerns were politically inspired, and not genuinely concerned with the TBVC states.

The TBVC governments were not illegitimate, as they had been brought into existence in terms of SA's laws and constitution.

DP diehards oppose smoking ban

BDPM 29/4/93

GAVIN DU VENAGE

SMOKERS in the Johannesburg City Council's DP caucus broke ranks this week and refused to pass a law banishing puffers in the civic centre to "designated" toilets only.

An item on Tuesday's council agenda, that would have prohibited smoking in most rooms within the civic centre, was quietly withdrawn as it had no clear support, a council source said.

If approved, smokers would have had to skulk in designated toilets for a puff.

Diehards who balked at the idea of puffing in the loos would have been "encouraged" to join the council's anti-smoking programme.

Smokers in the DP caucus furiously objected to the restrictions. When the matter threatened to spark an intra-party debate at the chamber meeting it was quietly withdrawn.

Recently the Randburg Town Council was also embroiled in debate on whether to tighten smoking restrictions within the civic centre. The ban was approved only when mayor Brian Crail used his casting vote.

Cape Town, too, has regulations that ban smoking in its civic centre.

□ Sapa reports the board of property company Seeff Organisation Holdings has declared its Cape Town head office a non-smoking zone.

The decision was taken after top management, meeting at Seeff House on Monday night, realised something was burning. Apparently a table had caught alight as a result of a burning cigarette.

Recession 'limited social efforts'

(44) KELVIN BROWN

THE recession had limited the extent to which the local business community could afford to involve itself in broader social and political issues, SA Chamber of Business (Sacob) economic policy director Ben van Rensburg said yesterday.

Van Rensburg was responding to US ambassador Princeton Lyman's criticism that the local business community was not doing enough to promote change and improve the quality of life in SA.

At a Seeff/Radio 702 business breakfast earlier this week, Lyman warned that foreign funds would not be forthcoming if local business did not take greater risks and show greater commitment to SA.

Van Rensburg said business was involved as a full partner in the work of the national economic forum.

In addition, two business leaders had joined the cabinet to assist with growth and development strategies.

The business community had played a significant role in the national peace accord and its structures, often beyond the call of duty. Business was also actively involved in forums dealing with diverse aspects such as housing, education, health and regional economic development.

Lyman criticised the ANC for not calling for an end to sanctions. "If sanctions were removed only when there was a newly elected government it would take two years before assistance could be utilised."

ANC economics department deputy head Tito Mboweni said the lead time argument was only one of the issues that had to be taken into account in deciding when to lift sanctions. The main reason for sanctions was to help transform SA into a democratic, nonracial country.

The events of the past two weeks proved that it would be premature to call for the removal of sanctions, Mboweni said.

"The assassination of Chris Hani, the behaviour of the right wing, recent statements by government and the lack of progress in negotiations on Monday show that we are still a long way off from a real transition in SA."

FW launches undersea cable system

BDPM 29/4/93.

LINDA ENSOR

CAPE TOWN — The SAT-2 digital, optical fibre undersea cable system, spanning the Atlantic Ocean to the northern hemisphere, was officially launched by President F W de Klerk last night.

In his speech, De Klerk expressed confidence about reaching agreements which would rapidly lead to the establishment of the proposed transitional executive council, a transitional constitution and Bill of Rights and national elections.

He said the budgeted cost of the cable system, financed by 15 co-owning telecommunications bodies supplying services to Europe and the US, was R800m. Telkom bore R500m of the costs.

The co-owners from 14 different countries would contribute to maintenance on the basis of the number of channels purchased, Telkom said yesterday

Laying of the cable was completed in October last year. It replaced the SAT-1 which became operative in 1969 and would be withdrawn at the end of June.

The new cable, with a total length of 9 512km and submerged at a depth of more than 4 000m for most of its length, would be connected to the global optical fibre network. Its southern terminal would be at Melkbosstrand near Cape Town and its two northern terminals at El Medano in Tenerife and Funchal in Madeira.

The cable would provide 7 680 speech channels between Cape Town and Madeira, 7 680 between Cape Town and the Canary Islands and 7 680 between Madeira and the Canary Islands. The SAT-1 had 360 speech channels.

The system was supplied by a British/French consortium consisting of STC Submarine Systems and Alcatel Submarcom.

De Klerk has had the first official video conversation via the new cable with Portuguese Prime Minister Cavacao Silva and a Spanish foreign affairs official.

BUSINESS DAY, Thursday, April 29 1993 3

'Cash stimulus' played down

BDAY 29/4/93.

(44) (68)

SIMON WILLSON

BANKERS yesterday dampened expectations that R5bn was about to enter the money market as government transferred its cash deposits from the Reserve Bank to the private banking sector.

Finance Minister Derek Keys told Parliament on Tuesday that R5bn in government cash surpluses would be placed with commercial banks in an effort to increase government interest earnings. Expectations that the move would boost liquidity in the money market quickly helped to ease capital market rates; the bellwether E168 yield drifted from Monday's close at 15,11% to a low of 14,94% yesterday.

"There is no way the authorities could allow R5bn to hit the market in one shot," a money dealer said yesterday. "It would wipe out the shortage and interest rates would drop." The shortage totalled R5,3bn at the beginning of this week.

Reserve Bank money and capital markets GM Andre Kock said the effects might become apparent only later. "The government cash balance at the Bank at the end of April will be at least R5bn ... but that will not go straight into the market. It will depend a lot on future cash flow and money market management."

Kock said the main objective of the move was to eliminate seasonal money market distortions caused by state cash movements.

The change is associated with the new system of Bank accommodation of the money market. From May 3 the range of assets that commercial banks can lodge at the Bank's discount window in return for overnight funding will shrink as the liquid bankers' acceptance becomes ineligible.

Standard Bank Treasury GM John Lloyd, said a reduction in the market's seasonal liquidity imbalances would be welcome.

"If the shortage was to continue at these high levels the commercial banks could be forced into raising their prime overdraft rates.... Everybody involved should gain from a smoothing-out in liquidity flows."

While Keys said interest earnings would increase with commercial banks' interest payments on government's cash deposits, bankers said the Reserve Bank would lose interest formerly earned on the deposits, and this loss would be reflected in the profits the Bank remitted to government.

INTERNATIONAL ECONOMIC RELATIONS CONFERENCE

Foreign guests review SA's international economic relations in the 1990s with local economic policy decision-makers at an Idasa conference at Mabula Game Lodge in the eastern Transvaal. Finance director-general Gerhard Croeser, top left, gets cosy over tea with the ANC's Trevor Manuel, while Reserve Bank Governor Chris Stals talks to World Bank adviser Isaac Sam, top right. Sheila Page of the UK-based Overseas Development Institute, bottom left, and Harvard economist Robert Lawrence, bottom right, addressed the gathering.

Pictures ROBERT BOTHA

World Bank aid 'should support redistribution'

THE most important role the World Bank could play in SA was to assist in reviving economic growth along a path that permitted a substantial degree of redistribution, a senior bank economist said. (49)

Peter Fallon of the World Bank's southern African department said the bank — which suspended loans to SA in 1967 — was examining what policies it would adopt if a future multiracial government sought its support.

Speaking at a conference organised by Idasa, he noted the bank would have a "catalytic effect" upon the willingness of other foreign sources to lend to SA.

Among the several policies the bank was likely to suggest, it was likely to support the restructuring of government expenditure within the limits of a sustainable fiscal deficit. Massive investments were needed in black urban areas, particularly in education and health.

But it was unlikely the bank would recommend major investment in electricity generation and transport in the short to medium future. BD AM 29/4/93.

The bank was likely to give considerable emphasis to human capital formation, considering that the largely unskilled and uneducated labour force was a potential impediment to reviving economic growth.

The bank would also probably advise that the economy become more export-oriented, perhaps with a systematic overhaul of SA's system of trade protection which discouraged exports by ensuring that production for the home market was more profitable.

Finally, the bank was likely to emphasise policies which would increase the rate of job creation in agriculture, which accounts for 6%of GDP. The bank might also support measures to encourage small- to medium-scale industries. — Reuter.

Vision of Pretoria has lake at centre

44

ADRIAN HADLAND

PRETORIA — Proposals for the development of a R400m City Lake shopping and residential complex in the heart of the city were disclosed by the city council yesterday.

Prepared by seven companies, including M & R Properties, LTA, Ampros, Jooswald Construction and OZZ Ltd, the proposals would be considered by an evaluation committee before a decision was taken by the council, city planning director Fritz Kraehmer said.

Construction was expected to begin at the end of next year.

The project, which included a 6ha lake, blocks of flats, restaurants and shopping and recreational facilities, would be financed by the private sector, Kraehmer said.

"We know we live in difficult times but we are quietly optimistic and are satisfied with the response from potential investors."

A school and the Caledonian sports stadium would probably have to be demolished to make way for the 1,5m deep lake at the centre of the development, just outside the city's CBD at the confluence of the Apies River and Walkerspruit.

The project was expected to attract international investment, Kraehmer said.

"We have a vision for Pretoria and the indications suggest that investors share our confidence in the city's future."

ANC told to provide own model

(49) (an)

GRETA STEYN

FINANCE special adviser Japie Jacobs has called on the ANC and Cosatu to release an economic model for public debate.

Responding to calls by ANC- and Cosatu-aligned economists for the release of the mathematical basis of government's normative economic model, he said yesterday the model would be made public in its entirety only once other models had been put on the table.

The main architect of government's model, Central Economic Advisory Services head Jan Dreyer, said the unpublished details would be disclosed when the need arose in national economic forum discussions. Dreyer said business and labour partners in the forum were comfortable with his decision not to make public the econometric equations.

Jacobs said he would prefer to talk of a "structural adjustment programme" rather than a model. He emphasised the figures generated by the model showed the country's potential economic achievement, rather than a forecast. The projection of 4,5% growth and 5% inflation by 1997 formed part of an optimistic scenario.

Responding to criticism that the model assumed real growth of 2% for this year — when the Budget assumption was 0,5% — Jacobs said the model's assumption was in line with the optimistic scenario.

Dreyer stressed: "A model is just a tool and it is only as good as the model builder's understanding of the economy. One does not need a model to talk economic policy." He was concerned that releasing the entire model now would spur a technical debate.

BD 27/4/93

Accord subject to political support

New deal on foreign debt is 'imminent'

BIDAY 29/4/93 (49)

LONDON — SA was on the brink of concluding a deal with its foreign creditor banks to repay the $5,5bn foreign debt caught in the standstill net over the next seven years, banking sources in London said yesterday.

JOHN CAVILL

Finance officials in SA confirmed that a team representing SA, headed by Deputy Reserve Bank Governor Chris de Swardt, was holding three days of talks with 27 creditor banks in London.

They emphasised that any deal reached during the discussions would only be in principle, as it would have to enjoy broader political support.

The creditors' steering committee met in London this week and it is expected they will accept the terms offered by SA for a final arrangement to follow the Third Interim Debt Arrangement, which runs out at the end of this year.

According to well-informed sources the new deal will have two phases:

- Over the first four years — 1994-97 — debt repayments will be at about the same rate as the Third Interim Arrangement (just under $400m); and
- From 1997-2000 they will be as much as three times that level, implying that by then SA will again have access to the IMF and a resumption of capital inflows.

SA is also seeking a lower rate of interest on the affected debt (below the margin of 0,875% over the London Interbank Offered Rate of 3,31%), and is believed to have offered creditors a way of converting some of their loans to bonds. These could then be sold to international investors via the Public Investment Commissioners.

Observers said the final arrangement would be a significant boost to investment confidence in SA, especially when combined with the rapid moves towards a transitional executive government.

At the London School of Economics Centre for the Study of the SA Economy and International Finance, economists Jonathan Leape and Jonathan Garner said several advantages would flow.

It would help restore normal relations with international banks and "should allow the provision requirements imposed by lending country central banks to be eased".

In addition, a final arrangement might "remove a key constraint which prevented the abolition of the financial rand; namely the option in the Third Interim Arrangement for banks to convert their loans into financial rands".

They said the terms of the deal meant limited strain on SA's foreign exchange reserves from standstill debt for the next three years.

But for the final three years, when annual payments would jump to an estimated $1,3bn, this would become a substantial burden on foreign exchange and growth,

To Page 2

Debt deal

BIDAY 29/4/93 (49)

From Page 1

"in the absence of renewed inward flows".

In a previous report, published in February, Leape and Garner warned that even a 10-year final arrangement "would imply a 50% increase in average annual repayment, which may be a reasonable upper limit on what the economy can bear".

They also said that while the prospect of SA clearing the debt held in the net imposed in 1985 by the end of 2000 would have "beneficial effects on bankers' and investors' perceptions of SA's creditworthiness, we do not believe that in itself will lead to renewed flows of international finance.

"Other factors, such as the state of political negotiations, macroeconomic stability and the level of violence are much more important in determining investors' willingness to lend to SA."

That had been shown by the effective closing of the Eurobond market to SA borrowers after Boipatong and the breakdown of Codesa.

Some details of Keys model to be released

Star 29/4/93

49

By Sven Lünsche

The Government will release selective details of the mathematical calculations underlying Finance Minister Derek Key's economic model to the National Economic Forum (NEF).

Responding to recent criticism by ANC and Cosatu-affiliated economists, two of the architects of the model yesterday rejected charges that the aims of Keys's economic plan — 4,5 percent GDP growth and five percent inflation by 1997 — could not be "econometrically" justified.

"This is rubbish," Dr Japie Jacobs, special adviser to the Ministry of Finance, said. "All our economic targets are based on numerous mathematical models, but the idea behind the economic model is not to debate coefficients and tables, but to discuss economic strategies to achieve long-term sustainable growth."

The head of the Central Economic Advisory Service, Jan Dreyer, said the Keys model would be tabled before the NEF's Long-Term Working Group to enable it to contribute to the debate on long-term strategies.

Following the controversy, the NEF recently established a technical committee to discuss the calculations underpinning the various models discussed by the Long-Term Working Group.

"We will release details of our econometric calculations in the technical committee, if they are essential to the main economic debate and if different conclusions are provided by the other parties within the NEF," Dreyer said

STATE FUNDS (49)

FM 30/4/93

Government accounts now held by the Reserve Bank are to be partially privatised. Finance Minister Derek Keys announced in Parliament this week that legislation will be introduced to allow a part of government funds to be placed with private-sector banks. It will be incorporated in this year's Finance Act.

He explained that many of the central bank's actions in the market are in response to massive flows of funds between the private banking system and the central bank. If some of the funds are already in the banking system, "most of this work can be avoided, along with the human errors which occur now and then."

To allow some benefits to be derived before legislation can be passed, the Department of Finance and the Reserve Bank are exploring ways to use existing powers to allow government funds to be placed in interest-bearing accounts with the four main clearing banks.

The amount, which will depend on the capital strength of the banks, should be about R5bn. "As the private banking system borrows a larger amount than this from the Reserve Bank, there will be no additional pressure on any sector of the market," said Keys.

'No outside help for SA growth'

By ARI JACOBSON

SA will have to go it alone in resurrecting the country's economy and this was made clear at the World Economic Forum, Southern Life MD Jan Calitz said yesterday.

Calitz was addressing the UCT Graduate School of Business luncheon and focused on his participation in this forum, three months ago, in Switzerland.

SA has been put on the backburner of global growth until it demonstrates that political stability and economic growth exist, he said

Calitz added that foreigners would not invest in the country because "they feel for us", but rather "to make money".

"This is crunch-time for SA," he said.

He said this meant that SA had to move forward with programmes such as affirmative action and was reliant on "much faster progress in finding a political settlement".

But SA had not been forgotten, he said, pointing out that a regional conference on SA would be held in Cape Town in May "with a formidable list of guest speakers".

He added that of the 200 identified world leaders of tomorrow, four were selected from SA — namely Anglo's Bobby Godsell, ANC political leader Cyril Ramaphosa, Eskom's Mick Davis and Rembrandt's Johann Rupert.

Calitz described the get-together as consisting of chief executives from around the world "brain-storming on economic issues"

(49) CT 30/4/93

'Growth the key to poverty relief'

WARMBATHS. — The relief of poverty in South Africa ultimately depends on economic growth, Reserve Bank governor Dr Chris Stals said yesterday.

Speaking at an Institute for a Democratic Alternative for South Africa (Idasa) conference near here, he said there was a limit to what could be achieved in fighting poverty through a transfer of resources.

"South Africa's ability to address the problem of poverty from its own resources will be determined by its macro-economic growth rate.

"The attempts towards redistribution, re-allocation and transfers from the 'haves' to the 'have-nots' are of a secondary nature," Dr Stals said.

Funds diverted for poverty relief could only provide temporary relief.

"Of prime importance is producing more goods and services, thereby increasing total income generated." — Sapa

49 CT 30/4/93

World's aid a trap, economist warns

BIO179 30/4/93. (49)

A SENIOR Zimbabwean economist warned South Africans against falling into a foreign aid trap and advised them instead to rely on investment.

"Many countries in southern Africa still appear to have a national conviction that foreign investment is inherently bad because it limits national sovereignty and leads to outflows of foreign excahnge," John Robertson, chief economist at First Merchant Bank, Zimbabwe, said.

"Thinking of this kind is so basically flawed that it has been difficult to argue effectively with those who hold such views."

The trend to rely on aid by most countries in southern Africa upon independence weakened their competitive edge and damaged economic prospects, he said. But by attracting foreign investors, they could build a reliable tax base.

He said the problem with lenders was that they often handed out money with greater concern about repayments than of how it was spent.

Soft loans were often damaging because they encouraged spending. Credit did not automatically translate into development and foreign aid could make a local currency firmer than it should be, while making foreign currencies and imports cheaper.

He advised as policy objectives in SA abolishing taxes on dividends and capital gains, simplifying investment procedures and using import duties to direct investment into local industrial capacity. — Reuter.

Taking a break from the Idasa conference are, from left, Natal University's economic policy unit director Gavin Maasdorp, former AIPA director Bax Nomvete, Fort Hare University lecturer S Mayatula, and Patrick Ncube from Cape Town University's labour development research unit. Picture ROBERT BOTHA

Stals calls for changes to beat poverty spiral

BDAY 30/4/93

RESERVE Bank Governor Chris Stals said the economy had fallen into a perpetual poverty trap and major structural changes were needed to combat low economic growth, high unemployment and declining standards of living.

He was speaking at the conference on SA's international economic relations in the 1990s, which is being held at the Mabula Game Lodge under the auspices of Idasa and the Aspen Institute of the US.

Stals suggested continued cautious monetary policy to keep inflation down, saying the temptation to supplement domestic sources by the creation of more money should be resisted as more money provided more inflation.

"Whatever the source of financing for poverty alleviation, there are limits on what can be achieved," he said, adding that SA had no option but to generate more resources through a higher rate of economic growth.

He suggested financing social uplift programmes partly from external sources through foreign finance such as aid transfers. He said SA was relatively underborrowed — in 1990 foreign debt interest payments absorbed only 4,2% of total exports — and that care must be taken as the country could very easily fall into an overborrowed situation.

"Foreign funds are not freely available and could, if attainable, eventually lead to debt servicing problems. At this stage, SA should, however, gladly accept foreign funds available for the financing of poverty alleviation," he said. Redirecting domestic resources through the channelling of cash flows would reduce resources available for other purposes.

"The challenge is to strike a balance between poverty alleviation and alternative applications of our scarce resources to support maximum growth," he said.

☐ Stals said a statement regarding current negotiations with creditor banks on extending SA's foreign debt arrangements was likely to be made in London by today.

Earlier, he confirmed that a Reserve Bank delegation was in london negotiating with creditor banks to reschedule about $5,5bn in foreign debt. — Reuter.

ATIONS CONFERENCE—

Foreign investment's role 'small but useful'

30/4/93

FOREIGN investment is not a substitute for domestic capital formation nor for building industrial capacity as a country pursues economic development, says Malaysia's former finance minister Daim Zainuddin.

Foreign direct investment constituted only a small portion of the gross capital formation of the rapid-growth Southeast Asian economies, and its major contribution was through "dynamic effects".

"Its impact, however, on the economy is disproportionately large due to the dynamic effects arising from a transfer of technology, managerial expertise, market access and reinvested profits," Zainuddin said.

These effects strengthened the link between trade and investment, and consequently a country's international and regional comparative advantage. It also changed the structure of economies, in a way particularly relevant to SA, away from dependence on primary commodities.

"Foreign direct investment is the main catalyst in transforming the primary commodity-dependent economies of the Asean-4 countries to a higher value-added industry-based economies," Zainuddin said. An example was the 12% growth rate in the manufacturing sector achieved over the last two decades in Malaysia, pushing this sector's contribution to GDP from 10% in 1960 to 29% last year. Other lessons to be learnt from it, Zainuddin said, was that liberal policy measures were not enough to attract foreign investment.

"Political stability remains a prime concern of foreign investors ... experiences have also shown that prudent macroeconomic management as manifested in stable economic policies coupled with outward oriented trade and industrial policies are basic features of an attractive policy regime for foreign domestic investment.

"It should be viewed as a complementary source rather than the main source of a country's capital formation. Eventually, indigenous industrial capacity needs to be built to maintain a country on its long-term growth path," Zainuddin said. — Sapa.

High priests and IMF gnomes

WMail 30/4-6/5/93. (49)

An economic 'Council of Trent' gathered in the bushveld this week to discuss South Africa's financial future. **REG RUMNEY** *looked in on the earnest discussions*

THE assorted rare birds of the bushveld near Warmbaths were greeted by a strange sight this week: delegates to South Africa's most high-powered economics conference this year ambling lopsidedly around Mabula Game Lodge.

The reason for their strange gait were the many conference papers weighing down each delegate to the South Africa's International Economic Relations in the 1990s Conference, arranged by the Institute for a Democratic Alternative for South Africa and the Aspen Institute.

Each set of papers seemed to have occasioned the felling of at least one small tree, and contained enough economic jargon and detail to numb the average mind.

The delegates comprised a veritable gathering of who's who in the economics world: bankers, both local and international, influential academic and private-sector economists, a businessman or two, and representatives of the economic policy departments of the African National Congress and the Pan Africanist Congress.

The strategic economic bosberaad was opened on Tuesday night by the ANC's department of economic planning head, Trevor Manuel, who read the speech which was to be delivered by ANC president Nelson Mandela, who had to pull out at the last minute.

The conference itself focused on issues such as the role of the World Bank and the International Monetary Fund (IMF) in post-apartheid South Africa and trade policy.

Not only are such issues unlikely to fire public imagination, but it was apparent from the conference that their complexity is as awesome as the probable ill-effects of unwise decisions in these areas by the policy-makers.

Listening, for instance, to the delegates discussing the ins and outs of the role of the World Bank and the IMF in one of the working groups was reminiscent of nothing so much as the debates of the monks in Umberto Eco's *The Name of the Rose*.

Clearly, something important is at stake here. It could lead, if not to economic excommunication for heresy, at least to a sort of shunning by the world economic community.

It was remarked that what the Bank and the IMF think carries clout with foreign lenders and investors. Their stamp of approval is as important as their loans. But between the World Bank and IMF representatives and those free-market-endorsing supporters in one camp, and in the other camp the rather more unworldy, mostly academic critics of the Bank's economics and the way it operates there appeared to be a big conceptual gulf.

The two camps engaged in a carefully phrased and extremely polite verbal battle midweek about what the two institutions did, how and why. And they respectfully disagreed on just about everything.

Only one thing is absolutely certain: South Africa is eligible, despite its high per capita income, for World Bank loans — but not now.

The World Bank's Peter Fallon and the IMF's Leslie Lipschitz painted a picture of the two institutions as waiting patiently in the wings to be asked by a democratic government to assist in the economy. The Bank and the IMF did not prescribe but simply suggested policy, was their line.

The Institute for African Alternatives' Ben Turok expressed concern about the Bank's dismal record in Africa, the bad effect of its loans in the developing world, and the conditions both institutions attach to lending for structural adjustment. The non-transparent way both institutions operated bypassed democratic processes, he suggested.

Again, both Fallon and Lipschitz denied they were prescriptive and insisted they only provided solutions which governments would anyway have to come up with.

It was left to Institute for International Economics senior fellow John Williamson to suggest that South Africa should not count on foreign capital inflows from either the World Bank or international capital markets. Few countries have financed their growth exclusively from foreign capital inflows, he remarked.

That seems sensible enough. However, like the monks' tortuous arguments about whether Jesus owned his clothes, the debates about the policies that the Bank and the IMF "suggest" will continue to attract controversy and earnest discussion, especially at conferences.

In search of the secret of Asia's economic miracle

BIDAY 20/4/93.

MICHAEL PROWSE in Washington (49)

THE biggest challenge for economists today is understanding the extraordinary success of East Asia. The region has nearly quadrupled per capita incomes in the past quarter of a century — a record unparalleled in economic history.

On present trends it may begin to overtake much of the industrialised West early in the 21st century

If its startling success could be replicated elsewhere, billions of people in developing and formerly communist countries could look forward to improved living standards And the hope, eventually, of eliminating the scourge of grinding poverty would seem less quixotic.

Yet the region is as puzzling as three-dimensional chess. It has done far better than conventional theories predict, even allowing for such quantifiable pluses as macroeconomic stability, high rates of investment and a focus on exports. There is just no generally accepted explanation for its main distinguishing feature — supercharged rates of productivity growth.

The puzzle is deepened by the region's lack of homogeneity. The high-fliers are far from being carbon copies. At one extreme, Hong Kong has pursued a broadly free market approach; at the other, South Korea has intervened in just about every way conceivable. And the magic formula for growth has entirely eluded some countries in the region, such as the Philippines.

At the World Bank in Washington, an exhaustive analysis of the "Asia miracle" is nearing completion. Bank staff are distilling lessons from Japan, the four "tigers" — South Korea, Taiwan, Hong Kong and Singapore — and the so-called "cubs" — Malaysia, Thailand and Indonesia. They have also taken a look at the recent explosive growth in parts of southern China.

The study was undertaken partly at the instigation of Japan, the bank's second largest shareholder, which has long wanted to play a bigger role in policy design. Japan has been critical of aspects of conventional World Bank/IMF prescriptions and, justifiably, believes more attention should be paid to its own outstandingly successful development strategies — which formed a model for much of East Asia.

In 1991, Japan's Overseas Economic Co-operation Fund told the bank it was putting too much emphasis on deregulation and privatisation and made a case for selective import protection in developing countries and for the use of subsidised credits as a tool in industrial policy.

John Page, a senior member of the bank's Asia miracle team, says the Japanese criticism struck a chord because the results of market-orientated reforms had often proved disappointing in developing economies. By cutting budget deficits, eliminating market distortions and shrinking government, client countries had stabilised their economies. But too often they had not achieved a virtuous cycle of rapid growth.

The bank's benchmark for judging Asian policies is not an extreme free market philosophy, but the less controversial "market friendly" strategy set out at length in the bank's 1991 world development report.

This clearly delineates the role of markets and the state. Development would be fastest, it claimed, when government concentrated on two jobs: maintaining macroeconomic stability through conservative fiscal and monetary policies; and investing in people through education, training and health care programmes.

Beyond this, developing countries should rely on market forces. They should create as competitive as possible a regime in industry, commerce and the financial sector. And they should eliminate all barriers to trade and foreign investment. The core idea is that governments should focus on the things only they can do and leave all else to markets.

It turns out that most of the Asian high-fliers have adopted a more permissive attitude to the role of government. Indeed, Page argues that the success of the region can best be understood in terms of a "strategic growth" model that focuses more on what has to be done to achieve rapid growth than on who should do what.

On the strategic theory, development will be rapid provided countries find a way of: accumulating capital rapidly; allocating resources efficiently; and catching up technologically.

But there is no presumption that any of these functions should be reserved exclusively for the private sector. The miracle economies appear to have used a mixture of market incentives and state intervention.

The Asian example poses a dilemma for bodies such as the IMF and the World Bank, especially in former communist countries. Does it still make sense to advocate a form of "shock therapy" — the doctrine that deregulating and privatising everything as fast as possible is the optimum policy? Or should they recommend East Asia's slower, more interventionist path to economic maturity? It all depends on whether East Asia's deviations from orthodoxy can be replicated.

There are some grounds for caution. Vinod Thomas, the bank's chief economist for East Asia and an architect of the market-friendly strategy, points out that government activism outside East Asia has produced dismal results. A distinction should also be drawn between the earlier "northern tier" of Asian high-fliers — Japan, South Korea and Taiwan — and the later "southern tier" of Malaysia, Thailand and Indonesia.

Broadly speaking, the southern tier of later developers has pursued more market-orientated policies than the first wave of Asian stars.

Industrial interventions have also tended to be less successful. A bank memo describes Malaysia's efforts as "by and large a costly failure" and Thailand's as "largely ineffective".

Less tangible political and cultural factors may also be crucial. Most Asian high-fliers benefited from long periods of stable (if authoritarian) political rule. This encouraged long-term horizons

Public sector bureaucracies have also tended to be more able and less corrupt than in most other Third World countries Governments were thus unusually well placed to implement development strategies.

Policymakers were also remarkably pragmatic, if a policy did not work it was rapidly dropped. No region, it seems, has been less weighed down by ideology or more willing to seek advice from abroad.

South Korea, for example, went through several phases. It was relatively market-oriented in the early '60s, became highly interventionist during the "heavy and chemical industries" drive of the '70s, and then reverted to greater reliance on market forces in the mid-'80s.

The bank has only just begun the politically charged process of drawing conclusions from mountains of research papers But senior officials believe the study may lead to a new paradigm for development in the '90s. The evidence confirms that the miracle economies did indeed "do things differently". In many instances "government played a big role, trade was not open and financial markets were repressed", concedes Thomas.

"If we're right," says Page, "the economic policy arsenal has many more weapons than we suspected." Thomas agrees the lesson from East Asia is that "you need a government's guiding hand; you cannot just abdicate development to the private sector". He predicts that the bank will pay more attention to the role of institutions and to the potential for partnerships between the public and private sectors.

The most encouraging aspect of the Asian story, officials say, is that habits and institutions crucial for economic success were created rather than inherited. To raise the social standing of entrepreneurs, for example, South Korea had to overcome its Confucian traditions, which had glorified the scholar-bureaucrat. Singapore raised its savings rate from 1% in 1965 to more than 40% today.

The implication is that sufficiently determined governments can work similar miracles in other places. — Financial Times

PIETERSBURG AIRPORT (44) FM 30/4/93.

The great north's big hope

The former SA Air Force base at Pietersburg is up for grabs. The vast property has been handed over to the Public Works Department which is investigating other uses for it. One of the most convincing arguments for converting it into an international airport is that much of the region's fresh produce — subtropical fruit, vegetables from Tzaneen, and tea — is flown to Europe and the Arab Gulf states.

These goods are now tranported 300 km by road to Jan Smuts airport (*Business & Technology* March 5). Opening Pietersburg for international flights would also encourage the exports and imports of other countries such as Botswana, Zimbabwe, Zambia, Malawi, Mozambique, Kenya and Angola.

The base reverted to the department in March as part of the SA Air Force's rationalisation programme. The property has been offered to private developers for sale or lease for aviation purposes. Should there be no firm proposals the department will have to re-evaluate the use of the land, rezone and dispose of it.

A campaign, under the name of Gateway International, has been launched by Pietersburg town clerk Attie Vermaak to attract local and international airport developers. Two British companies, one is London-based air-traffic controller GEC Marconi, have contacted Vermaak. So has the projects arm of a well-known, Rivonia construction group which is proposing an industrial development in the airport's vicinity. Vermaak says he wants to lease or sell the property this year.

The airport is 5 km north of Pietersburg and easily accessible from the N1. It is served by road and rail, has a residential area, which is being retained, and the usual aviation infrastructure. This consists of two runways with taxiways and aprons which can accommodate large aircraft such as Boeing 737s and Airbus 300s, hangars, an operations complex, which includes a control tower, fire, rescue and weather stations, a fuel depot, security wall with access control and various administrative, technical and other buildings.

Vermaak says the council owns a large amount of serviced industrial land adjacent to the airport which is on offer at an average price of R10/m². This price compares with the average values of Pietersburg industrial land of R32/m² for 1 000 m²; R31/m² for 2 000 m²; and R26/m² for a 5 000 m² stand.

According to *Rode's Report* on the *South African Property Market* average prime industrial rentals are R6,55/m² for 250 m² units; R5,23/m² for 500 m²; R4,26/m² for 1 000 m²; R3,61/m² for 2 500 m² and R3,50/m² for 5 000 m². Rents for secondary industrial space for these size units are: R4,70/m², R4,18/m², R3,69/m², R2,85/m² and R2/m² respectively.

Moolman Group MD Janie Moolman, the largest property owner in the Pietersburg region outside of the institutions, has about R3m-R4m worth of industrial buildings near the airport. The group also has industrial land in other parts of Pietersburg which at present has greater income-producing potential because it is closer to the CBD and forms part of the traditional trading area.
would flow from the airport's being converted to commercial use would be immense — particularly if the area becomes an export processing zone.

"Pietersburg is not a large manufacturing area, though SA Breweries and SA Bottling are here. We are more orientated towards distribution, hence our name, the Warehouse of the North. Most of our industrial buildings are warehouses, either for wholesalers or service industries. More warehouse development could become an attractive proposition should the airport eventuate and the area become viable, via government subsidisation, for export processing businesses," Moolman says.

He adds that there is a slight oversupply of industrial and commercial space. Over the past year land prices have remained static and rentals for industrial space and offices have declined. The retail market has been stronger. In prime retail locations there is not a lot of vacant space as trading is steady. Retail rents have kept pace with inflation and range from R15/m² to R25/m² for line shops in centres and up to R40/m² for strip shops.

An indication of the retail strength of Pietersburg is the fact that 50 000-70 000 people from Venda, Lebowa, Gazankulu and Zimbabwe travel daily to the town to shop. Pietersburg has a population of 47 500.

The Rivonia-based group says it is not waiting for the new airport to take off: "It is still very much a buyer's market. Pietersburg's cheap industrial land favours new development whereas in Johannesburg prohibitive land prices could kill new ventures."

It believes Pietersburg could be the gateway to Botswana and Zimbabwe in much the same way as Nelspruit is a springboard to Mozambique. ■

DURBAN OFFICES

Mutually bullish FM 30/4/93

Durban's oversupplied A-grade office market — with 28,8% vacancies recorded by Sapoa in February — might have its problems compounded by the addition of a large complex in the heart of the city.

That will apply if office take-up, which has been good in the CBD in the past year, does not continue to swallow up the surplus. *The Property Economist* has noted that once

(*) Cont →

PRETORIA OFFICES STILL GOING EAST

FM 30/4/93

A surprise take-up of office space in the eastern suburbs of Pretoria — the largest recorded countrywide in the year ending November — is attributed by Sanlam Properties GM Fanie Lategan to a flight by tenants from the CBD to more attractive localities.

The eastern suburbs-Pretoria CBD interplay is akin to that of Sandton and Johannesburg CBD. The decentralisation trend is merely taking place later, says Real Estate Surveys MD Erwin Rode.

The net take-up of 50 700 m², recorded by Rode in this area, passed even the total take-up in the Johannesburg metropolitan area in the same 12 months — an area which includes the CBD, Braamfontein, Sandton CBD, Rosebank, Parktown and Randburg.

Sapoa's latest office vacancy survey in February confirms a dramatic fall in vacancies in Pretoria's eastern suburbs, from 14,6% in January 1992 to 7,7% in January this year. Two large deals were struck in this period. Eskom leased about a third of Old Mutual Properties 21 000 m² Menlyn Office Park and Sanlam Properties, which owns several office blocks in the area, let 8 000 m² to Sambou in Saamboupark.

Pretoria's Mid-City Commercial Property Brokers points out that the three-phase 6 000 m² Attebury Park, owned by private investor Anton Hartman, on the corner of Attebury and Menlyn roads, is fully let bar 250 m² — even before completion. Across the road both first and second phases of the roughly 2 600 m² Podium building, owned by Herman Kroon, are also fully let. M-Net took the second phase. A third phase is under construction.

Govt's export zone blueprint 'a failure'

BIDAY 30/4/93 (49)

KELVIN BROWN

THE Free Market Foundation says government's recent blueprint on export processing zones (EPZ) has done little to attract investment.

"Our concern with the current proposal is that there is nothing in it that will give SA EPZs a competitive edge on investment opportunities, not only in other EPZs, but in entire countries," the foundation said.

The requirement that 100% of the production of EPZ firms had to be exported was unlikely to attract investors. "If they are subject to all SA laws and taxes, and have no more than the benefit of duty-free imports, they might as well invest in any one of the many more favourable zones elsewhere in the world, especially those closer to suppliers and markets, and those with more productive labour and lower taxes."

The foundation also criticised the blueprint for subjecting EPZs to exchange controls.

There was no benefit in the proposal that the zones had to be within 50km of an international airport. Location should be determined by labour, materials and infrastructure.

Hopes of exports helping economy 'have dimmed'

BDAY 30/4/93 (49)

LINDA ENSOR

CAPE TOWN — Hopes of an export generated stimulus for the economy this year have faded as world economic recovery has been weaker than expected, says Old Mutual's Economic Monitor released yesterday.

"With world growth still sluggish and little chance of much rise in commodity prices in the short term, export receipts will only grow slowly in coming months," the Old Mutual economists said.

"And political risks have increased again following the assassination of Chris Hani. So the risks of continued capital outflows remain large."

The upswing in the US economy was losing steam with its 1993 Gross Domestic Product growth projected at 3% and Germany's between -1% and -2%. A fragile recovery was apparent in the UK.

The Monitor said it now appeared unlikely that the economic growth rate of the Group of Seven (G-7) nations would exceed last year's 1,5%, while a 0,5% decline in SA's GDP growth was expected for this year, compared with the -2,1% last year.

SA exports had been further hampered by the Reserve Bank's policy of keeping the rand strong. At the same time imports had remained high, placing foreign exchange reserves under pressure and keeping interest rates high. However, reserves were expected to recover in the second half of the year.

Except for agriculture, prospects in SA were poor, the general mood had turned more negative and real private consumption expenditure could fall by 1% or more this year, Old Mutual economist Rian le Roux said at a news conference.

He said Old Mutual did not subscribe to the bullish view on gold, believing there was little reason why total supply would not continue to match jewellery and industrial demand even if this demand grew more rapidly over the next few years and mine supply levelled off. The economists were pessimistic about gold's prospects for at least two years and did not believe the gold price would go much higher than $350.

A cut in Bank rate was unlikely until reserves picked up, perhaps in the second half of the year. However, the Old Mutual economists believed the downtrend in the short-term interest rate cycle had merely been postponed and not abandoned. Rates would fall again, but probably only after a lengthy delay.

Inflation should be at about 9% by April next year and remain in single digits for a further 12 to 18 months.

The Monitor noted that investment rates had continued to fall, suggesting that any recovery would be gradual at best as there would be no capacity to raise production sharply.

"In fact, if the world economy recovers, SA producers could lose out on new export markets. Over the past few years they have skimped on research, investment and technology acquisition, weakening their long-term prospects. They may have lost competitiveness."

The recovery would also be constrained by the critical state of foreign exchange reserves.

Analysts turn gloomy on growth prospects

Star 30/4/93

49

By Sven Lünsche

The economy looks set to decline once more this year — its fourth successive year of negative growth.

To make matters worse, the Reserve Bank has effectively ruled out stimulating the economy through lower interest rates in the wake of the recent sharp fall in gold and foreign exchange reserves.

Dave Mohr of Old Mutual and Jos Gerson and Heather Kenyon of brokers Davis Borkum Hare (DBH) yesterday joined the growing number of economists predicting negative growth for 1993.

In Old Mutual's Economic Monitor, Mohr says gross domestic product is likely to fall by 0,5 percent this year, while DBH predicts a 0,6 percent drop.

As recently as February most economists were forecasting positive growth of between 0,5 and 1,5 percent.

He lists three factors, which would contribute to negative growth:

- Lower-than-expected international growth.
- A rise in the real level of interest rates after the recent decline in inflation.
- The 40 percent fall in gold and foreign exchange reserves since August 1992, as a smaller current account surplus failed to match accelerated capital outflows.

"Should the drain on forex reserves continue in coming months, the authorities could indeed decide to raise interest rates," Mohr says.

DBH says the assassination of Chris Hani could not have come at a worse time for the economy.

"Ten months ago we would have been able to weather the storm, as we did in the aftermath of the Boipatong massacre, because the net reserves stood at R12 billion.

"Now they stand at little more than R5 billion."

Talks logjam hits credit

49 ARG 1/5/93

BRUCE CAMERON
Business Staff

SOUTH Africa's failure to reach political agreement on a new constitution has effectively prevented South Africa from escaping the debt standstill which has bedevilled the economy for eight years.

Instead the country has had to reach yet another arrangement with creditor international banks to repay over seven years the R16,3 billion which will still be outstanding at the end of the year.

This in turn places pressure on the overall balance of payments which has to be kept in surplus to enable the country to meet debt commitments.

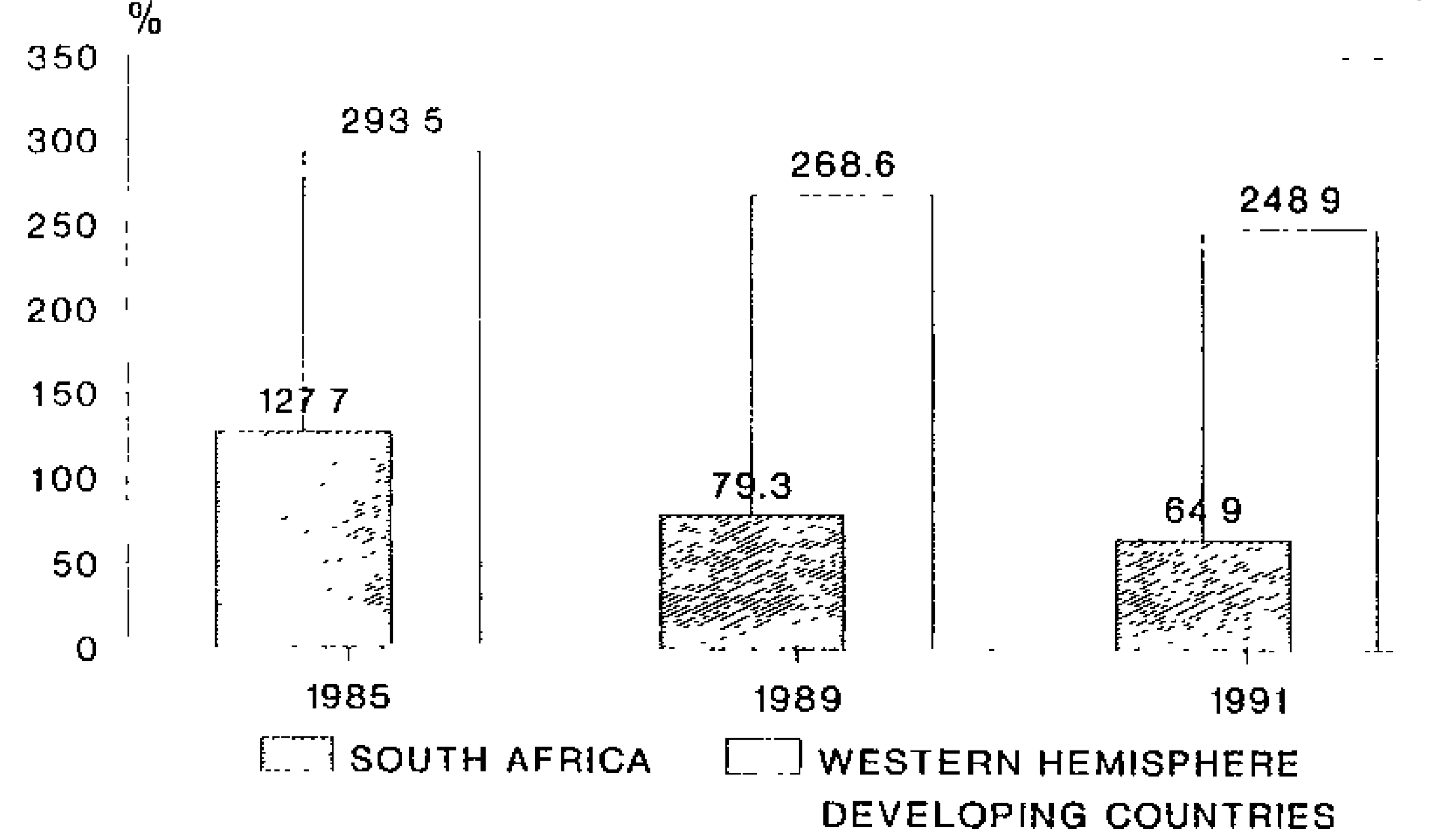
This, at the moment, can be done only by restraining imports and keeping a lid on the economy.

South Africa is in the strange position of being technically a debt defaulter while at the same time having one of the world's better debt profiles to the extent that the country is often described as under-borrowed.

An indication of this are South Africa's current debt ratios.

Bankers tend to do a comparison with export earnings, which are a better indication of a country's ability to pay.

FOREIGN DEBT TO EXPORT EARNINGS



South Africa's foreign debt is equal to 64,9 percent of export earnings in 1991 against the 248,9 percent for the basket of developing countries.

An example that really drives home the position is that Nigeria's debt service (the amount paid in interest) is about 70 percent of annual export earnings — this against the 64,9 percent of total export earnings for South Africa.

When South Africa declared the standstill on debt in 1985 the country was left standing exposed with 70 percent of foreign debt due within 12 months. The country had no reserves to meet the demands and in the Butchers' Guild Hall in London later that year Reserve Bank Governor Dr Chris Stals negotiated the terms of the first of the four debt standstill arrangements with representatives of almost 400 banks.

Bankers are full of praise for the economic factors but are staying away because of the failure of South Africans politicians to reach agreement and the ongoing violence.

Even the International Monetary Fund has now signalled South African politicians to forget about making any applications even for assistance in paying for the grain imports required for drought relief until there is agreement on a new constitution.

South Africa re-entered the Eurobond market in August 1991 when political prospects looked quite good but still had to pay a premium (basically for political risk) of just over 1,5 percent over other benchmark issues.

However after Boipatong and the breakdown of negotiations South African paper on the secondary market was providing a yield of almost 3 percent over German stock yields.

In brief, what South Africa needs instead of debt standstill arrangements is access to the IMF to provide security if faced with a deficit on the balance of payments, opening the way to borrowing at favourable rates and for longer periods on the capital markets.

Only then will the country be free of the economically undermining debt standstill arrangements. And this will come only when there is political agreement.

SA reputation close to being restored

(49)

S Times (B455) 2/5/93.

IT MAY be at least a month before a final arrangement on South Africa's $5,5-billion debt covered by the standstill is concluded with its foreign creditor banks, **JOHN CAVILL** reports from London.

After two days of what were termed "preparatory discussions of a technical nature", Reserve Bank officials flew back to Pretoria to brief Finance Minister Derek Keys on the reaction of creditors to their proposals.

Banking sources in London believe an agreement in principle has been reached on the terms under which SA will clear the outstanding "debt-in-the-net" by the year 2 000.

The final deal to follow the Third Interim Arrangement, which expires at the end of this year, will restore SA's good name as a borrower on the international markets — especially if it is backed by the multi-racial transitional government and a lessening of violence.

But, say bankers in London, the South Africans are treading "with sensitivity" before formally reaching an agreement.

One says: "They don't want to present a fait accompli before the government in power is more broadly representative of all constituencies in South Africa."

Surprise jump in inflation to 9,7%

By ZILLA EFRAT

INFLATION rose to a surprising 9,7% in March — up from February's 9%. Many economists had forecast an increase of 8,7%.

The increase took the wind out of some good economic news.

Finance Minister Derek Keys announced earlier that gold and foreign-currency reserves had turned around in April after plummeting to a two-year low of R7,5-billion in March.

The worst could be over for South Africa's reserves, especially because the drought has been broken.

Rebuilt

But Nedbank chief economist Edward Osborn expects the balance of payments to remain under pressure for the year as a whole.

A major reason is SA's foreign debt repayments which could be as high as $1,5-billion in 1993 and largely fall outside the standstill net. The higher interest premium paid on SA's debt points to a general repayment of loans more than a rolling over of debt.

Southern Life chief economist Mike Daly says net reserves will have to be rebuilt from their present one month's import cover to at least two months before interest rates can fall. This might happen only by the yearend at best.

Disastrous

Positive factors, however, are the strengthening rand price of gold and falling German interest rates where many of SA's loans are sourced, as well as possible International Monetary Fund assistance if a political settlement is reached.

Economists say the mixed news highlights how little room Reserve Bank Governor Chris Stals has to manoeuvre.

He may wish to lift interest rates to protect the reserves and rand exchange rate, but that could be disastrous for the real economy.

Some economists say Dr Stals' limited scope for action could cause the rand to depreciate in real terms against a basket of currencies for the first time since 1989.

The exchange rate has shown a 4% nominal weighted drop in the first four months this year — 1% in real terms.

March money supply growth, which will be announced in the coming week, is expected to remain below the Reserve Bank's 6% to 9% guideline.

Show me yours, I'll show you mine

S Times (Buss) 2/5/93

49

My equation is better than your equation. Comment by **KEVIN DAVIE**

SINGAPORE Prime Minister Goh Chok Tong is worried. He tells the Financial Times that Singapore's stunning economic success (growth of 6% to 7% is predicted for this year after 5,8% last year) "is part of our misfortune".

Continued growth, he says, is his principal concern. Without it, the stability of the island republic might be threatened.

"We've got to worry all the time. If we lose our competitive edge, I think the whole house may collapse. If we are not competitive, say, with China. we will find that China will suck in our investments very quickly ... A hollowing out of the economy may take place very quickly ... This anxiety element is something we have got to live with."

It is this clinical focus on competitiveness which gave Singapore top ranking among newly industrialised countries in last year's world competitiveness report.

South Africa, by contrast, facing another year of no growth, was lowly ranked on most criteria.

A major difference between the two countries, of course, is that SA's divisive politics has not generated consensus on a winning economic vision.

So while Mr Goh worries about keeping an edge on the fast-growing Chinese economy, the not-so-great SA economic debate is right now bogged down in a trivial war about equations.

SECRECY

These are the equations used to generate economic statistics in the Government's normative economic model.

Labour representatives in the National Economic Forum have asked that the equations be disclosed. Refusal to do so has led to much speculation about the reasons for the secrecy.

ANC-aligned groups have produced their own economic models and the Government has responded with a "you show me yours, I'll show you mine" promise.

The great equation impasse caused some confusion this week among participants at the Aspen Institute-Idasa conference on SA's international economic relations.

The conference at Mabula Game Lodge in the Northern Transvaal was arguably the highest-powered gathering of economists in SA to date.

There are several reasons for their being bemused. Economic modelling is seen as a useful adjunct to policy making, particularly to test the compatibility of various parts of an overall programme. But to allow a policy debate, delegates said, some with frustration, to become bogged down over modelling equations was to miss the point entirely. You don't need sophisticated econometric equations to run a successful economy. One delegate, Duck-Woo Nam, former Prime Minister of another success story, South Korea, offered a simple recipe. His message was not to "do the same as we did — try to avoid our mistakes".

"International competitivenesss," said Mr Nam, "means producing better products for lower prices than other countries competing in the international market."

FOCUS

The Mabula conference had been scheduled to be held after the installation of an interim government — an event which is still some time away.

There has been progress on economic issues. An economic plan has been tabled, but its focus has to be on aspects which will improve our competitiveness.

Equations won't suck in investment.

How to get moving again

S Times (Buss) 2/5/93

SOUTH African businessmen will be able to learn about the South American experience of stimulating flagging economies when the Institute of Directors (IOD) hosts its annual conference in June

IOD executive director Richard Wilkinson says. "Business can no longer wait for the politicians to solve the country's financial woes Although a stable political dispensation is vital for foreign investment, local business can create growth by following successful models to be found both locally and internationally "

The IOD has invited two prominent South Americans to the conference — Hernan Buchi Buc, a former Minister of Finance of Chile and instrumental in his country's economic recovery in the mid-1980s, and Roberto Teodoro Alemann, a former Minister of Economy in Argentina who has much experience in the renegotiation of foreign debt

SA's best shot lies with govt, business and labour troika

(49) BDAY 3/5/93

JIM JONES

(49)

IN its death throes, the De Klerk government's imperatives have increasingly become short-term. Worse, De Klerk can no longer attract appropriately competent people into his cabinet.

Meanwhile, as the economy slides, government pays lip service to solving the problems it has created and seeks salvation in macro-economic policies that are of limited use unless backed by micro-strategies. The situation is exacerbated by tinkering in response to special interest pleadings rather than as part of a policy designed to provide broader benefits.

Responsibility for defining strategies and policies which will have a chance of solving our economic conundrum has moved and must move away from the present government. That unstated view motivated last week's conference — SA's International Economic Relations in the 1990s — organised by Idasa and the Aspen Institute. It echoed Finance Minister Derek Keys's contention that economic success depends on co-operation between the government, business and labour triad.

The conference's common thread was that SA's best objective would be growth and employment creation through international trade. But that must take into account the fact that exports and international funding will not follow automatically from the introduction of majority government or formal ending of sanctions.

If we are to emulate other fast-developing economies, our policies, like theirs, should be co-ordinated and integrated as part of a national plan enjoying broad support. That does not imply an SA version of Gosplan — far from it. Government intervention will be crucial to facilitate our economic restructuring as it was crucial in the OECD countries.

If we are to attract foreign investment it will be through our own efforts which show SA to be an attractive base for multi-nationals.

SA has been ostracised for too many years and will need to ride a sharp learning curve if it and its neighbours are to emulate the economic performances of other fast-developing countries.

One common conception is that, with an internationally acceptable government in power, this country will benefit almost immediately from easier access to the sub-Saharan region. It will, and no-one disagreed with the idea that greater regional economic integration was something to be pursued as part of SA's economic strategy. But not necessarily as the most important part.

There are regional opportunities and mutual benefits: markets for SA goods technically too poor to be accepted elsewhere, openings for industries such as mining in which SA's skills are among the world's best; internationally funded projects for which SA firms could now tender and greater use of our infrastructure by our neighbours.

Access is unlikely to be unconditional, as UCT professor Francis Wilson and Laurence Cockroft of the UK's Oxford International Associates pointed out. Regional integration implied a willingness by SA to rely less on its own resources and, for example, to trade manufactured goods for maize from Zambia or electricity from Zaire.

And how would a government sensitive to domestic unemployment react to demands that migrants be free to work here in exchange for trade concessions?

Regional integration will be no simpler for sub-Saharan Africa than it has been for Europe. It might be more difficult for a protectionist SA than for countries which have already responded to IMF demands for reduced trade barriers.

Essentially, though, our export future lies in producing manufactured goods for sale to the OECD countries. That will involve broad restructuring to make our products internationally competitive. Decades of protectionism and encouragement of import replacement industries have left most SA manufacturers unprepared for the rigours of an export-driven economic environment. Decades of apartheid have left us with a mass of poorly skilled workers who will have to be trained.

Our clothing and textiles industries are cases in point. Neither is internationally competitive despite years of protection from imports. That would seem to confirm the contention that we need exposure to free international competition as part of the process of improving our technological capabilities. Investment in new plant and equipment and a stern bout of wage restraint are alone insufficient to make our goods competitive in export markets.

It may seem heretical to some SA manufacturers, but there is evidence that low wages can restrain development. Low wages provide little incentive to improve labour productivity. Exchange rate policies which concentrate simply on making basic products price competitive abroad can also impede development.

Nevertheless we have to move away from exchange rate policies designed to prevent capital flight towards policies which stimulate exports.

We have the most advanced manufacturing sector in Africa, with established competencies in many industries. And yet, according to Sanjaya Lall of Oxford University's Institute of Economics and Statistics, large parts of SA industry are neither competitive nor technologically dynamic. We are internationally uncompetitive in products ranging from high-tech electronics to labour-intensive garments.

Of course we have access to foreign technology, but transfers from abroad are generally accompanied by restrictions on making use of the technologies to export.

Competition from abroad, Lall believes, will accelerate our acquisition of technological capability. So, too, would be the development of mid-sized enterprises which our highly concentrated economy lacks. Conglomerates and industrial groups have a purpose if they provide for skills transfers. But it is difficult to see what apart from financial skills are transferred between gold mines and pulp mills lumped under one corporate umbrella. Our conglomerates require little by way of incentives; they have the resources to finance new plants and see them through initial years.

Incentives might be better directed to establishment of smaller, innovative firms which produce new, competitive export products.

Market-friendly intervention or intervention which does not interfere with resource allocation would be necessary to overcome competitive backwardness. Government intervention cannot be selective and intervention which provides protection for specific industries must be conditional on export performance.

Finally a future government is more likely to be able to count on the support of organised labour than the present one. The broad union movement realises that SA faces a crisis of expectations, but that instant gratification is neither possible nor wise. It has proposals for creating an industrial structure that can provide growing, long-term employment.

The days when unions and opposition parties might have believed in the possibility of a state-owned utopia are long gone. They, arguably, have adapted more rapidly to the new SA than have establishment groups. And that adaptation has been accompanied by a burst of creative economic thought. Tapping that and integrating it with the best from business and government will, as Keys never tires of saying, be essential if our economy is to succeed.

Short-term growth prospects linked to political settlement

Star 3/5/93

By Sven Lünsche

(49)

While the economy is expected to show negative growth this year, the fundamentals are in place to boost growth by four percent in 1994 and 1995.

Board of Executors economist Rob Lee says the achievement of this potential hinges on politicians.

Writing in the BoE's Investment Outlook, Lee says the recent upsurge in violence and renewed mass action had further worsened short-term prospects.

Combined with the post-VAT buying slump, this will result in exceptionally weak performance in the second quarter.

"The absence of rapid political progress means the economy will record another year of negative growth in 1993, and undermines the potential that is otherwise building for a significant recovery in economic activity in 1994," Lee says.

The positive fundamentals include:

- Improved prospects for the international economy and commodity prices.
- The improvement of the dollar gold price.
- The turnaround in agriculture.
- Extremely low inventory levels.

"The economy now desperately needs a breakthrough in the political negotiation process and a significant reduction in violence to restore business, consumer and foreign investor confidence.

"This would reverse the recent substantial outflow of foreign capital, including assistance from the IMF and the World Bank, that is waiting in the wings.

"Foreign exchange reserves would then rise again and thus allow interest rates to fall to levels more appropriate to the much lower money supply and an underlying single-digit inflation rate."

Star, 3/5/93

Mining industry's share of GDP slumps to 1970 level

By Clairè Gebhardt

In little more than a decade, from 1980 to 1991, the mining sector's share in South Africa's total GDP has plummeted almost to its 1970 level — from 22 percent to 10,4 percent.

But, according to Unisa's Bureau for Market Research, the industry continues to play an important role in economic growth, with a 29 percent share in total exports in 1991, and as a major consumer of goods and services.

In a recent study on the major income and expenditure items of all the large mines, the bureau says spending on four major items, stores consumed, salaries and wages, dividends and payments to the Government, has undergone major structural change since 1980.

- The share of dividends paid by the mining sector has declined steadily from 21,8 percent in 1980 to 14,1 percent in 1981 to 9,8 percent in 1990.
- The contribution of mining tax as a percentage of the country's total tax has also dropped to its lowest level in 13 years - from 19,3 percent in 1980 to 9,7 percent in 1990;
- Stores consumed increased its share from 37,8 percent in 1980 to 47,5 percent in 1990, but more was spent on working costs or less on capital expenditure;
- The share of total salaries and wages rose from 21,1 percent to 33 percent over the same period — largely as a result of higher wage increases.

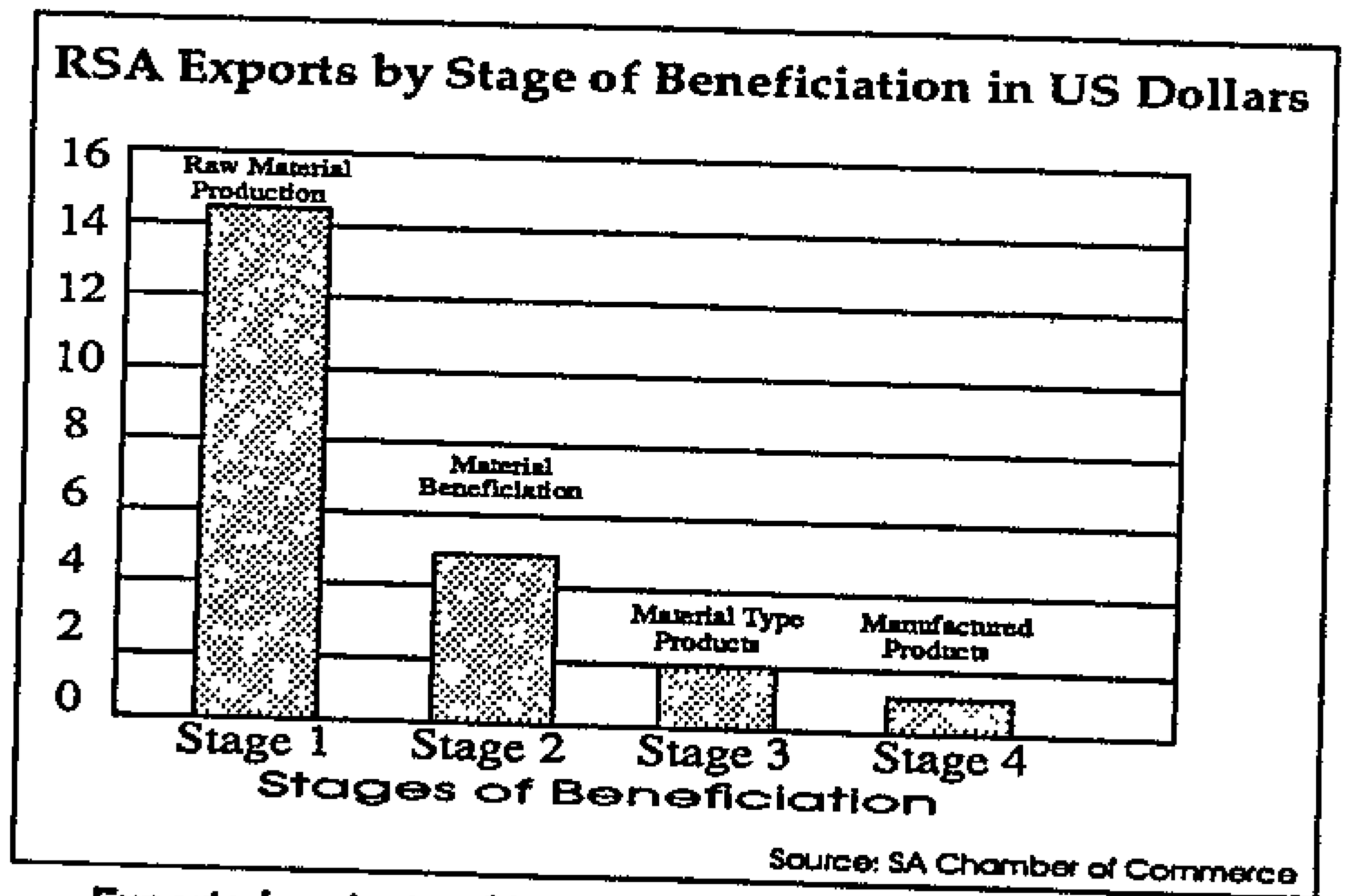
The gold mines, which represented 56,6 percent of the total market for stores in 1990, were successful in controlling the escalation of working costs.

"The annual percentage increase in working costs per kilogram of gold produced plummeted from 25 percent in 1987 to 1,6 percent in 1991.

"This, together with the slight increase in the average grade of ore milled from 5,05 grams/ton in 1990 to 5,20 grams/ton in 1991, pushed up working profit per ton by 3 percent between 1990 and 1991."

The report shows that the bulk of SA's exports is in beneficiation stage 1 or raw material production, while the bulk of imports is in stage four — manufactured type products. (See graph).

With the growth potential of the world economy being in manufactured type products, SA "still has a long way to go".



Exports by stage of beneficiation 1989 (Source Sacob).

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Dual tax draws flak from foreign bank

BIDM 3/5/93

KELVIN BROWN

THE new secondary tax on distributed profits could be criticised for being economically inefficient and encouraging a greater concentration of SA industry, the Bank of Lisbon said in its April Economic Focus.

In the 1993 Budget company tax was cut to 40% and a 15% secondary tax on distributed profit was introduced.

By encouraging retention of profits, the dual profits tax would weaken the influence of SA's capital market.

"Investment resources retained by companies would not be subject to the test of the market, creating the danger that funds would not be invested efficiently."

There was also the danger that directors would treat retained earnings with less care since these were viewed as cheap capital.

BIDM 3/5/93.

The economy would be better served if companies were encouraged to distribute profits which they could not use effectively themselves. There would then be the chance that profits would be invested more effectively by shareholders. Capital market supporters claimed that shareholders tended to invest resources in the most economically desirable channels, the bank said.

Under the dual tax system there was the risk that some firms would put retained income into ventures that yielded a lower rate of return than if the money had been distributed to shareholders. "Some analysts argue that the average director thinks he will lose more in prestige when a project fails than he would gain when extaordinary profits accrue by taking a special commercial risk."

The dual tax system could further reduce competitive elements in SA's economy and strengthen corporate control. By encouraging retained earnings the new tax system would strengthen the position of large firms, which could use accumulated reserves to take over other companies since stringent exchange controls ruled out new foreign investments.

Bankers silent on SA debt rescheduling

Star 3/5/93

LONDON — Talks to reschedule $5 billion of SA debt to commercial banks have ended, but participants closed ranks on Friday and refused to comment on the politically sensitive issue.

Banking sources said there would be no statement from either side in the negotiations.

"I can't tell you anything about what happened," said a banker involved in the talks. "In fact, I can't even confirm that a meeting took place."

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Several British banks, including Barclays, National Westminster and Standard Chartered, have large exposure to South Africa and were represented at the meeting.

Freeze

SA's debt has been the subject of three rescheduling arrangements since international banks imposed a freeze on new credits to the country in 1985.

Of SA's total $18 billion debt, $5,5 billion now is left in the standstill net and, after payments due later this year, this will be reduced to $5 billion by the end of the year — the sum which was the subject of last week's discussions.

In theory, if no new rescheduling agreement were reached, the whole amount would become due at the end of the year.

The two sides are thought to have discussed a seven-year payment schedule whereby SA would pay $350 million for the first four years and, subject to an agreement being reached with the International Monetary Fund, payments would rise sharply to $1,2 billion per year for the remainder.

The interest rate on the deal also formed part of the discussions, banking sources said, with SA pressing for a reduction in the current margin of seven-eighths of a percentage point over the London interbank offered rate (Libor).

Some bankers have expressed surprise that the deal seems so close when the two sides have until the end of the year to reach an agreement.

Deal

But banking sources said this could be explained by the need to sell the deal inside South Africa.

They expect the Reserve Bank, which was represented in London by deputy governor Chris de Swart, to report back to the Government on the deal and for the Government to begin a consultation process.

"This remains a politically sensitive issue," said one banker, "and it has to be treated accordingly. There are certain hurdles that have to be passed before the deal can go ahead."

Banking sources said South Africa's creditors were being offered a good deal, which they expected to be honoured by any future government. "This is basically an offer the banks can't refuse — a debtor that pays its bills and a very juicy margin," said one banker. — Sapa-Reuter.

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BDM 3/5/93

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NEWS IN BRIEF

Wiehahn task group

THE Manpower Department has appointed a task group under the chairmanship of labour specialist Prof Nic Wiehahn to investigate the Industrial Court.

The group includes employer, trade union, government and Industrial Court representatives and its investigation will cover the administration of the court as well as its presiding officers.

The court has had credibility problems — especially as far as unions are concerned — because of the unpredictability of a perception that it is geared to management needs.

BIDAY 3/5/93

Christian TV opens

CHRISTIAN Network, televised on M-Net's spare transmitter, began its first broadcast yesterday with a discussion programme including President F W de Klerk and church leaders.

De Klerk said the roles of state and church often overlapped but that the two should not interfere with each other's sovereignty.

Freedom in focus

VIOLENCE against journalists in SA in the past three weeks has put Press freedom in "sharp and tragic focus", says International Federation of Journalists general secretary Aidan White.

In a message issued to mark the UN's World Press Freedom Day, White said: "The brutal and outrageous acts of violence against journalists in SA in recent weeks (...) illustrate how much has to be done to make the World Press Freedom Day dream come true."

BIDAY 3/5/93

Pringle awards

THE English Academy of Southern Africa has invited submissions for the Thomas Pringle award, sponsored by the Achievement Management group of firms. Awards will be made for reviews of plays, books and TV series, educational articles and poetry published in 1991 and 1992. Entries must be submitted by May 31.

REPORTS Business Day Reporters, Sapa

SA recovery 'in political hands'

BIDAY 3/5/93.

LINDA ENSOR

CAPE TOWN — The gradualist approach towards lowering the exchange rate through fundamental economic reform heightened the risk of the process being sabotaged by politicians, Board of Executors (BoE) senior portfolio manager Rob Lee said in the latest Investment Outlook.

He urged the speedy implementation of the objectives outlined in the normative economic model (NEM) in order to enhance the international competitiveness of SA's economy. These objectives included the abolition of exchange control, lower and simpler import tariffs and the abolition of the import surcharge.

"Our concerns about the implementation of the NEM boil down to a fear that 'political realities' will prevent an adequate reduction in the size of the public sector and impose a far too gradual timetable for the lifting of exchange control and tariff protection," Lee said.

Instead of lowering consumption expenditure's percentage of GDP by merely holding government spending levels in real terms while economic growth resumed, the absolute size of government needed to be cut first.

Lee felt it would be appropriate to implement the economic model within the next few months when the international economy had begun moving into a sustained recovery.

While the economy had the potential to grow at rates of 4% and more in 1994/95, this potential was unfortunately in the hands of the politicians. The lack of rapid political progress would probably result in another year of negative growth, while mass action campaigns would also worsen prospects.

Lee pointed to several favourable factors, such as the improved prospects for the international economy and commodity prices; the uptick in the dollar gold price, and agricultural recovery. A reduction in interest rates before year-end was possible if the capital account improved.

He believed a boom in commodity prices would make the economic adjustment process less painful. The commodity cycle might be close to its bottom, although slack demand and high levels of stock meant there would not be a significant strengthening in prices until well into 1994.

"A sustained uptrend in commodity demand and prices from the mid-90s may yet provide SA with an opportunity to lift itself off its 'low road' economic growth path," Lee said.

The dollar gold price had technically broken its long-term bear trend, while fundamentally gold's supply-demand situation was very positive.

Delta invests R195m in tooling upgrade

TRACY SCHNEIDER

DELTA Motor Corporation has invested R195m in tooling and improved plant technology for the launch of the new Opel Kadett and Astra. BIDAY 3/5/93.

MD Willie van Wyk said Delta had passed the "true test", funding investments solely out of cash reserves without resorting to borrowings.

Delta had been profitable for each of the past six years, he said. The way forward now was to focus on customer requirements and the elimination of inefficiency and waste.

The Astra is Delta's first completely new passenger car.

Adam Opel AG chairman and MD David Herman said at the launch of the Astra that Delta played an important role in Opel's global sourcing and development of international export markets. An Opel audit of the new Astra and Kadett had endorsed Delta's quality levels as being on a par with those at Opel's European plants.

MONEY MARKETS by Tim Marsland

National stokvel could help

A KEY problem facing a new government in SA will be how to raise the funding needed to get the country back on an even keel. (49)

Some of the requirements will be satisfied from offshore, but the local market will remain a key source of funding. The capital market could become expensive if it suspects there is going to a significant increase in the supply of government paper.

One source of income could be to issue a national bond, accessible to all private investors. SA lends itself to such a fund because of its unique culture of stokvels (the process where money is pooled for the common good of a community). The fund would in effect be a "national stokvel".

The interest rate would be fixed, but the capital value of the bond would be determined by the market. An investor wishing to sell the bond, would sell it back to government rather than to a third party.

Such a bond could today yield around 15% (the current rate government is funding at), not bad compared with interest rates offered by banking institutions. (1537)

A similar system operated during the '80s in the form of Bonus Bonds, used to fund the defence force. These paid a low interest rate but the capital value was not determined by the public. Their success lay in the monthly prizes offered. The Bophuthatswana government successfully continues to sell similar bonds with monthly prizes. Municipal bonds in the US are sought after by the middle class. BDAY 3/5/93.

The system would be managed via a national computer system such as that operated by commercial banks. An account would be opened in the name of the investor rather than handing out pieces of paper, which lends itself to forgeries.

Giving people a direct stake in the country is a sure way to instill national pride.

Money supply growth reflects capital outflow

Star 4/5/93

By Sven Lünsche (49)

Large outflows of capital in the first quarter this year were reflected in the continued decline in money supply growth in March.

Reserve Bank figures released yesterday show that the year-on-year rate of growth in M3 fell to 5,15 percent — its third successive monthly decline.

In January M3 growth was 5,33 percent and in February 5,18 percent.

Since mid-November 1992, which is the base for the bank's 1992 money supply guidelines of six to nine percent, M3 has actually fallen by an annualised 1,79 percent, compared with a positive 0,68 percent in February.

The low money supply growth, which also reflects weak demand for credit, provides renewed evidence that the economic recession has still not bottomed out.

It also shows clearly that capital outflows continued virtually unabatedly this year.

Economists believe that if it were not for these balance of payments pressures the weak money supply growth would have led to a further relaxation of monetary policy.

Technology the key, US adviser says

(49)

CT 4/5/93

Staff Reporter

THE economic key to the future of South Africa lies in science and technology, which are synonymous with education, according to an adviser to former US president Mr George Bush.

In an interview yesterday Dr Allan Bromley, science and technology adviser to Mr Bush, said unless South Africa had a workforce educated to use appropriate technology, the country "could not go far" economically.

He said increased co-operation in the field of science and technology between the US and South Africa had a lot to contribute to the solution of this country's education problems.

He said the US, together with the rest of the world, has a "vested interest to resolve the situation in South Africa as soon as possible".

Invited to South Africa by the Foundation for Research Development, the Council for Scientific and Industrial Research and associates from Wits University, Dr Bromley said his experience and knowledge was required to help formulate South Africa's science and technology policy

While in the city, Dr Bromley had talks with top level offials, including President F W de Klerk, Minister of Finance Mr Derek Keys, Minister of National Education Mr Piet Marais, and Dr Chris Garbers, chairman of the Scientific Advisory Council.

After meeting with Mr De Klerk yesterday morning, he said he was "extremely impressed by the president's vision for a future South Africa".

R5-m for societies promoting pluralism

Star 4/5/93

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Staff Reporter

Societies promoting democracy in South Africa will soon be able to access R5 million provided by former Hungarian refugee George Soros, now a multi-millionaire.

He floated the 19th chapter of his organisation, the Open Society Foundation (OSF), in South Africa at the weekend with the assistance of the Institute for a Democratic Alternative for South Africa (Idasa).

The OSF said in a statement yesterday it would seek to promote human rights and civil liberties, strengthen a vigorous and autonomous society, promote political pluralism and create an educational system which promoted these values.

Stringent criteria have been laid down for societies hoping to benefit from the OSF fund. They will have to have an ongoing, institution-building impact; have an emphasis on sustainability; mutually reinforce each other where possible; and intend using the funds for delivering of projects.

No beneficiary may promote any form of discrimination and no funding may go to operating expenses; construction; endowment funds; charities, conferences and institutional research; political campaigns or party-political organisations; fund-raising events; inventions or private profit-making ventures; short-term emergency relief; scholarships and bursaries.

OSF board member Dr Alex Boraine said the foundation was thrilled that the University of Cape Town had agreed to allow its deputy vice-chancellor, Professor Michael Savage, two years' extended leave to fill the role of OSF executive director.

Other members of the board are Dr Van Zyl Slabbert (chairman), Fakiler Bam, Anthony Heard, Rhoda Kadilie, Mamphela Ramphele, Khehle Shubane, Peter Sullivan and Helen Zille.

The OSF will be fully operational from July 1 and applications will be considered at the first meeting of the board on July 26.

Boraine said one of the first beneficiaries would be a governance school in the western Cape. South Africa desperately needed more people who understood how government administration should work, he said.

Reincorporation 'is not an option'

MARIANNE MERTEN

BOPHUTHATSWANA's reincorporation into SA was not a viable option if the homeland's pension fund benefits could not be guaranteed by a future SA government.

Addressing a meeting in Mmabatho on the current position of the government pension fund yesterday, Bophuthatswana Manpower Minister the Rev Simon Seodi said it was clear that there would be little or no control over Bophuthatswana's Sefalana Employee Benefit Organisation (Sebo), if it was merged with the SA pension fund. BDM 4/5/93

The SA scheme was in deficit because it had lent about R40m to government and it was uncertain when the money would be repaid, he said.

It was obvious that funds from Sebo — which had build up a surplus of about R84,1m according to the latest actuary reports — would be used to make up the deficit, Seodi said.

Sebo had given "every Bophuthatswana citizen a very real stake in the country" because contributions were invested and people were able "to see the results".

Sebo had started with assets worth R600m which had increased to about R3bn.

Govt reviewing releases of political prisoners

BDM 4/5/93

TIM COHEN

CAPE TOWN — Government was reviewing all the political releases which had taken place over the past three years, Correctional Services Minister Adriaan Vlok said in Parliament yesterday.

Vlok was introducing the debate on the Correctional Services Amendment Bill, which provided for the rearrest of prisoners released in error.

"There will not be a second (Lucky) Malaza. We're doing everything in our ability to make sure this does not happen again. If it does, we will have to set it right," he said.

The legislation could affect at least one prematurely released prisoner, Malaza, who is currently being held in Bophuthatswana after allegedly being involved in a bank robbery.

Vlok said that in spite of the more than 10 000 releases processed by his department a month, only a few mistakes had been made.

The legislation also provided that prisoners would serve their entire term of imprisonment, in one form or another.

Prisoners who were not suitable candidates to serve portions of their sentences in the community would be kept behind bars for the full duration of their sentences, Vlok said.

"We are convinced that this policy will be crime preventative and we believe that it will serve as an important deterrent."

The legislation also proposed a new disciplinary system, which Vlok said would bring SA into line with international practice. This was scrapping corporal and dietary punishments, and instead awarding or withdrawing privileges.

W A Botha (CP Uitenhage) said his party would support the Bill if it would help bring reduce SA's high crime figures.

He said the CP had warned government against political releases of ANC and PAC prisoners.

DP MP Tony Leon said although the DP supported the Bill, it was ironic that while the Correctional Services Department was scrapping corporal punishment, it was not ruled out in the Justice Department's proposed Bill of Rights.

Reconciling economic and political demands

DURBAN — A major dilemma confronting African countries was to reconcile the demands of economic and political liberalisation simultaneously, Small Business Development Corporation MD Ben Volsoo said yesterday. (49)

Addressing the International Council for Small Business Southern Africa, Vosloo said in practice this meant reducing the role of the state in the economy while at the same time increasing the role of the people in the political process. BDM 4/5/93

This had to be done without succumbing to unrealistic expectations and rampant populism.

"Successful Pacific Rim countries pursued economic growth before they started to pay proper attention to political democratisation," Vosloo said.

Many African countries, in contrast, unsuccessfully followed Kwame Nkrumah's example in Ghana by opting for the primacy of politics. "The simple truth is that a stable, free and responsible political system can only be built upon the foundations of a sound and productive economic substructure."

Small Industries Development Bank of India GM G K Saxena told the conference that efforts by the Indian government and institutions had enabled the small scale sector to develop as an important part of India's economy.

The sector now accounted for as much as 80% of employment and 61% of total value of industrial production in the manufacturing sector, Saxena said.

It also contributed 57% to India's 1990/'91 exports. — Sapa.

Graphic LEE EMERTON Source. RESERVE BANK

March decrease in money supply

6/0AM 4/5/93

(49)

GRETA STEYN

MONEY supply figures for March provided evidence of an economy in the grips of recession and balance of payments pressure as the annual growth in the stock of money fell for the fourth month in succession to 5,15% from 5,18% in February.

Economists said slack credit demand and an outflow of foreign exchange had combined to dampen expansion in the money supply. Reserve Bank figures showed the stock of money in the economy declined between February and March to R195,2bn from R196,9bn.

As a result the percentage change at an annual rate from the base of the current guideline year was negative (1,79%), from a positive 0,68%.

These growth figures compare with the target range for growth in the money supply for the year of 6%-9%, showing that the stock of money is expanding at a much slower rate than the Bank's projections.

Bulls in the money and capital markets are expected to seize on the figures as a sign that the monetary policy reins might be slackened because of the recession, despite the sudden increase in inflation.

But economists said an examination of factors driving the money supply indicated the need for caution. Changes in the money

☐ To Page 2

Money supply

6/0AM 4/5/93

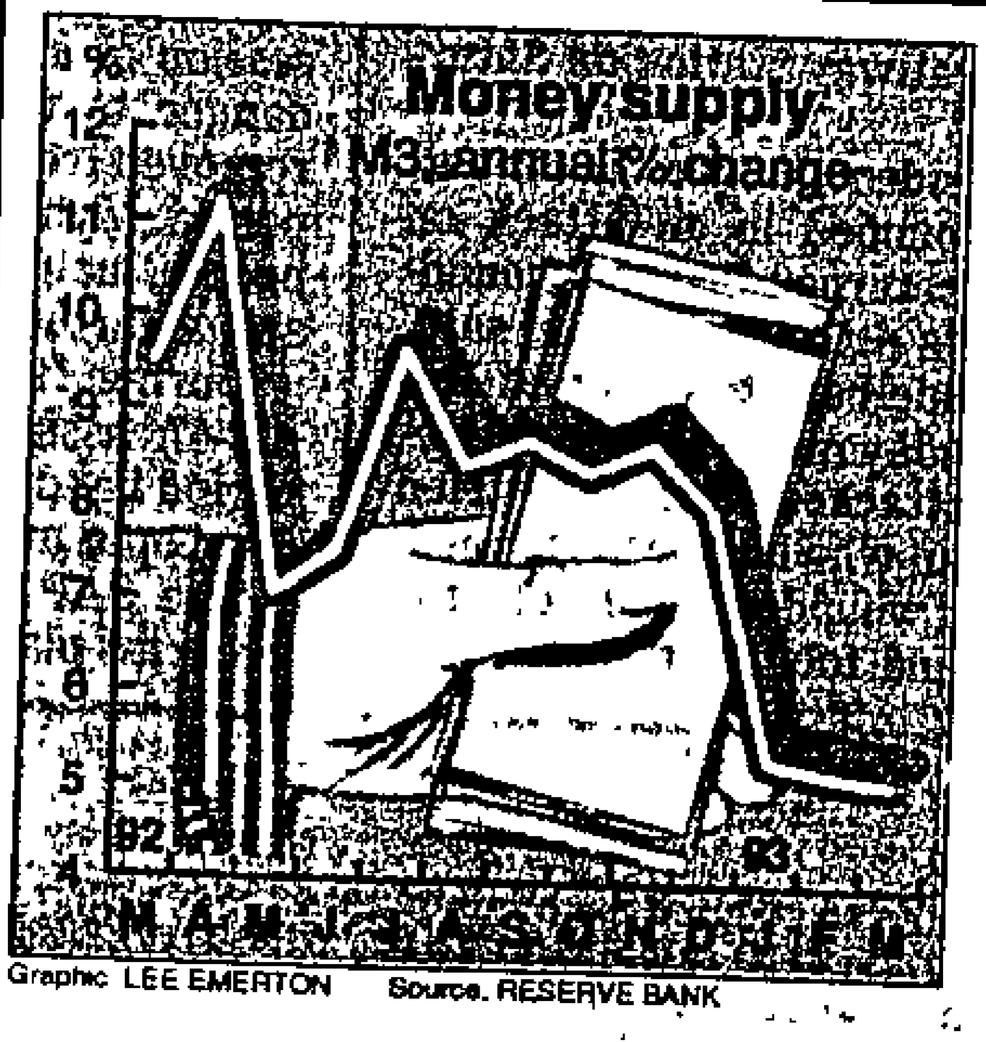
(49)

☐ From Page 1

supply reflect not only domestic credit extension, but also foreign exchange flows. The fall in the March foreign exchange reserves suggested BoP problems were a major factor behind the decrease in the money supply between February and March.

The Bank's figures showed credit extended to the domestic private sector increased sharply by R3bn between January and February, the latest available numbers. The annual rate of increase in credit extended to the private sector had risen for three months, but economists said it was too soon to tell whether this was a sign of the recession easing. Credit expansion had not been enough to offset the effects on the money supply of the capital drain.

The annual rate of growth in credit extended to the private sector has risen from below 7% in November to 8,82% in February. However, money supply growth has fallen from 8,66% in November to 5,18% in February and 5,15% in March.



Graphic: LEE EMERTON Source: RESERVE BANK

March decrease in money supply

GRETA STEYN

MONEY supply figures for March provided evidence of an economy in the grips of recession and balance of payments pressure as the annual growth in the stock of money fell for the fourth month in succession to 5,15% from 5,18% in February.

Economists said slack credit demand and an outflow of foreign exchange had combined to dampen expansion in the money supply. Reserve Bank figures showed the stock of money in the economy declined between February and March to R195,2bn from R196,9bn.

As a result the percentage change at an annual rate from the base of the current guideline year was negative (1,79%), from a positive 0,68%.

These growth figures compare with the target range for growth in the money supply for the year of 6%-9%, showing that the stock of money is expanding at a much slower rate than the Bank's projections.

Bulls in the money and capital markets are expected to seize on the figures as a sign that the monetary policy reins might be slackened because of the recession, despite the sudden increase in inflation.

But economists said an examination of factors driving the money supply indicated the need for caution. Changes in the money

☐ To Page 2

Money supply

☐ From Page 1

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Slide in money supply growth

(49) CT 4/5/93

Own Correspondent

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The fall in the March foreign exchange reserves suggested BoP problems were a major factor behind the decrease in the money supply between February and March.

Debt plan may lift govt interest bill

BDay 4/5/93. (49) ~~5BA~~ ~~68~~

GRETA STEYN

GOVERNMENT is to issue interest-bearing paper to replace its non interest-bearing debt to the Reserve Bank on the country's forward cover losses — a move which could raise government's huge interest bill.

Reserve Bank money and capital markets GM Andre Kok confirmed that the forward cover debt — estimated by economists at about R10bn — would be replaced by interest-bearing debt as part of the overhaul of the monetary control system announced last week by Finance Minister Derek Keys.

Keys announced that government's deposits would be kept within the private banking system rather than at the Reserve Bank. The change would reduce the Bank's balance sheet and constrain its ability to influence money market liquidity and hence interest rates through open market operations.

To enable the Bank to be active in the money market, government would gradually issue stock to cover some or all of the debt incurred on forward cover losses.

Kok said at present it was difficult to distinguish whether the Bank's activities in the market were to raise funds for government or to influence the money market liquidity. The new system would make a clear distinction between policy operations and funding activities.

Asked whether the move to replace non interest-bearing debt with interest-bearing debt would not raise government's interest bill, he said the effect of the new system of monetary control on government's interest bill depended on a number of factors.

Government would earn interest on its cash balances in the banking system, which would have to be offset against the interest paid on the new stock issued. He added the new stock would be used for "repurchase agreements" — the Bank would buy the stock back once it had achieved its liquidity objectives. The increase in the supply of stock would not put upward pressure on interest rates.

In addition, the Bank's profits were handed to government and should also be offset against any increased interest payments. A group charged with looking into implementing the new system of monetary control would weigh all these aspects.

Bankers said the interest earned on government deposits placed with private banks was likely to be less than the interest on stock issued to cover the forward cover debt.

Mandela calls for changes in JSE

From CHRIS BATEMAN

LONDON — A commission of non-aligned experts should be appointed to review the "unacceptable" control of the Johannesburg Stock Exchange by four major conglomerates and advise a new government, ANC president Mr Nelson Mandela said here yesterday.

Addressing an international media conference, he said he would urge British business to invest in South Africa as this was now "becoming crucial".

As soon as a date for elections had been announced the international community would be asked to invest.

Mr Mandela said stiff trade competition from Eastern Europe and hard-headed business sense had prompted the ANC to try to encourage investors by guaranteeing not to expropriate their property and to allow full repatriation of dividends and profits.

CT 5/5/93

'Entrenched'

Asked about the move by four former police and army generals to consolidate right-wing opposition, he said they were saying "nothing different" from what the late Dr Treurnicht had always said.

He saw the right-wing as the "greatest threat" because they were entrenched in the system.

To allay white fears and stem an exodus, he had met police generals and policy-makers of the Dutch Reformed Church — "the National Party in prayer". He said "A great deal of spade work has been done which is paying dividends."

Another crucial move would be to lower expectations of blacks because it could take as long as five years before a new government could address serious socio-economic problems.

Billion-dollar pledge for SA

CT 5/5/93

If 'we get it right'

From SIMON BARBER

WASHINGTON. — Western nations may pledge up to a billion dollars (about R3bn) in development assistance to South Africa once an agreement on a transitional executive is reached, according to a top Washington-based consultant who has been advising the World Bank on South Africa.

The need for substantial aid to help a new government meet popular expectations is likely be addressed when the seven major industrialised countries — Britain France Germany, America, Japan, Italy and Canada — hold their annual summit in Tokyo in July, Mr Witney Schneidman, vice-president of Samuels International said.

The potential donors to South Africa are considering convening a formal 'consultative group' on South Africa's development needs to be chaired by the World Bank soon after transitional structures are in place.

The bank estimates that South Africa would need investments of four to five billion dollars (R12-13bn) annually to achieve the annual GDP growth rate of four to five percent needed to make serious inroads on unemployment and to meet demands for redistribution.

Mr Schneidman said it was essential that South Africa's political parties agreed as soon as possible on a development agenda so that the aid could be effectively used.

● US 'to aid economic reform' — Page 2

BACK IN MUM'S ARMS ...

TOGETHER AGAIN ... Mabutie Mgigima, 3, was delighted to be reunited with his mother Mrs Mildred Mgigima (left) yesterday, thanks to the combined efforts of his big-hearted temporary minder Mrs Cydnoria Mbali (right) and police, social workers and the Cape Times.

Picture ANNE LAING

TODAY

Cloudy, mild

— PAGE 2

ANC slams gun laws

The ANC has criticised the government's new gun laws, saying they will be interpreted as a measure to disarm blacks and not whites

— PAGE 2

Security meeting

AWB leader Mr Eugene Terre B-lanche and Law and Order Minister Mr Hernus Kriel yesterday met for over an hour to discuss the deteriorating security situation

— PAGE 2

Plan on talks

The National Peace Committee has asked its executive to prepare plans on issues related to violence

— PAGE 2

CAR PRICES SET TO RISE

— PAGE 3

Homosexual murders

The murder of homosexuals with intent to rob was prevalent in Cape Town

— PAGE 3

Rate cut likely

There was a greater likelihood of another cut in Bank rate than of rates remaining stagnant or rising

— PAGE 8

WP training squad

Danie Gerber and Gert Smal will be among those missing from a South African training squad when the group is named today

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Speed up talks, urge businessmen

Star 5/5/93

(49)

The Johannesburg Chamber of Commerce and Industry yesterday appealed to politicians to speed up negotiations so that business could get on with the development of the economy.

Speaking at the chamber's annual meeting, outgoing president Stuart Morris said business had an equally important role to play in the determination of South Africa's future.

Morris said the responsibility of business included generation of national wealth through economic growth as well as the development of society by addressing socio-economic needs.

This dual interdependent role boiled down to one simple objective that should be the uniting motivation of all political players in SA — the improvement of the quality of life of its citizens. — Staff Reporter.

Budgetary policy likely to prolong recession — BER

Star 5/5/93

(49)

By Sven Lünsche

The Budget will prolong the recession well into 1994 and has shifted the onus on to exporters to provide the stimulus for an upswing, the Bureau for Economic Research at Stellenbosch University (BER) suggests.

In its bi-annual economic forecast, the BER says the current recession could chalk up a fifth year before an improvement becomes noticeable.

Economic growth, as measured by changes in gross domestic product (GDP), started falling in the first quarter of 1990.

Decline

It predicts a decline of 0,5 percent in GDP this year, followed by 2,3 percent growth in 1994.

Budgetary measures have neutralised a relative improvement in many industrial sectors and in business confidence evident since the beginning of the year, it says.

"The Budget is restrictive in nature and will tend to prolong the recession and it would now appear as if exports will have to provide the stimulus for an upswing.

"Given the slack conditions in the economies of our major trading partners, this is unlikely to materialise before the last quarter of 1993.

"It would now appear as if the recession could actually become worse before matters improve."

Two of the key constituents of GDP — consumption expenditure and fixed investment — are forecast to fall sharply this year.

The BER expects consumer spending to decline by one percent this year after a 2,6 percent decrease in 1992.

This will impact particularly hard on sales of durable goods, which are forecast to fall by 9,2 percent in real terms.

Spending on semi-durable goods is expected to drop by 3,2 percent, while spending on non-durables (mainly food) should remain unchanged.

More seriously — as far as employment is concerned — is the renewed dip in fixed investment this year.

The bureau predicts a decline of almost seven percent this year, compared with a 5,3 percent fall in 1992.

Surveys conducted by the BER show that retrenchments are still continuing, and will be maintained until the end of 1993.

While this has been somewhat dampened by union acceptance of lower wage increases — average wage rises of 10,6 percent are forecast for the year — "the number of unemployed people is projected to increase to alarmingly high levels".

The BER says it is fairly optimistic about inflation — an average rate of 10,2 percent is expected this year and 8,4 percent in 1994.

If this forecast is met, it suggests that prime rate could drop by one percentage point in the fourth quarter of this year and by the same figure in the third quarter of 1994.

Despite the lower average inflation rate, the rand is predicted to continue its decline against the dollar and could be trading at R3,33 by the end of the year — a depreciation of 10,5 percent.

Surplus

The weaker rand will boost exports by 8,6 percent this year, but will not prevent imports from increasing by 7,3 percent, the BER says.

The movements in imports and exports translate into a current account surplus of R4 billion in both 1993 and 1994, although this will be offset by expected capital outflows totalling R5 billion this year.

"It would therefore appear as if the foreign reserves will be unable to cover even two month's worth of imports this year," the BER says.

Africa has been the source of prolonged negotiations between the countries.

Budget debate

Star 5/5/93

CAPE TOWN — Constitutional Development Minister Roelf Meyer today opens debate on his Budget vote amid increasing signs that Friday's meeting of the negotiating council could be critical to the process.

US 'to aid economic reform'

(49) CT 5/5/93

From SIMON BARBER

WASHINGTON. — The United States wants to build a "new relationship" with Africa to promote economic reform and a more rapid transition to democracy, President Bill Clinton's national security adviser said.

In his first foreign policy address since joining the Clinton team, Mr Anthony Lake told a meeting of African ambassadors the White House was "exploring the means to assist Africa's economic reforms and economic growth" Although he declined to be more specific, it is understood the administration is seeking congressional approval to write off the official debt of 18 African countries.

"Looking back on the elections in Angola, we wish we had acted more aggressively to avoid the problems we face now," Mr Lake said Developments in South Africa provided "real hope that we may soon see the arrival of non-racial democracy".

Strengthening of reserves puts monetary policy back on track

Star 5/5/93

By Sven Lünsche

(49)

Reserve Bank plans to lower interest rates towards the end of the year are back on track following a big improvement in the foreign reserve position in April.

Despite the continued fall in inflation and poor consumer demand the bank has been reluctant to lower interest rates, as the gold and foreign exchange reserves have plunged from $4,2 billion to $2,4 billion over the past six months.

The renewed strenghtening of the reserves in April was first indicated by Finance Minister Derek Keys in Parliament two weeks ago.

Since then Reserve Bank governor Dr Chris Stals has confirmed this trend.

Dr Azar Jammine of Econometrix says that Stals at a recent conference suggested there had been a "fairly dramatic turnaround".

Stals said this was the result of a number of factors. The last of the payments for foreign maize had just been completed, the falling US dollar was unwinding the adverse leads and lags situation and the gold price had risen.

According to Jammine, every $1 rise in the average gold price for the year adds $20 million to the country's reserves.

If the gold price is held at current levels it could average about $10 higher this year than 1992's $343, thus lifting reserves by more than $200 million.

The Reserve Bank has recently indicated that the falling reserves stood in the way of lower interest rates, as demand in the economy remained weak.

This was confirmed by the March money supply figures, which showed that since November last year there has been a decline in the broad money supply measure M3.

Signals of a lower interest rate pattern were also evident on the money market, where the shortage on Monday fell sharply to R1,9 billion from R5,4 billion on Friday.

Analysts said the shortage had come down afterthe Reserve Bank's repurchase agreement, beginning of the month government spending inflows and the acquisition of money market instruments by the Treasury.

Cut in Bank rate possible — Stals

(49)

GRETA STEYN

THERE was a greater likelihood of another cut in Bank rate than of rates remaining stagnant or rising, Reserve Bank Governor Chris Stals said yesterday.

His comments were in sharp contrast to the mood before the surge in the gold price, when Stals raised the possibility of higher interest rates and economists predicted no further declines in Bank rate

But the pessimism on interest rates faded fast yesterday as the Bank pumped cash into the money market, signalling it wanted to ease the upward pressure on rates by ending the cash crunch. The money market shortage dropped to only R1,9bn from Friday's levels of R5,4bn.

Stals said the higher gold price, dollar weakness and lower agricultural imports meant balance of payments' pressures were abating. The recent upturn in inflation was not cause for concern and had been expected. Money supply data indicated demand for credit remained weak.

Sources said that at a meeting with bankers last week the Bank indicated it would intervene to ease the liquidity squeeze. The shortage had raised the cost of money and some bankers said a higher prime overdraft rate might be unavoidable. But they were "astounded" by the extent to which the Bank eased the pain this week. Overnight rates fell by a percentage point in response, while non-liquid bankers' acceptances were 15 points lower. The yield curve is likely to shift downwards on the expectation that "the days of a shortage of R6bn are over".

Reuter quoted a Bank spokesman as saying the higher level of liquidity was the result of the four-day, R500m repurchase agreement by the Bank yesterday, beginning of the month government spending inflows and the fact that the Treasury had recently purchased money market assets.

Bankers said the new system of monetary management, and the abolition of bankers' acceptances as liquid assets, meant the banking system could not cope comfortably with a shortage of more than R2,5bn-R3bn. While the cash crunch was on, some banks were paying punitively high interest rates because of their high borrowings at the Bank's discount window.

Finance Minister Derek Keys last week provided hope for interest rate bulls when he said SA's gold and foreign exchange reserve position had improved in April. BoP pressure was the main reason for Stals's warnings that rates might rise.

Policy makers need a new body of industrial relations

BDm 5/5/93

JEREMY BASKIN

49

IN THE field of labour and economic policy SA is fast becoming a corporatist society. But the corporatist goal works at cross-purposes to the existing industrial relations system. One or the other will have to give way.

The national economic forum institutionalises a role for business and labour in formulating state economic policy. The new National Manpower Commission (NMC) is official acknowledgement that labour law can be changed only with tripartite consent. Other established institutions are also changing — from the National Training Board to the Unemployment Insurance Fund. Parallel initiatives can be seen in some industries. Talks between unions and managements in the mining, clothing and motor sectors deal with long-term restructuring and go well beyond collective bargaining issues.

Love it or hate it — there are detractors on the left and the right — corporatism is the only realistic route forward. It is hard to imagine a scenario which excludes major economic actors from a key role in the formulation and regulation of socio-economic policy. Keys and De Klerk accept this, as do Manuel and Mandela. The corporatist vision proclaims the need for economic restructuring, without leaving this simply to the hidden hand of the market, or relying solely on the heavy hand of the state.

But if corporatism is to work it needs a compatible industrial relations system. Deals brokered at the highest level — between union federations, employer organisations and the state — must be reinforced, not undermined, on the ground.

Four aspects of our present industrial relations system are likely to undermine the corporatist endeavour. Problem one is the Labour Relations Act (LRA) which says little about how unions and management should relate. It grants immunity from prosecutions for certain behaviour (such as a legal strike). But it provides few positive rights. SA labour law, like its British counterpart, makes little attempt to define a place for organised labour in society.

Workers are permitted to form unions, but combination is not facilitated. Management and labour are allowed to negotiate, but nothing compels them to do so. Must an employer recognise a union — who knows? What rights and duties do shop stewards have? Here, too, the LRA is silent. Unfair labour practices are contemplated in the LRA, but barely defined. The result is a confusing mish-mash of contradictory Industrial Court decisions.

The LRA establishes a passive and voluntarist framework. The result? An unstable system, often unnecessary conflict, inconsistent and unfair conditions ... and more labour lawyers than anyone needs. Hardly a foundation for building consensus around socio-economic policy.

The second problem is that there is no collective bargaining system in SA. For most workers "bargaining" remains a foreign concept, they are paid on a take it or leave it basis. In some sectors unions and employers bargain on the basis of recognition agreements or custom. In others, industrial councils operate. But these bodies — sometimes national, sometimes regional — cover less than 10% of all employees. In general, only the threat of unrest compels an employer to bargain in a particular forum, or to bargain at all.

Even in the industries with centralised bargaining there is little to stop an employer withdrawing from the bargaining forum. A mine can withdraw from the Chamber of Mines, or an engineering firm from Seifsa and, hey presto, collective agreements often no longer apply.

We have many different bargaining systems. Not surprisingly, we have endless disputes about how, where and whether to bargain.

For some, especially free marketeers, this laissez-faire approach to bargaining is not a problem. But for those wanting greater consensus around socio-economic policy, the absence of a comprehensive bargaining framework must undermine their efforts. How can difficult national economic deals be reached when the collective bargaining system encourages each employer, union and plant to go its own way?

Third, and relatedly, it is hard to see how deals reached at the national economic forum or NMC can be implemented while employers remain poorly organised. To a lesser extent, the union movement faces the same problem. Certainly there are employer bodies in almost every industry, and chambers of commerce in every town. But at the national level, where the big issues are thrashed out, there is a confusing array of organisations. It is doubtful whether they can bind their members to any difficult deal. Attempts to avoid last August's stayaway broke down over the question of mandate. And during the 1992 metal strike a number of employers broke ranks with Seifsa and went their own way.

At present nothing encourages employers to combine; our voluntarist LRA and laissez-faire bargaining system actively discourage combination. Co-operation on socio-economic issues is discouraged by the fact of commercial competition, and there are no incentives to co-operate. And the big conglomerates tend to bypass their employer bodies when they have something to say. But if meaningful economic strategies are to emerge (regarding international competitiveness, tariffs, productivity, industrial restructuring and so on) then it will require the existence of strong national employer bodies able to look at the big picture.

The flip side of this problem is the lack of union centralisation. Even the strongest federation, Cosatu, lacks the muscle to enforce difficult decisions. Constitutional and financial power is vested with affiliates, which jealously guard their independence.

Could the union movement agree to a plan which promoted one industry at the expense of another? Cosatu and Nactu might agree, say, that Mossgas is a waste of resources and should be closed. But what would the Mossgas workers and their unions say, with their jobs on the line?

Fourth, there is no agreed system of plant-level governance. Some companies recognise shop stewards, others do not. Some stewards have extensive rights, others have nothing. A few firms grant majority unions exclusive representative rights. Most don't. Some companies leave non-unionised workers with little voice. Others actively encourage their own employer-employee channels, frequently as a way of bypassing unions.

On both sides of the industrial relations fence it is agreed that the plant level is the crucial interface. But the absence of a coherent system encourages adversarialism and sectionalism. Each side must be on its guard — protecting its backyard and always on the lookout for attempts to withdraw hard-won rights.

Without a strong, well-defined system of industrial relations (from national down to plant level) the corporatist project is unlikely to deliver. The existing system encourages protectionism, short-sightedness and needless conflict. Grafting a corporatist head onto an Anglo-Saxon industrial relations system can only lead to grief. It is time to review the Wiehahn model of unionism and industrial relations.

☐ Baskin is a former unionist and author of Striking Back — A History of Cosatu. This is the first of two articles based on research conducted for the Centre for Policy Studies.

Study finds wage rates set to fall

(49)

BIDAY 5/5/93.

LINDA ENSOR

CAPE TOWN — Wage rates were expected to show real declines this year and next as the recession wrought changes in the attitudes of workers towards their pay, a study has found.

University of Stellenbosch Bureau for Economic Research (BER) director Ockie Stuart, in a review of economic prospects for 1993 and 1994, has forecast an average wage rate increase of 10,6% for 1993 and 9% for 1994, translating into real declines of 0,9% and 0,1% respectively.

Three reasons for this were that trade unions now favoured job security rather than high pay rises, the loss of jobs as a result of the recession forced people to work for less money in real terms, and the scarcity of work caused an imbalance between labour supply and demand.

Between the second quarter of 1989 and end-1992, about 276 000 jobs were lost — and the likely acceleration of retrenchments would send unemployment soaring to an "alarmingly high level" over the next two years, Stuart said. It was unlikely non-agricultural sectors would show signs of an upswing before early 1994. The bottoming out of the recession and improvement in business confidence apparent in the first quarter had been negated by the Budget.

Exports should give the economy a boost towards the year end, but not enough to cause a growth in GDP, expected to decline 0,5% this year and grow by a real 2,3% next year.

Stuart said the next upswing would have to be export-led, yet SA's export performance until the fourth quarter of 1993 would be slowed by the deterioration in the world economy. The total value of merchandise exports was forecast to rise 8,6% in 1993 and 13% in 1994.

Exporters would benefit from a more rapid depreciation of the rand against the dollar — which Stuart forecast at 10,5% this year and 4,2% next year. This would translate into an exchange rate of R3,33 per dollar at end-1993 and R3,47 per dollar at end-1994. While this trend might exert upward pressure on inflation, BER forecast an average inflation rate of 10,2% in 1993 and 8,4% in 1994 with rapid increases thereafter. An average gold price of $333/oz this year and $340 next year was forecast.

The total income of consumers was likely to increase by 10,6% in nominal terms, with real disposable incomes falling by 1,9% in 1993 and rising by 1,3% in 1994. Private consumption expenditure would drop 1% in real terms in 1993 and might not even reach 1% in 1994.

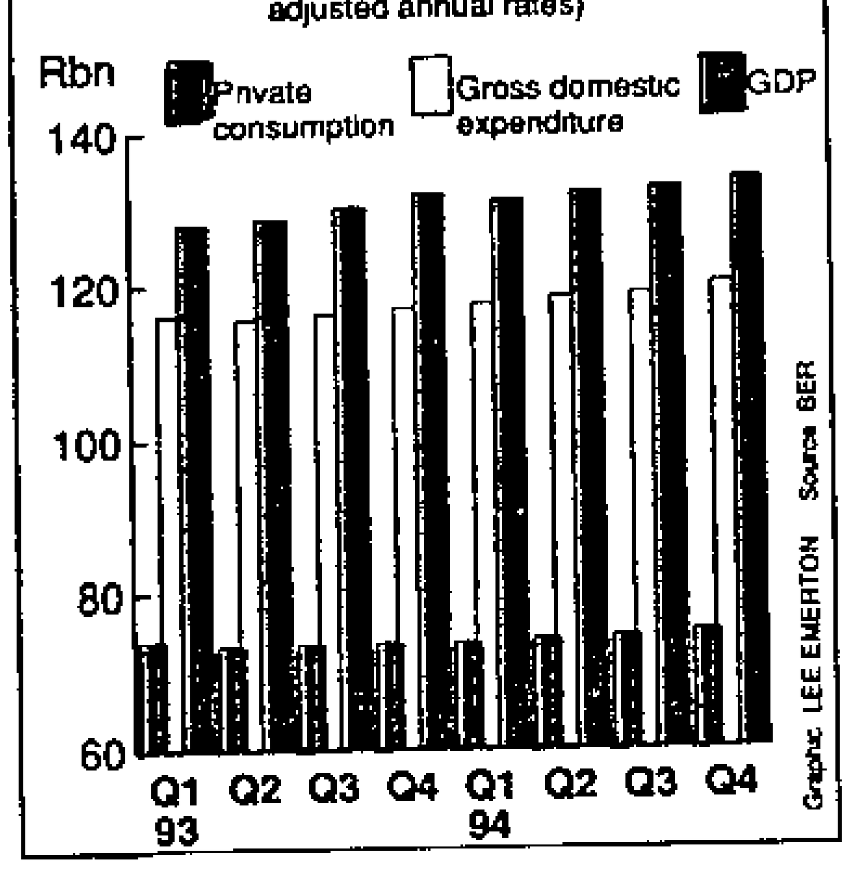
Gross domestic expenditure would drop during 1993 and grow sluggishly during early 1994, with forecast figures of -1,6% and 2,2% respectively.

Total gross domestic fixed investment by the private sector was expected to fall 6,9% in 1993 and to grow marginally by about 1% in 1994.

Stuart said BER's forecasts were based on a number of "rather brave" political assumptions such as that the negotiating process remained on track and a government of national unity was installed next April.

There was the possibility that VAT would rise next year but no further decline in the company tax rate seemed likely and this could mean a fuel levy increase, he said.

Expenditure on GDP
(At constant 1985 prices, seasonally adjusted annual rates)



Unions look at economic crisis

(49)

ERICA JANKOWITZ

THE country's three major labour federations have reached agreement on joint proposals to address the economic crisis and will soon present their views to the national economic forum.

An insistence on centralised bargaining is a key element in the joint initiative by Cosatu, Nactu and the middle-of-the-road white-collar Federation of Salaried Staff Associations of SA (Fedsal). This position is in direct contrast to government's policy of decentralised collective bargaining.

Their two-pronged strategy, announced yesterday, focuses on job creation and an end to retrenchments throughout the economy. The three federations agreed to five steps to reduce retrenchments: centralised bargaining; job security agreements; training and retraining of workers and the establishment of work security funds; targeted assistance for industries in structural

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Unions

B/Day 5/5/93.

(49)

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decline; and the rethinking of public sector downscaling and restructuring.

On centralised bargaining, which came under specific attack in Finance Minister Derek Keys's normative economic policy document released earlier this year, Cosatu spokesman Ebrahim Patel said the proposals called for agreement in principle from employers and government to "centralised, industrywide structures to co-ordinate and negotiate collective bargaining and industrial policy matters".

Fedsal spokesman Piet Heymans said his federation was in favour of centralisation but thought it would take some time to implement sectors such as banking.

Patel said job security agreements should contain full disclosure of company financial information, a commitment to consider options to retrenchment, reasonable notice periods, fair severance packages and protection of permanent jobs against contracted work practices.

The proposals had been shown to employer organisations at a meeting on Monday and had been met with some negative sentiment, said Patel. He said labour was not trying to be confrontational or prescriptive, but was looking for an immediate start to addressing the crisis.

Business 'important'

BID 5/5/93

DIRK VAN EEDEN

POLITICIANS have to conclude negotiations soon so businessmen can develop the economy, says outgoing Johannesburg Chamber of Commerce and Industry president Stuart Morris.

Addressing the chamber's AGM last night Morris said the role of business in determining the future was just as important as that of politicians.

Business had to recognise backlogs, change the way it thought and ultimately improve the quality of life of SA citizens.

Social responsibility programmes should not only be started where necessary, but all actions should be guided by what the ideal SA should look like.

This included equal opportunities for those of equal talent, adequate housing and infrastructural facilities, employment opportunities for all and educational opportunities.

"Corporate social responsibility programmes should not be seen as cost factors, but as investments in the future," he said.

West could pledge $1bn to assist SA

SIMON BARBER

WASHINGTON — Western nations might pledge up to $1bn in development assistance to SA once agreement on a transitional executive had been reached, a Washington-based consultant advising the World Bank on SA said.

The need for substantial aid to help a new government meet popular expectations would probably be addressed when the seven major industrialised countries held their annual summit in Tokyo in July, Samuels International vice-president Witney Schneidman said.

Donors were also considering convening a formal consultative group on SA's development needs to be chaired by the World Bank soon after transitional structures are in place.

The bank estimates SA will need $4bn to $5bn a year to achieve the annual 4% to 5% GDP growth rate needed to make serious inroads on unemployment and meet demands for redistribution.

Properly used, donor assistance in the form of grants and concessional loans could help SA bridge the gap between the investment it needed and what it could expect realistically from private foreign and domestic sources, Schneidman argued.

He said it was essential SA's parties agreed as soon as possible on a development agenda so that the aid could be used effectively.

The consultant said the $24bn pledged to Russia at last year's G-7 summit was never disbursed because of bureaucratic and political disarray in that country.

SA needed to avoid falling into the same trap by establishing a "national agenda for development" to focus donors on its most pressing needs and accelerate delivery of assistance.

SA economy deep in recession (49) . . .well into 1994

By AUDREY D'ANGELO
Business Editor

THE recession is likely to continue into 1994, with falling real incomes and lower sales of durable goods this year, says Ockie Stuart, director of the Stellenbosch Bureau for Economic Research.

He forecasts, in his Economic Prospects for this year and next, that the rand will depreciate more sharply against the dollar — falling to R3,33 to the $1 by the end of 1993 — with an average inflation rate of 10,2% as a result of higher indirect taxation.

"High direct taxes, helped along by bracket creep, and inflation are forecast to reduce the 1993 level of real disposable income to minus 1,9% CT 5/5/93

"Calendar 1994 could witness, however, an increase of 1,3%. Therefore the most important determinant of consumer spending will exert downward pressure during this year

"Next year, however, it is forecast to stimulate private consumption expenditure to some extent."

Stuart expects interest rates to "drift slightly lower during the forecast period."

He expects bank rate to be cut by 1% in the fourth quarter of this year and again in the third quarter of next year. "The implication is that the (commercial banks') prime rate will be 15,25% at the end of 1993 and 14,25% at the end of 1994.

"As a result of these declines mortgage rates will decrease which in turn will add to the disposable income of consumers. The interest applicable to hire purchase transactions will, however, still be quite high and consumer confidence will come to the fore as an important determinant of consumer spending."

Surveys carried out towards the end of the last quarter suggested that the recession was bottoming out. But, Stuart continues, "we estimate that the March Budget has plunged the country into a deeper recession.

"The current account of the balance of payments (BoP) should show a substantial surplus during 1993 and 1994. Unfortunately this will be neutralised by large net outflows of capital causing the reserves to decrease.

"The BoP could, therefore, once more curb growth in the SA economy during 1993."

Stuart expects the political negotiating process to remain on track and a government of national unity to be in place early in 1994.

This, he points out, means that the next Budget will not be presented until late in 1994.

"There can be little doubt, however, about the restrictive nature of the current Budget. We have estimated that the hike in the VAT rate itself has reduced the expected growth rate in 1993 by about one percentage point."

He now expects gross domestic expenditure (GDE) to fall by minus 1,6% this year and grow by 2,2% next year

"Exports should give the economy a bit of a boost towards the end of 1993"

This will come too late for growth in GDP this year, but next year Stuart expects it to increase by 2,3% in real terms.

Business sentiment severely bruised by last month's unrest

Star 6/5/93 49

By Sven Lünsche

Business confidence last month took a battering even more serious than after the Boipatong massacre and the subsequent breakdown of Codesa 2 negotiations, the SA Chamber of Business (Sacob) said yesterday.

It called for swift progress to be made in the current round of negotiations, "to prevent any further delay in the long-awaited upturn".

Sacob said the recent upward trend in its Business Confidence Index was arrested in April, as the economy "remained hostage to political developments, particularly events surrounding the funeral of slain SACP leader Chris Hani".

Director-general Raymond Parsons said business sentiment gradually recovered in the second half of last year, despite the collapse of negotiations at Codesa. "This time around, however, the impact on confidence is more serious."

Chief economist Dr Ben van Rensburg said: "The combined effects of recent political events, prospects of further mass action, and the still-to-be felt impact of the Budget could act as a constraint on a further rise in business sentiment over the next few months.

"The initial hope that the tragedy of Hani's assassination would result in renewed urgency and more rapid progress in the political negotiations has not yet been realised.

"It is essential that real progress is seen to be made if permanent damage to the growth potential of the economy is to be avoided," van Rensburg warned.

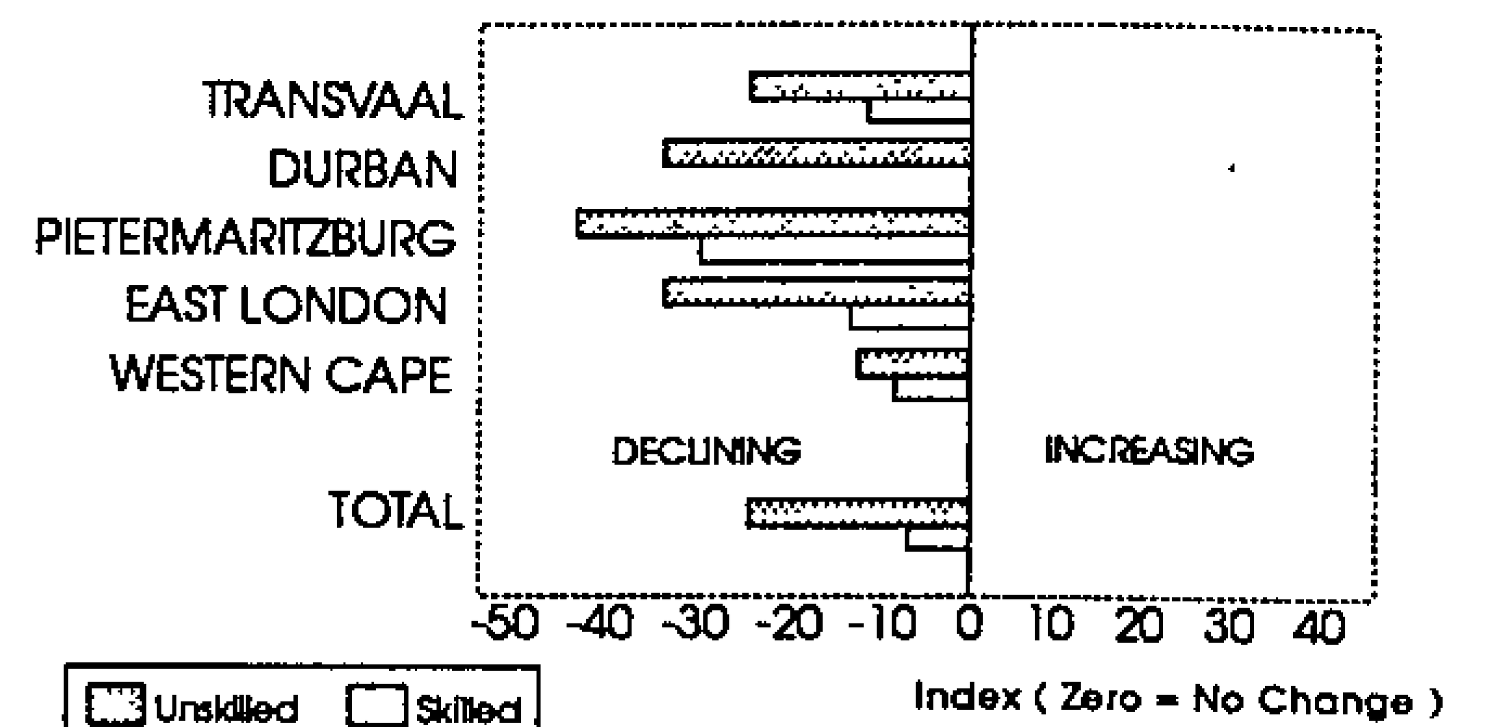
As an immediate result of the political turmoil, more professionals were emigrating and investment decisions were being put on hold, he said.

Van Rensburg said the Budget could impact negatively on retail sales, manufacturing production and the inflation rate in the short-to-medium term. April retail sales were well down on expectations.

While the recent gold price hike would help reduce pressure on foreign exchange reserves and marginal mines, "increased employment and new mining ventures will only arise if the higher price is sustained for a number of months".

The manufacturing sector was particularly hard hit by stayaways in April.

OUTLOOK FOR EMPLOYMENT TO MARCH 1994



Source : SACOB

Sacob's survey shows that there was a sharp decline in activity levels, with 68 percent of respondents reporting a decline in sales, compared with March.

Economist Keith Lockwood said the drop in sales and new orders was not surprising because there were effectively six fewer working days in April than in March.

"Discussions with industrialists indicate that April was a big disappointment, as they had seen new order volumes rise steadily over previous months.

"If activity levels do not recover in May, a downward revision of prospects for the coming twelve months is likely," Lockwood said.

As an immediate consequence of poor sales conditions, industrialists are readying themselves for further layoffs, with 61 percent of survey respondents saying they will cut back on unskilled workers over the next 12 months. (see graph)

Mandela seeks help, but first the violence must stop, says **The Independent**

Star 6/5/93

Enduring hero on difficult mission

NELSON Mandela is a noble man. Imprisoned for 27 years for his dedication to the cause of black majority rule in South Africa, he emerged a hero not just in his own country but across the world. Astonishingly, given today's tendency to cut down "tall poppies", he has remained a hero.

He is in London this week, partly to drum up investment for the country of which everyone expects him to become president once democracy is in the saddle.

It is a churlish spirit that would not wish him well on a very difficult mission for, as he acknowledged this week, the climate of violence in South Africa is not conducive to investment.

Since he believes the far Right of the political spectrum lies at the heart of the present darkness, he reckons the violence cannot properly be tackled until there is a new government.

Nonetheless, he will be calling for foreign investment — and thus for an end to any remaining sanctions — once the date is set for the first non-racial elections.

In some ways the prospects are not quite as bleak as they seem. In the week after the assassination of Chris Hani, when emotions ran high and millions of grief-stricken and angry blacks took to the streets, the number of political killings was lower than usual.

But the level remains high by any normal standards, and is certainly bad enough to deter most potential foreign investors. They will inevitably be even more comprehensively frightened off if there is an increase in the killing of whites by blacks on what seem to be purely racial grounds.

If whites are emigrating out of fear for their lives, foreign companies will not want to risk their own staff in South Africa.

Investors will have other, more purely politico-economic fears.

Mandela stressed this week that the ANC had abandoned its former policy of widespread nationalisation and spoke of guarantees for investors, including the right to repatriate profits.

It will take time for news of that conversion to spread, and there will be doubters who will want to see firm evidence from an ANC-led government: first in a clear enunciation of economic policy, with a firm commitment to a liberal market economy, and then in deeds that support it.

A second concern will be the prospects for profits. In the longer term these must be good, given South Africa's natural resources, its rapidly expanding non-white middle class, its underdeveloped potential for tourism and its sound infrastructure.

But in the short term there is not just widespread poverty and massive unemployment, but an economy running at only 75 per cent of its productive capacity.

If South Africa can achieve political stability, there will be no lack of Britons ready to take a stake. □

(49)

Think-tank choices opposed

BDM 6/5/93 (49)

GRETA STEYN

THE appointment by the ANC-aligned macroeconomic research group (Merg) of two London-based left-wing economists to its team of policy writers has angered some SA academics involved with the project.

One of the main objections is the reputation of the pair — Ben Fine and Laurence Harris — as "old-style communists", which other group members fear may compromise the final report's credibility.

Fine and Harris are believed to have been members of the British Communist Party, in its time one of the most Stalinist in the world. They run the southern African research centre for London University.

The other members of the editorial group, which will write the first draft of a policy document, are UCT's Brian Kahn and Wits University's John Sender (formerly of Cambridge). They will each be responsible for one or more of the eight chapters of the document, scheduled to be ready in draft form by mid-June. The final version, expected in September, was originally intended to be a major input for ANC policy formulation.

A source close to Merg said the appointment of two foreigners to such a key role had also raised the ire of many local academics who argued that there was enough local talent to fill the positions.

A further concern, it is understood, is that all team members are white, which could become a pretext for attacks on the report from the left.

Merg convener Vella Pillay confirmed the appointments but denied there was any controversy about them. He noted Fine and Harris had had links with the "democratic movement" for years.

☐ To Page 2

Economists

BDM 6/5/93 (49)

☐ From Page 1

He said the Merg policy document's eight chapters would cover: a programme for reconstruction; fiscal, monetary and balance of payments policies; social and economic infrastructure; industry, trade and corporate policy; financial markets; labour markets; rural development and food security; and regional development and reincorporation of the homelands.

The editorial group would draw from papers and other contributions from Merg economists. Contributors would include Maria Ramos (School of Oriental and African Studies in London), Lieb Loots (University of the Western Cape), Stephen Gelb (University of Durban-Westville), Billy Cobbett (formerly Planact, now ANC), ANC economist Tito Mboweni and Pillay, who is based at Wits.

Pillay said the document would be based on "the policy guidelines of the democratic movement, the need for economic change and the construction of a lively and expanding economy through a programme of resource transfers with growth".

The format was decided after meetings which included top foreign economists who are expected to continue to play a role as a "sounding board" for the policy writers.

Bankers warn on tough FW stance

(49)

The Argus Foreign Service

LONDON. — The hardline stance of President De Klerk may backfire abroad.

Foreign bankers are puzzled about the timing of a Financial Times interview of Mr De Klerk which indicated there was still a wide chasm between government and African National Congress thinking.

If talks on a political settlement were to falter, negotiations for a favourable new foreign debt repayment agreement would fail. Foreign investment and new loans would not be forthcoming.

American and some European banks are not prepared to renegotiate a new debt accord unless it has the blessing of the ANC.

Without a more relaxed debt accord, South Africa would be in the invidious position of being forced under strict credit arrangements to repay large amounts of international borrowings during an economic recession.

In the interview, Mr De Klerk in effect rejects majority rule in perpetuity. The bottom line is that he will only share power — not abandon it altogether.

Although Mr De Klerk does not use the word "veto", the interview indicates that the government insists on "consensus" or an effective veto on a broad range of issues.

BUSINESS — P20, P21 RACING — P22 SPORT — P22, P23, P24

No streets paved with gold in Egoli

W/Mail 7/5-13/5/93

The heart of South Africa's industrial complex, the central Witwatersrand region, is not beating strongly.

FERIAL HAFFAJEE

reports on the decline of our cities

SOUTH AFRICA is not the goose that lays the golden eggs on which Africa is depending — if the decline of its cities is anything to go by.

In a working paper for the Development Bank, Richard Tomlinson shows that employment in major sectors of the economy has dropped dramatically in major and secondary cities.

"The decline in these cities is worse than that for South Africa as a whole," he notes.

Manufacturing employment in the central Witwatersrand dropped by almost 40 percent between 1980 and 1991. Other cities fared little better: the PWV, Durban and Cape Town, on average, lost 21 percent of their manufacturing jobs.

Other major industries where jobs have been shed around the country in the past two years are mining and quarrying (6,9 percent), construction (6,6 percent) and transport and communication (eight percent).

Roland Hunter, who works for Planact, researched trade union membership statistics for the PWV and found these had decreased, with few exceptions.

The Congress of South African Trade Unions' construction, chemical and clothing affiliates lost the most members, while its metal, food and paper affiliates gained members.

There has been an almost national growth in commerce, catering and accommodation. Improved tourism to Durban and Cape Town saw employment increasing by 16 and 31 percent respectively. But jobs in the central Witwatersrand declined because of the mass migration of business and tourists from the city centre.

The sector which stands apart is financial services (banking, insurance, business services and real estate) where employment has almost doubled nationally in the past 11 years.

The most remarkable growth has been in the PWV (44,3 percent) Cape Town (43 percent) and Durban (35,9 percent), but interestingly, growth in the country's financial epicentre, Johannesburg and surrounding areas, has been much slower.

The meteoric rise of this sector and the 16 percent growth in the community service sector balanced against sharp losses in manufacturing employment has caused a "change in the occupational distribution of each city's labour force".

It has created a small group of professional workers and a large pool of low-wage service workers. Tomlinson predicts that these changes may "lead to a decline in average individual income levels". People who lose jobs in the formal sector are also moving into the informal sector.

Central Statistical Services (CSS) estimated in 1990 that this sector provided full-time employment for 1,7-million people and part-time employment for 2,8-million people.

But the CSS excluded the homelands and researchers believe that this sector employs 4,5-million people — a quarter of an urban labour force.

Large-scale immigration to South Africa from the frontline states and further afield is not helping: there are fewer "formal opportunities and the market for informal products is diminished".

Planact has found that 20 percent of hostel-dwellers and informal settlement inhabitants in the PWV are Zimbabwean or Mozambican, indicating the depth of migration into South Africa.

Tomlinson says that apartheid policies have made cities inefficient and that this has also led to their decline. The distances the labour force has to travel to work has caused exhaustion and low productivity. Administrative and fiscal imbalances have meant that black local authorities do not have the "capacity to maintain services".

Decentralisation policies have not worked; instead, they have made "cities less efficient sites of production", says Tomlinson.

Regenerating the cities is one of the most urgent challenges facing the country: they house 60 percent of the population and account for 80 percent of the country's gross domestic product.

The World Bank suggests the deregulation of urban markets to increase the supply of housing, finance and infrastructure as well as to improve business opportunities. It also stressed the urgency of uniting local governments.

For Tomlinson, the future of the cities lies in "public-private partnerships". He says: "They combine government powers with private sector management and flexibility" by including local authorities, influential business leaders, community organisations and trade unions.

New marketing strategies, the encouragement of small and medium scale enterprises as well as assistance to the informal sector are other ways of improving city economies.

'Korean model not the ideal' (49)

WMail 7/5 - 13/5/93.

By REG RUMNEY

THOSE wanting affirmation from former Republic of Korea Prime Minister Duck-Woo Nam of their version of the Korean success recipe probably wouldn't have found it at the recent Aspen Institute-Institute for a Democratic Alternative for South Africa conference.

Nam, with the wisdom of someone who has actually taken part in the much-discussed economic miracle, was at pains to acknowledge the failings of policy and the imbalances it has led to.

At the outset, he cautioned: "The basic message I want to convey is not 'Do the same as we did,' but rather 'Try to avoid our mistakes'".

On balance, his paper probably held out less comfort for the proponents of protectionism than those who favour free-markets.

"In simple terms," Nam noted, "international competitiveness means producing better products for lower prices than other countries competing in the international market." But many factors affected price and quality, only one of them being trade policy.

Also, better quality and lower prices could run into protectionist measures such as anti-dumping duties, Nam said.

He summed up some of the lessons to be drawn from the Korean experience of industrialisation and export growth.

●As important as trade policy are dynamism of entrenpreneurship, an exceptionally open economy, free and swift labour mobility from agriculture to industry, and stable labour-management relations enforced by an authoritarian government. A retreat from that authoritarianism ~~has~~ had ~~costs~~. Worsening international trade and political democratisation since 1990 have led to slower growth, Nam reckoned.

●A realistic exchange rate is a key condition. A free foreign exchange market is desirable, but a government may have to intervene to protect the balance of payments from speculative movement of short-term capital.

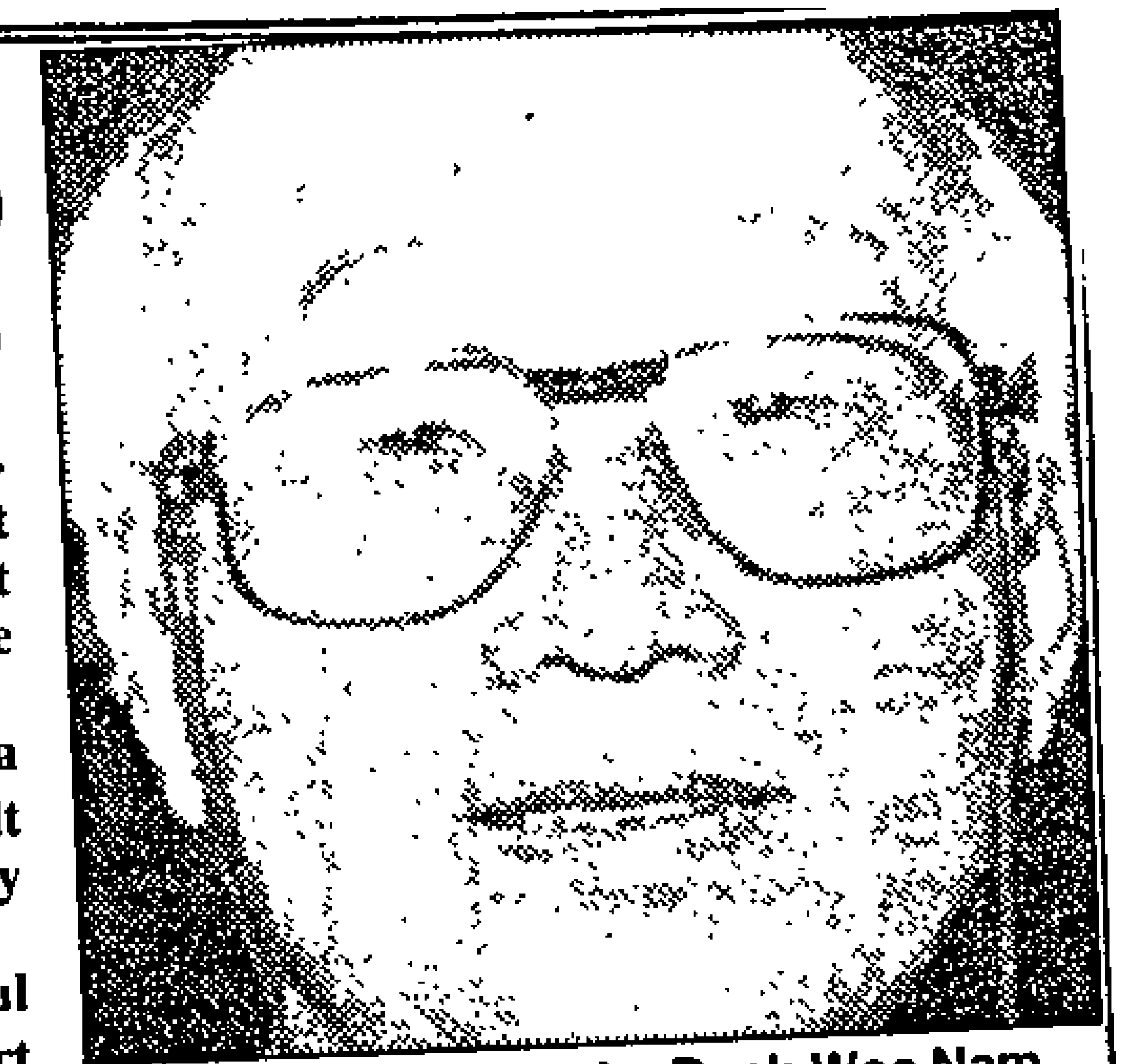
●Exports can only grow rapidly under a free-trade regime, whether natural — the result of liberalisation — or "artificial" — created by selective intervention, as in Korea's case.

●Selective incentives for export are useful only in the first stages of an ambitious export promotion programme when businesses may need to be externally "motivated" to push exports. The government should announce the schedule for phasing out incentive measures when it introduces them to avoid over-protection.

●It is hard to draw a clear line between an import substitution industry and an export industry, and what matters is the prospect of international competitiveness at a future date when protection falls away. Protection of industry, then, seems practical — at least initially.

●Drawing a lesson form Korea's heavy industrial development programme, Nam said such projects should be phased in so as not to overburden the financial capability of investors and the banking system leading to inflationary financing.

The assessment of the long-term prospect of international competitiveness should be based on the assumption there will eventually be no tariff protection. Viability of large-scale investment projects should be determined on the basis of the comparative advantage in the cost of labour, technological advancement and managerial efficiency.



Former Korean premier Duck-Woo Nam

The tide is running high in the industrialised countries against protectionism, including in developing country trade partners. So it's unlikely other developing countries could copy Korea.

"They are better advised to put greater emphasis on the indirect support of export promotion by the government through dissemination of information, education and training of workers, promotion of research and development, providing adequate public facilities including ports, transportation and communications, and above all, adopting a sound macro-economic policy framework in a well-functioning market system."

Reserve Bank warns govt of 'debt trap'

Star 7/5/93

By Sven Lünsche

49

The Reserve Bank has added more weight to its call for a restructuring of government finances "to ensure that the country does not fall into a debt trap".

In an analysis of spending patterns, the head of the bank's economic division, Dr Ernie van der Merwe, urges the government to "revert to the classical doctrine of a balanced-budget approach".

"Deficits on the government's accounts should only be allowed to rise to finance capital or extraordinary expenditure," he says.

This echoes a major tenet of Finance Minister Derek Keys's Normative Economic Model, yet comes at a time when state spending and debt are rising.

Van der Merwe says there is still no "explosion" in the growth of government debt.

"It also appears unlikely that government revenue and expenditure have reached critical values where it may not be possible to increase tax any further or where the government may be unable to reduce its spending."

However, he says the current rate of growth in government debt is unsustainable — as a percentage of GDP, government debt rose from 47,8 percent in fiscal 1990-91 to 53,3 percent in 1992-93 and is likely to increase in the current year.

Monetisation

If this growth is not halted, it poses the danger of monetisation of the public debt, crowding out private-sector borrowing and balance of payments constraints when the economy picks up.

A major reason for the steep rise in debt is the level of government spending, which in 1992-93 surged to 26,3 percent of GDP after maintaining a steady 23,5 percent in previous years.

Of particular concern is the ever-increasing amount of spending committed to meeting interest payments on debt.

In 1987-88 the ratio of interest payments to total spending was 12,9 percent. It rose to 16,2 percent last year and is projected to rise to 17,4 percent this year.

"What makes the increase in the interest burden even more troublesome is the fact that it does not include the discount incurred on issuing government securities, which was as high as R4,3 billion in 1991-92."

The overall level of state spending must be regarded as exceptionally high, owing mainly to various forms of interference by the government in the functioning of the market mechanism and to the duplication of services in the civil service at different government levels.

"Despite the pressures on the government for social upliftment programmes and the alleviation of poverty, scope probably exists for a lowering of state spending," Van der Merwe says.

MONEY SUPPLY (49) FM 7/5/93.

Out of orbit

Growth in money supply is a crucial indicator of economic activity. So the Reserve Bank's surprisingly low estimate of the broad monetary aggregate M3, at the end of March, is cause for concern.

After slowing in 1992, growth in M3 has stopped. In two of the first three months of 1993 the seasonally adjusted level fell. And the monthly slumps produced declines in the annualised growth rates — from the mid-November base. The significance of this measure (as opposed to the year-on-year growth rate) is that the Bank provides growth guidelines, which in 1993 are set at 6%-9%, and a serious deviation shows events are taking an unexpected turn.

Latest figures show M3 fell 1,8% in March (to R195,2bn), after a rise of only 0,68% in February and a fall of 4,8% in January.

The contractions in November-January and November-March are the first absolute declines in this measure since figures were published in March 1989. Money supply targeting from a fourth-quarter base was introduced in 1986 by the then Governor Gerhard de Kock. But initially only 12-month figures for M3 growth were published. A decision to publish the other measure was taken when De Kock realised the targeting exercise could not be properly evaluated by the public unless people had access to it.

But the January and March falls in M3 must be seen in perspective. Though they are partly an indication of the low level of demand for credit, credit extension is only one component of M3 growth. Another important element is the movement in gross foreign reserves. These fell from R10,6bn in November to R9,1bn in December, and from R8,3bn in February to R7,5bn in March.

Declines in forex reserves constrain future growth — but they are not a symptom of low demand in the economy. On the contrary the recent fall in reserves was partly due to a high import bill.

An indication of the strength of demand comes from figures on credit extension provided by the Bank. They show an annualised seasonally adjusted rise of 5,1% in total credit extended between the end of November and the end of February. (Figures for March are not available.) This shows consumer confidence is low but is far from being at the depressed levels indicated by M3 growth.

Another factor to be considered is that March was the end of the fiscal year and government spending is often delayed in that month to keep the figures as presentable as possible. In that case, the monthly dip would have been followed by a compensatory rise in April, which will be incorporated into that month's money supply figures.

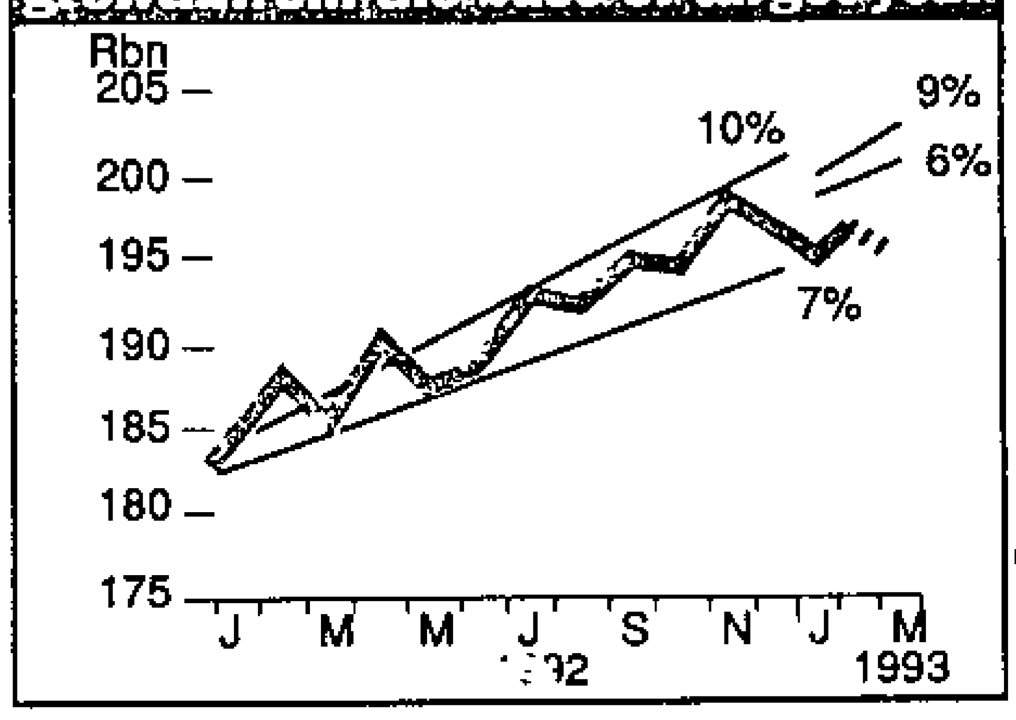
The long-term declining trend in money supply growth is at least a harbinger of a lower rate of inflation.

Annual growth in M3 peaked in August 1988, at 27,5%. In the years that followed inflation climbed from 13,3% in January 1989 to 16,5% in October 1992. A slide in money supply growth saw inflation fall to single digits by December 1992. As both figures have been technically distorted over the period, the correlation is not perfect. But, overall, it suggests that, with 12-month growth in M3 down to 5,33% in January, 5,18% in February and an estimated 5,15% (to R198bn) in March, there can be little fundamental pressure on inflation. Which means the exchange rate should stabilise in the years ahead.

Money supply figures for February show:

- ☐ M0 rose 11,7% to R13,4bn;
- ☐ M1A 24,5% to R42,1bn;
- ☐ M1 14,17% to R70,4bn;
- ☐ M2 6,9% to R168,7bn; and
- ☐ M3 5,2% to R197,4bn.

Below the waterline
Seasonally adjusted annualised growth from the base of target year



MOVIE SCHEMES FM 7/5/93

Happy endings

The terms Inland Revenue has announced for the settlement of outstanding assessments of taxpayers, who had committed funds to so-called movie schemes, have implications for those involved in schemes based on plantations, bloodstock and aircraft.

The recent decision of the Transvaal Income Tax Special Court, in the *Jake Speed* case, gave final impetus to the movie settlement. The Income Tax Act will be amended this year to provide for it and taxpayers will have to prove that the movie was manufactured and released for viewing in an "export country" (one in relation to which the benefits under Section 11*bis* of the Act were available).

The offer must be accepted in writing on or before September 30. The most important terms of the offer (see box) are to allow a

INVESTMENT

People in glass houses

FM 7/5/93 (49)

Businessmen have done more than politicians to maintain investment

There is a perception abroad that SA's business leaders are reluctant to invest in the real economy. Since political change restored the country's status in the international community, they have been urged to show their faith in the future by investing.

The latest call came from US ambassador to SA, Princeton Lyman. Speaking at a Radio 702 business breakfast last week, he urged the business community to be bullish. He said sources of foreign finance would not materialise "if SA capital is either leaving the country or held out of the marketplace ... One clear condition (for attracting foreign capital) is that it should be matched, if not overmatched, by SA investment in the same areas or instruments."

But the business community has already demonstrated its sentiments by remaining remarkably resilient through a testing time.

It is not known what proportion of the capital that has left the country over the past eight years originated from domestic sources. Nor is it known how much of the net outflow over the past few months is capital flight; and how much simply reflects decisions by local borrowers to convert offshore finance to domestic loans But an indication of the capital deployed within the country comes from the levels of private-sector fixed investment made over this period — in the face of huge constraints on profits.

Since 1985, SA has had:

- ☐ Unprecedented political turbulence;
- ☐ Two major recessions;
- ☐ International sanctions which reduced export revenues and slashed foreign funding;
- ☐ A cyclical decline in demand for the country's exports, after growth in the major industrialised countries started to decline in the late Eighties;
- ☐ A structural change in the commodity markets which diminished the role of major exports, such as coal, in the world economy; and
- ☐ A decline in the investment value of gold, the country's single biggest export.

Yet private sector capital expenditure has fallen by only 5% in real terms -- from R16bn in 1985 to R15,2bn (in constant 1985 rand) in 1992. The huge decline in gross domestic fixed investment has come in government initiatives, which fell 39% in the period, to allow for an increase in consumption spending (from 17,3% of GDP to 21,3%); and in the capex of State corporations, which plunged 67%.

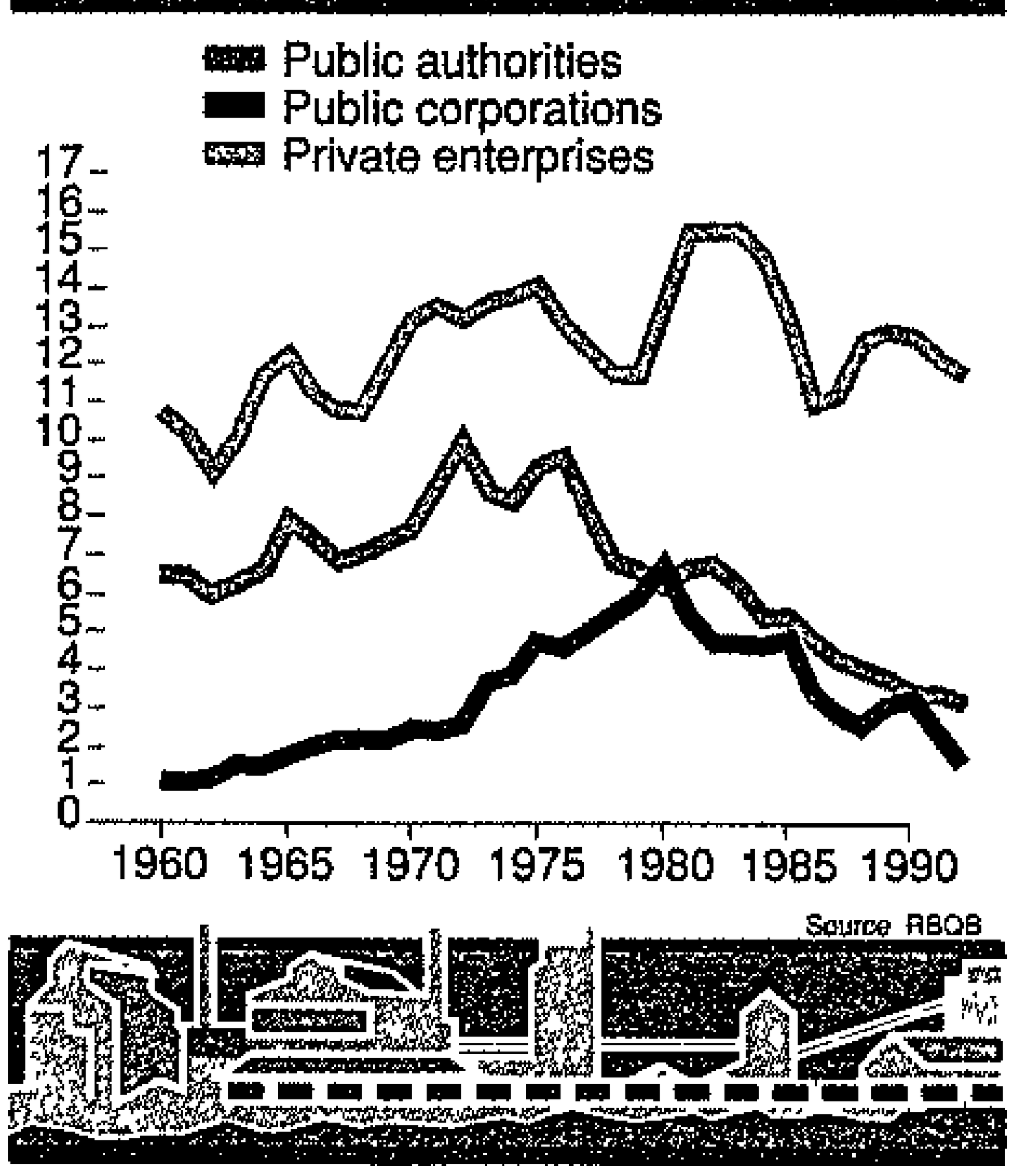
It is the last two which contributed most to the huge decline in the ratio of gross domestic fixed investment to GDP — from nearly 28% in 1982 to 15,9% in 1992

As to the future, major private sector projects already in the pipeline could make a significant contribution to GDP (see table) The timing of the funding flows is uncertain and the effect on the figures of projects completed is difficult to quantify, so predictions on investment figures for 1994 can be only tentative. But it seems likely that new projects will at least halt the decline in private-sector investment spending in 1994 and could actually reverse it.

An indication of its impact at a micro level comes from Willie Vance, executive director of the SA Federation of Civil Engineering Contractors: "The capital cost of the three major projects — Columbus, Alusaf and Namakwa Sands -- is just under R12bn. If this amount is spent over a construction period of three years, it will mean about R400m a year to the civil engineering industry — which represents about 8% of turnover."

Holding the line

GDFI as % of real GDP



Whether capex increases further will depend on a number of factors

One of the major determinants of investment is the strength of the world economy and international demand for exports Amic chairman Leslie Boyd says: "In the case of vanadium, manganese and ferrochrome, for instance, we have idle plants because the market isn't there for our capacity "

However, where demand is firm, as in the case of stainless steel, there is an incentive to expand. "The plant at Middelburg," he says, "is working at full capacity and we are comfortable about expanding and taking a long-term view that SA is the right place to make a major investment in stainless steel." Hence the R3bn-plus Columbus stainless steel venture

Tight monetary policy which resulted in high interest rates, he says, has been the second most important reason for the reduced level of demand, and hence investment However, the benefits of lower inflation will eventually compensate

As a deterrent to investment, he ranks political instability only third Its effect is felt most in those sectors of the economy which depend on domestic consumption demand People whose income has been eroded not only by recession but by disruptions in the economy are cautious about spending and even more cautious about borrowing.

Though the political dimension is only one of several which influence decision making, after the past few weeks of turmoil it tends to dominate perceptions

Apartheid is gone but we are left with its legacy When Hendrik Verwoerd and his henchmen introduced a series of amendments to the Urban Areas Act in the Fifties, they started a process of social disintegration within black communities Legislation took migrant workers from their families and installed them in single-sex hostels

It removed communities from "black spots" and settled them in wastelands. And the enforcement of the notorious pass laws made criminals of innocent people And as family life and community values were being destroyed, the Bantu Education Act of 1953 came into force, ensuring that blacks would receive an inferior education for decades.

The dragon seeds sown in the Fifties were reaped in the Seventies and after, when a generation of dispossessed, alienated and angry young people vented their frustration in violence The ANC, then in exile, mobilised the anger and frustration for its own political purposes and used it throughout the Eighties

Now the forces the NP created and the ANC invoked in response will not return to their bottle

The assassination of Chris Hani and the violence that followed have shown how powerful are the forces of destabilisation. The actions of a handful of white racists and anarchic blacks bent on destruction have held the country hostage The white racists can perhaps be regarded as a security problem and contained.

But the black youths described by the ANC as criminal elements are a symptom of a huge social problem that will be with us for many years. They are from a generation born in the cauldron of the Seventies, reared in the township turmoil of the Eighties, steeped in a culture of violence — and largely unequipped to earn a living

cont

THE ECONOMY 49

If Clinton really cares

FM 7|5|93.

The economy is certainly poised but, whether for increasing business activity or a further plunge, is difficult immediately to gauge. For instance, there has been a dip in reserves and an increase in imports, which suggests that some of the large mining house projects announced last year could be getting under way. That will certainly be stimulatory.

On the other hand, for two out of three months this year, there has actually been a decline in the money supply (on a monthly basis), which suggests that business activity could still be constrained. One of the components of the money supply is bank credit, which is also quite sharply down.

Elsewhere in this edition we explain the circumstances and context of both these occurrences. They might not be as bad as they look; even so, they could indicate stasis rather than growth.

But the authorities, who have access to the most up-to-date and accurate statistics — and the advantage of inside knowledge of Treasury and foreign exchange transactions — are indicating a strong belief that inflation could fall to 5% this year (though not necessarily on an annualised basis), despite the recent increase in Vat.

That suggests, along with the most recent money supply figures, that the economy is still in free fall. The uncertainties of the political situation and the almost weekly massacres must be a substantial aggravation to this morbid economic situation.

However, in the longer run, the tragic and unfortunate death of communist leader Chris Hani and the violence that has followed — and is being threatened — may have better focused the minds of our various political leaders. After all, both the Nats and the ANC realised and expressed in strong language the view that negotiations must not be derailed again by provocative acts of terrorism, no matter how inhuman and debilitating.

After a discouraging start, characterised more by bathos than urgency, the political negotiators appear to have orchestrated their deliberations along constructive lines. There are clear signs of anticipation of some kind of interim government of national unity being in sight.

The rise of the gold price over the past few weeks has been salutary. We do not believe that the rise can be sustained, for reasons set out in some detail last week. Basically, the inflationary pressures that sent gold racing towards US$800 an ounce in the late Seventies do not exist now in anything like the force necessary to support an equivalent momentum. And some central banks — or even the IMF — could be tempted to sell bullion advantageously for strategic reasons.

The main reasons for rising interest in bullion (as opposed to gold shares) appears to be fears over the US dollar's ability to hold its external value in the face of a new, inexperienced and economically sentimental Clinton administration.

If Clinton is seen consistently to be intimidated into inaction, the buoyancy in the US economy may be sustained, the dollar's value recover and the gold price react accordingly. But to the extent that it can merely hold existing levels in the face of all these challenges, the advantanges to the SA economy could be quite substantial, given the low base of economic activity that exists now.

Certainly, the gold mines and mining houses have made substantial progress in recent years in restoring their low-cost status. The additional 3% on the gold price, if it remains for the rest of the year, will provide them with quite handsome profits.

And that will ripple through the economy to good effect, even though the trades unions might still be fending off the harassment of rising redundancies.

That will go on for some time, even when there are more positive signs of a return to prosperity — and it will bring a more broadly based advantage of rising productivity to enhance the positive influence of greater price stability — possibly as inflation approaches 5%.

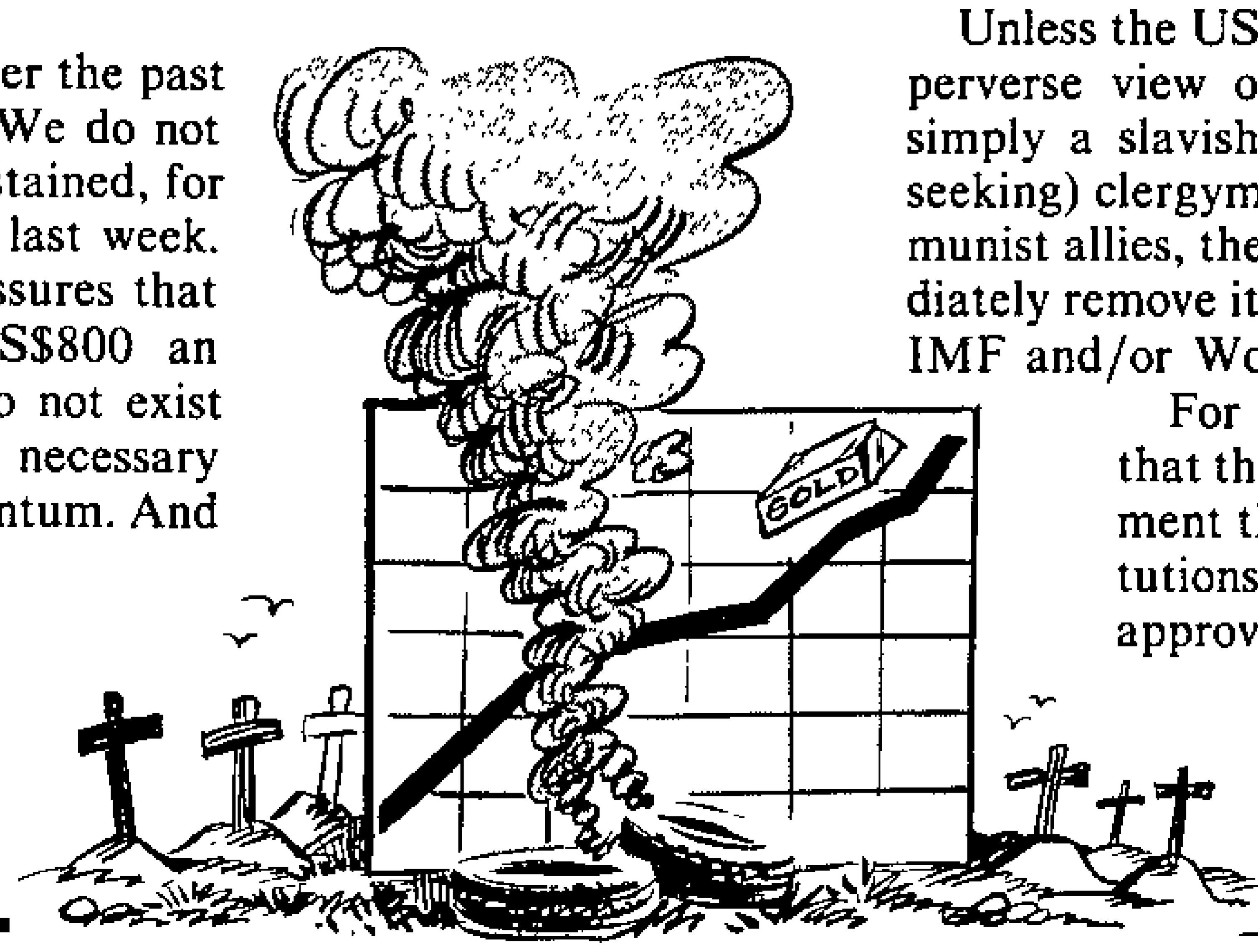
If our supposition proves right — that there is more urgency now for a sensible political settlement, and that the modestly higher gold price sustains itself sufficiently to ginger up business confidence and activity — the sagacity of Prof C W de Kiewiet will once again be evident — as it has so often before.

Those who are familiar with his work on the social and economic history of this country will recall the elegance, simplicity and profundity of his observation in 1941: "South Africa has advanced politically by disasters and economically by windfalls."

The irony is that if the windfall this time is sustained, it will have been the unwitting consequence of the actions of an unsympathetic US president, whose political supporters would rather have him do otherwise.

Unless the US government is poorly advised, has a perverse view of political negotiations here, or is simply a slavish pawn of ill-informed (if not self-seeking) clergymen and ANC leaders and their communist allies, there is no reason why it cannot immediately remove its sanction on this country's access to IMF and/or World Bank facilities.

For it is not with the IMF or the Bank that the sanction rests. It is the US requirement that an SA application to these institutions must be referred for Congress's approval that is the inhibition — and the cause here of prolonged economic distress, especially among the unemployed masses. ■



Bank calls for SA debt streamlining

(49)

BIDAY 7/5/93

GRETA STEYN

THE Reserve Bank has called for an urgent restructuring of government finances to avoid falling into a debt trap.

In an occasional paper written by Bank chief economist Ernie van der Merwe, the Bank said the current rate of growth in government debt was unsustainable.

The ratio of debt to GDP had recently increased sharply, from 47,8% in 1990/91, to 53,3% in 1992/93, and was expected to increase further in the present fiscal year.

Van der Merwe said a "debt trap" would occur when interest payments were increasingly financed by an increase in the public debt or at the cost of other essential government services, or by higher taxes. The possibilities for cutting non-interest expenditure or raising taxes were, however, limited.

"This may mean a self-perpetuating and possibly accelerating rise in government debt, which could lead again to the monetisation of the debt, crowding out of private sector investments and a balance of payments constraint."

SA was not yet in the debt trap, but government was in an unsustainable financial position A return to a sustainable position would mean a declining or stagnant trend in the debt-to-GDP ratio.

Van der Merwe argued government's real interest rate was too high relative to the economic growth rate, which meant interest payments had to be financed by borrowings rather than revenue.

"The familiar effect of compounded interest is to increase the debt by ever-increasing amounts." The gap between the real interest rate on long-term government stock and the economic growth rate had widened to almost seven percentage points from 1,7 in 1990.

"This could indicate that current debt ratios may be difficult to sustain in the future, particularly taking into account the high level of the deficit before borrowing, the level of government debt, the low growth in the domestic economy, and the high ratio of interest payments to total government expenditure."

IMF predicts another terrible year

Guardian Weekly 7/5.-13/5/93.

By Alex Brummer (49)

THE global economy faces another tortuous year in 1993, threatened by slowdown in two of its locomotive economies, Japan and Germany, and hyperinflation and slump inside the former Soviet Union. The best hope for recovery, according to the spring edition of the International Monetary Fund's World Economic Outlook, is stronger growth in North America, but the IMF economists doubt whether this will be strong enough.

In one of its gloomiest reports in years, the IMF describes the industrial countries as beset by "balance sheet restructuring, persistently high short-term real interest rates, considerable financial tensions and depressed consumer and business confidence".

The IMF expects growth in industrial countries to be a modest 1.7 per cent this year — a sharp cut from its last forecast, in October. It now appears that recovery, except in North America and Britain, has been postponed until 1994, when the industial economies will see 2.9 per cent growth.

The IMF economists blame the failure of the western economies to implement key elements of medium term strategy, notably reduction of fiscal deficits, for the stubbornness of the West's financial difficulties.

It believes that labour market policies "have been unsuccessful in addressing persistently high unemployment, especially in Europe".

Much of the venom in the assessment appears to be reserved for the European Community countries, particularly Germany. The economists argue that despite recent cuts in short-term German interest rates monetary conditions remain tight in most EC countries. This, it believes, has been exacerbated by "substantial interest rate differentials relative to Germany, associated with recent exchange market turbulence". The IMF, not known for its monetary indiscipline, suggests that the weakness of the German economy would justify further cuts in interest rates.

For Britain, as is being borne out by recent economic data, the IMF thinks that lower interest rates together with the substantial loosening of policy which came with sterling's departure from the European exchange rate mechanism last autumn means a good recovery. But the IMF economists believe that the recovery will be short-lived unless the Government can put the lid on inflation.

This means the adoption of further tax measures in the autumn Budget and "resistance" to further interest rate cuts.

On European monetary union, it argues that the currency disruption which saw the exchange rate mechanism torn asunder last year demonstrates that if the ERM is to work policy co-ordination must be stepped up.

The IMF is not any more confident about Japanese economic policies. It suggests that despite fiscal packages in August 1992 and last month growth will be stuck at 1.3 per cent this year, which is 2.5 percentage points less than the IMF predicted in October. According to the IMF staff economists, the most recent package is the equivalent of 2.75 per cent of gross domestic product. The IMF thinks that Tokyo will need to keep a grip on its budget as growth resumes.

While the IMF economists applaud the Czech Republic, Slovakia and Hungary and Poland on the advances they have made on reform, the former Soviet Union is clearly regarded as a serious laggard. It predicts that after the calamitous 18.5 per cent drop in output in 1992, there will be a further 11.8 per cent cut this year

Indeed, output will still be falling in 1994, if at a lower pace of 3.5 per cent. Nevertheless, the IMF hopes that if the economic reform programme were to be followed through, many of the countries of the former Soviet Union, if not Russia itself, could experience sharply falling inflation in 1993 and a turnround by the middle of the decade.

The main enemy there at present is inflation, the IMF argues. In Russia, inflation soared in the final quarter of 1992 to about 25 per cent a month, or 1,500 per cent a year.

Among the main reasons for this desperate inflation problem, according to the IMF, is the behaviour of the the Central Bank of Russia. Under its chief, Viktor Gerashchenko, there has been an explosion of lending to state enterprises.

This grim economic background and the failure of the authorities to gain control of the central bank demonstrate the magnitude of the task facing President Yeltsin, despite the vote of confidence for reforms in last week's referendum. He can, however, expect the IMF and World Bank to take decisions which will begin to speed up aid flows — even if reforms have not been fully implemented.

Authorities must show courage /economist

BDAY 7/5/93

GRETA STEYN

MONETARY and fiscal policymakers were erring on the side of caution when courageous action was needed to spur economic growth, Senekal, Mouton & Kitshoff economist Louis Geldenhuys said yesterday.

Speaking at an economics society meeting, Geldenhuys said monetary and fiscal policymakers would have to take risks to get the economy going. The present situation had probably already reached crisis proportions, he said.

Policymakers were risking more in terms of social unrest and political problems by sticking to the present stance than they would if they were to slacken the policy reins.

"The point of departure for monetary policy, and to a lesser extent fiscal policy, is that we have to get things right now to enable us to afford or achieve economic growth some time in the future."

Geldenhuys was concerned that the present monetary and fiscal policy mix would dampen economic growth further, leading to a worse situation in a year's time than at present. He said there was little sign of a major boost from international economic growth and substantial increases in the prices of SA's exports. Finance Minister Derek Keys's long-term restructuring plan would generate growth only in the long run — in the short term it would mean hardship. That left fiscal and monetary policy as the only factors that could spur an economic recovery.

There were risks associated with loosening the policy reins. These included money creation (because of lower interest rates), exchange rate depreciation, and an increase in government debt. It was, however, possible to be overcautious.

S.Times. [Buss]. 9/5/93

Mandela's presidential investiture

MOVES are afoot to allow investment in SA. Comment by KEVIN DAVIE

WHEREVER Nelson Mandela goes these days he is called Mr President. The ANC leader is introduced simply as President Nelson Mandela.

Few will doubt that an election will officially confirm this status on Mr Mandela, but many doubt his ability to unify SA's many divisive forces without support from other key leaders.

These powerful forces extend to the ANC itself, where President Mandela mother hens both the moderate and the marginalised.

President Mandela knows that his chances of countering these destructive forces will depend on investment. He was accordingly in the UK this week, saying that once an election date has been set, then "investment will be allowed".

If only it were that simple. It is true that some money ($1-billion according to one estimate) will be available from donor countries keen to give a democratic SA a good send-off.

SA will also have access to the facilities of the IMF and World Bank which should translate into some new loans and access to private money at cheaper rates.

This will help, but the new government will have to demonstrate that it is pro-investment and that it will create an attractive investment environment.

Investors know that the ANC has until recently been committed to socialist policies and that it remains in alliance with the SA Communist Party.

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Socialists, even the new breed which are begrudgingly changing their thinking, don't like business and remain distrustful of markets.

Profits — the source of growth, jobs, investment, taxes and redistributive spending by government — are seen as something distasteful, even mildly obscene.

Like the central planners of old, some neo-socialists think they can do a better job of finding new markets and growing an economy than business can.

They look to the stunning success of Korea where substantial government intervention has boosted trade of $447-million to $153-billion during the past 30 years. There is no doubt that government can play a major role in transforming an economy.

There should also be no doubt that the first prize is to grow the economy rather than bicker over a larger share of a smallish cake.

Foreigners will bring in their money when they see domestic investment take off. SA investors will take their money out of their pockets when they see stability and an investor-friendly government.

But they won't like a president who speaks of allowing investment. This smacks of interference. What is allowed today may be forbidden tomorrow.

They will want a president who will put all his energies into creating an investor-friendly environment; then getting out of the way for private initiative to do the rest.

Pressure easing on reserves

S Times [Buss] 9/5/93

By ZILLA EFRAT

THE Reserve Bank's holding of gold and other foreign assets rebounded to R8-billion in April after falling to a two-year low of R7,5-billion in March.

Economists say a weaker dollar helped reverse the adverse impact of leads and lags on the reserves. Other positive contributors may include an ending of maize imports and an improved rand gold price.

The latest figures, released by the bank on Friday, indicate that the Bank took advantage of the rising gold price to sell off some of its holdings. Gold was valued at an average price of R999,53 an ounce (R953,03 in March) and gold holdings fell by 222 751 ounces to 5 239 554 ounces.

While reserves have improved, as forecast by the bank's governor, Chris Stals, and Finance Minister Derek Keys, they are still below February's R8,3-billion and do not provide for two months import cover.

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Senekal, Mouton & Kitshoff economist Louis Geldenhuys says April's figures are encouraging, but it is still too early to determine if this is a trend. The next three to six months will be an important test.

Sanlam chief economist Johan Louw says the chance of an interest rate hike now looks remote. But a higher gold price and improved political conditions may even pave the way for a cut later in the year.

SUNDAY TIMES, Business Times, May 9, 1993

JOB MARKET

SA's recovery lies in the Korean example

S/Times (Buss) 9/5/93

EAST Asia has quadrupled its per capita incomes in a generation. Can South Africa replicate this turbo-charged growth? **By KEVIN DAVIE.**

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Duck-Woo Nam: South Korea a lesson for developing nations

THE apartheid government was too preoccupied with propping up an unworkable system to really worry about growth. One hopes that the next government will put economic growth — particularly employment-creating growth — at the top of its agenda.

It can join the rest of the world in studying the recent experience of the high-growth East Asian economies to find strategies which can work economic wonders.

The region nearly quadrupled per capita incomes in 25 years, a record unparalleled in economic history, writes Michael Prowse in the Financial Times.

"On present trends (East Asia) may overtake much of the industrialised West early in the 21st century.

"If its startling success could be replicated elsewhere, billions of people in developing and formerly communist countries could look forward to improved living standards. And the hope of eliminating the scourge of poverty would seem less quixotic," says Mr Prowse.

The country which epitomises this success and has served as the role model in East Asia is South Korea, a nation with roughly the same population as South Africa but with 10 times more manufactured exports.

South Africans were fortunate last week at the Aspen Institute-Idasa conference to be able to hear from former South Korean Prime Minister Duck-Woo Nam how to do it Korean-style.

Mr Nam says the maintenance of a realistic exchange rate is a key condition for maintaining international competitiveness and continuing export growth.

South Korea set up a free-trade regime for exporters by allowing duty-free access to inputs used for exports.

This was extended to include indirect exports or domestic inputs used for exports. Inputs used in export production were exempt from indirect taxes and exporters received a tax credit of 50% of their income.

Other factors identified by Mr Nam include entrepreneurship dynamism, high exposure to the world economy and enforced stable labour relations, limited time-scales for new industry protection and phased capital-intensive investment so as not to overburden the financial system.

South Korean industry which produced for the domestic market was relatively highly protected, but this was reversed in the mid-1980s.

"There was a growing awareness that the economy had outgrown the highly interventionist role of the State and that liberalisation was called for.

"Externally there was growing pressure on Korea from the West to open up its domestic market to imports of their goods and services.

"Today Korea has largely eliminated selective treatment for exports in the area of taxation and bank credits. Korea's average tariff rate stands at about 6%, comparable to that of developed countries," says Mr Nam.

But he warns South Africans who may think the South Korean example is easily replicated today: "The tide in favour of open markets and fair trade is running high in the major industrial countries, and protectionist measures are likely to invite retaliation from developed countries.

"Developed countries are better advised to put greater emphasis on the indirect support of export promotion through the dissemination of information, education and training, providing adequate public facilities and, above all, providing a sound macro-economic policy framework in a well-functioning market system."

This may suggest that there is little role for the State in economic development. But, as Sanjaya Lall of Oxford's Institute of Economics and Statistics points out, the evidence suggests that a pro-active State can play a major role.

He says Chile has the same population as Taiwan, and "is the longest case of laboratory structural adjustment in the world". Yet it exports manufactured goods of about $700-million compared with Taiwan's $80-billion.

"Its industrial development has been pathetic, despite its human capital base, precisely because it did not intervene to deepen the industrial structure and to support infant export industries," says Dr Lall.

Chile's experience challenges the conventional developmental wisdom which says that growth will come from the removal of price distortions in an economy through deregulation and liberalisation coupled with active reductions in bureaucracy and privatisation.

The world's primary development agency, the World Bank, is accordingly rethinking its strategy in the light of the East Asian experience. A new paradigm is expected to replace the bank's emphasis on market-friendly policies.

Mr Prowse notes several other factors in South Korea's success not highlighted by Mr Nam, including using the financial sector to steer credits to preferred sectors, creating State enterprises when necessary and setting up conglomerates.

South Korea also created from scratch a steel industry in spite of foreign donor opposition and the lack of private-sector enthusiasm.

"The State-run business went on to become the world's most efficient steel producer," says Mr Prowse.

Although the evidence suggests that government intervention can make a major contribution to sound development, the risks are high and caution is needed.

Dr Lall points to many advantages in the South Korean example: it has a homogeneous population, favourable income distribution, mobilised nationalist sentiment, a strong base of human capital, direct economic involvement at the highest political level, a single-minded pursuit of particular economic objectives and the ability to monitor performance and penalise poor performers.

"This may mean that the complexity and range of Korean interventions may not be replicable. It does not mean, however, that no selective interventions are possible," says Dr Lall.

ANC 'may insist' on marching

B/DAY 10/5/93.

GAVIN DU VENAGE

THE ANC might insist that it be allowed to proceed with marches and demonstrations even when it has not received permission, spokesman Carl Niehaus said yesterday.

The ANC's PWV region reaffirmed its commitment to "rolling mass action" to speed up the political negotiations. While the ANC had not taken a decision actively to defy an order banning marches, Niehaus said that such a ban would not simply be accepted.

He said the ANC was worried about a "growing tendency" for government to clamp down on marches. On Friday a Cosas march through Johannesburg was banned and police prevented students from leaving the townships.

Niehaus said that the ANC would meet various parties such as the police and national peace secretariat before proceeding with demonstrations.

But the organisation would be "extremely reluctant" to obey a ban, he said. He claimed the ANC's concern about marches being banned was shared by several international observer bodies.

"They are concerned that people are being denied their democratic rights," he said.

Sapa reports that at a media briefing after a meeting in Johannesburg at the weekend to assess mass protests, ANC regional spokesman Jabu Mleketi said the grassroots situation had changed since the murder of SA Communist Party head Chris Hani.

He said people were now more organised around specific issues such as the education crisis.

He said the meeting had focused on four areas of mass action — civic struggles, worker issues, the creation of a peace corps to allow communities to police their own areas and other sectoral matters.

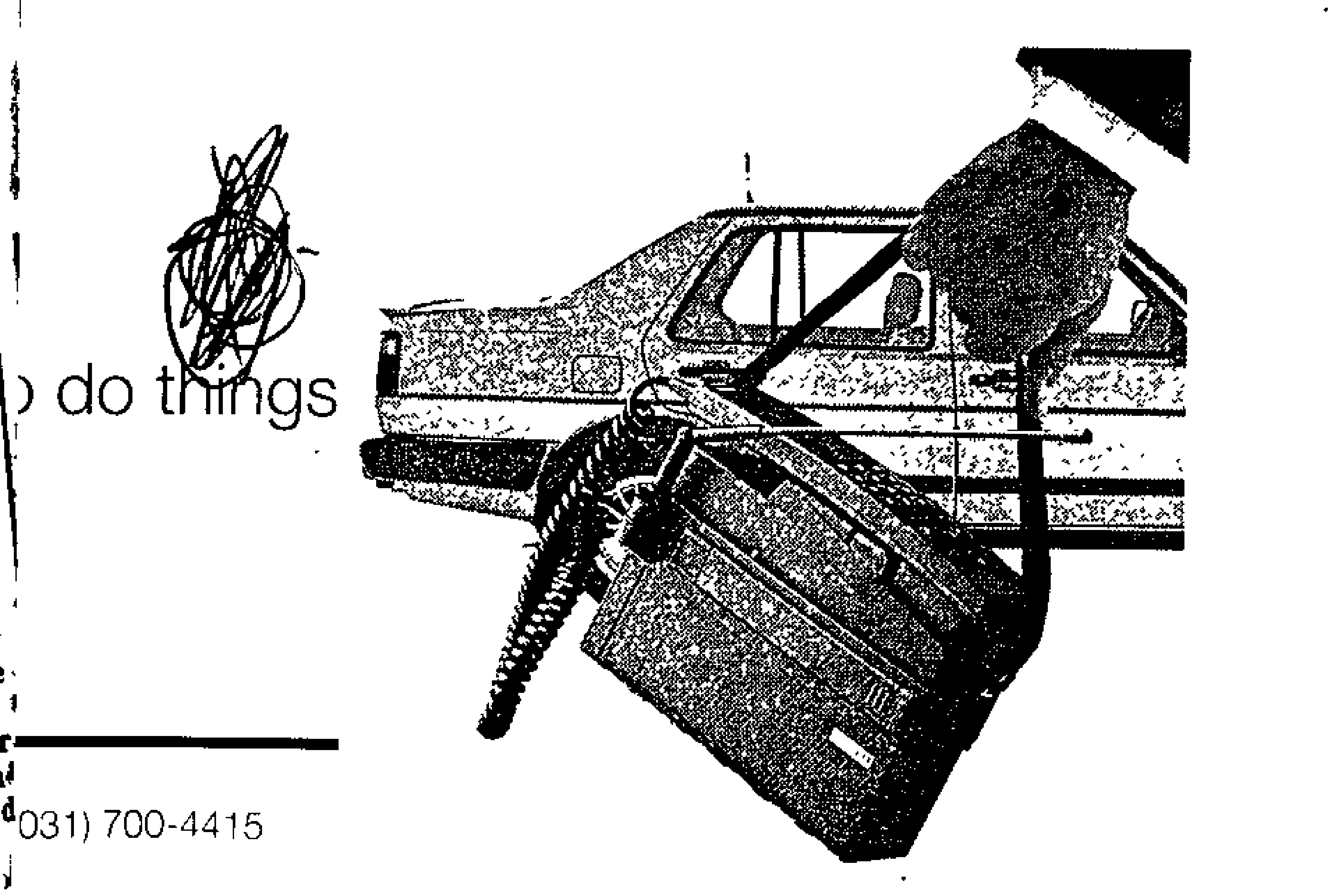
Proposals, which include consumer boycotts, marches and mass demonstrations, would be tabled at a meeting next week.

Another congress official, Paul Mashitela, said there was no conflict between the ANC PWV region and ANC headquarters over mass protests. On Friday night, ANC secretary general Cyril Ramaphosa said a meeting would be held soon to review mass action in the light of progress made at constitutional talks.

Reuters reports from East London that businesses in the Border area have joined the ANC's mass action campaign.

The Border Business Action Committee yesterday announced a two-week plan of action starting on Wednesday.

On the same day, the ANC planned to start 24-hour occupation of Border towns, but the BBAC has suggested a rally instead of occupation. It said action had to be peaceful and avoid disruption of industry and business.



Cosatu's call to Derek Keys

B/DAY 10/5/93.

ERICA JANKOWITZ

COSATU has called on Finance Minister Derek Keys to investigate the investment of R20bn in three major projects.

The federation said most of the money would be spent overseas, whereas "the national economic forum is arguing about spending only R60m on job creation".

The three projects are Columbus and Alusaf and the proposed cellular telephone system.

Cosatu made demands aimed at suspension of tenders for the phone system and for other contracts to be placed locally

Time for devising a development agenda is slipping away

BDay 10/5/93

(49)

WITNEY SCHNEIDMAN

SOUTH Africa will have a unique opportunity to attract foreign capital following the establishment of the transitional executive council. Contrary to the preferences of many South Africans, however, this capital will be in the form of donor assistance for the upliftment of the black majority, and the nation will have to have its own set of development priorities to take full advantage of this opportunity.

Since the end of the Cold War, donors have been sympathetic to African nations at critical points in their transition to democratic rule. Bilateral and multilateral donors pledged nearly $1bn in aid and debt rescheduling to Mozambique in December 1992, for example, two months after a peace treaty was signed ending 16 years of civil war.

Similar support most likely will be offered to SA once a transitional government is in place and a date for the country's first non-racial elections has been set. Western donors are deliberating on convening a consultative group meeting — a gathering of donors customarily chaired by the World Bank — shortly after the transitional executive committee is established. Such a meeting could conceivably generate pledges of $1bn in development assistance alone. US State Department officials have indicated that SA's development needs will be mentioned prominently in the communiqué that is to be issued following the July economic summit in Tokyo of the Group of Seven industrial nations.

South Africa's ability to take advantage of what inevitably will be a narrow window of opportunity will depend in large measure on whether the government, leading political organisations from across the spectrum, and major non-governmental organisations can formulate a national agenda for social and economic development in a post-apartheid era. To date, there has been apparent reluctance to move ahead in this most critical area.

Given the extraordinary energies that have been devoted to constitutional negotiations and, more recently, a new macroeconomic framework, it is understandable that little attention has been given to prioritising the country's development needs. It is also a reality that foreign aid generates little enthusiasm in SA.

There are those in the private sector as well as government who reject the notion that SA is a developing nation in need of foreign aid. These individuals contend that SA is capable of handling its own development problems.

Others, including officials in the ANC, oppose development aid because it will add to the country's debt burden. They also regard development assistance from the World Bank as the first step on the slippery slope towards a World Bank-IMF structural adjustment programme. And there are South Africans across the political spectrum who harbour suspicions of many Western institutions, especially aid agencies, and view external assistance as a sugar-coated form of foreign interference into the country's internal affairs.

In fact, SA has very real development needs in virtually every sector. It will be impossible for any one agency — domestic or external — to redress the inequities and shortcomings in education, health, land, urban infrastructure and skills training. A new democratic government will be under pressure to initiate a policy of redistribution and to improve quickly the standard of living of black South Africans. It is unlikely that a new majority-led government will have the financial or technical capacity to respond immediately on its own to pent up expectations in the townships and rural areas.

SA's debt problems are with commercial banks, not donor agencies or multilateral institutions. The costs of development assistance will be minimal and most of the bilateral support is likely to be extended on a grant or concessional basis.

Furthermore, loans from the multilateral institutions such as the World Bank will be paid for by the government from tax revenues generated from corporations, businesses, and individual taxpayers who have prospered over the last 45 years. The beneficiaries of the assistance, if propertly administered, will be those who have been marginalised the most by apartheid.

Donor assistance will not make a World Bank-sponsored structural adjustment programme inevitable. As the ANC's economic policy guidelines and the government's normative economic model make clear, there has to be far-reaching fiscal, monetary, industrial and tariff adjustments in the country's macroeconomic framework to revive growth and to achieve sustainable and equitable development. The question is whether a new government will have the discipline and determination to accomplish the restructuring on its own, or whether it will be compelled to rely on an international agency such as the World Bank or the IMF.

A genuine concern is that the World Bank's development objectives will become SA's, thus denying a new government autonomy in setting its own agenda. This will not happen if the post-apartheid government develops its own comprehensive programme for national development. A new government with its own set of priorities will have a firm basis from which to negotiate as an equal party on the terms of all development assistance with the World Bank, the consultative group and every other donor.

South Africans have to provide guidance to international donors if the impact of the external assistance that will be available for social and economic development is to be maximised. This will be difficult to do without a blueprint based on a national consensus.

Given the size of SA's economy, a very generous aid package will make up only a small portion of the country's GDP. If such a programme is designed properly, external assistance could provide partnership opportunities for private investors, creating a catalyst for foreign and domestic investment. In the short term, a coherent response by South Africans to the donor community will send an encouraging signal to potential foreign investors.

A persistent problem with donor assistance is the length of time that often transpires between the design of an aid programme and its implementation. While donor agencies are often paralysed by bureaucratic bottlenecks, a lack of "absorptive capacity" in recipient countries also contributes significantly to delays in the disbursement of funds and the implementation of programmes. Much of the $24bn that was promised to Russia last year by the G-7, for example, was never disbursed because of the political and bureaucratic disarray in that country. A national agenda for development would help focus donors on SA's most pressing needs and accelerate the delivery of promised assistance.

Indications are that the international community is prepared to make a major effort to support the transition to a post-apartheid government. SA, nevertheless, will be competing with a growing number of claimants for a relatively fixed — if not shrinking — number of aid dollars. In order to decide which recipients to support, donors are likely to make assistance increasingly conditional. Criteria such as poverty reduction, environmental protection, reduced military spending, and efficient economic management, not to mention respect for human rights and democratic government will determine which countries receive support.

The first consultative group meeting on SA is likely to mobilise the greatest amount of financial assistance with the fewest conditions. This window of opportunity could close prematurely unless steps are taken to engage the donor community.

□ **Schneidman, a former consultant to the World Bank on SA, is vice-president of Samuels International Associates, an international consulting firm based in Washington.**

Hani's death battered the SA economy

Sowetan 10/5/93

■ Business mood is negative:

POLITICAL instability and the violence that followed the assassination of SACP general secretary Mr Chris Hani seriously battered the South African economy.

In its Business Confidence Index, the South African Chamber of Business yesterday said the business mood for April had been negative.

(49)

Sacob's director economics, Dr Ben van Rensburg, said in the absence of offsetting positive developments, particularly in the multiparty talks — recent events could well cause a fall in business confidence and a further delay in the long awaited economic upturn.

He said: "The initial hope that the tragedy of Hani's assassination would result in renewed urgency and more rapid progress in the political negotiations has not yet been realised. The economy remains hostage to political developments".

He said while the business community would not like to see undue haste that could result in a breakdown in the political transformation process at a later date, it was essential that real progress was seen if permanent damage to the growth potential was to be avoided.

Banks get a R1,8bn breather

BDAY 10/5/93

RESERVE Bank Governor Chris Stals gave notice this week that a Bank rate cut was still on the cards — and the capital market reacted by dropping bond yields.

Smart players realised on Monday that the Bank's economic targets were back on track when the Bank fed R500m into the market through a repurchase offer (the Bank lent the money to banks for three days against specified assets as collateral).

Also on Monday, about R1,8bn in government spending flowed into the money market. So why would the Bank add liquidity when the government spending would ease the pressure on liquidity in any case? Answer: policies were back on track so the Bank could take the pressure off the banks — and it did so in a major way. The banks' daily debt to the Bank dropped to R2bn from recent highs of R6bn.

Some dealers grumbled that Stals had been saying interest rates were under pressure but changed his tune on Monday.

It is worth noting that Stals did not say Bank rate would not be cut — he said interest rates were under pressure.

Reserve Bank sources indicated frustration with the banks when liquidity was at its tightest. The Bank thought tight liquidity would bring market principles into play and the banks would raise deposit and interest rates, meaning local loans would be more costly than those offshore. (The Bank pinpointed the repatriation of offshore loans to SA as a major reason for the drop in reserves.) (49)

That banks decided to absorb the high cost of money surprised the Bank. It appears the Bank was keeping liquidity artificially high by selling government debt.

Now capital market eyes will be firmly on political developments with the economy taking a back seat. In the meantime, smart dealers will be keeping a weather eye on the money market shortage for signs that all is not well in Pretoria.

Growing call to change SA status

BDM 10/5/93 (49)

GRETA STEYN

THE ANC and economists aligned to the organisation are emphasising the need to have SA reclassified as a developing country at a time when government has no progress to report in negotiations on the issue.

A Trade and Industry spokesman said at the weekend no formal negotiations on reclassification had been started yet, although informal discussions with interested parties were continuing.

He did not wish to elaborate, but it is understood potential problems in achieving reclassification include vested interests in Europe opposed to the move and the need for a more representative government in SA.

ANC president Nelson Mandela asked Britain last week to support SA in persuading the OECD, GATT, the UNDP and similar organisations that SA should be viewed as a developing country.

He called on the British government and opposition parties to use their influence to get the EC to enter into a mutually beneficial agreement with the new SA, "as soon as is practicable and feasible."

The ANC-aligned trade policy monitoring project takes up the issue in its Trade Monitor, to be published this week.

The Monitor says a new trade pact with Europe is likely to stimulate investment in SA since it would give investors signals about SA's serious commitment to exports.

It would also encourage foreign investors to take advantage of SA's duty-free access to the EC under the Lomé convention.

The monitor says Lomé status, compared with other available options, could be the most beneficial trade arrangement for SA.

The Lomé regime provides for duty and quota-free access of developing countries' manufactured goods and 90% of their agricultural goods to the EC.

While the immediate advantages to SA should not be over-estimated — less than 20% of current exports would be affected — a Lomé arrangement would provide scope for future export potential. It could stimulate intra-regional trade and an increase in exports such as clothing, car parts and horticulture.

The Monitor said the impact of gaining preferences for the deciduous fruit industry in SA, which was less important as a foreign exchange earner but a major employer, could be significant.

Lomé status could also imply significant gains for SA manufacturers that proved to be internationally competitive.

Agriculture central to economic pact – FW

Star 11/5/93

By Anita Allen
Science Writer

A southern African economic community will become a reality and agriculture had a major role to play in the process, President F W de Klerk predicted yesterday.

Opening the first congress in Africa of the International Association of Cereal Science and Technology in Pretoria, De Klerk said the economic foundations in the form of interlinked infrastructure already existed.

South Africa had the capacity and the desire to make its technological services available to its neighbours on a partnership basis.

Highlighting the theme of the congress — the Impact of Cereal Science and Technology on a Changing Africa — he said agriculture was the logical starting point of any strategy of getting Africa out of the doldrums in which it found itself.

"Taking into account Africa's growing population, sustained agricultural development in our continent is undoubtedly as essential prerequisite for an acceptable economic, political and social order, as well as for the general stability of society."

A thriving agricultural sector could be maintained only if technology kept track on a continuous basis. He was proud of the numerous outstanding achievements of the full spectrum of the South African agricultural sector.

"I believe that our vision of a just, stable and prosperous South Africa will soon become a reality. We are on the brink of a breakthrough.

"With that will come even closer co-operation between all the countries in southern Africa. A dream of the southern African economic community will become a reality," De Klerk said.

The congress is being attended by more than 300 delegates, including 70 scientists representing 28 countries.

NEWS FEATURE *What business should do to help establish the new dispensation*

SA business must start taking risks

■ *An edited address by* **PRINCETON N LYMAN,** *US ambassador to South Africa, made in Johannesburg recently before an audience of mainly white South African businessmen:*

Sowetan 11/5/93

THE EVENTS of the past few weeks have been tumultuous and emotionally draining. Whenever a major political figure is assassinated, it is a traumatic blow to the psyche and political culture of a country. I know that from the terrible days of 1963 and 1968 in the United States when assassinations shocked our country to the core. It has taken perhaps all this time for us to recover from them.

Thus it is natural and indeed necessary that the shock of Chris Hani's assassination have means of expression and outlet. And it is equally important that the murder be thoroughly investigated, right away, so that doubts and webs of conspiracy theory do not poison the political atmosphere for years ahead. I commend the Government for inviting international experts to add to its investigative team.

Deeply disturbing

It was of course deeply disturbing, and at times frightening, to see decent and disciplined occasions of mourning and protest used by some for violence and looting. But there is another side to these events that needs more emphasis than given in the media.

Hundreds of thousands of South Africans, torn by grief and shock, and many by anger, demonstrated their feelings in an orderly and disciplined way. Only a very small minority did otherwise and against the directions of the nation's leaders.

What this tells me, and it is important for the subject of the economic and investment prospects for the country, is that the overwhelming majority of South Africans, despite years — indeed in truth centuries — of discrimination and oppression, do not want to tear down this country, do not want to destroy the remarkable achievements that have been made but want to participate in them.

That is a far cry from Angola, or Somalia, or Yugoslavia, where people are prepared to destroy their own country in order to rule it. This feeling is precious in South Africa. It must not be wasted.

It will be wasted if the negotiations that have gone on for almost two years now do not reach fruition soon. It will not be enough simply to reach agreement, however. It must be an agreement that gives fundamental right to the majority.

Some still hope that democracy can be detoured, that under the facade of democracy an agreement can be reached which hobbles the authority of the majority. Let me be clear. No democracy works if power is absolute. The minority must have rights and protection. Power must have checks and balances.

All these can be built into the systems now under discussion — through a balance of central and regional authorities, through a bill of rights and a system of constitutional supremacy with a strong and independent judiciary, through a government of national unity.

Sufficient mandate

But there must also be rights of majority. The electorate must feel that its votes counts for something, that the party or parties that are in the majority have sufficient mandate and authority to lead the country in new directions, to provide for new dispensations, to make decisions and to overcome opposition after a fair debate and adherence to lawful and constitutional procedures.

Any agreement short of that, in my view, will not hold. Any system which portends deadlock and paralysis would be deadly. Indeed it may not be sustainable through the elections.

Now is the time for courageous decisions. We have witnessed an outpouring of not only grief and anger but continued dedication to South Africa. We must see democracy come while that spirit is still dominant.

Everyone knows that the economy is in deep trouble. The challenge that faces all of us, South Africans and the international community that has a stake here — and I would emphasise that the United States has a large stake here — is to make the future happen. It is tempting for business to put its capital into safe financial instruments and take few risks at this point.

The trouble is that this only contributes to the problem. We look to the politicians to take risks in a political settlement but we are asked to understand the businessmen and women's unwillingness to do so. We tell the political leaders that violence will inhibit confidence and the readiness to invest but we are told that we cannot expect the business community to take steps now to provide jobs or job-promoting training to the unemployed in the townships. That cannot be the stance to take.

There are several institutions which are developing scenarios for the future development of the country. But, in truth, these are still more the exception than the rule. While some of the principal businesses of South Africa are so engaged, the general climate remains deeply conservative.

Chris Hani....death still reverberating in South Africa.

> **The challenge facing us is to make the future happen**

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The international community is also cautious.

We anticipate that the principal sources of assistance capital that will be available to South Africa will be the World Bank, the African Development Bank and perhaps the International Fund for Agricultural Development. The World Bank has already undertaken an overall analysis of the South African economy and several sectoral studies.

The next logical step is to develop a portfolio of specific project proposals. However, it cannot move forward on this unless there is a clear signal to the bank to do so from the various parties in South Africa, in particular those which have called for maintenance of sanctions. We have urged such a step.

Unless the banks begins now, a newly elected government a year from now will be faced with as much as two years wait before being able to utilise this assistance for the pressing needs of the population. The psychological effect of this step will be important. It will further signal the constructive intentions of the liberation movement and will give impetus to new investment planning by the private sector.

It is not far-fetched to anticipate some \$2-3 billion annually eventually coming into South Africa from abroad, enough to help South Africa reach substantial growth levels.

Foreign capital

But none of these ideas will take root unless the South African business community is equally bullish. More bluntly, none of these sources of foreign capital will materialise if South African capital is either leaving the country or held out of the market place. South Africans cannot expect foreign institutions to substitute their capital for South Africa.

In every potential case I have cited above, one clear condition is that foreign capital be matched if not overmatched by South African investment in the same areas or instruments.

Thus the lead cannot come from abroad. Nor can the business community put the whole burden on the politicians. The politicians of this country have already gone a long way to assure the business community about future economic policy.

Taking the ANC as one example, the economic policy statements of the past year make little of nationalisation, place great weight on fiscal responsibility and look primarily to the private sector as the engine of growth.

If there is continuing doubt, I urge the business community to engage the political parties more on the issues. But keep in mind that this private sector approach by political parties such as the ANC, and over an even longer time by the IFP, place a responsibility on the private sector. The business community needs to demonstrate that this faith is not misplaced. If the only response is business as usual, the political support for these policies will evaporate. The South African economy stopped creating new jobs a long time ago, before sanctions were imposed. Sanctions and recession only reinforced the trend. There are deep structural factors that are inhibiting both growth and employment.

Structural change

The business community should not be silent on these matters. Rather, it should be in the forefront of developing proposals for structural change, for alternative tax and other incentives that will lead to far more job-creating investments. It should use the National Economic Forum to put forth a whole programme of this kind and commit itself to a programme of investments once the incentives are enacted.

It should be seeking out new investments that enhance demand and build skills within the black community. If the financial and management institutions appropriate for such investments do not exist, the business community should lead the way in creating new ones, not leaving this, as at present, largely to private non-profit agencies and charitable organisations.

As good as the latter are, they are not the captains of industry nor have they the depth of skills and market savvy to go very far.

What I am saying is that the private sector, which prides itself on analysing and taking risks, must now take some greater risks on behalf of growth and development. Those are not the kind of risks that it confronted in the past, indeed not those usually taught in business schools. They are, if you will, political-economic risks. But everyone is South Africa is being asked to take risks.

The minorities that have dominated this country and are most economically well-off are being asked to risk their futures in a democracy in which the majority is both of a different race and generally poor. The liberation movements are being asked to risk their credibility with their constituents by agreeing to coalition government and dependence on the private sector from which they have been traditionally excluded.

The vast majority of South Africans are being asked to risk their dreams of better education, housing, jobs and basic health services on a long-term programme of growth rather than a radical policy of redistribution. These are big risks but they are essential for each of these parties to take if South Africa is to come through this transition whole.

Common ground

The business community must equally be prepared to take risks on behalf of structural change, greater willingness to invest, dynamic programmes of affirmative action and far more dialogue with the future leaders of the country to find common ground. If South African business leads the way the international community will be there with you. But alone, we cannot do it.

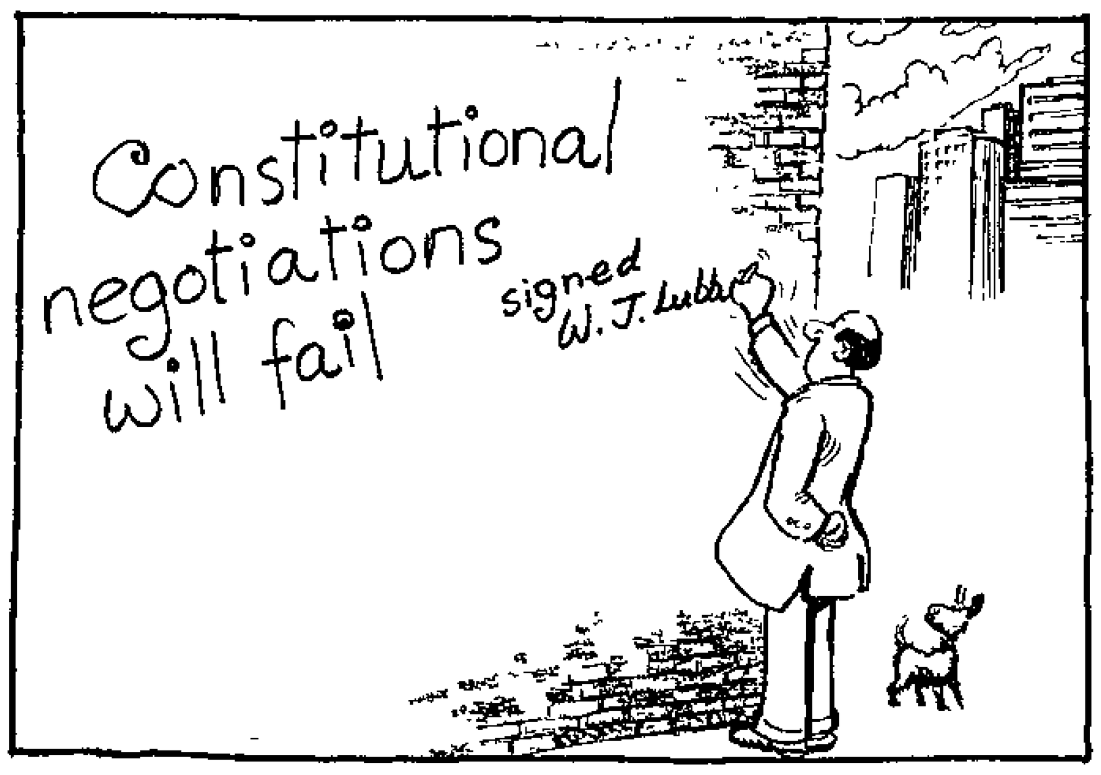
'The challenge facing us is to make the future happen'.

LETTERS *Lucky break turned a lowly clerk into a buyer* ● *Teachers who need no sympathy*

Dear editor

Short letters are preferred and none is considered unless it is signed, with the writer's full address. You may indicate if you want to use a pseudonym but these are not encouraged.

Write to: The Editor, Sowetan, PO Box 6663, Johannesburg, 2000



Coalition the only way

THE country is in a state of war and there seems to be no light at the end of the tunnel

The ordinary man is sick and tired of eloquent speeches, promises, 10-point plans, unsympathetic Budgets and much more.

All this is a clear sign that Parliament and the authorities are completely out of touch with reality while the country is ungovernable.

The people are legally powerless as the lawmakers have made themselves untouchable. Such conditions are moving in the direction of a revolution.

The only alternative is an interim coalition government consisting of representatives of all parties within and outside the existing Parliament under an independent chairman.

There should also be an independent non-political five-man UN commission to produce without delay an acceptable new constitutional dispensation and democratic government.

South Africa has been struggling for more than a decade to produce an acceptable constitution.

The writing is clearly on the wall that the present plans for constitutional negotiations will also fail.

The people must therefore demand in a visible manner that an interim coalition government must take over the management of the country until a new democratically elected government can rule.

WJ LUBBE,
Strand, Cape Province

Disciplining the kids should be top priority

IN *Sowetan* of April 13 one of your readers, Ms Mbatha, complained about black parents not pulling their weight in supporting teachers who take to the streets to demonstrate against the Government.

I cannot understand how teachers can boycott classes and still expect the parents of these children to assist them.

As a parent, my first priority lies in disciplining my children to ensure that they go to school regularly. They have no say in this matter.

I wonder if Ms Mbatha knows that some of the teachers she is talking about are not even fully qualified.

I am a qualified white teacher with a university degree teaching at a black school I know of black teachers who do not even have a matric certificate.

A teacher's top priority should be to give the children the best education possible.

And by this I am not saying I agree with everything the Government does. All I am saying is. Why can't we, as teachers, motivate our children to study hard while we try and negotiate our grievances with the Department of Education and Training?

I love my job. I also want to see to it that the children, like my own children, receive a high standard of education.

I will do my utmost to help all these lovely black children so they can grow up a well-educated, confident young people.

MRS M SMYTHE
Alrode

Lagardien put the arrogant Nats in their proper place

IN *FOCUS* of March 30 Ismail Lagardien makes some very good points regarding the National Party.

After 40 years of the most evil rule, the Nats expect us to forgive and forget and actually pretend that apartheid never existed, whereas it is still very much alive and kicking.

Arrogance

Ignorance, insensitivity and sheer arrogance have been the NP's traits for over four decades.

The NP does not even deserve to be the official opposition party.

TEBOGO BOBBY MASILO,
Mabopane, Bophuthatswana

to the point

FIRST of all I want to express my deepest sympathy to the family of Chris Hani and all his supporters. Secondly, I thank CCV televising the funeral programme for us.

VIOLET MBATHA, Tembisa, Kempton Park

I'M an Inkatha member and live in the squatter camp Zonk'zizwe. I was surprised when our members shot and killed ANC people without any reason.

On April 24 our leaders called a meeting to discuss the matter. We were asked to donate R10 each to bail out the alleged killers.

We residents of Zonk'zizwe are not happy with all this.

THEMBA MELLALUSI, Katlehong Germiston

I totally agree with Elliot Makhaya that sports commentator Dumile Mateza's accent is more American than anything else The problem I have with Mateza's style is that not only is he making a mockery of himself but all black South Africans.

SELLO MALEKA, Dobsonville, Roodepoort

Words of Faith

Do not boast about tomorrow, for you do not know what a day may bring forth.
Let another praise you, and not your own mouth; someone else and not your own lips.
Stone is heavy and sand a burden, but provocation by a fool is heavier than both.
Proverbs 27: 1-3

Aiming for the stars in fashion

■ **Soweto lass has her sights on top job in leading store:**

By Sizakele Kooma

SHE has had a major break, shooting up from clerk to buyer for a giant clothing store But Maureen Dlodlo is still hungry for more and is out to get it

Not so long ago she joined Edgars as a part-time clerk, straight from high school. Today, she is positioned among the best in the company.

Dlodlo controls an annual budget of R66 million in her job as buyer, creating internationally acceptable fashion ranges from locally selected fabrics

A career in fashion was not this Soweto lass's original dream. As a young girl she wanted to be a social worker but lack of money frustrated this ambition.

"When I was offered a full-time job at Edgars I was ecstatic. I knew nothing about fashion but I was determined to learn," Dlodlo said

She knew that hard work alone would not earn her recognition in her job. She went on and equipped herself with all the knowledge she needed to do her job

Her boss enrolled her for the Merchant Development programme, which accepts only graduates and is designed to give them an in-depth understanding of business

"Although I did well in the entry test I felt demotivated at the beginning. I felt out of my depth. I was the only one training without tertiary qualifications I gained self-confidence as the course went on.

"I hold a middle management position and my job is highly stimulating There is nothing more fulfilling than seeing a range of clothes that I created selling in stores nationwide," she said

But that is not where she hopes to end Dlodlo has set her sights on the position of buying manager

Anyone who is interested in following a career in fashion should contact Jack de Kock at (011) 495-6546/7.

Maureen Dlodlo ... hungry for more.

Alice digs deep into the jazz idiom

■ **Alice presents well-researched programme:**

By Kenosi Modisane

ONLY a few women venture into the world of jazz.

But if they do, they take the idiom by the proverbial scruff of the neck and give it a real bash.

Even in the world of print and electronic media they are few. But when they surface we all take note and listen to the likes of Alice Nqabi Mkhabela Shongwe.

The sweet-voiced Alice, popularly known as "Coltrane", presents a jazz-fusion programme on Sundays on Radio Swazi at 2pm Hers is a well-researched and well-presented jazz programme.

"I am into all kinds of good music but jazz is my forte," said Alice.

"I think I came under the influence of the idiom because I was born in Mamelodi West and most people there are into fusion and jazz," she said.

A qualified school teacher, Alice has also worked as a saleslady and store supervisor

"But I always had a desire to work for radio," she said

In 1984 she joined the SABC's Radio Swazi as a full-time announcer and in 1992 she was appointed a marketing executive and advertising consultant She now does her radio work on a freelance basis

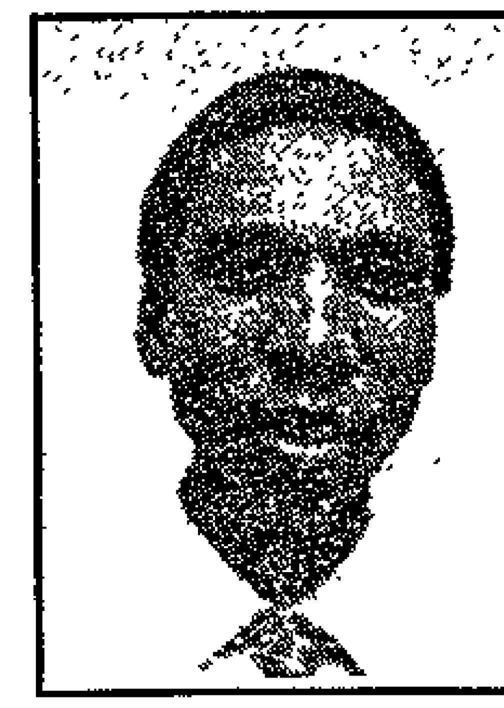
During her full-time days at Radio Swazi she presented programmes such as *Vumelani Abantwana*, *Ncintancintane*, *Asithandazeni Hospital requests* and a talkback show, *Sentanjani Uma Kunje*.

Alice Nqabi Mkhabela Shonwge.

> **"I am into all kinds of good music but jazz is my forte"**

focus on the economy

The International Monetary Fund and the World bank have been accused of a conspiracy of silence regarding their agenda for South Africa. Economist Ben Turok told **Mzimkulu Malunga** that we can make it without them:



A LOCAL ECONOMIST feels there is a "conspiracy of silence" on the real agenda of the International Monetary Fund and World Bank in South Africa.

But an official of these institutions say they won't force their policies on this country.

"The atmosphere being created in the country is that we should borrow from IMF and World Bank," argues Ben Turok, director of the Institute For African Alternatives.

Many in this country — including senior economists — still talk about aid from the IMF and World Bank, "but these are banks, they do not give aid", he says.

However, Isaac Sam, an adviser to the World Bank's Southern African department, says the two institutions have no hidden agenda. What they have done is to put their proposals on the table and it is up to the South Africans to decide.

He says World Bank proposals stem from studies conducted on the South African economy and experiences of other countries where such policies worked.

There is consensus in this country that the economy needs restructuring but the debate is on how to go about it.

Some, like Turok, advocate a conscious decision to redirect resources to disadvantaged communities and less intervention by the IMF and World Bank in the economy, while others believe there is no alternative to an IMF-led Economic Structural Adjustment Programme.

Some believe the country has enough resources to survive "harsh medicine", as ESAP is sometimes called, under the auspices of the IMF and World Bank.

"That is what former Tanzanian president Julius Nyerere used to think. Robert Mugabe in Zimbabwe once said the same thing as well. But just ask them how they feel about these institutions today," argues Turok.

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Skyscraper

He says an economic structural adjustment led by the IMF and World Bank would only benefit the formal sector or "the skyscraper" as he chooses to call it — leaving the majority of the people poor.

"Unfortunately, a great majority of commentators in this country have chosen a skyscraper growth path," he argues.

On the other hand Sam says the IMF and World Bank, contrary to popular belief, do not "push" countries to take up their loans. They only mobilise resources to enable poor countries to develop, arguing that it is amazing that only Africans complain while Asians and Latin Americans are willing to go along with the conditions laid down by the fund and the bank.

A large part of the IMF and World Bank's income does not come from the debt repayments

Ben Turok ... believes there is a conspiracy.

Sowetan 11/5/93

by developing countries, says Sam, though he declines to specify where the money comes from, saying that it warrants a subject on its own.

In addition to the mobilisation of resources, these institutions act as "catalysts" to build investor confidence in a particular country by analysing economic aspects of countries.

"ESAP is saying nothing other than you are living beyond your means, therefore you have to structure," he says.

If countries apply for commercial loans from banks internationally, the latter tend to depend on the attitude of the IMF to determine the creditworthiness of a country.

Critics of these Washington-based institutions say their ESAPs are nothing else than a carbon copy of each other.

Social services become the first victims together with civil services in the midst of huge spending cuts by the state.

Though the IMF and World Bank officials are quick to point out the graduates of "harsh medicine" in Asia and Latin America, they are yet to produce a success story in Africa.

People have taken to the streets several times in countries like Zambia and Nigeria as food prices and other basic commodities rose and their banknotes became worthless.

Hence, the fund and the bank have a negative image on the rest of the continent to an extent that ESAP has been renamed "Ever Suffering African People".

Harsh medicine can dig deep into the coffers of a country. For instance, if a person needs to change 100 British pounds (about R500) into Ghanaian cedis, he would probably need a Pick 'n Pay sized plastic bag to carry the money.

In Tanzania, for one British pound (about R5) a person gets 1 500 shillings in return.

"If you want to know what ESAP has done to Nigeria, just ask one of the taxi drivers," says Turok.

However, he feels South Africa still has a chance to avoid ESAP. A proper economic policy will redirect resources to areas where they are most needed.

But some officials in the Bank and Fund won't be battered into submission when it comes to defending their policies.

"To put blame on the doctor who is trying his best to resuscitate a dying corpse is wrong," argues an official sympathetic to the policies of the IMF and World Bank.

Both institutions were established after the second world war. The IMF was established to help industrialised countries to fight inflation and stabilise their currencies. Its loans are short-term.

The World Bank was established to help Europe and Japan to recover from the war, hence the original name International Bank for Reconstruction and Development.

After the 1950-60s, when more countries throughout the world gained independence, the World Bank extended its facilities to those states.

Today the World Bank Group comprises the IBRD, giving loans to countries in which income a person is above $720 a year, the International Development Association, for poorer countries, the International Finance Corporation, which gives loans to private business and the Multilateral Insurance Guarantee Agency, which guarantees funds for private sector investment.

HOUSE OF DELEGATES

INTERPELLATION

The sign * indicates a translation. The sign †, used subsequently in the same interpellation, indicates the original language.

General Affairs

1. Mr A RAJBANSI—Regional and Land Affairs [Withdrawn.]

QUESTIONS

†Indicates translated version.

For oral reply

General Affairs

Question standing over from Wednesday, 5 May 1993.

Loan to banking group

*3 Mr M F CASSIM asked the Minister of Finance: 49

(1) Whether a loan of approximately R1 billion was made available through (a) any State structures or (b) the Reserve Bank to a certain banking group, the name of which has been furnished to the Minister's Department for the purpose of his reply; if so, (i) when, (ii) why, (iii) for what purpose was the loan required and (iv) what is the name of the banking group concerned;

(2) whether he will make a statement on the matter? D207E

The DEPUTY MINISTER OF FINANCE:

(1) (a) No.

(b) In terns of section 33 of the South African Reserve Bank Act 1989, (Act No 90 of 1989), details of business conducted between the Reserve Bank and banks is confidential and cannot be disclosed to third parties. As lender of last resort the Reserve Bank provides assistance to banks on a regular basis. The normal banking business code, however, also applies to such transactions, namely that no details may be disclosed.

(2) No.

New questions:

Resettling of persons on State-financed land

*1. Mr A RAJBANSI asked the Minister of Regional and Land Affairs:

(1) Whether he or his Department has taken steps, or is contemplating taking steps, with a view to enabling State Departments to make use of State-financed land owned by municipalities for the purpose of resettling persons who were displaced or dispossessed in terms of the Group Areas Act; if not, why not; if so, (a) what steps and (b) which Departments are involved;

(2) whether he will make a statement on the matter? D212E

The MINISTER OF REGIONAL AND LAND AFFAIRS:

(1) The question is not clear.

(a) I would nevertheless like to inform you that it is intended to amend the Abolition of Racially Based Land Measures Act, 1991, to enable the Advisory Commission on Land Allocation also to identify certain land owned by certain local authorities and which land has, for example, been acquired in terms of the Group Areas Act, 1966 by the application of the provisions thereof or in terms of the Communities Development Act, 1966 (Act 3/1966), and which at the date of the commencement of the proposed amendment bill had not yet been disposed of or alienated in terms of a law or in any other manner for a specific purpose. After the identification of the land it will be dealt with in terms of the procedures and directions of the Act. If circumstances permit, the proposed amendment should still be tabled during the current session of Parliament.

(b) The Department of Regional and Land Affairs in consultation with all relevant departments.

(2) The Deputy Minister of Land Affairs has already issued a statement on 7 April 1993 in this regard and also discussed the issue during his budget vote held on 30 April 1993.

Mr A RAJBANSI: Mr Chairman, arising out of the hon the Minister's reply, is he aware of the fact that the statement of the hon the Deputy Minister does not satisfy the cries of the people? Secondly, he mentioned the Group Areas Act and the Community Development Act. Is he aware that many of the resettlement schemes were established in terms of the Housing Act?

The MINISTER: Mr Chairman, I am not aware that the public is not satisfied with the statement made by the hon the Deputy Minister. The people in the communities the hon member represents should draw that to our attention and raise the issue with my colleague, the hon the Deputy Minister. With regard to the second question, obviously I am aware that that is the case. This is a very sensitive situation. I should like to invite the hon member, if he has any particular problem, to discuss it with the hon the Deputy Minister to whom this responsibility has been delegated.

Mr A RAJBANSI: We have done that.

The MINISTER: If the hon member is not satisfied, he can come to me. I shall listen to his problems in that regard.

Purchase of textbooks

*2. Mr A RAJBANSI asked the Minister of State Expenditure:

(1) Whether, with reference to the reply to Question No 2 on 21 April 1993, he will furnish reasons as to why schools under the control of the Administration: House of Assembly, including those administered by the provincial administrations, are not obliged to purchase textbooks on the same basis, i e in accordance with the provisions of the State Tender Board Act, 1968 (Act No 86 of 1968), as applies to schools under the control of the Administrations of the House of Delegates and the House of Representatives and the Department of Education and Training; if not, why not; if so, what are the reasons;

(2) whether he intends investigating the matter; if not, why not; if so, when;

(3) whether any instances of publishing firms being allowed to compete with retailers in supplying textbooks to Indian schools have been brought to his or his Department's notice; if so, what are the relevant details;

(4) whether schools under the control of the Administration: House of Assembly are required to also consider Indian bookshops when allocating orders for the purchase of textbooks; if not, why not; if so, what are the relevant details? D213E

The MINISTER OF STATE EXPENDITURE:

(1) As already mentioned on 21 April 1993, at least 94% of all the schools under control of the Administration: House of Assembly are State-sponsored schools (Model C schools) including those administered by the provincial administrations. These schools received a subsidy only from the State for the salaries of the personnel on their approved fixed establishment. The purchasing of school textbooks by the schools is financed from school funds paid by the parents directly. Therefore the State Tender Board Act, 1968 (Act No 86 of 1968) does not apply to the purchases of these schoolbooks.

The remaining approximately 6%, known as public schools, purchase their books individually on a tender basis by virtue of the State Tender Board Act, 1968 and standing powers delegated to state departments by the State Tender Board. These schools invite tenders individually for the purchasing of textbooks. In so far as the tender procedure and administrative actions are concerned these schools are bound to comply with the directives as contained in the State Tender Board's General Conditions and Procedures (ST 36) as well as the User Manual: Directives to Departments in Respect of Procurement (ST 37) which rules that tender invitations are to be mailed to all potential tenderers.

Cont-d

Special Correspondent

French making a special effort in SA

Star 12/5/93

PARIS — The French are making a "special effort" in South Africa, giving it a priority status well above its economic weight in the world.

This was one of the messages delivered at a two-day conference on South Africa held in one of the gilded lecture halls of the famed French university, La Sorbonne, and attended by academics, ambassadors and business leaders from Francophone Africa as well as France.

Participants included spokesmen for France's two most important business organisations — the French Business Council or Patronat, represented by former ambassador Christian Graef, and the director-general of the powerful and well-endowed Paris Chamber of Commerce and Industry, Professor Raymond-Francois le Bris.

Both these business leaders stressed the importance they attached to South Africa and gave details of an ongoing programme of business missions and other activities there, including the field of training.

Professor Etienne Le Roy of the Sorbonne said that in a time of massive global restructuring and reorientation, South Africa remained a laboratory, or a mirror, to the world at large. "Only innovation will work," he said

Focus of the discussions was on legal matters, notably the balance between constitutions and societies. The organiser, Professor Gerard Conac, pointed out that constitutions were the result of political reconciliation but also the essential means to further co-operation.

Drafting a constitution was like proclaiming a "sacred cow", above all parties, said Mr Justice Olivier, vice-chairman of the South African Law Commission.

His presentation stressed compromise, consensus and reasonableness. He added in an aside, however, that "the near desperation of the situation is perhaps driving us to find a solution".

Professor Albie Sachs of the ANC spoke of constitution-making as "an exercise in learning to live together". South Africa's majority, he said, would not treat the minority the way the minority had treated the majority.

Minorities had to be properly protected, he added, but "minoritarianism" was unacceptable and the main obstacles to progress in South Africa now came from those who refused elections.

In response to a question about black expectations, Sachs said that people are not expecting miracles but there had to be better government, broader participation and more-visible, material progress.

In constitutional matters, South Africa could usefully take pointers from countries such as West Germany, India, Australia and Namibia

The French, he said, should also contribute to the constitutional debate but, above all, participate more in the cultural and economic fields

He stressed the strength of South Africa's infrastructure — that it had a "strong business community" But people abroad "have to know where they stand and it is up to we South Africans to create a climate in which businessmen can make money".

Desmond Colborne of the SA Foundation said that South Africa — in the future, as in the past — would be the key link between regional and world economies

He pointed out that France's most famous historian, Professor Fernand Braudel, the great authority on the progressive globalisation of the world economy, had recognised South Africa's importance since the 17th century

South Africa was no longer a defensive, inward-looking fortress but once again a bridge between Europe and Africa.

SA faces 'complete stagnation'

(49)

CT 12/5/93

By MAGGIE ROWLEY
Deputy Business Editor

SOUTH Africa could face complete economic stagnation within a year if a political settlement was not reached shortly, Roy Justus, GM investments of Santam has warned.

In his quarterly economic review, Justus said political settlement held the key to any economic recovery. It was essential to get an interim government installed without delay and the violence bought under control otherwise the economy would experience a further downward grind and the prospect of complete stagnation within a year.

"Those who delay the formation of an interim government are merely putting a brake on the economy. At best we are unlikely to achieve any growth in the economy this year and we will be lucky to achieve a 1% or 2% growth in 1994."

While a mild upturn in the world economy over the next year or so looked possible, it was unlikely to have more than a slight positive impact on SA exports.

He said he did not expect inflation to fall below 9%. Rather it was more likely to hold up around 10% or 11% over the next 12 months and could even go higher as the influence of the increase in VAT and the higher petrol price worked into the system.

There had been recent expectations of a further drop in interest rates in the short term but this was likely to be relatively short lived due to low foreign exchange reserves and the "trade surplus not being what it should be".

Justus said the slightly better gold price was encouraging and the signs appeared favourable that it could go somewhat higher.

HOUSE OF ASSEMBLY

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

State President: income tax on salary/allowances

298. Mr P G SOAL asked the Minister of Finance:

(1) Whether the State President is liable for the payment of income tax on (a) his salary and (b) any (i) allowances and (ii) other income received by him; if not, why not; if so, in respect of the latest specified period of 12 months for which information is available, on what amounts was such tax levied, in each case,

(2) whether any (a) former State Presidents and (b) widows of former State Presidents are liable for the payment of income tax on (i) pensions and (ii) any other personal income received by them; if not, why not; if so, in respect of the latest specified period of 12 months for which information is available, on what amounts was such tax levied, in each case? B663E

The MINISTER OF FINANCE:

(1) (a) and (b) (i) No.

In terms of the exemption contained in section 10 (1) (c) (i) of the Income Tax Act, 1962, (the Act) the State President is not liable for the payment of income tax on his salary and allowances.

(b) (ii) Yes.

As a result of the secrecy provisions, contained in section 4 of the Act, which prohibit the disclosure of such information, no details in this regard may be furnished

(2) (a) (i) and (b) (i) No.

A pension payable to a former State President or his surviving spouse is not subject to tax as a result of the exemption contained in section 10 (1) (c) (ii) of the Act.

(a) (ii) and (b) (ii) Yes.

As a result of the secrecy provisions, contained in section 4 of the Act, which prohibit the disclosure of such information, no details in this regard may be furnished.

Deficit before borrowing/total expenditure

302. Mr K M ANDREW asked the Minister of Finance: (49)

(1) What was the actual (a) deficit before borrowing, (b) total expenditure, and (c) deficit before borrowing as a percentage of the gross domestic product, in the 1991–92 financial year;

(2) what was the actual or estimated (a) deficit before borrowing, (b) total expenditure, and (c) deficit before borrowing as a percentage of the gross domestic product, in respect of the 1992–93 financial year? B697E

The MINISTER OF FINANCE:

(1) (a) R12 754,9 million (see table 4.3 in Budget Review of 17 March 1993).

(b) R85 860,9 million (see table 4.3 in Budget Review of 17 March 1993).

(c) 4,2 per cent of GDP.

(2) (a) Revised estimate: R28 563,8 million (see table 4.3 in Budget Review of 17 March 1993).

(b) Revised estimate: R104 876,6 million (see table 4.3 in Budget Review of 17 March 1993).

(c) 8,6 per cent of GDP.

HOUSE OF ASSEMBLY

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

Ex-member of Cabinet: cash payments/annuities/pension

290. Mr L FUCHS asked the Minister of Finance:

(1) Whether he will furnish information on the cash payments, annuities and/or pension paid or payable to an ex-member of the Cabinet, whose name has been furnished to the Minister's Department for the purpose of his reply; if not, why not; if so, (a) how much did this person receive by way of (i) cash payments and (ii) annuities on his retirement as (aa) Minister and (bb) head of the Government Department concerned and (b) what part of these amounts was exempt from income tax;

(2) whether any annuity and/or pension which this person is receiving from the State at present is exempt from income tax; if so, to what extent in each case;

(3) whether, in addition to any financial benefits this person receives as a retired Minister, he is still receiving any such benefits as the retired head of the Government Department in question; if so, what benefits? B676E

The MINISTER OF FINANCE:

(1) No—pension matters are strictly confidential and the amounts can therefore not be furnished.

(a) (i) (ii) (aa) and (bb) fall away.

(b) Only gratuities payable under the Government Pension Funds and Schemes are exempt from income tax.

(2) No—pensions (annuities) which are paid under the Government Pension Funds and Schemes are taxable according to income tables from the Receiver of Revenue.

(3) Yes—the person concerned was a member of the Government Service Pension Fund and as such, made contributions during his whole service period to the pension fund He therefore became entitled upon his retirement to a gratuity and a monthly pension for which provision is made in the regulations which control the said Fund. The amounts of the gratuity which he received as well as the pension to which he lawfully had a right, are confidential and cannot be furnished.

Rail Commuter Corporation: offices in Johannesburg

308. Mr R V CARLISLE asked the Minister of Transport:

(a) What was the occupancy cost in respect of the offices used by the South African Rail Commuter Corporation in Sandton, Transvaal, as at the latest specified date for which information is available, (b) how is the office accommodation previously used by the Corporation in the Westbank Building in Johannesburg now utilized and (c) why did the Corporation transfer its offices to Sandton? B704E

The MINISTER OF TRANSPORT:

(a) The Managing Director of the South African Rail Commuter Corporation informed me that the amounts invoiced by Unilever to the South African Rail Commuter Corporation Limited in respect of February and March 1993 were as follows:

	February	*March*
Basic Rental......	60 800	68 096
Parking..........	11 360	12 723
Operating Expenses	9 728	9 728
TOTAL	81 888	90 547

The rental amounts, including parking, increased by 12% on 1 March 1993 in terms of the lease agreement.

cont-d

State's role: Hands off or hands on?

WMail 7/5 - 13/5/93.

(49)

How much can a government do to foster economic growth? **REG RUMNEY** *reports on economists' efforts to answer this question*

THE hottest question for South African planners is the need for and nature of government intervention in the economy.

This became apparent at the recent Aspen Institute and Institute for Democratic Alternatives for South Africa (Idasa) economics conference on "South Africa's International Economic Relations in the 1990s".

Many of the papers presented touched on the issue.

It is, for instance, at the heart of the concern over the role of the International Monetary Fund (IMF) and World Bank in South Africa in the future. The two institutions are seen as enforcers of policies favouring the industrialised countries in an interdependent world economy.

A paper written by University of Durban-Westville economist Vishnu Padayachee focused more on resisting any tendency to accept unquestioningly Bank and IMF economic ideas than on refusing to accept their loans — though overindebtedness obviously means automatically dancing to the institutions' tune.

So what do these august institutions suggest?

In their simplest form the prescriptions of the World Bank and the IMF rest on liberalisation of trade, exchange rate depreciation and reliance on the free market to achieve growth through export orientation.

More concerned about government failure than market failure, their economists are strongly if not fanatically free market in their approach. The familiar idea is that bureaucrats, far from having perfect knowledge about the right path to follow, are more likely to mess up than participants in free markets which can more quickly respond to signals from consumers.

However, the World Bank — usually seen as the soft policeman of the two — certainly does not prescribe Darwinistic capitalism and recognises the need for the state to supply education and some public services and acknowledges that some extraordinary measures must be taken to address poverty and joblessness.

By contrast, the newly industrialised countries (NICs) like Taiwan and Korea seem to owe a large part of their success to government intervention which went far beyond supplying public services.

In the other camp, the economists associated with the Congress of South African Trade Unions-backed Industrial Strategy Project have no doubts that the lesson of the NICs is intervention and that it is necessary to develop a common purpose between state, capital and labour to achieve the improvement which is a feature of the Japanese success. This will avoid the common low-wage solution to making our exports attractive, a solution unlikely to be supported by the union movement.

The project's authors argued a policy agenda is needed in which "high productivity is associated with living wages and involves the active participation of the labour force in production. In achieving these goals we believe that production must gravitate towards higher value activities."

Oxford University's Sanjaya Lall contended government is the most important development "institution" and the best set of policies is not that of a minimalist state providing law, order and defence and leaving the rest to (perfectly functioning) markets.

To say that it is logically impossible for governments to intervene effectively is absurd, asserted Lall, since many governments have intervened successfully to promote growth and competitiveness.

How to intervene effectively then?

Lall noted that the widely quoted Korean example of far-reaching selective intervention could not simply be replicated elsewhere. A broader approach of general protection would be better in countries with limited administrative capabilities.

Still selective intervention, he said, is not impossible. The judgment of how far to go has to be pragmatic, and not ideological. "General statements on the virtues of markets versus governments are suspect, and may be economically harmful."

Exchange controls not the remedy, says Stals

Star 13/5/93

(49)

By Sven Lünsche

Reserve Bank Governor Dr Chris Stals has urged a fundamental restructuring of the economy, rather than a change in exchange control measures, to address the present constraints on the balance of payments.

Addressing a Sunday Star and Fringecor function earlier this week, Stals said SA had for many years relied too heavily on exchange controls to constrain capital outflows and protective measures to influence imports and exports.

"However, now that SA is moving towards a new political dispensation we can review our balance of payments policies as part of a major restructuring of the total economy," he said.

Stals said that balance of payments equilibrium would be established "only in a situation where market forces will be allowed to establish realistic prices for local and imported goods".

A balance of payments programme as part of the gradual improvement of the overall economic structure could then be implemented.

Such a programme would include the removal of import surcharges, a reduction in import tariffs, phasing out of exchange controls, relatively free exchange rates and access to IMF facilities.

At a meeting of the Enterprise Investment Forum last night, Stals confirmed that the Reserve Bank would maintain financial discipline, even in the current period of recession.

Bank 'not key to economic change'

BDAY 13/5/93. (49)

DUMA GQUBULE

RESERVE Bank governor Chris Stals said yesterday that continuing depressed conditions had put pressure on the Bank to change its policies and restimulate the economy.

Stals told the Enterprise magazine investment forum in Johannesburg the Bank believed such policies would be of no avail because the present economic conditions were caused by political and economic factors over which it had no control.

To add more money to an economy where there was little consumer or business confidence would lead only to financial instability.

The Bank wanted to maintain financial discipline. Monetary policy had become a holding operation, with the main objective to consolidate successes of the past few years and prepare for future economic growth.

Stals said money supply and bank credit extension provided no reason for concern. The weakest link was the balance of payments, particularly the low level of foreign exchange reserves caused by persistent large net capital outflows.

Gold and foreign exchange reserves had declined by R6bn over the seven months to March 1993. This limited the scope for monetary authorities to relax the present restrictive policy approach.

It was clear the country needed greater political and social stability before sustainable economic growth would become possible. Monetary policy would be pushing on a string if it were to try to restimulate the economy before such stability was established, Stals said.

The Bank believed a restraint on the rate of growth in money supply would automatically lead to more stable conditions in other financial disciplines.

Financial stability required a money supply growth that would accommodate real growth in the economy and a rising liquidity preference of a growing number of South Africans.

Financial stability would also require expansion in credit extension in line with the objectives for the money supply, real interest rates, a stable exchange rate, well-functioning capital and foreign exchange markets and efficient banking institutions.

Monetary policy would be making its contribution towards maximum economic growth in the country if these objectives could be achieved.

Overall financial stability was an indispensable precondition for growth.

AFDB pins hopes on SA's return

Star 13/5/93

ABIDJAN — South Africa's entry into the continent's economic and political institutions will have a crucial impact on Africa's economic development, says African Development Bank (AFDB) president Babacar N'diaye.

In the AFDB's African Development Report just released, he says the emergence of a democratic order in SA is "momentous for the country itself, for the sub-region and for the continent as a whole".

A part of the report focusing on SA emphasises the clout the country will give the continent's role in global economic affairs.

It says: "An enlarged and unified African market composed of SA and other African countries would significantly enhance Africa's bargaining power in trade negotiations, especially within Gatt and Unctad (the UN Conference on Trade and Development)."

Because of the size of the SA economy — the continent's largest — the report sees the country accelerating the process of setting up economic, financial and business links to create the proposed Pan-African Economic Community.

The report also outlines the AFDB's sphere in a post-apartheid SA, saying the lending agency could mobilise external financial resources and technical assistance for the country's development.

Although SA is a relatively high per capita income country, the bank aims to target its interventions in those areas where it can help to redress income and social inequalities.

The AFDB says economic growth in Africa, excluding SA, remained lacklustre last year as real gross domestic product eased to 1,9 from 2,6 percent in 1991.

The bank expects growth to improve this year. — Sapa.

NEWS FEATURE Danger that treasury of wealth may be destroyed in present struggle

Challenge facing black leaders

■ CONVINCING MILITANTS Showing them white skills and capital are vital :

49

By Gerald L'Ange,
Editor, Sowetan Africa News Service

THE NEXT government of South Africa will ostensibly assume control of a treasury of wealth and skills that has long been the envy of the rest of Africa

But there is a danger that much of it will have been destroyed by the very struggle to put that government in office

Events in the past few weeks have dramatically highlighted the danger which has been reflected in two related developments

One is the economic damage done by violence and mass protest action The other is the acceleration that has been reported in the exodus of whites as a result of the unrest

The economic damage has been caused not only through lost production but also through the erosion of business confidence, especially the confidence of foreign investors

South Africa's ability to attract foreign investment — without which no modern state can survive, let alone prosper — has always set it apart from other African countries

Even when international sanctions were applied against South Africa some foreign investment continued to come in because its natural and human resources and its economic infrastructure continued to offer good returns on investment, despite the increased risk to those investments from the escalating political struggle

No other African country could offer anything like South Africa's investment attractions although all of them would dearly have liked to No other African country has anything like the number of tarred roads and railways, of locomotives and rolling stock, of lorries, of port facilities, of factories, of power stations and transmission lines, of telephone exchanges and all the other equipment necessary for creating wealth, jobs and prosperity

And no other African countries have the pool of human skills that resides in South Africa Neither have they the educational institutions for spreading those skills nor the research institutions for creating new skills and technology

Not even the biggest and most developed African countries come near South Africa in any of these fields, despite the enormous damage done to the Republic's economy by sanctions.

According to Africa Institute figures, the gross domestic product of South Africa (including the "independent" homelands that will inevitably be rejoined to the main body) is R282 billion against R155 billion for the next biggest, Algeria; R94 billion for each of Egypt and Nigeria, R70 billion for oil-rich Libya, R27 billion for Kenya and R19 billion for Zimbabwe Most of the others are far below these levels

Measured in terms of gross national product per capita, which is a rough guide to the distribution of wealth, South Africa at R15 000 is equalled only by Libya and is far ahead of Algeria's R6 000, Zimbabwe's R2 000, Egypt's R1 800 and Kenya's R1 100 Hugely populous Nigeria, despite its oil wealth, has a GNP per capita of only about R800

To the thousands of jobless and desperately poor people in this country these statistics may appear to be either inaccurate, ironic or unjust They nevertheless show that in general South Africans are much better off than other Africans

More important, though, is that they demonstrate the strength of the economic foundation on which greater prosperity for all — not just the whites — can be built and on which a fairer distribution of wealth can be based

Vulnerable

Apart from the physical infrastructure, however, that foundation is a vulnerable one, composed of elements as insubstantial as the confidence of local whites and foreign investors in security and future opportunities, and the susceptibility of wealth to international economic fluctuations

Most other African countries do not have the means of development that South Africa possesses and therefore neither their governments nor their individual citizens have the opportunities for prosperity that exist here Instead, they are mired in underdevelopment debt and hopelessness, dependent largely on foreign aid

Foreign aid, as distinct from foreign investment, does not in itself make for prosperity: it essentially is an emergency measure But foreign investors have no interest in most African countries because they offer little security or profit

It is one of the evils of apartheid that most of the skills and capital are at present possessed by the whites These skills and capital nevertheless remain the best hope the blacks have of gaining prosperity and the security that goes with it - and of acquiring those skills themselves

That may be a cruel irony but it is a fact that has been harshly demonstrated elsewhere in Africa There can be no African country that does not covet South Africa's skills, capital and investment potential

Majority rule will dispense no magic wands to create instant prosperity No government, whether it be ANC, PAC or anything else, will be able instantly to create jobs and housing The harsh reality is that whoever is in power, the poor will remain poor for quite a long time and the homeless will remain unhoused But the chances of these deficiencies being remedied relatively quickly will be immensely greater if this country does not lose its skills, its capital and its attraction for foreign investors

In this light black South Africans ought logically to be dismayed by the news that whites have begun to leave or plan to leave South Africa because of the violence and mass action that followed the murder of Chris Hani Logically, the ANC leadership should be taking urgent steps to allay the fears of the whites as well as those of foreign investors

Inhibited

This need is recognised in the ANC leadership but it is inhibited in meeting it by another one — the very real need to retain the support of the majority of blacks especially the militants

These are mostly young and often jobless and ill-equipped by their education (or lack of it) to appreciate realities that go beyond their justified anger at white domination and what it has done to them

But how do the ANC leaders convince the hungry young black man walking the streets in search of a job that the white executive who sweeps past in a luxury German limousine is a valuable asset to society?

There are no easy answers to the question but finding answers is a major part of the challenge facing black leaders in South Africa Their preoccupation now should not be with defeating white domination – it has already been defeated - but with securing the benefits of that victory And with ensuring that the victory does not sow the seeds of future defeat

How does Nelson Mandela (above) convince ANC followers that luxury car owners are an asset to society?

Socialists in SA struggle to rev it up

W/Mail 14/5-20/5/93 (49)

South Africa's various vehicles of socialism have veered off the road.

By **FERIAL HAFFAJEE**

SOUTH AFRICAN socialism mirrors the international predicament of the philosophy: confused and badly in need of a kickstart.

Organised workers under the Congress of South African Trade Unions are moving in a "corporatist" direction, seeking co-determination of industry with business.

Despite the socialist elements within the Freedom Charter, notably its call for the nationalisation of the banks, mines and monopoly capital, the African National Congress distanced itself from socialism a long time ago.

And while the South African Communist Party is growing (it has almost 50 000 members in nine regions), its philosophy increasingly sounds like Western European-style social democracy, rather than socialism in the Marxist sense.

The SACP's immediate plans are to fight the election under an ANC banner and not on a socialist ticket. The challenge, says politburo and central committee member Jeremy Cronin, is to get democracy in place and to strengthen the fast-fracturing working class. There will be no one-party state; instead, the SACP says that socialism will have to be achieved within a multi-party democracy.

For now though, the party has thrown its weight behind a reconstruction accord with the ANC (as the future government) and the Mass Democratic Movement — a term Cronin uses to speak broadly of civic organisations, women's organisations and trade unions.

In return for its electoral support, the ANC will have to commit itself to key gains for the working class, including job creation schemes and social benefits such as pensions and free health care.

The reconstruction accord is a stepping-stone to socialism for Moses Mayekiso, a central committee member of the SACP and the head of the South African National Civic Organisation.

Other building blocks include the rearrangement of production to empower workers on the shopfloor — such as the raising of skill levels and a union role in framing industrial policy — and the creation of negotiating forums (economic, housing and electricity) to give unions a say in the allocation of resources and the delivery of services.

"We are faced with stages," says Mayekiso; "socialism doesn't just drop from the sky."

Cronin says that conditions for socialism in South Africa are good: workers are well-organised into unions, civics and other organisations. There is a grassroots understanding of socialism and "anti-capitalist sentiments are strong". The assassination of its leader, Chris Hani, has ironically galvanised strong support for the SACP, its leaders and communist symbols on the ground.

But some question the "stepping-stone theory" — the idea that a worker state can be gradually constructed on a co-determinist foundation. "Reconstruction accords and forums can open the way to socialism, but nobody is asking how this will be done," complains Karl von Holdt, editor of the *South African Labour Bulletin*.

There is a perception that social democracy may be the end, not the beginning of the SACP's programme. Many of the party's stated socialist aims, including "a mixed economy and the opening of markets", says Von Holdt, are in fact classic social democratic tenets.

What of the party's relationship with the ANC? There are widespread predictions that once a new government has been elected and the ANC is in power, many of its socialist members will peel off and join more radical organisations.

The party does not discount the possibility of contesting a future election as a workers' party with a clear socialist manifesto. "I hope this won't be necessary," says Cronin, adding "I would like to see the ANC transforming itself into a working class, socialist party in the medium-term. There's going to
the heart and soul of the ANC ..
it stays true to its historical voca

The battle, according to Von
be a more fundamental one t
socialist organisations mean v
themselves socialist. There is
debate," he says.

If there has been a rethink in t
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to continue.

In its latest paper, "The role
the transition to democracy and
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In the transition phase, the p
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level and worker participation
put in place at factories. This is
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Cronin.

Other left organisations ma
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Comrades for a Workers
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Cronin would like to se
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But, perhaps the conclu
Mayekiso: "There is a lack
is in disarray ... in tatters."

Billions will flow in — if violence stops

W/Mail 14/5 - 20/5/93. 49

The United States plans to mobilise about R9-billion a year for South Africa once certain conditions are met. By **ARTHUR GAVSHON and EDDIE KOCH**

PRESIDENT Bill Clinton's administration in the United States is clearing the way for a huge international programme of investment and development aid to bolster a non-racial government in South Africa.

But it is clear that the package, which could bring in up to R9-billion every year to reconstruct the country's battered economy, would only be set in motion after a transitional government has been created and the African National Congress drops its call for international sanctions.

It is also clear that many components of the reconstruction programme, described as an initiative similar to the international community's effort to build democracy in the former Soviet Union and Eastern Europe, would depend on a reduction in political violence in South Africa.

A senior state department official in Washington said in a telephone interview that Democrats have reached informal agreement with their Republican counterparts in Congress to repeal anti-apartheid laws that bar certain types of trade and financial deals between US institutions and South Africa.

The official said the aid package would only be set in motion after a Transitional Executive Council has been set up. This was confirmed by the US ambassador to South Africa, Princeton Lyman, who told the 702 Breakfast Club last month that his administration was trying to "mobilise support for economic development in the South Africa" and it was possible "to anticipate some $2- to $3-billion (About R6- to R9-billion) annually".

Lyman noted that the World Bank was likely to be a major source of multilateral finance, but stressed it could take up to two years for capital to arrive in the country once the Bank had made a decision to grant loans.

"That means that unless the Bank begins now, a newly elected government a year from now will be faced with as much as two years before being able to utilise this assistance for the pressing needs of the population."

He urged those involved in efforts to create a non-racial government to begin the preparatory work for World Bank assistance immediately.

The ambassador welcomed the ANC's decision to drop all demands for international sanctions once a TEC has been set up rather than after the holding of non-racial elections. "Once this call is made, we will work with states and local governments in the US to repeal these restrictions."

The state department official in Washington said the package would be made up of:

- US allocations will continue in the areas of education, health and other social services.
- The World Bank and International Monetary Fund will galvanise a multi-donor package of development aid and would expect to have a say in how the money is used.
- Some $5-billion (about R15-billion) could be rescheduled with extended redemption terms and easier interest rates.
- Clinton's officials will encourage the disinvestment movement to be dismantled with US state and civic bodies being urged to switch their funds into development aid instead. This would depend on the violence subsiding.
- The possibility of US pension funds being used to invest in housing, transportation and black business in South Africa was being investigated. This would be a way of easing pressure on America's national deficit.

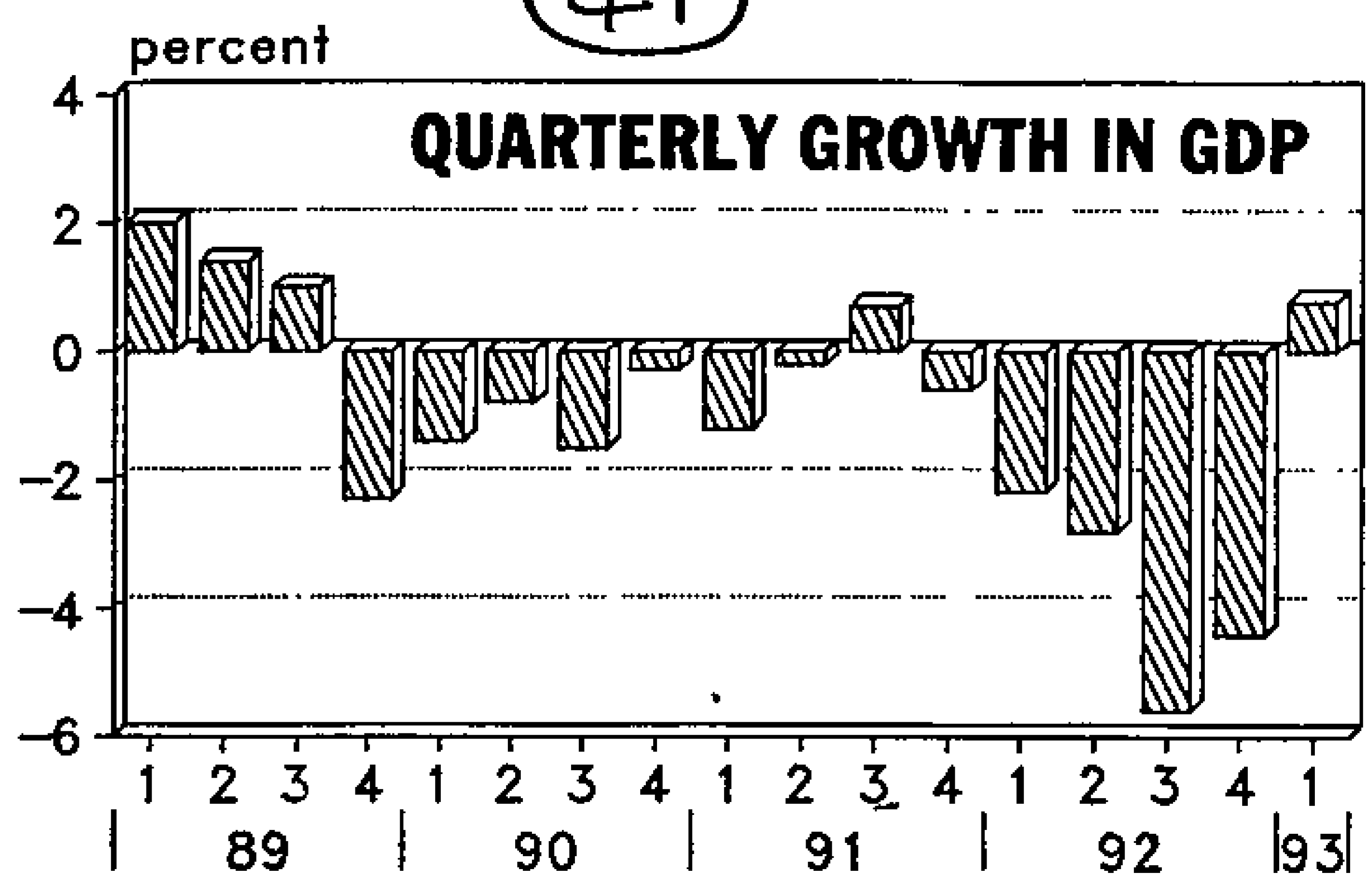
"These are our intentions," said the state department official. "But neither the US government nor the international community would find it easy to do so if there is to be a serious upsurge of civil violence threatening a Yugoslav-style situation of insurrection."

Economy shows faint glimmer of improvement

Star 14/5/93

49

By Sven Lünsche



The economy grew for the first time in 18 months in the first quarter this year, showing modest gross domestic product (GDP) growth of 0,8 percent.

While the turnaround was largely due to a sharp recovery in agricultural production, Reserve Bank officials and economists detect signs that the longest recession on record could be bottoming out.

It was the first positive quarterly growth rate since the third quarter of 1991, when the economy grew by 0,7 percent (also boosted by a agriculture) and the highest growth rate since the one percent recorded in the 1989 third quarter.

In the third quarter last year, GDP slumped by 5,6 percent — its biggest fall in eight years — and was followed by a 4,3 percent fall in the fourth quarter.

Battered

Agricultural production, battered by drought last year, grew 53,9 percent in the first three months of this year after two consecutive 65 percent declines in the preceding quarters.

However, while non-agricultural production was still 0,5 percent down, Reserve Bank deputy Governor Dr Jaap Meijer said yesterday several sectors seemed to be bottoming out.

Running the first quarter figures through the Bank's econometric models showed that there was a "sporting chance" that GDP growth for 1993 could be positive. "I am not too despondent about the latest figures," Meijer said.

In particular, he added, there were signs that the sharp drop in spending on durable goods was bottoming out, with spin-off effects for manufacturing in particular.

Manufacturing showed a 0,3 percent rise in the first three months of the year, the first increase since the fourth quarter of 1990, although part of this is attributed to the Mossgas project coming on stream.

Mining recorded positive growth of 1,1 percent and looks set to improve further, thanks to the rising gold price.

Boland Bank economist Francois Jansen said the primary sectors and, to a lesser extent, manufacturing had benefited from improved commodity prices and the weaker rand exchange rate, which boosted the rand value of exports.

Other economists warned, however, that there were still constraints on a more marked recovery for the remainder of the year.

Rand Merchant Bank economist Rudolf Gouws cautioned that the economy needed impetus from two quarters — business and consumer confidence and further growth in export values.

"If the gold price continues its steady performance, this will undoubtedly benefit export earnings," he said.

Gouws warned, however, that confidence and the resultant boost in demand for goods and credit were still some way off.

"Slower wage and salary increases, higher unemployment figures and the hike in VAT will combine to slow demand over the next few months," he forecast, adding that second-quarter production could also be adversely affected by the April stayaways.

"The factors are not yet in place that will give us a lift-off and the economy will continue to bump along its current lows for the remainder of the year," he said.

Star 14/5/93

Positive growth at last as GDP rises 0,8%

(49)

CT 14/5/93

By AUDREY D'ANGELO
Business Editor

A 54% rise in agricultural production helped the economy achieve positive growth in the first quarter of this year — for the first time in 18 months.

Figures released by the Central Statistical Services yesterday show seasonally adjusted gross domestic product (GDP) rose by an annualised 0,8% at market prices.

Welcoming the news Boland Bank chief economist Louis Fourie said the growth had been in primary sectors of the economy, and was not due to artificial stimulation by monetary or fiscal policy.

The higher gold price improved the situation. An export-led recovery was now on the cards.

Fourie said political difficulties were now the only factor that could hold SA back. Once political stability had been achieved, SA could expect a long period of growth, reaching 5% a year or even higher.

Old Mutual economist Johan Els said this could be the beginning of the uptrend.

The rise in GDP was due mainly to the rise in agricultural production. But manufacturing production had risen by 0,3% — the first time it had gone up since the last quarter of 1990.

"This is significant, because it is the biggest of all sectors," commented Els. The electricity, financial and services sectors had all shown positive growth.

Construction had fallen by 8% on an annualised basis. But this was a smaller decline than the 11% reported for the last quarter of 1992.

The transport sector had also fallen, by 2,1%. Retail trade and catering had fallen by 2,7%.

"But we shall have to wait and see what will happen in the second quarter," Els warned.

"The effect of higher indirect taxation including VAT at 14% could push us back into negative growth again.

"However, we are past the effects of the drought and agriculture will continue to pick up. The effect of the maize crop will come into the figures only in the third quarter."

Edward Osborn, chief economist at Nedcor Bank, commented: "We appear to be experiencing the start of a turnaround."

This was due to the improvement in agriculture and the weaker rand, which had increased the rand value of exports.

"We are on track for a recovery but we are being held back by poor retail sales, which reflect the poor state of household finances."

SIR JAMES GOLDSMITH & GEORGE SOROS

FM 14/5/93.

(49)

Investing with the Midas touch

Until their deals that ignited the gold market (*Economy & Finance* April 30), the closest public appearance together of Sir James Goldsmith and George Soros had been in the 1993 annual league of Britain's richest people published by *The Sunday Times* of London.

Soros (62), a self-described "financial and philosophical speculator," occupied 11th place, his personal wealth put at £750m. Goldsmith (60), a simple financier, sat 12th on £700m — demoted from 10th and £760m a year earlier because of the waning price of his main investment, 42% of Newmont Mining, North America's biggest gold producer.

While Goldsmith, the now allegedly retired swashbuckling corporate raider and famous playboy, was a long-standing entry, Soros was new. Apart from a mutual penchant for pitting financial wits — largely successfully — against market wisdom, the histories of the pair are wholly unalike.

Soros, a Hungarian Jew, survived Nazi occupation but fled the postwar Stalinist regime to study philosophy at the London School of Economics. He cut his investment teeth at a London merchant bank, but philosophy remained his chief interest.

New York was the next stop. There, in 1956, failing to find a publisher for his book, *The Burden of Consciousness* — a treatise on closed and open societies — Soros decided to drop philosophy and make money.

In 1969 he founded Quantam, a Dutch Antilles-based private mutual fund. Big risks were taken, but enough paid off over the years to secure Quantam a thousandfold investment return. (Soros controls a third.) Quantam and three other funds under Soros management are now worth US$6bn and a 1991 salary of $117m made him Wall Street's highest-paid executive.

An equally striking strand, however, is Soros the philanthropist (he sits on the Chancellor's Court of Benefactors at Oxford University), who ploughed his wealth into 18 study centres in the former-communist Europe — designed to foster freer thinking.

Communism's collapse saw his foundation step up activity: $100m recently went to fund projects to keep ex-Soviet scientists from the temptations offered by Iraq or other would-be nuclear powers. Last month he was in Cape Town to kick off the 19th chapter of his Open Society Foundation. The foundation starts with a $15m donation from Soros and will work to promote democracy, human rights and civil liberties in SA.

Until an industrial court found he had unfairly sacked his butler — for using a precious bottle of Chateau Haut Lafite in a goulash — Soros wasn't known in England, where he divides his time with New York.

Black Wednesday, when the pound collapsed under a torrent of selling last September, propelled him to UK fame. Soros bet $6bn against the British government's policy of non-devaluation and made a clear $1bn profit — then promptly donated $50m to help Muslim refugees in Bosnia.

By contrast, Goldsmith is the son of an emigre German Jewish banker who became a British MP and fought in the Middle East during World War 1, but moved to France because of anti-German prejudice. French-born Goldsmith (he holds two passports) was still sent to Eton, however, where a reputed £8 000 horseracing gambling win on a £10 accumulator bet saw him drop out at 16 to embark on a business career.

Five years later he shot into the headlines by running away with Isabel Patino, teenage heiress to a $150m Bolivian fortune.

The highly publicised romance and forbidden marriage, the tragedy of the pregnant Isabel dying from a brain haemorrhage while surgeons saved their baby daughter, and Goldsmith's court battle with her family to win custody of the child, captured the nation's heart. Indeed, over the past two decades Goldsmith's love life — two more wives and another five children, one by a mistress — has vied with his business coups for public attention.

Goldsmith

Soros

He started small and almost went bankrupt early on, learning the perils of building up debt. Goldsmith was a founding partner of the Mothercare chain of mother-and-child retailers, but it was a slimming aid that provided the cash for the acquisitions of the Sixties and sent him to the big time.

Emulating his friend Jim Slater (of Slater Walker), Goldsmith looked for poorly performing, under-used assets. Unlike Slater, he stuck to a theme — food. He set about buying up household names such as Carrs biscuits from the Cavenham group.

The banking and stock market crash of 1974, which brought down Slater, muted his deal-making. It was replaced by a phase of near-obsession about the left wing, especially in the media, and a libel war (63 writs) against *Private Eye*, the satirical magazine.

He tried to buy *The Observer* and the *Daily Express* and acquired *L'Express*, the French current affairs magazine. He set up *Now!* as a conservative foil to the socialists Goldsmith saw everywhere. But *Now!* found no mark and died within months.

Goldsmith regrouped Cavenham, buying it back and delisting the group, and went liquid through sales of its big names such as Bovril and Lipton. Then, just as Margaret Thatcher's Conservatives began to implement the capitalist policies he had thundered for, Goldsmith went off to the US in 1980.

There, matching Lord Hanson, the world champion predator, he laid siege to inefficient and badly managed companies ranging from Goodyear Tyre to Diamond International Packaging Assets were stripped to realise value or strategic stakes were bought.

Goldsmith's fortune multiplied, but his most satisfying feat was to sell all his quoted holdings in August 1987, just two months before the equity-markets meltdown — which, incidentally, caught Soros out.

Back in the UK, he linked with financiers such as the Rothschilds for a series of deals, including the abortive record £14bn bid for BAT Industries. In 1991 he retired.

Goldsmith, who spent increasing time on his vast Mexican ranch, said he intended to use his wealth to help environmental causes and invest in gold through the $1,1bn swap of his American timber interests for the 42% of Newmont Mining held by the Hanson group.

The deal with Soros, who took 13% of Newmont for $395m while Goldsmith put more than $300m into the gold market through options, have heartened flagging bullion bulls.

Last week, Newmont had advanced to nearly $49, giving Soros a 22% or $80m gain. Call options to buy gold at $360/oz in August were trading at $1,40/oz just before the deal, with spot gold at $340.

Within two weeks the calls shot to $10,30/oz ■

MONEY MARKET PRESSURES

(49)

FM 14/5/93

Money market participants were probably glad to see the back of April. After aggressive funding by the Public Investment Commissioner & Treasury, government deposits at the Reserve Bank rose R3,6bn. This reduced money market liquidity, with the average daily shortage for the month reaching R5,6bn and a record high of R6,8bn being recorded on April 15.

But May could turn out to be as frustrating. Government spending and a four-day repurchase agreement worth R500m on May 3 brought the shortage down to R1,9bn. Since then it has risen steadily, hitting R4,1bn on Monday. The Bank's André Kock says this is unexpectedly high. "But we've seen the reserves come under pressure in the last few days and a number of stock settlements coming through."

The redemption of the RSA 117 bond this Saturday will release R2,3bn on to the market. Banks will then find themselves flush with cash, but short of liquid assets, so the Bank may have to enter into open-market transactions in the period between the redemption and May 30, when the RSA 145 bond becomes a short-term instrument.

Banks have not suffered from the removal of the liquid bankers' acceptance as an instrument of cash accommodation. Acceptances have simply become part of their trading assets. Banks say that, with call rates low, there is still strong demand for the instruments.

The shift of government deposits, from the Reserve Bank to tax and loan accounts at commercial banks (*Economy April* 23), should smooth out volatility in the money market in coming months.

They will take the place of the account the State now holds with the Bank. All government funding and spending flows will thus remain in the banking sector.

Kock says this will only be introduced once the legal issues have been sorted out and the computer systems in place.

INTEREST RATES FM 14/5/93

Will the goose survive?

49

Several factors are driving interest rate expectations. High on the list is the uncertain political climate. The benchmark RSA 150 rose 40 points to 15,17%, after the murder of Chris Hani on April 10, and to 15,29% on the following Friday.

Allied to fears that violence will delay settlement is the question of a resolution of SA's debt crisis and the lifting of financial sanctions. These factors have temporarily overshadowed movements in the gold price which, traditionally, drive interest rates.

The price of SA's main export has risen from a seven-year low on March 10, of just over US$326/oz, to $356 towards the end of April (see graph). After dipping briefly below $350, it returned to a Monday morning London fix of $357, before dropping to a $355 morning fix on Tuesday.

The metal is meeting resistance at $360 — possibly because central banks are taking the opportunity of reducing their stocks. But, if the price can sustain its present level, it will make a substantial difference to the country's fortunes. First National Bank economist Cees Bruggemans says: "Every $30 gain sustained for a year is, in magnitude, equal to the entire maize import bill last year." The inflow on the current account could boost a recently projected R5,5bn surplus to over R6bn.

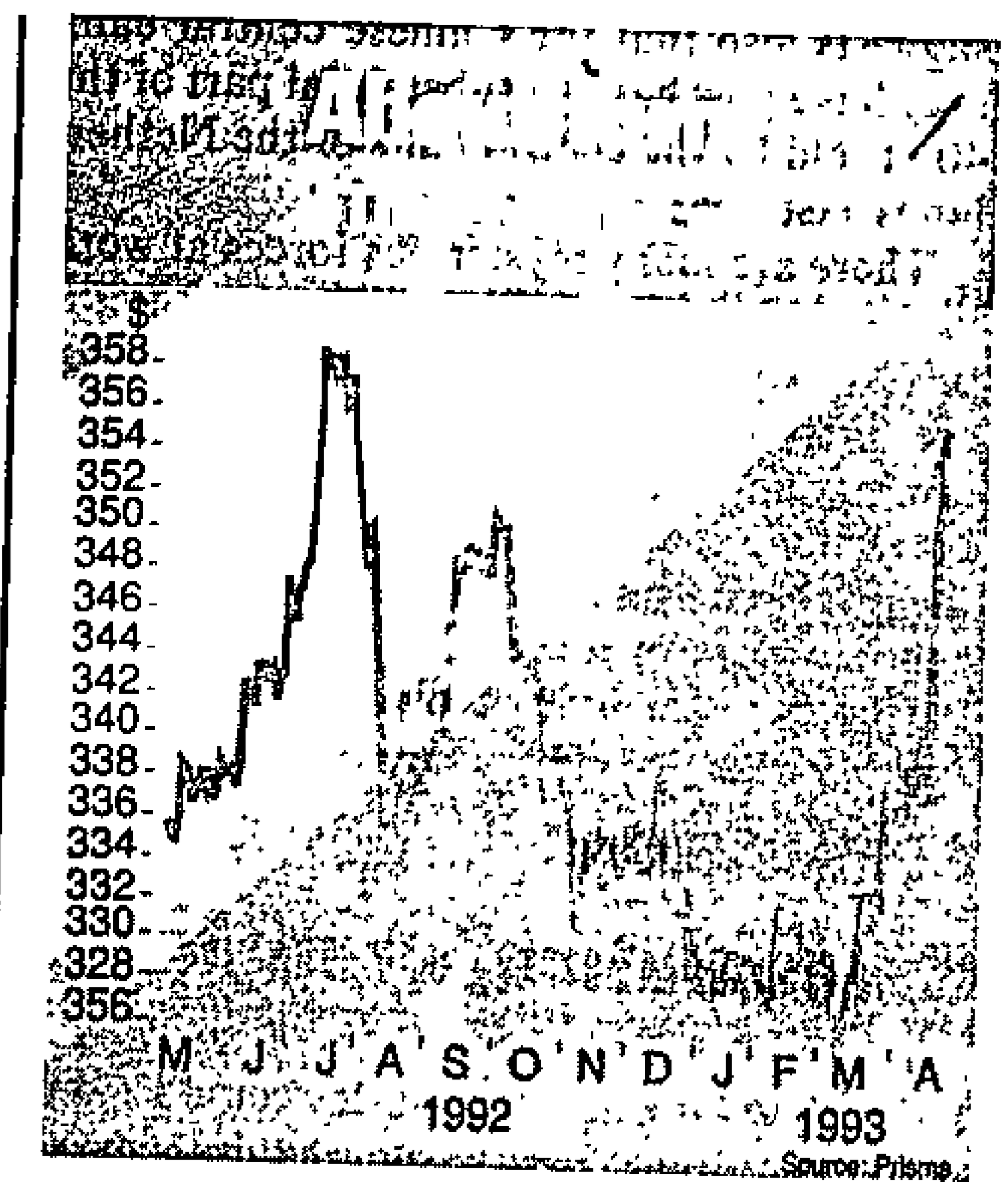
This would allow scope for the pattern of interest rates to fall further and will eventually work its way through to the real economy in terms of jobs and earning potential.

The impact of the recent windfall has already been seen in reserves which rose to R8bn ($2,5bn) in April, from R7,5bn ($2,4bn) in March. The Reserve Bank was able to shed about 200 000 oz of its gold holdings in April, improving its foreign exchange reserves to R2,8bn ($885m) from R2,3bn (R717m) in March, while the value of gold reserves remained steady at R5,2bn ($1,6bn).

But market response has been cautious (see box). Significantly, most of the shift in sentiment has been at the three-to-12-month end of the market — an indication that better things are expected in the second half of the year. Negotiable certificates of deposit with a three-month maturity have fallen from 12,45% at the end of April to 12,35% on Monday. Rates on 12-month certificates have fallen from 12,50% to 12,30%.

At the long end, though the rate on the RSA 150 has fallen from the highs of April to around 14,9%, it was well off the lows of under 13,75% in October last year.

As for gold, the questions Bruggemans asks in his *Business Brief* are: "Can it last? Will the Chinese, who are willing buyers at



$325 for jewellery purposes, take a breather at $400? Will central bankers turn out to be long-term dishoarders after all, with some of them taking advantage of a rising market to unload judiciously? Bear in mind that they are sitting on 35 000 t collectively, the equivalent of about 100 years of the current annual private supply shortfall

"But most crucial of all: which perception will gain the day in the coming year. Is global economic policy once more grossly sliding into irresponsibility? The US progressively reduced its interest rates during 1990-1992 even though it had not addressed its structural fiscal deficit. The British and Japanese lowered their interest rates forcefully, while each changed its fiscal stance towards expansion. And Germany has once more run up a budget deficit of 6% of GDP "

Whatever long-term benefit this shift in policy emphasis — from fighting inflation to encouraging growth — may have for gold, they will not emerge for a while. Says Carmen Maynard of brokers Martin & Co: "Though long rates have turned up a little in the major industrialised countries — which may signify that investors fear the downturn in inflation is coming to an end — there's no sign yet of higher inflation coming through."

It's worth noting that a surge in gold demand took place in the first quarter of this year when prices remained in a $326-$331 range. The World Gold Council, which monitors about 75% of world demand, reports a first-quarter-on-first-quarter rise in demand of 24% (to 632 t).

Clearly, the recent rise in the price could cap demand, particularly demand for jewellery fabrication However there is hope it will be sustained by buyers in Eastern countries.

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According to the council first-quarter-on-first-quarter demand in Asia was up 22% at 243 t; and in the Middle East and India it was up 56% to 203,1 t.

Gold 1993, the latest annual survey from Gold Fields Mineral Services, reports Chinese imports of bullion rose sharply last year, fuelled mainly by rising jewellery demand. It suggests also that the Chinese central bank may have purchased a substantial part of the 400 t sold by the central bank of the Netherlands last year.

There are many mysterious forces at work in the gold market and it is difficult to assess price prospects. Certainly central bank sales are likely to be an important factor in containing any increase But the outlook is better than it has been for many months. If the price remains above $350, and if political negotiations are successful, SA will be well placed for economic recovery. ■

32. Sharda Devi Goordeen—420829 0103 08 9—26 Mountain View Road, Silverglen—***Maharaj.***
33. Khursheed Banoo Ghanny—490314 0094 08 8—30 Harley Street, Havenside—***Abubaker.***
34. Padmavathie Dorasamy—581115 0079 08 0—119 Crossmoor Drive, Crossmoor, Chatsworth—***Perumal.***
35. Leelawathi Budhoo—370528 0054 08 2—18 Road 609, Chatsworth—***Nundraj.***
36. Roychandh Kathwaroo Bidasee—581029 5095 08 4—7 Surcrose Road, Isipingo Hills—***Bidasee.***
37. Dropathi Baijnath—330709 0067 08 9—33 Crown Road, Kenville—***Parsuram.***
38. Khanpathi Bansi—500729 0052 08 3—23 Naik Road, Kharwastan—***Ramlall.***
39. Shaik Ebrahim Ebrahim—360824 5051 08 8—22 Valiant Place, Bombay Heights, Pietermaritzburg—***Aziz.***
40. Thara Devi Anand Ram—550604 0130 08 1—55 Road 706, Chatsworth—***Ramsurran.***
41. Salma Bee Ali—480313 0104 08 9—P.O. Box 60029, Phoenix—***Khan.***

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41. Salma Bee Ali—480313 0104 08 9—Posbus 60029, Phoenix—***Khan.***

DEPARTMENT OF STATE EXPENDITURE

(49)

No. 814 **14 May 1993**

Statement of Revenue collected during the period 1 April 1992 to 31 March 1993 (Preliminary).

Treasury, Pretoria.

DEPARTEMENT VAN STAATSBESTEDING

No. 814 **14 Mei 1993**

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1992 tot 31 Maart 1993 (Voorlopig).

Tesourie, Pretoria.

Head of Revenue	Inkomstehoof	Estimate Begroting	Month of March Maand Maart		Total 1 April to 31 March Totaal 1 April tot 31 Maart	
		1992–93	1993	1992	1993	1992
		R	R	R	R	R
State Revenue Account	***Staatsinkomsterekening***					
Inland revenue	Binnelandse inkomste					
Tax on income	Belasting op inkomste	50 484 300 000	5 944 551 724	4 382 172 858	45 270 175 058	42 450 799 424
Loan Levy 1989–94	Leningsheffing 1989–94	—	—	—	173 464	2 032 358
Sales tax	Verkoopbelasting	21 019 700 000	12 579 951	(16 768 115)	88 145 145	10 546 590 899
Value added tax	Belasting op toegevoegde waarde	—	2 162 653 246	1 505 389 017	17 004 390 328	7 800 184 190
Other taxes	Ander belastings					
Non-resident shareholders' tax	Belasting op buitelandse aandeelhouers	320 000 000	13 251 839	18 305 531	273 188 631	334 786 669
Non-residents' tax on interest	Rentebelasting op buitelanders	—	5	398	16 629	38 224
Undistributed profits	Onuitgekeerde winste	—	361	—	90 102	365 617
Donations tax	Geskenkbelasting	6 000 000	1 083 957	1 304 888	17 968 121	6 828 573
Estate duty	Boedelbelasting	75 000 000	6 943 898	3 544 698	84 923 283	78 537 535
Trade securities	Handelseffekte	221 000 000	12 880 896	13 738 340	164 508 406	199 755 733
Stamp duties and fees	Seëlregte en gelde	830 000 000	56 209 101	50 491 859	744 118 309	689 784 295
Transfer duties	Hereregte	1 110 000 000	98 995 929	102 111 260	1 249 504 858	915 158 384
Mining leases and ownership	Mynverhurings- en eiendomsregte	295 000 000	31 345 814	75 417 212	188 234 262	324 994 919
Interest and dividends	Rente en dividende	59 450 000	117 428 721	16 260 954	159 337 629	73 799 936
Levies	Heffings	19 000 000	22 206 421	5 813 038	45 454 633	29 155 049
Recoveries of loans and advances	Terugvorderings van lenings en voorskotte	59 550 000	29 529 433	10 605 409	96 243 341	45 604 221
Departmental activities	Departementele bedrywighede	1 129 000 000	1 279 285 295	897 891 034	2 717 560 612	1 954 829 519
Capital revenue	Kapitaalinkomste	1 120 000 000	—	—	—	—
	R	76 748 000 000	9 788 946 591	7 066 478 381	68 104 030 811	65 453 245 545
Less Payments to self-governing territories	*Min:* Betalings aan selfregerende gebiede	1 361 300 000	113 288 947	172 256 274	1 351 577 947	1 412 589 987
Payments to TBVC Countries	Betalings aan TBVC Lande	760 700 000	58 696 802	—	699 970 552	—
Total Inland revenue	Totaal Binnelandse inkomste R	74 626 000 000	9 616 960 842	6 894 222 107	66 052 482 312	64 040 655 558
Customs and excise duties	Doeane- en aksynsregte					
Customs duty	Doeanereg	3 124 000 000	235 251 010	198 810 733	2 971 500 705	2 735 945 903
Excise duty	Aksynsreg	4 754 000 000	432 999 145	613 705 222	4 402 574 325	3 796 833 433
Surcharge	Bobelasting	1 670 000 000	125 945 679	108 392 208	1 520 294 393	1 455 690 151
Miscellaneous	Diverse	17 000 000	(5 842 653)	(53 619 200)	101 217 507	88 648 709
Fuel levy	Brandstofheffing	6 634 000 000	558 036 126	481 752 807	6 797 898 152	5 207 228 824
Ordinary levy	Gewone heffing	64 000 000	13 999 064	11 934 616	77 067 731	67 180 392
	R	16 263 000 000	1 360 388 371	1 360 976 386	15 870 552 813	13 351 527 412

Head of Revenue	Inkomstehoof	Estimate Begroting 1992–93	Month of March Maand Maart 1993	Month of March Maand Maart 1992	Total 1 April to 31 March Totaal 1 April tot 31 Maart 1993	Total 1 April to 31 March Totaal 1 April tot 31 Maart 1992
		R	R	R	R	R
Less	*Min*					
Payments in terms of Customs Union Agreements	Betalings ingevolge Doeane-unie-ooreenkomste	5 040 000 000	40 386 500	702 000	5 108 946 000	4 499 724 000
Total Customs and excise duties	Totaal Doeane- en aksynsregte R	11 223 000 000	1 320 001 871	1 360 274 386	10 761 606 813	8 851 803 412
	R	85 849 000 000	10 936 962 713	8 254 496 493	76 814 089 125	72 892 458 970
South African Development Trust Fund	Suid-Afrikaanse Ontwikkelingstrustfonds	–	–	12 486 428	–	70 280 587
			–	12 486 428	–	70 280 587
			10 936 962 713	8 266 982 921	76 814 089 125	72 962 739 557
Revenue Account: House of Assembly	***Inkomsterekening: Volksraad***					
Inland revenue	Binnelandse inkomste	–	57 211 984	68 063 597	328 234 663	257 988 372
Revenue Account: House of Representatives	***Inkomsterekening: Raad van Verteenwoordigers***					
Inland revenue	Binnelandse inkomste	–	5 661 610	2 273 609	58 628 359	32 548 625
Revenue Account: House of Delegates	***Inkomsterekening: Raad van Afgevaardigdes***					
Inland revenue	Binnelandse inkomste	–	872 419	185 731	15 908 800	7 014 511
	R	–	63 746 013	70 522 937	402 771 822	297 551 508
Grand total	Groottotaal R	–	11 000 708 726	8 337 505 858	77 216 860 947	73 260 291 065
Reconciliation with statement published by Government Notice 660 in *Government Gazette* of 23 April 1993	Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 660 in *Staatskoerant* van 23 April 1993					
In Transit, 31 March 1992	In Transito, 31 Maart 1992	–	–	–	480 288 319	–
In Transit/Overremitted, 28 February 1993	In Transito/Te veel oorgedra, 28 Februarie 1993	–	(49 166 851)	–	–	–
Collections as above	Invorderings soos hierbo	–	10 998 758 238	–	77 216 860 947	–
	R	–	10 915 541 875	–	77 697 149 266	–
In Transit/Overremitted, 31 March 1993	In Transito/Te veel oorgedra, 31 Maart 1993	–	(12 318 222)	–	(12 318 222)	–
In Transit Revenue Account: Administrations	In Transito Inkomsterekening Administrasies	–	(74 488 106)	–	(339 025 809)	–
Received into Exchequer Account	In Skatkisrekening ontvang R	–	10 864 735 547	–	77 345 805 235	–

No. 836 14 May 1993

Statement of Receipts and Transfers from the Exchequer Account for the period **1 April 1993 to 30 April 1993.**

Treasury, Pretoria.

No. 836 14 Mei 1993

Staat van Ontvangste in en Oordragte uit die Skatkisrekening vir die tydperk **1 April 1993 tot 30 April 1993.**

Tesourie, Pretoria.

RECEIPTS • ONTVANGSTE

Head of Revenue	Inkomstehoof	Month of April Maand April 1993	Month of April Maand April 1992
		R	R
Exchequer Balance, 31 March 1993	Skatkissaldo, 31 Maart 1993	69 594 614	–
State Revenue Account	***Staatsinkomsterekening***		
Inland Revenue	Binnelandse Inkomste	5 051 675 678	5 056 774 005
Customs and Excise	Doeane en Aksyns	178 247 029	199 560 422
	R	5 229 922 707	5 256 334 427
South African Development Trust Fund	Suid-Afrikaanse Ontwikkelingstrustfonds	–	11 786 428
	R	5 229 922 707	5 268 120 855
Other Receipts	***Ander Ontvangste***		
Treasury Bills	Skatkisbiljette	6 438 908 000	–
Bonds.	Obligasies:		
Indefinite Period Exchequer Bonds	Onbepaalde Termyn Skatkis-obligasies	60 000	–
Indefinite Period National Defence Bonds	Onbepaalde Termyn Nasionale Verdedigingobligasies	70 350	–
Internal Registered Stock.	Binnelandse Geregistreerde Effekte:		
12,5%, 1995/96 (R144)	12,5, 1995/96 (R144)	(367 400 000)	–
		–	–
10,75%, 1998 (R160)	10,75%, 1998 (R160)	550 000 000	–
		(71 852 000)	–

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Head of Revenue	Inkomstehoof	Month of April / Maand April 1993	1992
		R	R
11,5%, 1999/2000 (R147)	11,5%, 1999/2000 (R147)	835 000 000 (91 998 000)	– –
13%, 2009/10/11 (R153)	13%, 2009/10/11 (R153)	2 141 000 000 (312 035 000)	– –
12,5%, 1995 (R004)	12,5%, 1995 (R004)	408 433 000 (3 597 000)	– –
12%, 2004/5/6 (R150)	12%, 2004/5/6 (R150)	1 426 000 000 (224 134 000)	– –
13,5%, 2014/15/16 (R157)	13,5%, 2014/15/16 (R157)	100 000 000 (11 643 000)	– –
12,75%, 1999 (R135)	12,75%, 1999 (R135)	300 000 000 (29 296 000)	– –
14%, 1995 (R131)	14%, 1995 (R131)	300 000 000 –	– –
12%, 1994 (R156)	12%, 1994 (R156)	60 000 000 (278 000)	– –
12,5%, 1996 (R145)	12,5%, 1996 (R145)	1 624 534 000 (23 734 330)	– –
12,5%, 1996 (R146)	12,5%, 1996 (R146)	47 433 000 (5 474 000)	– –
14%, 1997 (R119)	14%, 1997 (R119)	1 070 000 000 (10 687 000)	– –
	R	14 934 038 350	–
*Less Discount R.S.A. Stocks	*Min Diskonto R.S.A. Effekte	784 728 330	–
	R	14 149 310 020	–
	R	19 379 232 727	–
Revenue Account: House of Assembly	***Inkomsterekening: Volksraad***		
Transfer from State Revenue Account	Oorplasing vanaf Staatsinkomsterekening	1 260 304 538	1 177 524 000
Surrenders, 1985–86	Terugstortings, 1985–86	–	140 296
	R	1 260 304 538	1 177 664 296
Revenue Account: House of Representatives	***Inkomsterekening: Raad van Verteenwoordigers***		
Transfer from State Revenue Account	Oorplasing vanaf Staatsinkomsterekening	523 000 000	522 000 000
	R	523 000 000	522 000 000
Revenue Account: House of Delegates	***Inkomsterekening: Raad van Afgevaardigdes***		
Transfer from State Revenue Account	Oorplasing vanaf Staatsinkomsterekening	180 000 000	175 000 000
	R	180 000 000	175 000 000
Account for Provincial Services: Cape	***Rekening vir Provinsiale Dienste: Kaap***		
Transfer from State Revenue Account	Oorplasing vanaf Staatsinkomsterekening	380 000 000	466 000 000
	R	380 000 000	466 000 000
Account for Provincial Services: Natal	***Rekening vir Provinsiale Dienste: Natal***		
Transfer from State Revenue Account	Oorplasing vanaf Staatsinkomsterekening	221 000 000	186 000 000
	R	221 000 000	186 000 000
Account for Provincial Services: Orange Free State	***Rekening vir Provinsiale Dieste: Oranje-Vrystaat***		
Transfer from State Revenue Account	Oorplasing vanaf Staatsinkomsterekening	118 521 000	115 000 000
Surrenders, 1989–90	Terugstortings, 1989–90	–	40 702 546
	R	118 521 000	155 702 546
Account for Provincial Services: Transvaal	***Rekening vir Provinsiale Dienste: Transvaal***		
Transfer from State Revenue Account	Oorplasing vanaf Staatsinkomsterekening	654 000 000	498 722 000
	R	654 000 000	498 722 000
	R	22 716 058 265	–
Total (including Open Balance)	Totaal (insluitende Aanvangsaldo) R	22 785 652 879	–

ISSUES • UITBETALINGS

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Dienste	Service	Month of April Maand April 1993	1992
		R	R
State Revenue Account	***Staatsinkomsterekening***		
Votes	**Begrotingsposte**		
1. State President	Staatspresident	1 978 000	1 772 000
Statutory Amount	Statutere Bedrag	22 000	19 000
2. Parliament	Parlement	3 571 000	3 571 000
Statutory Amount	Statutere Bedrag	5 000 000	4 550 000
3. Foreign Affairs	Buitelandse Sake	640 000 000	446 000 000
Statutory Amount	Statutere Bedrag	254 000	235 000
4. Water Affairs	Waterwese	30 000 000	30 000 000
5. Administration: House of Assembly	Administrasie: Volksraad	1 260 304 538	1 177 524 000
6. Public Enterprises and Privatization	Openbare Ondernemings en Privatisering	—	623 000
7. Central Advisory Service	Sentrale Ekonomiese Adviesdiens	430 000	385 000
8. Justice	Justisie	73 000 000	58 000 000
Statutory Amount	Statutere Bedrag	4 150 000	3 500 000
9. State Expenditure	Staatsbesteding	45 000 000	60 000 000
10. Administration: House of Representatives	Administrasie: Raad van Verteenwoordigers	523 000 000	522 000 000
11. Administration: House of Delegates	Administrasie: Raad van Afgevaardigdes	180 000 000	175 000 000
12. Correctional Services	Korrektiewe Dienste	175 677 000	149 269 000
13. Defence	Weermag	740 000 000	1 040 000 000
14. Public Works and Land Affairs	Openbare Werke en Grondsake	150 000 000	160 000 000
15. Education and Training	Onderwys en Opleiding	475 000 000	499 000 000
16. Local Government and National Housing	Plaaslike Regering en Nasionale Behuising	60 000 000	38 000 000
17. Mineral and Energy Affairs	Mineraal- en Energiesake	273 785 000	242 708 000
18. Agriculture	Landbou	185 000 000	37 000 000
19. National Health and Population Development	Nasionale Gesondheid en Bevolkingsontwikkeling	150 000 000	85 000 000
20. Police	Polisie	580 000 000	576 000 000
21. Regional and Land Affairs	Streek-en Grondsake	2 535 779 800	2 234 271 000
Statutory Amount	Statutere Bedrag	62 824 000	58 293 000
22. Home Affairs	Binnelandse Sake	30 000 000	24 000 000
23. Environment Affairs	Omgewingsake	18 425 000	17 251 000
24. Commission for Administration	Kommissie vir Administrasie	5 000 000	5 000 000
25. Improvement of Conditions of Service	Verbetering van Diensvoorwaardes	—	—
Statutory Amount	Statutere Bedrag	—	—
26. Transport	Vervoer	265 000 000	164 000 000
27. Constitutional Development Service	Staatkundige Ontwikkelingsdiens	5 525 666	3 434 250
28. SA Communication Service	SA Kommunikasiediens	4 479 000	4 300 000
29. Manpower	Mannekrag	30 000 000	31 000 000
30. National Education	Nasionale Opvoeding	50 000 000	57 500 000
31. Finance	Finansies	163 685 000	105 304 000
Statutory Amount	Statutere Bedrag	954 200 000	925 839 500
*	*	(784 728 330)	(614 559 000)
32. Trade and Industry	Handel en Nywerheid	685 000 000	597 872 000
	R	10 366 090 004	9 538 220 750
*Less Discount RSA Stocks	*Min Diskonto RSA Effekte	784 728 330	614 559 000
	R	9 581 361 674	8 923 661 750
Other Issues	***Ander Uitbetalings***		
Treasury Bills	Skatkisbiljette	6297 325 000	—
Loan Levy	Leningsheffing	273	—
Currency Subscription, I.D.A.	Betaalmiddele Bydrae, I.D.A.	1 381 915	—
Payment in terms of section 10 (1) (d) of Act No. 66 of 1975	Betaling ingevolge artikel 10 (1) (d) van Wet No. 66 van 1975	23 080 285	—
Bonds:	Obligasies:		
Indefinite Period Exchequer Bonds	Onbepaalde Termyn Skatkis-obligasies	2 871 600	—
Indefinite Period National Defence Bonds	Onbepaalde Termyn Nasionale Verdedigingsobligasies	1 813 100	—
Indefinite Period Senior Citizens Savings Bonds	Onbepaalde Termyn Senior Burger Spaarobligasies	1 196 300	—
Internal Registered Stock:	Binnelandse Geregistreerde Effekte:		
Floating Rate	Wisselende Koers	3 971 404	—
Issues, 1992–93	Uitbetalings, 1992–93	5 000 000	—
	R	6 336 639 877	—
Total: State Revenue Account	Totaal: Staatsinkomsterekening R	15 918 001 551	—
Revenue Accounts:	***Inkomsterekenings:***		
House of Assembly	**Volksraad** R	1 260 304 538	1 177 524 000
House of Representatives	**Raad van Verteenwoordigers** R	523 000 000	522 000 000
House of Delegates	**Raad van Afgevaardigdes** R	180 000 000	175 000 000
Account for Provincial Services: Cape	**Rekening vir Provinsiale Dienste: Kaap** R	380 000 000	466 000 000
Account for Provincial Services: Natal	**Rekening vir Provinsiale Dienste: Natal** R	221 000 000	186 000 000
Account for Provincial Services: Orange Free State	**Rekening vir Provinsiale Dienste: Oranje-Vrystaat** R	118 521 000	115 000 000
Account for Provincial Services: Transvaal	**Rekening vir Proviniale Dienste: Transvaal** R	654 000 000	498 722 000
	R	3 336 825 538	3 140 246 000
Totals	Totale R	19 254 827 089	—
Exchequer Balance, 30 April 1993	Skatkissaldo, 30 April 1993 R	3 530 825 790	—
Totals	Totale R	22 785 652 879	—

HOUSE OF ASSEMBLY

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

State President: income tax on salary/allowances

298. Mr P G SOAL asked the Minister of Finance:

(1) Whether the State President is liable for the payment of income tax on (a) his salary and (b) any (i) allowances and (ii) other income received by him; if not, why not; if so, in respect of the latest specified period of 12 months for which information is available, on what amounts was such tax levied, in each case;

(2) whether any (a) former State Presidents and (b) widows of former State Presidents are liable for the payment of income tax on (i) pensions and (ii) any other personal income received by them; if not, why not; if so, in respect of the latest specified period of 12 months for which information is available, on what amounts was such tax levied, in each case? B663E

The MINISTER OF FINANCE:

(1) (a) and (b) (i) No.

In terms of the exemption contained in section 10 (1) (c) (i) of the Income Tax Act, 1962, (the Act) the State President is not liable for the payment of income tax on his salary and allowances

(b) (ii) Yes.

As a result of the secrecy provisions, contained in section 4 of the Act, which prohibit the disclosure of such information, no details in this regard may be furnished.

(2) (a) (i) and (b) (i) No.

A pension payable to a former State President or his surviving spouse is not subject to tax as a result of the exemption contained in section 10 (1) (c) (ii) of the Act.

(a) (ii) and (b) (ii) Yes.

As a result of the secrecy provisions, contained in section 4 of the Act, which prohibit the disclosure of such information, no details in this regard may be furnished.

Deficit before borrowing/total expenditure

302. Mr K M ANDREW asked the Minister of Finance:

(1) What was the actual (a) deficit before borrowing, (b) total expenditure, and (c) deficit before borrowing as a percentage of the gross domestic product, in the 1991–92 financial year;

(2) what was the actual or estimated (a) deficit before borrowing, (b) total expenditure, and (c) deficit before borrowing as a percentage of the gross domestic product, in respect of the 1992–93 financial year? B697E

The MINISTER OF FINANCE:

(1) (a) R12 754,9 million (see table 4.3 in Budget Review of 17 March 1993).

(b) R85 860,9 million (see table 4.3 in Budget Review of 17 March 1993).

(c) 4,2 per cent of GDP.

(2) (a) Revised estimate: R28 563,8 million (see table 4.3 in Budget Review of 17 March 1993).

(b) Revised estimate: R104 876,6 million (see table 4.3 in Budget Review of 17 March 1993).

(c) 8,6 per cent of GDP.

HOUSE OF ASSEMBLY

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

Ex-member of Cabinet: cash payments/annuities/pension

290. Mr L FUCHS asked the Minister of Finance:

(1) Whether he will furnish information on the cash payments, annuities and/or pension paid or payable to an ex-member of the Cabinet, whose name has been furnished to the Minister's Department for the purpose of his reply; if not, why not; if so, (a) how much did this person receive by way of (i) cash payments and (ii) annuities on his retirement as (aa) Minister and (bb) head of the Government Department concerned and (b) what part of these amounts was exempt from income tax;

(2) whether any annuity and/or pension which this person is receiving from the State at present is exempt from income tax; if so, to what extent in each case;

(3) whether, in addition to any financial benefits this person receives as a retired Minister, he is still receiving any such benefits as the retired head of the Government Department in question; if so, what benefits? B676E

The MINISTER OF FINANCE:

(1) No—pension matters are strictly confidential and the amounts can therefore not be furnished.

(a) (i) (ii) (aa) and (bb) fall away.

(b) Only gratuities payable under the Government Pension Funds and Schemes are exempt from income tax.

(2) No—pensions (annuities) which are paid under the Government Pension Funds and Schemes are taxable according to income tables from the Receiver of Revenue.

(3) Yes—the person concerned was a member of the Government Service Pension Fund and as such, made contributions during his whole service period to the pension fund. He therefore became entitled upon his retirement to a gratuity and a monthly pension for which provision is made in the regulations which control the said Fund. The amounts of the gratuity which he received as well as the pension to which he lawfully had a right, are confidential and cannot be furnished.

Rail Commuter Corporation: offices in Johannesburg

308. Mr R V CARLISLE asked the Minister of Transport:

(a) What was the occupancy cost in respect of the offices used by the South African Rail Commuter Corporation in Sandton, Transvaal, as at the latest specified date for which information is available, (b) how is the office accommodation previously used by the Corporation in the Westbank Building in Johannesburg now utilized and (c) why did the Corporation transfer its offices to Sandton? B704E

The MINISTER OF TRANSPORT:

(a) The Managing Director of the South African Rail Commuter Corporation informed me that the amounts invoiced by Unilever to the South African Rail Commuter Corporation Limited in respect of February and March 1993 were as follows:

	February	*March*
Basic Rental......	60 800	68 096
Parking.	11 360	12 723
Operating Expenses	9 728	9 728
TOTAL	81 888	90 547

The rental amounts, including parking, increased by 12% on 1 March 1993 in terms of the lease agreement.

cont-d

Longest recession is set to continue

Sowetan 14/5/93

By Mzimkulu Malunga

NO IMPACT Economy is expected to grow marginally sometime this year:

South Africa's longest recession is set to continue this year, say economists.

Though it is expected that the economy will experience a marginal growth of about 0,5 percent in 1993, economists say that this will not have much impact.

In its quarterly economic monitor, Amalgamated Banks of South Africa say factors like consumer confidence have been shattered by the recent increase in Value Added Tax.

The inflation rate is expected to return to double-digit figures because of an increase in VAT, the rise in the price of petrol as well as import charges.

Absa says the flight of money from the country has led to a decline in the country's foreign reserves.

Old Mutual chief economist Dave Mohr says even if economies of the world's major industrialised countries — many of whom are the country's trading partners — recover, it is unlikely that the South African economy will do the same.

Dave Mohr

The only positive signs come from the agricultural sector where production is expected to improve following one of the worst droughts in Southern African history.

Prospects for a political settlement could revive foreign interest and lead to an inflow of money into the country, he says.

The euphoria which followed gold's surge to the $350 an ounce mark in recent weeks would not last. Mohr does not believe the price will rise further.

Unfortuante messengers

"In ancient times, some rulers killed those unfortunate messengers who brought bad news to them. If that policy were applied to South Africa today, economists would be executed almost every week," he says.

Sanlam's economic survey for April says unemployment continues to be a problem as the economy declines and the population increases.

An estimated three million people are currently unemployed. An equivalent number of people are employed in the informal sector, according to the survey.

Chamber president hands over on encouraging note

Reason to be optimistic about economic future

(49) ARG 14/5/93

BRUCE CAMERON
Business Staff

THERE is reason to be optimistic about the economic future of the Western Cape, but a number of pitfalls will have to be avoided to achieve success, says outgoing president of the Cape Town Chamber of Commerce Mr Herbert Hirsch.

Speaking at the chamber's annual meeting yesterday, he said factors which made him optimistic included:

- The increasing broad spirit of South Africanism.
- The irreversible drive towards a democratic and, hopefully, market-driven dispensation as well as the creation of negotiating forums at regional level, including the Western Cape Economic Development Forum.
- The debate around the government's Normative Economic Model in the search for long-term economic solutions.
- A general determination to get rid of inefficiencies, including incompetence and maladministration in the public sector, which had built up over the past 40 years.

But he warned of several pitfalls. These included:

- Resistance to change in government, the private sector and in labour.
- Unrealistic expectations including that of an overnight recovery in the economy.
- The potential of a slide towards major civil degeneration, including the high level of corruption in the public and private sectors and growing civil disobedience and disrepect for authority.
- Increasing political violence and crime with the need to curb violence on both the extreme right and left.
- Low levels of investment.

The new president, Mr Roland Hudson-Bennett, said fraud and commercial crime in the private sector had reached unacceptable levels.

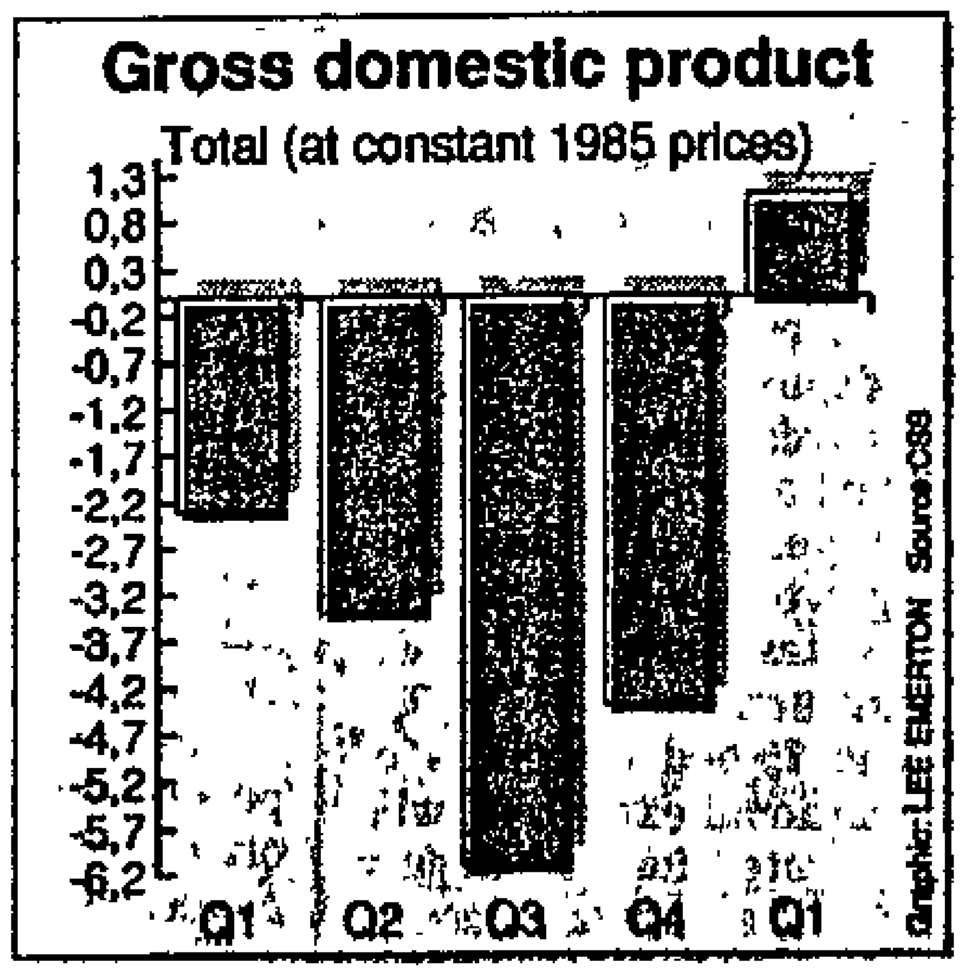
Figures provided by the police commercial branch showed there were 61 160 cases last year alone with 22 835 cases on hand on January 1 this year involving nearly R6 billion.

Mr Hudson-Bennett said the years of sanctions had created double standards. With sanctions crumbling it "is up to us to return to the ethical standards set by our forbears".

He said there had been considerable exposure of bribery and corruption in the public sector.

"But surely we should be considering what remedial action each one of us in our own businesses should be taking to reduce the unacceptable level of fraud and commercial crime in the private sector."

NEW MAN: Out-going president of the Cape Town Chamber of Commerce, Mr Herbert Hirsch, places the chain of office around the neck of incoming president Mr Roland Hudson-Bennett.



First-quarter GDP hints at recovery

TIM MARSLAND (49)

AGRICULTURE and mining helped the economy to show growth for the first time since the third quarter of 1991, latest government figures show.

The Central Statistical Service said yesterday the economy grew a seasonally adjusted real 0,8% in the three months to March, compared with a contraction of 4,3% in the last three months of 1992.

This is also only the second quarter which has shown expansion since 1989.

The agriculture sector grew 53,9% as a result of the drought ending. In the previous quarter, that sector shrank 64,1%.

Mining also put in a stronger performance, growing at 1,1% from 0,5%.

The manufacturing sector showed a surprising turnaround, expanding at 0,3% from a previous decline of 1,2%.

Economists said it was too early to say the recession had been broken. A rule of thumb for that definition was two successive quarters of growth.

Nedcor Bank chief economist Edward Osborn described the figure as very good and said it pointed to expectations that there could be a degree of recovery in the current year. BDM 14/5/93

UAL chief economist Dennis Dykes said the expansion was due to technical reasons since it was being compared with the December quarter's low base. Taken on a year-on-year basis the economy showed a contraction of about 3%.

Rand Merchant Bank chief economist Rudolf Gouws did not expect the performance to be repeated next quarter because higher VAT and taxes would erode real personal spending power. Stayaways would also have an effect.

Bank acts to prevent imbalance in market

BDM 14/5/93 (49)

THE Reserve Bank took steps yesterday to prevent a potential mismatch in the money market due to the maturity on Saturday of R2.3bn in government debt

The Bank bought R2bn in paper assets from the money market in the form of a repurchase agreement to offset the maturity of government's R117 capital market bond

The agreement put R2bn in the hands of the banks and cost the Bank 13,43% in interest.

Bank money and capital market GM Andre Kock said the Bank had evened out the flow "as best it could".

The maturity of the R117 means the market will be left short of liquid assets, a position which will be relieved only when the R145 bond, which matures in 1996, becomes liquid in two weeks time

Banks need liquid assets in the form of short-dated government paper in order to fulfil their liquid asset requirements in terms of the Banks Act. They also use the liquid assets as collateral to borrow cash from the Bank

TIM MARSLAND

Kock said the Bank placed the R2bn repurchase agreement to match the outflow with the redemption of the R117 bond.

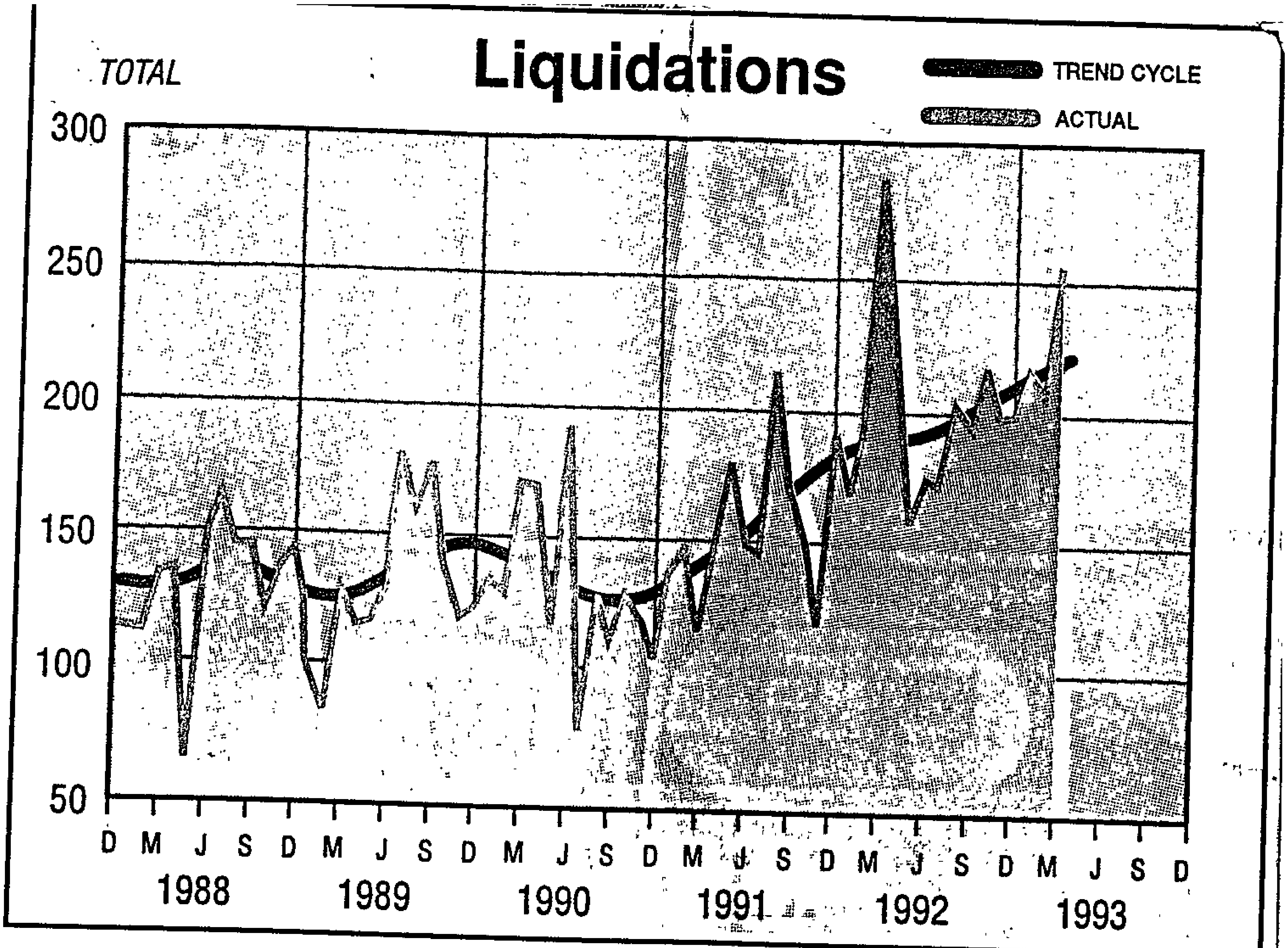
A statement from the Bank said of the repurchase agreement.

"This would alleviate a temporary shortfall in the money market pending the redemption on Saturday".

A money market dealer said banks could be under pressure to get sufficient liquid assets over the two week period. However, once the R145 became liquid, the market would be able to handle a shortage of about R4bn.

Some analysts have suggested that because of the Bank's new liquid asset requirements, the banks will not be able to handle a shortage of more than R3,5bn.

A dealer said the latest developments were unlikely to have much effect on short-term interest rates because of the static liquidity position.



Graph : BOB GRIERSON, The Argus

Companies going bust at more than 200 a month

MARC HASENFUSS
Business Staff

(49) ARG 15/5/93

THE high mortality rate in South African companies continues unabated.

For the first time in seven years the number of liquidations has remained higher than 200 a month for three consecutive months. The 258 liquidations in March is the second highest monthly figure in the seven year period.

Sequestration of companies and close corporations during the first quarter of 1993 edged up 4 percent to 683, compared to the corresponding quarter last year, Central Statistical Service figures show.

Byut the first quarter figure is a disturbing 71 percent up on the same period in 1991.

About 11 companies a day were liquidated in the quarter under review — an increase over the 10 a day average for 1992. For March alone the daily liquidation rate shifted up to 12.

CIA International credit analyst Maritz van Zyl said the number of liquidations appeared to have peaked, but he warned that business failures would remain high.

"Although liquidations may show a tendency of reaching its peak, the number will remain high for the rest of the year, especially if the economy is on a recovery path."

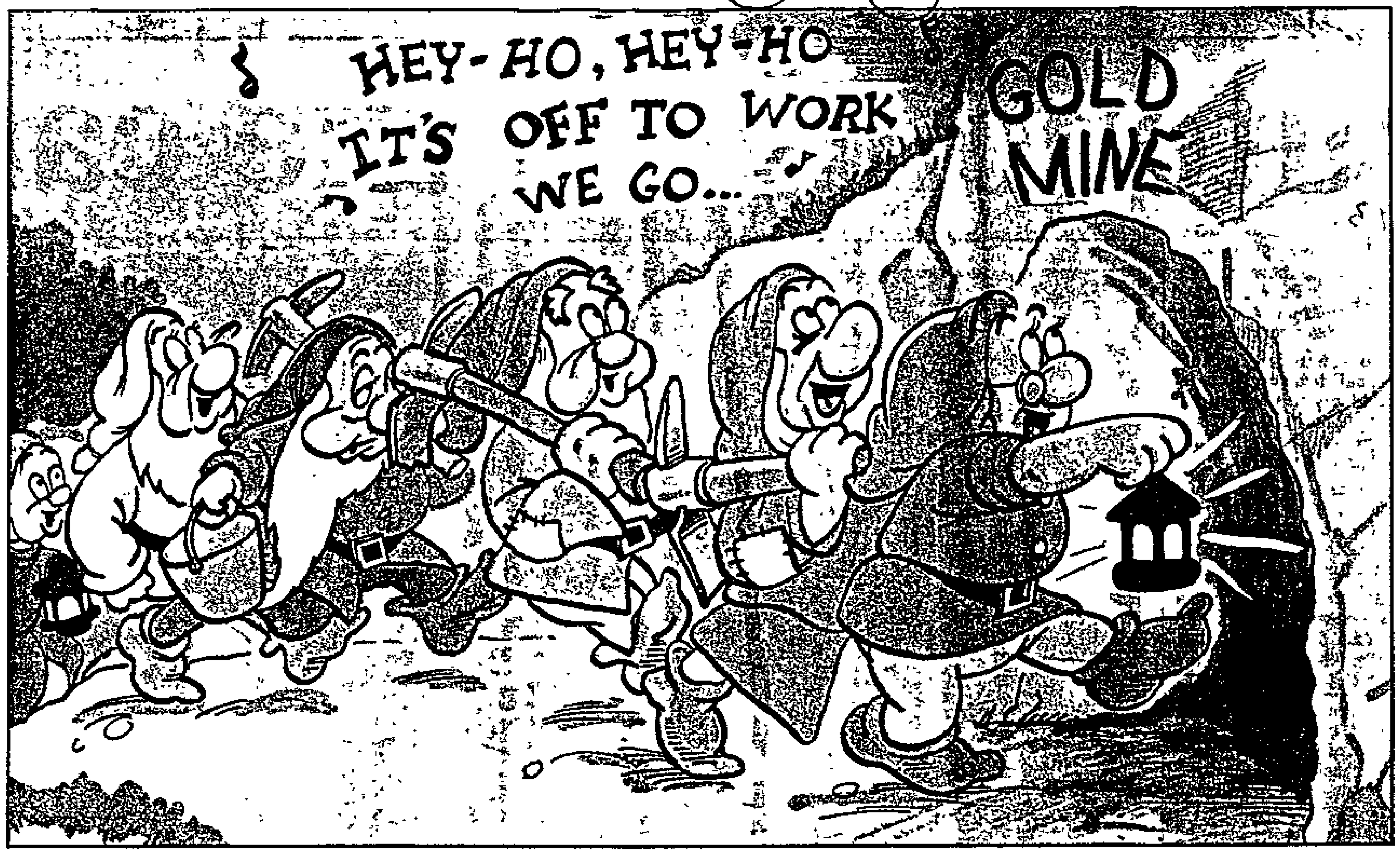
He said small business was still the most vulnerable sector in the economic downturn.

Latest available statistics show that 96 businesses were liquidated in February this year.

Star 15/5/93

Golden smile for economy

(49)



Benefits for all if price keeps soaring

WHY IS there all this hullabaloo about the gold price? What does it all mean? Does the man in the street benefit in any way? PERSONAL FINANCE EDITOR MAGNUS HEYSTEK shares the excitement of stockbrokers and dealers, and explains how a higher gold price can be a boon for everyone.

THE man in the street may have been left wondering what all the fuss was about during this week's surge in the gold price and rush for gold shares. The price sliced through the $360-an-ounce level and only stopped at around the $370 mark.

On Thursday morning the gold market rose by more than 13 percent, adding R18 billion to the total market capitalisation of all the shares on the stock market.

Stockbrokers, however, must be feeling on top of the world today. Turnover on Thursday alone was R450 million, which, together with turnover for the other four days, added up to nearly a billion rands.

Are you perhaps one of many wondering what all the excitement was about, thinking that because you don't own any gold shares, you don't benefit?

Many made fortunes

As someone said to me this week: "I'm just an ordinary salaried person who doesn't own any money to buy gold or gold shares. Why should I get all excited by the rise in the gold price. It's the fat cats on the Johannesburg Stock Exchange who are making all the money."

It's true that many people made a packet. Jobbers (people who speculate in gold shares) made small fortunes this week, as they've been doing for the last couple of weeks.

Others, who have been holding on to their gold shares throughout the bear market, which lasted for nearly five years, must be feeling vindicated by their belief in bullion's ability to make dramatic comebacks.

Dramatic is an understatement, to say the least. In November the all gold index was at a seven-year low of 745. On Thursday the market soared to close at 1636 — an increase of more than 120 percent in less than six months.

Certain gold shares have doubled in value, doubled again and are still rising. These are the kind of returns one can only dream off.

But don't despair. The effects of a rising gold price and rising gold values, if sustained, trickles down to virtually every South African. This is how it happens.

□ **Higher investment values:** You might think that you don't own any gold shares, but you're wrong. If you belong to a pension or provident fund, own life policies or unit trusts, you are benefiting from the rising gold price.

Just about every large investment portfolio with assurance companies and unit trust companies contains gold shares, some more than others. Even the broad-based general equity funds own gold and mining house shares. So when the price of gold goes up, so does the values on these investments.

The same holds true for pension and provident funds. You might not know it, but it's your money invested in gold shares. The rising gold price has also boosted the all-share index considerably in recent weeks. So count your blessings and don't think you're not rolling in the dough along with the other fat cats.

People retiring on provident funds soon must hold thumbs for a further increase in the gold price. The eventual lump sum will be determined by the market value of their investments on the day they retire. So watch that gold price carefully.

□ **Improved confidence:** This country has been built on gold and other precious metals. Speak to virtually any businessman in Johannesburg and you will notice an improvement in confidence. The business community feels a little more confident about economic prospects, knowing that an improved gold price eventually means more money in the system. If it continues, businessmen might start looking at expanding, thereby creating jobs.

And, of course, stockbrokers will be boosting the sale of luxury cars and turnover at expensive restaurants in the coming weeks.

□ **Increased foreign earnings:** All our gold is sold overseas. A $40 improvement in the price of gold, if sustained, means an extra $3 to $4 billion in foreign exchange earnings a year. This will relieve the pressure on the balance of payments and create additional leeway for the monetary authorities to stimulate the economy.

In addition, a rising gold price means that the gold in this country's foreign exchange reserves is revalued.

□ **Mining sector employs more people:** As a result of the depressed gold price, several gold mines have been closed and employment in the industry has dropped substantially. An estimated 175 000 jobs have been shed by the gold mining industry as a direct result of the declining profitability of gold and other precious metal mines in recent years.

With unemployment in certain regions as high as 40 percent, any development which creates more jobs is good news for the country.

□ **Lower interest rates:** A rising gold price usually leads to lower interest rates. This does not happen overnight, but because of the increased flow of money into the country, liquidity increases — one of the factors which determines interest rates.

People earn more money

While the Reserve Bank is unlikely to let the reins on inflation slip, higher gold and platinum prices will make an easing in monetary policy more forthcoming.

□ **Rising property values:** All the above positive factors eventually lead to increased property prices, especially residential. If you have more people earning more money, coupled with lower interest rates, they buy property. In 1979 and 1980 property prices roses by 50 percent on average over two years on the back of a rising gold price.

So next time the front page of The Star loudly proclaims another new high for the JSE — hopefully next week — share in the joy.

Did you know?

South 15/5-19/5/93

(49)

- South Africa uses 66 percent more capital—2.16 times more than in developed countries—to produce the same amount of wealth.
- South Africa has to employ four people to produce the same amount of wealth as one employee in Germany. Those four employees, on average, cost 47 percent more than the one employee in Germany.
- The cost of manufacturing in South Africa is about 15 percent higher than in the average developed country.
- South Africa has the most complex tariff structure for imports in the world, which adds considerably to the cost of imports for manufacturing.

South 15/5 – 19/5/93

Go for the gap, exporters told

(49)

WHAT products or services should South Africa be concentrating on as it launches its bid to ensure export-led growth?

There is no doubt that 'traditional' exports such as gold and other minerals and metals are no longer the reliable dollar-earners that they used to be, the recent rise in the gold price notwithstanding. There is no reason to expect this trend to change drastically in the near future.

Delegates at the IDASA/Aspen Institute conference heard from several speakers that although there had been an improvement in the performance of manufactured exports, many of these were, in fact, little more than processed raw materials. These include basic iron and steel, basic chemicals and wood pulp products.

But South Africa seems to have missed out on several major export opportunities, particularly in high fashion clothing and footwear. Instead, it is trying to provide clothing and footwear for a weak domestic market—and complaining like hell about "dumped" goods from Far Eastern exporters who can make cheap but good clothing better than anyone else in the world.

Economists say that South Africa has to face the facts—it cannot compete with the Far Eastern manufacturers and should consider the development of new "niche" exports such as high-fashion wear, capital goods, processed foods and the service sectors, including construction.

"Niche" has become a vogue word used to describe areas where manufacturers find a product they can make really well and sell at prices that will be attractive to export markets.

But Overseas Development Institute economist Ms Sheila Page, obviously weary of the ~~cliché~~, pleaded for people to stop using it. She said there was a very real danger that once people found their "niche", they would get stuck in a rut, churning out their "niche" products endlessly without further research and development to constantly update and expand product ranges.

This approach will be particularly important given the complicated balance that is now taking place worldwide. On the one hand, states are trying to liberalise international trade, particularly through the General Agreement on Tariffs and Trade (GATT). On the other hand, steps are being taken to form regional trade blocs, which have a degree of protectionism, mainly non-tariff barriers.

South Africa should ensure that it is not going to be isolated from these various markets as probably the most important aspect of trade today is for it to have access to as many markets as possible with the minimum number of barriers.

"We are living in the most competitive decade of this century for international trade and while export markets are going to become more and more difficult to enter, we are going to face increasing competition from imported products and it is important that we address a balance between these two aspects", said one economist.

There is some controversy, however, as to whether increased exports automatically lead to growth in productivity. Some economists say the mere fact that firms are exposed to export markets make them more aware of costs, quality and the need to improve productivity. Others say firms might be aware of the need for better productivity, but do not motivate their workers enough to ensure that this is achieved.

SA gets $71m in World Bank work

S Times (Buss) 16/5/93

By ZILLA EFRAT

SOUTH African suppliers were paid $71-million for World Bank (WB) projects in the year to June 1992.

This amounted to only 0,8% of the $9-billion in disbursements by the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA).

The WB figures were given at a conference in Sandton.

SA does not qualify for WB funding, but companies can take part in World Bank-International Finance Corporation projects.

Zias International managing director Pieter Louw says WB-funded projects have become a target for SA contractors.

But Ove Arup chairman Cliff McMillan warns that the problems South Africans face include limited international experience and connections because of sanctions, an extremely competitive market and reduced opportunities in Africa because of economic decline.

There are also some hurdles associated with WB involvement. Credit Guarantee managing director Chris Leisewitz says it takes a long time to evaluate and approve a project.

Contractors and capital goods exporters do not get early notice of WB-supported projects.

Another drawback is the drawdown mechanisms under WB loans and resulting risks to which contractors can be exposed.

Group Five executive chairman Peter Clogg says WB financing generally has a long cycle. It is usually three to four years.

Reserves

Mr Clogg mentions possible problems with the Reserve Bank, which could refuse to allow transmission of funds for tender deposits, bid bonds or working capital.

Because of extreme pressure on the reserves, the bank tends to refuse all requests.

Mr Clogg says central banks in other countries can also cause problems. For example, taking out currency from Malawi will depend on when it becomes available even though approval to do so has been given.

The WB mostly uses an international competitive bidding (ICB) process. Under it contracts are awarded to the lowest qualified bidder.

Safto Africa manager Paul Runge says Europeans have an advantage because of co-financing and special funding by their own bilateral agencies.

SA may be able to share in a WB programme in the next 18 months.

Robbing the poor to pay the rich

C/Pren 16/5/93.

UK banks profit from third world loans

BRITISH banks are offsetting huge losses on bad loans to British property companies by promising to squeeze an extra $350-million (about R1,1-billion) from third world countries.

When the big four London-based ranks announced their annual results in February and March, they reported bad debts of $9 000-million (about R28,5-billion) for 1992 alone.

This was because the banks had foolishly lent money to property speculators who built unneeded office blocks in London, and to fraudulent tycoons such as the late publisher Robert Maxwell.

Canary Wharf in London is Europe's tallest office building, but the $1 000-million (about R3,1-billion) development is almost empty. The banks will never get back the money they lent on that and dozens of other empty buildings.

Thus, poor countries are being forced to give extra money to British banks because they wasted so much foolishly.

In the late 1980s, the big banks "wrote off" many of their loans to developing countries. But pressure from the International Monetary Fund and World Bank means that poor countries are now being forced to pay these debts.

So the banks are "writing back" some loans; that is, they promise to collect money from the third world which they previously wrote off. This ensures that the banks (other than Barclays) remain in profit.

This is the second year in which the big banks have tightened the screws on the world's poor. Last year, the big four banks announced bad British debts of nearly $800-million (about R2,5-billion) for 1991, and they promised to collect an extra $635-million (about R2-billion) from poor countries.

National Westminster Banks' entire profit for 1991 came from developing countries. Barclays Bank promised to collect $175-million (about R554-million) from the future government in SA – cash it had said it would not take from the white apartheid government.

The London-based pressure group World Development Movement reported in March that new figures show that in 1991 British banks took $1 200-million (about R3,8-billion) more from the third world than they lent. In effect, one-third of British official aid for the year simply went to repay British banks. Donations by British charities like Oxfam that year amounted to only $375-million (about R1,1-billion).

The results reported by the banks in February and March cover 1992, and the picture is similar: another $9 000-million (About R28,5-billion) in British bad debts, and a promise to force poor countries to pay a further $350-million (about R1,1-billion). All the banks still paid dividends, including Barclays, which made a loss.

Nearly all of Lloyds Bank's dividend was paid from profits from third world lending. Lloyds reported that its "stronger operating profit (for. 1992) resulted from higher interest payments, including partial recovery of overdue interest" from poor countries.

To meet their interest payments many countries are forced to spend less on health and education. The UK charity Christian Aid says that one child dies almost every minute because of the economic hardship caused by debt repayments.

– Panos

Stals and govt's (49) model under fire

Weekly Mail Reporter

BOTH the Reserve Bank's anti-inflation policy and the Normative Economic Model have come under attack from a new quarter. The economics research unit of conservative insurance giant Old Mutual in its most recent *Economic Monitor* is sharply critical of both.

It says the model is "crucially vague" on how South Africa can grow at 4,5 percent by 1997 with inflation down to five percent, and assumed measures including lower inflation and government dissaving will automatically lead to growth.

Noting the high priority accorded inflation-fighting by the economic authorities, the *Monitor* says tight monetary policies have achieved lower inflation by worsening the recession.

It takes the Reserve Bank to task for keeping the rand strong to avert imported inflation, noting a rise of 13 percent between June 1989 to December 1992 in the trade-weighted real exchange rate. "No wonder exports have suffered, thus weakening a vital source of economic growth." Meanwhile, imports have remained high, putting pressure on foreign exchange reserves and keeping interest rates up.

"The costs of these policies have been formidable. And their benefits are unclear. Is inflation really a problem in South Africa? For if businesses don't want to invest, aren't exporting and don't train their workers enough, the price level could be quite stable and little would change. Low inflation won't break the vicious cycle of a stagnant economy in which people lack confidence about what the future will bring."

Tax income shock for government

Star 17/5/93

By Sven Lünsche

Tax income will once again be below budgeted targets in the 1993/4 fiscal year, judging from government revenue and expenditure figures for April.

With expenditure rising ahead of budgeted estimates, the deficit before borrowing is once again worryingly high.

If continued, the trend will be an embarrassment for Finance Minister Derek Keys, who has committed the Government to a curb in spending and sound financing policies.

Central Statistical Services (CSS) figures released over the weekend show that revenue in April at R5,24 billion was 1,3 percent below the same figure for April last year.

For the year as a whole, the Government has budgeted for a 16,5 percent rise in revenue to R88,9 billion from the R76,3 billion it collected in 1992/3.

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April's income therefore accounts for only 5,9 percent of expected revenue, a figure which will send alarm bells ringing at the Department of Finance.

Breaking down the revenue figure, the CSS says inland revenue (income taxes and VAT) showed a 0,9 percent year-on-year decline in April and customs and excise duty a surprising 10,7 percent drop.

Government spending in April amounted to R12,2 billion, 10,7 percent higher than in the corresponding month last year — an overall 8,8 percent rise in spending has been targeted for 1993/4.

Spending in April has thus exceeded income by R7 billion, or 80,1 percent, with the result that the deficit before borrowing at R5,3 billion already accounts for 16,6 percent of the year's budgeted limit of R32,1 billion.

US investment in SA depends on ANC actions in coming months, writes **Michael Christie**

Star 17/5/93

Old barriers must come down

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THE future relationship between South Africa and the world's largest and most innovative economy will depend, to a considerable extent, on certain actions and pronouncements of the ANC over the next few months.

Contrary to what is generally assumed, there exists substantial interest among American businessmen to create new business ties in South Africa or to re-establish old ones. This is important to South Africa's prospects for economic recovery and consequently it is important that the barriers to US business involvement in South Africa be removed.

The ANC knows this and the organisation has said that as soon as there is an announcement of an agreed date for elections and a Transitional Executive Council has been established, it will call for the lifting of economic sanctions on South Africa.

Among the most important of these are the sanctions maintained by more than 160 state and local governments in the US. These remain a severe disincentive to businessmen who will not commit themselves to South Africa in any substantial sense until they are removed.

When the ANC calls for the lifting of sanctions many of these authorities are likely to respond accordingly, although the complete process will inevitably be slow and complicated. But this is not the problem. The real problem lies in the process whereby these sanctions were erected in the first place.

During the late 1960s and the decade that followed, the ANC and its allies worked assiduously and systematically to establish a network of sympathetic activists and organisations throughout the US, to exert pressure on apartheid and those who implemented it. This became an extensive network which was responsible not only for the across-the-board sanctions at state and city level but for the pressure on hundreds of US corporations which persuaded them to cut their ties with South Africa.

This network still exists and represents a considerable potential for mobilising support for South Africa in future. But many of its members still adhere to the assumptions upon which they based their activism in the past and will not be easily persuaded to completely reverse their approach to US business and South Africa — to change from forcing them out of the country, to encouraging them to go back.

In the literature of this movement it is easy to detect views ranging from a scepticism of the motives of business to an assumption of the exploitative nature of capitalism and, in particular, of large, multinational corporations.

It was not surprising therefore, that when it became evident that the negotiation process in South Africa was moving to a point at which the ANC, in particular, would feel free to call for the lifting of economic sanctions, and that this was imminent, that the more alert and committed of these activists would devise a means of supplanting sanctions with different means of exercising a degree of control over US business activities in South Africa.

It is now the stated policy of many of these groups to ensure that when sanctions are lifted they are supplanted by a mandatory requirement that any US business operating in South Africa should adhere to Cosatu's investment code or some similar code. The clear implication of this is that adherence to this code by US corporations would be monitored from the US with the involvement of the activist network.

This would mean that what ought to become an economic relationship would remain a politicised one. It would mean that the reasons why so many US corporations left South Africa in the first place would still apply. It would mean merely replacing one set of severe disincentives with another. It would mean that, in any substantial sense, US business would not return.

What has to be clearly understood is that US business does not object to the principle of an investment code. Investment codes can be written to protect the interests of all parties. Their concern is about having their activities in South Africa monitored and judged by activist groups in the US, rather than by South Africans themselves. And for South Africa it comes down to a matter of sovereignty and the freedom to attract to its economy those foreign investors it wishes to, and to decide for itself the terms upon which it wishes to do business.

This is not an easy matter for the ANC. During its years of exile it relied on the support and assistance of its allies. Now it is having to ask them to change course and, if they are unable to, to step aside.

It is easy to suggest these activists are largely motivated by narrower interests. Certainly this would be true of many. Inevitably such a large grouping takes on a life of its own — its own views, its own bureaucracy and its own need to live. Also, the issue of South Africa always was, and still is, an extension of the civil rights debate in the US.

But it would be wrong to overlook the reality that many of these people became involved because of a genuine desire to see a decent society emerge in South Africa. They presumably would wish it to be a prosperous one. They are therefore a constituency that could be mobilised to get resources to flow into South Africa rather than out of it.

The call for the lifting of sanctions is consequently more than just that. It will be a call to put aside accumulated animosities from the past, to assist with the growing of the South African economy, and to those who have resources and are prepared to take risks to join in the South African enterprise on mutually agreed terms set in South Africa and not elsewhere.

This is another complex and difficult responsibility that the legacy of apartheid has thrust upon the ANC. But, as always, the overriding consideration is the magnitude of what is at stake.

● *Michael Christie is director of the South Africa Foundation's Washington office.*

Keys announces tariffs review

BDAY 17/5/93.

CAPE TOWN — Finance Minister Derek Keys told Parliament that a simplified tariff system was being drawn up which could lead to a review of SA's offer to GATT's Uruguay Round.

Opening the debate on his Trade and Industry portfolio, Keys said SA had developed a "greatly more complicated set of tariffs and tariff structures than most countries have" — which he said was hindering the free flow of international trade.

Keys said the Trade and Industry Department, the Board on Tariffs and Trade and the Industrial Development Corporation had formed a team for the tariff review.

It was examining the rationalisation of the tariff system and the improvement of rebate and drawback procedures.

"This work is being done in the light of the offer on tariffs made in 1990 to GATT (the General Agreement on Tariffs and Trade) and takes account of the import surcharge which presently exists," Keys said.

This could lead to a review of the offer made to GATT. Those parties who could be affected would be consulted.

The Trade and Industry Department said last year that it had offered to cut tariffs on about 42% of all lines. This would, over five years, replace all formula duties on these lines with ad valorem duties, with maximum levels of 30% on consumer products and 15% on other products.

Keys said that rationalisation of tariffs did not imply an immediate lowering of rates, saying there was room for simplification without changing tariff levels. But there was no getting away from the fact that SA had to prepare itself for a "progressive reduction of tariffs on certain products".

Keys said he was examining more effective export incentive options. Under the terms of GATT, SA would not be allowed to entrench export incentive rebates, but could phase them out over a number of years.

According to official figures, government paid out R1,3bn in export-linked rebates of up to 20% in 1991/'92.

Keys also said that rising levels of grey imports and high revenue-sharing payments to Botswana, Lesotho, Namibia and Swaziland meant that a review of the Southern African Customs Union was unavoidable.

He said grey imports on which customs duties have not been paid had "clearly increased during the past year".

☐ Stef Naudé, the Trade and Industry Department's director-general, had signed a new five-year contract, Keys told Parliament. — Reuter.

Talks on SA-EC links

STEPHANE BOTHMA

A CONFERENCE to discuss new links between SA and the EC will be held in Brussels in June.

Organised by the SA Foundation and Forum Europe, the event will focus on the new trade and political links with the EC once SA's political reform process is firmly established.

Speakers will include SA Reserve Bank governor Chris Stals, ANC international relations expert Aziz Pahad, Safto chairman Len van Zyl, the Belgian Foreign Commerce Minister Robert Urbain and the European parliament's external relations committee chairman Willy de Clercq.

In all, there will be 40 top-level speakers, and topics on the programme will include the scope of a new political relationship, an industrial partnership, SA's future as an advanced financial marketplace and the EC's possible role in confronting economic challenges in SA. BDAY 17/5/93.

The conference will be held on Monday June 28 and Tuesday June 29, and organisers say it will reflect the increasing warmth of EC relations with SA.

Economy set to shrink, says AHI expert

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TIM MARSLAND

THE economy was likely to shrink about 0,5% in the current year despite improved farming production, Afrikaanse Handelsinstituut chief economist Nick Barnardt said at the weekend. 8 | DAY 17/5/93

Addressing an SPL Treasury Services conference in Vereeniging, he said this position could be reversed in 1994 if a number of factors slotted into place.

These were:

- An expected improvement in the world economy;
- A speedy political settlement in SA;
- Continued good rains; and
- Further declines in interest rates.

If these happened, a business cycle upswing could start early in 1994 and would see the economy grow at about 2%, he said, accelerating to 3% or more in 1995.

He said that, hopefully, the monetary authorities would lose their "excessive fear of the money creation impact of further moderate cuts in Bank rate", and come around to the realisation that such rate cuts would probably slow the pace of decline in monetary growth and in overall business activy.

As soon as the reserves position improved, "Bank rate should be lowered as close as possible to the rate of CPI inflation, followed by a gradual widening of the Bank rate/CPI differential if the economy recovers during the course of 1994".

He said there was virtually no chance of an upswing in interest rates at least until 1995.

Politicians 'hold key to upturn'

BDM 17/5/93

LINDA ENSOR (49)

CAPE TOWN — Economic stagnation within a year was a possibility unless the economy received a boost from a political settlement, Santam investments GM Roy Justus said in his quarterly economic review. BDM

"The economy is in an extremely artificial situation at present. It is completely dominated by politicians who are the main players. Until they settle their differences, we cannot expect any economic revival at all."

Justus stressed that it was essential to get an interim government installed without delay and to bring the violence under control. No growth was the best scenario for the economy this year and SA would be lucky to achieve 1% or 2% growth next year.

He believed the gold price might go higher, though this would depend on demand from the East, including China. A technical rise to about $400 was not impossible.

Industrial share prices were expensive relative to company performances and were likely to maintain present levels until 1994 when they would probably rise in anticipation of an improved economic scenario.

Justus was not hopeful about a fall in interest rates as an upturn would place pressure on the foreign exchange reserves and therefore on interest rates.

Cheaper rand crucial, say analysts

BIDAY 17/5/93

EDWARD WEST

DEVALUATION of the rand would be a key factor in an export-led economic recovery in SA, economists said last week.

Exporters were struggling to compete overseas because the rand was overvalued against other currencies, said Board of Executors economist Rob Lee

Previously, economic growth had been propelled by mineral exports Now a new pattern of economic growth, including industrial development and exports of manufactured goods, was needed for SA to compete internationally, said Afrikaanse Handelsinstituut economist Nick Barnardt.

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This view was supported by the SA Foreign Trade Organisation's (Safto) latest survey identifying major impediments to export growth in the first quarter of 1993

The importance of the rand exchange rate had increased considerably to third place from the previous quarter, behind uncompetitive prices and slack demand. This indicated that the rand was not adequately offsetting high inflation, said Safto economist Bruce Donald

Nedcor Bank economist Edward Osborn agreed the rand value had a negative effect on export growth He said the extent of the current recession was due to the relative stability of the rand from 1988 to 1990 and weak metal and commodity prices.

Star 18/5/93

Budget spells cuts in education – Minister

(49)

CAPE TOWN — Essential services would have to be scaled down or deferred because of the R250 million shortage in the 1993/94 budget for Education and Culture, the Minister, Pieter Saaiman, said yesterday.

Introducing debate on his department's vote, he said the salary packages would have to be reduced by R250 million to address shortages in areas such as administrative expenditure, equipment, land and buildings, and professional and special services.

This would have to be done to stay within the limits of the budget.

"Where the process of rationalisation is accepted as inevitable, and taking into consideration the advantages, it cannot be put off any longer."

Saaiman said he had approved the continued payment of travel allowances to teachers who were forced to make use of private transport between their homes and school because of a lack of public transport.

Saaiman said financial circumstances were making it more and more difficult to address the unacceptably low teacher-student ratio and the under-use of facilities. — Sapa.

JSE chief warns against danger of adopting short-term solutions to stimulate economy

Star 18/5/93

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By Sven Lünsche

JSE president Roy Andersen has called for the possible re-introduction of prescribed investments as part of a package to redress economic imbalances.

In a wide-ranging address on the challenges facing the JSE, Andersen said yesterday the temptation to grasp at short-term solutions to stimulate the economy would be great.

"What South Africa requires is free market policies with sustained long-term benefits and not premature and false kick-starts," he told the annual conference of the Institute of Retirement Funds at the Wild Coast.

Before this was achieved, though, consumer and business confidence would have to be restored, which would require a reduction in violence, ongoing political progress and a clearer indication of the economic policies of a new government.

	MST (%)	LIQUIDITY (%)
Taiwan	,0	350
Germany	,0	140
Tokyo	,3	40
America	,0	38
London	,5	35
Johannesburg	1,0	4
Belgium	1,7	10

"A second important step is to obtain a speedy economic accord between all interested parties which will enable us to bridge the conflicting demands of our economy," Andersen said.

One of the key areas was the need to address the serious backlog in housing, schooling and health care.

Meeting these basic needs of the majority of South Africans would require an amalgam of:

- Re-prioritising government spending.
- Controlled government borrowing and the possible re-introduction of prescribed investments, or, preferably, the adoption of voluntary investment codes.
- The attraction of support from bodies such as the World Bank.

The role of the JSE in a new South Africa was currently the subject of an extensive investigation by a research committee, headed by Professor Michael Katz, Andersen said.

The research phase of the project had been concluded and a start made to the drafting of the report.

One of the key areas that had been addressed by the committee was the poor level of liquidity on the JSE.

Liquidity is defined as the value of shares traded as a percentage of market capitalisation.

The magnitude of the problem was illustrated by the fact that the JSE ranked bottom of a list of major stock exchanges in terms of liquidity.

Andersen ascribed this poor showing to four key factors: exchange controls, Marketable Securities Tax (MST), tax uncertainty on sales of shares and the defection of small investors.

While most of these issues required longer-term remedies, Andersen called for the Government to fulfil its promise made two years ago and lift MST, which accounts for only 0,2 percent of government revenue.

The correlation between MST and liquidity was clearly illustrated by the international trend, he said. (see chart)

A new look at the strings attached to SA's aid dollars

BIDM
18/5/93.

SIMON BARBER in Washington 49

FOR the past decade, the US Agency for International Development — the principal distributor of non-military US foreign aid — has been a major, if little publicised, tool of American policy towards SA. Since 1986, when its role was formalised by the Comprehensive Anti-Apartheid Act, its mandate has been twofold: to undermine apartheid and to help prepare black South Africans to run the country.

Its budget for this task has grown progressively from $14,1m in 1986 to $80m last year. The latter figure, which is expected to be repeated this year and could well grow once an interim government is in place, represented about 10% of all US development assistance to Africa in 1992. No other nation on the continent received more.

USAid is currently reviewing how its money should be spent in view of SA's changing circumstances. Cap Dean, the agency's Johannesburg-based mission director, is in Washington to discuss the matter. His recommendations, approved by ambassador Princeton Lyman, are contained in a strategy concept paper now circulating through the bureaucracy and which will, if accepted, form the basis of policy until an interim government is replaced under a new constitution.

As the document notes, USAid's SA programme has been unique in a couple of important ways. Elsewhere, the agency tends to work with host governments. In SA, it has been prohibited from doing so to the point where, until recently, it could not even channel funds to institutions such as the University of the Western Cape because they receive government finance.

Another unusual feature is the high proportion of grants and contracts awarded to indigenous SA organisations. Most USAid missions channel between two-thirds and three-quarters of their budgets through American contractors as a form of middle-class welfare. In SA's case, only about a third of the $251m the mission has been given to spend between 1986 and last year has gone to US entities.

These anomalies have been blessings. Regardless of how USAid dollars have been used by SA recipients, the bulk of the money has at least been spent in SA rather than on the overheads of the American development industry. Even more importantly, the funding has played a part in sustaining a thriving sector of non-governmental organisations (NGOs).

This has not been without controversy, of course. There can be no question that some NGOs have been favoured over others because of their political affiliations, exacerbating certain rivalries. And as the concept paper concedes (without giving details) "mistakes" have been made in the selection of recipients.

Yet such glitches are more than outweighed by the mere existence of thousands of private organisations, associations and community groups, which, with churches, civics, labour unions and other such entities, form the basis of a vibrant civil society. Inasmuch as USAid has supported this phenomenon — which finds scant parallel anywhere else on the continent — its contribution has been worthwhile.

The imminence of a transitional government raises the question whether the agency should make its SA programme more traditional and bilateral, and less reliant on NGOs. The paper resists this notion.

"Some political activists," it warns, "are ... outright sceptical about what the NGOs have to offer in a democratic SA. One underlying concern is that the NGO community, so vital in undermining the apartheid state, may also weaken a post-apartheid state, especially if it siphons off international funds or champions initiatives that run contrary to those proposed by a new government."

Such arguments, the paper says, should be rejected. Rather, NGOs must be defended as "efficient deliverers of needed services, effective voices for grassroots concerns, and an appropriate mechanism for helping to ensure accountability in any new government that emerges following elections".

SA "activists" are not the only ones who may find this troubling. It also stands a good chance of being attacked by the Congressional Black Caucus which tends to regard aid to Africa as a domestic affirmative action programme. Under the so-called Gray Amendment, a percentage of African assistance projects has to be set aside for African-American contractors.

As the paper makes clear, mission director Dean would prefer to use his budget to benefit black South Africans by funding their organisations directly, rather than through American minority contractors. "The mission will make a conscious effort to increase in both absolute and relative terms funding directed towards organisations which are more representative of SA's demographic reality."

The document outlines three "strategic objectives" to be used as criteria for funding decisions. They are worded in high bureaucratese, but this is what they seem to boil down to.

The first is to help ensure "the majority population participates more fully in the political development of a democratic, human rights-based SA". Under this heading, grants would be targeted on training more black lawyers and bureaucrats, preparing for elections and promoting "a strong network of indigenous NGOs, working outside government, articulating diverse concerns and mobilising individual communities".

The second objective is to support education reform. Funds would go to NGOs offering "innovative approaches to education" and to help promote "alternative policies" the new government might otherwise ignore. Direct grants to schools and universities would increasingly replace bursaries. And in a rare (but politically necessary) departure from the preference for the money to be spent in-country, "historically black" US colleges would be funded to establish "linkages" with their SA counterparts.

The third goal is "to increase broad-based black ownership, employment and participation at all levels of the economy". To this end, USAid would back more initiatives to increase black access to capital and business opportunities, subsidise research into regulatory and legal reform and help finance pilot housing schemes. The agency is also interested in providing loan guarantees to stimulate housing construction.

As something of an afterthought, the paper adds two further goals. The first is promoting a "culture of tolerance". NGOs offering mediation services or training in conflict resolution have been and will continue to be funded, as will efforts to "help communities cope with the losses they have suffered without resort to revenge attacks". The second is AIDS prevention, on which the mission now has $2m to $3m to spend annually.

In the overall scheme of things, USAid's contribution is a drop in the ocean. An unpublished paper prepared by David Bonbright for the Kagiso Trust last September estimated total voluntary contributions to welfare and development in SA in 1991 at more than $3,5bn. This is more than the entire GDP of Mozambique, Tanzania, Madagascar or Malawi.

The figure included $260m in direct funding from foreign governments, $185m in other foreign funds channelled through entities such as the Kagiso Trust, and $311m in corporate social investment. All of which was dwarfed by individual donations by South Africans themselves, which Bonbright put at a hefty $2,8bn.

SA's donors give billions — report

SIMON BARBER

WASHINGTON — Individual South Africans donated a remarkable $2,8bn to schools, churches and welfare-oriented organisations in 1991, according to figures contained in an internal US Agency for International Development (USAid) discussion paper.

Voluntary contributions in SA from all sources is now "on the order of $3,5bn annually" — a sum larger than the entire GDP of Mozambique, Tanzania, Malawi or Madagascar — the paper states.

It adds that the "voluntary sector" may represent nearly 5% of SA's GNP, double the US figure.

The USAid/SA Strategy Concept Paper was drawn up last March by Cap Dean, chief of the agency's SA mission, as part of a major review of Washington's $80m a year SA assistance programme.

The figures for voluntary donations were taken from an unpublished study prepared for the Kagiso Trust last September which examined welfare and development funding levels in SA in 1991.

Individual giving, at $2,8bn, dwarfed all other categories. The next largest was "corporate social responsibility", which generated $311m.

This was followed by direct foreign government funding at $260m and "independent local channels using foreign funds" — the Kagiso Trust, for example — at $185m.

The Independent Development Trust and other government-funded institutions accounted for another $185m, while corporate-created trusts and foundations contributed $15m. Examples of the last group include the Energos (formerly Mobil) Foundation, Coca-Cola's Equal Opportunity Foundation, Xerox's Human Resources Trust and Union Carbide's Hexagon Trust.

Other figures quoted in the USAid paper show the US-based foundations are also making significant SA grants.

In 1992, the WK Kellogg Foundation budgeted $6m, the Ford Foundation $5,4m, the Henry J Kaiser Foundation $3,3m and IBM SA Projects $3m.

According to the UN Development Programme, embassy-directed funding by North American and European governments reached its highest level in 1992 at $350m. Nearly half these funds went for education and training, with community development and human rights the next highest priorities.

USAid devoted 17% of its budget to private sector development, other donor governments only 1%.

The largest donor was the EC ($108m), followed by the US ($80m), Sweden ($57m), the UK ($27m), Germany ($18m), Denmark ($14m) and Italy ($12m).

Greater co-ordination was needed to ensure the money was more effectively used, the USAid paper said.

● See Page 10

Commercial paper market 'will take off with economy'

(49)(88)

BDM 18/5/93.

TIM MARSLAND

THE commercial paper market would take off once the economy began to show signs of recovery, Banks deputy registrar Christo Wiese said yesterday.

Wiese told an SPL Treasury Services conference the growth of the formal commercial paper (corporate debt) market was limited during 1992. This was because of the requirement that banks had to endorse the paper, as well as the recession which reduced the need for short term financing.

Commercial paper, which includes debentures, was formalised in January last year. In line with international practice, the commercial paper market is aimed at the short-term (but not overnight) financing needs of companies.

Wiese said these were companies that had "an excellant reputation and standing in the financial community".

SA Breweries and Iscor have already issued commercial paper and Telkom is looking at the market.

He said new guidelines on the paper issued earlier this year clearly differentiated, in terms of regulatory intensity, between the issue of commercial paper on a wholesale (issued by corporates with a net asset value of R100m or more in R1m units) or a retail basis (endorsed by bank or listed on an exchange).

The new rules also placed emphasis on proper disclosure.

Wiese said it would not be possible to lift the ruling that only corporates with an NAV of R100m be allowed to issue unendorsed paper. There would be certain exceptions to this rule, but he did not elaborate.

However, he confirmed that the Bank was looking into amendments to the regulations.

A money market dealer said the corporate borrowing market was slow at present because corporates did not want to commit themselves to capital expenditure.

Top companies had been cutting back on their borrowings due to uncertainty on SA's future.

Down with trade restrictions, economists tell government

South 15/5 - 19/5/93

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By Lynda Loxton

AS the South African market opens up to world trade, there is increasing pressure on government to clean up its trade policies, and on local industries to become more competitive.

This means government will have to reduce the number, and size, of tariffs on imports. Industries, for their part, will have to find ways of making things better than they have in the past. They will also have to keep costs down as much as possible so that they can offer their goods to world markets at prices equal to, or lower than, those of major competitors.

And that will be tough going for all concerned, local and international economists told the recent Idasa/Aspen Institute international trade conference.

The simple fact of the matter is that government has been using tariffs as a major means of earning revenue to keep the wheels of the apartheid government oiled. As it dismantles apartheid, it will have to open up the market if it wants to attract trade and investment, and switch its attention to earning revenue from increased exports.

Slow haste

But, by doing that, it will catch a lot of flak from industries which have been doing very well, thank you, from operating in a closed and protected environment. Lifting that protection, they argue, will cost jobs—as well as taxable profits—and the government had better "make haste slowly" on lifting tariffs.

Given already high unemployment, this is a persuasive argument, and many economists say that tariff reform will have to be gradual to give firms time to adjust. The first priority should be to reduce tariffs on items needed to make local producers more competitive, provide them with incentives to beef up production and become good exporters.

The main reason why many South African firms are uncompetitive is that it is costing most industries more than it should, using more staff, to make products which do not really match up to overseas standards — never mind regional markets where other exporters have a toe-hold.

This is not to say that South Africa should forget about manufacturing and stick to growing mealies and mining its dwindling reserves of gold. It can make some things very well and at very competitive prices. But it is making far too many things it should leave to others, while it could be making many other things much better.

So what's the problem? Years of sanctions, with not enough investment in new technology, research and development and skills training, have left many industries lumbering along with outdated plant and equipment, using inefficient production techniques and a relatively unproductive and unskilled labour force.

Just as damaging, Barlow Rand consultant Mr Paul Hatty told the conference, was the fact that these industries have for years been protected by tariffs from outside competition, which gave them no incentive to make things better or more cheaply.

The tariffs also meant that they have been penalised, if they use imported materials or machinery, by high import tariffs imposed either to protect local manufacturers or to keep a hold on the balance of payments.

ISP co-director Mr Raphael Kaplinsky told the conference that the close links between the major corporate shareholders — the Anglos and Rembrandts of this world — and their tendency to dominate their subsidiaries, contributed to the lack of competitiveness. Their executives were not given a free hand to improve competitiveness by investing profits in new technology or expansions.

But, because they dominated the market, they could charge more or less what they liked for their products, never mind the effects on smaller or independent firms in the market.

But perhaps most damaging was the effect of years of apartheid education coupled with the low level of corporate investment in staff skills training and research and development. This led, inevitably, to low productivity — and the fact that we have to employ four people to do the work of one German worker.

"The difficulty, of course, comes in where there appears to be a trade-off between competitiveness and employment," Trade Policy Monitoring Project director Alan Hirsch said.

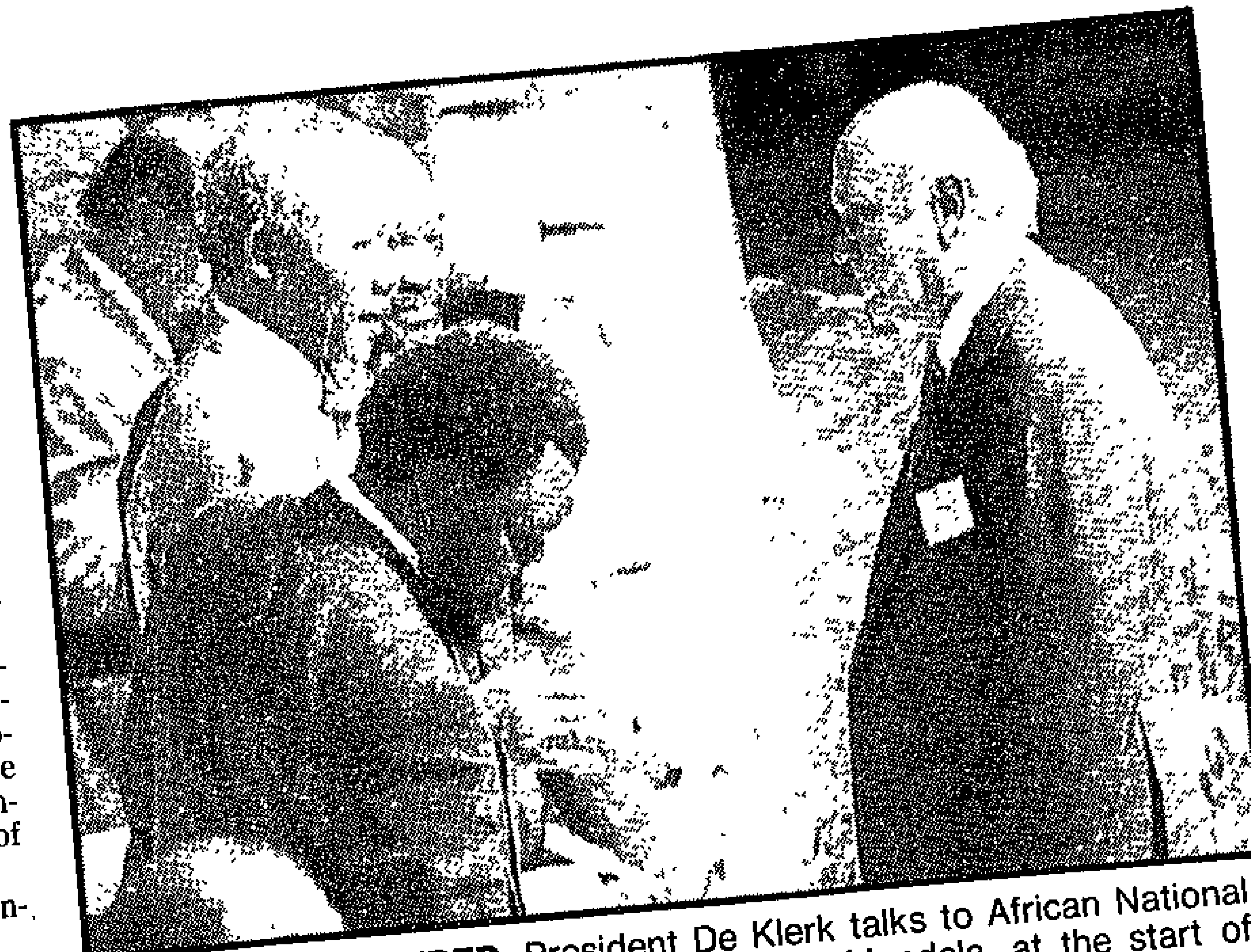
NEGOTIATIONS

Six years needed to put a major development plan in place for SA

ARGT 20/5/93 (49)

Arg. 20/5/93 (49)

American conflict resolution specialist Dr DON BECK has worked extensively in South Africa over more than a decade. He believes the country needs to use the next six years to put together a comprehensive development plan which would complement whatever is adopted in the constitutional field. Here he reflects on some of his theories.



MUCH TO BE DECIDED: President De Klerk talks to African National Congress delegates, headed by Mr Nelson Mandela, at the start of multi-party talks at the World Trade Centre.

SOUTH AFRICAN society is being challenged to invent itself, no less.

As the participants in multi-party negotiations are beginning to discover, to their bewilderment, everyone is right.

South Africa does need unitary features to save the state from fragmentation and to ensure coherent development programmes; it does need federal features to satisfy regional needs and particularities; it does need confederal features to protect natural and healthy ethnic cores.

It does need government intervention to rescue the historically dispossessed; it does need economic and political freedoms, without which the free enterprise ethic would be smothered and prosperity would be out of the question.

And so one could go on. The country is a bagful of paradoxes.

The negotiators have to somehow meet these needs and demands in whatever they design. Leave out one or more and the constitution will be inadequate, so badly flawed it is unlikely to survive.

A liberal, purely First World system could not possibly meet the legitimate needs of the Second, Third and even Fourth World sectors, which happen also to be the numerical majority.

Conversely, an authoritarian Second World system would drive away the wealth-generating First World sector.

It helps to consider the social forces at play. South Africa is in the throes of four separate social and political revolutions, which are also flowing across the rest of Africa and parts of Europe. What makes South Africa unique is that here they are present all at once — which accounts for the turbulence.

Revolution 1: Young minds struggle to escape restrictive tribal mores and rituals as they swarm into the urban bright lights. They demand "action" and action now. Having rejected the tribal rites of passage and control by their elders in the previous order, they seek unbridled freedom, power and pleasure.

Revolution 2: Millions are in a frantic search for redemption and meaning in life. It is offered by the ideology and discipline of "national liberation". Haunting songs fill the air and there is the hunger of the zealot for a total and cleansing transformation of society into a new and just order.

Revolution 3: Many are abandoning rigid ideology, authoritarian control and the conformity of the "volk". A spirit of independence and enterprise has been awakened in them and they strive to succeed in a market-driven world. They reject greater government, intervention or restrictions on individual rights.

Revolution 4: Having tested the good life and pervasive materialism, a class of guilt-based revolutionaries has emerged. These embrace often naive egalitarian schemes and maintain that they cannot be "free" until all are "free".

It is these revolutionary currents which create the turbulence of South Africa. They transcend racial, ethnic and even class categories. Each revolutionary surge has a "system" against which it struggles. Each has its own definition of "democracy", economic theory or "justice". And each from its particular perspective, is right.

The challenge to the negotiators is to perceive the whole, not just their particular interest, and to put in place something that serves the whole. South Africa's political leadership needs to design, construct and engineer a political dispensation which allows millions of people to move through the "revolutionary" phases mentioned without pulling down the entire structure.

Such a dispensation would have to contain all kinds of seemingly contradictory elements such as unitarism, federalism and confederalism. Government intervention would have to co-exist with a free market.

National developmental priorities have to be established — job creation, education, law and order, housing and community development — so that internal and external resources can be quickly meshed, synergised and committed at grass roots level.

South Africa would do well to use its year of joint executive government, and the five years of elected government of national unity which will follow, in addressing national developmental priorities, tailoring the eventual constitution to these needs.

While the classic liberal safeguards are welcome in any constitution, in South Africa's case they are unlikely to suffice.

There is no liberal consensus; the four revolutions are in spate and they have to be constructively channelled, all at the same time.

Six years is not a long time in terms of history. But it is long enough for human ingenuity to make a start.

● Bullion soars to 2-year high ● Profit-taking in New York

Star 20/5/98

Golden boost for economy

49

Tel

By Magnus Heystek
Personal Finance Editor

The economy received another golden boost when the bullion price soared to a 28-month high of $381,90 an ounce in London yesterday afternoon.

In one of its biggest one-day leaps in many years, bullion pole-vaulted over the $370 barrier and at one stage was trading around $384 on world markets.

When trading opened in New York yesterday, the metal retreated below $375, in what analysts said was profit-taking. It closed in New York at $373.70.

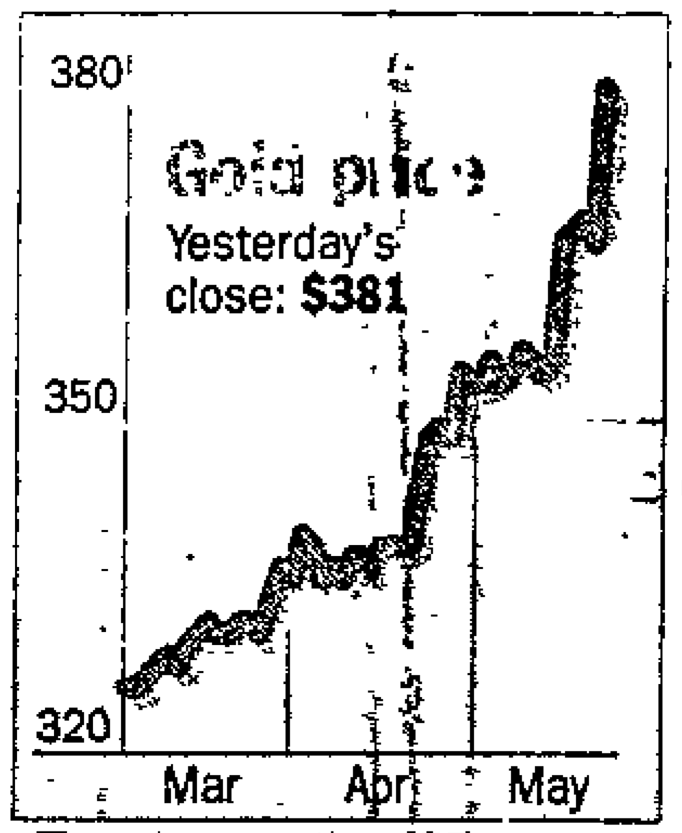
Overnight on Tuesday, there was heavy buying of the yellow metal from US-based investment funds in New York, followed by brisk buying from investors in the Far East and Australia.

No one is quite sure what is behind the latest surge in the gold price, but fears about higher interest rates and inflation in the United States now seem to be the driving force.

Yesterday's morning fix in London was $378,85 an ounce compared with Tuesday afternoon's fix of $367,80.

Gold has now risen about $50 an ounce since a seven-year low of $327 an ounce in November last year.

Every $10 increase in the price — if it can be sustained for a year — means an additional $200 million in foreign exchange earnings.



Tension on the JSE . . . gold closes at $381 in London, but retreats in New York.

If current levels can be maintained, it would mean a huge inflow of dollars into the country, which could be used to stimulate the depressed local economy.

The first direct benefit from the soaring gold price — apart from rising gold share values — will be higher values of gold reserves.

James Cross, general manager, gold and foreign exchange reserves, at the SA Reserve Bank, said yesterday that a higher gold price immediately translated into a re-evaluation of South Africa's gold reserves. Rising values were a healthy sign for foreign investors and bankers.

There was pandemonium on the Johannesburg Stock Exchange yesterday as the local investment market woke up to a soaring gold price.

Fortunes have been made in gold shares in the past six months. The all gold index has risen by more than 140 percent since its seven-year low of 736 reached on November 10 last year.

But this disguises the fact that the price of many marginal gold mining shares has soared by between 500 and 1 000 percent in less than six months.

But fortunes have also been lost. Stockbroker Stephen Bacher from Frankel Max Pollak regaled the misfortunes of an individual investor who lost more than R2 million by selling all her gold shares in February.

● In New York, the Dow Jones industrial average surged to a record high, while the broader market also soared in heavy trading, buoyed by lower interest rates as inflation fears abated. The Dow rose 55,64 points to 3500,03 — eclipsing the previous record of 3482,31 on May 12. It was the first time the average had closed above 3500.

duty mentioned in the applications are those requested by the applicants and that the Board may, depending on its findings, recommend lower or higher rates of duty.

Reduction in the duty on:

1. Phosphorus pentasulphide, classifiable under tariff subheading 2813.90.10, from a rate of duty of 10 per cent *ad valorem* to free.

[BTT Ref. T5/2/6/2/1 (930134)
(Mrs C. Grové)]

Applicant:

Karbochem, P.O. Box 98881, Sloane Park, 2152.

2. Pipettes of plastic, classifiable under tariff subheading 3926.90.90, from 30 per cent *ad valorem* to 20 per cent *ad valorem.*

[BTT Ref. T5/2/7/3/1 (930145)
(Mr J. Gelderblom)]

Applicant:

D. J. Wellard & Associates CC, P.O. Box 608, Fourways, 2055.

List 18/93 was published under General Notice 422 of 14 May 1993.

(21 May 1993)

van reg wat in die aansoeke genoem word, dié is wat deur die applikante aangevra is en dat die Raad, afhangende van sy bevindinge, hoër of laer skale van reg mag aanbeveel.

Verlaging van die reg op:

1. Fosforpentasulfied, indeelbaar by tariefsubpos 2813.90.10, van 'n skaal van reg van 10 persent *ad valorem* tot vry.

[RTH.-verw T5/2/6/2/1 (930134)
(Mev. C. Grové)]

Applikant:

Karbochem, Posbus 98881, Sloane Park, 2152.

2. Pipette van plastiek, indeelbaar by tariefsubpos 3926.90.90, van 30 persent *ad valorem* tot 20 persent *ad valorem.*

[RTH.-verw T5/2/7/3/1 (930145)
(Mnr. J. Gelderblom)]

Applikant:

D. J. Wellard & Genote BK, Posubs 608, Fourways, 2055.

Lys 18/93 is by Algemene Kennisgewing 422 van 14 Mei 1993.

(21 Mei 1993)

NOTICE 434 OF 1993

49

SOUTH AFRICAN RESERVE BANK

Statement of assets and liabilities on the 30th day of April 1993

	1993-04-30 R	1993-03-31 R	Change R
Liabilities			
Share capital	2 000 000	2 000 000	—
Reserve fund	109 769 458	93 325 065	16 444 393
Notes in circulation	11 951 536 179	12 255 402 648	(303 866 469)
Deposits:			
Government	8 387 708 330	4 752 824 658	3 634 883 672
Deposit-taking institutions	1 623 100 500	2 434 143 711	(811 043 211)
Other	72 461 297	73 303 576	(842 279)
Other liabilities	6 177 985 953	5 679 756 943	498 229 010
	28 324 561 717	**25 290 756 601**	**3 033 805 116**
Assets			
Gold	5 237 091 209	5 205 740 749	31 350 460
Foreign assets	2 793 578 811	2 273 980 739	519 598 072
Total gold and foreign assets	**8 030 670 020**	**7 479 721 488**	**550 948 532**
Domestic assets:			
Discounted bills	5 416 700 000	3 852 160 000	1 564 540 000
Loans and advances:			
Government	—	—	—
Other	1 603 729 730	1 559 402 031	44 327 699
Securities:			
Government	836 000 594	524 693 542	311 307 052
Other	1 122 985 045	525 885 045	597 100 000
Other assets	11 314 476 328	11 348 894 495	(34 418 167)
	28 324 561 717	**25 290 756 601**	**3 033 805 116**
Rand per fine ounce	R999,53	R953,03	R46,50
Gold holdings in fine ounces	5 239 554	5 462 305	(222 751)

C. J. SWANEPOEL,
General Manager.

Pretoria, 7 May 1993.

Congenial talks . . . US President Bill Clinton meets Archbishop Desmond Tutu in the Oval Office at the White House. Picture: AFP

Star 21/5/93

US offers economic boost

By Peter Fabricius
Star Bureau

WASHINGTON — President Bill Clinton has indicated that he would be ready to give South Africa an economic "kick-start" once a multiparty transitional executive authority had been installed — and this could happen by the end of this month.

Anglican Archbishop Desmond Tutu said this on Wednesday after a meeting with the American president.

Tutu said no "nitty-gritty" details were discussed. But Clinton had expressed willingness to help a transitional government get off to a good start, partly because, once the South African economy was running, it would be the engine driving the economy of southern Africa.

Tutu was confident that negotiations in South Africa were progressing so well that by the end of May he would be able to call on Clinton to lift remaining sanctions, especially those which prevent South African access to International Monetary Fund and World Bank facilities.

Investments

Tutu's conditions for calling for an end to sanctions are that the negotiating partners must set a date for the first democratic elections and establish a transitional executive authority that incorporates multiparty control of the security forces.

He said he would then also call for investments.

Tutu told a conference of the African American Institute on Wednesday that the affluent West was suffering from "donor fatigue".

The conference, devoted to an examination of the ways in which the US could aid Africa, is to be addressed by prominent Americans, including Secretary of State Warren Chrsitopher.

"Aid has made little difference to the lives of those who it was intended to help, finding its way far too frequently into the coffers of thoroughly corrupt and grossly inefficient ruling elites intent on a fast buck, of tinpot military dictators who have cared not one iota about human rights and civil liberties," Tutu said.

He said Africa should demilitarise as quickly as possible.

Discrimination is geographical as well as racial

Blom 21/5/93.

(49)

JOHN KANE-BERMAN

THE distorted distribution of income and state expenditure in SA is usually seen only as a black/white issue. The geographical dimension is usually overlooked.

There are discrepancies between the country's nine development regions, and the manner in which resources are to be shared out between them will have to receive attention in constitutional talks.

To take but a few examples (from Development Bank statistics):

□ Personal income a head in region G (northern Transvaal, including Lebowa, Gazankulu and Venda) was R725 in 1985 prices, but in region H (the PWV area) and in region A (western Cape) it was about six times that amount;

□ The unemployment rate in region E (KwaZulu/Natal) is twice the figure for region F (eastern Transvaal), and in region D (Transkei, Ciskei, and the eastern Cape) it is three times the region F figure;

□ Region E and region H each have a population of about 8,8-million, but the economy of region E is not much more than a third of the size of region H's.

The distribution of public sector personnel differs both racially and regionally.

For example, in Venda there was an average of 21 nurses for every 10 000 people in 1989, and in KaNgwane, 15 for 10 000 — both less than half the national average of 45.

Comparing "black Natal" with the rest of Natal, there were 17 nurses for 10 000 people in KwaZulu and 111 for every 10 000 outside KwaZulu.

Doctors are also unevenly spread. While in 1989 there was an average of six doctors for 10 000 people in the whole country (including all 10 homelands), this figure varied from one for every 10 000 in parts of Bophuthatswana to 13 for 10 000 in the western Cape. In "white" Natal there were 13 doctors for every 10 000 people, while KwaZulu had one doctor for every 10 000 people.

To address these and other distributional inequalities the state essentially has two choices. Either it will have to increase the number of nurses, doctors (and teachers) in poorer regions to bring them up to the levels in better off regions (which would increase the size and the cost of the public sector), or it will have to transfer people from one region to another. This would mean reducing the number of teachers, nurses and doctors in some areas, an option which would be unpopular both with areas of the country losing their services and with the transferred personnel.

If there are disparities between regions (which incorporate both homeland and non-homeland areas), there are also discrepancies between the former white-designated area and the homelands.

Many people are familiar with the ratio of four to one in state spending on white versus black education. But if one takes state spending on black education in the white-designated area and compares it with state spending on black education in KwaZulu, for example, there is a gap there, too, of two to one.

A study a few years ago showed that in Ciskei the infant mortality rate was three times what it was in Soweto. Other research disclosed that a third of metropolitan black households were living below a minimum living level of R700 a month. In the rural parts of the homelands, the figure was 84%.

Some people believe that finally getting rid of apartheid will yield a huge dividend. In the long term this may be true. In the short term it will make the average person poorer. Because the four independent homelands are poorer than the rest of the country, reincorporating them will reduce average national GDP a head. If getting rid of apartheid includes getting rid of discriminatory state spending (as it obviously must), the costs will be enormous.

Reintegrating the 10 homelands with the rest of the country will cost far more in equalising public spending than it will save in dismantling ethnic bureaucracies. It is well known that the state spends more on white people than on black. Less well known is that rural black people are the victims of double discrimination when it comes to state spending: once because they are black, and then again because they live in the homelands.

A Standard Bank study pointed out that R15bn was spent by government on the 14-million inhabitants of the 10 homelands in fiscal 1990/91, while R67bn was spent on the 22-million people living in the rest of the country — in per capita terms, nearly three times as much.

If public spending on people in the homelands had been on the same level as on people outside them, the cost would have been an extra R28bn on the 1990/91 national Budget. This is what it would have cost merely to bring homeland spending up to the level of non-homeland spending, without altering the racially discriminatory structure of such spending.

Far from the final disappearance of apartheid yielding a huge dividend, our experience is much more likely to be akin to that of Germany, where the old federal republic has found the cost of reincorporating East Germany to be much higher than expected.

This is not an argument against reintegrating the homelands with the rest of the country.

It is an argument for finding ways to meet the costs rather than carry on pretending that there will be some huge "post-apartheid" dividend, until we discover the hard way that it is a mirage.

□ **Kane-Berman is executive director of the SA Institute of Race Relations.**

Cape to host conferences

BDAY LINDA ENSOR 21/5/93

CAPE TOWN — Two high-powered international economic and financial conferences are scheduled to take place in the western Cape next week.

About 120 leading business executives and political leaders will attend the private sessions of the Southern Africa Forum, organised by the Geneva-based World Economic Forum. (49)

The conference will be opened by President F W de Klerk on Thursday and closed by ANC president Nelson Mandela on Friday.

Central and commercial bankers and central bank governors from throughout southern Africa will meet behind closed doors at a conference in Somerset West from Monday to Thursday.

The conference, sponsored jointly by Standard Bank, the Reserve Bank, the Industrial Development Corporation and the Financial Mail, is intended to facilitate trade in the region.

Bankers from Uganda, Tanzania, the Indian Ocean Islands, Madagascar, Mauritius, Kenya, Mozambique, Botswana, Malawi, Zimbabwe, Zambia and Angola are expected to attend.

SA delegates include representatives from the Reserve Bank, the ANC, Standard Bank, First National Bank, the Development Bank of Southern Africa and the Industrial Development Corporation.

ECONOMIC RECOVERY

Calling a turn

FM 21/5/93.

(49)

It seems as if the economy has at last passed its lower turning point. With the gold price proving surprisingly resilient and with tentative signs of recovery in the manufacturing sector, the longest recession in SA's history could well be over.

First-quarter figures from Central Statistical Service show real growth of 0,8%, after five consecutive quarters of decline — and the strongest rise in GDP since the 1% rise recorded in the third quarter of 1989. (Quarterly changes have been seasonally adjusted and annualised, as are all other quarterly changes discussed below.)

But some economists are hesitant to call a turn. The uptick in 1991 proved a false alarm (see page 36) and the economy remains vulnerable to political shocks which threaten to derail any incipient recovery. However, with inflation down from the 15% level recorded in the third quarter of 1991, the economy is better placed to sustain a recovery.

The deciding factor could well be the gold price. If it at least maintains its present level, it will make a substantial contribution to mining GDP, the level of foreign reserves will rise, and SA will have the resources to fund further consumption and investment.

With favourable economic news flooding in last week, an indicator that attracted little attention was the 0,3% first-quarter growth in activity in the manufacturing sector. The significance of this is that, apart from agriculture, it is the first sector to turn around.

Growth was recorded in:

- Mining (1,1%);
- Finance & real estate (0,7%); and
- Electricity & water (0,2%).

But these sectors have been comparatively resilient throughout the recession. Despite the depressed price of commodities, there have been seven consecutive quarters of growth in mining. The performance in the water & electricity sector has swung from positive to negative over quarters. Finance & real estate registered negative growth in only four quarters in the past 17.

Other sectors are still on the decline:

- Trade & catering (-2,7%) has experienced shrinkage in eight of the last nine quarters; and
- Construction (-7,9%) has been negative for 11 of the last 13 quarters. A lagging indicator, it will be some time before it begins to show growth.

The modest improvement in manufacturing is the first sign of growth in the sector for two years. It comes after eight consecutive quarterly declines, which ranged from -5,5% in the first quarter of 1991 to -1,2% in the last quarter of 1992, and after four years in which the sector has experienced only four quarters of growth. A low point was reached in the third quarter of 1989 when value added in the sector declined by 17,3%.

A breakdown of GDP will be available only next month, when the Reserve Bank publishes its *Quarterly Bulletin*. This will show whether there has been any revival of consumption spending.

The increase in manufacturing should be reflected in a rise in inventories — a development referred to by Finance Minister Derek Keys in a speech in parliament last month. This could reverse the declining trend in total inventories, which has been in place for five consecutive quarters and for eight of the last 12 quarters (figures are available only until the end of 1992).

It will be a while before investment spending recovers but the conditions to stimulate this much-needed boost to capital stock could well be in place.

- Sectoral growth is measured in factor incomes — which excludes taxes and includes subsidies. Total GDP growth at factor incomes amounted to 1,1%. This is higher than growth at market prices, a reversal of the pattern in 1991 when growth at market prices was 0,7% and at factor incomes 0,6%. This indicates that taxes have fallen less than subsidies or that subsidies have risen more than taxes. This is at least part of the explanation for the expansion of the Budget deficit in the 1992/1993 fiscal year. The pattern should reverse once again with the increase in Vat from 10% to 14% and the end of drought-related subsidies. ■

ECONOMIC FORECASTING
FM 21/5/93.

Bottoms up

(49)

Economic forecasters ~~have~~ had a long and frustrating wait for the turn of the economic cycle As long ago as 1991, the index of leading indicators predicted a recovery later that year. After an uptick in the third quarter this failed to materialise and economic activity shrunk even more sharply in 1992 than in any previous year. The decline in the economy was also tracked by the lead index instead of preceded by it.

In the third quarter of 1992, the coincident index once again took pre-emptive action (see graph). It rose between August and November, while the index of lead indicators was still bottoming out. (Later figures are available showing a subsequent downturn but they are subject to revision.)

That the leading indicators failed to predict the first quarter upturn — seasonally adjusted annualised growth of 0,8% at market prices — isn't surprising. It was due largely to a 53,9% rise in agricultural GDP, after a 64,1% decline in the previous quarter, following good summer rainfall.

The drought was one of the reasons the indicator called it wrong last time round,

FM 21/5/93. (49)

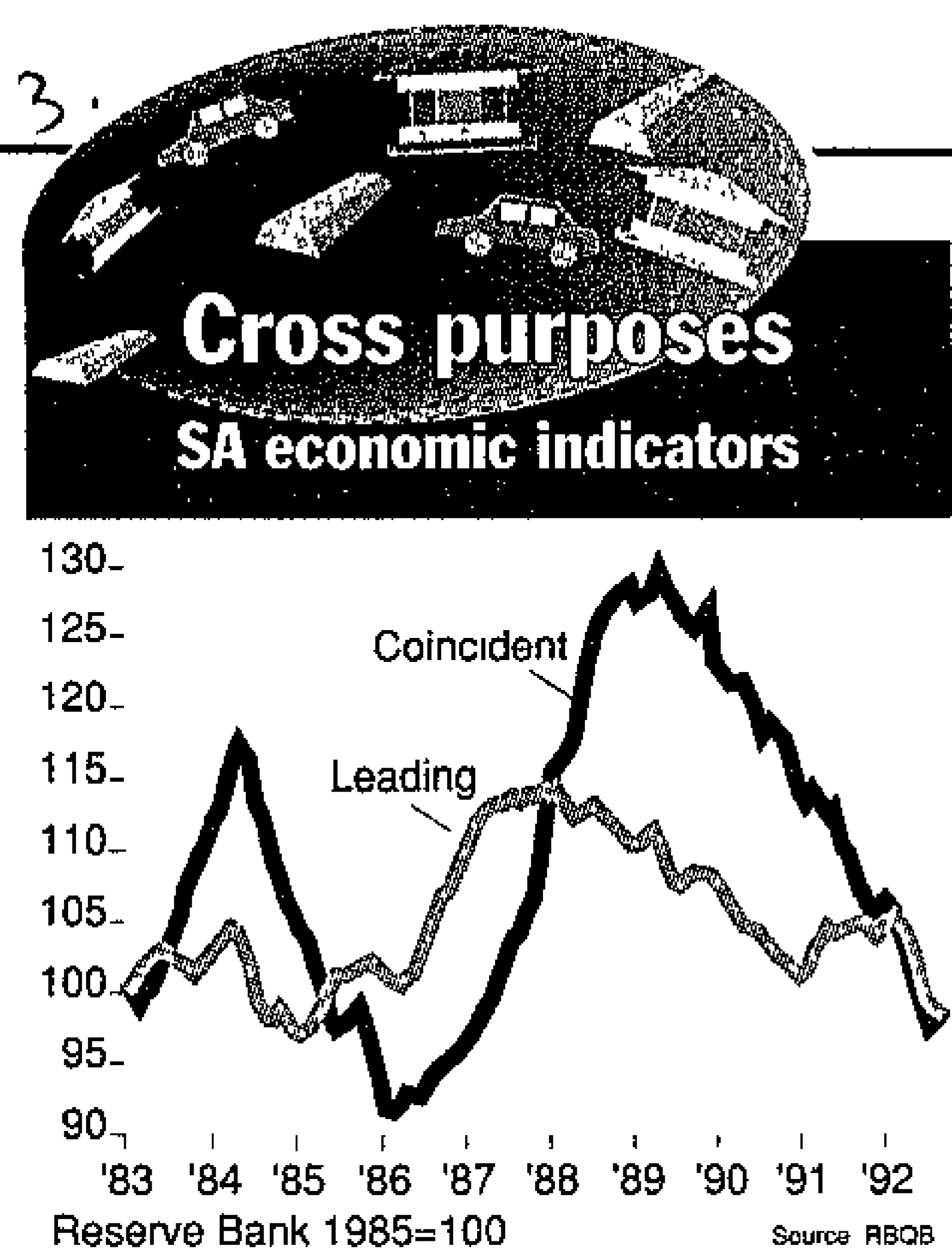
says Sankorp strategic research unit head Peet Strydom. The role of the drought can be seen from a comparison of GDP figures which include and exclude agriculture; the first shows a decline of 2%, in 1992, and the second a fall of only 1%. In the first quarter, if agriculture is stripped from the figure, there is a 0,5% decline in GDP.

The other reason he cites is the number of strikes.

Another factor responsible for the postponement of the recovery was the performance of the economies of the major industrialised countries. The failure of forecasting is not confined to SA. A recent edition of *The Economist* records that, in late 1991, the IMF forecast the industrial world would grow 2,8% in 1992. It actually grew by only 1,5%.

Now the disruption of the normal cycle has created a confusing picture, as is often the case after a long recession.

The index of leading indicators includes:
☐ Employment in mining;
☐ Capacity utilisation in durable goods manufacturing;
☐ Exports of steel products;
☐ New cars sold;
☐ Net new companies registered;
☐ Real estate transactions;
☐ Residential building plans passed;
☐ Share prices;
☐ Gold price;



☐ Changes in M1;
☐ Changes in discounts and advances by commercial banks;
☐ Net gold and foreign reserves; and
☐ TB tender rate.

The index of coinciding indicators includes:
☐ Non-agricultural employment in the private sector;
☐ GDP excluding agriculture;
☐ Physical volume of manufacturing production;
☐ Capacity utilisation in manufacturing;
☐ Retail sales;
☐ Vehicle sales;
☐ Merchandise imports; and
☐ Value of total building plans passed.

The boost in August-November to the coincident index came in two areas:
☐ Import growth with the monthly import bill ranging between R4,4bn and R5,4bn, before falling back to R3,8bn in December. This was due to drought-related maize imports rather than a revival of demand; and
☐ Motor car sales which jumped 9,2% in October and 10,2% in November — from the same months in the previous year

"Statistically, at least," says Strydom, "both indicators showed the economy poised for an upturn This was corroborated by volumes of industrial production which, though volatile, are generally increasing. The latest GDP figure is now final confirmation that the third quarter of 1992 marked the lower turning point of the recession. That we have passed this point is even more important than the rate of growth in the figures"

Meanwhile, the IMF has revised 1993 growth forecasts downwards for the major industrial economies — from 2,9% projected in October to 1,7%. This is due to the failure of the German and Japanese economies to perform as expected The IMF revised German growth in 1993 down from 2% to -2%; and in Japan from 3,8% to 1,3% ■

Curbing 'squander, squeal and squeeze'

49 ARG 22/5/93

There is little doubt thatt the economic sins of the fathers will be visited upon the sons in South Africa. But whether this will be for generations untold will depend upon whether the sins are repeated, writes **BRUCE CAMERON** of Weekend Argus Business Staff.

FOR years, South African taxpayers have suffered under the "squodge" economic theory common to a lot of African states of "squander, squeal and squeeze."

The economic theory allows policy makers and a select few in the private sector to live in the lap of luxury, voting themselves banana republic affluence while the masses are exploited and live in poverty.

In South Africa, the policy simply was to squander money on atomic bombs, wars, uneconomic nuclear power, dams in the middle of nowhere, gas to fuel conversion plants and a bloated and unproductive civil service.

Squeal came with the squanderers blaming everything from the world economy to the taxpayer for lack of growth, increasing umemployment and consequent social instability.

And no taxpayer needs to be told who squeezed whom.

Now the squanderers, realising the folly of their ways and seeing a very ill golden goose passing from control, are worrying whether the past 40 years won't be repeated as a new government moves to meet the demands of its constituency — the people they attempted to exclude from the economy.

From within the ranks of the squanderers and even in the private sector, which often benefitted from government largesse in military contracts among other things, there have been suggestions that a new constitution should include curbs on government spending.

Fortunately, the likes of Finance Minister Mr Derek Keys cannot abide the idea of attempting to place legal restraints on how money should be spent while the African National Congress itself talks of far greater controls in the framework of government spending than exist now.

Chief of the ANC economics department Mr Trevor Manuel wants, among other things, to see greater transparency in budgeting, publicly debated long-term planning and more performance auditing, including a Court of Audit.

He would also like to see appointments to positions such as auditor-general coming from outside the civil service. He was, for example, particularly critical of the appointment of Mr Henri Kluever, the former director-general of state expenditure, (the man who should be held partially responsible for excessive government spending and last year's record R28 billion deficit) being appointed auditor-general this year.

The point is that one cannot simply legislate that there should be no deficit. There are a hundred and one ways of creative accounting in which a deficit could be made to look like something else.

The same applies to laying down ratios for capital and consumption expenditure.

The National Party government, however, refined squodge economics beyond that seen in northern states by totally warping the free market system in South Africa while claiming to support it. The consequence has been to give free market economics, based on freedom of individual decision, a bad name.

Both the wastage and the undermining of the free market system has made it difficult to bring the economy into proper focus in the current debate.

But, as the political negotiations at the World Trade Centre in Kempton Park get more and more into the nitty-gritty, economics will play a greater role.

The South African Chamber of Business has been pushing hard — not so much looking for laws to restrict a new government in how it spends money but to lay down the broader principles of a free market economy.

The moves are met with suspicion from the opposite side particularly by those who still feel there is an argument for a centrally-planned economy.

Sacob director general Mr Raymond Parsons says people should learn from mistakes.

"We should concentrate on what is right. Not who is right. The fact that there has been a poor track record should be a salutory lesson."

Mr Parsons accepts a new constitution "cannot precribe an economic system or policy" but certain elements fundamental to a market economy and to business confidence had to be protected to get growth.

Certain rights had to be entrenched, particularly in a Bill of Rights, including:

- Ownership of property (including the right to due process of law and compensation in the case of expropriation);
- Employment of labour;
- Equal work opportunities, free choice of employment and fair renumeration and equal pay for equal work;
- Freedom of contract; and
- Freedom to form or join trade unions, or commercial, industrial or other associations with the concomitant right not to be compelled to join.

Forum in good hands

@49 ARGT 22/5/93

BRUCE CAMERON,
Business Staff

■ Heading the quest for development in the Western Cape is someone who would not have been considered a candidate a few years ago — an activist and a trade unionist.

EXPENSIVE-to-keep South African bureaucrats could learn a lot from the chairman of the Western Cape Economic Development Forum, Mr Adrian Sayers, who operates from a small office in a building in lower Observatory.

The building, with the unlikely name of Palace House, is anything but a palace, particularly when compared to the luxury suites of many public servants. And the comparative levels of dedication to the community is probably just as great.

Mr Sayers' dedication is unpretentiously obvious from the moment of meeting. He was not too happy about being given personal publicity and was distinctly uncomfortable being photographed.

But once he gets started on the need for developing the Western Cape and improving the lot of the underprivileged he is difficult stop.

He comes from a world barely known by many of the bureaucrats and businessmen with whom he now deals.

It is a world of student activism, black consciousness, the Unity Movement, the last of the Group Areas Act removals in the Western Cape, the development of trade unionism among blacks and police harassment.

But with it he brings a depth of experience respected by the members of the four contingents that make up the Forum, namely business, labour, community organisations and political and local government.

After graduating from the University of Cape Town with an honours degree in social sciences, Mr Sayers moved briefly into teaching before becoming a trade unionist, initially as an education officer.

In the unions he dealt with some of the problems the Forum now tackles and faced many of his co-members across the negotiating table.

Mr Sayers said the issues were different and he was not necessarily dealing with the same people in the Forum, but the experience he gained in negotiations and in dealing with various communities had provided a valuable base.

His first full-time job was in the SA Commercial Workers and Catering Union before moving to the SA Municipal Workers Union and on to the National Union of Metal Workers of South Africa, where as secretary of the Western Cape region he currently serves on the regional executive of Cosatu.

With the revolving chairmanship of the Forum, Mr Sayers is in charge for three months until the end of June. It is from the end of his tenure that he expects that the public will start seeing results from the deliberations of the Forum.

But he warns that it is also the time when the Forum could start experiencing its first real difficulties.

"There is a rough road ahead. This period has to be managed very carefully."

Areas of potential division are the increasing number of retrenchments, factory closures and even the proposed export processing zones. In these export zones the world labour experience has been that workers are exploited.

He feels creative ways have to be found to deal with these problems.

Mr Sayers said that as agreement was reached in different areas this would have to be publicised to get the reaction of the communities affected. Delivery systems would then be developed.

An example was housing where agreement would have to be reached on, among other things, administration and the identification of particular projects.

"There has never been an organisation in the Western Cape as inclusive as this Forum", he said.

The Government-sponsored regional development associations never had legitimacy as the greater community was never consulted about its formation and had little in the way of teeth.

The Forum "has a far greater capacity to carry through on decisions".

The biggest challenge was the creation of short-term employment to ease widespread unemployment and poverty.

But this would only provide short-term solutions. The Forum was also looking at long-term growth and restructuring in the region.

In the Western Cape's favour was the fact it was the only region in the country where there was still economic growth.

The Forum was looking at achieving greater investment, stimulating exports, tourism and industrial restructuring to improve longterm prospects.

He saw the Forum's urban restructuring commission as particularly important as it would address broader metropolitan development and the "critical issue of the sale of publically-owned land".

Mr Sayers said that it would be necessary to start with pilot projects in areas like housing and job creation to ensure proposals were acceptable and would work. There were already a few pilot schemes underway started by different groups from which the Forum could benefit.

Asked about the possibility of the Forum intervening to resolve problems such as the current education crisis, Mr Sayers said the Forum's ability was limited when it came to national problems.

The Forum had set itself limited objectives at a local and regional level.

The future of the Forum itself however would be determined by the political decisions reached at the World Trade Centre in Kempton Park.

In between his work as a trade unionist and on the Forum, Mr Sayers is also trying to complete a doctorate in economic history and has little time left for much else except meeting good friends occasionally and watching soccer every now and then.

On the future Mr Sayers says "I am an optimist. We have got a lot of problems to solve but the country has got the resources. The next five years will be critical in laying the foundations."

□ **ADRIAN SAYERS**: "There is a rough road ahead. This period has to be managed very carefully."

Are you a hoper or a doer?

How we think is the crux of the matter

C Press 23/5/93

(49)

THE future of the SA economy will largely be determined by people's way of thinking and not necessarily by events such as mass action and the recent spate of political violence.

This is the view of Ruth Tearle, a well known writer on strategic planning and managing director of a company that assists companies with their strategic planning.

She says it is understandable that businessmen are concerned about the violence and the potential problems that could be caused by the present generation of untrained youths.

However, they should not be obsessed by current difficulties but instead should concentrate on finding ways of exploiting potential challenges and opportunities over the long term.

With this end in mind, many South African businessmen will inevitably have to change their mental attitudes.

Tearle, whose book *Managing Transition* will soon be published worldwide, says the question is not necessarily what people are thinking about current events, but rather how they think.

That is, how they interpret events around them and how they make decisions. How people think will also determine how they will react to recent political events in SA, Tearle adds.

Some businessmen will be obsessed by political crises and will project them on the future, while others will look beyond the current unrest and instead study underlying long-term trends.

"Businessmen should bear in mind that the future will not be determined by one single event, but rather it will be the result of a sustained process.

"Therefore it would be unrealistic to expect that one single solution will suddenly be found for all SA's problems.

"The search for the solution for a better future is an ongoing process, in which one problem after the other should be solved, and which would also present new opportunities."

Tearle feels that thinking South African businessmen can be divided into two main groups.

The first group would consist of businessmen who are unable to look beyond the current uncertainty. In general they are the "hopeless" to whom the future appears very bleak at present.

Then there are the "contributors" who have formed for themselves a very clear picture of the future and who have set goals towards achieving their vision.

The latter group does not necessarily have a positive or negative view about the future, but has a thorough knowledge of underlying trends over the long term, which enables them to develop a realistic vision.

Tearle says the first group waits for the political leaders to produce a solution. They believe that change and economic growth are controlled by someone else. Their own planning is one of wait and see and they seldom think beyond the current year's budget.

The "contributors", on the other hand, accept that they can be successful in any environment as long as they understand the rules of the new environment. Consequently they spend much time on strategic planning in order to identify future trends that could affect their businesses over the medium to long term, and to determine the new opportunities presented by the changing circumstances.

"Unlike the first group who sits still and hopes that the world will change to adapt to their businesses, the contributors are prepared to adapt their businesses in such a way that they are able to exploit the new opportunities offered by the changing circumstances," she said

REAL money to grease political wheels

Citress 23/6/93 (49)

OPTIMISTIC ... Metpol chairman Nthato Motlana says economic empowerment is needed urgently.

Sankorp and Metropolitan Life pre-empted Anglo American, Southern Life and African Life by selling a big share in Metropolitan Life to the black community. The new chairman, Dr Nthato Motlana, sincerely hopes that it could lead to the creation of a "black Sanlam". Our Special Correspondent reports.

IT was in 1981 that a considerably younger Nthato Motlana, then president of the Civic Association in Soweto and chairman of the so-called Committee of Ten, wrote a contribution to the publication, *South Africa, a future perspective*, in which he expressed his views on a wide range of political issues.

He wrote about a future SA without racism: "I would like to consider the policy direction which that SA will follow to be a merger of capitalism and socialism. I accept that capitalism is an important incentive motive and that personal remuneration and achievements often improve the quality of work.

"To work day after day for an inattentive bureaucracy never brought out the best in people. Therefore, the element of personal achievement must always be accentuated.

"On the other hand we cannot afford that a laissez faire capitalism, of the kind which resulted in the rape of the US, become the norm for SA. Capitalism is important to the development of the natural resources of a country like SA, but it should not lead to exploitation."

Twelve years later the same Motlana leads an endeavour to empower black people economically on a scale probably never seen before in SA.

Last week's announcement that Sankorp, industrial investment division of Sanlam, had sold part of its interest in Metropolitan Life (Metpol) to the black community, caused many people to remember the Afrikaners' own economic history.

Although the Afrikaner have been in political control since 1948, they did not have the same economic influence and power as their English countrymen.

The latest developments are not a classical repetition of history, but it is ironic that the predominantly Afrikaans group, Sankorp, this time pre-empted the predominantly English Anglo American, its insurance arm, Southern Life, and the latter's subsidiary African Life in respect of economic empowerment. To crown it all, Motlana was a director of Southern Life and African Life until recently.

Apart from the fact that present Metpol chairman Willem Pretorius is being replaced by Motlana, Methold will have five directors on the Board of Metpol.

They are Dr Enos Mabuza, former chief minister of KwaNgwane; Dikgang Moseneke, a senior advocate and a former senior member of the PAC; Don Makwanazi, director of the Black Management Forum; Archie Nkonyeni, president of Nafcoc, and Franklin Sonn, rector of the Peninsula Technikon.

Attie du Plessis, who was recently appointed to Sancorp's board of directors, accentuates that the transaction has been based on sound business principles.

From the perspective of black empowerment there can be little doubt that an insurer would serve as a sound instrument.

Also, Metpol is not Sankorp's proverbial crumb falling from the table. On the contrary, last year it received Sankorp's award for the listed company with a market capitalisation of R1-billion or more within this empire which has added most value to its shareholders during the three years until September last year.

Since its listing in 1986, Metpol's profit increased from R9,3-million in that year to R58,5-billion in September last year.

But in the new dispensation the insistence on socially accepted investments will definitely grow. Metpol has a meaningful investment in Yabeng. About 11,5 percent of its property portfolio is in black areas.

Motlana says large insurers in SA tend to invest for whites. Some of them even invest overseas on a large scale. He thinks it is necessary that Metpol should become more involved in the black community, especially in housing investments.

It cannot be doubted that Metpol is a company where the views of black people on these matters will have to be taken into account. Eighty-five percent of policy income comes from blacks.

Motlana said black people have for 25 years cherished the ideal to obtain or to found an insurer. When he heard that Sanlam/Sankorp was a willing seller, he immediately grabbed the opportunity.

Foreign cash if ANC asks Clinton to return?

Citiz 23/6/93

WHEN Nelson Mandela and State President De Klerk visit the US in July the question of US sanctions and future availability of foreign capital is bound to be high on their list of priorities

They are to be presented with the prestigious Philadelphia Liberty Medal by US President Clinton on July 4.

. One of the most important of the remaining sanctions is the Gramm Amendment which entitles the US to veto any International Monetary Fund loans to SA.

It is expected that the US legislators will revoke the Gramm Amendment as soon as the ANC formally makes such a request to the Clinton administration.

There is no doubt that full membership of the IMF and access to its loan facilities will be most useful to our country – but make no mistake – the IMF is not a fairy godmother that gives away wealth.

In fact, it is an organisation that is resented in many African countries.

Some African leaders even accuse it of weakening their national sovereignty because of all the strings attached to aid.

They nevertheless remain very dependent on the IMF and other affiliated bodies of the World Bank for financial aid

Another very important point to bear in mind is that SA will not qualify automatically for IMF credits

At the moment we are experiencing a surplus in our physical trade with the rest of the world which will certainly cause raised eyebrows in Washington should we apply for loans.

However, this surplus is really the result of sanctions and the need for SA to continually repay old foreign loans

If we turn to the IMF for help to develop our economy there is little doubt that we will receive temporary assistance, although the very fact that we have access to the IMF will probably cause other lenders to be more amenable than at present

The key will be the state of our economy and national political stability. Nobody wants to lend to a country which finds itself in a virtual state of civil war.

As the ANC's Trevor Manuel puts it: "What we need is not really IMF money, but IMF approval of SA economics."

Star 24/5/93

ANC seen smoothing path to vital IMF aid

By Sven Lünsche

ANC assistance is crucial if the Reserve Bank is to avoid higher interest rates or a rand devaluation, says Davis Borkum Hare economist Jos Gerson.

Writing in the broker's Quarterly Strategy Review, Gerson says the authorities will have to take action in response to recent capital outflows, which accounted for R4 billion of the R7 billion lost in gold and forex reserves in the first quarter.

He says the temporary weakening of the dollar had recently improved the "leads and lags" situation so that the Reserve Bank was able to replenish the reserves in April.

But he warns that this respite may be transitory, particularly if the dollar recovers some of its momentum against the European currencies.

"Ultimately, the Reserve Bank faces the stark choice of having either to put up interest rates or permit depreciation of the real exchange rate or both.

"The former option would directly delay the recovery. The latter option would re-ignite inflationary pressures and, like an interest rate hike, would also suppress domestic demand, although it would have the advantage of promoting exports."

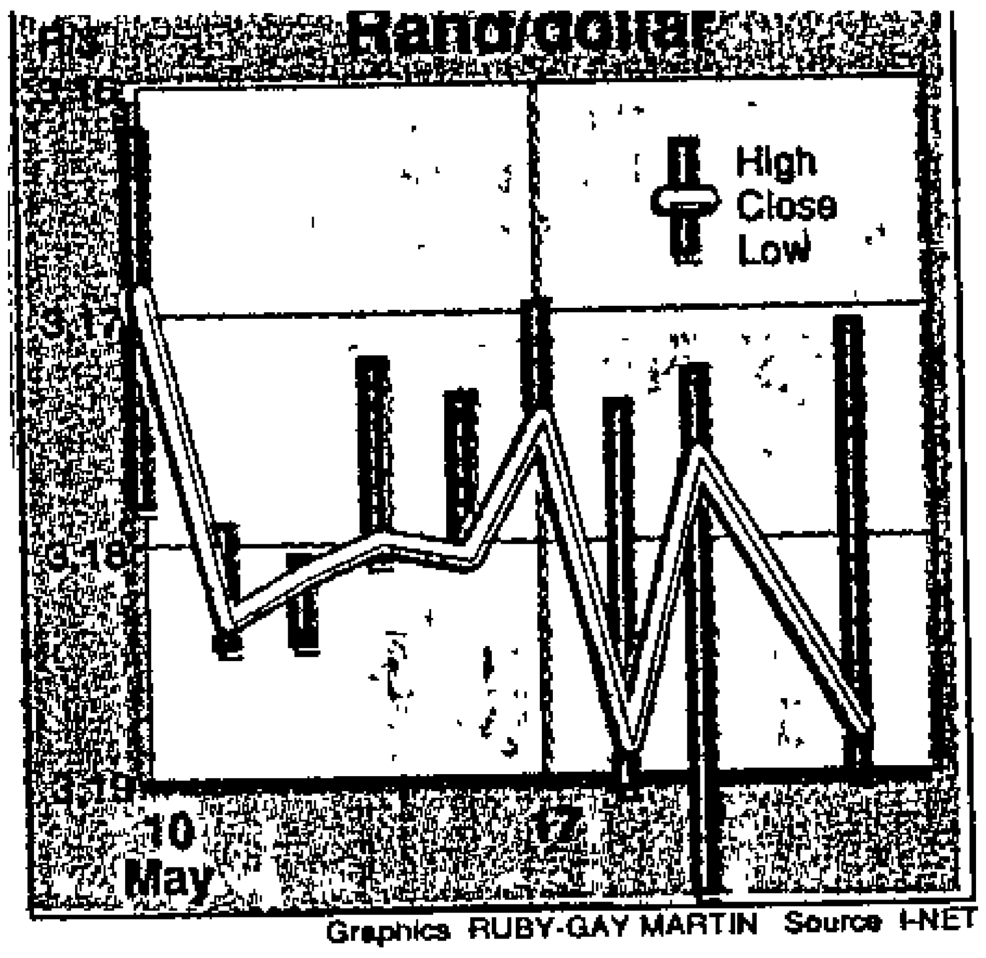
He says, however, that this stark choice could be avoided if the Reserve Bank had access to International Monetary Fund (IMF) facilities.

With the help of the ANC, Gerson expects the Bank could raise as much as R2 billion this year from the IMF.

"However, we have heard that the IMF disapproves of the high real exchange rate that is being maintained and may thus be expected to press for a more rapid depreciation of the rand."

Gerson forecasts, therefore, that the rand could depreciate further this year.

For the economy as a whole, he predicts marginal growth of 0,3 percent in gross domestic product this year and 2,2 percent growth in 1994.



Graphics RUBY-GAY MARTIN Source I-NET

The commercial rand eased slightly to close on Friday at 3,1900 from Wednesday's close of R3,1765. The financial rand ended slightly weaker at R4,65 from the previous close of R4,63 after firming earlier in the week on the back of a gold price surge.

Reserves still low despite gold price

B/Dry 24/5/93

TIM MARSLAND (49)

THE recent surge in the gold price had helped SA's reserves, but the level of these reserves remained low, Reserve Bank Governor Chris Stals said at the weekend.

"The increase in the gold price helps to reduce pressure on foreign reserves, but the level of the reserves is still very low after the total decline of about R6bn during the six months to end-March," he said.

Stals said the improved gold price had not affected negotiations regarding the debt standstill "which obviously must take a longer-term view".

Gold rose $4,60 in Hong Kong on Saturday, to close at $378,25. In New York on Friday it finished up $3,40 at $377,50, while in London it rose $1,35 to close at $74,65.

Asked whether the Bank's economic targets were back on track, Stals would only say: "Money supply growth has been satisfactory so far this year."

In a further move, government sold about R8,5bn of RSA debt stock during April, the first month of the financial year, figures from Nedcor chief economist Edward Osborn indicated.

The sales mean government has already raised about 30% of its funding requirement for the year, and will now have to sell just R2bn a month to fund the budgeted deficit of R30bn.

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Reserves

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Stals said these sales had reduced liquidity in the money market during April and had contributed to the daily shortages — which rose to all-time highs of more than R6bn at some points.

However, Stals said it was not Bank policy to put pressure on the money market. The Bank was responsible for just R2bn of those sales, while the rest were sold directly by the Treasury through the Public Investment Commissioners.

Money market dealers blamed the hike in short-term interest rates during April on the shortage. The 90-day bankers' acceptance rose to 11,85% to 12,20%, raising the cost of finance for corporate borrowers.

Finance deputy director-general Estian Calitz said it was difficult to say to what extent funding had been responsible for the high shortages. The department had taken advantage of opportunities to sell the debt in April.

Stals said the influence of government finances on interest rates depended not only on bond sales but also on the rate of government expenditure.

Pressure on money market interest rates in April were caused by the increase in government deposits with the Bank — a situation reversed in May.

Jacobs slams World Bank plan for SA

49

CT 25/5/93

From GRETA STEYN

JOHANNESBURG. — The World Bank's economic framework for SA came under fire from ~~Finance special adviser~~ Japie Jacobs yesterday, who argued the Bank's projections could not be realised because of the wrong approach to economic restructuring in SA.

Jacobs told a meeting of the Johannesburg Afrikaanse Sakekamer he questioned the Bank's apparent view that socio-economic restructuring should be the engine for economic growth.

The Bank's framework emphasised the demand-side, which was a fundamental difference to government's supply-side approach. While many in government agreed with the sentiments expressed in its latest analysis (still unpublished), it was not made clear how spending suggestions on housing, education, health and agriculture would be financed.

Jacobs objected to the view that a government deficit of 6% of GDP was acceptable and the Bank's statement that exchange rate policy had been aimed at protecting the mining houses.

The Bank's projection of 5% average growth for SA appeared impossible to attain because the Bank's approach was based on a major push for investment in socio-economic infrastructure.

In arriving at a growth rate the Bank had assumed a productivity rise of 2% which, Jacobs argued, was unlikely if the major investment push was in the socio-economic arena.

Jacobs placed the World Bank's framework in the same category as the ANC-aligned macroeconomic research group's model and rejected both for their over-emphasis on the demand-side. He was emphatic that public works programmes could not be countenanced as they would only provide a once off boost for the economy.

● The World Bank said yesterday it was ready to allocate $1bn in loans to SA once power is handed over to a representative government.

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(49) CT 25/5/93

Rand touted as single currency

By ARI JACOBSON

THE rand is being considered as a single currency for Southern Africa, say leading regional bankers who met for a high-powered conference in Somerset West this week.

The conference brought together, for the first time, finance ministers and central bankers from South Africa, Botswana, Kenya, Lesotho, Mozambique, Malawi, Uganda, Zambia and Zimbabwe.

Their discussions will include the possibility of a single currency and a regional market similar to the European Community's common market.

Commenting on the debate, South African Reserve Bank governor Dr Chris Stals, said that using the rand as a single common currency for the region could only come about if South Africa maintained a low inflation rate and a stable exchange rate.

"We must prove our success in these areas to play a role in the future development of the region."

Dr Stals said the rand would not necessarily strengthen from enjoying this status — but its stability would be ensured.

Botswana's central bank governor, Mr Christopher Hermans, said the rand would "obviously feature in the future of the region" but this was dependent "on the amount of trade and investments neighbouring countries have with South Africa".

Namibia, Lesotho and Swaziland's currencies are tied to the rand and most other neighbouring countries are linked to a basket of currencies, which includes the rand.

Spokesman for the central bank of Malawi Mr Gilbert Lengu said South Africa was the "strongest economy" in the region and would become "the locomotive for economic growth in Southern Africa".

Mr Lengu said that from this perspective it made sense for the rand to be the dominant currency.

Mozambique spokesman Mr Ernesto Gouveia Gove agreed the rand was likely to become the currency for the region.

World Bank's plan for SA panned

Star 25/5/93.

By Sven Lünsche (49)

The Department of Finance has criticised key aspects of a World Bank model for SA's economic restructuring.

The model is one of three being debated by the National Economic Forum (NEF) in an attempt to find a consensus among business, government and labour on a future economic strategy.

The other models are the Government's National Economic Model and a programme put forward by the ANC and Cosatu-aligned Merg group.

While the World Bank report has not yet been made public, the Department of Finance's special adviser, Dr Japie Jacobs, yesterday released selected details at a function of the Johannesburg Afrikaanse Sakekamer.

Jacobs said the World Bank promoted state spending in socio-economic areas, namely education, housing, health and infrastructure to spur a recovery.

He said the World Bank called for total public sector investment spending to be raised by nine percent of gross domestic product (GDP) over five years, while state capital expenditure should be boosted from the present 3,4 percent to 8,8 percent of GDP.

For example, the World Bank called for an annual R6 billion to R8 billion to be devoted to spending on water, sanitation and electricity projects over the next five years.

Jacobs was critical of the programme, which he described as a bottoms-up approach because it took little cognisance of the spending constraints on the fiscus.

"The World Bank says that five percent economic growth could be achieved over a five-year period through a two percent rise in productivity — this is unlikely if investment is focused on socio-economic projects," he said.

Jacobs also rejected the idea of a public works programmes to alleviate the unemployment problem, as it would only provide short-term relief.

He felt, however, that consensus was emerging in the NEF on a number of issues, including the need to maintain a tight anti-inflationary monetary policy.

High fiscal borrowing confuses money markets

Star 25/5/93

Finance Staff

The Reserve Bank and the Department of Finance have been criticised for sending mixed signals to the financial markets, causing uncertainty about interest rates.

Over the past three weeks the money market, which is the prime indicator for interest rate directions, has fluctuated wildly, causing confusion in the markets.

The prime cause seems to have been a miscalculation in the Department of Finance, which took more than was needed out of the system in April, borrowing R8,5 billion for the month.

This amounted to one-third of total budgeted borrowing requirements of the government for the 1993/4 fiscal year.

The Department of Finance activity pushed the money market shortage to a year high of R6,3 bilion at the end of April, placing upward pressure on interest rates.

(49)

System

But the department started putting money back into the system and by last week the shortage had recovered to R2,8 billion, relieving the pressure.

In line with the dwindling shortage short-term interest rates have declined over the past few weeks. The Bankers Acceptance rate closed on Friday at 12,05 percent compared with levels of about 12,5 percent early last month.

A Finance spokesman confirmed that the department had borrowed "somewhat more than it needed".

Nedbank chief economist Edward Osborn said there was confusion in the markets about what had been intended by the sudden shortage and recovery.

However, the excess borrowing might come in handy in future if tax revenues fail to recover markedly from their lows of the first four months of this year.

In April, the first month of the 1993/4 fiscal year the take was 1,3 percent below the corresponding revenue in April last year, while spending was up by an annual 10,7 percent.

The budgeted targets for 1993/4 were a 16,5 percent rise in income and a 8,8 percent increase in expenditure.

April's deficit before borrowing at R5,3 billion was thus well ahead of budgeted figures and already accounted for 16,6 percent of the total targeted deficit of R32,2 billion for 1993/4.

If this trend is maintained the Department of Finance will have no option but to once again tap the market to fund excessive spending.

World Bank model 'faulty'

49 886

GRETA STEYN

THE World Bank's economic framework for SA came under fire from Finance special adviser Japie Jacobs yesterday, who argued the bank's projections could not be realised because of the wrong approach to economic restructuring in SA.

Jacobs told a Johannesburg Afrikaanse Sakekamer meeting that he questioned the bank's apparent view that socioeconomic restructuring should be the engine for economic growth. The bank's framework emphasised the demand side, which was a fundamental difference to government's supply-side approach. While many in government agreed with the sentiments expressed in its latest analysis (still unpublished), it was not clear how spending suggestions on housing, education, health, agriculture and other infrastructure would be financed.

Bday 25/5/93

Jacobs objected to the view that a government deficit of 6% of GDP was acceptable and the bank's statement that exchange rate policy had been aimed at protecting the mining houses.

The bank's projection of 5% average growth for SA appeared impossible to attain because the bank's approach was based on a major push for investment in socioeconomic infrastructure.

In arriving at a growth rate, the bank had assumed a productivity rise of 2% which, Jacobs argued, was unlikely if the major investment push was in the socioeconomic arena. Productivity of social investment was unlikely to raise overall productivity growth by 2% and hence lift the growth rate to 5%, Jacobs said.

He described the bank's approach as "working from the bottom upwards" and said the macroeconomic viewpoint had been neglected. As an example, he quoted

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World Bank

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the bank's view that R6bn-R10bn would be needed for investment in social infrastructure (excluding housing) — but it was not made clear how this would be financed.

Jacobs placed the World Bank's framework in the same category as the ANC-aligned macroeconomic research group's model, and rejected both for their overemphasis on the demand side. He was emphatic that public works programmes could not be countenanced as they would provide only a once off boost for the economy. While government accepted the need for wealth redistribution, the main aim should be to achieve this through small business and training.

The economic debate was at present focused on three key areas, of which the most important was the labour market.

The other areas were the role of government and competition policy.

Forex control changes in pipeline — Stals

(49) CT 26/5/93

By ARI JACOBSON

MAJOR changes to foreign exchange controls are a possibility within the next year, according to SA Reserve Bank governor Dr Chris Stals yesterday.

And Minister of Finance Derek Keys says in the same period the economic model for the country will be shaped and ready for implementation "to suit the majority".

Both were speakers yesterday at the Financial Mail bank conference for Southern Africa's leading bankers, which is being held this week in Somerset West.

However, Stals, the keynote speaker, cautioned that SA's consumer price inflation would show a significant rise for the year to April, to around 12%, but underlying growth remained below 10%.

Discussing SA's debt standstill, Stals explained that negotiating a better deal on SA's debt-standstill was "one-third of the foreign exchange problem".

The rest of the problem, with loosening exchange controls, constituted the social and political dilemmas in South Africa.

Zimbabwe central bank's governor Kombo Moyane, speaking from the floor, said that a solution was to allow the channelling of local funds into neighbouring regions.

Stals argued that this would be a "distortion at a time when non-resident funds were being blocked from leaving the country".

In an interview afterwards, Stals said: "First we must undo financial controls applicable to non-residents. From there it is a good idea to allow funds to be channelled into regional investments".

He was hopeful that this could take place within the next 12 months.

Keys, speaking over lunch, said that the region "would be far more interesting to the world together than apart".

But he warned that problems on a national level were already "overwhelming".

"In August we hope to have a economic model that suits the majority of SA citizens," he said.

Keys said that from there, programmes would be devised for specific areas such as fiscal discipline and productivity as well as for certain industries like clothing, textiles and electronics."

"By the time the interim government is in place (possibly next March) the economic agenda will be ready."

"I see myself as the Minister of Finance of the pre-interim government."

● While official consumer price statistics for April are expected to be released later this week, Sanlam's chief economist Johan Louw, in his economic review released yesterday, echoed Stals' view, maintaining year-on-year inflation could shoot up to 12% for April and average 11% for the year as a whole.

Capital outflows cancel trade gains

From GRETA STEYN

JOHANNESBURG. — SA experienced a heavy capital outflow in the first four months of this year, obliterating the gains of a steady foreign trade performance and forcing the Reserve Bank into a cautious stance on monetary policy.

Economists estimated the outflow on the capital account of the balance of payments (BoP) at R2,5bn-R5bn in the period January to April. There was no let-up in the pressure since outflows started picking up in the last quarter of last year, when a R3,7bn outflow took the total outflow for the year to R6,5bn.

AHI economist Nick Barnardt noted that the steady trade performance for the year suggested that the decline in the country's foreign exchange reserves was the result of a drain on the capital account of the BoP, rather than a weak current account performance.

The current account — the trade surplus less net payments for invisible trade — was about R2bn in the first four months of the year (based on a trade surplus of about R6bn). In spite of the current account surplus, the country's gross gold and foreign exchange reserves had fallen by an estimated R1bn.

While other factors such as valuation and short-term central bank credit to shore up gross reserves could not be estimated with certainty, it was evident the capital outflow in the first four months ran into a few billion rands and could even be as high as R5bn.

Nedbank chief economist Edward Osborn said: "The capital account is the crux of our difficulties this year. Without a surge in the gold price, the BoP requires a delicate balancing act that leaves the authorities with little room to manoeuvre."

He said the Bank could not gamble on the gold price.

According to Osborne's figures, about $535m in foreign debt fell due in the first quarter, followed by a further $410m in the present quarter. As the political situation had made rollovers unlikely, this probably accounted for a large portion of the capital outflow. However, other economists noted outflows of short-term capital had also placed huge pressure on the reserves and could exceed the debt repayments.

Golds close off early lows

CT 26/5/93

JOHANNESBURG. — Gold shares came off early lows by the close as the gold price staged a late recovery.

But dealers said the gold price would have to move above recent levels before staging another major rally on the share market, although foreign investors continued to be net buyers of local counters.

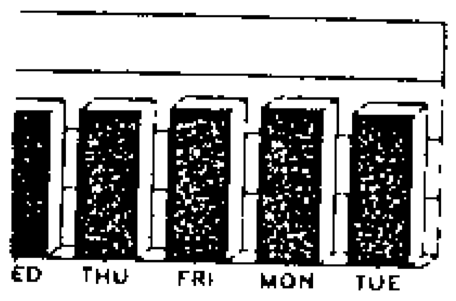
The Gold Index, which hit an earlier 1 834 low, was 29 points off at the close at 1 856. The Industrial Index was eight points down at 4 518 and the Overall Index was 22 points softer at 4 010.

● **New York comex gold** closed higher.

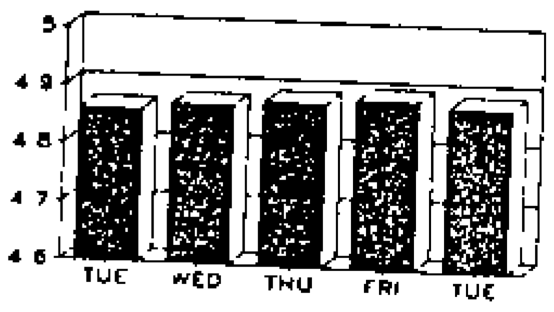
June delivery ended $4,50 higher at $378,70 an ounce. Analysts said the market was given a boost by the weaker dollar, which hit a new all-time low against the yen.

● **Coronation Syndicate** said it has established a subsidiary, Coronation Asset Management (Pty) Ltd, which it intends to develop as an investment manager to pension funds and institutional portfolios. Shareholders were advised to exercise caution in trading.

● **Rand Mines Properties** said it is closing its UK office and ending the listing of its shares on the London Stock Exchange on May 31. — Reuter ollar/Rand



Pound/Rand



Star/FNB Investors Club

THE next meeting of the Star/FNB Investors Club, which takes place on Thursday June 17 at the Sandton Holiday Inn, will focus on the Johannesburg Stock Exchange and stock market investments.

Do you want to find out what the prospects for the JSE are, how the stock market works and how you can invest on the JSE? Then this seminar is for you.

Booking is essential. To book please call Cordev Marketing on (011) 483-3214 during office hours. Club members pay R15 while non-members pay R30.

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Keys seeks wider union for customs

Star 2/6/93

By Bruce Cameron

CAPE TOWN — Finance Minister Derek Keys is set to renegotiate the Customs Union to enable membership to be spread to a wider range of countries in the region.

In a speech to a conference at Somerset West of bankers from 12 countries in the southern African region, Keys said he hoped to redefine the benefits of the union, which were lopsided against SA.

Allocations to Botswana, Lesotho and Swaziland as well as the four independent homelands were large in relation to what they contributed. With the imbalance it would be impossible to bring in new members.

"Clearly we have to sit down and see if we can come to a definition of a larger customs union.

Keys said South Africa was also preparing for new relationships with the the IMF and World Bank, as well as the European Community.

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Consensus

These organisations were insisting on political consensus before new relations could be finalised. This would be possible within six weeks of the formation of the Transitional Executive Council (TEC).

Keys said he was keen to see negotiations with the EC start as soon as possible. But SA would not seek entry into the Lome Agreement, which gives developing countries access to the EC.

Turning to domestic policies, Keys said the normative economic model, published earlier in the year for revitalising the economy, would be taken to its next stage by August.

The plan would also form part of the agenda of a finance subcouncil of the TEC which should be established soon.

Arrival of Syfrets investment team adds R24-m to Corsyn

Star 26/5/93

By Derek Tommey

The news that Syfrets's top investment team is to join investment company Coronation Syndicate (Corsyn) has boosted the value of Corsyn shares by R24 million to R75 million.

In the process, it has increased the value of the Corsyn shares held by controlling shareholder David Barnes by about R12 million to R40 million.

Acording to latest reports, Barnes holds 52 percent of Corsyn's shares.

Since Monday, when the news about the team was announced, Corsyn's shares have risen 250c to 800c.

Barnes is not the only person to benefit; the holdings of Gavan Ryan, who has a 26 percent stake, have risen by about R3 million to R20 million.

Barnes has become a wealthy man in an extremely short time.

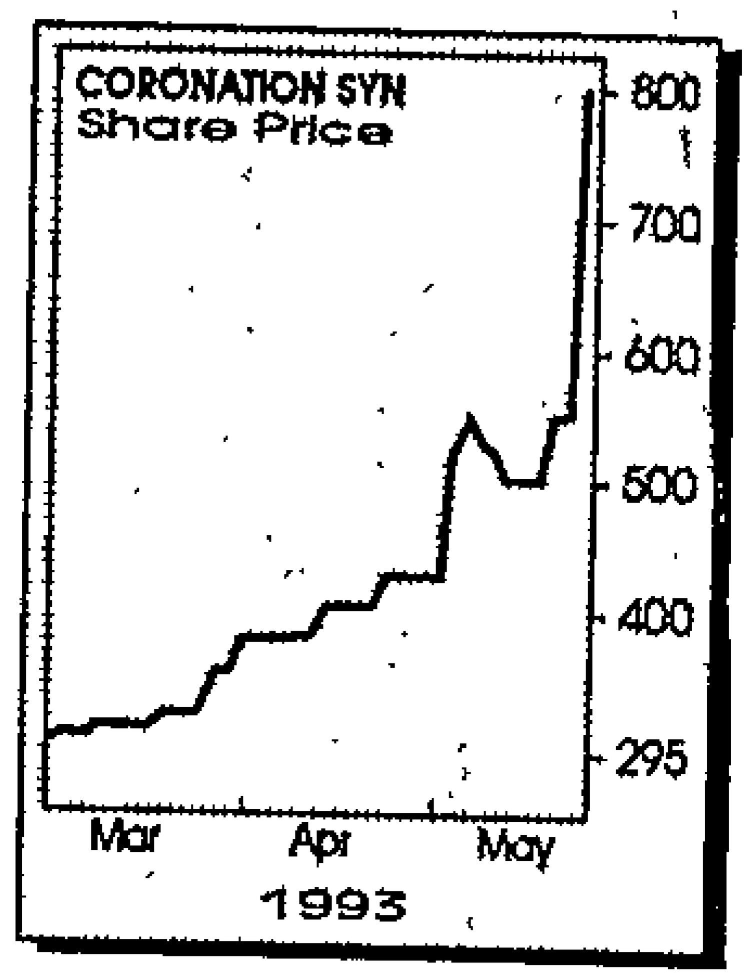
Last September, a syndicate of Barnes, Ryan and UAL obtained control of Corsyn by buying 3,96 million shares from the controlling shareholders for 105,3c a share, or R4,17 million.

Corsyn then acquired Barnes's Securities Development & Trading (SDT) for R3,6 million in exchange for 3,46 million new shares, also at 105,3c a share.

The 7,4 million shares acquired by the consortium at a cost of R7,8 million were equally divided among UAL, Barnes and Ryan. Subsequently, UAL sold its shares to Barnes.

This outlay of R7,8 million has now grown to R60 million.

It is clear that the prospect of getting shares in Corsyn and achieving returns similar to those enjoyed by Barnes and Ryan must have been a major factor in inducing Syfrets's top



team to join Corsyn, say observers.

Some people believe Syfrets should have done a deal with the six in order to keep them.

But bankers say no major organisation could ever reward its employees the way Corsyn might.

This is not to say that major organisations are not handsome payers. Barnes worked for UAL for 10 years, spending most of his time running its bond department and becoming a multi-millionaire in the process says one source.

But Barnes wanted more than this and left UAL in 1990 to start SDT.

Ryan was an executive director of UAL until he joined Corsyn — highlighting how strong is the lure of equity. Some people have questioned whether the acquisition of six new employees justified a R24 million jump in Corsyn's market value.

But with other companies in the same business standing on earnings yields of 6 percent, the six need only increase Corsyn's earnings by R3,6 million before tax to justify such a share price increase.

Economy needs $3-bn a year to make a recovery

Star 26/5/93

By Sven Lünsche

South Africa will require about $3 billion in foreign investment and loans a year if the economy is to show a substantial recovery, US ambassador to SA Princeton Lyman said yesterday.

A large portion of this amount could be derived from the huge resources of US financial institutions currently barred from investing in SA, he told a meeting of the American Chamber of Commerce.

He said the onus would be on the ANC to convince the US's large pension and private funds to move into a post-Apartheid SA.

Lyman cited the example of the California State pension fund, whose funds total almost $100 billion, but which has actively promoted sanctions against SA and companies investing in the country.

SA also needed to develop financial instruments aimed at luring the huge resources of these investors, particularly in areas of infrastructural developments benefiting the poorer communities.

A start had been made with the recently formed Electricity Participation Notes, which are aimed at funding Eskom's electrification programme.

"Other securities could finance housing projects in townships and rural areas, as well as small business sector programmes," Lyman said.

Princeton Lyman . . . "Onus is on the ANC"

(49)

He stressed that political leaders should also embark on an active campaign for the repeal of sanctions once a transitional executive council had been formed and an election date set.

(2351)

"You cannot afford to go through the Namibian experience, where some US states and municipalities four years after independence still upheld sanctions against the country."

Lyman said other sources of loans to this country included the World Bank and the African Development Bank, who combined could contribute about $1 billion a year in funds for development projects.

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UN report puts SA on top in Africa

Star 26/5/93

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By Mike Littlejohn

NEW YORK — South Africa leads all countries on the African mainland in human development, according to a new United Nations report.

The republic, which is listed as a developing country in the economic context, ranks 85th in a human-development index, just behind Saudi Arabia and just ahead of Sri Lanka.

With the world's highest longevity and high per capita income, Japan again ranks top in this annual index, prepared by the UN Development Programme.

South Africa is listed among a group of states with "medium" human development, which includes Botswana, China, Cuba, Iraq and South Korea. Seychelles is the only state in South Africa's region to be ranked ahead of the republic, at 63.

Mahbub ul Haq, a former Finance Minister of Pakistan, led the team that prepared the report. Because of objections by several states to a "freedom index" that appeared in past reports, this was dropped from the latest one.

The difficulties arising from the preparation of a document of this scope and magnitude are apparent in the fact that while being ranked one ahead of South Africa, Saudi Arabia has been accused of violations of human rights, including slavery. Saudi women are still not allowed to drive cars. Yet the country has escaped the opprobrium that South Africa has borne at the UN for years.

A box of information in the report about blacks in South Africa says they "continue to live in a world apart" as the white 5 percent of the population owns 88 percent of all private property.

"Half the population, mostly black, lives below the poverty line," it is stated. "Many poor black children are being stunted by malnutrition .... One third of the black population over 15 (some three million people) is illiterate."

The report says three-quarters of black teachers are either unqualified or underqualified, so the education system "perpetuates a vicious circle of deprivation and discrimination".

It's time to tap the tail of the Tiger. . .

(49) CT 26/5/93

By AUDREY D'ANGELO
Business Editor

THE rand will continue to depreciate — possibly by as much as 20% if populist economic theories are followed — Peter Trengove Jones, a Cape Town partner in stockbroking firm Simpson McKie, warned yesterday.

Investment portfolios should be chosen with this in mind. The bias should shift away from financial and industrial blue chip shares.

More weight should be given to resource-based shares, Rand hedge shares with assets overseas "deserve over-weighting by virtue of their 'insurance' value and marketability."

Trengove Jones was speaking at a lunch organised by the UCT Graduate School of Business Association at a city hotel.

He said that since 1960 there had been only two three-year periods in which the share market did not outperform cash and gilts. These were "in the first hysteria" in the late 1960's after Sharpeville, and in 1990-1992.

"As medium-term investors we have to think seriously what will be pencilled in for the years from 1993-95."

This would depend on where the SA economy was headed. There were three choices.

The economy could "muddle along — much as it is doing now" with no real restructuring, no surge in productivity, no inflow of foreign capital and any growth due mainly to consumption.

But current trends would not be sustainable when the upswing came. Pressure on the balance of payments (BoP) would force economic restructuring.

"The BoP will have to be supported either by an inflow of capital or by depreciating currency. The economy will remain unstable, punctuated by recurring crises."

The "most virtuous road" would be the Tiger scenario, emulating the success stories of the Far East.

"I am not suggesting that this would be easy, or even necessarily possible," said Trengove Jones. "It would require some good luck.

"But the gold price rise translates into lots of good luck."

The "Tiger" scenario would require continuing fiscal and monetary discipline, continued international growth and contained inflation.

The temptation to have a "bonanza" on the proceeds of higher prices from resource exports would have to be resisted, because it would be followed by disaster.

Consumption growth would have to be restrained, although it would have to be sufficient to keep the population content.

Foreign capital inflows would be essential if exchange rate depreciation were to be contained.

This would mean doing away with exchange control, which he expected to happen within two years.

The financial rand was useful for keeping money in the country but it limited foreign investment.

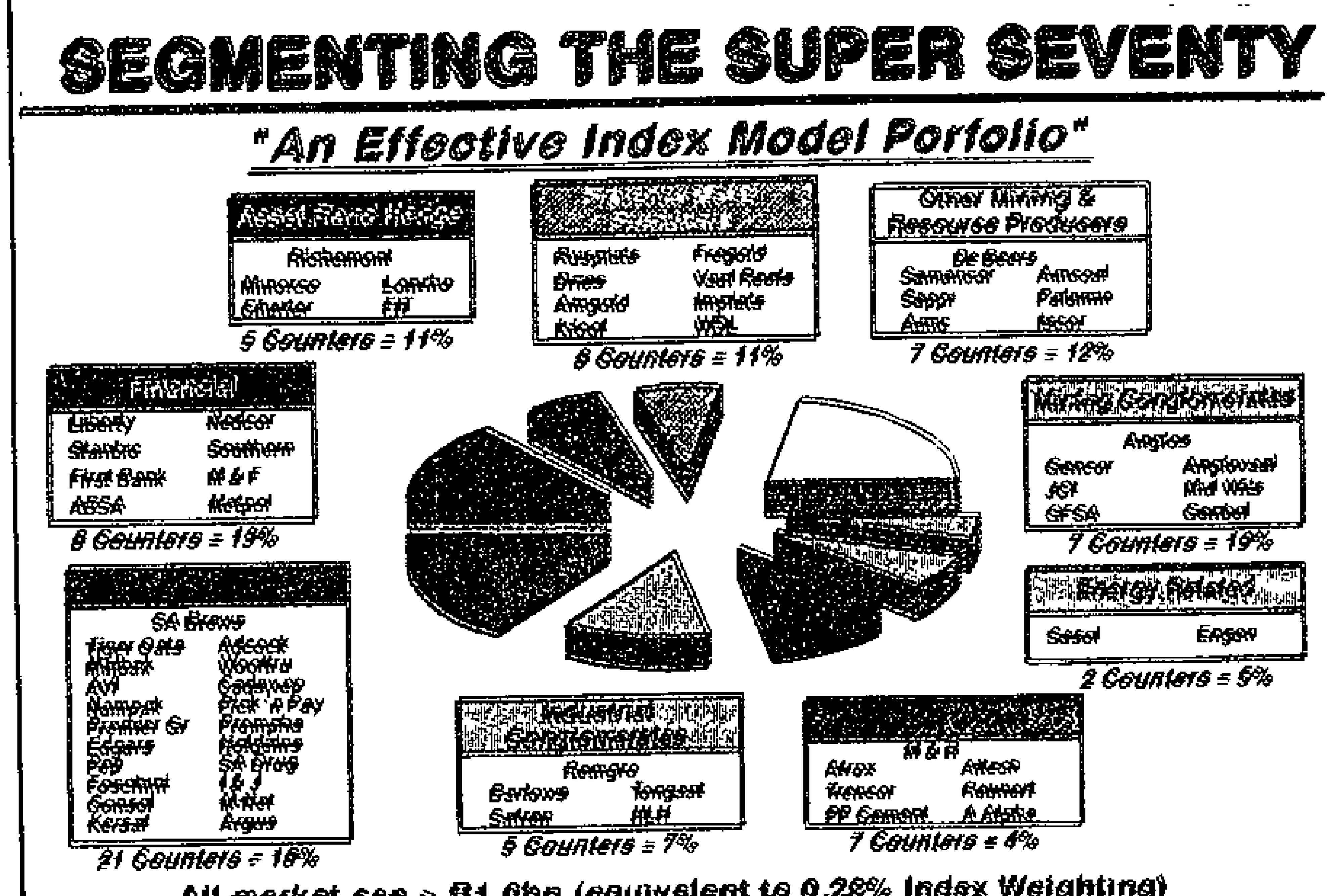
Major structural changes would be needed. "Total factor productivity must grow if growth in exports is to occur alongside a firm exchange rate and recovery in gross domestic expenditure. This implies that the education crisis is resolved.

"A firm exchange rate and reviving business confidence are integral to fixed investment recovery."

The take-off of the Tiger scenario would be slow and faltering.

The third choice, said Trengove Jones, was similar to the Icarus route in the Montfleur scenario, when a populist economic policy was followed with strong expansion induced by monetary and fiscal policy coupled to exchange rate depreciation.

A populist economic policy had already been tried by State President P W Botha in the 1980s and led to capital flight, currency depreciation, surging company profits and a soaring equity market with "funny money" and the risk of hyperinflation.



SWING IN THE RIGHT DIRECTION . . . With the rand likely to depreciate by between 7% and 20%, according to the economic policy followed in SA, emphasis should swing away from the former stars of the equity market towards asset rand hedge shares, precious metal producers, other mining and resource producers and the capital goods sector, says stockbroker Peter Trengove Jones.

Star 21/5/93

Inflation rate set to shoot up

Finance Staff

The inflation rate for April is set to shoot back into double digits because of the increase in VAT, Reserve Bank Governor Dr Chris Stals warned yesterday.

Speaking at a conference in Somerset West, Stals said inflation could rise from 9,7 percent in March to about 12 percent in April, as a result of the 40 percent rise in the VAT rate to 14 percent.

But he was confident inflation could sink back to single digits later in the year.

"The only danger is that it could escalate if there are higher wage demands as a result of the temporary rise in inflation," he said.

Despite the possibility of a short-term hike in inflation, Sanlam's chief economist Johan Louw is optimistic that the favourable trend in the gold price could lead to a drop in interest rates later this year.

The higher gold price and better agricultural conditions should in time contribute to a marked improvement on the current account of the balance of payments, Louw says in Sanlam's latest Economic Review.

A surplus of at least R4 billion is expected for the year, compared with R4,27 billion last year.

This, together with possible improvements in the capital account, may lead to lower interest rates later this year.

However, a marked recovery in the economy this year remained unlikely, Louw writes, as indications of an approaching upswing remain limited.

Domestic investment — the engine of economic growth — had decreased by more than a third over the past four years. Real consumption spending by private individuals was also dropping sharply now.

Despite considerable improvements in the outlook for agriculture and a recent rise in export values, it therefore remained unlikely that the economy would improve markedly this year.

Factors agitating against an upswing included weak foreign economies, the dampening effect of the budget, continued monetary discipline, and the continuous violence, labour unrest and political uncertainty.

30 years old, but OAU has little to celebrate

HARARE — As the OAU celebrated its 30th anniversary yesterday, its leaders conceded that the continent remained disorganised and disunited. Wars, political upheavals or religious tensions plagued many of the 51 member states, most of whom also ~~reported~~ declining economic growth.

"We have an urgent need to ~~have~~ the means to overcome not only the disputes between states but also internal conflicts," said OAU chairman Abdou Diouf of Senegal.

In a message marking the anniversary, distributed in African capitals, Diouf cited economic growth as one of Africa's most pressing needs and said better economic ties within the continent, along with international debt relief, were vital for development.

OAU members have a foreign debt of about $250bn. Interest and repayments gobble up more than 30% of export earnings, according to the African Development Bank. The continent attracts less than 1% of global foreign investment, largely because of political instability, the bank says. BDAY 26/5/93.

OAU Secretary-General Salim Ahmed Salim said in Addis Ababa that great strides had been made to eradicate apartheid, but there was "a conspiracy to abort the peace process" in SA.

He said SA remained the OAU's greatest concern and pointed to the April 10 murder of SA Communist Party leader Chris Hani as evidence of a plot to derail democracy.

He called on the SA government to assume fully its responsibilities for establishing a united, nonracial and democratic country.

In the past two years the gradual dismantling of apartheid has allowed the OAU to shift its focus to the continent's economic decline — an African common market has been mooted — and wars dogging its development. — Sapa-AFP-Reuter.

Input needed from business in economic debate, says Lyman

(49)

BDAY 26/5/93.

GAVIN DU VENAGE

BUSINESS was being overtaken in economic planning by organisations like Cosatu and the ANC, US ambassador to SA Princeton Lyman told an American Chamber of Commerce function in Johannesburg yesterday.

He said a number of organisations had set up think-tanks to prepare for an economic future with many hidden challenges, but business had yet to make its voice heard.

These organisations were identifying the major problems the next government would face, including the lack of competitiveness, the need for research and development, and the ineffective relationship between different facets in the economy.

Although these studies were making a valuable contribution to the economic debate, Lyman said business had to make its own input to provide government with a broader view.

"Business ought to be sponsoring studies so that the debate starts taking on a broader form," Lyman said. "What we are seeing is how little is coming from business".

Speaking on the coming transition, Lyman said the US government would provide substantial financial and technical support to SA's electoral process.

"This is our most important priority over the next year," Lyman said. The US would help with voter registration and to set up an independent electoral commission.

He said the US expected a call for a large monitoring presence, but warned that outside assistance was no substitute for a local commitment to democracy.

"A South African election must be first and foremost legitimised by people inside the country, rather than outsiders in the country."

Lyman said he expected violence to continue during the transition.

People who called for an end to violence before they would take part in negotiations would only play into the hands of spoilers.

Sapa reports Lyman said SA should develop financial instruments aimed at luring the huge resources of American institutional investors.

The US's large pension funds and private funds were critical in enforcing sanctions against apartheid-SA but they should now be persuaded to move into a post-sanctions era.

Lyman said an example of the clout institutional investors had was the size of the Californian Pension Fund, which had resources of $100bn. It had not invested in companies active in SA, or in SA-based firms during the santions era.

SA's political leaders would have to embark on a campaign for the repeal of sanctions once a transitional executive council had been formed and an election date had been set.

"You can't afford to go through the Namibian experience, where some states (in the US) four years later, after its independence, still upheld sanctions against the country."

Lyman mentioned other sources of funding SA could expect, for example about $1bn yearly from multilateral lending agencies like the World Bank and African Development Bank. But their lending would not be concessional, he said.

Another source would be the US government, at about $80m annually. However, this was not likely to increase, Lyman said. Instead, it would be heavily focused on technological development and skills and education promotion.

Heavy capital outflow obliterates gains in foreign trade performance

BDay 26/5/93.

GRETA STEYN

SA experienced a heavy capital outflow in the first four months of this year, obliterating the gains of a steady foreign trade performance and forcing the Reserve Bank into a cautious stance on monetary policy.

Economists estimated the outflow on the capital account of the balance of payments (BoP) at R2,5bn-R5bn in the period January to April.

There was no let-up in the pressure since outflows started picking up in the last quarter of last year, when a R3,7bn outflow took the total outflow for the year to R6,5bn

AHI economist Nick Barnardt noted that the steady trade performance for the year suggested that the decline in the country's foreign exchange reserves was the result of a drain on the capital account of the BoP, rather than a weak current account performance.

The current account — the trade surplus less net payments for invisible trade — was about R2bn in the first four months of the year (based on a trade surplus of about R6bn). In spite of the current account surplus, the country's gross gold and foreign exchange reserves had fallen by an estimated R1bn.

While other factors such as valuation and short-term central bank credit to shore up gross reserves could not be estimated with certainty, it was evident the capital outflow in the first four months of the year ran into a few billion rands and could even be as high as R5bn.

Nedbank chief economist Edward Osborn said: "The capital account is the crux of our difficulties this year. Without a surge in the gold price, the BoP requires a delicate balancing act that leaves the authorities with little room to manoeuvre."

He said the Bank could not gamble on the gold price. It would be some months before it would be evident that the gold bull run had provided enough of a cushion of foreign exchange reserves to allow a slackening of policy in the face of a continued capital drain.

According to Osborn's figures, about \$535m in foreign debt fell due in the first quarter of this year, followed by a further \$410m in the present quarter. As the political situation had made rollovers unlikely, this probably accounted for a large portion of the capital outflow.

However, other economists noted outflows of short-term capital had also placed huge pressure on the reserves and could exceed the debt repayments.

Factors influencing these outflows included the switching of trade finance to domestic sources from foreign sources because of a narrowing in the interest rate differential between SA and its major trading partners, as well as adverse leads and lags relating to currency fluctuations.

World awaits clear signal from SA, says Crocker

B/DAY 26/5/93.

RAY HARTLEY

INTERNATIONAL investors were looking for clear signals from all SA's political parties that the world should engage in SA economically before they would decide to invest here, former US Assistant Secretary of State Chester Crocker said yesterday.

"Investors are looking for more than one news bulletin. They are looking for a track record as well as the news bulletin. They are looking for some announcements, they are looking for some invitations," he said in an interview.

"They are looking for clear signals which must come from the highest level from all parties, saying 'now is the moment at which we want the world to engage here'."

Crocker cautioned that to be effective, such signals would have to be accompanied by greater clarity on SA's future economic policy.

"Some people are going to say: what about the emerging policies of a transitional government, what about the policy statements that need to happen about all sorts of economic matters? They are not there yet."

Referring to negotiations, Crocker said he believed there was a "balance

● CROCKER Picture: ROBERT BOTHA

of impatience" among negotiators.

"I hope that is the case, because you cannot blow too many opportunities in this world when you are building a negotiated revolution.

"I definitely believe that this is the window (to the subregion). An entire year was lost after Codesa II and a huge price was paid. We can't remain optimists if this gets messed up again," he said.

Crocker remained optimistic because of SA's talented leadership. "There is a sense in which time is passing for the leadership, and I think they know it, not least because the gap between the negotiators and the general public is huge.

"I do believe that there is a negotiating culture that has developed over the years. There is clarity about who the players are, clarity about what their positions are; the issues that are outstanding are no secret, and people know each other.

"SA's number one priority is SA, and if the handshake can take place and the TEC starts to function and we move towards the elections ... the main focus will be on how to build consensus about policies in SA.

"That is probably the number one policy," Crocker said.

There was a "tremendous gap between people who participate in the process and people who don't.

"I think there is always a sort of struggle between the people who are trying to shape events by talking about the future and negotiating it on the one hand and the happenings on the ground, and when those things get out of control there are very dangerous times," he said.

Exchange rate policy revision likely — Stals

(49)

LINDA ENSOR

SOMERSET WEST — SA would have to revise its exchange rate policy in the next 12 months to liberalise the flow of capital into and out of SA, Reserve Bank Governor Chris Stals told a meeting of central bankers from 14 African countries yesterday.

"Things are moving quite quickly," he said, adding that SA's dual exchange rate system was creating problems as many capital flows took place outside the system. But he cautioned that much would depend on sustained political stability.

"It will take tremendous courage in the present fluid political situation to abolish the financial rand system. Recent events in the political arena provided ample evidence of the need for the retention of this kind of a protective measure to serve as an economic shock absorber in times of political and social upheaval."

Stals pointed out that there was continued underlying pressure to withdraw foreign investments from SA. The finrand was trading at a discount of about 30% to the commercial rand. Also, between R5bn and R6bn in readily transferable liquid finrand deposits, retained with foreign exchange dealers, was waiting to leave the country. BDAY 26/5/93

"SA will first have to regain its creditworthiness before such a major step as the final abolition of the protective financial rand system will become feasible. In the meantime, there is little scope for moving away from the present situation."

Access to IMF and World Bank funding would also facilitate a review of the exchange controls.

Another obstacle to merging the financial and commercial rands was the debt standstill, as Stals said it would be unethical to prohibit non-residents from taking out their money while allowing residents to do so. He expressed optimism that negotiations with SA creditor banks would solve this situation.

In an interview Stals said it would take time to abolish exchange controls. He envisaged that the three exchange control mechanims — the debt standstill, the finrand system applicable to non-residents

☐ To Page 2

Forex BDAY 26/5/93

(49)

☐ From Page 1

and the exchange controls applicable to SA residents — would be phased out in that order "The phasing out of the controls applicable to non-residents should perhaps get priority because, it is argued, the existence of these controls discourages the inflow of new investment by non-residents."

Stals expressed interest in the Zimbabwean system which allowed residents to invest a specified amount each year in neighbouring countries and said the Reserve Bank would have to consider this in future Zambian central bank governor Dominic Mujaisho said SA's exchange controls could prevent it from exploiting the region's investment potential.

Stals said the emergence of the rand as the single regional currency would be an evolutionary process SA would have to earn this status by keeping down the rate of inflation This would naturally lead neighbouring countries to attach themselves to the SA exchange rate.

He did not foresee this role for the rand in the present circumstances because of the huge divergence in sub-Saharan Africa's economic development. It would be extremely difficult to integrate the economies of the region at this stage, and SA would have to focus more on economic and financial co-operation.

It would also be difficult for the rand to play the role of a single regional currency while SA's extensive exchange controls were in place. In the long term, however, the expansion of trade and economic relations would give rise to the need for a single currency and the rand was a good candidate for this

☐ Stals said the April year-on-year inflation rate — due for release this week — was expected to be in the region of 12% He noted that the underlying rate was less than 10%, and that an increase in the rate of about two percentage points had been allowed for the effects of the VAT hike

● See Page 3

FOCUS ON THE ECONOMY **by Lynda Loxton**

South 22/5 - 26/5/93

Can SA get money to rebuild?

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RECONSTRUCTING the post-apartheid economy to make up for the years of neglect suffered by most communities will cost mega-bucks.

The question is, who is going to pay for it, and how?

Taxpayers, already in revolt about high personal taxes and VAT, will not take kindly to even higher taxes to fund better education, housing, schooling and health care, even if they are the ones who will benefit. Anyway, a large chunk of South Africa is unemployed and do not pay taxes.

The next possibility is borrowing money, either at home or abroad, and the question then is who will lend to us, at what interest rates and under what conditions.

Dr Vishnu Padayachee of the Institute for Social and Economic Research at the University of Durban-Westville told the IDASA/Aspen Institute conference on South Africa's international economic relations that if the country approached institutions such as the International Monetary Fund or the World Bank for loans it would have to be careful.

Both are well-known for imposing fairly tough conditions on countries before they agree to lend money. As a result, SA could effectively surrender control over "key aspects of its development strategy and economic policy."

nation.

This could, he said, be financed by domestic savings, which he believed were not as low as some tried to imply, but were being misused and misdirected.

He has no quarrel with the usual insistence by the fund and the bank on financial discipline and macro-economic balance, which will probably, after years of inefficiency and inward-looking policies, lead to "painful adjustments".

But he believes South Africa will be in a stronger bargaining position on how far and fast those adjustments should go than many of its neighbouring African countries have been.

Firstly, it is not a typically "Third World country." It has a wide natural resource base, well-developed infrastructure and an advanced financial, banking, legal and communications network.

Not over-borrowed

Despite the long-standing debt standstill, South Africa is not over-borrowed and some of the debt might be written off by banks for a democratic government.

Its strategic position in the region and the fact that it could help promote growth in neighbouring countries could persuade the World Bank, for example, to provide loans for certain cross-border development projects which would benefit all concerned.

increasing pressure in recent years about their lack of success in promoting real growth and development in Africa. They will be trying very hard to ensure that whatever help they give South Africa results in a success story, and this contains challenges and dangers.

So, how much money can a democratic South Africa expect from the bank and others?

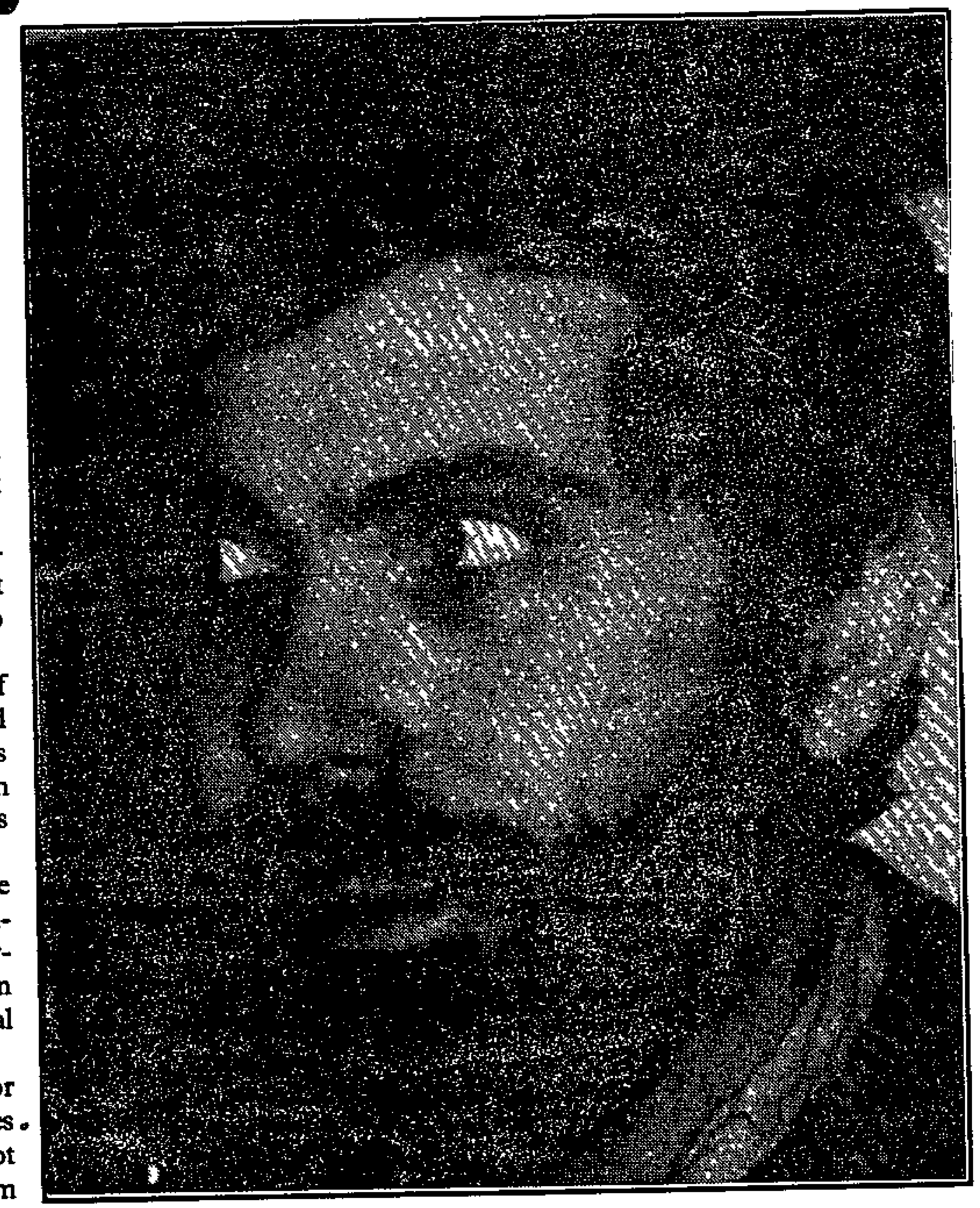
Padayachee said some envisaged a sort of "Marshall Plan" being put together for South Africa to help it reconstruct its economy.

Others, he said, were not so optimistic and pointed to the fact that foreign aid or loans come with too many strings attached.

The other possible sources of funds could be commercial and merchant banks, US pension funds and investors — and here South Africa could benefit from a curious new development.

Professor Paul Krugman of the Massachusetts Institute of Technology said the "big international surprise of the nineties so far has been the re-emergence of large capital flows to developing countries."

This was a surprise because, for much of the eighties, these countries were in the throes of a severe debt crisis. Few banks would lend them anything, never mind investors with cash to spare. Now, "emerging" stock markets and government bonds in developing countries were all the rage.



PAUL KRUGMAN: 'The big international surprise of the nineties has been the re-emergence of large capital flows to developing countries'

JOBS

S|Times(Bus S)

World Bank's plan for SA's revival

(49)

By KEVIN DAVIE

THE World Bank, which will make $1-billion a year in loans available to SA once power has been transferred to a transitional government, has tabled a four-point plan to revitalise this country's moribund economy

The bank says in its first official publication on SA for several decades, that for higher growth the country must revive the private sector while maximising employment growth and narrowing income differentials between blacks and whites.

"It must also redress massive inequalities in access to public services and facilities, as well as land distribution"

The four points are

● Restructuring government expenditure by raising investment in infrastructure and public services and restricting the growth of recurrent spending

● Encouraging rapid growth in skilled labour by upgrading semi-skilled and unskilled workers

● Stressing job creation in small business and agriculture

● Encouraging a reorientation of manufacturing in favour of exports.

The bank says the resources needed to redistribute public services adequately are considerable.

"It will cost around R8-billion to provide sufficient extra classrooms for those children currently enrolled and those out of school

"The cost of urban renewal will be even greater In the Witwatersrand area alone, the total cost of providing additional water, sanitation and electricity could be R6-billion to R10-billion Nationally, the cost would be much higher"

The bank says new investment should not repeat the mistakes of the past — "that is, concentrate on inefficient and highly capital-intensive major parastatals"

Where possible, preference should be given to labour-intensive public works programmes

"Where the public sector is the contractor, wages of unskilled workers should be paid at about one-half of formal sector rates"

The bank says that feasible growth in government investment could result in impressive redistribution

"If GDP growth of around 5% a year could be attained, then a fiscal deficit as high as 6% of GDP may be sustainable"

Control of recurrent expenditure to about 2% in real terms could lead to an increase in capital spending from the present 3,4% to 8,8% of GDP in five years

"In 1991 prices this translates into an average R11-billion additional per capita spending of roughly R325 a year for the black population."

SA's most urgent task in international trade is to deal with the anti-export bias inherent in its policies

"Two-thirds of the disadvantages that SA exporters suffer relative to foreign competitors stem from the higher prices they pay for manufactured inputs"

It is possible to have export neutrality while maintaining protection Exporters must be given free access to imported inputs Incentives to export must be brought more in line with those to produce for the domestic market.

"SA needs a streamlined, automatic, duty-drawback (or rebate) scheme — one which is explicitly independent of any suggestion that exporters should first shop for local inputs before importing"

There is no reason why, given the right economic environment and policy framework, the economy should not be able to re-establish positive per capita GDP growth fairly quickly

"The sustainability of this will require, however, a commitment by all of the major players in the country to agree (to) and then implement a coherent and redistributive economic strategy"

Star 27/5/93

Seminar to focus on business's role in change

By Shirley Woodgate

Substantial American funds are waiting to be pumped into economic development in South Africa, United States ambassador to South Africa, Princeton Lyman said in Sandton recently.

But ambitious international plans for South Africa would not be realised unless the local business community displayed a similar kind of bullishness.

"More bluntly, none of the sources of foreign capital will materialise if South African capital is either leaving the country or held out of the marketplace.

"South Africans cannot expect foreign institutions to substitute their capital for South African," he added.

"In every potential instance where foreign capital was waiting to come into this country, one clear condition was that this had to be matched, if not exceeded, by South African investment in the same areas or instruments, Lyman said.

The ambassador's comments reflect the tone of a landmark one-day seminar next month, organised by The Star and the authoritative Consultative Business Movement (CBM) in Johannesburg on June 25.

The seminar will focus on the role of the business community in a changing environment and will be based on the recently published book *Managing Change*. A guide to the role of business in transition, the publication was compiled by the CBM national team.

Input at the conference will be from international businessman and chairman of Philips Netherlands, Jan Timmer, backed by at least 16 of the South Africa's top industrialists and business leaders, including John Hall and Mike Rosholt.

Dr Zach de Beer, Dr Mamphela Ramphele and Dr Nthato Motlana are among other top speakers making this event not only the first of its kind, but a must for anyone who is serious about the development of business in this country.

"It is very rare these days to find businessmen questioning why business should play a role in transition," the book says.

"Many are already active and others question only how they can become involved or refine their involvement."

This is where *Managing Change* ends; it is also where the debate at the Carlton Hotel conference on June 25 begins.

● A registration application form appears today on Page 23.

Lyman . . . urges SA businessmen to invest locally.

49

	Howick	40
	Estcourt	53
(b)	Pietermaritzburg	745
	Glencoe	39
	Howick	53
	Estcourt	74
(3) (a)	Pietermaritzburg	734
	Glencoe	39
	Howick	53
	Estcourt	74
(b)	Pietermaritzburg	11
	Glencoe	0
	Howick	0
	Estcourt	0

Reserve Bank/Corporation for Public Deposits: profits

49

353 Dr W J BOTHA asked the Minister of Finance:†

(1) Whether the Reserve Bank showed a profit (a) during the period 1 January 1921 up to and including 31 December 1988 and (b) in 1989, 1990, 1991 and 1992, respectively; if so,

(2) whether any portion of this profit accrued to the State during the periods mentioned in paragraph (1) (a) and (b); if not, why not; if so, what was the amount, in each case;

(3) whether the Corporation for Public Deposits has shown a profit since 1 January 1984; if not, why not; if so, what is the relevant figure in respect of each calendar year since that date? B828E

The MINISTER OF FINANCE:

(1) (a) Yes.

(b) Yes.

(2) The total profits after a dividend of not more than 10 per cent and a transfer to the statutory reserve fund of 10 per cent of the remaining profit, is paid to the Government annually in terms of the South African Reserve Bank Act, No. 90 of 1989.

The following amounts have been paid to the State:

Financial year ended 31 March	*R(millions)*
1921–1988	405,1
1989	48,7
1990	147,1
1991	70,9
1992	139,4

(3) The Corporation for Public Deposits has realised the following profits since its inception in 1984:

Financial year ended 31 March	*R(millions)*
1985	10,4
1986	16,7
1987	16,7
1988	15,7
1989	19,0
1990	35,6
1991	31,7
1992	27,1

HOUSE OF DELEGATES

UESTIONS

Indicates translated version

or written reply:

eneral Affairs:

Illegal abortions: persons charged

2 Mr M RAJAB asked the Minister of ustice:

(a) How many persons were charged with illegally performing abortions during the latest specified period of three years for which figures are available and (b) how many of the persons so charged were convicted on this charge? D233E

The MINISTER OF JUSTICE:

The following statistics were obtained from the Central Statistical Services:

	July 1988–June 1989	July 1989–June 1990	July 1990—June 1991
(a) Number of persons prosecuted	33	44	33
(b) Number of persons convicted	26	36	20

wn Affairs:

Financial assistance to institutions

. Mr A RAJBANSI asked the Minister of elfare:

Whether any financial assistance was given by his Department to certain institutions, the names of which have been furnished to the Minister's Department for the purpose of his reply, in the 1991–92 financial year; if not, why not; if so, what was the (a) nature and (b) extent of the assistance given to each of these institutions? D282E

e MINISTER OF WELFARE:

Yes.

(a) Granting of subsidies

(b) (i) Aryan Benevolent Home Council—Chatsworth

Children's Home	R1 166 021,16
Home for the Aged	R 504 015,48
Home for the Handicapped	R2 777 829,24
Service Centre for Aged	R 28 199,98

(ii) Cheshire Home—Chatsworth

Adult Home	R 101 576,24
Children's Home	R 76 433,26

(iii) Chatsworth Child and Family Welfare Society ..... R 563 773,15

Unaffordable political luxury

Star 27/5/93

It would be a political luxury to break up the economic power held by large enterprises, says Davis Borkum Hare economist Jos Gerson.

"(Policies) attempting to reduce the degree of concentration of corporate power, are essentially political luxuries and may carry a significant price tag," he said yesterday.

(49)

Gerson warned governments not to tamper with the pyramid, family-based market structures that had developed, saying the market always had a profound reason for its institutional verdict.

"Politicians and lawyers, who tamper with such structures, risk prejudicing the efficacy of the firms concerned." — Sapa.

BDAY 27/5/93

SA economic debate

BUSINESS was participating fully in the economic debate, Sacob economic policy director Ben van Rensburg said yesterday. (49)

He was responding to US ambassador Princeton Lyman's charge that business was lagging behind organisations such as the ANC and Cosatu when it came to economic planning. Van Rensburg said there were 14 employer bodies representing organised business in the economic forum.

Investment hopes pinned on forum

BDM 27/5/93 (49)

LINDA ENSOR

CAPE TOWN — Foreign investment is expected to flow into SA as a result of the World Economic Forum meeting on southern Africa, which will be opened in Cape Town by President F W de Klerk this afternoon.

The meeting is the first the World Economic Forum has held inside SA and the third on the southern African region. It is the first time, also, that eight SADC countries would be ministerially represented at a meeting inside SA.

The two-day conference, which takes place behind closed doors, will be attended by about 150 CEs from Europe, the US, Australia, India, SA and the southern African region.

Proceedings will be co-chaired by CNN senior vice-president Lou Dobbs, Development Bank of Southern Africa chairman Wiseman Nkuhlu, and World Economic Forum president Klaus Schwab. World Bank vice-president Edward Jaycox, SADC executive secretary Simba Makoni and African Development Bank vice-president Adewale Sangowawa are among those attending.

All the major political parties in SA will be represented. Topics for discussion include the creation of an attractive environment for investment in southern Africa; the views of southern African business leaders on their future; the role of regional and international organisations like the World Bank and stimulation of trade within southern Africa.

World Economic Forum executive Fred Sicre said the aim of the conference was to contribute to the development of the region and to the reintegration of SA into the region and the world.

The participation of CNN's Dobbs would ensure proceedings received worldwide coverage.

"One of the objectives of the meeting is to place southern Africa on the map for foreign investors. This is especially important at this time of recession and turmoil in the world when emphasis is increasingly being given to the formation of trade blocs," Sicre told media yesterday.

The World Economic Forum also wanted to boost investor confidence in the future of SA by allowing CEs experience of the country at first hand. Sicre said investment usually followed the holding of a World Economic Forum meeting in a country.

"Our role is to provide the framework in which investments can occur," Sicre said, adding that large multinationals throughout the world had expressed interest in SA as a location for possible investment.

Rembrandt chairman Johan Rupert will receive the World Economic Forum award for the global leader of tomorrow. He was selected from 200 candidates.

Silent devaluation begins to bring in substantial benefit

Star 27/5/93

By Derek Tommey

49

The silent devaluation is beginning to work. Exports in April rose 30 percent to a record R6,9 billion in the teeth of poor economic conditions overseas.

This should make economy-watchers much happier because higher export earnings should impact favourably on local economic activity.

Nothing has been said officially about a rand devaluation.

But soon after Derek Keys become Minister of Finance last year the rand began sliding against the currencies of SA's main trading partners.

Whether this was planned or just happened is still a moot point. But the rand is now 8,9 percent lower against the dollar than it was a year ago, 12,4 percent lower against the mark and 22,6 percent lower against the Japanese yen.

However, as most SA exports to Japan are priced in dollars, the gain there is not as great as it might seem. In contrast, the rand is about 2 percent higher against the pound.

Economists say the cheaper rand must help exporters. Where products are priced in dollars, it should boost their local incomes. And it should lead to higher export volumes and revenue in the case of products priced in rands.

Part of the reason for the huge increase in exports in April was a jump in precious stone (diamond) sales to R884,1 million from R157 million in April last year.

Derek Keys . . . rand began sliding soon after he became Minister of Finance

As the monthly diamond sales figures tend to be erratic, one must accept that the April figures were distorted to some degree.

Nonetheless, after excluding diamond sales, the balance of April exports was R6 billion — still a useful 17 percent above last year's figure.

This rise significantly exceeds the price advantage arising from the rand's devaluation, suggesting that export volumes are increasing along with export receipts.

One of the highlights of the April export figures was the 74 percent jump to R58,1 million in receipts from sales of timber products.

A number of manufacturers have been trying to break into European and US markets with pine furniture and it is possible this figure reflects their efforts.

Another surprising figure was the 44 percent increase in textile sales to R192,9 million — probably as a result of increased sales by SA Nylon Spinners and Saiccor.

Exporters of mineral products (mainly coal) had a good April, with earnings rising 35 percent to R848,6 million.

Rivalling them were exporters of machinery and electronic equipment who earned R212,6 million — 31 percent more than a year ago.

This is a comparatively new export area for SA firms and shows that they can really compete.

Exporters of scientific equipment also scored with a 23 percent rise in sales to R19,5 million.

Animal exports rose 20 percent to R72,6 million, chemical exports were 19,4 percent higher at R320 million, while exports of "other" items, which include gold, uranium and probably platinum, were 17 percent up at R2,52 billion.

Vehicle exports were 16 percent higher at R173,9 million and base metal exports 15,5 percent higher at R975,6 million.

Exporters of most other products had a poor April.

Health care system must heal itself or choke on greed

BDM 27/5/93 . ~~(85) (249) (183)~~ (49)

PETER BENINGFIELD

THE health care industry is in disgrace. We are widely perceived as unscrupulous, unethical and relentless in our exploitation of human suffering for commercial gain. Truly, if capitalism ever had an unacceptable face, this must be it.

Like the country as a whole, it is undergoing painful and profound changes which, if properly managed, could lead it onward and upward to a better future. But it is also bedevilled by the ruthless sectoral self-interest and the partisan bickering which characterises our political process.

The health care industry is a very broad association of bodies which range from manufacturers through pharmacists and doctors to the medical aids. This uneasy alliance somehow has to get to grips with the radical transformation required of SA's health care system.

The driving force behind this change is cost containment in the interests of providing affordable, accessible, high-quality health care for all SA's people by 2000 — only six years away.

It is interesting to note that US President Bill Clinton has appointed a high-powered task force, headed by his wife, to make sweeping changes to the US health care system. The task force's proposals might well contain such draconian measures as a government-imposed freeze on doctors' fees and medicine prices. Even at their mildest, they are still likely to give the US government a much more active role in controlling health care costs.

Why such a drastic departure from free-market principles in the world's foremost capitalist economy? This is how one US commentator explains it: "The health care free market has proved that it doesn't work, so only massive government intervention will."

This chilling verdict has ominous implications for us in SA.

We have to face the unpleasant truth that our health care system is ill — afflicted by soaring costs, cumbersome controls, overservicing in the private market and underfunding in the public sector, not to mention fraud and outright theft.

SA's private sector health care market spends about R10bn a year on itself. Public sector expenditure runs to a very similar amount — R11bn.

The problem is that the private market caters for a mere 20% of the population, while the public sector has to take care of the remaining 80%. And this is far from being the only or even the most glaring discrepancy in our delivery system.

Of our total expenditure, an almost negligible 4% goes to primary or preventative health care. About 69% is spent on secondary or curative care, and the balance on the tertiary level — heart by-pass operations and the like, regarded in some circles as elitist treatment to keep rich, old white people alive beyond their allotted spans.

Whether you share this view or not, it is indisputable that our priorities in the allocation of health care funds are badly disordered.

Our health care system was essentially designed to provide whites with a First World service, and is now belatedly being forced to adapt to meet the demands of a developing country in the Third World.

Government alone is not to blame. All participants in the health care industry have to bear some of the responsibility. If we are to survive as an industry, let alone prosper, we should accept that responsibility and deal with its consequences.

In doing so, let's agree first of all that there's nothing wrong with the profit motive. By all means, let us serve our own ends — but let us serve society at the same time.

The days of unfettered laissez-faire capitalism — when a company's sole duty was to its shareholders and its social responsibility consisted of paying its taxes — are long gone.

Business is now expected to conduct itself in a manner acceptable not just to its owners but also to the community in which it operates; in short, to behave like a useful and respectable corporate citizen.

If we don't succeed in getting our house in order, there is little doubt that some sort of order will be imposed upon us. That order is likely to be imposed by a new government which might be inherently suspicious of the profit motive in health care. Our survival depends on our ability to demonstrate to such a new government and its constituents that the health care system is capable of behaving responsibly in a free market.

We will require a real co-operative effort.

The participants are deeply divided by short-sighted self-interest. This has resulted in seemingly petty turf battles between the professions, brutally aggressive lobbying by special-interest groups and some highly dubious competitive practices.

Through public manifestations of our differences, we have consistently portrayed ourselves as a squabbling and greedy industry.

What we need now is a general realisation that we have to overcome these differences; that we have to concentrate on the crucial issues that unite us and set aside the lesser ones that divide us; and that we have to make common cause to restore our ailing industry to health.

What we need, in bottom-line terms, is to introduce self-regulation, and to do so soon.

I propose the establishment of a private health care forum to unite all the major players in the system and commit them to self-regulation.

Such a forum should not be a cosy circle of friends or a mutual admiration society. It should not advance the cause of nepotism, nor should it fight for narrow and self-serving sectoral interests. What it should do is agree on standards of conduct acceptable to the community in which we operate and enforce these impartially, vigorously, publicly and if need be, ruthlessly.

In other words, it should be an industry bulldog which is not only equipped with a full set of teeth but does not hesitate to use them.

To achieve this, it should be small — with probably no more than between eight and 12 members — and it should have real power. Its members should not be administrators or flunkies or time-servers but the true movers and shakers of the industry. Nothing less than the chief executives of the main players will do.

It isn't going to be easy. It is going to be a real labour of Hercules — the cleaning up of the Augean stables, to be precise. But it has to be done.

The issue which stands out most prominently is that of cost — and, in particular, the cost of medicines. When the cost of medicines soars from 18% to 30% of the total health care bill in the space of just 10 years, then something has gone very wrong with the pricing system.

Here again I believe there is a strong case for self-discipline to limit the need for controls. The industry has to return to the traditional trading practice of cost plus, rather than working downwards from a recommended retail price. Instead of being professional traders, we should return to being trading professionals.

Current changes and such strong indicators as the ANC's health policy all point to one thing: that SA's pharmaceutical market of the future will be characterised by larger volumes and smaller margins. Prudent businesses and professionals will understand and accept this, and adjust their strategies accordingly.

I would like to suggest that the local and multinational pharmaceutical companies set aside their differences to take the lead in determining and applying the therapy required for this recovery process.

☐ **Beningfield is SA Druggists MD. This is an edited excerpt from his address to the Pharmaceuticals 1993 conference in Midrand yesterday.**

African institutions call for peace and 'debt forgiveness'

ADDIS ABABA — Africa had to find ways to end its wars and improve its economies and the international community should help by forgiving debts, the heads of three regional organisations said yesterday.

The statement was issued by the chief executives of the Organisation of African Unity (OAU), the UN Economic Commission for Africa and the African Development Bank following a one-day conference to review the major issues facing Africa.

The three executives noted that many of Africa's 52 nations were burdened by low economic growth and high population growth and that real capital income was lower than it was before the continent's independence movements of 30 years ago.

It will take 10 years of strong economic growth to recover to the economic levels of the '80s, they said.

But economic improvement would be seriously jeopardised if conflicts and wars continue unabated on the continent, they said.

Conflict prevention, management and resolution was an area where Africa's weakness had been most pronounced and where the continent continued to depend on the outside world, at times even for initiative and leadership, they said.

The principle of African solutions to African problems had to be given a new lease on life, they said, urging nations to support a proposal that the OAU help set up a permanent programme for resolving disputes.

They also urged that:

- More nations should support a two-year-old treaty on the formation of an African economic community. It has been ratified by 26 countries, eight short of the required two-thirds majority.
- Nations should encourage private investment and discourage public consumption so that domestic savings rates would rise.
- International creditors who hold $282bn of African debt should forgive publicly guaranteed bilateral debt so that countries could concentrate on multilateral payments. — Sapa-AP.

Business urges negotiators to avoid impasse

(49) GRETA STEYN (3004)

THE SA business community has urged negotiators at the multiparty talks to heed the disastrous economic consequences of a political impasse.

Their message is that SA cannot afford a "devastating" setback of the kind that occurred after the breakdown of Codesa.

The Business Forum — representing umbrella organisations for commerce, industry and agriculture — is to table a statement on the economy at the negotiating council meeting in Kempton Park tomorrow. It had originally intended to table the statement on Tuesday.

The forum said in a statement yesterday: "Another political impasse will lead to more business closures, the withdrawal and withholding of investment, a further flight of capital and skilled manpower and further loss of job opportunities." The business sector could not fulfil its function as the engine of the country's economy in a climate of uncertainty, instability, disorder and violence.

Every political party had a burden of responsibility to create conditions — especially regarding the promotion of peace — in which a prosperous, nonracial SA could be attained. B/DAY 27/5/93.

The forum appealed to the participants to show flexibility, the ability to compromise and realism to keep negotiations on track towards an early conclusion. SA "desperately" needed a political solution acceptable to most South Africans and the international community, and which would stand the test of time.

The transformation was at a critical stage and the negotiations process appeared vulnerable and fragile. "Unless the resumed political negotiations succeed, the impact on employment and the economy — which is in its fifth year of recession — will be devastating."

Organisations represented by the forum include the Afrikaanse Handelsinstituut, SA Chamber of Business, Bifsa, Chamber of Mines, Council of Southern African Bankers, Fabcos, Nafcoc, SA Agricultural Union, Saccola, Seifsa, SA Property Owners' Association and the Life Offices' Association.

Huge deals expected from top-flight forum

CT 27/5/93 (49)

By AUDREY D'ANGELO
Business Editor

HUGE multimillion rand business deals are likely to be initiated at a meeting of the World Economic Forum — attended by government ministers from neighbouring African countries and more than 150 top executives from five continents — at the Mount Nelson today and tomorrow.

The meeting, to be held behind closed doors, has been organised by the Geneva-based World Economic Forum to increase business confidence in Southern Africa and encourage investment in the region.

The forum is an independent non-profitmaking foundation established in 1971 and funded by member firms.

It has been described as "the foremost institution integrating the leaders from business, government and the sciences into a global partnertship for economic and social progress."

Today's meeting will be opened by State President F W de Klerk. ANC President Nelson Mandela will speak at the closing session tomorrow.

Others attending the meeting will include Zimbabwean Minister of Agriculture Kumbirai Kangai, Botswana acting Minister of Commerce and Industry Archibald Mogwe, Zambian Minister of Finance Ronald Penza, Angolan Minister of Finance Albina Assis Africano, Namibian Minister of Finance Eneas Comiche, Tanzanian deputy Minister of Mines and Energy Jesaya Nyamu, Danish Minister for Foreign Affairs and current President of the EC Council of Ministers Niels Petersen and Commonwealth Secretary-General Emeka Anyaoku.

SA leaders attending it will include Trevor Manuel, head of the ANC Economics Department and Mangosuthu Buthelezi, President of the Inkatha Freedom Party, in addition to members of the government.

Subjects to be discussed will include how to create an attractive environment for investment in Southern Africa, and how to stimulate cross-border trade within the region and build bridges with the rest of the world.

Conference organiser Frederic Sicre said meetings of the Forum were usually followed by investments. These were often "large multi-million dollar contracts".

He said one of the objectives of the meeting was "to continue placing Southern Africa on the map for foreign investors. This is especially important in a time of world recession and turmoil, and the formation of trading blocs.

"We believe Southern Africa has to be encouraged to become a major player. We want to boost the confidence of the international business community in SA.

"We are bringing them here so they can see for themselves that people are talking to each other.

"We also want to build a club of international CEs interested in this part of the world."

Delegates from SA and other Southern African countries would be "selling" the region and also their own individual countries, in a world in which there was stiff competition for investment.

Sicre said the World Economic Forum was not discouraged by the happenings of this week.

"This is par for the course in SA. Nobody is expecting the transition period to be easy.

"We all know there will be bumps. There will be more but eventually a level playing field will be created."

RUPERT HONOURED

JOHANN Rupert, executive chairman of the Rembrandt Group, will be honoured as "a world leader of tomorrow" at the meeting of the World Economic Forum.

Organiser Frederic Sicre explained that he is among 200 young people who have been identified by the foundation as global leaders of the future.

Sicre said that Lou Dobbs, senior vice-president and managing editor of business news on international TV network CNN would be one of the co-chairmen at the meeting.

CNN had been asked "to use their powerful network to give a positive image of what's happening in SA" to the outside world."

SA economy can't stand more blows

■ **Another deadlock will prolong recession:**

By Mzimkulu Malunga

ANOTHER deadlock at the multiparty talks could shatter the thin hopes of economic recovery and prolong the four-year-old recession. Sowetan 27/5/93

This is the feeling of an organisation representing major business groups and employer bodies throughout South Africa.

(49)

In a statement to be presented to the negotiating council at the World Trade Centre tomorrow, the Business Forum says the economy cannot take any more blows.

Already business confidence is extremely low and continued uncertainty can only result in further capital flight from South Africa and stifle investor interest.

"A successful transitional agreement on the other hand will provide the climate for the economy to grow and for South Africa to address comprehensively the problem of poverty," the statement says.

Business believes that as the engine for the country's economic performance, the prime employer and contributor to national wealth, it cannot fulfil these functions in a climate of uncertainty.

Among the business groups represented in the Business Forum are the Afrikaanse Handelsinstituut, the National African Federated Chamber of Commerce and Industry, the South African Chamber of Business, the Foundation for African Business and Consumer Services, the South African Agricultural Union, the Islamic Business Chamber as well as the South African Employers Consultative Committee on Labour Affairs.

Help Promised to South Africa

Guardian/W in W/Mail 28/5 – 3/6/93.

By John M. Goshko

WASHINGTON — The United States offered last Friday to help South Africa regain its former importance in world economic affairs as soon as the black majority and the white minority government set the stage for multi-racial elections.

"South Africa's successful transition is important for Africa, the United States and the world," Secretary of State Warren Christopher said in a speech outlining President Clinton's Africa policy. Christopher emphasized the importance the administration intends to place on promoting democracy and respect for human rights on the continent.

South Africa, with its vast mineral wealth and industrial base, has the most advanced economy in Africa. But in recent years, the tensions and uncertainties caused by its racial divisions subjected the country to sanctions, boycotts and flight of foreign investment that forced it out of the mainstream of world trade and financial activity.

"The United States will help — and we expect other industrial democracies to help as well," Christopher said in describing the administration's plans for working with South Africa after President Frederik W. de Klerk's government and leaders of the major black groups agree on terms for a changeover to majority rule.

"Once a Transitional Executive Council has been put in place — and a date for elections has been set — we will work with our partners (in the group of seven leading industrialized democracies) to help South Africa reenter the global economy," he said. (49)

Addressing the African-American Institute, an organization of scholars and specialists in African affairs, Christopher said the end of the U.S.-Soviet rivalry allows the United States now to pursue "a productive new relationship" with Africa. He said that Clinton intends to jettison the Cold War considerations of the past and make promotion of democracy and human rights the foundations of his policy.

"During the long Cold War period, policies were often determined not by how they affected Africa, but by what advantage they brought to Washington or Moscow," Christopher said. "Thankfully, we have moved beyond the point of adopting policies based on how they might affect the shipping lanes next to Africa rather than the people in Africa."

As an example of this new approach, he cited Clinton's announcement last Wednesday reversing 17 years of U.S. policy by recognizing the Angola government.

Christopher, who criticised Jonas Savimbi of UNITA for seeking a military solution in Angola, also had harsh words for another long-time U.S. ally, Zaire's President Sese Seko Mobutu. For almost three decades, the United States courted Mobutu and overlooked the corruption and oppression endemic to his rule. However, in recent months, as Zaire has tottered on the brink of anarchy and bankruptcy, the United States has reversed course and called for Mobutu to step aside

"The people of Africa know where their future lies: not with corrupt dictators like Mobutu, but with courageous democrats in every part of the continent," Christopher said.

As a sign of Clinton's intention to give Africa more attention, Christopher noted that the administration is seeking to increase country-to-country aid to sub-Saharan Africa from the present level of about $667 million to $800 million next year. However, that sum must be split among 47 countries. By comparison, aid to Israel — the country that gets the largest share of U.S. aid — has been running at $3 billion a year

● The World Bank's top policymaker for Africa has announced sweeping changes in the institution's approach to the continent's economic problems, *writes Tami Hultman*

In a speech to the annual conference of the African-American Institute, Edward Jaycox, vice-president for the Africa region, said the bank would no longer dictate development plans.

Acknowledging that the World Bank had failed to devise solutions to Africa's economic problems, Mr Jaycox said in future the bank would help fund African governments to write their own development plans and would use most of a $20 million economic research fund to support studies commissioned by Africans themselves rather than bank economists.

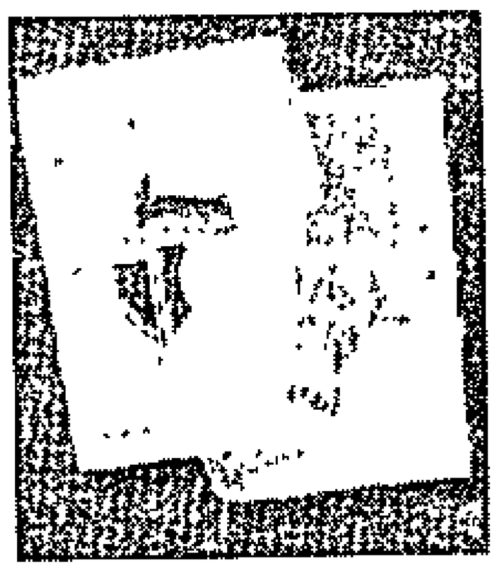
FM 28/5/93.

ANC ECONOMIC POLICY

Shaking off the past

(49)

Does the ANC want primarily to hurt the rich — or help the poor?



Evolution of the ANC's economic policies since January 1990 has removed much of the sting from their overtly socialist starting point. They are now more realistic, pragmatic and sensitive to world trends. It has certainly taken the senior leadership great political courage to have gone as far as it has, leavening a destructive inheritance of collectivism and Marxist commitment.

But whether the ANC can be considered to have jettisoned socialism remains an enigma. For much of what even senior spokesman say today is characterised by an undertone that remains essentially redistributionist.

Continual emphasis on anti-trust laws to fracture large business groupings, as well as insistence on affirmative action, could be seen as either the outcome of compromise or covert despoilment. Interpretation no doubt depends on how one views the integrity of the ANC's commitment to prosperity. But investors will undoubtedly assume the worst: that is in the nature of risk assessment.

Until this perception has been adequately dispelled, it is futile for the ANC to call for new foreign investment — and Trevor Manuel, head of the ANC's department of economic planning, stressed the importance of foreign investment to the *FM* this week.

There are three areas where emotive and insufficiently analysed redistributive policies are still propounded. Manuel is their chief advocate but there can be little doubt the views enjoy broad leadership support.

They are the ownership of so many corporate assets by the big four groups — Anglo American, Rembrandt, Old Mutual and Sanlam; the corporate bias in bank lending towards large successful businesses; and the so-called 800 white men who dominate executive ranks (though Manuel, for one, denies he has ever used this term).

The most recent official statement of ANC economic policy is in a speech by secretary-general Cyril Ramaphosa, to the Blueprint for Prosperity Conference in Johannesburg in October 1992. He pointed to a structural crisis resulting from decades of ideologically misguided policies.

His antidote was deconcentration of the private sector, on the assumption that concentration has not been conducive to a prosperous economy. This fails to take into account many other factors inhibiting economic growth, such as financial sanctions, disinvestment, depression and inward industrialisation But he did concede that large enterprises are not in themselves bad news; nor are large corporations, as such, synonymous with monopolies

The ANC's *Policy Guidelines for a Democratic SA*, adopted in May 1992, says that the concentration of economic power in the hands of a few conglomerates has been detrimental to balanced economic development. The ANC would introduce anti-monopoly legislation (as referred to by Ramaphosa) to curb continued domination of the economy by a minority within the white minority and promote greater efficiency in the private sector.

Mboweni

The ANC would also welcome foreign investment, by establishing a climate of political stability, economic growth and transparent, consistent economic policies. Foreign investors would enjoy the same treatment as domestic investors Who could disagree with this motherhood-and-apple pie approach?

More recently, Manuel said — in a speech to the Annual Conference of Retirement Funds this month — that the aim will be the eventual repeal of exchange controls. Foreign investors should operate under a transparent code, allowing them to repatriate earnings and capital freely. Again, business can only support this.

Manuel has said that the long-standing Malaysian programme to advance indigenous people in an economy initially dominated by the 40% Chinese minority is a model SA could follow, though not the only model, and he stresses there is no intention to import wholesale any foreign structures unless they're appropriate to our needs.

Manuel

Certainly there are aspects of Malaysia we could emulate. But it must be remembered, as Anglo American economist Ian Emsley points out, that one factor enabling this programme — a mosaic of types of affirmative action — to work in the Seventies and early Eighties was the discovery of large oil and gas fields. The economy was further buoyed by strong commodity prices.

Another point the ANC should not overlook is the much smaller white community in SA relative to the groups to be uplifted — not much more than 15% of the total population. For many whites, especially from the business and professional communities, emigration would be far easier than for Malaysia's Chinese.

Manuel described a nine-point plan to include the restructuring of banking "to end discrimination in lending against blacks, women and the informal sector" and de-monopolise the private sector.

He claims that 84,6% of shares on the JSE are owned by six conglomerates; the stock market has become inefficient from a national viewpoint, simply channelling funds to the conglomerates

That reasoning, of course, is in error. The stock market channels funds to the most efficient economic units, which are the only ones investing now. In present economic circumstances, a market that channelled funds into small, untested, uncertain businesses could indeed be accused of failure.

The ANC proposes to broaden control and ownership of business, to create new stakeholders. Manuel welcomes Gencor's unbundling and Sanlam's move to sell shares in Metlife to blacks.

Emphasising the ANC's strong anti-trust policy, Manuel points to the building industry as one where the supply of materials is monopolistic, which pushes up prices. He claims that foreign investors say the control by monopolies of various sectors inhibits the inflow of funds.

But does he consider that foreign investors with that view could be motivated by a desire to buy SA assets at a fire-sale price prompted by a government enforcing anti-trust legislation?

The ANC, says Manuel, does not want to clash with business on breaking up the conglomerates but would like to see business — through interaction with political parties and labour — initiate the process of increasing competitiveness.

However, at an economic policy seminar in April 1993, ANC economist Tito Mboweni conceded that big companies are needed to conquer world markets, big companies "which would not necessarily constitute conglomerates."

In London and Bonn this month, ANC president Nelson Mandela urged UK businessmen to invest in SA as the need was becoming crucial. He said the ANC would relinquish its opposition to foreign investment as soon as a date for nonracial elections is set. Mandela also said recently that the ANC is not Marxist. He expects its alliance with the SA Communist Party (SACP) to end after multiracial elections.

Mandela also said he would appoint a commission of non-aligned experts to review the unacceptable control of the JSE by four conglomerates. His view is that there can be no free market in shares if 75% of the total is owned by the four.

Ramaphosa

Where he errs is in believing that the size of a market dictates its efficiency. That is not so It is the knowledge of those participating in the market that is the critical efficiency factor.

In analysing this welter of unresolved and often contradictory policy statements, we have to acknowledge the context of a burning and reasonable sense of injustice and deprivation — both relative and absolute. Historical factors predating 1948 — indeed, SA's entire history since 1652 — reinforced blacks' subordinate position, economically and politically. This was aggravated by the social engineering that followed the Nationalists' accession to power.

In this context, the close association between the ANC and the SACP is hardly surprising. As Mandela has pointed out, during the years of struggle, the ANC got consistent help from the old Soviet Union and the SACP

From another perspective, it is just as inevitable that SA business should view a party with these antecedents with suspicion. Mistaken views of stock market failure, and what appear to be a confusion of size with monopoly, suggest that behind much of the prevalent ANC thinking remains a feeling that all white property was acquired by theft and is therefore fair game. So deconglomeration, interpreted in terms of a plausible hidden agenda, could be intended as a partial and covert form of expropriation.

A hypothetical example might make this clear. Suppose a future ANC-dominated government intimidated or coerced Anglo American into divesting its shareholding in First National Bank (acquired, be it noted, only because Barclays UK divested in response to the ANC-approved sanctions campaign).

Who could or would be the purchasers of FNB? If a large life office took over, the ANC would regard this as just one conglomerate replacing another.

We suspect they want a process which includes the acquisition of divested holdings, at least in part, by blacks financed through soft loans, possibly by banks lending under compulsion, possibly by government through the IDC or from general funds, or even by Anglo American itself.

Another of Manuel's objectives is to redirect bank lending away from its present business focus to remedy black exclusion from business. This has been tried and has failed in many countries within sub-Saharan Africa; nowhere did it achieve its goals.

The truth is that banks' lending rests on careful risk assessment. Would-be borrowers who are now excluded are in that position because they do not meet risk criteria. The appropriate medium for assisting black small business is the type of body exemplified by the Small Business Development Corp (SBDC), which operates with a different type of capital and less stringent risk-taking criteria. If — as Manuel claims — the SBDC is not doing enough to finance black business, rather extend its mandate.

The four groups "dominating" the JSE, collectively and individually, represent the powerhouse of the economy. They have its main concentration of high technology, with substantial blocks of capital available to create new large-scale industrial and mining projects Such projects must be able to compete in the world economy on which SA is critically dependent, for foreign trade provides 60% of our GDP

Where genuine monopolies and cartels exist (mainly as a result of licensing by government), they should be brought before the Competition Board

The last leg of what appears to be ANC policy is embedded in the "800 white males" phrase Remedying this state of affairs at short notice would require the appointment of supernumary black board members, or government nominees, who would impose a view on many aspects of conducting business, from wage scales to the award of contracts This would detract from efficiency and growth objectives. Or, if the phrase is as apocryphal as Manuel claims, it needs to be explicitly disclaimed.

If all these ANC goals were imposed on the large corporate sector at short notice, they would amount to a siege Far from encouraging an inflow of foreign investment, they would run the risk of accelerating the covert flight of local capital and skills.

The more sophisticated ANC leaders know the value of constructive relationships with business. But they have the painful task of converting less analytical colleagues, let alone the rank and file.

There would be one advantage of the ANC being seen to be reasonable: the return of flight capital This occurred in profusion when Mexico and Argentina switched to free market policies

The choice for the ANC leadership, in the words of Anglo American's Michael O'Dowd, is: "Does it primarily want to hurt the rich — or help the poor?" If the latter, business will be a steadfast ally. After all, it too suffered enormously from the Nationalists' apartheid-induced structural inefficiencies and excessive controls.

The ANC — Manuel in particular — is unhappy with the *FM's* scepticism of its new economic approach, calling us biased. While we have aired our misgivings, we remain happy to be proven wrong. If the ANC's policy revisions continue at the speed of the past few years, that could be a distinct possibility. ■

Financial Mail

THE ECONOMY FM 28/5/93.

Not only gold that glistens

(49)

The gold price is only one of the emerging forces that will benefit the economy, and it may not even be the most fundamentally significant. Gold may — as usual — be grabbing the headlines, but it's worth enumerating some of the other things that could help us.

Leading the way must be this week's news (see *Economy*) that there is a real prospect of loans from the World Bank. The projected figure of US$1bn is less important than the principle: it's often been pointed out that SA is not overborrowed by international standards. Rather, renewed access to the Bank would signify a reacceptance in world financial markets and probably herald a permanent settlement of the debt standstill.

It would also clear the way for renewed private-sector investment, not just of funds, but even more importantly of technology, an area where sanctions have really hit hard. The fact that SA, small as it is, is a market that multinationals won't ignore was also underscored this week, by the announcement that Digital Equipment Corp is to make a re-entry (see *Business & Technology*).

Earlier fears that the reopening of eastern Europe would lead to our missing the boat have been somewhat allayed by a realisation that eastern Europe's return to a market economy (and for some countries, "return" may be an overstatement) is proving a good deal more painful than anyone expected. At least SA has an established, reasonably effective economic infrastructure; if the political side could be put right, foreign investment in SA could pay off much quicker than in (say) Romania or Bulgaria.

And in other areas the harsh regimen imposed by Reserve Bank Governor Chris Stals is starting to bring benefits. Money supply and inflation (though the higher Vat could bring a short-term surge) are apparently under control. The balance of trade is still healthy and, though that reflects slack conditions at home rather than the long awaited revival of the world economy, our exporters are well placed to take advantage when that finally materialises.

None of this is a reason for dancing in the streets. No economists are yet upgrading their gloomy growth forecasts for 1993. Nor, even when growth does resume, will it suddenly absorb the millions of under- and unemployed.

We can never recover what we have lost in four years of recession and political uncertainty. But the moral is that, if only the politicians could get their acts together, economic prospects are starting to look better than they have for years. Perhaps the politicians should be locked up in the World Trade Centre and deprived of food and water till a puff of grey smoke signals a successful conclusion.

And while law and order must continue to be enforced, is this really the time for the securocrats to jeopardise talks by wholesale round-ups of PAC members? There are clear grounds for doubt that the Cabinet, and even perhaps President FW De Klerk himself, were informed in advance of Tuesday's dawn arrests — which will only fuel suspicions that elements in government are still trying to derail the whole process. ■

TARIFF POLICY

FM 28/5/93 (49)

Still waiting for action

Countless studies and reports over several years have shown that SA's high level of protection hurts exports, retards economic growth, adds to the jobless rolls and, finally, makes the country poorer. So, when the parliamentary Budget debate on Minister Derek Keys's Trade & Industry portfolio came and went this month without a concrete initiative to reduce tariffs, the criticism boiled over.

"Government policies continue to have a negative impact on the economy," says DP MP Geoff Engel. "We need a structured and detailed five-year trade reform and liberalisation plan if we are to succeed." Engel adds that government's Normative Economic Model, released in March, will remain a mere "scenario document" unless it quickly becomes part of a five-year implemention plan for reform.

The model spells out the damage inflicted on the economy by government's stubborn defence of its outdated policies, which not only include inaction in simplifying and reducing tariffs but also a stream of tariff increases as companies hurt by the recession seek to shore up profits by restricting imported competition.

"We still sit with a short-term, ad hoc policy-making approach," he says. "Government should stop favouring big business. We need to focus instead on tariff and structural economic reform."

AHI economist Nick Barnardt says: "In the present sensitive negotiation phase, it would be difficult for government to go much further than the document outlining the model. But the urgency of achieving concrete consensus on the model and its translation into a programme of action are paramount."

Engel adds that instead of keeping busy with academic scenario exercises, government should study Argentina's speedy and successful economic reform — and do the same. A plan to implement the model's recommendations would signify seriousness about reform, rather than just talk.

For his part, Keys said this week that the model has been undergoing revisions as comments and suggestions are taken into account. He hopes to start developing programmes to implement the model by August.

Meanwhile, three task groups studying industries where tariffs have been the most controversial and have had the biggest impact — clothing & textiles, electronics and motor vehicles — are working on plans to increase competitiveness without wholesale job losses. Indeed, the immediate job losses that rapid tariff reduction would cause — adding to the political instability — is cited as the main reason for government's go-slow policy, though eliminating tariffs would result in many more jobs in the long run.

Like many of the reports that preceded it, the model is scathing in its indictment of high tariff walls. It refers to the anti-export bias created by SA's effective 27% tariff barrier (30,2% on average for the manufacturing sector) and says this is the result of the country's "long tradition of import replacement, which has created an inward-looking industrial base."

Adds the model: "The ad hoc process of granting tariff protection to individual industries over many years gave rise to a system that is apparently one of the most complex in the world. It lacks transparency, is prone to continuous change, and is open to lobbying. A high degree of selectivity . . . has also made the system economically distortive and arbitrary."

As the system allows producers to charge higher prices in the domestic market, they "become only marginally interested in export sales and the SA export performance in

manufactures improves only when domestic demand is substantially depressed."

Due to this protectionist skewing of SA's economic structure, any domestic-led economic recovery "will almost inevitably produce a deficit on the current account and/or a serious depreciation of the rand . . . An export-led recovery requires at least the removal of the anti-export bias."

Harsh words indeed. But in his Budget debate, Keys paid scant attention to tariff reduction — apart from referring to government's mild reform proposal to Gatt, which is far from being implemented. He also supported a rationalisation of SA's complex tariff structure — which would not necessarily lead to lower tariffs. Coming almost three years after the IDC's landmark recommendations for reform, the impression is one of aimlessness.

Opposition parties are quick to point this out. "If business is to flourish, one needs a climate that protects competition, not competitors," says DP MP Brian Goodall. "Competition fosters innovation, helps to diffuse technology and leads to the efficient use of resources. If an economy is to grow, it must be able to play the world market. Inward-looking economies are not successful."

In SA, the reason for this circumstance is clear. "Many SA industries cannot compete internationally because their input costs are so high," says Goodall.

"Often the companies supplying them were protected against overseas competition Heavily protected industries should be given between five and 10 years to become internationally competitive — or else disappear." ■

DIGITAL EQUIPMENT CORP

FM 28/5/93

Taking the plunge

The return of international computer companies to SA continued this week with the announcement that Digital Equipment Corp will open a wholly owned subsidiary in Johannesburg on July 1. Based in Maynard, Massachusetts, Digital is the world's third largest computer vendor and is ranked 27th in the *Fortune 500.*

With its decision finally to set up shop in SA, Digital is following top software companies Microsoft, Lotus, WordPerfect and Novell — all US-based — and the French government-owned information technology (IT) company Groupe Bull. Taiwanese PC group Acer will also open an office in July and rumours persist that Apple — which withdrew from SA in the mid-Eighties — will soon return.

Though not unexpected, the local market has been thrown into a spin by Digital's move. The company has never had direct operations in SA but its products have always been available and there are an estimated 1 000 DEC VAX computers (Digital's popular minicomputer family) in use in SA.

Digital, founded in 1957 when the computer industry was in its infancy, was the first to challenge IBM mainframes with its smaller and faster computers. Digital focuses on IT solutions — from networked computer systems of varying sizes, to software, peripherals, systems integration, services and consultancy.

It prides itself on being politically correct and that certainly showed this week. Announcing the investment, Digital vice-president of strategic resources John Sims said: "There was a time, and it was not long ago, when I found it difficult to imagine standing here officially introducing Digital to SA."

It seems that SA is potentially too lucrative a market to ignore. European vice-president for African operations Alberto Fresco says: "It is estimated that about

cont

Ramsay Milne on a survey that measures quality of life around the globe

Star 28/5/93

SA in some rich, selfish company

49

THE United Nations produced a document this week that is perhaps the world's first measure of the quality of life around the world. Not surprisingly, South Africa does not fare well.

In its sampling of how countries rate in "human development" — which is based on an amalgam of a country's gross national product and its level of "human development", largely determined by educational levels — South Africa appears to be oddly coupled. Placed 11th among the 22 developing nations, South Africa is ranked along with Algeria, Saudi Arabia and the Arab Emirates.

On the face of things, that kind of company should not be scorned. But then one learns that the citizens of these rich, oil-producing countries lead less satisfactory lives than their countries' per capita income suggests they should; indicating, as the report puts it, "that their wealth is concentrated in the hands of a few or is being mis-spent".

It is a telling criticism. The fact is, the petro-sheiks who rule the Arab oil states are not noted for their willingness to share their wealth with their subjects.

And what of South Africa? Well, what the UN report says of the oil-producing countries is almost exactly duplicated in what it says about South Africa — that is, that the country's wealth is inequitably divided among its citizens.

That is hardly a surprise. Living standards among white South Africans, a minority, are among the highest in the world. Living standards among blacks, a majority, are in general much lower.

To that extent, the report does not add much that is new But it breaks new ground in its emphasis not on wealth itself, but on how well people live.

The treatment of women, for instance, radically alters the ratings of many countries who otherwise are highly placed on the UN chart. The survey found, in fact, that no country treats its women as well as it treats its men. When the ratings are adjusted for disparities between the sexes, Japan drops from first place to 17th among the industrialised nations and Canada from second to 11th, because women in these countries have fewer job opportunities and lower earnings than men.

The notion that development efforts should be more closely tied to the needs of individuals did not originate with the United Nations Development Programme, authors of the survey.

Robert McNamara, then president of the World Bank, argued in 1973 against the prevailing idea that wealth in the developed countries would "trickle down" to the poorest sectors of society Instead, he asserted, direct help must be funnelled to the 800 million people across the globe estimated then to be living in poverty

Now, 20 years later, the UN has provided a measure of which countries are really trying and which are not. □

Star 28/5/93

GDP shows strong growth

49

Gross domestic product (GDP) increased by 10,1 percent at current prices in the first quarter of the year, figures released by the Central Statistical Service (CSS) show.

This is the highest growth rate the country has experienced at current prices in the past year.

It compares with 6,1 percent in the second quarter of 1992 and nine percent in the last quarter of 1992.

The CSS says if the strong positive growth rate of agriculture is removed, the increase in seasonally adjusted gross domestic product was 8,6 percent in the first quarter off 1993.

However, GDP at constant prices, which reflect more accurately the level of economic growth, were released earlier this month and indicated that GDP grew by 0,8 percent in the first quarter of this year. — Sapa.

Southern Africa burdened by debt — FW

(51017) 28/5/93 (49)

TIM COHEN

CAPE TOWN — President F W de Klerk yesterday told the World Economic Forum that the southern African economic train was at a standstill and highlighted the region's foreign debt burden.

During the '80s, only two of the 12 countries in the region, Botswana and Swaziland, had achieved positive economic growth. The major factors behind this poor performance included internal conflicts, misguided economic doctrines, cyclical droughts, the collapse of commodity prices and rising interest rates on foreign debt.

Foreign debt had, in particular, presented an increasingly heavy burden. In all but two of the 12 — Botswana and Lesotho — foreign debt represented more that 100% of annual exports In the cases of Mozambique and Zambia it was 2 241% and 541% respectively.

If the region was to move toward economic growth it would have to abandon outmoded ideologies, as SA had done, and end conflicts

Africa could not be "marginalised" because if the problems of some were left to fester, they would become the problems of all.

Speaking of the need for all countries to work together in preserving the earth's delicate ecological balance, De Klerk said: "In our shared global ecology, an injury to one is an injury to all."

AP-DJ reports that De Klerk called for the EC to enhance SA's ability to help boost the region's economic growth by urging the lifting of all economic sanctions and encouraging international financing for SA. "I don't want any handouts from the EC and I don't have any specific requests I want the EC to continue to recognise the role we play in southern Africa I don't think Europe can escape from the problems of Africa and if it's marginalised, it will cost the First World more later."

ANC 'backs Bank's debt policy'

BIDAY 28/5/93

CAPE TOWN — ANC international affairs director Thabo Mbeki, who recently returned from Switzerland, says he is entirely in agreeement with the Reserve Bank's approach to debt rescheduling.

He told a news conference at the World Economic Forum that he and an ANC delegation had discussed mainly debt rescheduling with Swiss bankers.

He said the ANC was worried that decisions on the question taken now would tie the hands of a future government. The ANC was in favour of small amounts of debt being repaid in the early stages and then gradually increasing repayments, he said.

TIM COHEN (49)

This would enable the country to grow and be in a better position to repay money in the debt net.

"We are completely in agreement with the approach of the Reserve Bank on this issue."

Mbeki said his recent trip abroad included visits to China, Russia and Singapore. In all three countries talks had included speculation about possible future economic relations.

He said there were differences between the kind of relations a future SA might have with China and Russia because "China is in a position to pay whereas Russia is not".

People to decide on monetary pain — Manuel

ARG 29/5/93

BRUCE CAMERON
Business Staff

THE International Monetary Fund and World Bank could "forget about imposing conditions" on South Africa in assisting it under an African National Congress government.

Mr Trevor Manuel, head of the ANC department of economics, said the people of South Africa, not a bank in Washington, would decide what pain to inflict on themselves.

And earlier in the week a meeting of sub-Saharan bankers, including nine central bankers, warned of the dangers of accepting aid in the form of soft loans, which were often tied to importing goods from a donor country.

Mr Manuel said there was agreement within South Africa the economy needed to be restructured — the disagreement was over how and what should be done.

Mr Manuel was speaking at a media conference during a World Economic Forum meeting on Southern Africa in Cape Town at which the World Bank back-pedalled on the issue, and on a recent report proposing structural change in South Africa.

World Bank vice-president Mr Edward Jaycox said earlier the World Bank's recommendations to revive the economy, which had come under fire from Mr Japie Jacobs, special adviser to Finance Minister Mr Derek Keys, as unworkable, was a "balanced approach".

The bank, which is standing in the wings with about R3 billion for development projects for South Africa, was not wedded to the model, he said.

"We will be very happy if it contributes to the economic debate."

He warned though that a change in the political environment would not result in growth.

"The economy will continue to go down if all the resources of the country are not used properly. There will still be things standing in the way."

He said if a future government under pressure from labour unions maintained the existing protectionism and trade barriers, "there will be a cosy little arrangement, high profits, high wages and low employment".

Mr Jaycox said the World Bank never dictated conditions, but looked for a straightening out of public finances and sought to bring a country's assets to full productivity. This did not necessarily mean privatisation.

"We ask governments to exercise options. We do not insist on any one formula."

Mr Manuel said South Africans had struggled for many years to achieve sovereignity over their own affairs. As they gained this sovereignity, they would not surrender it again to a bank in Washington.

He said South Africa had the acumen and the skills, as well as a strong sense of national independence, to restructure its economy.

"There is agreement that there has to be restructuring. If this restructuring (by ourselves) brings pain, it is ours. It is the process that is important."

He said structural adjustments being forced on Zimbabwe were resulting in gains made in the first 10 years of independence in education and health "being rolled back."

The result was the World Bank was now perceived to be the enemy.

The World Bank also admitted that 40 percent of its projects in Africa had failed.

Industry 'losing out on millions'

SOUTH AFRICA is losing out on millions of rands of World Bank procurement spending within half-an-hour's flight of Johannesburg because its industries are not competitive enough. (49)

World Bank vice-president Mr Edward Jaycox, on his second visit to South Africa, said it was untrue that South Africa was off-limits for World Bank spending. ARG 29/5/93

This was an excuse for the poor competitiveness of South African industry.

He said more than R1,5 billion was being spent on procurement within half-an-hour's flight of Johannesburg.

"South African companies are not getting the contracts because of the lack of competitiveness," he said.

Western Cape hosts talks; one at R4 338 a head, one for free

(49) ARGT 29/5/93

TWO major conferences on southern Africa were held in the Western Cape this week, attracting key financial players. One charged nothing for attendance, the other charged R4 338 a head, excluding travel and accommodation costs.

One, organised by the Financial Mail and sponsored by various South African companies, was attended by the region's heavyweight bankers.

The other was organised by the Geneva-based World Economic Forum (WEF), a private foundation established by former company executive Professor Klaus Schwab, and was attended by senior government representatives in the southern African region and potential investors around the world.

Arican National Congress economics chief Mr Trevor Manuel quipped at a media conference at the WEF meeting that South Africans must be "conferencing themselves to death" — he kept meeting the same reporters at least three times a week at conferences.

He felt the WEF conference was useful as it had attracted key investors and players from the region and worldwide.

The WEF will rake in more than R500 000 from delegates, most of whom are members who already pay annual membership fees of between R21 000 and R33 000 a year.

WEF media spokeswoman Ms Barbara Erskine said the income from the conference would cover the costs, which included flying in and accommodating guest speakers from around the world, as well as the infrastructural conference costs.

She said WEF was a non-profit-making foundation.

Professor Schwab said the WEF "did not come for commercial reasons. We have played a substantial role in South Africa".

He said he recently had been on a trip to central Asia which was full of opportunities. There were limited capital resources and South Africa had to compete for them.

Radical plan to cut State debt, end pension crisis

S/Times (Buss) 30/5/93

By CIARAN RYAN

THE Government should write off R39-billion of the R140-billion in public debt and save R6-billion a year by defunding the State pension funds, says Nedcor chief economist Edward Osborn.

He says efforts to secure full funding of the funds are undermining State finances and should be halted.

The contractual obligation of the State to public servants is adequate security for pensioners, says Mr Osborn in Nedbank's Guide to the Economy.

Instead of trying to reduce the R28,9-billion actuarial deficit on the Government Services Pension Fund (GSPF), the Government should acknowledge the debt to employees and collapse the fund into the State Revenue Account — the main account for receiving tax revenue and borrowings.

Pension benefits should be paid from the State Revenue Account.

Drain

This would save R3,2-billion annually in State contributions to the three main pension funds and R5-billion in interest. Employees would continue to contribute R1,2-billion a year, but to the Revenue Account. Benefits of R3,4-billion are paid out annually from revenue.

"There is no doubt that this would be seen as too radical for the moment," says Mr Osborn, "but it may well be forced on the country."

If implemented immediately, this would reduce the Budget deficit for 1993-94 to R20-billion and go some way to rescuing the economy from the public-debt trap.

The Government is trying to reduce the 49% GSPF funding shortfall — the difference between projected benefits to be paid to pensioners and the current value of the fund — by draining the Exchequer.

If present trends continue, says Mr Osborn, the ratio of public debt to gross domestic product will hit 64% by 2000. Interest on public debt will rise from 17,2% of GDP to 23,5%.

"Through ever higher interest claims on the Exchequer, the GSPF is absorbing an increasing proportion of the State's expenditure.

"The process will continue inexorably as long as there remains the objective of striving for the Holy Grail of full financial viability of the fund." (149)

The funds fell into deficit because of the extraordinary benefits payable to public servants, measured according to the employee's pay on the last day of service and the ability to buy back service to the age of 16.

The funding level of the GSPF improved from 41% to 51% between 1988 and 1991 because of high employer contributions — 2,75 times employee contributions compared with 1,5 in the private sector — interest rates as high as 15,7% on long-dated stock and transfers of R4-billion by the State over the last three years, paid out of borrowed funds.

Certain stocks offering above-market yields appear to have been created to pump up the performance of the State pension funds.

A solution to the deficit problem would be to bring benefits paid to retired public servants in line with those of the private sector.

World Bank has 'open' for SA

S Times (C Metro) 30/5/93

By JEREMY WOODS

THE World Bank has an "open-ended lending policy towards South Africa" governed only by the country's creditworthiness, World Bank Vice-President Mr Edward Jaycock said in Cape Town on Friday.

Asked how creditworthy South Africa was, he replied: "It is difficult to say. It depends how much money South Africa has borrowed from other countries." But he said, the country was changing fast and moving in the right direction.

"That's why we are here. We want to have a good look at what's happening and see how we can help."

He said the World Bank had been preparing to invest in projects here for two years and the value of these investments totalled $1-billion.

"Aid is a very poor springboard for development and people's expectations get too high when it comes to loans. No amount of aid supplements the flow of savings and cash flows generated in a properly structured economy."

Further optimism for SA's acceptance on the international loan markets was given by Mr Adewale Sangowawa, vice-president of the African Development Bank.

"Our lending to South Africa is dependent on it becoming a member of the African Development Bank. This could happen once a transitional government is in place and I believe South Africa could join by the end of this year."

ST Times (Buss) 30/5/93

A user's guide to the SCF and NEF

(44)

Negotiations are a hell of an experience. Comment by **KEVIN DAVIE**

THE negotiation process is proving to be a robust thing. It was delayed by only a week during one of the worst political crises in SA's history, the assassination of Chris Hani.

The arrests of PAC leaders slowed deliberations for a day or so, but all indications are that the process is moving relentlessly to a negotiated settlement which may only be a few weeks away.

The settlement will bring a transitional executive council (TEC), an election date, the end of sanctions, renewed access to the International Monetary Fund as banker of last resort, annual loans from the World Bank of \$1-billion, R1-billion from the African Development Bank and an estimated pro-democracy bonsella of about \$1-billion from the international donor community.

Some of this cash will attract other money. The World Bank, for instance, put up less than 5% of the finance for the R11-billion Lesotho Highlands water scheme, its involvement acting as the catalyst to attract the other 95% of funds.

This is not to say that the capital haemorrhage of the recent past will be replaced with net inflows. About R6-billion in liquid finrand investment is still waiting to leave.

But the gold mini-boom brought in about R900-million in share investments in a mere three weeks. Investment in SA can have little to do with politics.

World economic recovery remains the best hope to awaken the economy from its slumber. A settlement will be a bonus, not a cure-all.

With the TEC will come the subcouncil on finance (SCF), a six-member committee of politicians which will have a big say in how the economy is run. Details of the SCF are sketchy and subject to negotiation, but this is what is on the table.

The TEC, to be formed from the 26 political parties at the multiparty talks, will nominate six people (no more than two from any one party) to form the SCF. Experts may be seconded by the TEC to join the committee.

It will be one of five sub-councils charged with ensuring a free and fair election. Its powers are likely to be considerable and to impact on all aspects of economic life, including the Budget and functions of the Treasury.

The SCF is also likely to play a crucial role in rubber-stamping the next cycle of the debt accord and to sanction SA's new role with the international community, particularly the IMF and World Bank.

The SCF will acquaint itself with economic developments and objectives. It must be consulted about State expenditure, the composition of expenditure, the level and composition of taxes and the financing of the Budget deficit.

The SCF will also be represented on all function and budgetary committees. It will receive reports of spending against budgeted amounts and will scrutinise all taxation and financial legislation.

It may make recommendations concerning privatisation and will be able to request investigations by the auditor-general into allegations of corruption.

The SCF will, some observers say, be a super version of the National Economic Forum (NEF) and will get input from this negotiating body.

The question, then, is will the new SA not be still-born, strangled by its own umbilical cord of committees and bureaucracy?

The NEF, for instance, more than six months ago set itself a six-month deadline to show results from its short-term working committee.

This deadline has come and gone and the committee is still deliberating. How long will its long-term committee take?

But the structures — the electricity forum, the peace organisation, the housing forum, the NEF, the regional economic forums, the Metropolitan chamber, the TEC and the SCF — which negotiations have produced, are not to be pooh-poohed.

The new government will use these forums. Our best minds will interface, producing high-quality, consensus-driven advice for the government.

If you have any doubts, listen to Japie Jacobs, special adviser to the Minister of Finance.

Known for his straight talking and for being short tempered with positions he deems to be ignorant, Dr Jacobs says of the NEF: "It's a hell of an experience. Never in our history have we faced debate of this nature.

"It is time consuming and challenging at times, but is absolutely one of the best things which could have occurred."

ST Times (Buss) 30/5/93

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"It is time consuming and challenging at times, but is absolutely one of the best things which could have occurred."

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abolished, says Mr Cross.

S Times (Buss) 30/5/93

Hope for cheaper money

CONSUMERS stopped shopping after the Chris Hani assassination, leading to plummeting demand for credit and a year-on-year money-supply growth rate of only 3,35% in April.

(49)

This is way below the Reserve Bank's money-supply target range of 6% to 9% and down on March's 5,66%.

Econometrix economist Azar Jammine says: "This puts a downward influence on inflation and could imply pressure on Reserve Bank Governor Chris Stals to drop interest rates."

Dr Jammine warns that the fall in money-supply growth may end soon. "The higher gold price has lifted the reserves and the effects of this have not filtered through into money-supply figures."

Falling reserves since the beginning of the year contributed to the money-supply growth fall, says Dr Jammine.

Nedcor economist Edward Osborn says money-supply figures were kept artificially low by R8,5-billion being taken out of the system through the issue of government stock.

This brought the money-market shortage to an extraordinarily high level.

Russians lift diamond demands

RUSSIAN diamond mines are again claiming the right to sell fewer of their gems through the Central Selling Organisation (CSO). Head of the Committee on Precious Stones and Metals says restrictions on prices and output imposed by the diamond cartel "no longer suit" miners. They want to sell up to 20% of output to Israel, India, Belgium and America.

LOU DOBBS: Economic performance the success yardstick

CNN spotlight on new South Africa

S/Times (Buss)
30/5/93.

By ZILLA EFRAT

JUST as apartheid's failure was exposed by its economic breakdown, the success of a new South Africa will be judged on its economic performance, says CNN's Lou Dobbs.

Mr Dobbs is becoming a familiar face with SA television viewers as the anchor of CNN's Moneyline programme. He is also CNN senior vice-president and managing director of its business news.

He co-chaired the World Economic Forum in Cape Town this week and interviewed business and political leaders for a series about SA to be shown on CNN in the coming week.

He says SA will continue to play an important role in CNN's coverage. The possibility of opening a bureau in SA will be discussed in August.

(49)

It would cover both political and business news in line with Mr Dobbs' belief that the two cannot be separated.

Mr Dobbs, the only anchor on network television who is also a corporate executive, produces 10 business programmes that comprise about 15% of CNN's programming.

They include Moneyline, Business Day, Pinnacle, World Business Today and Business Asia.

CNN will start several new programmes this year to raise its standards. The first will focus on management, but Mr Dobbs will not discuss the others.

ST Times (Buss) 30/5/93

World Bank positive on SA loan

By JEREMY WOODS

THE World Bank has an "open-ended lending policy towards SA" governed only by the creditworthiness of the country, says World Bank vice-president Edward Jaycox.

Asked how creditworthy SA was, he replied: "It is difficult to say. It depends on how much money SA has borrowed from other countries."

But the country was changing fast and moving in the right direction.

"That's why we are here. We want to have a good look at what's happening and see how we can help."

He says the World Bank has been preparing to invest in projects in SA for two years and the value of these investments total $1-billion.

"People always get carried away with the amount of the big figures. Aid is a very poor springboard for development and people's expectations get too high when it comes to loans.

"No amount of aid supplements the flow of savings and cash flows that are generated in a properly structured economy."

Mr Jaycox says the important aspect of his trip was that the World Bank was making commitments in SA and "encouraging others to do the same".

His trip, the second to SA, was primarily to take part in the World Economic Forum, held at the Mount Nelson hotel and attended by heads of state and ministers from across Southern Africa.

Further optimism for SA's acceptance on the international loan markets was given by Mr Adewale Sangowawa, vice-president of the African Development Bank.

"Our lending to SA is dependent on it becoming a member of the African Development Bank. This could happen once a transitional government is in place and I believe SA could join our other member countries by the yearend."

Asked if he thought SA would be the engine that drives Africa, Mr Sangowawa said: "We see the SA economy being part of a regional economy.

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"We don't see it in a dominant role. The needs of SA are enormous and we think it will be some time before the country comes to terms with this."

He said SA's "needs" included political stability, peace and equality, as well as a more competitive industry.

"Tariffs and import duties protect inefficient industries and these will have to be phased out, so that the country can be competitive in the international business arena."

THE JSE WEEK

By JULIE WALKER

GOLD moved up and down like a yo-yo and kept dealers on their toes all week. From $378 an ounce on Monday it fell below $375 on Wednesday, then was fixed at $381 on Friday morning, only to retreat to $377,45 at the close.

On aggregate, golds followed the trend, but caution crept in on the underlying knowledge that prices had been pushed too far ahead of the gold price and that the market was grossly overbought. The All-Gold index moved up to above 1 900, but retreated to close at 1 846 points on Friday.

The notion of value for money returned; dividend yields have thinned in past weeks. Mining exploration shares also retreated.

Platinums were mixed after the metal's price caught up with the precious share rush. In New York, July platinum futures contracts reached $403/oz — the highest in ages — on

week ago and looks destined to be sold out of the food-dominated Del Monte Royal group. Six years ago the group listed as Lovasz Chemicals. Chemserv is a possible buyer; it too warned of negotiations on the same day.

Suncrush put on 500c to 40 500c ahead of announcing board approval for a 50-for-one share split.

The property trust sector started to attract the interest of institutions such as Board of Executors, whose June newsletter recommends accumulation of quality companies in the sector.

Higate and Histone both lifted earnings this week but unit prices were unchanged on the JSE.

ployers on the council.

NICISEMI says the Supreme Court rejected the opposing applications on all counts.

It ordered the main respondent, Photocircuit, to

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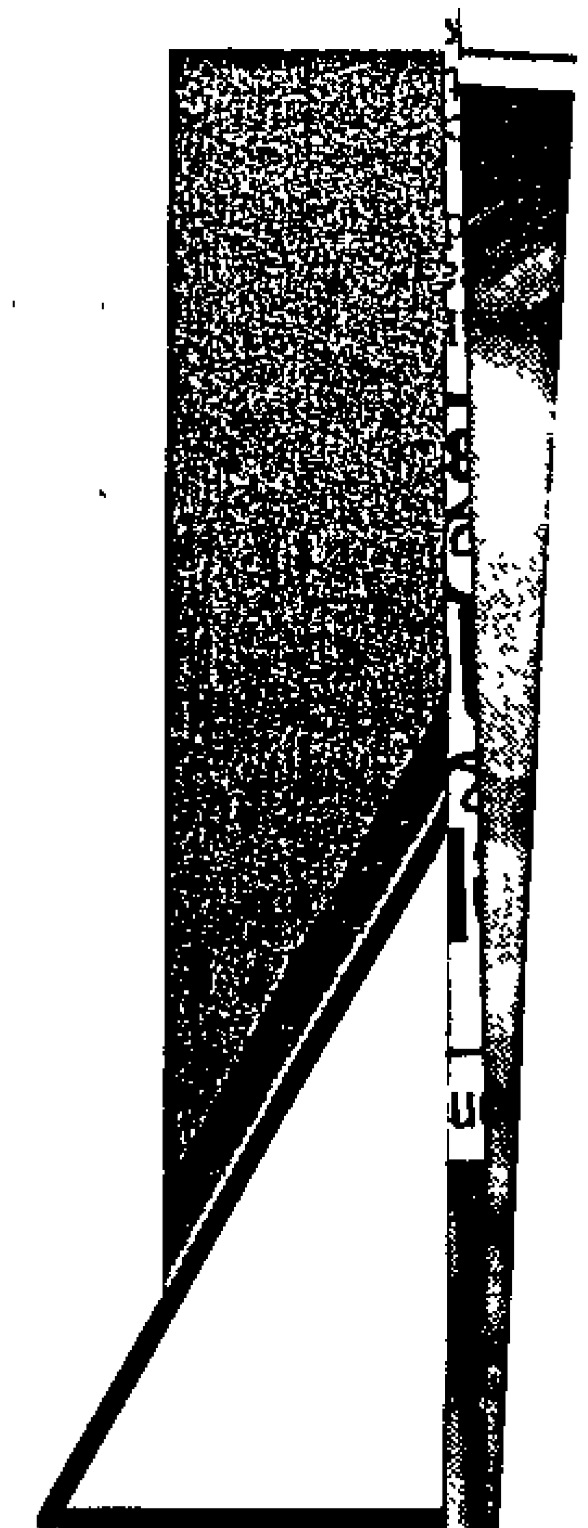
He will ance trial role.



Star 31/5/93

Money supply growth falls again

South Africa's stifled money supply growth in April dropped even further below the Reserve Bank's guideline range of six to nine percent, figures released by the central bank on Friday show.

49 88

Money supply growth as measured by M3 was 3,35 percent last month, compared with rates of around five percent for the previous three months.

Total money supply M3 seasonally adjusted was R196,728 billion in April, compared with R196,133 billion, and the percentage change of M3 seasonally adjusted was an unchanged one percent in April.

Total domestic credit extension in March this year at R217,719 billion also remained muted, rising by 10,3 percent from an increase of 10,54 percent in February. — Sapa.

World Bank upbeat on post-apartheid outlook

Star 31/5/93

CAPE TOWN — South Africa, mired in its longest recession on record, could enjoy rapid growth in the early years of a post-apartheid government, although benefits must be shared fairly to sustain this, says the World Bank.

The bank, in a report released at the weekend by its Southern Africa department, says most of the country's economic, as well as political, problems are rooted in apartheid.

No economic programme, however well designed, can succeed without increased social stability, says the report, presented to a two-day meeting of the World Economic Forum in Cape Town.

"If gains from growth are not perceived as being distributed equitably by the community at large, social unrest will re-emerge, and political and economic stability will be undermined," it says.

The bank says the report was distilled from informal discussion papers prepared by its staff and a wide range of South Africans, and is not an official bank document.

The report says South Africa's income per capita of $2 500 a year puts it among upper, middle-income developing countries.

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Disparities

But per capita income for whites is almost 10 times higher than for blacks, and 4,5 times higher than for coloureds, it notes.

Wide disparities range from access to services, including water, sanitation, electricity, education and health to social welfare in areas such as infant mortality and life expectancy at birth.

The extremes, it says, "tend to confirm that there are really two South Africas — a First World society for whites and a Third World society for blacks".

Key problems which have to be addressed range from high unemployment — one-quarter of the black labour force is without work — to declines in investment and productivity, while the trade regime is biased towards production for the home market rather than internationally competitive exports.

Also, private sector confidence has been badly shaken by growing political uncertainty and rising violence.

"To stimulate growth, the single most important ingredient is investor confidence," it says, adding that this will only emerge if, unlike in the past, policy-making is transparent, with no chopping and changing.

It is difficult for the authorities to stimulate the economy now in the face of a number of constraints, including the balance of payments, the fiscal deficit, and a need to keep inflation under control.

Advantages include spare capacity and excellent infrastructure.

Investment

Little new investment will be needed in coming years in much of the transport and communication systems, and electricity generation.

Foreign debt, estimated at $18 billion, is low, with the ratio of debt to gross domestic product unusually low.

"South Africa is not in the foreign-debt trap faced, for example, by some countries in Latin America and Eastern Europe." — Sapa-Reuter.

Customs union 'sank neighbours'

Buss. Day 1/6/93

(49)

LINDA ENSOR

CAPE TOWN — SA was the main beneficiary of the SA Customs Union, which had crippled the growth of the economies of Botswana, Lesotho, Swaziland and Namibia, Southern African Development Community executive secretary Simon Makoni said in an interview at the World Economic Forum.

Makoni took issue with Finance Minister Derek Keys's statement that the union was a financial burden on SA in that it had to pay unfavourably large amounts in transfer payments to member countries.

Makoni said the union had polarised industrialisation in such a way that little industrial development took place in SA's four neighbours. This was not only a result of implicit and inherent imbalances but also a deliberate policy of SA business and government. He cited as an example the recent scuttling by SA car manufacturers of plans to establish a French car assembly plant.

SA transferred revenues to customs union countries two years after they were collected. They represented interest-free loans of foreign currency by these countries to SA.

The protection of SA's economy by means of high tariff barriers also meant these countries had to purchase goods costing 25% more than if they had been imported directly.

One of the objectives in restructuring the customs union would be to democratise its management. SA's Finance Minister imposed his decisions on union members.

Makoni felt a new customs union would have to provide for balanced development of the union as a whole. "There is a tacit understanding that as soon as a new government is in place in SA there will have to be a renegotiation of the customs union in order to address these inequities."

The expansion of the union to the whole of southern Africa would be a long-term objective.

SA's economy was so distorted and had such enormous problems that it could not act as an "engine of growth" in southern Africa.

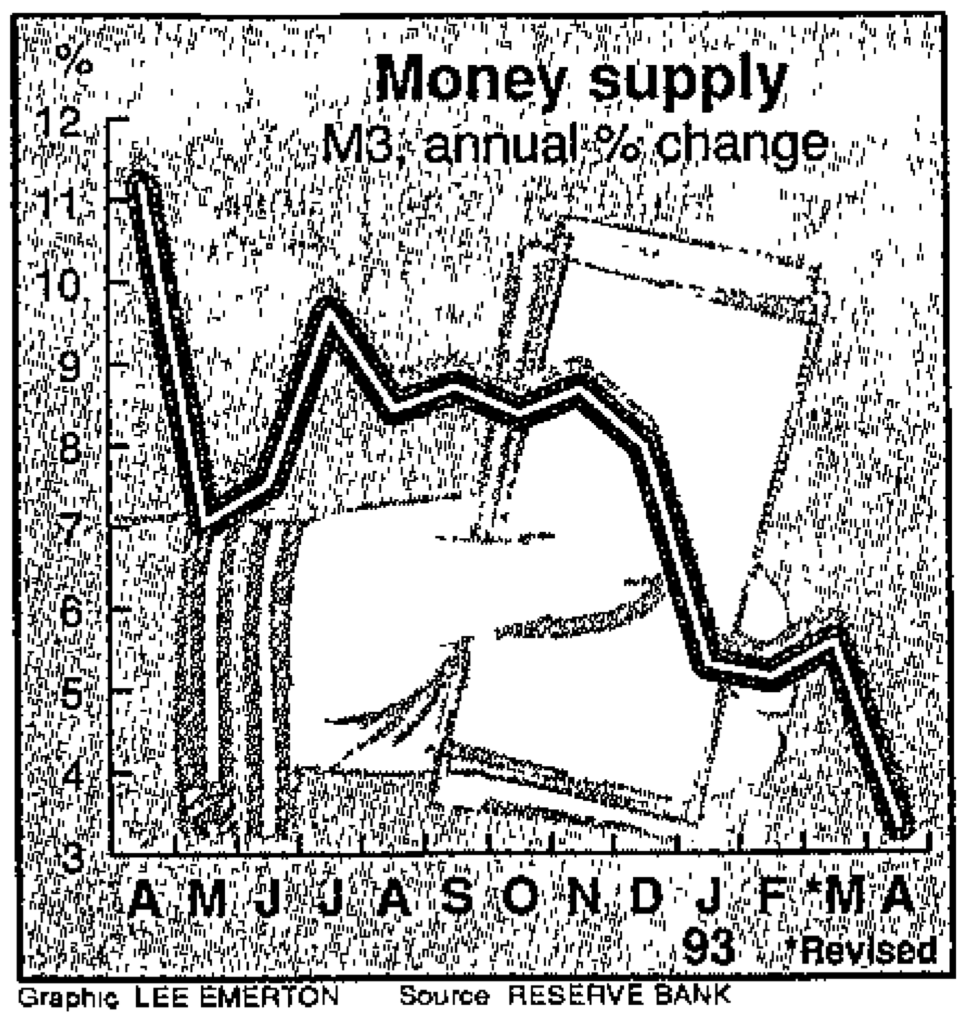
"White SA overestimates the capacity of this country and its economy." Makoni pointed to SA's inefficient and uncompetitive manufacturing sector, its critical skills shortage and its lack of sufficient resources to redress the imbalances of apartheid, let alone invest in the region.

SA's manufacturers were generally high-cost, low-quality producers and were only able to sell more than 70% of their exports — which were internationally uncompetitive — to the southern African region because they had a captive market and because government subsidised them to a large extent.

ANC economic department head Trevor Manuel said during a news briefing that SA's economy would not be able to go it alone as an island of prosperity.

Manuel believed current one-way intraregional trade flows were unsustainable. He stressed the need for an approach which allowed for integration and which enhanced the competitive advantages of the different countries in the region.

African Development Bank vice-president Adewale Sangowawa likewise did not believe SA would play a locomotive role in southern Africa as it had its own problems to deal with.



Graphic LEE EMERTON Source RESERVE BANK

Govt stock sale slows M3 growth

Buss · Day 1/6/93

TIM MARSLAND

GROWTH in money supply slowed further for the year to April because of the large-scale sale of government stock in that month, economists said at the weekend.

Reserve Bank figures show growth in the broad M3 measure for the 12 months slowed to 3,35% from a revised 5,66% for the year to March. The Bank's target for growth is 6%-9%. (49)

From the base of the current guideline year (the fourth quarter of 1992) growth was 1% — unchanged from March's figure.

Nedbank chief economist Edward Osborn said the slow growth was the result of the "excessive" sale of about R8bn in government debt during April, which offset the natural growth of credit.

Government budgeted for a R31,5bn deficit for the current fiscal year, which implied that by the end of April it had already raised almost a third of its requirement for the whole year.

Osborn said credit demand was also affected by the buying spree to beat the April 7 implementation of the 14% VAT rate. The drop in demand after April 7 added to the squeeze. He said the slowing in the growth of money supply in the first three months of 1993 resulted from the decline in the balance of payments, which had come to an end in April.

Are the rich more trouble than they are worth?

B|DAY 1/6/93

JOHN PLENDER

(49)

FOR those who enjoy a little vulgarity, the behaviour of the rich in the '90s is a disappointment. What a contrast with the '80s when, in the words of Ronald Reagan's first budget director David Stockman, "the hogs were really feeding".

It was not just the hogs. The Trumps were trumping, the Milkens milking, the Goldsmiths greenmailing and Thatcher's entrepreneurial children were jumping joyfully from the playpen.

Even at this short distance the '80s look the finest years for would-be nouveaux riches since the forebears of many of today's ducal families grew fat on the dissolution of the monasteries.

The billionaires and millionaires who are making the headlines in the '90s are a more austere bunch. George Soros, the high-minded philosopher-speculator who found the fault lines in the European exchange rate mechanism and recycled the British taxpayer's money to Bosnian Muslims and needy Hungarians; Microsoft chairman Bill Gates, whose decision to marry one of his managers shows no sign of transforming him from a computer-world frog into glamour-world prince; David Sainsbury, one-time backer of Britain's Social Democratic Party, charitable donor and eponymous chairman of the food retailing group that remains one of Britain's most remorseless money-making machines.

The new austere tendency, if that is what it is, has nothing to do with any wave of popular feeling against the rich. If anything, the extraordinary feature of the past dozen years has been the lack of any serious backlash by the world's underdogs, despite the failure of First World wealth to trickle to the Third. Within individual countries, notably in Latin America, the trickle down theory of economics failed to work because so much money trickled out in capital flight, as the rich tried to escape the depredations of politicians.

Yet the political response to impoverishment has increasingly been to adopt the prevailing ideology of the developed world: the market. The result in Latin America, once the home of dependency theory and the economics of despair, has been that capital has trickled back to finance an unprecedented experiment in liberal economics.

In the developed — and more especially the English-speaking — world, the present sober condition of the rich is no more than a natural evolution from the ideological '80s. The Reagan-Thatcher years delivered lower marginal tax rates, financial liberalisation, balance of payment deficits and buoyant stock markets. For the first time in recent memory the political culture turned pro-business. And in this frothy, consumption-led cycle, the service industries — finance, advertising and entertainment — boomed as never before.

Those manufacturing industries that did flourish in the '80s, such as computing, relied not on expensive commodities like metals, but on a cheap form of sand called silicon.

But the rich of the developed world are now infected by the curse of the Third World nations: since economic activity was financed in the previous decade by unprecedented resort to borrowing, much of the First World has suffered a debt-induced recession.

The new millionaires have therefore been culled by the laws of financial gravity. The extent of their financial and ethical misdeeds, rather than the nature and substance of their particular business, has been the chief determinant of their fate.

☐ GATES

Witness how printer and publisher Robert Maxwell, scourge of the widows and orphans, succumbed to the grim reaper; Michael Milken of junk bond fame to the prosecutor; Asil Nadir of the fruit-to-fraud conglomerate Polly Peck to the administrative receiver, if not the courts.

For those of envious disposition, one of the most satisfying falls from grace has been that of US real estate man Donald Trump. Others to fall were the Reichmann brothers of Canada, Trevor Osborne in the UK and frenetic Australian entrepreneur Alan Bond.

But does anyone care much any more when the highest in the land discover that they are downwardly mobile? What, come to that, is the point of the rich? Are they really doing their stuff?

The bien pensants of the 18th century had no difficulty with these questions. As Dr Johnson put it: "You cannot spend money in luxury without doing good to the poor. Nay, you do more good to them by spending it in luxury than by giving it; for by spending it in luxury you make them exert industry, whereas by giving it you keep them idle." Unfortunately (if you share the Johnsonian view) the spending power of the rich is too small, nowadays, to offset the rise in the savings of the masses that brought about the recession. From an economic point of view, the very rich are not very relevant.

A more subtle and provocative case for the rich is advanced by the libertarian philosopher Friedrich Hayek. Hayek argued not only that people of independent means are essential for the preservation of competitive enterprise, but that the rich are even more valuable when pursuing aims that bring no material return. In a majoritarian democracy, he argued, the state simply cannot provide sufficient diversity of patronage in arts, education, politics, morals and religion. (There would even, he adds, be a strong case for selecting at random one in 1 000 and endowing them with fortunes to dispose of at whim.)

For Hayek, such a system justifies itself even if a mere handful of these individuals spends in a beneficial manner because waste, however shocking, is the price of freedom. And measured by this undemanding criterion, the present-day rich are clearly doing a splendid job.

In less fiscally stressful times the British government might have put up the money for the National Gallery's Sainsbury wing. But it would surely have had misgivings about the Saatchi gallery in St John's Wood, which embraces the kind of contemporary art that can sometimes embarrass government ministers.

Nor would any government be likely to put the taxpayers' money into prizes for religious research, as the octogenarian fund manager Sir John Templeton has done.

The pluralist's response might be that the rich are not as diverse, in their tastes, as they might be; and that Hayek underestimates the diversity of the imperfect democratic process. Ken Livingstone's Greater London Council might not have been every libertarian philosopher's ideal, but it backed far wilder ventures, artistic and otherwise, in its time, than most private millionaire patrons would contemplate.

That said, in a world marked by structural budget deficits, the 19th century campaigners who were able, thanks to a sufficiency, to abolish slavery, reform the prisons and bring humanity to the treatment of the insane, are almost certainly due for a late 20th-century renaissance.

Perhaps, also, as university funding is squeezed, are the gentlemen scholars like Darwin, De Tocqueville or Henry Adams, and the recipients of patronage like Marx.

Love them or hate them, millionaires are the only people in the straitened '90s who can fill many of the intellectual, cultural and social gaps left by a state that is in obligatory retreat. The rich, of necessity, are always with us. — Financial Times.

SA urged to obey market economy rules

By Sven Lünsche Star 11/6/93

The Taiwanese ambassador I-Cheng Loh has criticised South Africa for practices which reflect "disbelief in the market economy".

He said at the weekend: "It is time for SA to realise that unless certain structural re-adjustments are made, its prospects of economic development will not be as fast as imagined."

He urged economic re-adjustment in compliance with the market economy. (49)

"The practices here, however, reflect disbelief in the system.

"For example, banks charge 1,5 percent for every letter of credit issued, compared with only 0,15 percent in other countries."

Loh said trade between South Africa and Taiwan totalled R4,81 billion last year, with a surplus of R1,55 billion in SA's favour.

Private consumption expected to shrink

Buss day 2/6/93

GERALD REILLY

PRETORIA — Until SA consumers are in a position to spend, the economy will continue to wallow in the doldrums, says Absa senior economist Adam Jacobs.

Calculations showed, he said, that private consumption expenditure per capita, a key component in the national economy, would shrink this year by 3,5%.

Factors contributing to the steady decline in consumer spending included increasing unemployment, salary increases substantially below the inflation rate in real terms, falling consumer confidence in a climate of unrest and acute political uncertainty, and mounting debt.

Another economic depressive was the expected further decline in domestic fixed investments.

Jacob believed that this year "we'll be fortunate if we achieve zero growth".

He agreed, however, with Reserve Bank economist Bernie de Jager that there were positive forces at work which pointed in the foreseeable future to a strengthening economy.

De Jager said the agricultural outlook had improved dramatically with the ending of the drought.

It was estimated farm production in 1993 would rise at least 15%, adding 0,8% to GDP.

Last year farm production fell by 24%.

A secondary multiplier effect would be an increase in domestic demand.

De Jager said: "The improved farming prospects could help bring to an end the economic recession of the past few years or even result in a moderate expansion of economic activity."

De Jager said the limited recovery in world economies would not only result in a turnaround in demand for SA exports, but would also strengthen prices for exports.

On gold, De Jager said it appeared the down phase in the gold price had come to an end and that the metal was on the eve of stronger demand.

Industrial demand already exceeded annual world production.

He said monetary policy had begun to pay dividends.

It had slowed the growth of the money supply from 22,4% in 1989, to 12,7% in 1991, and to 8% last year.

Since then the rate of expansion had slowed further.

This had contributed greatly to reining in the inflation rate.

De Jager said there were clear signs of a greater sense of reality among organised labour's leadership corp.

Recent happenings indicated a new understanding and the economic civil war between employer and employee could be coming to an end, he added.

(428) (49)

ANC struggles to plot fresh course in policy debate

GRETA STEYN

Buss. day 2/6/93

49

THE ball is in the ANC's court in the economic policy debate. Government has served a cannonball in the form of Finance Minister Derek Keys's normative economic model. What will the ANC's return of service be like?

Government's model, for all its faults, represents a detailed account of the economic policies it would like to implement.

Government representatives use it in discussions at the national economic forum and it will form the basis of its viewpoint once a transitional executive council is in place. It is the economic policy with which the NP will fight an election.

Which policies will the ANC want to see implemented once it has become part of the forum and part of government? How will these be reconciled with the Keys plan?

The ANC's last comprehensive policy framework, which was lacking in detail, was issued in May 1992. Since then, clues on policymaking have emerged from work released by macroeconomic research group (Merg) academics, workshops (such as on anti-trust policy) and speeches.

The model developed by Merg academics is regarded as an ANC response to Keys's model. It was developed by University of Durban-Westville economist Stephen Gelb, his colleague Bill Gibson, MIT academic Lance Taylor and Development Bank of Southern Africa economist Dirk Ernst van Seventer.

Gelb and his partners' work is not strictly comparable to the Keys model in the sense that it does not offer detailed policy prescriptions, but does provide an important alternative view of how the economy works. A model reflects its architects' view of how the economy functions and the Merg model has illustrated that government's view is not an objective truth.

With the present focus on economic modelling, sparked by government calling its policy document a normative economic model, the Merg model is a useful contribution to the debate.

Its authors dispute government's assumption of a savings shortage and argue that there is room for demand-led policies side by side with supply-side policies. A maximum of 'two years' demand-led growth could push SA on to a longer-term growth path. The model postulates that, if the structure of the economy does not change due to policy interventions, real GDP growth will not exceed 2,2% in the '90s.

But the model does not carry the ANC's official stamp of approval. It is also lacking in policy detail and not available in the same easily digestible form as the Keys model. It might be incorporated in a new ANC policy document, but on its own it is undoubtedly an inadequate response to the Keys package.

A further indication of ANC thinking on economic policy came from ANC economic planning head Trevor Manuel's favourable comments about the World Bank's work on SA.

The World Bank's analysis, although not yet released officially, differs from the Keys model in many respects. Among others, it calls for "renewed emphasis on public investment . . . given the need to expand publicly provided facilities for much of the population". SA, if it grew at 5% a year, could sustain a fiscal deficit of 6% of GDP — a figure government rejects.

Unlike the Keys model, the bank has detailed policy suggestions on agriculture, including developing small-scale agriculture centred on the black family farm.

Manuel did not, however, endorse the document in its entirety. How much of the bank's view will find its way into the ANC's formal view on the economy?

While there have been clues, there has also been confusion. People who attended the workshop on anti-trust policy will remember the ANC's stance against lifting exchange controls which were seen as a means of discouraging concentration of share ownership. However, not too long afterwards, Manuel spoke in favour of the repeal of exchange control. Since the comments were made in specific contexts, it is difficult to work out what the actual position is.

There has been no new "wrap" of economic policy explaining the situation; the specifics lacking in the 1992 paper have not been filled in and new questions have arisen. Is a new policy wrap on the cards?

Merg intends bringing out a comprehensive policy document by September based on the projects undertaken by academic researchers. The intention was that the Merg policy recommendations would form a major input to ANC economic policy, effectively providing the basis for a comprehensive policy document. But it now appears that the Merg recommendations might have the status of just another source.

In-fighting within Merg and rumours of tension between some academics and the ANC economic planning department have raised questions over the extent to which the Merg exercise will be translated into a formal ANC position.

The in-fighting centres on who should write the policy recommendations. There is a belief within the movement, not unfounded, that the choice of writers will shape the slant of policy and the way it is received. Hence the key role accorded to two reputed communists, Ben Fine and Laurence Harris from the London School of Oriental and African Studies, has raised the ire of some key local academics. Many believe that SA has enough talent to do the job.

A Merg policy document might well gather dust on the shelf rather than find its way into a formal ANC position. This does not mean that individual researchers' work will not form part of ANC economic policies.

Outside Merg, there are also detailed analysis and policy recommendations that the ANC can draw on — aside from the World Bank, the Development Bank and the scenario exercises done by Old Mutual/Nedcor and Frankel, Pollak, Vinderine.

But who will pull together the strands to present a viable alternative to the Keys model?

The longer that question is not addressed, the greater government's chance of winning the policy debate. Government's key to selling harsh policies — sharp cutbacks in government spending and the abolition of centralised wage bargaining — is to promise economic prosperity at the end of the road. With the help of a "model", it has "proved" that unpalatable policies will generate sustained growth, low inflation and new employment.

The label "normative economic model" was not chosen by accident; it has a scientific ring to it that common-or-garden "policy documents" or "plans" do not.

While the ANC has not yet provided a detailed policy framework to compete with government's, it has taken part in some telling offensives against the normative economic model. Its economists emphasised the need to release the mathematical equations underpinning the model.

The furore led to Finance special adviser Japie Jacobs admitting government should never have called it a model — it was, rather, a policy framework.

But the ANC, if it is not careful, might find itself in a position where its only role will be to modify government's position rather than have a chance to see its own implemented. That would be fine if it were by choice, but there is no clear indication yet that this is the case. The ANC faces a vacuum in economic policymaking that will become telling once a transitional executive council is in place.

Manuel is not to blame for the vacuum, as the burden on his shoulders is too much for any one person to bear. But if the ANC does not take an urgent look at the process of economic policy formulation, it will find itself wrong-footed.

SPOT DESK

NOW THAT WE'VE ...

WORLD

US 'will go extra mile' to wrap up world trade talks

Buss. day 2/6/93

(49)

WASHINGTON — US President Bill Clinton says his administration is prepared to make extraordinary efforts to complete a long-delayed global free trade agreement that promises a boost to the world economy.

Economists forecast that a successful conclusion to talks among 112 countries could add more than $1 000bn to world output during the next five years by lowering tariffs and other barriers to trade.

Clinton told the US's major trading partners in early May that the US was "willing to go the extra mile" to complete the Uruguay Round of GATT talks. Since that time US negotiators had been developing new strategies to overcome obstacles.

Four senior Cabinet members, led by Treasury Secretary Lloyd Bentsen, left yesterday for two days of meetings in Paris.

"These meetings are an important forum for advancing the growth policies and trade policies needed to put our people back to work," Bentsen said. "World growth, to a large degree, depends on expanding world trade." Commerce Secretary Ron Brown, Labour Secretary Robert Reich and US Trade Representative Mickey Kantor were also scheduled to attend an annual meeting of the 24-nation Organisation for Economic Co-operation and Development.

In addition to negotiating the details of trade, the US is hoping to convince its trading partners that it remains committed to the principles of free trade even as it searches for ways to narrow a US trade deficit that hit $84,5bn last year.

"We are a free-trade administration," Brown said. But he called the country's current trade deficit unacceptable and said it was "absolutely unacceptable for $50bn of that to be with one country" — Japan.

Kantor was scheduled to meet EC, Japanese and Canadian trade ministers tomorrow to address ways to advance the Uruguay round. He said the US would be trying to wrap up a broad agreement to lower tariffs on an array of manufactured goods.

The US strategy is to gain endorsement of this package at the annual economic summit in July. It would then use the lower tariffs to entice less-developed countries to make concessions by providing greater protection for intellectual property and lowering barriers in services such as banking and insurance.

Clinton, in a recent speech, said US companies were losing $60bn a year in world sales just from the piracy of their copyrights.

He has set a goal of completing the Uruguay round by December 15.

But to meet that timetable, all sides believe next month's economic summit in Tokyo will have to produce tangible progress.

Recent developments have given rise to optimism. A May 14 meeting in Toronto between the US, the EC, Japan and Canada was described as a major breakthrough when Japan introduced a new tariff-cutting offer covering electronics, construction machinery, medical science equipment, chemicals, film and rubber.

Kantor publicly praised the Japanese proposal, although privately US officials said the Japanese would have to go much further. In addition to tomorrow's meeting, the four trade ministers are scheduled to meet again June 23-24 in Tokyo.

The GATT talks were to have ended in December 1990. But for two years they were stalemated over a US demand that the EC significantly scale back farm subsidies.

There was little movement until last November when the Bush administration, struggling to wrap up the Uruguay Round before it left office, reached a compromise on farm subsidies with the Europeans.

While the French are still expressing deep reservations about the farm subsidy agreement, the new administration is pressing forward with the tariff-cutting package in hopes that Clinton will be able to succeed where Bush failed. — Sapa-AP.

Lloyd's losses 'no threat to Tory majority'

Call for probe of operational risk status

Buss. day 2/6/93

LINDA ENSOR

CAPE TOWN — A thorough investigation into the current status of operational risk in banks should be undertaken because of the current economic and political climate in the country, the annual report of the Reserve Bank's Banks Supervision Department tabled in Parliament yesterday said.

It said this would enable the department to make a better overall evaluation of operational risk management measures within banks. In the past, operational risk was regarded as a "non-financial" risk but it did culminate in a financial risk and should be managed effectively.

Operational risks included internal control systems, fraud, money laundering, adequate disaster-recovery procedures and reliability of computer systems.

(49)

Projects to be undertaken by the department this year also included the reporting of currency options and futures with a view to developing a uniform approach and optimising currency-risk management.

Also, Bank Supervision Department GM Hennie van Greuning said the department was adapting its approach to supervision on a consolidated basis in view of the latest directives issued by the Basle Committee on Banking Supervision and the EC.

He said consolidated supervision would result in the annual preparation of newly devised consolidated returns, with specific emphasis on the capital adequacy and large exposures of a banking group. This would include the foreign operations of local banks

It would also entail a holistic approach to the supervision of all entities, both bank and non-bank in a financial services group.

The Basle minimum standards enabled regulatory authorities worldwide to prevent the entry of foreign banks, or to impose additional restrictive measures on foreign banks if the home country regulatory authority of banks did not actively supervise the domestic and international activities within their jurisdiction on a consolidated basis.

Ca

Stable future SA 'offers investor potential'

(49)

By AUDREY D'ANGELO
Business Editor

SA will have "an enormous potential" for investors if political solutions are found and confidence restored, Günter Steffens, the new representative of Dresdner Bank in SA, said yesterday.

Steffens has come from Dresdner's London branch, where he served for 25 years. His last position there was GM.

CT 2/6/93

Dresdner Bank is the second largest bank in Germany, but Steffens said it was "a niche player" in SA.

Discussing the violence and unrest following the assassination of Chris Hani, he said "everybody regretted this looking from the outside. But we have always looked at SA realistically."

Introducing Steffens to clients at a reception last week Peter-Jörg Klein, head of the bank's international division, said Dresdner was confident of the future political and economic development of SA "as a benefit not only for this country itself but for the whole of Southern Africa and its trading partners worldwide."

Klein said this confidence was reflected by the creation of the International Bank of Southern Africa last year by Dresdner Bank with its partner banks Banque Nationale de Paris (BNP) and Banque Bruxelles Lambert.

Co-operation with local banks was "a central element of the policy Dresdner Bank and BNP are pursuing within the framework of their co-operation agreement under which they are jointly expanding their operations abroad.

"Thus jointly held banks have been established in Switzerland, Turkey, Hungary and the Czech Republic. A further joint project in St Petersburg is in the preparatory stage."

Four different revolutions are in spate across SA at once, observes **Don Beck**

Bewildering, but everyone's right

Star 2/6/93.

(49)

SOUTH African society is being challenged to invent itself, no less. As the participants in negotiations are possibly beginning to discover to their bewilderment, everyone is right.

South Africa does need unitary features to save the state from fragmentation and to ensure coherent development programmes. It does need federal features to satisfy regional needs and particularities. It does need confederal features to protect natural and healthy ethnic cores.

It does need government intervention to rescue the historically dispossessed. It does need economic and political freedoms, without which the free enterprise ethic would be smothered and prosperity would be out of the question.

And so one could go on. The country is a bagful of paradoxes. The negotiators have somehow to meet these needs and demands in whatever they design. Leave out one or more and the constitution will be inadequate, so badly flawed it is unlikely to survive.

A liberal, purely First World system could not possibly meet the legitimate needs of the Second, Third and even Fourth World sectors, which happen also to be the numerical majority. Conversely, an authoritarian World War 2 system would drive away the wealth-generating First World sector.

It helps to consider the social forces at play. South Africa is in the throes of four separate social and political revolutions, which are also flowing across the rest of Africa and parts of Europe. What makes South Africa unique is that here they are present all at once, which accounts for the turbulence.

Revolution 1: Young minds struggle to escape restrictive tribal mores and rituals as they swarm into the urban bright lights. They demand "action" and action now. Having rejected the tribal rites of passage and control by their elders in the previous order, they seek unbridled freedom, power and pleasure.

Revolution 2: Millions are in a frantic search for redemption and meaning in life. It is offered by the ideology and discipline of "national liberation". Haunting songs fill the air and there is the hunger of the zealot for a total and cleansing transformation of society into a new and just order.

Revolution 3: Many are abandoning rigid ideology, authoritarian control and the conformity of the "volk". A spirit of independence and enterprise has been awakened in them and they strive to succeed in a market-driven world. They reject greater government intervention or restrictions on individual rights.

Revolution 4: Having tested the good life and pervasive materialism, a class of guilt-based revolutionaries has emerged. These embrace often naive egalitarian schemes and maintain that they cannot be "free" until all around them are also "free".

It is these revolutionary currents which create the turbulence of South Africa. They transcend racial, ethnic and even class categories. Each revolutionary surge has a "system" against which it struggles. Each has its own definition of "democracy", economic theory or "justice". And each from its particular perspective is right.

The challenge to the negotiators is to perceive the whole, not just their particular interest, and to put in place something that serves the whole. South Africa's political leadership needs to design, construct and engineer a political dispensation which allows millions of people to move through the "revolutionary" phases mentioned without simultaneously pulling down the entire structure.

Such a dispensation would have to contain all kinds of seemingly contradictory elements such as unitarism, federalism and confederalism. Government intervention would have to co-exist with a free market.

National developmental priorities have to be established — job creation, education, law and order, housing and community development — so that internal and external resources can be quickly meshed, synergised and committed at grass roots level.

South Africa would do well to use its year of joint executive government, and the five years of elected government of national unity which will follow, in addressing national developmental priorities, tailoring the eventual constitution to these needs.

While the classic liberal safeguards are welcome in any constitution, in South Africa's case they are unlikely to suffice. There is no liberal consensus; the four revolutions are in spate and they have to be constructively channelled, all at the same time.

Six years is not a long time in terms of history. But it is long enough for human ingenuity to make a start.

● *Dr Beck is an American conflict resolution specialist who has worked extensively in South Africa over more than a decade.*

Call for TEC say in budget

~~3649~~ 49

CT 2/6/93

JOHANNESBURG. — The 1994/5 national budget should be drafted in consultation with a sub-council of the Transitional Executive Council (TEC)

This recommendation is contained in the report of a technical committee investigating the powers and functions of the TEC and its sub-councils.

The committee recommends that for the 1994/5 budget, there should be consultation on the:

- Overall level of state expenditure.
- Broad composition of security, social, economic, and general government expenditure.
- Level and composition of taxes collected.
- Financing of budget deficits.
- Contingent liabilities of government.

The committee also recommends that the sub-council should be empowered to ask any auditor-general to investigate allegations of corruption or inefficiency and report to it.

It should also be empowered to review existing public service disciplinary codes.

The committee also recommends that the sub-council be represented on all budgeting committees to ensure that funds are not applied in a manner "favouring one or other political grouping participating in the election of a democratic government".

Pressure on forum to 'deliver the goods'

49 ARG 3/6/93

□ Sayers warns economic body

BRUCE CAMERON
Business Staff

PRESSURE is being put on the six-month-old Western Cape Economic Development Forum from its labour contingent to start delivering the goods.

At its third plenary session yesterday, outgoing chairman Adrian Sayers also hinted at some "complacency" among members, warning that if the forum could not deliver, "other solutions will have to be found".

Cosatu member Mr Tony Ruiters said the union federation was coming under pressure to deliver solutions. There were accusations that the forum was becoming a talk shop.

But the members representing the four constituencies of labour, business, political parties and community organisations, and local and regional government accepted that the forum was still in the development stage and had made significant progress.

Action committee reports were made to the plenary session on issues ranging from short-term employment to adult literacy.

Some teething problems were obvious as members discussed ways to co-ordinate better the work of the various committees and how to link up with other forums, including the national economic forum.

Mr Sayers announced that the steering committee had decided a full-time secretariat had to be appointed, which would cost about R1,3 million for the year. Mr Howard Daniels had been appointed as full-time co-ordinator and Ms Felecia Roman as administrator.

Mr Ruiters, expressing concern about the speed of delivery of solutions, said he was also worried about whether the forum was being given proper priority by business and whether the decision makers were members of the forum.

Forum members were worried about the representation of community organisations, with suggestions that resources would have to be made available to allow greater participation

Job placement plan urged

Business Staff

A NETWORK of community-based job placement centres should be created to help to deal with soaring unemployment among the impoverished, an action committee of the Western Cape Economic Development Forum has recommended.

In a report to a plenary session of the forum yesterday, the short-term job creation committee said it had identified public works programmes and small and medium enterprises as the mechanisms to create jobs.

A key element of employment creation was skills training, which should be linked to skills deficits in the labour market.

The committee was opposed to rudimentary short duration training in a single skill. What was required was training which would enable people to move into other jobs from the short-term unemployment relief jobs such as on public works programmes.

A network of job placement centres would help in ensuring programmes reached target constituencies while being able to establish skills data banks which could be used in identifying skills shortages and training needs.

The programmes should create jobs on an on-going basis.

Graphic RUBY-GAY MARTIN Source I-NET

Low bank debt fuels hopes of rate cut

Buss. day 3/6/93

TIM MARSLAND

BANKS' daily debt to the Reserve Bank dropped to a 12-month low of R1,2bn on the money market yesterday, fuelling hopes of lower interest rates later in the year.

Capital market rates also went on a bull run because of money market-related developments. (58) (49)

Reserve Bank money and capital markets GM André Kock said about R2bn in interest payments on government stock flowed into the market this week. That, coupled with normal government spending at the beginning of the month, had brought the shortage down to R1,2bn against Friday's R3,4bn.

To Page 2

Rate cut

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From Page 1

Kock said the shortage was likely to rise later in the month with sales of government stock, which would see money flow out of the market into government's accounts at the Bank. However, he said the Bank did not plan any special measures to drain liquidity from the market. (49)

A money market dealer said it seemed a pattern similar to last year's was developing. A build-up of liquidity which began last June had culminated in two Bank rate cuts later in the year. (58)

Capital market rates also dropped on the prospects of a rate cut, dealers said. The long-dated Eskom 168 bond closed at 14,875% from a previous 14,970%.

Bank advised to be cautious on exposures

Buss day

LINDA ENSOR

CAPE TOWN — The Reserve Bank should proceed cautiously before imposing additional capital requirements across the board on banks' large exposures, Republic Ratings director Dave King said yesterday.

Republic Ratings is involved in rating banks and other companies.

King was responding to the announcement in the Bank Supervision Department's 1992 annual report that the issue of additional capital requirements for large exposures was being looked into. 3/6/93

"While, from a macro-perspective, we share the Reserve Bank's concern with the significant increase in large exposures, we believe it is critical to ascertain first whom each individual bank's large exposures are with," King said. (49)

"For example, if a bank has an exposure (equivalent to, say, 50% of its capital base) to an AAA rated-organisation, we do not believe this necessarily increases the bank's risk.

"Such exposures are commonplace, particularly in the merchant banking field, and there is no doubt that where a bank's counterparties are of such a high credit standing, the asset portfolio must be considered to be of a very high quality regardless of the fact that it may comprise a number of large exposures as defined.

"The imposition of additional capital requirements in such cases would not only be unnecessary, but would also impose severe restrictions on the merchant bank's activities."

King welcomed the department's call for greater emphasis to be placed on the management of operational risks.

Sowetan 3/6/93

African countries 'must work together'

■ Two could exchange valuable ideas:

NAIROBI — There is a need for greater co-operation between African countries instead of depending on Western aid, local South African representative Mr Dries Venter said this week.

Speaking during a visit by the general manager of Siemens South Africa, Mr Darryl Flint, and his national sales manager, Mr Braam van Dyk, he said Kenya and South Africa had now begun to rediscover each other after a long break in relations. The two countries broke their 30-year hiatus in relations two years ago when State President FW de Klerk visited Kenya.

Flint and Van Dyk met President Daniel arap Moi earlier this week and presented him with a dental chair which is to be donated to a rural health centre.

Flint told newsmen that the experiences of Kenya and South Africa in the medical field were similar and that the two countries could exchange valuable ideas.

Funding for small business increased

BUSS. DAY

TIM COHEN 3/6/93

CAPE TOWN — Government has decided to revise the supplementary amounts allocated for social upliftment, decreasing the amount for job creation by R15m and boosting small business development instead.

The supplementary budget presented in Parliament yesterday indicated that of the R300m allocated for supplementary items during this year's budget, R200m would go to housing, R45m to job creation, R30m for small business development and R25m to tourism. This differs from the R60m proposed for National Economic Forum initiatives and the R15m proposed for small business.

State Expenditure Minister Amie Venter said experience had shown that small business struggled to survive economic downturns but played an important role in job creation. The forum had identified job creation as a matter of high priority and the issue was receiving urgent attention.

After consultation with the forum, the Finance Department and the State Expenditure Department, the Manpower Department would be responsible for designing a suitable job creation programme.

The R25m allocated to boosting tourism would be additional to the R85m already allocated in the 1993/94 budget. (49)

The R200m allocated to housing would be made available for joint initiatives by the National Housing Forum and government.

Cape forum makes progress

CT 3/6/92

Staff Reporter (49)

THE Western Cape Economic Development Forum (EDF) has formulated a R1,3-million annual budget for itself, has hired two full-time staff members and plans to open offices soon.

The funding will come from various international and local bodies. Those approached include US Aid, the European Community, the Development Bank of South Africa, the Kagiso Trust, the IDT, the Open Society Foundation and local authorities.

"About 50 of the top businesses in the country have also been identified as possible resource institutions," EDF chairman Mr Adrian Sayers said yesterday at the forum's second plenary session after its launch late last year.

Mr Sayers said EDF aimed to address the urgent needs of the community of the Western Cape, particularly the poor.

Up to now the voluntary services of organisations like Idasa and Zille-Shandler Associates had been relied upon, but administrative services needed to be put on a permanent footing.

Expert predicts mediocre growth

Buss. day 4/6/93

ANDREW KRUMM

BUSINESS could expect only mediocre economic growth in 1994 as the economy underperformed during the political transition, Frankel, Pollak, Vinderine economist Mike Brown said yesterday at an Institute of Directors conference in Johannesburg.

Brown said although it appeared the seeds of recovery were being sown, SA's progress towards a more equitable society would be protracted, and lock the economy into a "transition mode" for at least two years.

To shift from transition mode to a normal, sustainable upswing would require foreign and local investment, a higher level of domestic savings, and much structural change, which were not immediately forthcoming.

"Recovery will be a slow affair, and is likely to be investment led."

Brown said 1994 would probably see the start of the re-investment phase as the authorities attempted to speed up the pace of economic revival. The impact of increased investment should be sufficient, with inventory adjustments, to push the economy back to a positive growth path in 1994.

(49)

"This resumption of investment spending (next year) is likely to only be an extra R2bn in real terms, but should amount to an 8% increase because of the low investment base."

Brown added that an export-led recovery could not be relied on as international economic conditions did not seems propitious for a strong surge in commodity prices or a healthy recovery in world trade volumes.

The inventory cycle should turn positive next year, and, together with higher investment spending, could prompt a 4,6% increase in real gross domestic expenditure.

Teachers' strike: The thin edge of the wedge

W Mail 4/6 - 10/6/93

***The mass mobilisation over teachers' pay is a warning of future populist pressures that could undermine the ANC's new feet-on-the-ground economic policies, argues* REG RUMNEY**

THE teachers' strike in support of a demand for a pay rise of more than five percent presents the spectre of macro-economic populism and future economic ruin.

The Mont Fleur Scenarios — drawn up by a wide range of economists and political figures and published in *The Weekly Mail* last year — outlined what it called the Icarus scenario: a new government succumbing to popular pressure for economic growth through rapidly increased government spending — a dangerous possibility that may bring a quick take-off but also sudden and devastating collapse.

When economist Terence Moll punctured the "growth-through-redistribution" approach at first adopted by the ANC, he detailed the experience of many Latin American countries.

"In extreme cases, governments reflated economies rapidly through large rises in government spending not covered by revenues, sharp increases in nominal wages, persistently negative real interest rates and so on.

"In the first stage of the programmes, many macro-economic variables looked highly satisfactory. Inflation sometimes fell, real wages rose sharply, the welfare of poor people improved and exports sometimes rose too. The disconcerting features were falling investment levels, a running down of foreign exchange reserves due to escalating imports, and a real exchange rate appreciation.

"The expansionary phase was usually terminated by countries running out of foreign exchange reserves, leading to balance of payments crises and abrupt stabilisation phases involving falls in government spending and budget deficits, large currency devaluations and drastic cuts in real wages; subsequently welfare indicators deteriorated sharply."

The ANC has retreated from policies of unsustainable redistributive boosts to growth. But this doesn't mean a future government could not be tricked into destructive economic policies — and the fury aroused by the present education crisis is instructive in this regard.

Racial inequities in education spending have arguably been the most pernicious element of apartheid. What's more those inequities continue and are clearly visible in the Budget.

The pressure is on for spending on white, Asian, coloured and black education to be equalised — now. And as the youth population balloons, education will continue to hog centre stage in demands for government spending.

Unfortunately, expectations are higher than resources allow.

The limits of what any government can do about equal education was spelt out in articles by James Moulder, Jane Hofmeyr and Anne McLennan in a recently published book.

Hofmeyr and McLennan note education spending of around 21 percent of the Budget is well above the average for countries with per capita incomes similar to that of South Africa.

In the same volume Lawrence Schlemmer quotes McGrath's analysis which suggests racial parity in social spending can only be achieved by the year 2000 — if the level of government spending as a percentage of gross domestic product (GDP) rises by 4-5 percent, the economy grows by around five percent a year in real terms, the wealthier pay much more for state welfare services, virtually all the higher tax revenue from economic growth will be channelled into social spending and there are huge inflows of foreign capital.

That is a tall order.

By contrast, the government economists' Normative Economic Model insists government spending will have to decrease if the government is to stop dissaving and if the total tax burden is to be lowered.

"The total expenditure of the general government sector will necessarily have to decrease from about 34,4 percent (of GDP) in 1992 to less than 28 percent by the year 2000."

Rather than spend more, as the professional economic panel follow-up to the Nedcor-Old Mutual scenarios advocated, the money available for social spending has to be spent more effectively.

Could popular pressure such as we have seen recently persuade a future government to increase not only teachers' salaries but the global amount spent on education?

Th government's unrepresentativeness makes it an easy target for mass action. But if it caves in to teachers' demands, a precedent could be set for popular pressure forcing a future, more representative, government to abandon its commitment to fiscal discipline in other areas.

The teachers' strike has been supported by the broad labour movement, which operates in the private sector as well. We face the prospect of pressure for more government spending as well as high nominal wage increases in the private and public sector.

The government sector has hardly set the public sector any example in the past, particularly under the capricious reign of president PW Botha, who increased civil servants' pay without telling his own finance minister, the unfortunate Barend du Plessis, who was abroad at an International Monetary Fund meeting at the time.

The government gain has been the private sector's loss. While the state has employed more people, the private sector has employed fewer.

Lax control of government spending, outpacing revenue gains as tax flows diminish in recession, has flown in the face of the strict monetary controls applied by Reserve Bank governor Chris Stals in pursuit of keeping inflation under control. The result has been a squeeze on small business from high nominal interest rates.

It is not inconceivable a future government could induce the Reserve Bank to adopt a softer stance and return to the negative real interest rates of the past.

The recipe for macro-economic populism would be complete.

Schlemmer suggests the often-vaunted outlet of "negotiations" could provide a way out.

Populist buy-offs, he believes, will be more acceptable and hence cheaper if jointly decided on: otherwise they will have to succeed on fiscally crippling generosity.

The effectiveness of negotiations are then the key. But in any case, the economic mismanagement of the past already constrains what a government can do. Behind the government's apparent intransigence on public sector pay increases is a high projected deficit before borrowing for the 1993/94 year of 6,8 percent of GDP, which can drop from the previous fiscal year figure of 8,6 percent of GDP only if spending can be kept in check.This government has discovered fiscal discipline only when it is clinging on to power by its fingernails. Will a new government be any different?

●The articles referred to appear in *Wealth or Poverty? Critical Choices for South Africa*, edited by Robert Schrire, published by Oxford University Press.

MONEY SUPPLY (49)

Trickle down

FM 4/6/93

The broad monetary aggregate, M3, continues to register slow growth. Seasonally adjusted it rose only 0,3% in April. Without the seasonal adjustment it declined 1%. The recent levelling out in M3 growth reduced 12-month figures to the lowest level recorded under the current definition of M3: over the 12 months to April, an estimated 3,35%, to R196,9bn; measured from the base of the current guideline year (fourth quarter 1992), 0,26% to a seasonally adjusted R196,7bn.

In the month, M3 declined, largely because of government's funding drive. More clarity will emerge once a detailed breakdown of the Reserve Bank's balance sheet is published this month. Over a longer period, a contributory factor to the deceleration could be the increased popularity of flexible mortgage schemes, which allow people to deposit money into their mortgages, effectively earning tax-free interest. Such "deposits" take cash out of money supply.

In March, 12-month M3 growth was a 5,66% (revised from the provisional figure of 5,15%). The annualised figure for March was a revised -0,5% (-1,79%).

A full breakdown of the other monetary aggregates for March shows a surge in the growth of M0, the narrow aggregate (measuring notes and coins in circulation and deposits by banks and building societies at the Reserve Bank). This grew 16,14% in the month, or 23,28% over 12 months — possibly because of an increase in consumer spending to pre-empt the April hike in the

FM 4/6/93. (49)

Vat rate.

Of the other aggregates:

- ☐ M1A fell over the month by 0,12%, but grew 19,41% over 12 months;
- ☐ M1 grew 0,69% and 10,36%; and
- ☐ M2 grew 0,37% and 5,09%.

Private-sector credit demand declined in March, by 0,34%, to R211,9bn. Over 12 months it grew 8,77%. Total domestic credit was up 0,36% in the month and a year-on-year 10,3%, to R217,7bn, due to a large increase in the month in net claims on the government sector. ■

Betting on your own horse FM 4\6\93

Brian Kantor is professor of economics at the University of Cape Town

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Whether the rand is under- or overvalued is a critical issue. In the three months to the end of April, it lost 15% of its value. This is a significant devaluation by any standard and based on a basket of currencies in which the dollar is weighted 46% — about the Reserve Bank basket (see diagram).

Against all its inclinations, the Bank was forced to devalue in response to a dramatic loss in foreign exchange reserves that began last year. Some critics of the Bank would certainly regard this devaluation as appropriate.

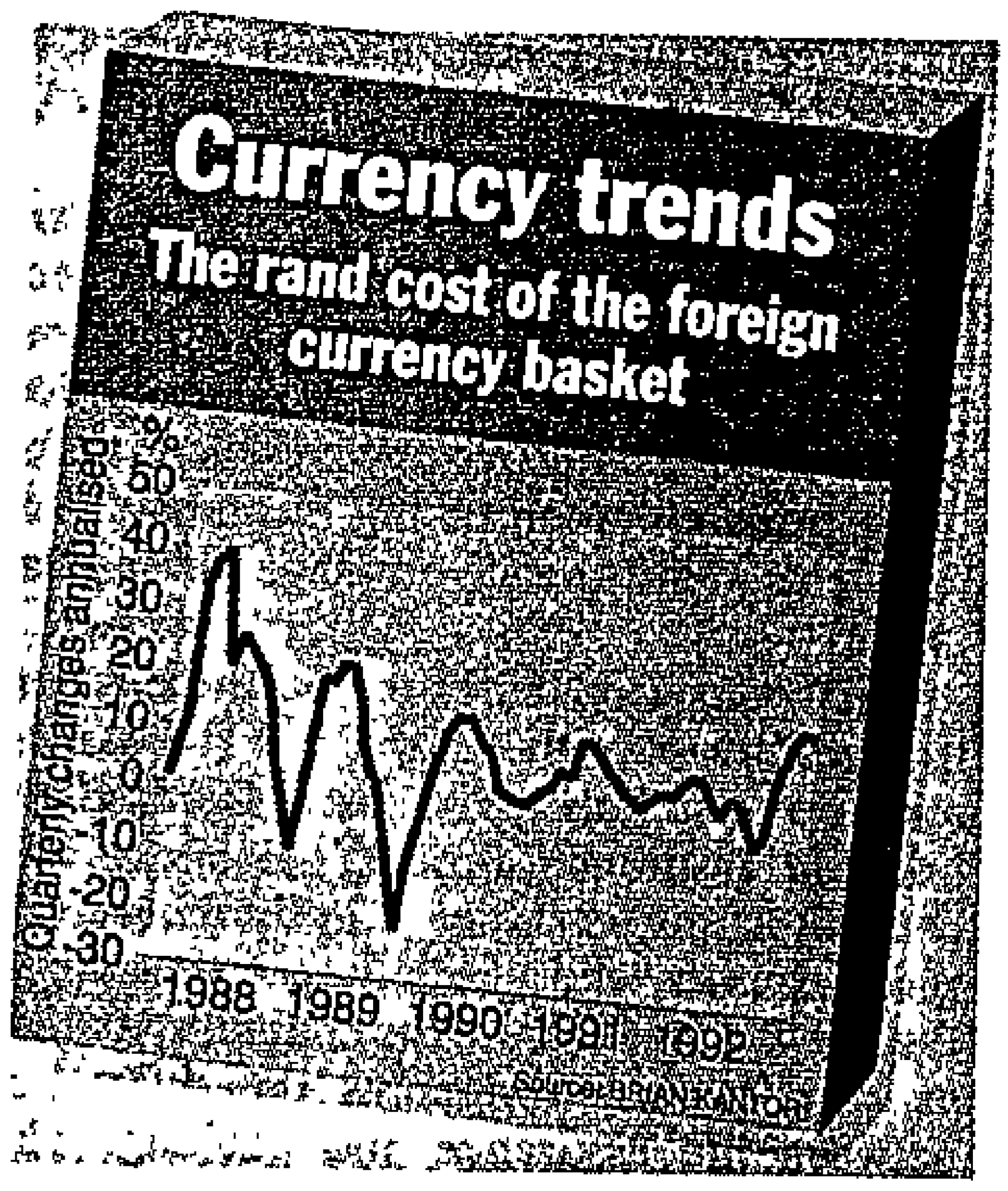
Since the end of April the gold price has dramatically changed the fundamentals. A continued price rise would call for revaluation rather than devaluation. Any attempt to ignore the exchange rate effects of an increase in the price of gold undermines money supply control.

The way to avoid part of an otherwise necessary exchange rate appreciaton would be to sell foreign exchange to the portfolio managers of our retirement funds for investment in foreign currency hedges. It is salaried savers, locked into pension funds and retirement annuities, who have been unable to diversify currency risks. They have lost on the swings of foreign exchange control while others, through dividend, interest payments and false invoices, have gained on the roundabout.

Remember that exchange control on balance has not worked, as may be seen in the price of Krugerrands. In this form, South Africans can buy as much gold as they like at close to the world price.

Let the private-sector fund managers hold a foreign currency portfolio on behalf of their savers and let them, if necessary, be regarded as second-line reserves recallable in an emergency. They are bound to look after this wealth much better than the Reserve Bank has succeeded in doing. The Bank, after all, has proved its capacity for losing wealth in the form of forex reserves by consistently disposing of them at prices that are too low.

Chances are that, if the gold run does continue, the Bank will not reform exchange control until it is too late. By acting in the interest of gathering more reserves unto itself, and on behalf of exporters of manufactures, it will inhibit an exchange rate appreciation. Then it will not be able to prevent the money supply growing much faster as leads and lags turn in our favour, liquidity builds up in the banking system and interest rates decline. By the time they decide exchange control reform is a good idea, the reserves will be in decline again as import demand surges.



Gold in the bank will also allow them to show the IMF who is in charge and the Department of Trade & Industry will be able to carry on making random changes to the tariff structure and offering generous export subsidies as compensation.

The best SA response to any rise in the gold price is to allow savers to diversify from gold-related risks while foreigners seek protection in gold from the risks of President Bill Clinton and the like. Without exchange control, such portfolio switches would be made automatically. While the gold price rises, our fund managers would accumulate more foreign currency hedges and, when it falls, we would draw them down. Such responses would stabilise a market-determined exchange rate to the advantage of all exporters and importers.

It would also let the Reserve Bank focus on its essential task of controlling money supply rather than second-guessing the gold price while portfolio managers coped with the outlook for gold.

The best approach to gold price related risk is to mine as much gold as the market dictates and allow mines to run as efficiently as they are able. Which means without having to subsidise inefficient local industry. Though people should be working on and for the mines, it makes little sense for them to own gold mines. They share in the ups and downs of the industry in every other way. Holding gold shares as well as foreign exchange in the form of gold is like betting on your own horse.

Were it not for the political interest in exchange control, people would have coped easily and automatically with the risks of dependence on the volatility of gold and other commodities. This we would have done by becoming more specialised in our structure of production and much more diversified in our portfolios — fewer SA shares and bonds and more foreign ones.

But it would be a real misanthrope who would hope that the gold price didn't rise further, even knowing that the economic policy Bourbons in Pretoria are unlikely to have learnt enough respect for market forces or, more likely, are just too dependent on second-guessing them, to take proper advantage of the opportunity it would present.

(49)

SOUTH 5/6-9/6/93.

Wednesday, June 2 quotations for unit trusts

	Buyers	Sellers	Yield
General Equity Funds			
ABSA	150 25	140 54	5,14
BOE Growth	166 46	155 51	2 77
C G F	113,19	106 89	N/a
Fedgro	139 10	128 97	4 45
CU Growth	127 82	119 89	3 48
Guardbank	2734 60	2545 09	4 40
IGI	138 70	129 72	3 13
Momentum	271 18	254 38	3 91
Metfund	207 70	193 07	3 69
Metlife	123 09	115 0[illegible]	6 09
NBS Hallmark	951.99	916 95	4 32
Norwich	393 63	367 74	3,30
Old Mutual I/F	2853 58	2560 24	3 62
Old Mutual Grth	243 33	226 51	N/a
Sage	2552 60	2392 20	3 52
Sanlam Trust	1635 37	1576 39	3 31
Sanlam Indx Trust	1322 69	1235 41	3 66
Sanlam Div Trust	463 01	434 30	4 84
Southern Equity	217 28	203 31	3.73
Standard	1249 61	1174 04	6 62
Syfrets Gr	307 49	288 02	4 39
Syfrets Trust	122 65	114 92	4 06
UAL	2204.26	2069 14	5 05
Specialist Equity Funds			
ABSA Ind	130 44	122 00	4 15
Guardbank R/F	174 52	162,16	4,83
Guardbank Ind	132 84	124 42	5 50
Sage Resources	125 97	117 71	4 25
Sanlam Ind Trust	1034 57	968 93	3.31
Sanlam Min Trust	301.26	262.10	4,29
Southern Min	144 23	135 23	3 76
Southern Pure	123 53	115 61	N/a
Standard Gold	252 46	235 87	4 16
Standard Ind	109 80	103 51	N/a
Standard Inter	111 13	103 94	N/a
UAL Managed	1092 39	1030 29	1 27
UAL M/R	357 45	372 04	3 69
UAL S/O	1956 75	1832 91	3 51
Old Mutual Min	300,21	279 62	3 37
Old Mutual Ind	370 92	345 44	3,54
Old Mutual G/F	175 75	163 79	3,10
Old Mutual Top Comp	264 33	246 84	4,21
Income/Gilt Funds			
Metboard Income	107 46	106 35	12 97
Guardbank Inc	117 80	116 56	13 86
Old Mutual Income	111 31	110 10	12 69
Southern Income Fund	536 30	525,56	N/a
Standard Income	94 25	93,28	12,50
Syfrets Inc	108 57	107 46	13 49
Syfrets Gilt	1082 27	1071 45	12,33
UAL Gilt Trust	1172 30	1160 56	13 17

The Normative Economic Model...

An important recent policy development was the release of the Normative Economic Model by the Minister of Finance in March. This model is crucially vague on this point. It assumes, though, that certain intermediate goals must be met if the economy is to recover. These goals include low inflation, reduced government dissaving, a greater role for markets in the economy, and the use of more labour-intensive production techniques. Once these are met, growth is viewed as following automatically.

The economic authorities appear to have decided that inflation is the most important economic problem the country faces. Since 1989, the SA Reserve Bank has implemented tight policies designed to curb rising prices through keeping real interest rates at near-record levels and worsening the impact of the recession. Sure enough, inflation fell from a 16% peak in late 1991 to 9% in February 1993.

rand strong, exports weak...

In line with its "Mission Statement", Reserve Bank policy is to keep the rand strong to avert imported inflation. The trade-weighted real exchange rate (allowing for inflation differences between countries) rose by 13% between June 1989 and December 1992, according to official statistics, despite the terms of trade falling by 12% over this period. No wonder exports have suffered, thus weakening a vital source of economic growth.

Meanwhile, imports have remained high, putting pressure on the foreign exchange reserves and keeping interest rates up. Indeed, this is the first recession for 30 years during which the ratio of imports/GNP has actually risen (from 22,3% to 25,2% according to Reserve Bank figures).

The costs of these policies have been formidable. And their benefits are unclear. Is inflation really a problem in South Africa? For if businesses don't want to invest, aren't exporting and don't train their workers enough, the price level could be quite stable and little would change. Low inflation won't break the vicious circle of a stagnant economy in which people lack confidence about what the future will bring.

Another issue central to the Normative Economic Model (and the March Budget) is that government should dissave less and lower company taxes, thereby apparently rendering funding available for private investment. But investment is strongly influenced by the demand for output, expected profitability and confidence in the future. If these are weak, government could eliminate its dissaving and slash company taxes, but uneasy investors might not respond. Such measure will not necessarily support a sustained economic recovery in our circumstances.

5/6 - 9/6/93.

Government's oily evasions

S Times (Buss) 6/6/93

THE Government now has two policies — one for the oil industry and one for the rest of the economy. Comment by KEVIN DAVIE

AFTER the price of money, the most important price in the economy is that of fuel. It also affects every other price in the economy, including labour.

Apartheid — the World Bank reportedly estimates — has placed SA workers an average 37 kilometres from their work.

No other country in the world houses its labour force so far from the workplace.

Prices have to be competitive if a country is to be competitive. But South Africans have in recent years begun to forget the meaning of the word competitive

So the leading trade authority, the General Agreement on Tariffs and Trade, reported this week that SA slipped from being the world's 16th largest exporter to 30th between 1980 and 1991.

Gatt says the solution is for SA to follow market-related polices.

The Government recognises that the economy has been largely structured around the needs of apartheid and that a democracy will require new policy objectives.

It has tabled the normative economic model (NEM) which stresses that the economy will be revitalised only through improved competitiveness.

NEM insists that evils, such as retail price maintenance (RPM) where cartels are able to fix prices and then bill the consumer, should be outlawed.

This, of course, is common practice in many countries. SA has the powers on the statute books to do the same.

But the Government last week published its first major policy report since tabling the NEM. The report about its involvement in the oil industry admits that RPM is a cornerstone of the tightly regulated oil cartel.

Collusion, import control, market sharing, price fixing, barriers to market entry, guaranteed profits, subsidies and kickbacks will remain.

If Raymond Ackerman cuts prices, he will go to jail.

The Government uses a myriad hackneyed excuses, rationalisation and obfuscation to justify rejecting its own principles as embodied in the NEM.

It claims that petrol attendants will lose their jobs in a deregulated market. But regulation has limited the growth of service stations to 10% since 1960 and volumes sold have grown by 300%

The report acknowledges that in major towns such as Pretoria there have been floods of applications to open service stations, but they have been refused because of the infamous Ratplan, the cartel agreement which controls fuel distribution.

Petrol stations may close in small towns, the Government says, ignoring the fact that cartel members have been refusing to supply low-volume garages so that they can switch their Ratplan allocations to more lucrative sites.

Where markets are ignored, distortions occur. Hard-pressed consumers are already subsidising exports to Africa to ease an oversupply of fuel as the R11-billion waste of money known as Mossgas comes on stream

The industry is investing billions on the promise of further profits guaranteed by the Government.

The Government's continuing commitment to a regulated fuel industry in the face of its support for competition in the rest of the economy is not easy to fathom.

But it does have a contract with Sasol, which produces 150 000 barrels a day of synthetic fuel at a floor price of $23 a barrel while crude prices are languishing at $16.

The contract, a Sasol document says, is an undertaking from the Government to ensure that the company will be profitable.

The Government accordingly ensures that Sasol sells all its fuel at inflated prices and then tips in hundreds of millions in additional subsidies annually.

Last year one of its subsidies amounted to R600-million, enough to cut company tax for every company in SA by four percentage points from 40% to 36% (a NEM goal is to lower company taxes to improve the investment climate).

Sasol is ranked the world's most profitable corporation in its sector by the Fortune 500. Yet some analysts say Sasol would battle to show a profit in a competitive market

Could this be the truth: is the Government wedded to regulation to save this world-class performer from the embarrassment of battling to earn its living?

Peace will help African growth

AFRICA's slide into even deeper poverty will only be stopped when the continent's leaders find ways to stop its many wars and start concentrating on economic development.

The shift of attention to Africa's economic plight is clearly gaining momentum, judging from statements issued after a seminar which was attended by officials of the Organisation of African Unity, the African Development Bank and the UN Economic Commission for Africa in Addis Ababa.

Reviewing the major issues confronting the continent's leadership they concluded that while it was Africa's responsibility to end the many conflicts, it was also imperative that the international community should help by writing off existing debts.

The officials noted that many African nations were burdened with high population growth and little – if any – economic growth. Real income per head was lower than it was before the independence movements gained momentum three decades ago. It was estimated that it would require at least a decade of strong economic growth before the economic levels of the 1980s were achieved again.

STOP THE WAR ... The cessation of hostilities will help the continent kickstart its economy.

CityPress 6/6/93 (49)

However, if the wars and other conflicts were not stopped there was little hope of achieving this growth. Large parts of the meagre resources of many countries were dissipated by conflicts.

The officials pleaded that the principle of African solutions to African problems be given a new impetus instead of the continent continuing to depend on the outside world for help, often even for initiative and leadership. It suggests that greater support should be given to a proposal by the Organisation of African Unity that a permanent programme for resolving disputes be set up.

☐ MONEY TALK

Another area that requires urgent attention is support for an African economic community. A treaty was formulated two years ago but to date it has been signed by only 26 countries.

The three organisations also urged governments to discourage public consumption and encourage private investment so that domestic savings rates could increase.

Up till now SA has been on the sidelines, but with the higher priority being given to economic issues it is clear that numerous opportunities will arise for SA as the economic giant of the continent. Not only will SA help in many areas but it will do business which, in turn, will create prosperity and job opportunities at home.

US gearing up to pump aid into post-apartheid SA

49

CPress 6/6/93

By JOAO SANTA RITA

THE Clinton administration is moving full speed ahead with plans to help SA as soon as a Transitional Executive Council is in place.

It is understood that plans include aid for the multiracial election process, different aid packages from the US and the G-7 group of industrialised nations and moves towards "encouraging" other southern African countries to quickly and efficiently integrate their economies with SA.

State Department sources said the United States government wanted to move quickly in order to send a clear message that it supported negotiations and the democratic process and that it strongly opposed radical forces which supported violence.

As soon as the Transitional Council is in place the Clinton Administration will ask for a lifting of the so-called Gramm Amendment, which requires the US to veto IMF and World Bank loans to SA.

President Clinton will also ask Congress for about R31-million to help the election process in SA.

Reports in the US said that once the electoral process was fully under way the US would begin negotiations on tax agreements and scientific co-operation.

However, the Clinton administration has already told the World Bank to start planning economic goals for SA. The US Agency for International Development, AID, has also been told to review its assistance strategy for SA.

The US government and Congress are also expected to discuss soon an aid package to SA worth millions.

John Hicks, acting assistant administrator for Africa at the AID, has told congress that because of events in SA the US government "considers this to be an optimal time for donors and regional institutions to formulate a new vision for southern Africa".

Hicks said the US government wanted initiatives that "will promote regional integration and . . . emphasise market-oriented economic development".

Some anti-apartheid personalities here continue to tell the US government to exercise caution in its rush to come to SA's aid.

However, they do recognise that SA will need massive injections of financial aid to help improve the living conditions of the majority of black South Africans.

Donald Payne, member of the Congressional Black Caucus, said aid restrictions should not be lifted until AFTER an elected government was in place.

However, Randall Robinson, executive director of the Trans Africa lobby group, says he supports lifting all sanctions as soon as a transitional government is in place.

"Once we have a transitional executive council in place . . . then it's time for sanctions to be lifted . . . and it's time for American and Western corporations to return to South Africa," he told the *Los Angeles Times* this week.

Robinson said Western nations should come to the aid of SA to ensure that there are economic benefits for the black majority in a politically democratic country.

Otherwise, he said, blacks "will really begin to question the value of the process they've undertaken".

In his interview Robinson, one of the strongest advocates for a total isolation of SA, said sanctions "did not contribute to black poverty".

"Black people always wanted sanctions because they had so little to lose and everything to gain in terms of what this kind of enormous economic pressure would cause in the way of a reaction from the white minority government. And they worked," he said.

Hayek can guide us to life of prosperity

(49)

By Ron Schurink
Guest economics writer

EACH one of us hopes South Africa is on its way to big change so that we can all have a full proper place in the community. Democracy and equal education are two of the institutions needed for a properly functioning society here.

A man who has sketched how such institutions — and also private property and the family — help economic advance is an economist-philosopher who died last year.

Margaret Thatcher - hardline economic action.

Unfortunately, the name of Friedrich August Hayek is, for many people, linked to hardline Margaret Thatcher, who took a leaf from his anti-socialist book, *The Road to Serfdom*.

But there is much, much more to the man than that. I have been lucky enough to come across a 1988 edition of the American academic *Journal on the Unity of the Sciences*, containing one of his last essays.

Many mineworkers in particular — having one foot in a simple, tribal environment and another in the sophisticated business of supplying gold and other metals to the outside world — will appreciate parts of it.

"On the one hand, people have attitudes and emotions appropriate to behaviour in the small groups where mankind lived together for over a hundred thousands years, where we learned to serve our known fellows and where the whole group pursued the same aims. On the other hand, we have the more recent development in cultural evolution wherein we no longer chiefly serve known fellows, where we no longer pursue common ends, but where institutions, moral systems and traditions have evolved — such as private property and the family — that keep alive many hundred times more people than existed before civilisation began, and where these people are engaged in the pursuit of thousands of different ends of their own choosing in collaboration with thousands of persons whom they will never know".

If one rereads and savours those words, they give an extra dimension to a vision of that canny oid Scot of the 18th century, Adam Smith.

Seek wealth

He, of course, was the person who saw that as people seek wealth for themselves, through and setting up businesses, they also enrich their community and nation The mineworkers and their families are better off thanks to foreign revenue the mines earn (and the Num works to make them still better off)!

Hayek is really saying that modern social institutions are fundamentally aimed at keeping more people alive — at a constantly better standard.

If one thinks of things that way, then mankind's greatest achievements are the American and Japanese economies, because they keep such large numbers of people living well

To have a similar sort of economy here must be our ultimate aim Hayek's thinking thoroughly discredits the Verwoerdism of the past and the Terre'Blancheism and communism of the present — because all that thinking inhibits a life-improving economy for all.

If we are not all prepared to be guided by a foremost thinker of our times, there isn't much hope for us.

Adopt his thinking, on the other hand, and we shall tell the world that we're on a track that South-East Asia is taking so successfully while much of Africa struggles to find it.

The reviving gold price will then really work through to become economic advance for all Instead of being nullified by actions of gunhappies, which fall into Hayek's definition of "those things that irreparably break down the conditions that make an extended order" (or modern economy), and thus civilisation, possible".

Viva Hayek!

Economists expect improvement in reserves

Buss-Day 7/6/93 49

ECONOMISTS expect SA's gold and foreign reserves to continue to show some improvement when the May reserve figures are released later this week.

In April reserves increased by R500m after falling for five consecutive months. The improved gold price saw gold holdings valued at a higher price increasing the value of SA's gold stocks to R5,24bn from R5,21bn the month before. The currency component of reserves improved to R2,79bn from R2,27bn.

The rise in gold and foreign reserves in May will result from improvements in the current account as a result of the continued increase in the gold price and the end of maize imports. The higher gold price could also benefit SA's imports.

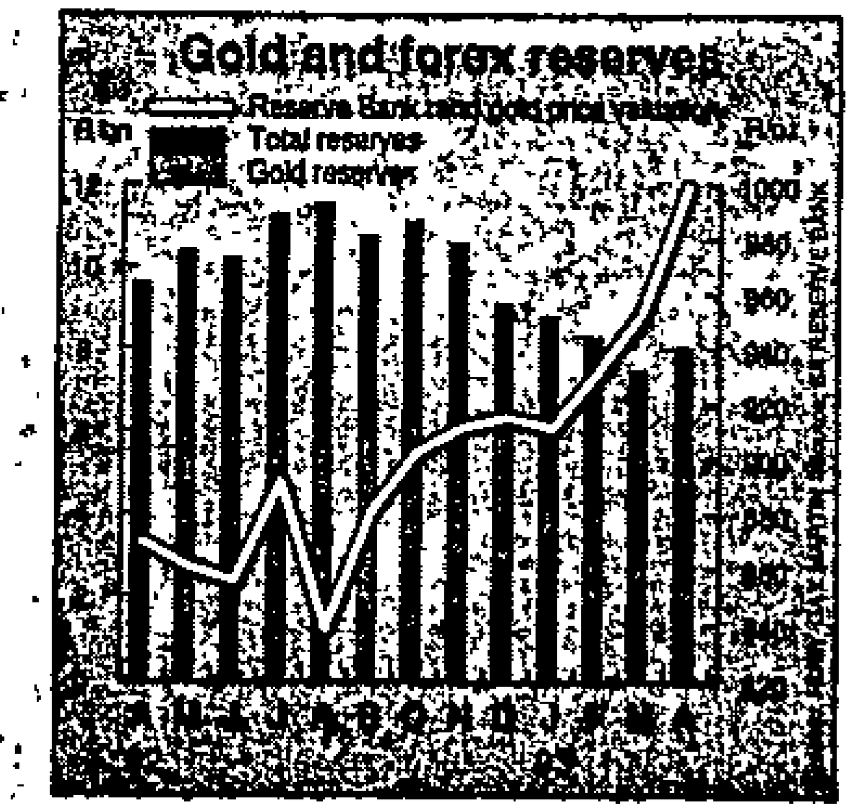
Old Mutual economist Dave Mohr said "another favourable spinoff from the higher gold price is a turnaround in the negative sentiment regarding the rand which bodes well for imports".

Nedbank chief economist Edward Osborn is more cautious of predicting an improvement in May reserve figures. "The recent easing of the money market shortage indicates no dramatic changes either up or down," he said.

Osborn warned about making predictions about a rise in reserves based on the higher gold price. "If the improvement in the gold reserves are taken out then we are unlikely to see much of an improvement," he said.

Osborn has a point — if SA's reserve position depended only on imports and exports one could safely bet that reserve holdings would rise in May. However, the capital account remains the wild card.

Absa economist Adam Jacobs backs up this argument by citing the short-term loans the Reserve Bank took out earlier this year. "No one knows if these loans were repaid in May; if they were, it could wipe out any gains made from a higher gold price."



Taking into account other debt commitments Osborn predicts that reserves will be under "considerable pressure" for the rest of the year. "Especially in the third and fourth quarter SA has large chunks of foreign debt to repay and some debt repayments could even hit us in June." The problem is that nobody is too sure in which months debt repayments fall due, except for the debt inside the net which must be paid in August and September.

Some would argue that this pressure could be offset by capital inflows from organisations such as the IMF after the introduction of a transitional executive council. But US ambassador to SA Princeton Lyman recently warned that there was a long lead time between the beginning of project development and implementation.

It appears the only factors that would benefit SA's reserve position this year are a higher gold price, an improvement in the world economy, better rainfall and the extension of the recession, which would restrict imports.

The foreign data releases likely to be most closely watched by the markets this week are US producer prices and retail sales figures for May, due out on Friday. The volatility in recent US price data has created concern about a resurgence in US inflation.

The May retail sales figure will provide an important clue about the US economy's health. The 1,2% monthly rise in retail sales was the highest in six months and confirmed that the fall in March was weather-related.

Agreement near on R5bn jobs plan

Buss. Day 7/6/93

GRETA STEYN

THE National Economic Forum's short-term working group was close to finalising a proposal for a R5bn to R6bn public works programme to be launched in next year's Budget, forum sources said at the weekend. (L49)

Finance special adviser Japie Jacobs confirmed government had accepted the proposal for a public works programme in principle but that the financing was still under discussion.

A key issue for government was to avoid "off-budget" transfers such as those that occurred when the Independent Development Trust was financed.

Accountability would have to lie with central government, Jacobs said.

From a financing point of view, there would have to be great emphasis on how to make existing programmes more capital intensive.

Besides manpower, other government departments, such as housing, would be involved to tie in to major initiatives that were already being contemplated.

It is understood that the Development Bank of Southern Africa (DBSA) and the Consultative Forum on Drought's employment task force will play a key role in co-ordinating efforts to get a public works programme off the ground.

They are expected, among other things, to lead an investigation into the issue in the next few months, evaluate projects that would qualify and co-ordinate the eventual spending efforts.

The DBSA, in its submission to the forum, outlined investment of more than R5bn with the potential to create direct employment for more than 300 000 people, but noted constraints on implementing the proposals. The bank said the process would contribute to structural change in the employment intensity of construction.

The Consultative Forum estimated that if R6bn was allocated in a financial year, 300 000 to 350 000 jobs could be created.

The Consultative Forum said potential existed for programmes focused on roads, water supply, sanitation and stormwater drainage. Its employment task force envisaged that investigation into a public works programme would be completed in time to launch a national programme at the beginning of the next fiscal year.

A key issue highlighted by both bodies was the establishment of a body to co-ordinate employment creation programmes. The Development Bank was expected to fulfil this function.

In the immediate short term, the R45m allocated to the National Economic Forum for job creation this fiscal year could be

☐ To Page 2

Public works

Buss. Day 7/6/93

☐ From Page 1

topped up by additional funds if this could be justified once programmes were up and running.

The amount allocated to the forum was reduced to R45m from an initial R60m this week as government decided to use the additional R15m for the promotion of small business. But Jacobs said the R45m was not "carved in stone". (L49)

The forum had not yet decided on the programmes to be implemented during the present fiscal year, but it was understood that a final decision would be made in time for the plenary meeting at the beginning of next month.

The implementation of special programmes is one prong of a two-pronged strategy to create employment, with the major focus on the public works programme to be launched next year.

MONEY MARKETS by Tim Marsland

Stals's time for a cut draws near

RESERVE Bank Governor Chris Stals will need the wisdom of Solomon in the next few months to avoid walking into a political storm. Buss. Day

With more and more encouraging economic data being released, the pressure will be on the Governor to let up on his tough stance on interest rates. 7/6/93

The problem is, though, that the longer he delays a rate cut the closer it will be to general election time. This leaves him with a major problem, because he will have to convince a lot of people when he acts that the decision to cut rates is not politically motivated. (49)

Stals's impartiality is beyond question, but convincing the masses will not be easy, and he might anticipate some mudslinging. In such circumstances he could well be prompted to cut the rate sooner rather than later, to get it out the way.

Reasons for holding rates at their present level are running a bit thin. (Note the latest inflation and money supply figures).

Reserves may not be an excuse any longer, either. Just half an hour before the last rate cut, in February, Stals was asked if the poor reserves figures released earlier that day would not mitigate against a rate cut.

Stals's reply was: "What difference will a one percentage point cut in Bank rate make to the reserves?"

Stals was obviously under pressure at the time, knowing the announcement of the rate cut would be made within minutes.

However, he may again follow the same line of thinking, and rather than make a cut in reaction to market conditions, he could cut the rate in anticipation of better things to come.

The markets can but wait and see.

Star 7/6/93

Govt warned to curb spending

Business Staff

There is a real danger of plunging into a "debt trap" unless the Government contains its spending.

(49)

The warning is issued by Absa in its Economic Spotlight, which notes that the deficit before borrowing looks set to soar to R30 billion in fiscal 1993/4 — equivalent to eight percent of GDP — from a budgeted R25,3 billion.

"With a potential real economic growth rate of about two percent per annum for the rest of this decade, a budget deficit of this order is simply not sustainable," Absa says.

The chief culprit remains government spending. Absa estimates that as a percentage of GDP it will rise to more than 32 percent in 1993/4 from 31,7 percent last year.

"This is well ahead of the 28 percent considered to be prudent.

"Of further concern is that fact that only 6,5 percent of budgeted government spending for 1993/4 is earmarked for vital capital expenditure, while an amount closer to 12 percent would have been more appropriate," it says.

Coupled with lower-than-expected tax income, the R22 billion level of government dissaving (where current spending exceeds current revenue), gives cause for concern, Absa says.

Hopes rise for early cut in interest rates

Star 7/6/93

49

By Sven Lünsche

A reversal of current Reserve Bank interest rate policy is on the cards in the wake of the lower-than-expected increase in the April inflation rate.

Concerned at the continuing poor state of the economy, sources in the Bank say "the doves calling for an easing in monetary policy" gained considerable ammunition from last week's inflation and money supply figures.

Pressure is said to be mounting to bring forward a cut in the Bank rate, which is expected only in the fourth quarter.

The Central Statistical Service (CSS) reported on Friday that inflation rose from 9,7 percent in March to 11 percent in April.

However, this is well below expectations of 12 percent, given the hike in VAT from 10 to 14 percent and the 10 percent rise in the petrol price, both implemented in early April.

According to CSS figures, inflation would have been nine percent, excluding VAT.

The higher VAT rate also lifted the CPI on a monthly basis — between March and April this year — by 2,5 percent.

While the CSS suspects that the changes in VAT, including the lowering from 10 to zero percent on some food items, have not yet been fully reflected in the consumer price index (CPI), Reserve Bank deputy governor Dr Jaap Meijer said the April inflation rate was a pleasant surprise.

A few days before the release of inflation figures, the Bank's money supply figures confirmed that demand in the economy was still extremely poor.

The broad measure of money supply, M3, showed a 3,35 percent increase in April, compared with April last year, and declined by one percent on a monthly basis.

More importantly, M3 was only one percent up on October last year, the base for the Bank's 1993 target range of six to nine percent.

Meijer said that the M3 figures had to be approached with caution as they reflected a substantial shift from traditional savings instruments to access bond-type products, the recent fall in gold and foreign exchange reserves and the issue of government stocks.

Yet economists suspect that even if the one-off factors are excluded from M3 and the reserves once again show an uptrend, as is expected in view of the gold price rise, money supply will still only linger at the lower end of the Bank's guidelines.

Furthermore, evidence is mounting that far from showing a slight upturn, the recession is deepening.

CSS figures show that for the three months up to May, real retail sales were 0,6 percent lower, compared with the previous three months. May's sales are also forecast to be 3,8 percent down in real terms on those of May 1992.

In view of these trends, Econometrix director Azar Jammine expects inflation to remain subdued through at least the beginning of 1994.

"The expected hike in the official inflation in April and May should be a one-off phenomenon since in the face of as low a growth in money supply as has been recorded for several months now, there is no way that a new upward trend in inflation will materialise in coming months," Jammine says.

The official Reserve Bank line is that the pressure to lower interest rates exerted by poor consumer and credit demand, as mirrored by money supply, inflation and retail sales, is still offset by the poor level of the foreign exchange reserves, capital outflows and the high deficit in government finances.

Yet in a bid to inject some life into the economy, a cut in the Bank rate has become essential.

If the gold price continues to boost reserves and political developments halt the outflow of foreign capital, sources in the Reserve Bank feel that lower interest rates could be implemented in a few weeks', not just a few months', time.

SA reserves fall sharply

Star 8/6/93

By Derek Tommey

Gold and foreign exchange reserves came under some pressure in May, dropping by R128,6 million to R7,9 billion, the latest monthly Reserve Bank statement shows.

The value of gold holdings, helped by a 7,7 percent increase in the price at which the Reserve Bank values its gold stocks, rose from R5,24 billion to R5,59 billion.

But the value of other foreign assets dropped by R480,7 million to R2,3 billion.

It seems that the increased revenue expected from gold sales at the higher price has still to be received.

Feature

An encouraging feature for those who believe the note issue is a good indication of what is happening to the economy was the R381,4 million (3,2 percent) jump in this item in May to R12,3 billion.

The note issue at the end of May was only R100 million, or 0,8 percent, below its peak of R12,4 billion at the end of December.

In the same five months last year, the note issue dropped 6 percent from R11,7 billion to R11 billion.

A further encouraging feature for economy-watchers is that the Reserve Bank's statement indicates there has been some easing in money supply.

Total facilities afforded the market dropped some 19 percent in May to R7,3 billion from R9 billion at the end of April.

Soros, the man who set the gold bulls charging, puts life in UK property

Star 8/6/93 -

(1022) 49

LONDON — George Soros, the billionaire philanthropist with the Midas touch, last week waved his magic wand over the strick en British property market with a multi-million-dollar investment.

The 62-year-old financier, who calls himself a "dissident by nature", is something of an enigma in financial circles, having come to the fore only comparatively recently in the high-profile, serious-money stakes.

But as the Guardian newspaper said, his money now "doesn't talk, it shouts".

Property share prices in London surged last week after the Quantum Fund, Soros's investment vehicle, and the British Land group formed a partnership with finances of $770 million, indicating his belief that the ailing sector would soon revive.

George Soros . . . his money doesn't talk, it shouts.

Bet heavily

Soros took the international stage last September as "The man who broke the pound" after funds he managed made nearly $1 billion when sterling was forced from Europe's currency grid by a wave of speculation.

Soros bet heavily that sterling would not hold its allotted value and then saw it tumble by 20 percent.

More recently he sent gold prices sharply higher and set the gold bulls charging when he bought 10 percent of leading US producer Newmont Mining Corp from financier Sir James Goldsmith.

As well as making money in gold and currencies, Soros added to his reputation as a modern-day Robin Hood in December when he donated $50 million to help war-ravaged Bosnia.

This followed big donations over the previous decade to foster pluralism and encourage open society in central Europe.

Soros is an elegant and courteous man seemingstraight out of Austro-Hungarian cafe society.

A Hungarian-born Jew whose family went into hiding in World War 2, he first came to London in 1947 to study philosophy at the London School of Economics under Karl Popper.

Soros named his fund Quantum after Heisenberg's uncertainty principle, which asserts the impossibility of predicting the behaviour of subatomic particles in quantum mechanics.

The forecasting prowess of the man whose success allows him to shuttle between luxury homes in London and New York belies this little joke.

Soros cut his teeth in the City of London finan cial district with an apprenticeship at a merchant bank.

Open societies

After failing to find a publisher for his book "The Burden of Consciousness" he dedicated himself to finance and in 1956 became a Wall Street broker.

"I had never intended to go into finance," Soros said later but his cash helped his pursuit of assisting "open societies."

In 1979 he suffered a professional and personal crisis. He had made more money than he could possibly spend, and he began to switch his attention to a huge philanthropic programme for Eastern Europe into which he has poured millions.

He now spends much of his time on the Soros Foundations he has set up in central and East European countries, and on the campuses in Prague, Budapest and Warsaw he has helped found.

He told one interviewer in his quiet accented voice: "Don't forget, I became a philanthropist only after I became a speculator. It is a luxury."

Soros inspires great loyalty among his staff.

"He's a very impulsive man," says Laszlo Kardos, executive director of the Soros Foundation in Budapest. "He's very hard-working and capable of carrying great burdens. He has a huge memory. He doesn't work with papers."

When he was honoured with a doctorate by Oxford University he asked to be listed as "a financial and philosophical speculator". — Sapa-Reuter.

'At least a year' before strong economic growth

Buss. Day 8/6/93

GRETA STEYN

SA WOULD not experience a strong economic recovery for at least another year with only 1,5% growth forecast for 1994, Senekal Mouton & Kitshoff economist Louis Geldenhuys said yesterday.

Speaking at a meeting of the Johannesburg Economics Society, he said that while the economy might "technically be bottoming", businesses and consumers would not feel a strong sense of recovery for at least another year. For this year, he expected GDP to contract by up to 0,5%. (149)

Previous upswings had traditionally relied on a strong world economy, a rising gold price, low interest rates, a weak rand/dollar exchange rate and tax cuts. None of these factors was encouraging enough at present to suggest a meaningful upturn would take place soon.

New factors which could speed up recovery included politics, structural adjustment programmes, lending by the IMF/World Bank, public works programmes and the extent of the recession, which suggested "things could only get better". However, on weighing these factors he had to conclude there was no reason to believe a more rapid recovery was on the cards.

FNB economist Cees Bruggemans sketched for the meeting an international environment in which the major economies were set for only moderate recovery, while the environment would not become more inflationary. He did not foresee one economy acting as a locomotive for world economic growth. Rather there would be a mutual "reinforcing of moderateness".

University of the Witwatersrand professor Charles Simpkins warned against becoming too excited about the availability of World Bank finance. "Throwing money at the problem" could trigger a consumer boom. SA, faced with expensive dollar-denominated debt, could be forced into austerity policies, he said.

'Money not words' sought for free SA

Star 8/6/93

(355)

By Peter Fabricius
Star Bureau

WASHINGTON — South Africa expects the World Bank to provide aid of up to R3,15 billion a year to bolster the imminent transitional government.

And it also expects the G7 countries to provide an economic package — "and not just encouraging words" — at its forthcoming summit.

South Africa's ambassador to the United States, Harry Schwarz, spelt out the country's needs when addressing the National Press Club here yesterday.

He appeared with Constitutional Development Minister Roelf Meyer, who said that now that the negotiating parties had set a date for the country's first democratic elections, there was no reason why sanctions could not be lifted immediately. (49)

Schwarz said that when all South Africans could vote, they would ask: "Are we better off than before?

"There has to be a degree of immediate gratification to meet expectations and here the World Bank can play a very important role.

"They will have a series of projects that can work up, within a relatively short time, to about one billion dollars a year," he said.

"At the forthcoming G7 summit, we want South Africa raised as an economic issue. We believe the US administration will do so. We don't believe it's enough to have encouraging words from them. We would like to see an economic package from them, the same as that for the Russian Federation."

Business confidence collapses

Star 9/6/93

By Claire Gebhardt (49)

Business confidence collapsed in May, largely as a result of nationwide stayaways and violence in the wake of Chris Hani's assassination in April.

The SA Chamber of Business (Sacob) said yesterday its Business Confidence Index (BCI) had plummeted 1,1 percentage points to 94 in May from 95,1 in April.

The decline suggests hopes that the downturn has bottomed-out have been premature.

Sacob's forecast for real gross domestic product (GDP) growth in 1993 still remains at zero.

Other negative influences on the BCI in May included a sharp increase in the inflation rate to 11 percent, higher unemployment figures, and a deteriorating rand exchange rate against the dollar.

Director-general Raymond Parsons said optimism about growth in the first quarter was misplaced, especially when seen in the light of developments over the past two months

Business sentiment, and the economy in general, remained hostage to political uncertainty, persistent violence and the short-term impact of the March Budget.

Output

Parsons said that once the impact of higher agricultural output was eliminated from last quarter GDP calculations, the non-agricultural sector actually contracted by 0,5 percent — "a sharper decline than in the fourth quarter of last year".

With hopes for recovery now pinned on 1994, Parsons said growth prospects would depend on a sustained higher gold price, a modest recovery in the international economy, more political stability and a reduction of violence.

Positive factors already in place to support an upturn next year were lower money supply growth, lower interest rates and a surplus on the current account of the balance of payments (BoP).

Parsons said most business people believed the transformation process in SA was at a critical stage.

Reflection

Economist Keith Lockwood said there was a relative improvement in trading conditions among the majority of manufacturers surveyed by Sacob in May, when compared with April.

"However, this is probably a reflection of the fact that there were only 17 working days in April because of public holidays and politically inspired stayaways, compared with 20 working days in May."

He said the outlook for the longer-term remained largely unchanged.

"A majority of manufacturers expect sales and production volumes to rise, stock volumes and skilled employment to fall, and capacity utilisation and real capital expenditure to increase."

CP publishes proposals for the new constitution

Buss. Day 9/6/93

TIM COHEN

CAPE TOWN — The CP published yesterday its constitutional proposals, which insist on Afrikaner self-determination under a confederal constitution in a territory to be negotiated.

The proposals, submitted to the negotiations technical committee on constitutional affairs, do not specify the territory the CP suggested should be set aside as an Afrikaner state.

Nor do the proposals indicate specifically whether it will be possible for people in the territory who are not white to have the vote.

The document argues, however, that in terms of international law, states are not obliged to grant the vote to non-citizens.

Only Afrikaners would qualify for full citizenship in the state. Afrikaners were defined as people who were "descendants of the Afrikaner nation and those patriots who share the same destiny".

CP MP Corne Mulder declined to say specifically whether this definition would exclude people who were not white, saying only that the definition was self-explanatory.

Non-citizens within the Afrikaner state would not have the vote, would not be able to stand for Parliament, would not be able to lay claim to immovable property, but would have other private law rights.

On the territory, the CP document proposes that a process of negotiations should result in a legitimate set of boundaries "as opposed to mere unilaterally proposed instant maps".

The CP would present its proposals to the commission on the delimitation of states, regions and provinces, declining to release details of its proposals until they had been considered by the commission.

In contrast to parties that proposed a unitary state or a unitary state with regional powers, the CP was proposing self-determination for those who desired it, and any other dispensation for the rest.

These states — there would be at least two, the Afrikaner state and the New SA — would be bound together "for the benefit of all in a confederation of mutual acceptance and co-operation".

The confederal state would co-operate economically, in a way similar to the EC, and would share scientific and technical progress.

The document concluded that if all parties to the negotiations were serious and accepted the realities, it would be possible to resolve SA's complex problems.

"This may be our last opportunity to resolve our constitutional problems in a peaceful manner," the document said.

PAC rejects nationalisation

Buss. Day

(49) TIM MARSLAND

THE PAC would not nationalise industry if it came to power, PAC secretary for economic affairs Sipho Shabalala said yesterday.

Addressing a conference on commercialisation and corporatisation at Midrand yesterday, he said the PAC did not have nationalisation on its agenda.

"I want to set the record straight. We will never nationalise buildings and so on. We are not fanatics," he said. 9/6/93

However, the PAC would like to see blacks on the boards of companies so that the workers "have a sense of ownership ... We want all people to have access to wealth," he said.

PAC economist Mosebjane Malatsi, who is also senior policy analyst at the Development Bank, said the organisation's focus would be on black empowerment through education.

There were too few blacks with the know-how to handle the running of businesses. Therefore, the organisation would make education a key priority, he said.

added to readings

DP MP attacks liquor Bill

Buss. Day 9/6/93

CAPE TOWN — Rather than stimulating competition, the Liquor Amendment Bill would protect certain players in the liquor industry, Geoff Engel (DP Bezuidenhout) told Parliament yesterday.

Speaking in debate on the measure, he said the DP would vote against the Bill because the state's deregulation was unsound and licences and conditions of operation made such business inaccessible to local communities.

Central government should not determine trading hours.

"Due to the strong emotive, moral and religious issues at stake here, we believe the desired level (for setting hours and conditions) is third-tier government structures, namely local authorities, where each community can decide its wishes."

While the NP supported regionalism and devolution of power, it still demonstrated how selective its principles really were.

The DP knew there were many opponents of the Bill who did not want any deregulation.

However, experience in other countries had shown that deregulation did not necessarily increase alcohol consumption, and in some instances had actually decreased consumption and abuse.

Government had not been even-handed in its deregulation programme, which continued to discriminate against beer sales in supermarkets or other retail outlets where wine sales were permitted.

This was unjustified state interference originally prompted by the wine co-operatives against English business, he said.

Earlier, Deputy Trade and Industry Minister David Graaff said the implementation of the Liquor Act was a dynamic process that depended on the perceptions of the society it served. But all the problems would not be solved by the amendment.

However, the industry had come a long way on the path of deregulation. He had no doubt that Parliament might find it necessary to pass further deregulation measures in future.

D G H Nolte (CP Delmas) said the CP would oppose the measure because it extended liquor trading hours, and the CP was against trading on a Sunday.

At a time of increasing murders, robbery and death, lengthening selling hours would contribute only to more violence and unrest, he said. — Sapa

Analysts warn of SA election chaos

Buss. Day 9/6/93

GERALD REILLY

PRETORIA — Political analysts disagreed yesterday on the readiness of political parties, particularly the ANC, to meet the formidable challenges in the "brief" 10 month run-up to an election.

Willem Kleynhans said the country was totally unprepared for an election within a year and an attempt to hold one would end in chaos and a badly flawed result.

Of the country's 22-million eligible voters, 17-million would be Third World political illiterates.

It would take a year or more of intensive education programmes to equip them properly to take part in a democratic election.

He said there were massive "no go" areas where parties would be unable to hold meetings without provoking violence and disruption.

For the ANC, these areas included Bophuthatswana, Ciskei and KwaZulu, while NP recruiting efforts would not be tolerated in townships. The DP would not fare much better

Kleynhans said farmers were unlikely to allow the ANC to campaign on farms for the votes of the 500 000 enfranchised farm workers.

He claimed the ANC had almost no election infrastructure and had put out the "begging bowl" in an effort to scrape together the R200m it claimed it needed to fight an election.

However, Wits University political science associate professor Tom Lodge said an election in 10 months' time was feasible, with much hard work, and "certainly desirable".

He claimed the ANC was as well prepared as any other party at this stage but much remained to be done in registering and educating voters.

In certain areas the ANC's organisation was "creaky" but then so was the NP's.

Lodge said a delay in the election could lead to fragmentation of ANC support to the right.

An early election had the support of the business community, which believed it would lead to greater business and consumer confidence and stimulate investment.

BCI dip reflects Hani shockwaves

Buss. Day 9/6/93

SHARON WOOD

BUSINESS confidence suffered a setback in May, with Sacob's Business Confidence Index (BCI) falling 1,1 percentage points to 94,0 after remaining steady at 95,1 for the previous two months.

Sacob director-general Raymond Parsons said the economy had cracked when SACP leader Chris Hani was assassinated and this was reflected in the lower BCI.

He said views that the economy had turned around were misplaced and that Sacob still believed there would be no real growth this year.

Parsons said it was possible that the improvement in the first quarter would not be equalled in the second quarter.

(49)

Seasonally adjusted GDP grew by 1,1% in the first quarter of the year, but was a result of the sharp improvement in the agricultural sector and there were further deteriorations in the construction, trade and transport sectors.

But Parsons said some sectors, such as mining, would experience improved trading conditions before a general turnaround in the economy.

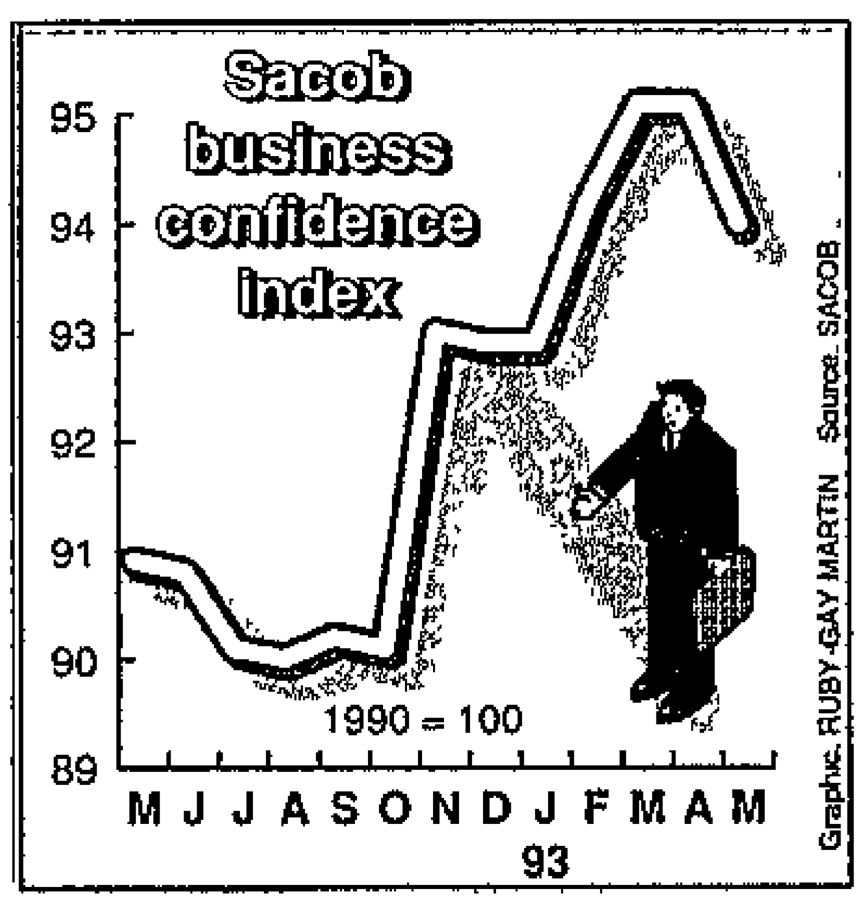
Sacob's manufacturing survey also showed a majority of respondents continuing to expect some improvement in the sector over the next year, but the improvement was likely to be limited in scope, he said.

A positive factor for growth in the next year was the stabilisation of the effective exchange rate, despite further capital outflows, and the level of gold and foreign reserves could start recovering some of the ground it lost during the last eight months.

Financial conditions were also basically appropriate for an economic upturn, Parsons said.

Negative influences on the BCI during May included the deterioration in the commercial and financial rand exchange rates, a sharp rise in consumer inflation, expectations of lower retail sales, rising unemployment, falling imports, declining new passenger vehicles sold and lower manufacturing production.

Positive influences were declining short-term interest rates, a sharply higher gold price, significantly higher exports and slightly lower insolvencies.



Economy 'hostage to political uncertainty'

CT 9/6/93 (49)

By AUDREY D'ANGELO
Business Editor

BUSINESS confidence slipped in May to its lowest level since January. The SA Chamber of Business (Sacob) confidence index fell to 94 from 95,1 in March and April and 94,2 in February.

Sacob chief economist Ben van Rensburg commented: "It appears as if the events of the past two months have served to once again postpone the economic recovery.

"In spite of a higher gold price and improved agricultural prospects the economy is unlikely to experience any real growth during 1993.

"Hopes for a significant increase in economic activity will therefore have to shift to 1994 — but even then prospects will depend heavily on developments on the political front and the performance of the world economy."

Van Rensburg says the fall in confidence "suggests that recent hopes that the economic downturn had bottomed out have been premature.

"Business sentiment and the economy in general remain hostage to political uncertainty, persistent violence and the short-term impact of the March Budget."

He points out that the growth of 1,1% in seasonally adjusted gross domestic product (GDP) between the fourth quarter of 1992 and the first quarter of 1993 was the result of a sharp improvement in the agricultural sector and some stabilisation in the mining, manufacturing and electricity sectors.

"However, these improvements were offset by further deteriorations in the construction, trade and transport sectors.

"Once the impact of the significantly higher agricultural output is eliminated from calculations the non-agricultural sector actually contracted by 0,5% — a sharper decline than in the fourth quarter of last year."

Sacob's forecast for real GDP growth in 1993 "remains at zero for the time being. No tangible economic upswing can be expected soon."

However, some sectors — particularly mining — may find trading conditions improve.

And, in spite of the fall in gold and foreign exchange reserves in May, Van Rensburg says they may start recovering some of the ground lost over the past eight months, facilitating a further cut in interest rates in the second half of the year.

This could stimulate consumers to buy more on credit if confidence has recovered sufficiently. "Financial conditions are basically appropriate for an economic upturn."

He thinks the setting of a provisional date for non-racial elections in April could have a mixed impact on business sentiment.

"On the one hand the business community will welcome the fact that the transition period is coming to an end. But on the other hand uncertainty over the outcome of an election — and its implications for economic policy-making — might lead to the present 'wait and see' attitude continuing.

"Much will depend, in the coming months, on the actions of the parties and the progress that is made on reaching agreement on key political issues."

He warns that any upsurge in politically motivated violence as the election approaches "will inevitably serve to erode business confidence and will thereby serve to reduce the scope for addressing other sources of violence which are linked to poverty and unemployment".

Regional policies must aid the cause of economic growth

B/Day 9/6/93 49

GAVIN MAASDORP

MULTIPARTY negotiations have seen the tabling of widely disparate proposals for redefining SA's regions. The parties' motives differ markedly.

The NP's primary motive is to limit the powers of a majority government, and it has voiced a rather equivocal policy of "regionalism based on sound federal principles". The DP has traditionally been concerned with limiting the powers of the centre, and advocates an unqualified federalism. The ANC, while it has recently made important concessions, wishes to ensure that the centre retains its power over the regions, but concedes that a certain (and as yet undefined) degree of political power should be vested in regional authorities.

In stark but predictable contrast, the Inkatha Freedom Party tends towards a confederationalist approach to promote the autonomy of Natal-KwaZulu. Finally, there is little doubt that the homeland administrations wish to retain their power bases intact, while the CP and others to the right are concerned with maintaining Afrikaner identity.

Given the divergence of motivations, the potential for regions to be delineated on the basis of short-term political goals seems high. A further worry is that, to break a possible constitutional deadlock, the negotiating parties might settle for compromises that give short shrift to rational economic planning.

Wrongly and hastily planned regions could well be a recipe for disastrous and violent fission along ethnic, racial or party political lines. By contrast, many positive developments could flow from intelligently and sensitively constructed regions: the deepening and extension of democracy; the integration of regional sentiments into national politics; and the amelioration of regional economic imbalances.

Yet, an elaborate federal structure with well-entrenched regional autonomy may not be conducive to development. Economic reconstruction requires a strong central government with the power and competence to implement national devlopment strategies, to engage in appropriate fiscal planning and to promote regulatory harmony.

The delineation of regions depends on the purpose they are intended to serve. Will the dominant purpose be to take account of population composition, or historical experience, or functional economic flows, or a rationalisation of existing administrative jurisdiction?

If (as it should be) the major concern is for economic reconstruction, and the need for economic growth, then solid recommendations can be made about the nature and structure of a future constitutional system.

Legitimate government functions in an economy are limited to three areas: the allocation of resources for the provision of public goods; the stabilisation of the economic environment; and the correction of distribution of income and wealth society deems inequitable.

Economists agree that central government is the appropriate level for policy-making aimed at influencing the distribution of income and wealth. In the provision of services, however, other levels of government clearly have a role to play. The stabilisation function concerns fiscal and monetary policy. In both unitary and federal systems, it has to be carried out at the central level.

Experts have recommended regional autonomy for regional development policies. But what powers are necessary? Should regions be free to diverge from national policy in promoting regional investment incentives for industries and tourism? The question of which level of government should be given the ability to declare export processing zones is a related concern. The same applies to devolution of control over airports and harbours.

The fiscal relationship between the centre and regions is a crucial one. SA has an extremely centralised system of taxation with the central government raising about 93% of total taxes. However, regional and local authorities do need some degree of fiscal autonomy. Whatever jurisdictions are devolved to the regions, they require sufficient revenue to carry out their functions. But should limits be set on their expenditure levels and powers of taxation?

Provincial income tax was abolished in 1970, and the regional administrations have become more dependent on transfers from central government. These transfers need to be equitable. Different regions have different needs stemming from such factor as population sizes, rates of urban growth, resource endowments and economic potential. It is desirable, to avoid disputes, that a simple, clearly defined formula for fiscal transfers from the centre should be evolved; these transfers should not be made ad hoc.

There are some interesting examples of fiscal transfer mechanisms in federations such as Malaysia and Australia, where central governments have the major taxing powers and then distribute funds to the regions. In Malaysia the distribution of funds is constitutionally guaranteed whereas in Australia the Commonwealth Grants Commission controls most of the grants given by the federal government to the states.

It appears that the Malaysian system has been more successful because the transfer of funds is tied, constitutionally, to a mechanistic formula. In Australia, by contrast, the federal government has been able to tie its levels of funding to a particular state's acceptance and implementation of federal policy — which has led to a controversial undermining of state autonomy.

Fiscal transfers are clearly important to minimise inter-regional income differentials. The aim should be to mitigate the extent of inequality by financial transfers from the centre. Some regions are likely to continue to lose inhabitants to regions of greater economic opportunity. It is in the national interest that these people should have equal educational opportunities to enable them to compete from an equal position for jobs in the cities. Thus, it is important that social service standards be similar across regions.

An agreed formula for fiscal transfers would be critical: no central government should be able to penalise, or discriminate against, any region for political reasons.

Because SA is a nation of many peoples and cultures, the centre needs sufficient powers to hold the nation together and direct its economy through fiscal means.

On this basis, among the economic functions which it appears critical for the central government to retain are monetary policy, fiscal policy, foreign trade policy, regulation of financial institutions, transport and communications and the maintenance of national standards in terms of education, health and pensions.

The delineation of regions is likely to be based on an amalgam of homogeneity, functional economic flows and existing administrative criteria. SA has a plural society and regions should help, not hinder, the process of building, for the first time, a democratic society in the country.

The number of regions should be minimised bearing in mind that the system is costly, especially if the regions are federal states.

In financial terms, a federal system is a costly form of government. Each state has its chief executive, ministers, legislatures and the "paraphernalia, pomp and pageantry that politicians love so much". While these costs might be offset by sociopolitical benefits, the general policy should be minimal government, and the policy of regionalism should be in line with this goal.

☐ **Prof Maasdorp is director of the Economic Research Unit, University of Natal, Durban. This is an edited version of an article in the latest edition of Optima.**

GDP growth rate of 2,1% predicted

B/Day 10/6/93

LINDA ENSOR

CAPE TOWN — An average annual GDP growth rate of 2,1% in the five years from 1993 to 1998 has been forecast by Stellenbosch University's Bureau for Economic Research. (49)

This projection is relatively moderate compared with the growth rates forecast by government's normative economic model and comes off the 0,9% average annual growth achieved in the 1987-92 period.

Outlining the bureau's forecasts at a seminar yesterday, director Ockie Stuart said a negative growth rate of 0,5% was anticipated for this year and 2,3% for next year.

An average inflation rate of 10% in 1993, 8,5% in 1994 and 13% in 1995 was predicted. Stuart said the BER expected a one percentage point drop in interest rates this year and a two percentage point drop in the last quarter of next year.

Included in the five-year projections to end-1998 were an annual average rise in consumer spending of 1,5%, government consumption expenditure (1,5%), fixed investment (3,7%), gross domestic expenditure (2,1%), exports (4%) and imports (4,5%).

Extrapolating from historical demographic and job creation trends Stuart said the rate of unemployment in 1998 was forecast at 50,4%. He pointed out that over the past 10 years job creation has increased by an average of 1% annually.

Regarding the trend in the value of the rand in the five years to 1998, the BER's Pieter Laubscher said he expected an average annual depreciation in the rand of about 6%-7% against the dollar, 8%-9% against the pound and about 11% against the yen.

Stuart did not foresee any lessening of the tax burden which would continue to remain high because of the need for social spending on housing and social services as well as infrastructure.

For this reason he did not see much scope for a decrease in the budget deficit this year.

In fact he believed thatthe size of the deficit had been underestimated because tax revenue was likely to fall short of expectations.

BER forecast that by 1998 taxes would represent 31% of GDP compared with the 26% of 1992.

The social spending which a new government would probably undertake, would make the emphasis given to fixed investment by the normative economic model difficult to attain, Stuart said.

Business still facing lows

BDAY 10/6/93

TIM COHEN

CAPE TOWN — Business should make provision for increased deterioration in both business and political conditions before a marked degree of improvement could be achieved, economist Ben van Rensburg said yesterday.

Speaking at a Cape Town Chamber of Commerce economic seminar on the mid-year business outlook, Van Rensburg said several negative factors affected the immediate position.

These included a government decision to reduce domestic expenditure, increase VAT and not adjust for bracket creep. There had also been renewed calls for mass action and deterioration in the balance of payments.

Capital outflow was more than R600m in April and continued to be negative in May. The capital account remained vulnerable.

An average monthly outflow of foreign capital of R1bn during August 1992 to March 1993 created extremely tight financial conditions which made it virtually impossible for the Reserve Bank to ease it monetary policy.

"Nevertheless the situation has now improved and the outlook for a further decrease in interest rates in the third quarter can be said to be more positive."

Listing positive factors that could influence the short-term outlook, Van Rensburg noted the upward buoyancy in the gold price, improved agricultural conditions and improved prospects for a political settlement.

He did warn, though, that political and social instability could worsen and intensify as SA moved nearer to a final settlement.

He pointed out that interim agreements had thus far been reached on process issues rather than on matters of substance. "I suspect that as we get nearer to substantial issues the debate will change in intensity and character and could even be accompanied by more violence and instability."

Violence would probably also tend to increase because of the high political stakes and the fact that a clear winner had emerged.

However, the ingredients existed for a prosperous new SA to emerge from the existing process both in politics and economics.

What was clearly missing was a major breakthrough in the restoration of business confidence, he said.

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Bank to curtail capital market exposure

GRETA STEYN

THE Reserve Bank is expected to take measures within the next few weeks to scale down its exposure in the capital market — a move which could dampen speculative activity and knock volumes. (49)

A spokesman for the Bank's bond trading division confirmed the Bank wanted to put an end to supporting jobbing activity, since underpinning speculation was not the role a central bank should play in the market. The Bank was considering reducing its role by substantially increasing the minimum amount of a deal while at the same time widening the spread between the bid and offer prices.

He said the Bank's present limit for a deal was R5m, but it had dealt in even lower values of stock — attracting "enormous interest" from jobbers and placing strain on the Bank's dealing room. But the Bank would be careful about scaling down its activity too much as it did not want to lose the liquidity in government stock that its role as a market maker had achieved.

Market sources said the Bank had indicated it would double the minimum value of a transaction to R10m and quote a three-

B/Day 10/6/93 □ To Page 2

Reserve Bank

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point spread (instead of two) between the bid and offer price. Dealers on the JSE floor hoped that business now going the Bank's way would come to the floor, but noted that small speculators trading on their own account needed the Bank. (49)

A dealer said the Bank's timing was right, because it would "take a smack" in a bear run. A change to bigger value trades and a wider spread would result in more genuine deals rather than speculation.

Market sources said the Bank had considered pulling out and appointing private sector banks or stockbrokers to deal on its behalf. This was stymied by difficulties in setting up a "Chinese wall" between the Bank's market-making operation and the rest of the appointed dealer's business.

The Bank's exposure in the market was a main reason for the annual turnover in public sector stock hitting a high of R551,2bn last year — 121% up on 1991. Its venture into the market was the driving force behind closing the gap between government's interest rate and Eskom's.

The Bank's plans have not yet affected the market. A big buyer, rumoured to be foreign, revived the bulls' spirits, pushing the R150 to a low of 14,56% from 14,69% on Tuesday afternoon before it rose to a close of 14,61%. But there is upward pressure on medium-dated bonds, after forex data dashed hopes of a Bank rate cut.

Star 11/6/93

SA economy best in Africa – China

By Peter Sullivan 49

BEIJING – As mainland China explodes into an economic superpower, China's politicians, economists and bureaucrats have targeted South Africa as the most important engine for growth in sub-Saharan Africa.

China has identified South Africa as the route into the bottom half of Africa, even though no official diplomatic relations exist between Pretoria and Beijing.

"South Africa's economy is the best on the African continent," according to Deputy Foreign Minister Yang Fuchang. "We hope to see the establishment of a peaceful and democratic South Africa at an early date."

South Africa is the last major country to have diplomatic links with Taiwan, and Yang said the "Taiwan question" would have to be settled before the mainland would exchange ambassadors with Pretoria.

● There really are a lot of Chinese — Page 11

Move towards economic zones

LINDA ENSOR

CAPE TOWN — The SA Special Economic Zones Association was launched yesterday at a meeting attended by representatives of labour, government, financial institutions and manufacturers. B/Day

The aim of the body is to act as a national forum for key role players involved in the sector. (49)

Former Finance Minister Barend du Plessis was present, advising that the association should ensure the model adopted for special economic zones in SA did not conflict with GATT or IMF policies.

Du Plessis supported formation of special economic zones, saying that while government had investigated the issue in the past, it had been hamstrung by sanctions.

Representatives of the departments of Trade and Industry and Customs and Excise also attended the meeting. 11/6/93

Gateway Park chairman Neels de Villiers — the management company will operate the proposed zones — said three subcommittees would be established to investigate the best model to adopt, tax incentives, labour relations and training programmes.

Technical reports would be submitted to the National Economic Forum, which is to debate the question of export processing zones.

SA economy stabilising, says expert

Bday 9/6/93

LINDA ENSOR

CAPE TOWN — The economy had entered a phase of stabilisation, although at a very low level, Standard Bank group economist Nico Czypionka told the Sapoa annual conference yesterday.

Some sectors would grow faster than others but generally the economy was bottoming out and some growth in the second half of the year could be expected, he noted. However, annual growth would be zero at best while at worst there was the downside risk of the tentative world economic environment, the political uncertainty and an uncertain gold price.

(49)

Czypionka believed business and consumer confidence had tentatively made a turn for the better, while foreign confidence had also improved. Economic policy was more consistent.

Signs of the stabilisation trend were the uptick in GDP in the first quarter, the stabilisation in mine production, the upward momentum in car sales, and the slight increase in the volume of manufacturing production. Real estate transactions were also turning up and there had been an increase in rental demand.

The retail sector had not shown any signs of recovery, however, on account of the tax increases announced in the Budget. This had set back the turnaround.

Also, liquidations of mainly small companies continued at a very high level and were increasing. The recession had hit small businesses particularly hard.

Czypionka said there was a positive underlying trend in the economy in that the foreign debt-to-export earnings ratio was very low and would keep the rand relatively stable. Furthermore, there had been a broad retreat in the core inflation rate.

Pepkor chairman Christo Wiese told the congress joint ventures between traditionally white retailers and black entrepreneurs to create retail chains in black areas might develop soon. Initially the black partner or franchisee might buy his share of the business over a period, paying from profits.

Entrepreneurial development could be encouraged if manufacturers supplying the formal sector helped develop distribution networks to service small township shops, spazas and hawkers.

Wiese said SA would have to consider increasing the density of its inner city areas to bring workers closer to their workplaces.

"The fact that we are undergoing a recession right now can in fact be turned to our advantage, as it provides us with the impetus to create cost-efficient urban programmes," he said.

Wiese urged a change in legislation allowing for the mixed use of residential areas for commercial purposes, and also suggested the multifunctional use of public buildings and thoroughfares. "Urban planning has to switch from its traditional focus on prevention and control and instead see its role as one of promoting and guiding urban economic development."

1994 make or break year

(49)

CT 11/6/93

'If we do sink, we will sink very fast'

By AUDREY D'ANGELO
Business Editor

IT will become obvious by 1994 whether SA is on an upward or a downward path, Standard Bank economist Nico Czypionka said in Cape Town yesterday.

If the economy is going to be mismanaged through lack of the right leadership there will be a little technical growth next year. Then the economy will start shrinking fast.

But with the right leadership by a legitimate government, which will be able to deal with the radicals both to the left and right, the economy should grow at an average rate of 2,5% for the next three years or so, gradually rising to 5%.

"If we sink, we will sink very fast," Czypionka warned. "But if we grow it will be gradual. We shall probably bumble along until 1995 when we will realise we have to pull our socks up."

However, those who wanted "to move to Perth and help finance their (Australia's) deficit" will have left it too late after this year or early next year.

On the other hand, those planning to stay and invest should "buy into the recovery by 1995."

Czypionka said he thought a disastrous scenario — with control in the hands of radicals who would adopt policies that would undermine the economy and cause the country to fly apart — was very unlikely. "This is not Yugoslavia".

There was, however, a risk of a "Comedy of Errors" scenario brought about by lack of first class leadership and inability to recognise opportunities when they came.

But he thought it most likely that the Establishment, which included the leadership of the major political parties and the trade unions, would retain effective control during the transition period.

This meant that labour troubles would slacken off and social policy would be "a mixture of what we ought to do and what we can do."

Business confidence would improve and foreign investment would be encouraged by the fact that "we have a very stable operating environment.

"People who do business in countries like Brazil will recognise that fact. In Brazil you need a man with a submachine gun at the entrance to your offices and another in the parking lot. We are not at that stage."

Discussing the short-term outlook, Czypionka said: "My conclusion is that we are in the process of bottoming."

The recovery had been delayed by the assassination of Chris Hani and by the fact that the Budget had "taken money out of people's pockets".

The state of the world economy, which was going through the worst cyclical downturn since the second world war, was unhelpful and although the drought had ended it would take two or three years to recover fully from its effects.

But trade barriers had fallen, there was a lot of foreign interest in SA — although investment would come only if the economy were seen to be recovering — and money was no longer being wasted in "the bottomless pit of apartheid".

Economic policy was much better. It was transparent, more consistent and more co-ordinated with monetary policy.

"The political dynamics are genuinely under control, although it may not seem so."

It was, however, essential to address the serious unemployment problem. Small and medium businesses had been "dying like flies," and jobs destroyed at a horrifying rate.

This was not due to high interest rates but to a combination of high rates and negative cash flows.

Czypionka said it was encouraging that the consumer price index (CPI) had not risen above 11% following the rise in VAT to 14%. He thought inflation had been brought under control.

Call for urban planning shift

49

CT 11/6/93

Property Editor

AN integrated national directive to promote SA cities as the engine for economic growth was necessary, says Pepkor chairman Christo Wiese

Delivering the keynote address at the Sapoa convention, Wiese said urban planning had to switch from its traditional focus on prevention and control and instead see its role as one of promoting and guiding urban economic development.

International estimates were that in developing countries about 60% of GDP was generated in cities and this was steadily growing, he said.

The first thing required to promote urban productivity would be to create appropriate institutions to manage the cities.

A national directive operating within a balanced set of national economic policies tied to the overall vision and goals of SA was required.

Wiese said the issue of home ownership was central to successful urbanisation.

A property clause in a Bill of Rights would secure the ability of owners to raise funds against private property which was crucial to the creation of wealth and would also serve to promote investment.

New policies

Appropriate land for urbanisation, he said, had to be identified and innovative land rezoning policies had to be formulated.

"We need to consider the densification of our inner city areas where we can bring many of the working class closer to their employment.

Wiese said at the same time changes to legislation, which would allow people to conduct commercial activities from home, had to be called for.

Wiese added that ventures had to be found to improve opportunities for entrepreneurial development in black communities.

Wiese warned that it was essential to maintain first world infrastructural, financial and physical standards both to maintain efficiences and to avoid any further brain drain.

GUARDIAN WEEKLY
June 11 to 17 1993

Getting to Grips with The Jellyfish Economy

Guardian W in W/Mail 11/6-17/6/93

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COMMENT
Robert Kuttner

CALL IT "The Invertebrate Economy." In today's economy, almost nothing is very reliable for very long. A generation ago, people could take jobs in large, stable companies, or public agencies, with some confidence that the employer would stay put. Cities and towns, in turn, had confidence that their tax bases would not evaporate. Middle-class families, whose health insurance typically depended on the breadwinner's job, could trust that their coverage was secure year to year.

Companies planning to invest overseas knew that an English pound would equal $2.80 for more than an overnight, and that their banker would not go bust.

The economy, of course, was not frozen. Companies continued to innovate. The stock market fluctuated. Some industries did relocate — such as the textile migration from New England to the South beginning in the 1950s. And some towns experienced serious economic dislocations. But there was not today's dizzy sense of everything being up for grabs all the time. Bankruptcies, to take another indicator, ran at one-tenth of the present rate of nearly 100,000 per year.

In retrospect, the economy of the 1950s and 1960s offered a good balance between the stability that ordinary people need to plan their lives, and the openness that entrepreneurs require to innovate. Yesterday's economy had its excesses, but it managed both higher growth, steady innovations and improvements in living standards, as well as a healthy predictability.

Why is today's economy "invertebrate" like a jellyfish? And what made yesterday's economy "vertebrate"? A generation ago, there was more regulation. The old regulated industries — airlines, the phone company, banks, truckers — were not subject to today's ruthless competition to cut prices and wages, though there was still competition on the basis of quality.

That meant, at the very least, that the company didn't have to worry about staying in business. In meant, in turn, stable and rising wages and less risk of mass layoffs. It meant that high-rolling executives did not face the temptation of betting the entire company on high-risk speculative mergers, acquisitions, and purely financial gambles.

Indeed, regulation prohibited entire categories of transactions, such as those that led to the hostile takeover craze of the 1980s, and the savings and loan blowout which had disastrous economic effects.

In addition, the Pentagon was a much larger factor — in the 1950s and 1960s it consumed half the federal budget. Pentagon contracts, whatever their other deficiencies, provided businesses with a steady customer, workers with a steady wage, and communities with a steady tax base.

Unions were a lot more powerful. By negotiating "master contracts" requiring the same wage scale throughout an industry, unions forced companies to compete on the basis of technical invention, and not by cheapening wages. Moreover, strong unions meant that higher productivity translated into increased worker purchasing power.

And finally, there was far less global trade, hence less foreign competition and less shifting production to countries with very low wages. That, in turn, gave both companies and workers a security absent in today's porous economy.

In theory, the lack of a spine makes the economy supple, flexible, and free of distortions in price. Presumably this must make the economy more efficient — since prices are freer to fluctuate and more "accurately" reflect supply and demand.

Indeed, today's invertebrate economy is closer to the free market utopia. But why, then, is growth slow and living standards stagnant? I would suggest that, taken to an extreme, a spineless economy begins to resemble a "dystopia" — a utopia in reverse — because inefficiencies caused by the sheer chaos begin to overwhelm efficiencies caused by more flexible prices and wages.

Like it or not, we are in a brave new world of temporary employment, shifting organizational forms, and general impermanence. A minority of people may "thrive on chaos," as the title of a recent book had it, but the entire economy cannot. If that is true, what can be done to restore the balance that once existed?

First, if we are to have a jellyfish economy, we can at least take away some of the sting. If workers can't count on the same employer for a lifetime, they need health benefits, retraining opportunities and pension benefits, not based on their employment with a particular company but as citizens.

Second, we need to help the labor movement reinvent itself, so that all of the burden of these abrupt transitions don't fall on individual employees.

Third, we need selective re-regulation — at least of industries and financial institutions that are too important to allow high rates of speculation and corporate failure.

Fourth, if we are to have open trade, it at least should be reciprocal and conditional on wages in poor countries rising with worker productivity, so that the entire global economy does not degenerate into an auction to lower wages.

Fifth, while Pentagon spending should reflect only defense purposes, we can duplicate some of the old economic benefits with public works and technology contracts.

Bill Clinton should consider all of this carefully — for in today's invertebrate economy he is the ultimate temporary employee.

RESERVES

Debt burden (49)

FM 11/6/93

Gross gold and foreign exchange reserves fell US$55,7m (R128,6m) to $2,49bn (R7,9bn) in May, due mainly to debt repayments of about $100m. These related to long-term loans and short-term liabilities incurred earlier this year to protect the outflow in net reserves.

The reduction in foreign exchange was $156,5m (R480,7m). Gold holdings rose $100,9m (R352,1m), partly offsetting this.

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(49)

But about 52 000 oz were disposed of in sales or swaps to take advantage of the higher international gold prices.

Transnet economist Ulrich Joubert says a lot of the outflows in recent months have been because large borrowers are choosing to repatriate foreign loans "rather than roll over debt at very low margins. And this could be the pattern for most of the year. At Transnet for instance we have elected not to roll over debt unless the conditions change significantly. We are instead borrowing locally."

UAL economist Dennis Dykes believes the downward trend in reserves could be bottoming out: "Though large debt repayments are due this month, we should see an improvement in the later stages of the year when the higher agricultural trade surplus comes through."

□ The Reserve Bank's May statement of assets and liabilities, which gives the position of gross gold and foreign exchange reserves, reflected the change in the money market accommodation system. Since the Bank no longer discounts bills from the banking sector, this item was reduced to zero from R5,42bn. To account for the change in flows, overnight loans rose by R3,2bn (banks are now accommodated by overnight loans) and government deposits reduced by about R2bn. ■

Govt revenue slides further

CT 12/6/93

(49)

PRETORIA. — SA government revenue continued to lag budgeted estimates in May — the second month of the fiscal year — the Central Statistical Service (CSS) said.

Releasing the first publication for the exchequer account for May the CSS said revenue for the month was R5,3bn, with revenue in the first two months of the year amounting to only 11,8% of the amount budgeted.

At this rate revenue for the year will amount to only 70,8% of the amount budgeted.

Receipts

Inland Revenue receipts for April and May declined 2,8% on a year-on-year basis, with Customs and Excise up 39,9%.

Expenditure, meanwhile, continued in line with budget at R8,9bn. Spending in the first two months amounted to 16% of expected full-year spending.

The deficit before borrowing and debt repayment and excluding other statutory appropriations for April and May, at R7,6bn, was 30,8% of the year's projected deficit, the CSS said. — Reuter

FEDERALISM: *Recent events in former Yugoslavia demonstrate that such systems in deeply divided multi-ethnic societies are doomed*

Ster 12/6/93 (49)

Take lesson from Bosnia

THOSE charged with creating a new constitution for South Africa should take a long, hard look at the former Yugoslavia — not just glance at the few disjointed images flashed across television screens — and then put as much distance as possible between us and a federal constitution.

Close scrutiny of the tragedy in what was Yugoslavia discloses the strongest possible case against an ethnic federation, and could spare our children the awful consequences of such folly.

Despite the howls of protest from South African proponents of federalism, who say a federation would not be ethnic but geographical or historical, the blunt fact is that most of the designs on offer would create (by intention or accident) just such an ethnic federation.

Recent events in former Yugoslavia demonstrate beyond doubt that federal systems in multi-ethnic societies with deep cleavages are doomed. The problems are compounded when the federation's economic power is regionally concentrated, as it is in South Africa, because class and ethnic affiliations tend to coincide.

Federations come about as a consequence of two forms of dynamic — evolution and creation. The United States, Australia and Switzerland, to mention a few of the more popular examples of federations, *evolved* over a number of years. Smaller state units agreed to give up sovereignty and political and other powers to a larger central unit which represented the interests of all with greater effectiveness and economy than the small states could manage alone. These federations tended to succeed because they rested on the collective will of the population.

Since, by definition, evolution cannot go backwards and since our 20th century planet has run out of unclaimed land, the only *evolutionary* federalism still possible is at nation-state level, where governments and citizens agree to surrender part of their sovereignty and political and other powers to supranational organisations such as the European Community, and not within nation-states.

SOUTH Africa could have evolved into a federal state 300 years ago, but colonialism and imperialism prevented this.

If a federal state is to emerge here it will have to be *created*, and here history turns against the federalists. Consider the list of *created* federations: the Soviet Union, Lebanon, Czechoslovakia, Yugoslavia and Nigeria are a few examples seldom mentioned by the proponents of federalism.

Conditions in these failed federations have much in common with South Africa. All were multi-ethnic societies with deep historical cleavages (the only exception being Czechoslovakia, where it was no coincidence that the break-up of this federation was relatively peaceful) and all showed uneven economic development.

A closer examination of the disintegration of the old Yugoslavia discloses frightening parallels with South Africa. These become even more alarming if a federal constitution is added to the equation.

Central or federal institutions in Yugoslavia were always weak. In 1974 the unveiling of a new federal constitution providing unit republics with greater powers all but destroyed the central institutions. The one exception was the federal army, which fell increasingly under the control of one of the federal units — Serbia.

As the federal state weakened, the regional republics concentrated their power, and as the federal units tended (with the exception of Bosnia-Herzegovina) to be ethnically based, the competition between them for collective resources took on an ethnic dimension.

This weak federal state with a concentration of political power in the regions is precisely what the federalists propose to impose on South Africa, where competition for resources will assume exactly the same ethnic dimensions, with the same consequences in the long run. About 340 years of colonialism, imperialism and apartheid have perpetuated the dangerous myths of ethnic nationalism and deepened ethnic cleavages in South Africa. As a consequence the competition for resources (including political power) is doomed to an ethnic dimension. Now the federalists want to exacerbate the problem by concentrating political power along ethnic lines.

If the federalists get their way South Africa will be stuck with central government structures and powers too weak to prevent the stronger units of the federation casting greedy eyes on weaker units, particularly those which are multi-ethnic, where minority populations provide ready launching pads for ethnic expansionism. Then we can enjoy our very own Bosnia.

South Africa is characterised by extreme, brutal political violence. However, those who insist on comparing our instability to that of the former Yugoslavia are misguided and naive: we are still able to count our dead. That is no longer possible in Bosnia. We have yet to see a squatter camp under artillery fire or a hostel sliced open by cannon fire from jet aircraft.

YUGOSLAVIA disintegrated on a number of clear fault-lines. The most important, after ethnic factors, was economic concentration. "Rich" federal units began to resent subsidising the "poor" while the "poor" felt short-changed.

The next fault-line was a federal government ideology (communism) often at odds with those of the ruling elites in unit republics. Because the federal components tended to be largely uni-ethnic, opposition to the central ideology was mobilised on nationalistic lines.

Finally, in the wake of the collapse of this central ideology, displaced officials, political leaders and bureaucrats retreated to the only readily available power base to rebuild their political ambitions — ethnicity. Ethnicity replaced ideology as the dividing line in the competition for power.

The same fault-lines exist in South Africa. Economic power is concentrated in only one or two regions. The PWV, for example, provides most of South Africa's tax base and its wealth. The self-governing states have no economic base. Even Bophuthatswana, the "success" story of the "independent" bantustans, requires a direct capital transfer of R1,1 billion — almost 20 percent of its budget — every year from the central coffers to survive. This figure does not include the huge subsidy it receives from its membership of the Southern African Customs Union and other hidden transfers. The other "independent" bantustans are the stuff of economic nightmares.

On top of this huge economic disparity the federalists intend to impose their ill-conceived system. The "rich" units will subsidise the "poor" and resentment will grow on both sides, mobilised in ethnic terms.

IT IS not beyond the bounds of possibility that the few well-off federal units will reintroduce some form of influx control even if this contravenes a federal Bill of Rights (which the central authority is too weak to enforce) to protect the scarce jobs their voters demand. This would be the first, almost subliminal step, on the road to "ethnic cleansing".

It is quite clear from federalists' behaviour that they accept that any federal state will eventually be controlled by the ANC, hence the desire to weaken it. It is inevitable that opposition to an ANC-alliance central government will find expression in ethnic terms, particularly if those most opposed to the ANC also happen to be concentrated in a "poor" region, largely uni-ethnic and dependent on central authority handouts to survive.

The concerns of those charged with drafting a new constitution for South Africa need to consider the consequences of today's decisions 20 or 30 years down the road. By then a disintegrating ANC-type government might have fractured and retreated into the only viable base for rebuilding political power: strong ethnic-based regional or federal units. Of course, it is equally possible that none of this will happen, but it is not the role of constitutional architects to play Russian roulette with the country's future.

Economic disparity, ethnic mobilisation of opposition to central government policies, the possibility of a disintegrating government resorting to ethnic nationalism to rebuild a political power base ... they are the same fault-lines as Yugoslavia's, and we ignore them at the peril of our children and grandchildren.

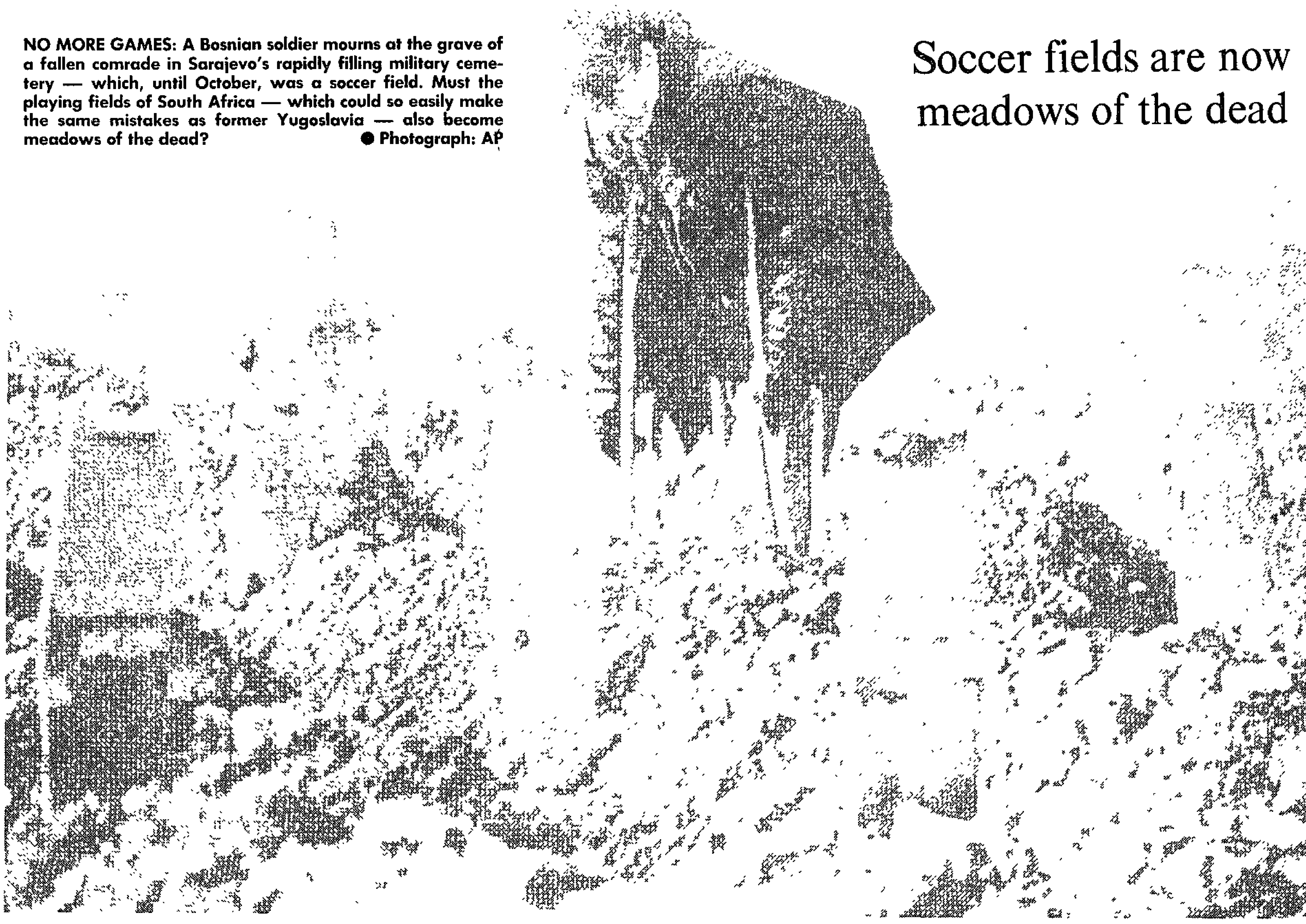
The overwhelming motivation of those pushing so hard for a federal system is short-term self-preservation. Lucas Mangope knows he does not have a hope in hell of winning a free and fair election in Bophuthatswana, so he is looking for a deal that leaves him and his friends with something. KwaZulu's Mangosuthu Buthelezi knows Inkatha is on a hiding to nothing at national level but thinks he could win in Natal — and that is his primary motivation for wanting Natal/KwaZulu an "independent" federal unit.

There is little doubt that South Africa requires a regional dispensation as it is simply too big to be governed from one place. But any regional dispensation must break down the ethnic concentrations created by colonialism and apartheid, not entrench them further. It must grant autonomy to regions to take their own decisions as far as possible without weakening central government. This will be difficult to achieve but our constitution-makers must be up to the task.

ABOVE all it is not the task of constitution-makers to protect vested interests. They must take their chances with the electorate like anyone else in a democracy. Of course, not every federalist has a hidden agenda, but even the few well-intentioned are flying in the face of history. If we allow the federalists — whatever their agenda — to succeed, the horrific scenes reminiscent of a new Bosnia which flash across our TV screens in the future will not be shot in some far-off country but in our own.

□ *The author is Kaplan & Stewart Inc Stockbrokers' political analyst. He is a PhD candidate in political studies at the University of Leicester in England.*

NO MORE GAMES: A Bosnian soldier mourns at the grave of a fallen comrade in Sarajevo's rapidly filling military cemetery — which, until October, was a soccer field. Must the playing fields of South Africa — which could so easily make the same mistakes as former Yugoslavia — also become meadows of the dead? ● Photograph: AP

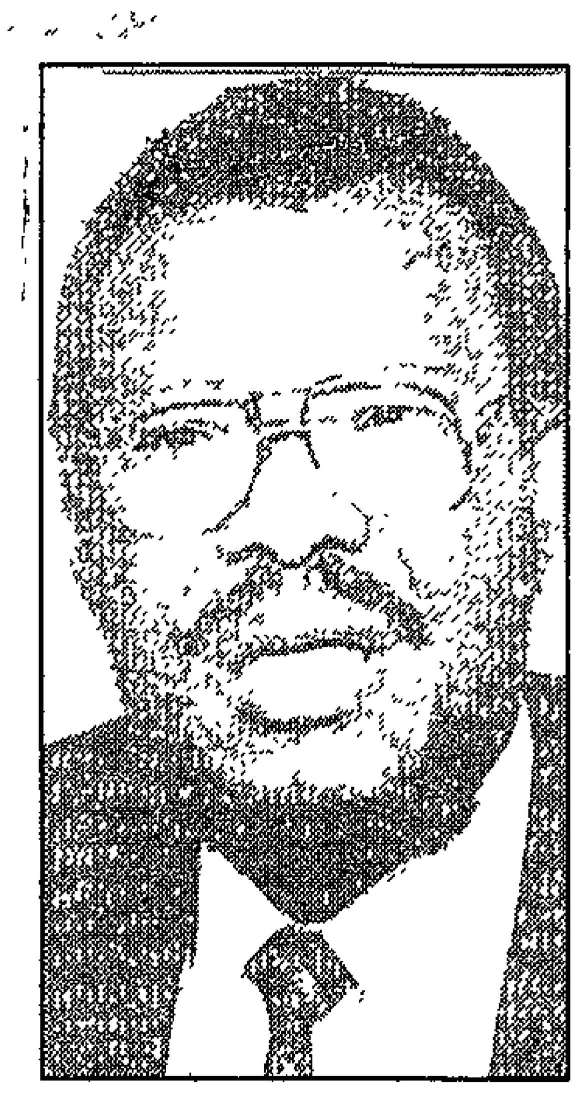


Soccer fields are now meadows of the dead

FAULT-LINES identical to those which split the east European federation exist in South Africa. However, those who compare our instability are naive: we are still able to count our dead. That is no longer possible in Bosnia, writes GARY VAN STADEN.

Self-preservation is the motivation

LUCAS Mangope (left) knows he does not have a hope in hell of winning a free and fair election in Bophuthatswana, so he is looking for a deal that leaves him and his friends with something. KwaZulu's Mangosuthu Buthelezi (right) knows Inkatha will get a drubbing at national level but thinks he could win in Natal — and that is his primary motivation for wanting Natal/KwaZulu an "independent" federal unit.



S Times [BUSS] 13/6/93

Government heads for R30bn deficit shock

By CIARAN RYAN

LATEST finance figures point to a Budget deficit exceeding R30-billion this year, nearly 9% of gross domestic product.

Government borrowing is sharply up, suggesting a deterioration in the debt trap.

"Inland revenue figures for May are disappointing, reflecting yet lower retail sales and probably lower company income tax with the introduction of the secondary tax on companies," says Nedcor Bank chief economist Edward Osborn.

Inland revenue for April and May was 2,8% below 1992 and 31% below budget pro rata. The Government budgeted for inland revenue of R76,5-billion for the year. A total of R8,8-billion was received in the first two months. The increase in VAT to 14% in April is only partially reflected in May figures. (49)

Total revenue for April and May, including customs and excise, was R10,5-billion, only 2,1% up on 1992 and nearly 30% short of budget pro rata. The shortfall was distorted by the usual large payment to Customs Union members in April.

The Government issued Treasury bills of R12,4-billion in April and May and repaid bills of R14-billion, a net outflow of R1,6-billion. There was a sharp jump in net receipts from the Government stock issues — from R9,5-billion for April and May 1992 to R11,2-billion.

"Government stock and Treasury bill issues are disturbingly high for April," says Mr Osborn.

Treasury bill issues mopped up liquidity in April, driving the money-market shortage to R6,8-billion in April.

Chinese peasants with a lesson for SA

ST Times (Buss) 13/6/93

How the simplest of reforms galvanised a nation. Comment by KEVIN DAVIE.

ON Tuesday, I was part of a small group of South African journalists who visited Nantai, a 1 343-person village about an hour's drive from Beijing. The idea was to see how economic reform has affected some of the more than 800-million people who struggle to survive in rural China.

The village president, Feng Fan Li, said that before the reforms began in 1978 the average wage was only 90 yuan (about R45) a year. Now it was 4 000 yuan (about R2 000).

The villagers farm in the morning and work in their businesses — packing watermelon seeds, bagging building materials, and making fuel pipes and bricks — in the afternoon.

We were proudly shown photographs of several of the spanking new highrises which are springing up in Beijing — the bricks have been provided by the village. We were also shown television sets and closed circuit television systems assembled by a company which is wholly owned by the village.

The signs of renewal and development were everywhere — modest brick homes being fixed, walls built, bridges constructed, roads tarred and a four-storey office block which had been completed recently.

Then we sat down to a splendid lunch, kicking off with crabs and ending with prawns, and washed down by a liquer once the preserve of the emperor.

Did the village always eat this well? Once a week, they said. Are all Chinese villages this well off? This one was above average.

One village, I was later told, made so much from its investments that it decided to pay itself a dividend by buying 30 new VW Jettas.

A simple reform decreed by Communist Party supremo Deng Xiaoping in 1978 brought this prosperity. Until 1978 the State took all farm production. Then the State's share was fixed at about 25% of output, the rest going to the village collective.

This money can be used for upgrading, building small businesses or investing in larger enterprises in the towns. Even, if the village sees fit, for VW Jettas.

These village enterprises, accounting for 70% of industrial production in some provinces, have been the backbone of Chinese reform.

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The Economist reports in a survey on China that in 1978 there were 1,5-million non-State industrial firms in the countryside employing 28-million people.

By 1991, 19-million enterprises employed 96-million people. Output grew by 30% a year for more than a decade and exports by 65% a year in the last half of the 1980s.

Food production doubled in the same time.

Economic reform began on the farms, later moving into the southern cities by promoting special economic zones. Foreign partners in joint ventures bring capital and technology while the Chinese throw in land and cheap labour.

The result has been growth averaging 8% to 9% a year for most of the past decade, rising last year to 12,8%.

Much of China has become a special zone as areas compete for capital just as the village enterprises compete with one another. Neither unionism nor high wages could survive, but as we have seen the Chinese have found a way of exploiting low wages for their own ends.

Nantai's Mr Feng Fan Li, who told us he is illiterate, can teach South Africa a lot. He knows that economic reform should not ignore rural areas. He knows that high wages cause inertia.

He also knows that underdevelopment can be tackled and that special zones provide examples which others can follow.

What he may not know is that his village is contributing to a predicted eightfold increase in the Chinese economy between 1978 and 2002.

Donors open the door to SA firms

S Times [Buss] 13/6/93 (49)

By TERRY BETTY

AID agencies are ready to inject capital into commercial projects in Africa, providing an opportunity for South African business to expand.

This is a change in emphasis from the previous policy of carrying out mostly social and infrastructural projects, such as building roads, bridges, dams and providing health care.

Safto Africa director Paul Runge says: "It opens new opportunities for SA companies."

The new emphasis is that money must not be poured into a bottomless pit. Projects should promise profit and stimulate the private sector.

Mr Runge says only a few countries south of the Sahara do not depend on aid programmes. They include South Africa, Mauritius and Botswana.

The rest are undergoing structural adjustment programmes as a result of donor pressure.

Float

Mr Runge says donor agencies basically control the countries' economies and have put pressure on them to liberalise prices, reduce the role of the public sector and boost private enterprise.

Main donor organisations are the World Bank, the Africa Development Bank, the EEC through the Lome agreement and the United Nations.

African countries are being forced to allow the currencies to float to their real rates. Governments are being persuaded to practise fiscal discipline and introduce transparency into their economies.

For example, Zambia, Togo and Kenya have become liberal investment countries that have tax holidays and allow repatriation of profits.

PAUL RUNGE: Good deeds not enough Picture: JON HRUSA

In a major rethink, donor agencies have decided that pure social spending, although worthwhile, does not stimulate the private sector.

Mr Runge says: "Giving medicine to sick people is good and holy. However, it does not stimulate the economy."

About three years ago the African Development Bank (ADB), the International Finance Corporation (IFC) — the private sector investment arm of the World Bank — and the United Nations Development Programme formed the African Project Development Facility (APDF).

This aims to conduct feasibility studies for small and medium private projects and help to secure finance.

The World Bank had already formed the IFC, which provides direct project funding for private enterprise in developing countries.

Although this has the advantage of less bureaucracy and a shorter project lead time of about six months, it does not handle projects worth less than $15-million.

Mr Runge says the agencies must find people to provide the skills, management, training and technology transfer. He believes SA is their ideal source.

But he warns that SA will be competing against European suppliers.

"SA is in an ideal position to provide consultants for projects and supplies for joint-venture companies.

"When SA companies have their foot in the door, have established contacts and become acquainted with the donor agencies, they will be able to become involved in projects."

Mr Runge says donor organisations take up to 30% of a private company for the duration of the project to make sure it does not go sour.

They generally prefer a partner with the expertise to ensure good management of the project.

But where will the money come from because African countries are notorious for their inability to pay?

Mr Runge says businessmen should change their way of thinking. Instead of only trading with traditional dealers, they should investigate the formation of joint ventures with companies which have foreign currency.

● **Safto will host an Africa Business Opportunities through Commercial Aid Projects conference on July 7 and 8 in Johannesburg.**

CITY PRESS, June 13, 1993 PAGE 7

Oxfam hits out at the IMF's role in Africa

C/Press 13/6/93

(49) (156) (49) (556)

OXFAM has launched an unprecedented attack on the International Monetary Fund (IMF). The IMF has failed Africa. "The Fund ... is governed by apparently immutable orthodoxies entirely inappropriate to African conditions," it says.

Far from providing "aid" to the world's poorest countries, the IMF has taken $3,9-billion (about R12,4-bilion) from Africa since 1986. "There cannot be a role for the IMF if it is going to go on sucking Africa dry, as it is now," said Oxfam director David Bryer.

Indeed, Oxfam concludes that "the fund should be withdrawn from Africa and its role taken over by a more appropriate agency".

Oxfam is Britain's oldest and second largest non-government overseas aid charity, spending $80-million (about R255-million) a year in 70 countries. Its criticism is contained in a report, "Africa, make or break", published last month.

Oxfam is not the IMF's only critic. Tony Killick, of the conservative London-based Overseas Development Institute, wrote in April that the "high failure rates and a paucity of 'success stories' leave particular questions about the fund's ability to operate successfully in Africa and other low-income countries."

The critique is broader than just Africa. The IMF has also been taking money from poor countries in Asia and Latin America – for example, $4,6-billion (about R14,7-billion) from south Asia since 1986. And the criticism applies to the World Bank and donor governments as well.

Oxfam says that "the international donor community and multilateral agencies – the World Bank and IMF – continue to insist on economic policy reforms which have manifestly failed to generate recovery, while imposing huge social costs".

The World Bank and IMF strongly reject these criticisms. Edward Jaycox, World Bank vice president for Africa, said in March that "under structural adjustment, the countries of Africa have achieved significant progress".

Yet Oxfam concludes that IMF and World Bank-imposed Structural Adjustment Programmes (SAPs) have been a "fundamental failure".

While Jaycox said in a report to the bank in February that "adjustment has improved the lives of the vast majority of Africa's poor", Oxfam retorted that adjustment had "dramatically worsened the plight of the poor".

Jaycox argues that critics of World Bank policies "confuse the malady and the remedy" and that where the conditions of the poor continue to deteriorate, it just shows the need for further structural adjustment. Oxfam dismisses this as a failed prescription.

It adds that in the few cases where the World Bank could point to "success", this "has been based on substantial aid transfers".

Oxfam has joined with other critics who argue that structural adjustment is built on a fundamentally false premise – "that sub-Saharan African economies can export their way to recovery".

It says the bank and IMF "encouraged countries producing a narrow range of commodities to expand production simultaneously, for already saturated markets".

Thus, for example, between 1986 and 1989 cocoa exporters in west Africa increased their output by a quarter, only to see foreign exchange receipts fall by a third as prices collapsed.

The study by the two University of Florida researchers showed that many cases of brutality and discrimination by white police officers arose out of preconceived ideas about blacks. White policemen looked suspiciously at blacks walking or driving in white neighbourhoods, particularly rich ones.

"Many of these citizens were harassed for driving or shopping in an unscale white neighbourhood," said Kim Lears.

Downswing must stop now, economist warns

B/Day 14/6/93

LINDA ENSOR

CAPE TOWN — Unless government took immediate steps to halt the decline in the economy, future prospects of recovery would be jeopardised, Sanlam's chief economist Johan Louw warned in the group's latest Economic Survey.

He called for a mild relaxation of monetary policy, limited depreciation in the external value of the rand and selective infrastructural projects to create employment.

Unemployment had taken on disturbing proportions and made economic growth vital, he added.

SA could no longer afford negative or even low economic growth, he said.

"The continuation of the prolonged downswing could have such destructive consequences for the economy that even the implementation of a long term restructuring programme could be impeded," Louw said.

He underlined the importance of political stability for recovery.

Growth prospects for the non-agricultural sectors of the economy in the next 12 months were unfavourable regardless of whether the gold price remained high, as it took some time for higher gold income to stimulate economic activity.

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Dimmed

Hopes of an export-led recovery had been dimmed by the fact that economies of most industrialised countries were still in a downswing and were not likely to gain momentum before 1994.

Any upturn would be relatively moderate and a sharp rise in commodity prices was unlikely.

SA would see the benefit of any international upturn only in the second half of next year.

A 1,5% economic growth rate for the seven most important countries was anticipated for this year and 2,7% next year, with the German economy declining by 2% this year; Japan showing a real growth rate of about 1,3% this year and 3% next year; Britain achieving rates of 1% and 3% in 1993 and 1994 respectively; and the US growing between 2,5% and 3%.

Lack of net fixed investment (less than 1% of GDP) had serious implications for SA's long term growth potential.

Real fixed investment had declined by over 33% since the beginning of the downturn in 1989, partly as a consequence of net outflow of capital amounting to over R42bn since 1985.

This had required surpluses on the current account to protect the country's reserves.

Louw did not believe there would be a change in foreign perceptions of SA in the next 12 months and the financial rand discount would therefore not change much.

The real effective exchange rate of the rand would also stabilise at its current lower level.

Given the balance of payments constraints he did not foresee a cut in bank rate before late in the third quarter or even in the fourth quarter, and forecast a prime overdraft rate of 15,25% by year-end.

Star 14/6/93

Sanlam sounds alarm bells on economy

(49)

Claire Gebhardt

South Africa faces irreparable harm if its economic decline is not halted, Sanlam warns.

Alarmed at the extensive damage already done to an economy in its fifth year of recession, chief economist Johan Louw says declining investment, the emigration of skilled people and the collapse of businesses could weaken the economy to such an extent that it would be difficult to restore long-term growth.

Unemployment has reached such alarming levels that selective infrastructural projects to create employment have to be implemented.

He also calls for a mild relaxation of monetary policy and a limited depreciation of the rand.

Growth this year or even next year is unlikely, he says in Sanlam's latest Economic Survey.

"Real GDP grew by a seasonally-adjusted 0,8 percent in the first quarter of 1992, but excluding agriculture, the growth rate was a negative 0,5 percent against a negative 0,4 percent in the fourth quarter of 1992."

The prolonged recession and the recent drought has seriously disrupted production and spending.

"Manufacturing and construction, the sectors which provide the most jobs were the most seriously affected."

However, general government and the private financial services sector have continued to grow while real consumer spending has begun to decline.

"Real domestic investment - the driving force behind economic growth — has shrunk by a third in the past four years."

Incalculable harm to the economy has been caused by a net outflow of capital, since 1985, of more than R42 billion, mainly for political reasons.

"This has had to be balanced by surpluses on the current account of the balance of payments — money which could instead have been used for growth."

The recent increased net outflow on the capital account of the balance of payments (BoP) has resulted from the continuing unstable political situation, differences in interest rates between South Africa and its foreign trading partners and leads and lags in foreign payments and receipts.

"In the five months up to the end of March 1992, the Reserve Bank had to negotiate foreign loans of more than R2 billion to support the country's foreign exchange reserves."

Deals put on the backburner after Hani assassinated

B/Day 14/6/93

THE recent assassination of SACP chief Chris Hani had a marked negative effect on the commercial and industrial market, brokers say.

Property Negotiators director Munro Donen says a number of deals that were being negotiated at the time were cancelled, while other prospective deals were put on hold as people adopted a wait-and-see attitude.

"Whenever something like the Hani assasination or mass action takes place, our phones ring off the hook as tenants in the Johannesburg CBD become nervous and want to decentralise.

"However, as soon as the initial shock has worn off and things revert to normal, the matter is soon forgotten. This is reflected in the fact that some of the deals placed on hold at that time are again under negotiation or have been concluded," he says.

Russell Marott & Boyd Trust industrial director Nick Harris says the Hani incident was a temporary setback.

"We launched our Aeroport industrial estate directly after this and a number of deals were accordingly lost, particularly prospective owner-occupiers.

GRAHAME LINDOP

"Decisions were shelved for a few weeks and then the market picked up again. While we have concluded 19 sales so far, this would undoubtedly have been more had sentiment been better," he says.

However, Anglo American Property Services sales and leasing director Grahame Lindop says Hani's assassination did not have an effect on the commercial market.

"The mass action programme and stayaways associated with the assasination affected the retail market, particularly in the Johannesburg CBD.

"Retail turnover countrywide, not just in the CBD areas, is under huge pressure at the moment. While the most vocal are CBD retailers, I am not convinced they are doing badly just because they are located in the CBD."

SA Property Owners' Association executive director Brian Kirchmann says the events around the Hani dealth saw almost all local deals put on the backburner, while a number of international deals were cancelled.

"The local market is more resillient and used to these developments and recovers much more quickly, but international investors are a lot more wary and do not return easily.

"If we do not sort out our political problems quickly, prospective investors will merely place their money elsewhere," he says.

Seeff Commercial properties MD Colin Blacher agrees, saying many people are sitting back and waiting to see what develops politically before commiting themselves.

"While a number of deals were put on hold after the Hani assasination, many of them are back at the negotiating table. There is, however, a lot of uncertainty among investors and those considering a move."

Upswing awaits a political settlement

B/Day 14/6/93

ANY upturn in the property market will hinge on a political settlement and the resultant growth in the economy, SA Property Owners' Association (Sapoa) executive director Brian Kirchmann says.

"The major players in the property industry have pulled together in the difficult times of the past few years. But, while I am confident conditions will improve, this is closely related to political and social stability," he says.

The recent assassination of Chris Hani and the arrest of senior PAC officials were setbacks for the negotiating process and economic recovery.

"If the violence can be contained, this will result in a more stable investment climate and will go a long way to ensuring both international and local investment return," Kirchmann says.

RMS Syfrets director Mike Brown says the sooner a final date is set for non-racial elections the better as this will boost confidence and result in the growth of new businesses and the development of commercial and industrial properties.

"An interim government will see us become more credible with the international community and, once this happens, activity will increase. The high level of violence also needs to be addressed."

Kirchmann says Sapoa has established a tourism committee as it believes there is an opportunity for property development in the establishment of the required tourist infrastructure.

"We have also been invited on to the National Economic Forum and we feel this is very positive," he says.

The recession has affected Sapoa membership negatively, but not as much as had been expected. The facilities offered to members and the networking achieved as a result of this helped support membership, he says.

Sacking report shocks PAC's Alexander

PAC secretary-general Benny Alexander says he has yet to learn if he has been axed from the organisation's negotiating team, adding he was still awaiting a response to his request to be temporarily excused for personal reasons. B/Day 14/6/93

But if he had been sacked, he would abide by the decision, he said in reaction to Sunday newspaper reports that he was dismissed because of his embarrassing statements supporting the organisation's armed wing Apla.

"I wrote a letter to the leader of the PAC negotiating team ... Willy Seriti requesting that I be excused from the team for a while to attend to personal family matters," Alexander said.

"I made it clear that I would take up my post at negotiations again once I had attended to the said personal matters. I am still awaiting a response ... and I am shocked with disbelief to learn through the media that I have been kicked out and axed."

Alexander said if he had been sacked by an appropriate organ with due authority he would abide by its decision.

He denied he had embarrassed the PAC over his support for Apla.

"I wish to restate the official party policy: that the armed struggle will only come to an end through a mutual cessation of hostilities."

□ The PAC later issued a statement denying "in the strongest possible terms" that Alexander had been dismissed, saying that he would be present at a meeting today of the organisation's planning committee.

The statement said that Seriti was the PAC negotiating team's leader and not Alexander as claimed in Sunday's reports, and that the team operated "as a collective on a rotating basis". — Sapa.

Dutch economic affairs minister visiting SA

B/Day 14/6/93

DUTCH Economic Affairs Minister Koos Andriessen arrived in SA yesterday to meet political, business and labour leaders.

During his five-day official visit, Andriessen is expected to hold talks with President F W de Klerk and ministers Derek Keys, Pik Botha and Piet Welgemoed; ANC president Nelson Mandela and head of economic planning Trevor Manuel; Inkatha president Mangosuthu Buthelezi and Cosatu representatives.

He is also due to meet officials from the Reserve Bank, Portnet, Eskom, Nedcor Bank, Investec Bank and Idasa.

Andriessen is being accompanied by a delegation of Dutch businessmen who are keen to familiarise themselves with economic developments in SA.

The Netherlands imposed comprehensive economic sanctions against SA in the '80s but has since lifted some trade and investment embargoes. — Sapa.

Picture: GARTH LUMLEY

ly income of R8 000 per

sign their organisations or jobs, that international funding and training assistance be sought, and that the force initially serve as an adjunct to the SAP, and not to replace SADF deployment.

Cilliers said his institute believed full implications of the creation of such a force had not been investigated adequately.

A force of 12 000 would be inadequate to deal with escalating violence in the absence of the SADF.

"There is little prospect of such a force ... messy and time consuming. The implications in terms of service regulations boggles the mind.

"Since the peacekeeping force would have to have powers of arrest, etc, the force would have to be formally constituted through an Act of Parliament. The sum effect would be a drawn-out process lasting considerably longer than planned.

"We are convinced that even after all these efforts, the SADF will still be in the townships," Cilliers said.

Warning on united SA army

BDay 14/6/93

LLOYD COUTTS

DEMOBILISATION of SADF, MK and TBVC armed forces personnel should take place once a transitional executive council is in place and before any planned integration of SA's armies, says the independent Institute for Defence Policy.

In a written submission to the multi-party talks' technical committee on violence, institute co-director Jakkie Cilliers said SA could not afford and did not need the sizable armed forces which would result from integration of armies.

"The situation that has to be avoided is simply to open the doors to the absorption into the military of the sum of all armed formations in the country and then try to demobilise some afterwards.

"This will not only be extremely complicated, expensive and messy but will require also constant special dispensations in terms of the public service regulations," Cilliers said.

"South Africans should be extremely circumspect about integrating persons into the military who will inevitably have to be demobilised," he said.

The institute suggested that formal criteria be negotiated, or at least approved at a political level prior to the institution of the transitional executive council, to define minimum requirements for integration into a future defence force.

It also submitted that assistance be sought from the international community, government departments and private sector, to assist in the reintegration into civilian life of present members of the armed forces not suitable or for whom there was no room.

Cilliers called for a freeze on military expansion and further training once the transitional council had been instituted.

The institute also proposed the establishment of a Council of Defence to advise the transitional executive council subcouncil on defence.

The institute has proposed a system of control points countrywide to establish a system of control and accountability of guerrilla armies by political movements.

Nonracial civic body mooted

BDay 14/6/93

ADRIAN HADLAND

PRETORIA — Civic associations and white ratepayer groups were discussing the creation of a nonracial organisation to represent all residents in the central Transvaal region, it was disclosed last week.

Central Transvaal Civic Association media officer Titus Mafolo said common ground was being sought with traditionally white ratepayer groups with the aim of forming a unified body.

The initiative was the result of a decision by the civic association's general council last month to investigate the possibilities of unity.

Civic and ratepayer representatives had already met in the Greater Pretoria Metropolitan Forum, Mafolo said, but extended contact was being sought.

Attempts in Johannesburg to create a similar body representing all residents, had failed in April after six months of talks.

Observers said the parties on the Johannesburg Forum had found little common ground.

Mafolo was optimistic similar difficulties could be overcome.

One of Pretoria's largest ratepayer organisations, Queenswood Park's chairman F Evans said discussions were under way.

"We have all got to get together and talk seriously," he said.

FW to lobby for IMF aid

BDay 14/6/93

TIM COHEN

(49)

CAPE TOWN — President F W de Klerk has signalled that gaining access to IMF funds would be high on his list of priorities for his meeting with US President Bill Clinton later this month.

De Klerk sounded an optimistic note at the weekend, stressing the importance of IMF funding for SA's economic development.

The ANC has indicated that it would call for the lifting of remaining sanctions once agreement has been reached on a transitional executive council and the April 27 election date is confirmed.

De Klerk leaves for the US shortly after the plenary session of negotiations is scheduled to take place.

He and ANC president Nelson Mandela will visit Philadelphia to receive an award in recognition of their contributions to freedom and liberty.

De Klerk said it was vitally important that SA gained access to the IMF if the country was to achieve the development intended.

Gaining access to IMF funding had always been one of government's priorities and he would be addressing the issue in America.

However, De Klerk added a note of caution, saying that he hoped sufficient progress would be made in negotiations.

He suggested that should the ANC's relaxed criteria not have been met, access to IMF facilities would not be possible.

Judgment on crash expected soon

MARIANNE MERTEN

THE case against two former Sanlam insurance agents charged with murder and fraud will be moved from the Middelburg Circuit Court to the Pretoria Supreme Court on June 22 and judgment is expected during the same week.

Isak Kruger and Lucas Loubscher are charged with five counts of murder, three of attempted murder and 13 of fraud related to a minibus smash near Witbank in January 1992.

Five of the eight occupants died when the vehicle plunged over an embankment. The State closed its case last week after leading evidence from police engineers who said the vehicle would not have rolled without "considerable outside interference".

During the three-week trial, it emerged that Kruger and Loubscher recruited 13 men, who provided personal details for what they believed to be job applications. The two accused used the information to take out Sanlam life insurance policies.

Domestic workers'

Development agencies in Africa poised to visit SA

B/Day 14/7/93 (119)

PETER DELMAR

LEADERS of most of the major private sector development agencies in Africa are to visit SA for the first time next month.

Their visit is expected to pave the way for local participation in projects worth hundreds of millions of dollars a year.

SA Foreign Trade Organisation (Safto) manager Paul Runge said the visitors included representatives of the International Finance Corporation's Small Business Development Unit, the African Development Bank (ADB) and the bank's African Business Men's Round Table.

Runge said a Safto-organised conference in Johannesburg next month would promote potentially lucrative trilateral development co-operation.

Organisations such as the French Proparco and the Swedish Swedecorp would be represented at the meeting which Runge described as "a vital breakthrough".

These and other national organisations annually allocated tens of millions of dollars to development in Africa and could in future provide lucrative financing for SA products and services. For the first time the Private Sector Development Agency of the ADB, as well as the African Project Development Facility would explain their development roles and opportunities they provided.

The project development facility was recently created by the World Bank, ADB and the UN Development Programme to identify medium and smaller projects in Africa.

Runge said SA businessmen were largely ignorant of the opportunities which private sector deveopment organisations offered.

"While the International Finance Corporation only deals with big projects, we need to explore and find niches for ourselves in the smaller and medium projects," he said.

Dutch economic affairs minister visiting SA

BDay 14/6/93

DUTCH Economic Affairs Minister Koos Andriessen arrived in SA yesterday to meet political, business and labour leaders.

During his five-day official visit, Andriessen is expected to hold talks with President F W de Klerk and ministers Derek Keys, Pik Botha and Piet Welgemoed; ANC president Nelson Mandela and head of economic planning Trevor Manuel; Inkatha president Mangosuthu Buthelezi and Cosatu representatives.

He is also due to meet officials from the Reserve Bank, Portnet, Eskom, Nedcor Bank, Investec Bank and Idasa.

Andriessen is being accompanied by a delegation of Dutch businessmen who are keen to familiarise themselves with economic developments in SA.

The Netherlands imposed comprehensive economic sanctions against SA in the '80s but has since lifted some trade and investment embargoes. — Sapa.

Fears that Budget deficit may soar

BDay 14/6/93

TIM MARSLAND

UNEXPECTEDLY low tax collections in April and May have raised the prospect that the 1993/94 Budget deficit may soar far beyond government's target of R26bn.

Central Statistical Service (CSS) figures released at the weekend show tax collections for the first two months of the state's financial year came in at R5,3bn, less than 12% of the total budgeted for the year.

Nedbank chief economist Edward Osborn said the revenue figure was "disturbingly low". He and other economists canvassed at the weekend warned the deficit could top R30bn for the full year.

A CSS spokesman said income from inland revenue dropped 2,8% to R3,8bn in April and May from the same period in the previous financial year, while excise income rose 39,9% to R1,5bn.

Spending was on track at R8,9bn, which was 11,8% of the total amount budgeted for the year. (49)

He said that so far the deficit — the gap between government revenue and spending — before borrowing and debt repayment, and excluding other statutory appropriations, amounted to 30% (about R7,8bn)

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Deficit

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☐ From Page 1

of the R26bn total voted for the full year, with 10 months still to go.

Osborn said the figures indicated that the deficit could top R30bn, compared with the budgeted R26bn. (49)

However, he said this was a tentative conclusion, since there might have been teething problems in implementing the new VAT rate and revised company tax system, including the new secondary tax on companies (STC).

Commenting on revenue, he said net customs income in April was low because of a huge payment to other members of the Southern African Customs Union, "even greater" than last year's R1,2bn.

Net revenue from excise for May, which was up by almost R500m, was not surprising since there had been two increases in fuel levies since May last year. Inland Revenue's contribution was disappointing given the higher VAT rate, which was implemented on March 7.

This was indicative of the generally low retail sales and could indicate a drop in income tax revenues as a result of the changes to company tax rules, Osborn said.

Star 15/6/93

Low tax collections dampen hopes

By Claire Gebhardt

(49)

It is premature to predict a R6 billion increase in the Budget deficit to over R30 billion based simply on tax collections in April and May, economists say.

However, they warned yesterday that unexpectedly low collections for the first two months of the financial year were an indication the economy was much flatter than thought.

Central Statistical Service (CSS) figures released at the weekend show tax collections at R5,3 billion — less than 12 percent of the total budgeted for the year.

Spending was on target at R8,9 billion — 11,8 percent of the total budgeted amount.

Sanlam's Johann Louw said it was too early to speculate on the deficit as there was generally an uneven flow in income during the year.

"But a shortfall would come as no surprise, given that the Government's revenue figures were based on a growth rate of at least one percent and we are currently looking at negative growth of 0,5 percent."

Tax increases to curb the deficit were out of the question in an election year, he said. "Government will simply borrow more."

Absa's chief economist Dr Hans Falkena said Absa had forecast a deficit of over R30 billion. Even if the deficit reached R33 billion, the impact on the capital market would be minimal.

"Bonds are a very attractive investment if Dr Stals (Reserve Bank Governor) succeeds in lowering the inflation rate, so most of the capital market participants are able and willing to finance this deficit."

Falkena said the 1994 Budget would be crucial. "State coffers are absolutely empty.

"Living standards will have to be reduced and people will have to lower their expectations.

"Salary adjustments in the public sector will be negative for a few years and pension payments will be below the inflation rate."

Russian-South African relations will be mutually profitable, writes **Vladimir Shubin**

Rocky road will get smoother

Star 15/6/93,

49

RECENT developments in Russia pose a lot of questions. Why did the self-proclaimed democrats soon start looking for dictatorial powers? What is the basis of the coalition between the supposedly "hard-line communists" and liberal nationalists? Why do so-called reforms cooked according to International Monetary Fund (IMF) recipes fail so miserably?

All these questions have direct relevance to South Africa as another country in transition. But today we shall look into a different matter: relations between Russia and South Africa.

History put Russia in a unique position *vis a vis* this country. The participation of Russian volunteers and medical personnel in the Anglo-Boer War is still in the memory of the Afrikaners. Later Russia and South Africa fought against the common enemy in the two world wars.

In the previous three decades, the USSR developed strong and versatile ties with the ANC and its allies. Hundreds of South Africans received their degrees in the Soviet Union and thousands — Chris Hani and Thabo Mbeki among them — passed shorter courses.

These factors, important as they are, are just the tip of the iceberg. Its solid base is the favourable conditions for the co-operation of two countries which are leading world producers and exporters of many minerals, from diamonds to rare metals, and which at the same time had limited access — though for different reasons and to a different degree — to international technology.

Is this potential being realised? On the surface, the relations between the two countries are quite good. Their intensive development in the last couple of years brought about the establishment of diplomatic relations and culminated in the official visit of President de Klerk to Moscow.

But let us look a bit deeper. Boris Yeltsin and his entourage are conducting relations with South Africa as if the present National Party Government will stay in power forever, or at least for decades.

In spite of talk of an equal attitude towards the Union Building in Pretoria and the ANC head office in Johannesburg, the relationship with the ANC has suffered.

Not only has financing of the ANC offices in Moscow been stopped and many ANC activists sent back — the MK cadres were in the vanguard — but the Russian position on South African issues in the United Nations has changed dramatically.

Yeltsin himself added insult to injury when he stated at his meeting with De Klerk that Nelson Mandela "would not be received as the ANC president, but would be visiting the Russian capital as an international figure and fighter for human rights". So no one should be surprised that Mandela is not in a rush to visit Moscow.

The same mistake is made by Pretoria, which also behaves as if the present Russian government is stable and viable.

Pik Botha wished Yeltsin "every success" when he tried in March to introduce rule by presidential decree — although he soon had to retreat when the move was declared unconstitutional in court.

The results of the April 24 referendum in Russia have apparently encouraged Yeltsin's friends in South Africa. But, in fact, nobody emerged victorious.

True, Yeltsin's right to remain president was confirmed, but his subsequent attempt to declare himself "the only legitimate authority in Russia" and to change the constitution to bypass parliament will no doubt result in further confrontation.

Rushing to make friends with Pretoria, Yeltsin — like Gorbachev in the last months of his rule — has looked for credits and loans. Such false expectations were encouraged by the South African Government through such actions as the visit of then-Minister of Trade Kent Durr to Moscow and promises (never fulfilled) to build three townships for Chernobyl disaster victims under very favourable conditions.

The same mood prevailed during De Klerk's visit when agreement on a R100 million revolving credit scheme was signed, only to remain on bureaucrats' desks for many months.

The hopes of South African businessmen to quickly penetrate a vast Russian market have been largely in vain, as well.

Sad as all these developments are, it would be very wrong to adopt a pessimistic attitude. First of all, political changes in both countries are imminent and the destroyed political bridges will be rebuilt. But the tendency to portray Russia as a backward beggar should be discouraged.

One of my colleagues recently wrote that the Soviet Union had been able to compete with the West only with three items: the Lada car, AK-47s and the Mir space station. That is a gross, uninformed under-estimation.

Just one example: the Moscow Research Institute of Radio Physics offers for export a variety of top-quality products of space technology — ranging from bone-setting instruments for crush victims to solar cookers, from various antennae to ultra-thin and highly efficient heaters.

The prospect of co-operation between Russia and South Africa in high technology already worries some — as seen by the reaction to the projected launching of South African-made satellites by Russian rockets.

Such a project would be premature while the Security Council embargo is still in force, but the whole matter was blown out of proportion. There was clear purpose not just to postpone it, but to sabotage it for good.

There are other fields of co-operation as well. Facing the urgent need for upgrading black universities, particularly in science, South Africa can attract professors and lecturers from the Moscow State and other Russian universities, many of whom have broad international experience.

A lot can be done also beyond the present Russian borders, in the so-called newly independent states.

For example, the world's biggest producer of manganese ore is the Ukraine and stable marketing of South African ore is impossible without mutual understanding between the two countries.

When, in December, I visited Turkmenistan — a potentially very rich country in Central Asia, often called "a gas Kuwait". — high officials and academics expressed their interest in co-operation with South Africa in such fields as solar energy, arid-land agriculture, karakul sheep breeding and mining.

To paraphrase the words of a prominent, though highly controversial political figure of the past: "The rulers come and go but the peoples remain." The peoples of our two countries can and should co-operate to their mutual benefit. □

● *Dr Shubin is senior research Fellow at the Centre for Southern African Studies, University of the Western Cape. He was formerly head of the Africa section of the Soviet Union's Communist Party.*

Coleman said the proposals "contain certain

to treat June 16 as a de facto paid public holiday, Coleman said.

New way to gauge social progress

BDay 15/6/93

LINDA ENSOR

CAPE TOWN — A set of indicators to measure SA's progress in improving the lot of all its citizens has been devised by the President's Council's social affairs committee.

Committee chairman Ben Piek said the proposals, released yesterday, constituted a major point of departure from existing methods of measuring the well-being of the population.

"The indicators are human-centred and are designed to be used by government in the shaping and allocation of resources," Piek said.

"The capacity of the government at various levels and of development agencies to recognise, by means of a 'red light' or 'warning light', indicators of instances where the state of well-being is of such a nature that it threatens to destabilise society in general or in specific areas, has been an important objective in developing this model."

The committee's report on the indicators stressed that individuals had two fundamental requirements — "self-actualisation" and survival. Both were essential for their well-being.

To survive, people needed protection, shelter and food. They also needed to experience self-actualisation, which required understanding, a sense of belonging and opportunities, all of which could be satisfied by education and training, communication and socialisation.

The committee said social mobility was an essential element of self-actualisation, which would be influenced by factors such as the availability of jobs, disposable income, freedom of association and the amount of leisure time available — all of which could be measured in terms of set criteria.

Education and training could be measured, for example, by the percentage of the population that could read, write and do arithmetic.

Communication could be measured by investigating the percentage of the population that read newspapers and magazines, listened to the radio, watched television, frequented a library, were multilingual and had telephones.

Council 'to act against PAC violations'

BDay 15/6/93

CAPE TOWN — The multiparty negotiating council would have to act against the PAC which had flaunted the council resolution on violence, Deputy Constitutional Development Minister Fanus Schoeman said yesterday.

He told a media briefing that in terms of the council's resolution, the PAC could not continue its armed struggle and negotiations at the same time. The council would have to debate a motion about this today.

Since the police swoop on the PAC, government had met the council's demands that the Law and Order Minister explain his actions, to charge or release those detained, and meet the PAC to discuss and resolve their differences.

"The PAC has supported all the resolutions of the council and has a responsibility to fulfil its part. . . .The council must now put pressure on the only party which persists in this dual strategy of violence and negotiations." — Sapa.

Call to promote economic literacy

BDay 15/6/93

TIM COHEN

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CAPE TOWN — The President's Council has recommended a national campaign for the promotion of economic literacy which would inculcate a sense of national reconciliation and economic development.

In one of the body's final reports, the council's committee on economic affairs recommended that an "inspiring, widely accepted vision" was necessary to promote nation-building in a divided society.

Sensitive to the emerging new constitutional dispensation, it recommended that the whole planning process and its execution be conducted by a fully representative umbrella body.

The broad objectives of the co-ordinating body should be first to strive for a general convergence towards the notion that the economic efficiency of a nation was the route to long-term prosperity.

It said a fundamental work ethic was essential for such economic efficiency.

The body should also seek to instil a deep sense of understanding within individuals of their rights, responsibilities and rewards within the country's economic dispensation.

The programme should take into account the enormous disparities in SA society, encourage economic growth and development and foster a spirit of entrepreneurial expertise and enterprise.

Aspects of the forum's structure, such as its size, composition, functions, powers, funding and accountability, should be the result of consensus within the co-ordinating body.

Clinton has awards and rewards in mind for new SA

BDay 15/6/93

SIMON BARBER in Washington

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ON THE assumption that a firm election date and the formation of transitional executive councils are announced on June 25, President Bill Clinton will have comfortable words for SA on July 4 when he travels to Philadelphia to hang medals around the necks of President F W de Klerk and ANC president Nelson Mandela.

After congratulating the sanctioneers for having made this moment possible, he will call for the removal of remaining state and local boycotts and the resumption of lending by the World Bank and IMF. He will pledge to urge his G-7 partners, whom he will meet in Tokyo three days later, to ante up for a multilateral assistance package. He will encourage investors to re-engage.

The immediate goal of US policy, he will probably suggest, is to ensure the success of the elections. To which end, he may announce that he hopes to set aside \$10m in "democracy money" for voter education and similar projects. For the longer term, he may proffer loan guarantees for housing construction. It is by now well understood that what happens after the elections is as important as the voting itself and that no settlement will last unless it is accompanied by tangible economic and social benefits.

There is one idea circulating which Clinton will hopefully eschew: the replacement of ambassador Princeton Lyman by some notable African-American. Former UN ambassador Andrew Young is among those mentioned. Some wits have even suggested sending Lani Guinier, whose writings on the need for minority vetoes over "own affairs" cost her her nomination as the justice department's civil rights czar.

Because of his handling of the Guinier affair, and other perceived slights to the black political establishment, Clinton is in the market for an appeasing gesture, preferably a cheap one. The SA job looks tempting, but Lyman has powerful supporters — including Secretary of State Warren Christopher — strongly opposed to his premature recall, and his performance is getting rave reviews. More to the point, it would seem strange, even by Clinton's demanding standards, to mark SA's transition to nonracial democracy by an overtly racist act.

YOUNG

Clinton's problems with groups like the Congressional Black Caucus may cause other hassles for his SA policy. As bizarre as it may sound, Clinton's decision to call for the lifting of remaining sanctions and to promote investment may be opposed by the caucus and others regardless of the fact that he will be doing Mandela's bidding.

A number of black legislators, at the federal and local levels, are already saying that it will take more than a joint declaration by Clinton and Mandela to get them to shift their stance. Part of this may be sheer political bloody-mindedness, part a reluctance to say goodbye to a cause that has been driven as much by domestic concerns as by apartheid. But that is not the whole of it.

Some caucus members seem to believe their own historical experience with whites has made them wiser than the ANC. "Unless you hold something over the heads of these people," House Africa subcommittee member, Congressman Don Payne, said recently, "you may not get there. You have to constantly have some external force."

Such notions, combined with an aggressive and insular ignorance, underlie attempts even now to impose or strengthen state boycotts despite repeated calls from the ANC to desist. Just last week, a Pennsylvania state legislator introduced no less than eight Bills requiring the divestment of state funds for companies doing business with SA and, yes, Namibia. The same legislator has bitterly criticised De Klerk's invitation to next month's award ceremony, and appears to think Mandela a fool for agreeing to share both podium and honour.

Perhaps unsurprisingly, there is little evidence that outfits like TransAfrica, the Africa Fund and the Interfaith Centre on Corporate Responsibility, which spearheaded the sanctions campaign, are moving to correct such zealotry. Fortunately, SA still has enough going for it that US business is moving to fill the gap.

Last week saw the launch of the US-SA Business Council, a Washington-based lobbying group founded by major US corporations to ensure state and local boycotts are repealed when Mandela gives the word. The council will also assist companies wishing to return, or make first-time investments, and prod federal entities like the Overseas Private Investment Corporation, the Export-Import Bank and the Trade and Development Agency to co-operate.

LYMAN

The operation is being run by Dan O'Flaherty, director of the National Foreign Trade Council (NFTC). He has been under serious consideration for an Africa post in the State Department and has been closely involved with the SA issue for years.

In his view, a major difficulty in removing state and local boycotts is inertia. Local politicians and bureaucrats have scores of other matters on their agendas and, in most cases, changing laws and regulations is as cumbersome a process as getting them adopted in the first place.

And while companies have regional lobbyists to deal with such questions, focusing the troops' attention is itself a chore. Most are trying to bring home the bacon for their companies on issues that count like taxes and environmental regulations, and are reluctant to spend lobbying capital on sideshows. O'Flaherty is pleased that at a recent meeting of NFTC members in New York, 23 corporations agreed to order their local representatives to give SA a high priority.

The formation of the Business Council has ruffled some feathers. John Chettle, a former Washington director of the SA Foundation, had a similar idea and teamed up with Wayne Fredericks, a former Ford executive, to launch a group calling itself the SA-America Chamber of Commerce.

Fredericks, who has cultivated close ties with the ANC, obtained a letter of blessing from Mandela and used his long association with the Kennedys to arrange a meeting with Kennedy family guru Theodore Sorenson. A decorous board was assembled, including appellate judge Leon Higginbotham, until his retirement one of the most senior African-Americans on the federal Bench.

The venture relied on raising corporate funding. Alas for the chamber, the corporations chose to go with O'Flaherty who had already been serving them through the NFTC, and who offered a readymade vehicle (though not a Mandela letter). This has led to a degree of ill-feeling, with the chamber believing it has been stabbed in the back by the Business Council. One can only hope that any ensuing rivalry will not defeat the larger purpose.

A final observation: there are altogether too many letters of support signed by Mandela and other senior ANC officials floating around out there. Almost no one, it seems, feels free to do anything that might help the SA economy unless he has a bit of paper from Shell House. This is becoming a joke. It's as if the ANC were handing out indulgences like medieval popes.

HOUSE OF DELEGATES

QUESTIONS

†Indicates translated version.

For written reply

Own Affairs

Transportation of students: amount spent

57 Mr M RAJAB asked the Minister of Education and Culture:

(a) What amounts were spent by her Department on the transportation of students under its control in the 1992–93 financial year and (b) to whom were these amounts paid?

D290E

The MINISTER OF EDUCATION AND CULTURE:

(a) An amount of R13 600 was spent on transportation of students during the 1992–93 financial year.

(b) Transportation of students is a service that is contracted out in terms of Tender Board procedures. The contract was awarded to Mr H L B Matthysen for the 1992–93 financial year.

HOUSE OF ASSEMBLY

INTERPELLATIONS

The sign * indicates a translation. The sign †, used subsequently in the same interpellation, indicates the original language.

General Affairs:

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Normative Economic Model: 1993–94 financial year

*1. Dr W J BOTHA asked the Minister of Finance:

(1) Whether the budget for the 1993–94 financial year and the results thereof to date support the Normative Economic Model; if not, why not; if so, to what extent;

(2) whether he will make a statement on the matter?

B946E.INT

*The DEPUTY MINISTER OF FINANCE: Mr Chairman, on behalf of the hon the Minister of Finance I want to start off by making it clear that the Normative Economic Model does not necessarily constitute the official standpoint of the Government. The Normative Economic Model was drawn up by a number of key economic advisers in the service of the Government under the guidance of the CEAS to serve as a discussion document in the debate on an acceptable future economic strategy in South Africa.

The general economic policy approach, which has been pursued by the Government during the past few years, has naturally been strongly influenced by the advisers who were also involved in the drafting of the Normative Economic Model. For this reason there are similarities between the overall points of departure which are stated in the NEM and the general policy approach which has been pursued or visualised in the latest budget.

The progress which was made in the following spheres in the 1993–94 budget, for example, stands in support of the overall objects which are envisaged in the NEM.

In the short time at my disposal I wish to discuss the progress made under the following three main points. Firstly there is the fiscal policy, then the monetary policy and then the socio-economic reconstruction which is required.

Under fiscal policy we have made progress in that the Government's share in the national economy is being reduced As regards dissaving, a smaller deficit before borrowing has been budgeted for, viz 8,6 % of the GDP as opposed to 6,8 % In respect of taxation, which is an important point in the NEM, the VAT rate has been increased from 10 % to 14 % and fuel levies have been increased, so that the contribution of indirect taxation has been increased relatively speaking. The company tax rate has been reduced by way of a new system of tax on companies. As regards job creation, various projects have been financed, viz R685 million for projects financed from the sale of strategic supplies, R45 million for the so-called National Economic Forum Initiative, which includes, *inter alia*, job-creation projects, R110 million which has been appropriated for tourism, etc.

As far as the monetary policy is concerned, we are succeeding in keeping the money supply within limits, in order to limit the rate of increase in the extension of credit by banks to less than the inflation rate and in order to maintain the interest rates at realistically positive real levels. We are also trying to increase the gold and foreign reserves to more acceptable levels—we have problems with this—and to support a relatively stable real rand exchange rate.

*Dr W J BOTHA. Mr Chairman, I enquired about the results in support of the so-called Normative Economic Model. The recently published figures for the first two months indicate that the objectives of the model are under pressure from State expenditure and that there has been a more rapid increase Revenue, too, was lower than the revenue in the corresponding two months of last year. What is particularly disturbing is the fact that the fiscal shortfall already amounts to 30,8 % of the shortfall which has been budgeted for the entire financial year A grave danger exists that the fiscal shortfall for the present year could exceed that of last year.

These figures are indicative of the fact that the Government is already failing at this early stage in relation to the strategies whereby its objectives of greater productivity and job creation are

B Cont

to be achieved, and particularly in relation to the strategy of financial discipline.

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The hon the Minister of Finance said before the Joint Committee on Finance on 18 March this year that the success of the model would depend on how the market would react to it. I quote:

> Ons is in 'n vroulike posisie teenoor die ekonomie Ons probeer om onsself aantreklik te maak in die hoop dat daar 'n inisiatief van die ander kant af gaan kom.

She went and stood on the street corners, as it were. The latest figures of the Central Statistical Service tell us that the woman is not doing any business and that she must be plug-ugly Who would be interested in investing in a country in which the Government debt will be in excess of R160 billion at the end of this year and which, apart from the budget, has debts amounting to a further R80 billion? The worst of it is that the Government that is to come, if the NP's plans work out, will be even uglier than the present one. [Interjections] Investors have already had a preview in other African countries of what such a government looks like. They know that one cannot even try to make such a government look beautiful.

The simple reason for the lack of investments in the South African economy is that the economy has already begun to discount this Government. It is time economists stopped trying to be clever and began to accept this perfectly simple truth.

The NP does not have a plan in so far as the economy is concerned. Since the present hon Minister of Finance assumed his duties, the NP has not yet placed an economic plan on the table.

†The hon the Minister confirmed today that the model could not be regarded as a plan. This statement implies that the Government is not bound by it. By virtue of the name selected, the Government still has considerable flexibility in the sense that it need not be or feel itself in any sense committed or under a compulsion to adhere to the model. The Government can profess to adhere to certain basic ground rules, but as soon as circumstances change or pressures are applied, those rules can be adapted and the Government can allege that it is still within the framework of the model.

*The time has now come for the NP to come forward with an economic plan which lays down fixed guidelines for the management of the economy.

Mr K M ANDREW: Mr Chairman, the hon member for Rustenburg is of course quite correct to criticise the NP for not having tabled an economic plan. At the same time, I would have thought he would be more reticent on the subject, since he comes from a party that is a little short on plans and maps. [Interjections.]

The CHAIRMAN OF THE HOUSE: Order!

Mr K M ANDREW: Clearly, the Budget that we had this year does not conform to the requirements of the Normative Economic Model. The hon the Minister and the hon the Deputy Minister distance the Government from it by saying it is not Government policy, but whenever it suits them hon members on that side use the Normative Economic Model in debates on finance to explain why certain things the Government is doing that coincide with the model are marvellous.

When one uses something like the Normative Economic Model there is always the danger that it is simply a group of motherhood concepts and dreams that people cannot really disagree with However, it is accepted that there is a need for an agreed broad economic framework and a national consensus on macro-economic and other economic factors that will affect the future of this country.

Equally, we have to be careful that we do not get caught up in theory and ignore the practicalities and the day-to-day realities. The first thing in this regard is that we need plans in respect of housing, education and so on. We need plans that have specific objectives and that are matched to time frames. This Government is far too used to just waiting until there is a crisis and then simply throwing some money at it. They hope that will solve these crises, when in fact it does not do so at all. We are never going to be able to meet the sometimes unrealistic expectations of many people . . . [Time expired.]

*The DEPUTY MINISTER OF FINANCE: Mr Chairman, we are, as it were, living under post-war conditions in which we are engaged in economic restructuring and socio-economic reconstruction in the country.

The Normative Economic Model was in fact tabled as a discussion document because we

wished to do three things. Firstly, we want people in the country to agree on the basic economic statistics and facts of the country. Secondly, we want to involve people, particularly the extraparliamentary groups, in the formulation of the problems which are standing in the way of sustained economic growth Thirdly, we must involve people in the formulation of solutions to those problems.

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I hope that we will not make a great issue of the economic policy as such in the coming election, because we have already had a very great measure of convergence of thought in the country as regards the basic facts in relation to the economy and the problems which are standing in the way of sustained economic growth.

If we are going to make an issue of the basic economic policy and all the "isms", we will irrevocably polarise people from one another. We will then be unable to achieve conciliation in regard to economic policy in a new parliament and government. We have, in fact, already achieved a very great measure of convergence of thought—in relation to nationalisation, etc. Quite a number of other matters are no longer on the table today. [Interjections.]

We can talk about the inability of people in extraparliamentary groups to manage the economy, about their lack of experience and knowledge, but we must not make an issue of the basic economic policy.

*Mr J CHIOLÉ: Mr Chairman, the planless hon Deputy Minister is quite correct. The Normative Economic Model was not merely a standpoint of the Government, but also an NP-ANC castle in the air which, because the hated so-called apartheid has now been abolished, would become a reality in the form of lower taxes and an economic growth rate of 4,5% by 1997, with no loans from the economic savings funds to finance current expenditure.

The programme was accordingly ushered in with great fanfare during this year's Budget, which would ostensibly kick off with a budget shortfall of 6,8% of the GDP—a considerably smaller shortfall than the shortfall of 8,6% during the previous year—and with the prediction that we would have a positive economic growth rate of 0,5%.

The hon the Deputy Minister spoke about progress What is this so-called progress? The figures now indicate to us that the budget shortfall will be more than R30 billion—probably more than 9% of the GDP—which confirms that South Africa is already moving into a debt-trap and that we can moreover expect a negative growth rate of 2% this year, which will cause unemployment to increase tremendously in South Africa.

What do the real facts tell us? The volume of industrial production in South Africa shows a decrease of approximately 8%. The total capital outflow from 1990 to 1992 amounted to R15,5 billion and fixed investment has declined by more than 33% since 1989. This means that foreign investors and South Africans are taking money out of the country at a record rate because they fear the consequences of the solutions which they have recommended for South Africa.

The hard facts of the economy tell us that the Normative Economic Model was an entirely incorrect step, that the Budget was misleading and that the economy is now entering that phase in which South Africa is becoming ungovernable. The economic trends confirm that a revolution is at hand in South Africa. These are the consequences of the NP's policy.

*Mr W D MEYER. Mr Chairman, on a point of order: At the beginning of his account, the hon member referred to the hon the Deputy Minister as the "common (*platvloerse*) hon Deputy Minister". I just want a ruling from you as to whether or not this is permissible.

*The CHAIRMAN OF THE HOUSE: Order! Did the hon member for Pretoria West refer to the hon the Deputy Minister as common?

*Mr J CHIOLÉ: Common? No, Mr Chairman. [Interjections.]

*The CHAIRMAN OF THE HOUSE: Order! I must accept the hon member's assurance. [Interjections.]

*Dr W J BOTHA: Mr Chairman, I shall simply talk to my English colleague in his absence, because the hon the Deputy Minister will not understand it.

†The biggest mistake that was made in the drafting of the model was the fact that the issue of law and order received virtually no consider-

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ation in the memorandum. Only in its reference to good governance does the memorandum refer, in passing, to the fundamental issue of restoring the social climate of peace and order.

My question to the hon the Minister in this regard is whether the Government is afraid to admit to the real dilemma In a theoretical model such as the Normative Economic Model it is indeed a soft option to make a theoretical supposition such as this and then to continue one's argument from that point.

The ultimate question therefore is: Can the normative model and its results be applied to the real world? Alternatively stated, was the exercise worth the effort?

*I know what the answer to this question is. It is "no" We can simply throw the Normative Economic Model into the trash can as a publicity document.

*The DEPUTY MINISTER OF FINANCE: Mr Chairman, I had hoped that hon members of the CP would also participate in the debate on the future economic policy in a positive manner.

I have already said that some important role-players of the future are not in this House, but outside it [Interjections.] If we want to destroy this country, we must make an issue of our economic policy. The Normative Economic Model has already led to a great measure of convergence of thought outside in so far as economic policy is concerned.

The hon member made the remark that State revenue was now so much lower that one could act prophetically here in relation to the deficit before borrowing at the end of the financial year. We are not prepared to take part in that debate. It is true that there is a shortfall in so far as the revenue for the first two months is concerned, but it is possible that there is a cyclical trend involved here.

In so far as the lack of economic growth is concerned, this is largely related to political factors and the lack of investment in the country. [Interjections.] We are a country which finds itself in a transitional phase.

It is true that State debt has increased rapidly, particularly during the past two years, but viewed within the international context, our State debt is still entirely within limits. Hon members therefore need not try to score any points in that regard.

The Government is anything but devoid of an economic plan. The Budget is one of the most important of a variety of economic policy instruments and plays a tremendous role in respect of economic restructuring and socio-economic reconstruction. This year's Budget is merely another step in a programme spanning a number of years

We have said that the Normative Economic Model is a discussion document. It is not perfect and we want people to criticise it, because by criticising they are taking part. By so doing they become a party to that plan. [Time expired.]

Debate concluded.

Building of Soeknog Dam in Lebowa

2. Mr R J LORIMER asked the Minister of Water Affairs.

(1) Whether he will furnish information regarding the circumstances surrounding the building of the Soeknog Dam in Lebowa and the subsequent breaking of the dam wall; if not, why not; if so, what are the relevant particulars;

(2) whether it is the intention to rebuild this dam; if not, why not; if so, when?

B953E.INT

The MINISTER OF WATER AFFAIRS: Mr Chairman, Lebowa is a self-governing territory In terms of the Self-governing Territories Constitution Act of 1971 such territories are empowered to construct such waterworks as they may deem fit, provided that they are not contrary to any entitlement to water of common interest on the part of cobasin states.

The 40 metre high earth embankment dam was constructed between January 1991 and December 1992 by the Department of Water Affairs of Lebowa, with finance provided by the Development Bank of Southern Africa, with a view to irrigating coffee plantations in Lebowa. The construction activities were undertaken by a contractor as far as the concrete works were concerned, and the aforementioned department in Lebowa undertook the ground fill, all under the control, guidance and supervision of a private firm of consulting civil engineers.

The dam safety legislation and regulations applicable to the construction of dams in the RSA do not apply to Lebowa, but prior to commencement of construction of the dam, a set of provisional plans was submitted to the department for perusal and comment. The Dam Safety Office in the Department of Water Affairs and Forestry at that time offered its assistance and expertise with the design and construction. Although Lebowa accepted this offer at the time, it ultimately did not make use of it.

When the dam was 28 % full and with approximately two million cubic metres of water in storage, indications are that a leak developed overnight, which resulted in a breach in the earth embankment in the vicinity of the outlet works. This failure released the water in storage, resulting in a flood of approximately 300 to 500 cumec downstream. It is estimated that this flood was equivalent to a one-in-100 year flood. As far as can be ascertained, no loss of life occurred. As far as the environment is concerned, it was initially feared that serious ecological damage had been caused by a heavy silt load and subsequent deposits.

On hearing of the disaster, the department, in liaison with Lebowa, immediately arranged for a site inspection, and arrangements were also made for a group of experts from the department, the Nature Conservation Branch of the Transvaal Provincial Administration and the National Parks Board to look into the environmental aspects. Observations by the department at that time indicated that the Mutlumuvi River . . . [Time expired.]

Mr R J LORIMER: Mr Chairman, listening to the hon the Minister I come to the conclusion that there was a disgraceful degree of incompetence involved in all stages of the building of this dam, which finally culminated in the absolute debacle with which we are faced.

A homeland government, in this case Lebowa, operating through its separate Department of Water Affairs, and without proper reference to this hon Minister's department, decides to build a dam to serve the needs of approximately 200 000 people in Lebowa, as well as to allow an amount of water for irrigation purposes, including a coffee plantation. Whether any real consideration was given to downstream users outside Lebowa is very doubtful indeed, and whether any real environmental impact assessment was conducted before the start of the project seems highly unlikely.

So a start is made on an inadequately thought out, ill-considered project. The project goes ahead, and the dam is completed During construction a sort of environmental impact study is conducted by the Department of Water Affairs and Forestry of the RSA which reveals, *inter alia*, the almost total destruction of all natural vegetation in the catchment area near the dam, indicating massive potential runoff. This does not appear to influence the situation.

Finally, after last year's major drought, the dam begins to fill up. The downstream users are deprived of any of the benefits of the first rains in the catchment area until, suddenly and unexpectedly, they get the total benefit of all the water plus an enormous amount of silt in one fell swoop when the dam wall breaks when the dam is probably about a third full. The resulting flood causes serious damage to the ecology of the Sand River, in spite of what the hon the Minister says In the deep parts it is silted up and . . .

The CHAIRMAN OF THE HOUSE: Order! Hon members must please lower their voices.

Mr R J LORIMER: . there has been consequential damage to the delicate ecology of the Sabie River system My questions to the hon the Minister are: Why was the building of the dam allowed to go ahead when no agreement on water usage had been reached with the users? Did his department know about the building of the dam from the outset and did they approve the plans? He did not say so in his speech. What has been the cost to the South African taxpayer? Is this wall going to be rebuilt, and if so, is a full-scale environmental impact assessment finally going to be conducted? Will the landowners in the Sabie Sand Reserve, who are heavily affected by the flow pattern of the river, and the Kruger Park authorities be considered?

Sabie Sand alone brings in R40 million in overseas currency for South Africa and pays out something like R0,5 million per month in salaries.

My colleague the hon member for Umhlanga will deal with the question of a department with inadequate expertise in dam building being allowed to proceed on its own . . . [Time expired.]

cont P

'Challenge to govt' in stimulating growth

BIDay 15/6/93

GERALD REILLY

PRETORIA — Government's challenge was to stimulate growth without firing inflation, increasing imports and jeopardising the balance of payments, Absa senior economist Adam Jacobs said yesterday.

He said the economy was in a state of paralysis and to manipulate it upwards carried with it risks which could prolong any hope of a significant recovery.

Jacobs was supporting Sanlam economist Johan Louw's claim that unless government took immediate steps to halt the economic decline, the prospects for recovery would be hobbled. Government's economic planners, he said, had to choose between two evils.

The one was to continue along the present route and watch the economy sink deeper into recession. The other was to stimulate selectively to halt the drift into possible long-term negative growth. (49)

"The time is fast approaching when a decision will have to be made. Both routes are scattered with dangers, but to delay can only lead to further problems," Jacobs said.

The DP's finance spokesman Brian Goodall said action had to be taken or the economy would "slip further into the bog".

Escalation of unemployment had to be curbed, consumers had to be placed in a position where product demand increased, and interest rates should be allowed to sag as a basic stimulant.

"Whichever way government goes, there are dangers, but we cannot stand still. Some move has to be made towards growth."

Goodall said it was vital that the economy be lifted off the bottom next year to support any advance made in the unfolding of the expected political settlement.

Unrest would not come to an abrupt halt when a new government was in place; if there was no improvement in the economy and job availability, it would continue and become worse, Goodall said.

SA to play a key role, says Dutch minister

CAPE TOWN — SA could become the economic gateway to the rest of Africa, Netherlands Economic Affairs Minister Koos Andriessen said after talks with President F W de Klerk yesterday.

Andriessen, the highest-ranking Dutch government minister to visit SA, said he had approached his fact-finding mission with caution, but had been encouraged by the sense of purpose he had encountered.

"Politically, there is much still to be settled ... but I have noticed, particularly in the talks this afternoon, that there is great confidence on the part of government that you will succeed," he said.

Andriessen said he would also meet ANC leader Nelson Mandela and Inkatha president Mangosuthu Buthelezi.

"If it emerges that everyone says the time and the circumstances force us to come to agreement, then I can see no reason why Dutch businessmen will not want to come to SA.

"Many things are in place and that makes SA interesting," he said.

After his meeting with Andriessen, De Klerk told a news conference that industrial action by right-wingers would harm only themselves and entrepreneurs.

"I do not think industrial action by right-wingers is a serious threat all." Unemployment was the greatest problem. — Sapa-Reuter.

'Economics to build a nation'

CT 16/6/93

THE President's Council has recommended a national campaign for the promotion of "economic literacy" which would inculcate a sense of national reconciliation and economic development

(44)

In one of its final reports, the PC's committee on economic affairs recommended that an "inspiring, widely-accepted vision" of economics was necessary to promote nation-building in a divided society.

Business mood worsens

Star 16/6/9

By Claire Gebhardt

A nationwide survey of 21 manufacturing sectors shows a significant deterioration in business confidence as a result of recent political developments.

The Stellenbosch Bureau for Economic Research (BER) says a majority of manufacturers expect second-quarter business conditions to be worse than last year and that there will be no let-up in the third quarter.

Because of slack business conditions and political uncertainty, manufacturers do not plan to expand productive capacity over the next 12 months.

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Boosts

The BER says domestic demand it unlikely to provide any significant boost in 1993.

Though exports are picking up, a turn for the better in the manufacturing cycle is unlikely to come to the fore this year.

The BER sounds a strong warning about job losses and the potential for this to aggravate violence and crime and intensify the downturn.

"It is disturbing to note that 46 percent net of manufacturers were forced to retrench workers during the second quarter.

"It is even more disturbing to report that a net 42 percent say they will do so in the third quarter."

In spite of the lay-offs, the survey reveals that fewer hours were worked per factory worker during the second quarter.

Bottlenecks

Bottlenecks were also experienced, implying that even a mild economic upturn could cause problems on the labour front, which will undoubtedly be reflected in higher wages, says the BER.

"Even though the country finds herself in the fifth year of a recession, 39 percent of manufacturers experienced shortages of skilled labour.

"Nineteen had problems finding suitable semi-skilled workers."

Second-quarter domestic sales did not live up to expecta tions, but there are indications that the decline in sales is bottoming out and that this will continue in the third quarter.

Foreign demand actually outstripped previously held expectations and should become stronger during the third quarter.

Manufacturers therefore expect to produce more goods during the third quarter, largely as a result of increasing exports.

Manufacturers blame their woes on the politicans and their inability to get their act together.

SA needs helping hand — Ackerman

Star 1/6/93

With South Africa's political rehabilitation nearly complete, the challenge facing the international community was to give urgent and active encouragement to socio-economic recovery on which the success of the country's democracy might depend, Pick 'n Pay chairman Raymond Ackerman told an international gathering in Barcelona yesterday.

Opening the CIES International Conference on the Environment, Ackerman told delegates it was now imperative and necessary for the international community to become involved in South Africa's socio-economic development.

"The forthcoming elections will substantially restore South Africa's international credibility, and complete the process of political rehabilitation.

"It is now time for the world community to invest in South Africa's progress to democracy by pro-actively facilitating the country's economic recovery."

Up to now political problems had overshadowed other pressing issues on the national agenda, not least among which was the urgent need for an integrated environmental strategy in Southern Africa.

"Sustained economic growth and social justice must be the twin foundations on which the new South Africa's environmental policy should be based," Ackerman said.

The conference is being attended by chief executives of the world's leading food industry groups, European Community representatives and diplomats. — Sapa.

Govt considers tax settlements

BDay 16/6/95

PETER DELMAR

GOVERNMENT has listed six tax avoidance schemes for which it is considering settling claims with investors.

It is believed the various schemes involve hundreds of millions in investments.

Government is expected to frame settlement proposals to participants in most of these projects within months.

Deputy Finance Minister Theo Alant announced this week that new draft legislation to outlaw the marketing of tax avoidance schemes was in the pipeline. However, government would, for a limited period, allow settlement agreements between the Commissioner of Inland Revenue and investors.

(4-9)

In April Finance Minister Derek Keys announced that film scheme investors would be allowed to deduct 1,5 times their investment for tax purposes, thereby effectively ending a R2bn, seven-year dispute with 38 000 investors.

Participants in a number of other tax avoidance schemes are still awaiting a response from government.

Inland Revenue's chief director: tax policy development Trevor van Heerden said yesterday various schemes could receive settlement offers. These were for investments in forestry plantations, aircraft, livestock, horseracing, the record industry and lawnmower engines. The [illegible] scheme alone is believed to involve m[illegible]m.

Van H[illegible] no formal decision had been tak[illegible] settlement offers. But Inland Revenue director Ian Meiklejohn said the enabling legislation was broad enough to allow for settlement of schemes other than film subsidies. The final decision rested with the Finance Minister.

'Economic literacy' for all sought by advisers

Political Staff (49) ARGT 7/6/93

A PROGRAMME to promote understanding and respect for the principles of the free enterprise system has been recommended by the President's Council

The council's committee for economic affairs proposed an "economic literacy" programme in a report this week.

It said this must be aimed at bringing about a society that will be able to make the best use of the economic opportunities for all in a new dispensation.

Such a society must be fully aware of the impact of each individual's economic behaviour on the processes of creating and distributing the results of common endeavours.

The report recommends the establishment of a fully representative co-ordinating and controlling body to formulate a programme

An improvement in the understanding of the basic relationship between economic efficiency and increased prosperity should be fostered, it said.

There should be guidance and encouragement of newly-established communities in the urban areas to make the best use of economic and social opportunities.

B.Day 17/6/93

JCCI chief calls for new look at aid

MARIANNE MERTEN

INTERNATIONAL donors should use only economic criteria to allocate aid funds, Johannesburg Chamber of Commerce and Industry (JCCI) president Mervyn King said yesterday.

Commenting on recent reports of SA's institutional inability to disburse international donations, King said the money should be given to specific projects which were feasible and acceptably managed.

This would ensure the creation of employment opportunities, prevent corruption and force political parties to commit themselves to sound economic policies. (49)

The vast sums of money expected to be available once a transitional executive council was established would serve "little purpose" if future economic policies were not sound.

Move on land question

Sowetan 18/6/93.

■ **Finance Minister says restitution will cost billions of rands:**

49

RESTITUTION, which could cost billions of rands, would have to be made as part of the process of reconciliation, Finance Minister Derek Keys said yesterday

The move was immediately welcomed by the African National Congress, but the organisation felt Keys had not gone far enough.

It called for a "land claims court" to probe the issue dating back to the adoption of the 1913 Land Act, resulting in many blacks being dispossessed of their land.

At a Press conference yesterday, Keys was also upbeat about meeting the Budget target of a deficit of around 6,8 percent of gross domestic product — in spite of predictions by market analysts that it would be closer to nine percent.

Responding to a question on the land issue, he said: "Restitution is part of reconciliation"

High expectation could not be successfully managed without more being done for the underprivileged, he said.

However, the country would probably have to borrow for this purpose. "This Goverment is already spending more than our tax revenue ... I imagine it would have to make use of national debt to an extent," said Keys.

"One doesn't like to build up the national debt if one can avoid it, but certain needs are so pressing and so justified that you have to take the painful medicine."

ANC information director Dr Pallo Jordan said last night that it would go further and call for the issue to be "addressed through a mechanism that is seen to be fair".

He said the ANC had proposed a land claims court "through which these various claims can be processed"

This should "try to accommodate both the aggrieved and those who presently hold that land"

Jordan also said the probe should go back long before the National Party's reign - to 1913 when the Land Act was passed and "when the greatest damage was inflicted through dispossession of African people".

Matter

Growth this year 'possible'

Keys derides prophets of deficit gloom

BIDay 18/6/93

TIM COHEN

CAPE TOWN — Finance Minister Derek Keys yesterday derided projections that the deficit could amount to R30bn this fiscal year and expressed confidence that growth could still be achieved this year. (49)

Keys said at a media briefing that the deficit figure extrapolated from the April and May statistics "had no credibility". He was commenting on economists' projections based on the 2,8% decline in income from Inland Revenue in the first two months of the fiscal year from last year. Government has budgeted for a deficit of 6,8% of GDP, which Keys said remained within reach.

Keys's comments checked bearish sentiment in the capital market, with rates ending the day little changed from Wednesday. Bulls gained further ammunition from Keys's optimism over the economy's prospects for recovery.

He said growth would be in the "positive range". Most economists are, however, predicting a further fall in GDP this year.

Keys said there were indications that the downward trend in world commodity prices had bottomed out, there had been an improvement in the gold price and SA was experiencing a better agricultural season.

"My friends in business are giving me various hopeful signs, which they haven't done for quite a few years," he said.

Keys's bullish message was tempered by an announcement that, contrary to market expectations, a deal on SA's debt caught in the standstill net had not been clinched. Various banks involved in the debt standstill agreement had changed their approach, requesting political endorsement for arrangements made.

"This is in contrast to their attitude in previous negotiations where they wanted to have it handled as an entirely technical matter, without reference to any politicians whatsoever." In view of SA's position, this was a predictable and sensible change in approach, Keys said, declining to comment further other than to say he was managing the situation.

Keys justified his confidence that the deficit would not stray outside Budget predictions by pointing out that the change in the corporate taxation system meant the lower 40% corporate rate was effective before the 15% tax on dividends was payable. Recent figures were also skewed by the delay, in some sectors, in the implementation of a higher VAT rate.

Keys said government had leaned over backwards to help people come to terms with the higher VAT rate by, for example, extending the period of delivery of goods on consumer durables.

"To base a projection about the deficit on April and May is dangerous under any circumstances. Under these circumstances it has no validity."

Asked about multiparty discussions on the normative economic model, Keys said there were large areas of the model where there was no disagreement among interested parties. The main differences were the way in which wages were set and the way in which government spending ought to be reduced.

Keys said he would like to get down to constructing the practical programmes that would emanate from the model and

☐ To Page 2

Keys

BIDay 18/6/93

☐ From Page 1

economic policy after July.

"It is a question of getting the consent of all parties to the programme constructions. We have to construct programmes together." (49)

Asked about IMF and World Bank facilities, Keys said totally normalised relations were important in the sense that they would improve SA's access to credit facilities from other foreign sources.

Asked whether government was in favour of land restitution and how this would be paid for, he said land restitution was important for reconciliation. However, taxes were fully absorbed so payment for restitution measures would have to come out of government debt. While government had adopted a cautious attitude towards running up debt, there were areas that could be considered justifiable recipients.

Keys was not keen to use the IMF's standby facilities because they were intended to allow a country in economic trouble time to establish itself. "We would like to be running well from the start."

Discussing tariff reform and GATT, Keys said government was establishing a programme to revise and lower tariffs. Part of this effort would involve a new offer to GATT, due by the end of August.

Government had found a pronounced degree of understanding among GATT members of the fact that these adjustments would take time. There was also a general willingness to put SA into the "economy in transition" category, which provided the same advantages as being classified a developing country.

Politicians urged to resist protectionism

B/Day 18/6/93

PETER DELMAR

BRITISH Ambassador Sir Anthony Reeve yesterday urged SA political leaders to resist protectionism.

Reeve told a SA-Britain Trade Association meeting in Johannesburg that SA would always be a trading nation and its future prosperity would depend on its ability to compete in international markets.

"It seems to me that it is in SA's own interests to encourage the efficient industries, not the inefficient ones. As SA makes a welcome and long overdue return to normality in her international relationships, she will need to play by the GATT rules.

"I hope that the SA government, whatever its political complexion, will always be pro-business. I would urge the need for SA's political leaders to resist any protectionist tendencies."

(49)

Reeve said Britain accepted that there would have to be an interim period in which protection and export subsidies were phased out.

Asked afterwards how Britain would view a failure by SA to liberalise its tariff policies, Reeve said it would be "very unhappy".

However, he was confident that for at least the first five years under a new coalition government, SA's policies would be centrist and pragmatic.

Reeve also called for greater involvement by blacks in management and ownership of business. White business had to redouble its efforts to train blacks and to promote those "who make the grade".

"But black people themselves clearly need to play their part; above all by turning their backs on the tragedy of school boycotts. For our part, we in Britain will do all we can to support this process."

BUSINESS DAY, Friday, June 18 1993

SA 'vying for investment'

BDay 18/6/93

MATTHEW CURTIN

IT WAS naive to think the depth of SA's economic difficulties alone would attract the foreign investment needed to help solve them because the international flow of capital was not driven by charity, Netherlands Economic Affairs Minister Koos Andriessen said yesterday.

SA was competing with Mexico, Far Eastern countries and eastern Europe for investment, he said.

Only identification of correct economic priorities and creation of an environment to attract foreign capital would lure investment back to SA, once political stability was achieved.

Andriessen said SA would develop "an attractive investment risk profile" if it met these targets and achieved 4% to 6% economic growth, coupled with a continued weakening of the rand.

Andriessen was speaking at a lunch in Johannesburg hosted by Investec CE Bas Kardol and attended by 30 business and diplomatic representatives including former Anglo American chairman Gavin Relly, newly appointed Metropolitan Life chairman Nthato Motlana, and Sacob chairman Raymond Parsons.

He is heading a 25-member fact-finding team representing the Netherlands government and business on a brief tour of SA at the invitation of the Trade and Industry Ministry.

Andriessen said he was not pessimistic about the overall outlook for SA, but he was "cautious" about a new government's ability to choose the right agenda given the multitude of problems confronting the economy.

Although the economic difficulties confronting SA were more severe than those in the US and EC, the critical issue was the same: international cost competitiveness of local industry.

He had attended the recent OECD meeting where his counterparts in member governments had shown a "very pessimistic outlook in the medium term".

German and US officials said the immediate problems of sustaining growth were not worrying them.

The problem was, instead, the inability to remain competitive internationally, and the resulting unemployment and the drain on social security.

The EC had fallen behind the US, which had fallen behind the Far East in the drive to become a low-cost industrial producer, Andriessen said.

Jobless are also stakeholders in the economy

BDay 18/6/93

JOHN KANE-BERMAN

IT CANNOT be much comfort to SA's jobless to know that unemployment is a worldwide problem: the job shortage in the 24 OECD countries could rise next year to 36-million.

In this country, even to stabilise the unemployment rate (never mind reduce it) GDP growth should be double population growth. Instead, the population is growing twice as fast as the economy. One consequence is that, according to the National Health and Population Development Department, 9-million South Africans — nearly one in four — are "surviving without any visible means of livelihood".

Calls for redistribution of wealth and/or state spending are a constant refrain. The process is well under way, of course. In the past 20 years, real government spending on white education has gone up 54% while spending on black education has risen by 863%. While the fact that state expenditure per pupil on white education is four times what it is on black highlights the inequality, the Budget of 20 years ago had a gap of 18 to one, pointing to a steady narrowing of the gap.

Government has, in fact, long since been using the Budget to redirect expenditure from white to black. It has also been redistributing state expenditure from law and order to welfare. The proportion of the Budget going to social spending has increased from 21% 20 years ago to 44%. In the past few years security spending has dropped from 22% to 18%. Relative earnings of blacks and whites have also been changing. In the '80s real black wages in manufacturing went up by 29%, while real white wages rose by only 1%.

SA is known to have a very high degree of income inequality, and a scenario presentation some years ago claimed there had been little change in its racial distribution. Until 1970 there was indeed little change in personal income distribution. Since then the white share has dropped by 24% while the black share has risen by 67%.

Somebody once wrote a book called Politics: Who Gets What, When, How? The question left out was: "At whose expense?" Although it is fashionable to talk about "win/win" solutions, in the real world there are usually losers.

SA has shown a capacity to redistribute from white to black, but redistribution has been too narrowly spread across the black population, because low growth and rising unemployment have excluded more and more people from the mainstream economy. One effect of successful black unionisation over the past 20 years has been to redistribute from white to black wage earners. Another has been to price people out of the labour market.

Already, I suspect, the old material racial inequality problem has a new configuration. The new divide is between urban whites plus urbanised, housed, educated, employed blacks on the one hand and on the other, an underclass mainly, but not exclusively, black and rural — the subsistence and other farmers of all races hammered by drought, the rural illiterate, the malnourished, and the unemployed in the homelands, and the unemployable "lost generation" in the cities.

In this context, a note of caution must be sounded about the National Economic Forum established between organised business and organised labour, with government also a participant.

(49)

Even though membership of trade unions has grown from 2,1-million to 2,4-million in the past few years, only one in six members of the workforce is a member of a trade union. Moreover, the interests of organised business and labour often conflict, not only with each other but also with those of smaller business.

A major programme of deregulation designed to encourage small-scale entrepreneurship by exempting small businesses from minimum wage rates is unlikely to find much favour with unions that have fought so hard to push up minimum wages.

Business, unions and government are all major stakeholders in the economy. We need to remember that the unemployed are also stakeholders, or at least potential stakeholders. About 1-million people in SA are engaged in subsistence farming, while another 1-million black people work full time in the informal sector. Add to these, say, 2- to 3-million unemployed people and you end up with a constituency double the size of the membership of registered trade unions.

There is every reason why business and labour should routinely discuss matters of common interest, but society needs to be on guard against a corporatist state in which powerful lobbies reach compromises between themselves, and the interests of the less powerful are overlooked, partly because they may not be fully represented.

Economic policy formulation needs to take into account the interests of all South Africans, and perhaps especially those who have no access to the mainstream economy at present GDP growth rates.

● Kane-Berman is executive director of the SA Institute of Race Relations.

Short-term outlook brighter, says broker

Star 18/6/93

(49)

By Claire Gebhardt

The outlook for the economy in the second half of of 1993 is somewhat brighter, says stockbroking firm Frankel Pollak Vinderine.

Economist Mike Brown says the economy appears to be bottoming out, although real gross domestic product (GDP) growth could still be marginally negative for 1993 as a whole

Growth rate

For 1994, a 2,5 percent real GDP growth rate is expected as recovery begins to take hold, assisted by higher investment on capital projects and social infrastructure.

"The gold price rise has lifted confidence and will encourage higher capital expenditure by the mining industry.

"Good summer grain crops will permeate through the economy from the second quarter on and Section 37 (e) depreciation allowances will be felt in capital expenditure on long-term projects during the second half of the year," he says.

Inflation is likely to be held in check during the next two years because of very low money supply growth

"The consumer price index (CPI) should rise, on average by between 10,5 prcent to 11 percent in 1993 and decline to between 8 percent and 9 percent in 1994

"The decline in the average inflation rate from over 14 percent in 1992 to 8 percent in 1994 should enable interest rates to decline "

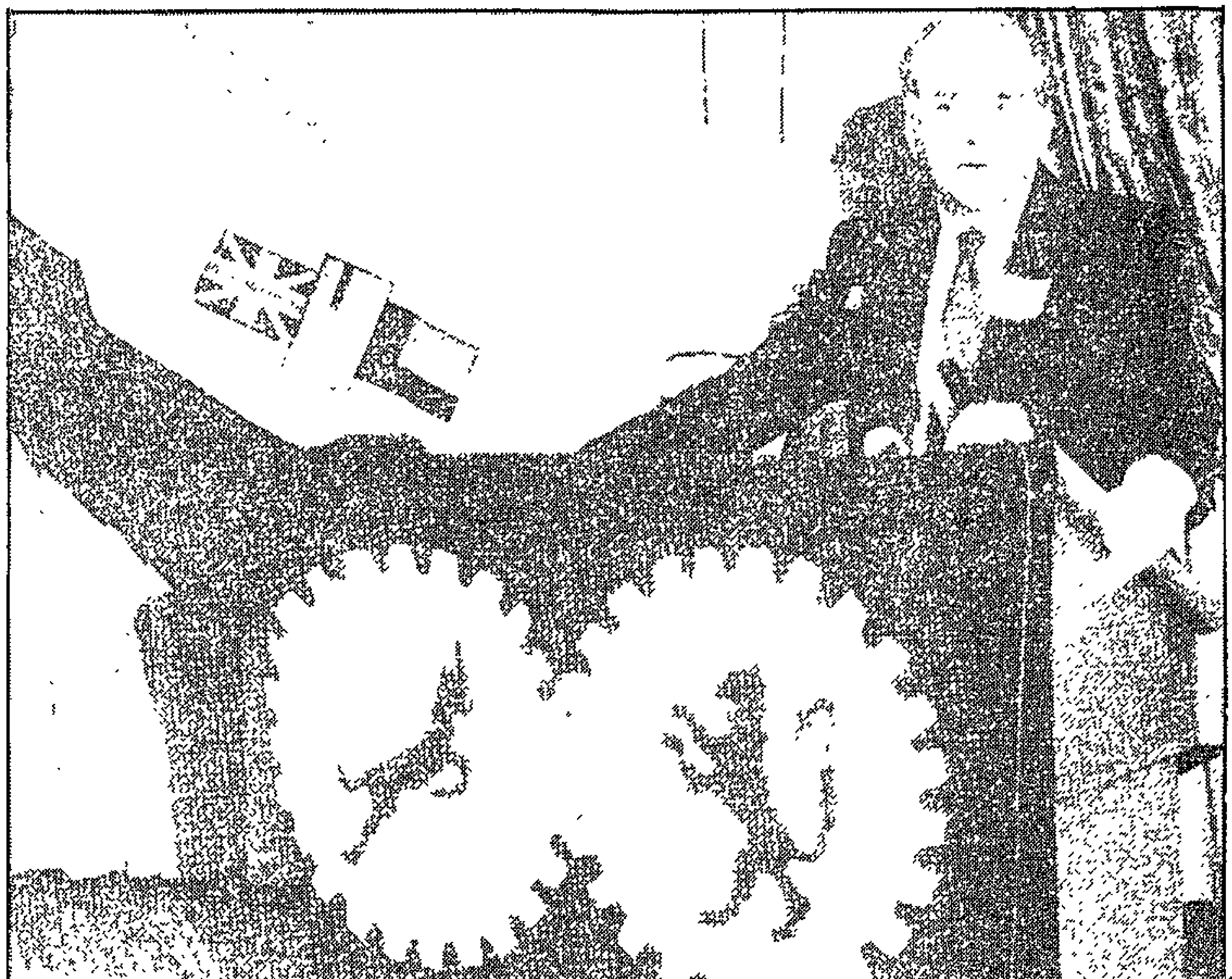
But South Africa's critical shortage of savings and the demands likely to be made on such savings when the economy recovers, will prevent interest rates shifting downwards too abruptly.

The prime lending rate is expected to decline by no more than 2 percent over the next years to between 14 percent and 14,5 percent

Inflation

Money market rates should stay some 1 percent to 2 percent above the inflation rate, he says.

Long-term interest rates are expected to decline to 14 percent or less over the next twelve months, but could then start rising as "capital shortages" become more apparent in a reviving economy.



Sir Anthony Reeve . . . greater involvement by blacks in the management and ownership of busin

Star 18/6/93

'Private enterprise the only way'

(49)

By Stephen Cranston

The South African government, whatever its political complexion, would always need to be pro-business, the British ambassador Sir Anthony Reeve said yesterday.

Speaking to the SA/Britain Trade Association (Sabrita), Sir Anthony said that one of the lessons that Britain had learned — sometimes painfully — in the Seventies and Eighties was that successful private enterprise would always be the bedrock of a strong economy.

"Although some parties have long been convinced of the importance of private enterprise, some of the ANC's earlier statements have given rise to understandable concern.

"But my own impression from talking to many leaders of the ANC is that they now accept that only private enterprise can generate the resources South Africa so desperately needs to give all her people a better and fairer future."

The role of government was to create the right climate for business to prosper.

Sir Anthony said SA's leaders needed to resist any protectionist temptations. There was a need for a transitional period in which protection and export subsidies could be phased out, but future prosperity depended on the ability to compete in world markets.

"It seems to me, therefore, that it is in South Africa's own interests to encourage the efficient industries, not the inefficient ones.

"And as it makes a welcome and long overdue return to normality in her international relationships, she will need to play by the Gatt rules."

Sir Anthony congratulated Sabrita on its contribution to UK-SA trade. Last year British exports to SA increased by more than five percent.

The British engineering group Davy's had won a large slice of the Columbus Steel Project, in the teeth of fierce competition. For the latest telecommunications cable between South Africa and Europe, STC won the largest share.

There was a good prospect that the award of new cellular telephone licences would lead to significant new investment by British companies, he said.

SA exports to the UK were slightly down last year, because of the British recession, but wine exports had increased by 96 percent.

Sir Anthony said that there needed to be much greater involvement by blacks in the management and ownership of business.

He said that white business should redouble its efforts to give blacks the best available training, and then to promote those who made the grade.

But blacks also needed to play their part by turning their backs on school boycotts.

Britain was playing her part in the process by offering more than 1 000 scholarships to black South Africans this year, the majority of whom would study technical subjects, he said.

Foreign banks seek political consensus on debt repayment

Star 18/6/93

(49)

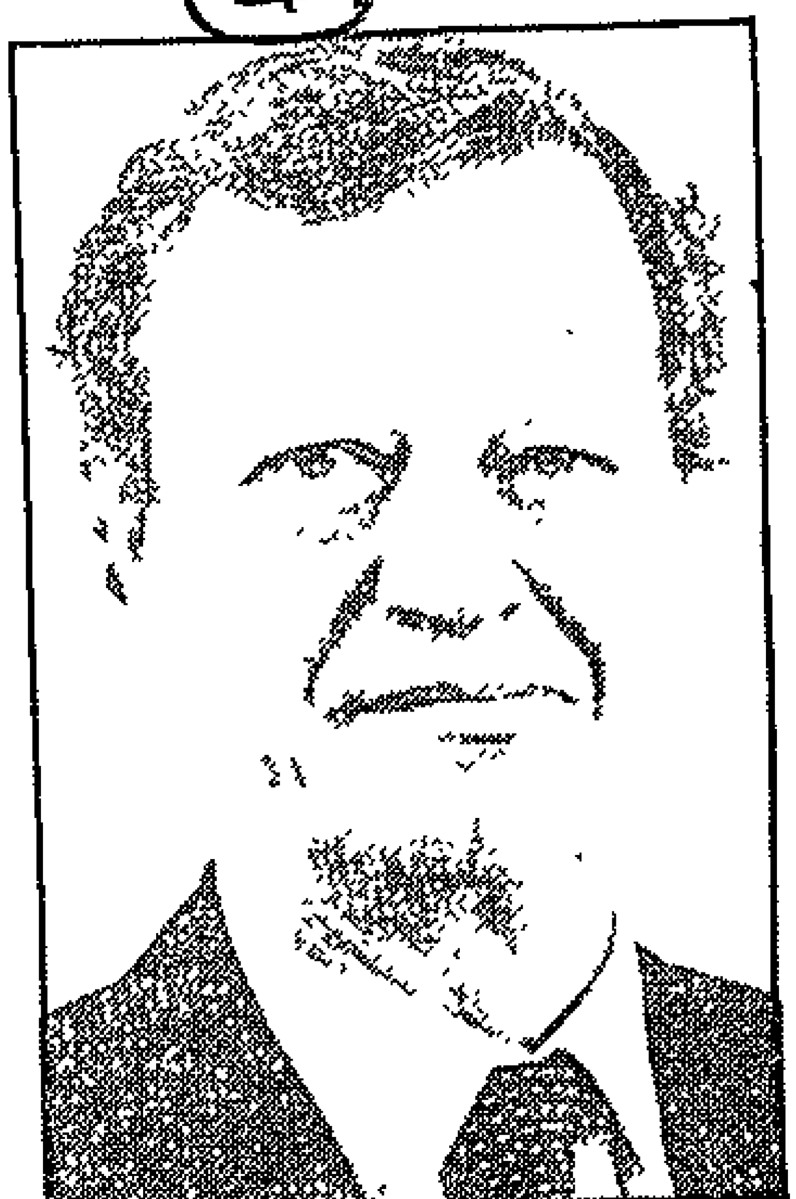
CAPE TOWN — Foreign banks are for the first time demanding the endorsement by South Africa's major political players of a renegotiated debt repayment programme, says Finance Minister Derek Keys.

"This is in contrast to their attitude in previous renegotiations, where they wanted to have it handled as an entirely technical matter without any reference to any politicians whatsoever," he said at a news conference yesterday.

Reserve Bank Governor Chris Stals said last month officials had worked out a broad outline for a final repayment programme with creditor banks to clear $5 billion of debt left over from the 1985 anti-apartheid credit freeze.

Three previous rescheduling arrangements will have cut the original $13,7 billion of debt affected by the freeze to $5 billion when the current scheme expires at the end of the year.

Keys said the deal now depended on the approval of a wide spectrum of political players in South Africa.



Derek Keys . . . predictable and sensible change of approach on the part of the bankers

"In view of the stage this country finds itself in, where it will be changing governments within the next 12 months, it is a predictable and sensible change of approach on the part of the bankers.

"In the middle of all this transition, I have ~~to find a~~ sufficient endorsement that will satisfy the bankers," he said.

"Everything affects everything else," he said in reference to the negotiations between the Government and Nelson Mandela's African National Congress, its chief rival for power.

ANC foreign affairs chief Thabo Mbeki said after talks in Geneva earlier this month that the ANC and the Government were in agreement on the sort of package that would be needed.

Keys said at the news conference yesterday he was eager to normalise South Africa's relations with major foreign lenders, the International Monetary Fund and the World Bank.

"I am not particularly keen to have to use the standby facilities of the IMF . . . but to have free accessibility to such standby facilities does have an effect on the amount of credit that other banks and commerical suppliers are prepared to advance to us.

"We would certainly like to be able to build up those normal sources of capital," he said. — Sapa-Reuter.

Critical view of social spending

Star 18/6/93

(49)

NEW surveys have dislosed that total spending by private sector companies on social investment programmes has climbed to almost R1 billion a year as business takes a wider role in the reform process.

The formidable scale of the budgets has been confirmed by the Business Marketing and Intelligence research unit, whose latest count estimated annual spending at R840 million — and still on the increase.

Success stories have been well recorded. But deeper studies by the Consultative Business Movement (CBM) have put question marks over whether many of the schemes have hit the real targets they set themselves to make an optimum impact at community level.

All too often, the CBM found, internal corporate departments handling social investment affairs were "understaffed, overworked and crisis driven". In some instances they appeared to be "woefully ill-equipped to deal with the challenge of moving beyond cheque-book approaches".

Worse, many businesses felt frustrated by the lack of visible success from their programmes.

The analysis has resulted in a new set of guidelines on how to improve the interface between the business world and the community — and set the wheels turning on more and more development projects.

The message? Business should view social responsibility not as a cheque-book item but as an investment in the company's future.

"Old-style paternalism and charity handouts no longer suffice. The development needs of communities should be tackled in full consultation with communities themselves and handled on a partnership basis."

Companies should not only provide financial assistance. They also needed to volunteer their expertise and resources — manpower and internal facilities — in the planning and implementation of special projects aimed at community upliftment.

Spending on social investment programmes has reached almost R1 billion a year. Successes have multiplied. But new question marks have been placed on whether many of the schemes have had optimum impact, reports MICHAEL CHESTER.

Problems and solutions are discussed in detail in a CBM publication titled *Managing Change — A Guideline to the Role of Business in Transition.*

Wider and more effective links between business and the community in general will be among a number of pressing issues to be debated at the Business Conference for Active Change that The Star will hold in association with the CBM at the Carlton Hotel in Johannesburg on June 25.

The conference is expected to set important new signposts to the routes that business leaders should follow in the post-apartheid era.

"The private sector has a critical role in contributing to the development needs of South Africa, particularly during the transition," says the CBM. "In many areas, Government development projects have been discredited.

"Urgent problems such as housing shortages, the education crisis, unemployment and violence threaten to wreck hopes of a stable and peaceful transition." □

● For more information on The Star's Business Conference for Active Change call Rosemary on (011) 483-1637/40/42/45.

Govt reconciliation bid

Star 18/6/93

Keys wants restitution for victims of apartheid land laws

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By Chris Whitfield
Political Correspondent

CAPE TOWN — Restitution, which could cost billions, would have to be made as part of the process of reconciliation of people who were deprived of their land by apartheid, Finance Minister Derek Keys said yesterday.

The move was immediately welcomed by the ANC, but the organisation felt Keys had not gone far enough and called for a "land claims court" to probe the issue dating back to the adoption of the 1913 Land Act.

At a press conference yesterday Keys was also upbeat about meeting the Budget target of a deficit of about 6,8 percent of gross domestic product — in spite of predictions by analysts that it would be closer to 9 percent.

"I don't have any reason ... to think that our figures are anything like as astray as projections which have been made," he said.

"This figure (from analysts) of R30 billion deficit, extrapolating from the April and May figures (for revenue), has no credibility."

Responding to a question on the land issue, Keys said: "Restitution is part of reconciliation."

High expectation could not be successfully managed without more being done for the underprivileged. However, the country would probably have to borrow for this purpose. "This Government is already spending more than our tax revenue ... I imagine it would have to make use of national debt to an extent," said Keys.

"One doesn't like to build up the national debt if one can avoid it, but certain needs are so pressing and so justified that you have to take the painful medicine."

ANC information director Dr Pallo Jordan said last night that the organisation would go further and call for the issue to be "addressed through a mechanism that is seen to be fair".

He said the ANC had proposed a land claims court. This should "try to accommodate both the aggrieved and those who presently hold that land".

He said the probe should go back before the National Party's reign — to 1913 when the Land Act was passed and "when the greatest damage was inflicted through dispossession of African people".

During the press conference Keys also said delays in reaching a new debt standstill arrangement — covering about $5 billion — were being experienced due to the need to get wide political endorsement; South Africa was likely to be recognised as a country in transition by the General Agreement on Tariffs and Trade, thus relieving pressure on the manufacturing sector; and "very little money" was available for further pay increases for teachers and civil servants.

Foreign banks seek political consensus — Page 13

NOTICE 523 OF 1993

DEPARTMENT OF MANPOWER

LABOUR RELATIONS ACT, 1956

It is hereby notified for general information in terms of section 17 (8) of the Labour Relations Act, 1956, that the President of the Industrial Court, duly authorised thereto by the Minister of Manpower, has appointed Mr Marius Willem van Wyk, Mr Allen Liversage, Miss Amanda Elizabeth Verwey, Mrs Esther Tertia van Kerken, Mr Norman Murlis Davis and Mr Michael Harris Marcus to the Industrial Court to be additional members fo the purpose of performing such functions of the Court as the President may from time to time direct.

(18 June 1993)

KENNISGEWING 523 VAN 1993

DEPARTEMENT VAN MANNEKRAG

WET OP ARBEIDSVERHOUDINGE, 1956

Hierby word ingevolge artikel 17 (8) van die Wet op Arbeidsverhoudinge, 1956, vir algemene inligting bekendgemaak dat die President van die Nywerheidshof, behoorlik daartoe gemagtig deur die Minister van Mannekrag, mnr. Marius Willem van Wyk, mnr. Allen Liversage, mej. Amanda Elizabeth Verwey, mev. Esther Tertia van Kerken, mnr. Norman Murlis Davis en mnr. Michael Harris Marcus, as bykomende lede van die Nywerheidshof aangestel het met die doel om sodanige funksies van die Hof uit te oefen as wat die President van tyd tot tyd gelas.

(18 Junie 1993)

NOTICE 524 OF 1993

SOUTH AFRICAN RESERVE BANK

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Statement of assets and liabilities on the 31st day of May 1993

	1993-05-31	1993-04-30	Change
Liabilities	R	R	R
Share capital	2 000 000	2 000 000	—
Reserve fund	114 769 457	109 769 457	5 000 000
Notes in circulation	12 332 940 583	11 951 536 179	381 404 404
Deposits:			
Government	6 526 135 344	8 387 708 330	(1 861 572 986)
Banks	1 494 751 559	1 623 100 500	(128 348 941)
Other	73 359 833	72 461 297	898 536
Other liabilities	5 782 376 289	6 177 985 954	(395 609 665)
	R26 326 333 065	**28 324 561 717**	**(1 998 228 652)**
Assets			
Gold	5 589 166 971	5 237 091 209	352 075 762
Foreign assets	2 312 904 468	2 793 578 811	(480 674 343)
Total gold and foreign assets	**7 902 071 439**	**8 030 670 020**	**(128 598 581)**
Domestic assets:			
Discounted bills	—	5 416 700 000	(5 416 700 000)
Loans and advances:			
Government	—	—	—
Overnight loans	3 214 360 000	3 900 000	3 210 460 000
Other	1 607 669 205	1 599 829 730	7 839 475
Securities.			
Government	1 374 031 162	836 000 594	538 030 568
Other	1 122 985 045	1 122 985 045	—
Other assets	11 105 216 214	11 314 476 328	(209 260 114)
	R26 326 333 065	**28 324 561 717**	**(1 998 228 652)**
Rand per fine ounce	R1 077,47	R999,53	R77,94
Gold holdings in fine ounces	5 187 306	5 239 554	(52 248)

Pretoria, 7 June 1993.

C. J. SWANEPOEL,
General Manager.

Wednesday, June 16 quotations for unit trusts

	Buyers	Sellers	Yield
General Equity Funds			
ABSA	145.53	136.93	5.20
BOE Growth	165.84	[illegible]34.94	2.78
CGF	[illegible]14.18	[illegible]9.45	Na
CU Growth	[illegible]27.94	127.40	3.47
Fedgro	36.42	2552.98	4.51
Guardbank	2761.14	[illegible]25.69	4.36
IGI	[illegible]35.43	259.46	3.20
Momentum	267.0[illegible]	[illegible]92.29	3.97
Metfund	20[illegible].06	[illegible]14.56	3.70
Metlife	[illegible]22.62	914.74	6.11
NBS Hallmark	979.61	362.64	4.33
Norwich	[illegible]88.37	2598.23	3.35
Old Mutual IF	2[illegible]89.6	[illegible]25.[illegible]6	3.70
Old Mutual Cnh	24[illegible].57	2368.76	Na
Sage	2536.74	157[illegible].22	3.54
Sanlam Trust	1675.04	256.25	3.32
Sanlam Indx Trust	1320.3[illegible]	435.51	3.66
Sanlam Div Trust	464.48	201.87	4.82
Southern Equity	215.66	1177.19	3.76
Standard	1252.39	286.92	6.60
Syfrets Cr	306.33	[illegible]15.63	4.41
Syfrets Trust	[illegible]23.4[illegible]	2080.30	4.03
UAL	2221.42		5.01
Specialist Equity Funds			
ABSA Ind	131.45	122.96	4.12
Guardbank RF	165.69	154.63	5.06
Guardbank Ind	126.48	127.30	5.35
Old Mutual Top Comp	26[illegible].35	242.59	4.28
Old Mutual Ind	366.89	341.25	[illegible].59
Old Mutual Min	242.[illegible]	272.06	3.47
Old Mutual CF	54.94	142.39	3.53
Sage Resources	[illegible].34	112.08	4.46
Sanlam Ind Trust	[illegible]	934.[illegible]	3.23
Sanlam Min Trust	253.[illegible]7	275.06	4.40
Southern Min	[illegible]	122.33	3.95
Southern Future	[illegible].91	17.84	Na
Standard Gold	[illegible]	20[illegible].[illegible]4	4.74
Standard Inc	[illegible]	103.92	Na
Standard Inter	[illegible]0.92	103.79	Na
UAL MR	[illegible]3.57	354.32	3.57
UAL SO	95.[illegible]9	1625.79	3.52
UAL Managed	[illegible]36.35	1030.75	[illegible].27
Income Gilt Funds			
Guardbank Inc	115.69	117.44	12.76
Metboard Income	102.94	107.79	12.74
Old Mutual Income	[illegible]9	110.70	12.62
Southern Income Fund	539.91	529.[illegible]	Na
Standard Income	94.57	93.59	12.46
Syfrets Inc	109.45	105.[illegible]5	1[illegible].33
Syfrets Gilt	1094.2[illegible]	1083.27	1[illegible].20
UAL Gilt Trust	1125.94	1174.08	1[illegible].0[illegible]

Outlook for the SA Economy

According to recent statistics, real GDP at factor cost, seasonally adjusted, grew by 1,1% in the first quarter of 1993, compared to the previous quarter. This was the largest rise for almost four years and only the second rise since late 1989. According to some press reports, the "green shoots" of economic spring are beginning to show at last.

But the press didn't do its homework. On closer inspection the figures look rather dismal. The growth was all in agriculture, where seasonally adjusted output apparently leaped by 54%.

And this leap was partly a statistical quirk. The Central Statistical Services' (CSS) seasonal adjustment method allocates total farm output - much of which is reaped in the third quarter - over the whole year, to smooth out the numbers. Actual production will only rise later in the year, when the farm sector should boost GDP by 1% or more. (The 1993 maize crop could total more than 8m tons almost three times last year's figure). Meanwhile, non-agricultural output actually fell in the first quarter - by 0.5%, the 9th quarterly decline in a row. The main losers were construction (output contracting by about 8%- there's no reason to build during a depression), trade and transport. But output rose fractionally in manufacturing, the first sign of life there for a long tims.

More recent figures on the state of the economy are not exciting:

- According to the Retail Liaison Committee, real retail sales fell by almost 6% from March to April, reflecting lower spending after the VAT hike.
- Real money supply growth (Mo) - an indicator of real spending trends - is also depressed. After perking up late last year, it levelled off in the first quarter and fell in April and May.
- In some recent industrial agreements, modest wage rises of under eight per cent for 1993 have been agreed on - helping inflation but undermining real consumer incomes and spending.

Apart from agriculture, then, most current news on the economy is bad. Accordingly, real GDP growth this year could still be negative at about - 1%

Prospects over the next year are better. The lively gold price will boost mining and ease balance of payments pressures. And the political process is inching ahead, as the major players move towards agreeing on an election date, leading up to the appointment of a Transitional Executive Council. The last remaining economic sanctions against South Africa should then be lifted, and access to development funds and foreign capital will open up. If the period leading up to the election is reasonably quiet, capital outflows should slow, some foreign capital may flow in, and confidence, investment and growth could well improve.

(49) South 19/6-23/6/93

South 19/6-23/6/93

Forum's role 'crucial'

THE National Economic Forum (NEF) — made up of government, organised business and trade unions — has the potential to raise business confidence "overnight" if the participants reach consensus (49)

This was said by Finance Minister Mr Derek Keys who yesterday addressed the two-day Workers Rights Conference which is being hosted by the South African Clothing and Textile Workers' Union CT 19/6/93

Spelling out some of the strengths, weaknesses, opportunities and threats facing the NEF, Mr Keys said there appeared to be a misunderstanding about the NEF

The NEF was a body which should improve on and work out new programmes on national issues such as job creation, education and training, macro economics and productivity

He said if the "golden triangle" could reach some form of consensus on these issues, then business confidence could "soar overnight"

The ANC's head of economic planning, Mr Trevor Manuel, said that since the formation of the NEF many "fears and prejudices" among participants had been laid to rest

Forum needs 'to unify SA's economic goals'

(49) ARG 19/6/93

SHARON SOROUR
Labour Reporter

THE level of business confidence in South Africa could be raised "overnight" by the "golden triangle" of labour, business and government represented on the National Economic Forum, says the Minister of Finance, Mr Derek Keys.

Mr Keys was speaking at a milestone conference in Cape Town on workers' rights, with Mr Trevor Manuel, head of the ANC's department of economic planning, and Mr Bobby Godsell, spokesman for Anglo American.

Mr Keys said business confidence would soar if "something can be said in a united way", but the forum had not yet grasped the opportunity.

He told delegates to the conference, organised by the SA Clothing and Textile Workers' Union (Sactwu), that the three parties were gradually developing a shared responsibility for the economy

"As we simply, dumbly, contemplate that the economy is not doing what we want it to do, it is a joint responsibility not only inside the halls of the forum, but inside the organisations represented."

The government accepted it was not the sole player or arbiter and took its responsibility as a member of the forum very seriously.

"I want the forum to be a focused place where labour, business and the state can get at each other's throats and wrestle things out, but a lot of people don't see it that way. For example, consumer organisations want representation on the forum .. but there is no way that a consumer organisation can make deals on behalf of consumers," he said.

However, one of the forum's strengths was that it had increased the contact of the three parties on an ongoing basis and had changed people, including himself, because they now had to consider points of view from which they were previously insulated

The forum had had the opportunity to deal with a normative economic model and to start developing programmes.

However, he warned that if the forum neglected the underdeveloped part of the country and became a place to accommodate the élite — which included everyone who had a job — and did not pay attention to people with no work and no job prospects, it would be "most seriously damaged"

The head of the ANC's department of economic planning, Mr Trevor Manuel, pointed out that there was a vast difference between labour and the other two parties when it came to resources.

He said there was a distance between the forum and ordinary workers because it bore little relevance to their daily existence.

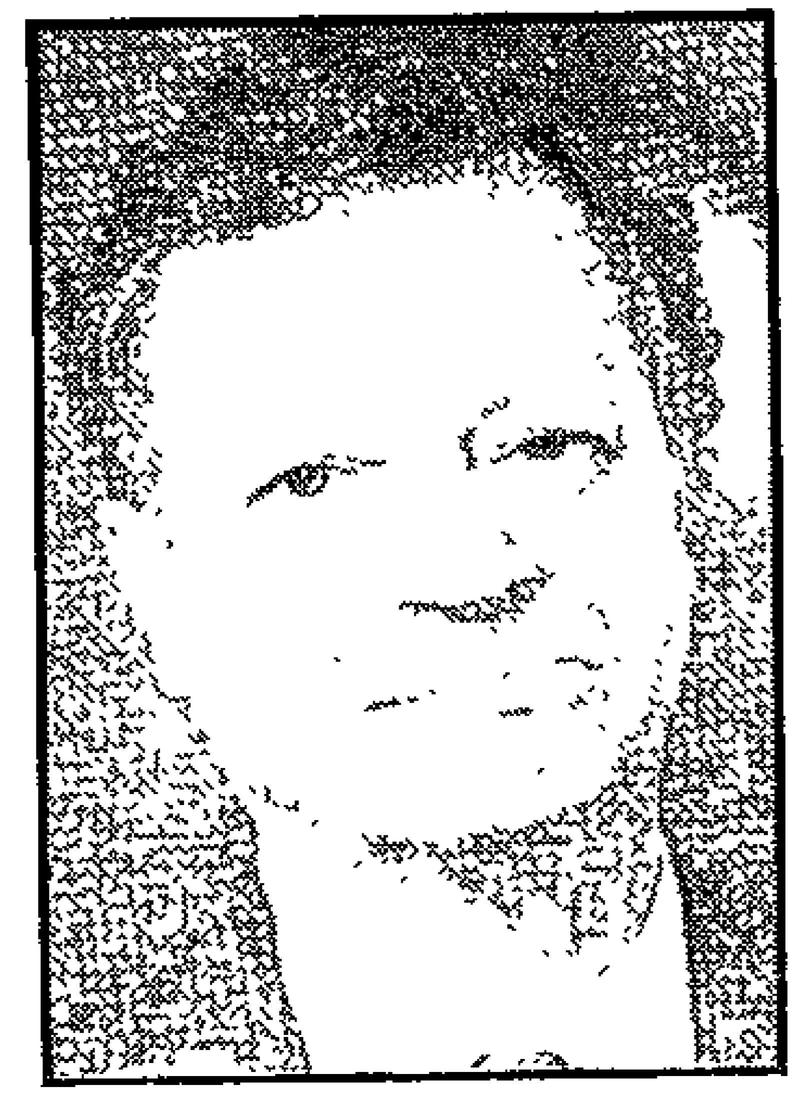
Unions had to set up adequate communication lines.

Anglo American's Mr Bobby Godsell said the forum would play a key role in democratising society.

"Bodies like the forum have to become entrenched in the practice of our politics ... but the forum cannot challenge the sovereignty of a democratic election.

"The government of the day must be the final arbiter of public good, but is is important for organisational entities like business and labour to have their own platform to advance their own interests," Mr Godsell said.

TREVOR MANUEL — ANC's economics man.



DEREK KEYS: Minister of Finance.

South Profile

South 19-23/6/93

Howard Gabriels

Former trade unionist Howard Gabriels has just been appointed to one of the most senior economic posts in the Western Cape. **WAGHIED MISBACH** sounds him out on his plans and fears for when he takes up his post next month:

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HOWARD Gabriels admits he is scared He has just landed the job as head of the Western Cape Economic Development Forum the premier development agency in the region

The forum brings together business, labour, civic and political organisations bent on achieving consensus on strategies for the development of the Western Cape economy.

As Gabriels continues to meet with representatives of the various sectors in the run-up to his appointment on July 1, he is experiencing a "real sense of fear"

"I usually have only one question when I meet with any of the actors: 'What do you want from the forum?'. It's their great expectations that I am worried about," he says with a smile.

It is not the amount of work that concerns him. After all, Gabriels was once regional secretary of the largest union in the Western Cape, the South African Clothing and Textile Workers Union (Sactwu) in 1989

Before that he was an organiser and education and training officer for Cosatu's second biggest affiliate, the National Union of Mineworkers (NUM) in Johannesburg

Gabriels's apprehension centres on the growing challenges facing every city in South Africa rising unemployment, the housing backlog, the lack of township infrastructure, and the frightening rate of urbanisation, among other critical needs.

The forum he will now lead is part of a national initiative, led by the National Economic Forum, to attempt to address the decline in the South African economy

Gabriels's job description will involve co-ordinating all the organisations which comprise the forum, to develop consensus on a strategy to deal with all the problems.

"We cannot expect to wave a magic wand to ensure development beneficial to the poor It is critical we have special measures to address the problems of the poor.

"But it's no use just trying to have a massive development around housing, for instance. That in itself will not develop the economy of the Western Cape.

"On the other hand we will also have to address the productivity of business. But these two demands are not separable," says Gabriels

In his modest and open manner, he admits he is not up to date on the progress of the forum's six commissions, which are working on, among other areas, rural and agricultural strategy, education and training and urban development

But he is currently doing his homework by meeting with various organisations involved and says his initial contact has been "positive".

"There's already a substantial body of consensus between the different actors and this is making my job easier."

Gabriels talks easily about economics these days, but it wasn't such a long time ago when he wouldn't even dream of becoming involved in money matters.

At the University of the Western Cape he studied for a science degree, wanting to fulfill a boyhood dream of becoming a doctor or a physicist.

But that was 1976, and the political turmoil in the country had an irresistible attraction. He says that 1976 changed his way of looking at the world in a "dramatic way."

"All the grandiose plans of becoming a clever scientist had gone I came across real people struggling for human dignity and struggling to survive."

And then the strikes at Fattis and Monis and the meat strike in Bellville happened. With the students on campus forming a support committee for the workers, Gabriels was drawn further into protest structures.

'We cannot expect to wave a magic wand to ensure development beneficial to the poor.'

"You couldn't help it. The workers were having meetings near the university all the time and we just became part of it."

By the end of 1980 he was working for the former Garment Workers Union which was the forerunner, with other clothing unions, to Sactwu.

He left the Cape in 1983 and had a stint with the NUM in Johannesburg. Six years later, however, he was back in Cape Town working for Sactwu, first as education and training officer and then as regional secretary.

But unions are notorious for overworking their officials. By 1990 Gabriels's body decided it couldn't cope with the pressure and he was hospitalised.

Convinced he had to take a year off from trade union work he finally landed his current job as projects officer at the Fredrich Ebert Stiftung, a German-funded development foundation.

Nowadays he says life is easier, he has his health back and is prepared for the challenges of his new job.

It will be the first appointment by the forum since its launch in March. Gabriels will be joined later by an administrator.

He says the job will be "personally beneficial".

But as always, in his humble way, he says he is "not arrogant" enough to agree that it is one of the top jobs in the Cape.

CT 19/6/93

Commission aims to curb govt waste

(49)

By ARI JACOBSON

THE independent Audit Commission which was set up in April expects to curb uncontrolled government spending, said chairman Dr Francois Jacobs yesterday.

Speaking at a press conference after the R136,7m auditor-general's budget vote which includes a R4,7m provision for the Audit Commission, Dr Jacobs said "for the first time" three members overseeing the budget would come from the private sector. The eight other members are parliamentarians.

The three from the private sector members are: JSE chairman Mr Roy Andersen and two executives from accounting firms, Mr JJ Njeke from Price Waterhouse and Mr Hanke Scheepers from Coopers and Lybrand.

Dr Jacobs said the aim of the Audit Commission was to reduce state expenditure.

S/Times (Buss) 20/6/93 (49)

SA firms favoured at a cost of R1bn a year

By CIARAN RYAN

THE Government is adding an estimated R1-billion to its annual purchasing bill by favouring SA suppliers.

The policy has been exposed by the world's leading trade authority, Gatt, which met government representatives this month.

Government departments and provincial administrations buy supplies worth between R6-billion and R8-billion a year.

Government procurement policies have been attacked by the ANC for allegedly favouring big business.

The National Economic Forum is discussing the matter and measures to increase small and black businesses' share of tenders are expected to be implemented before the end of the year.

SA agreed to phase out or reduce several local content preference schemes to bring it more into line with General Agreement on Tariffs and Trade rules.

Suppliers have, according to Gatt, been allowed preferential margins of 30% to 40% if they meet local content requirements.

Industries in homelands (regional growth points) get 5% to 10% and a railage rebate of up to 60% of transport costs. Electronic goods suppliers have been allowed to add 35% to their price and still win tenders. Companies with SABS ratings can add 2,5% to their prices.

Regional preferences will be phased out by the month-end and foreign companies which meet SABS standards will also be able to add 2,5% to their prices.

Price preferences of up to 35% for SA-made electronic equipment are being scaled down.

Electronic equipment accounts for less than 10% of government purchases, says State Tender Board chairman Kobus Coetzer.

"The decision to do away with price preferences for local suppliers is a government decision," he says.

"The State Tender Board operates in a totally transparent manner. All tender awards are published in the Government Gazette and we have to give reasons why a cheaper tender was refused."

Imported goods account for 30% to 40% of Government purchases, according to Stefan Schutte, administrative secretary at the Department of State Expenditure.

He disagrees that local content preference margins are 30% to 40%, as claimed by Gatt.

Mr Schutte says the average local content preference is "no more than 10% in respect of all imports where electronic goods receive as much as 20%". The preferences cost SA no more than R320-million.

Chamber of Commerce economist Ben van Rensburg says SA will have to phase out all protection, including those applying to government procurement, as the country normalises its trade relations.

"But 350 000 to 500 000 jobs have been lost since 1989 and we must be careful not to damage employment creation any further."

One of the more controversial schemes is the ad hoc preference for SA products which have "little or no tariff protection" and where the price difference is marginally in favour of imports.

In this situation the State Tender Board may refer the matter to the Board on Tariffs and Trade.

Gatt says: "Where tenders are equally priced, even after deduction for preferences, the board gives priority to supplies made in SA."

S I Times [Buss] 20/6/93. (49)

China's economy turns up the heat

A 14% increase in GDP could be what SA needs to eradicate unemployment, but China's rapidly expanding economy brings problems of its own. By KEVIN DAVIE.

THE pace of change in China is so fast you can feel it. Traffic between Beijing and its airport has increased so dramatically that a three-lane, 23km expressway has been completed in only nine months to meet the new demand.

All flights in and out of Beijing are full as investors flock with the promise of getting their capital back in an average of three years. In some cases it is as little as nine months.

The streets are jammed with thousands of yellow micro-taxis. Yet nine months ago there were none of these taxis.

New hotels, office blocks and shopping centres — mostly joint ventures with foreign investors from all over the world — are rapidly changing the skyline.

Gross domestic product growth is running at 14,1% for the economy as a whole. In coastal areas, such as Guangdong, the economy is growing at 25% a year after averaging 13% annually for the past 14 years.

Official figures show the fastest growing sector is foreign-funded joint ventures, whose output is increasing by 52% a year compared with the output of state-owned enterprises at 8%.

This release of energy goes back to 1978 when Communist Party supremo Deng Xiaoping announced agrarian reform measures as a first step towards establishing a more open China.

Urban reform took over in 1981. Unsure of what reform might unleash, four areas, three in Guangdong near Hong Kong and one in Fujian near Taiwan, were identified as special economic zones.

These typically allow full repatriation of profits and low tax rates of about 15% which fall to 10% for export industries. But most of all — and this is the cornerstone of Chinese economic reform — they offer cheap labour.

Yonghua Lu, deputy minister of the state commission for economic restructuring, told Business Times that the minimum wage in China was now 50 yuan a month (the prime minister gets 500 yuan).

Most government workers in Beijing earn about 400 yuan a month. This is about $40 at the official swop markets where yuan can be exchanged for dollars.

These wages are undoubtedly low, but a two-bedroomed flat with all services costs only 40 yuan ($4) a month.

Workers in the thousands of joint ventures (US companies alone account for 2 000 enterprises) can expect to earn about 700 yuan, but may get additional productivity-linked incentives.

Mr Lu says Chinese socialism now realises that Karl Marx's "from each according to his abilities, to each according to his needs" had to replaced with "each according to his worth".

Worth, in China's socialist market economy, is market determined. "We optimise resources through the role of the market and competition. The equal exchange of values and the law of competition are generally accepted by the people."

Mr Lu says economic reform has brought about a 5% annual real increase in urban incomes from 615 yuan in 1978 to 2 661 in 1992. Unemployment fell from 5,9% to 2,2% in that time.

A surprising point is that Mr Lu eschews welfarism. "Welfare leads to too high taxes. High welfare produces lazy persons. Capital can easily move out of the country."

Although Western mainstream economic thinking gives priority to privatisation in economic reform, this does not feature in China. But rapid growth in private and joint enterprises has led to a large relative decrease in China's public sector.

Private enterprises accounted for only 0,4% of the total in 1978; now they have grown to 13%, reportedly employing 25-million people. Non-public sector commercial output, 2,1% in 1978, increased to 30% last year.

Reform has exposed the inefficiencies of state-owned enterprises.

But increasingly in the 1980s managers in state-owned firms have been rewarded for profits and penalised for losses. State firms have taken to auctioning the top job and requiring that a bond of half the salary paid be posted. Some of these bonds have been confiscated when perfromance criteria have not been met.

YONGHUA LU ... for the ministry of economic restructuring, high welfare means lazy persons

Mr Lu says that 44% of foreign-funded enterprises have Communist Party branches in their operations.

In one case a Japanese firm refused to allow the party to operate and the party went underground. The manager was offered a large order which he believed was impossible to meet, so he sought the help of the party which produced the goods with three days to spare.

Mr Lu says this shows the benefits which the party brings to a firm.

He says "there are some difficulties, of course" facing the Chinese economy. These include the unfair distribution of social welfare, the growing gap between East and West, disorder in some markets, corruption among cadres and an imperfect legal system.

The inequalities in social worth are marked. A bicycle is a luxury for much of the population, but sleek, expensive cars are nevertheless a frequent sight.

Diplomats tell of Chinese neighbours who are able to buy their expensive homes and top-of-the-range cars for cash.

Of major concern is that the economy may be overheating; that the boom will go bust.

One businessman describes the Chinese economy as a runaway train without brakes: "A massive wall is needed to stop it. Anytime now they will start building the wall."

The concern is that supercharged growth will generate uncontrollable hyper-inflation. Inflation has averaged 4,6% since 1979, but jumped to 5,4% last year and 8,5% in the first quarter of 1993.

The Chinese authorities are not fazed. "We'll sacrifice pricing reform to keep inflation below 10%," says Mr Lu.

The authorities also order the state-controlled banks to make loans in terms of their overall macro-economic objectives. The state has yet to allow banks to use market forces to set their lending programmes.

Another reason for a predicted bust is that growth will outstrip the infrastructure. But one diplomat points to the airport expressway: "It was completed in only nine months with workers paid $1 and working 24 hours a day in shifts."

The Chinese are clearly not overawed by large infrastructural development. As the English-language China Daily calmly reported, 14 000 towns and 50 cities (there are now 50 000 and 550 respectively) will be built between now and 1995.

The authoritarian Communist Party, which controls the state, will not allow labour markets to develop where workers will be able to organise to strike for higher wages.

But it is unlikely, given the furious competition for investment between cities and provinces (most now have their own economic and development zones), that unionism will gain even a toehold.

A more open China faces huge pressure to liberalise its political system as it increasingly interfaces with the world. The US is demanding human rights reforms for China to retain its most favoured nation trading status.

There are signs that Premier Li Peng, who signed the order for the troops to march on Tiananmen Square four years ago, is being sidelined as part of China's bid to host the Olympics in Beijing in 2000.

The events at Tiananmen are not a subject Chinese officials will readily discuss. Some say they were not in the country at the time. Others say they were not there, but believe the students left voluntarily when asked to by government forces.

But diplomats in the city at the time say that hundreds if not thousands of people were killed as the Communist Party brutally re-established its hegemony.

China had a bad two years after Tiananmen. Then, in January last year, the 88-year-old Deng Xiaoping toured the industrial south and gave his blessing, providing fresh direction and impetus for economic reform.

Reform, some argue, will bring increased pressure for democratisation. It may, but alternatively the Communist Party may reform itself and keep the support of the Chinese as it delivers the goods.

Tiananmen took place against the heady backdrop of glasnost and perestroika as the Soviet Union attempted the top-down reform of communism.

Four years later the rouble has collapsed from an official near parity to 1 000 to the dollar and inflation is running at 240% a year.

Billions of dollars in aid have been promised, but the former Soviet Union faces a ruinous road ahead.

China, in contrast, with a bottom-up approach, has attracted billions of dollars in investment.

It is outperforming all other economies and is set to become the world's next superpower early next century

Nafcoc takes advantage of NEF's inner workings

C/Press 20/6/93

(49)

THE National Economic Forum (NEF) is the tripartite alliance that was initiated in October last year made up of representatives from business, government and labour.

It was further divided into two groups, the long term working group (LTWG) and the short term working group (STWG).

The LTWG looks at macro-economic proposals for the long term and the STWG at initiatives to be implemented in the short term.

Added to this arrangement, members in the Business Forum of the NEF are divided into career members and participants. The Business Forum is comprised of 15 business organisations made up of the major employer bodies, the chambers of commerce and the Black Business organisations, Nafcoc and Fabcoc.

Nafcoc has the distinction of being both a career member and participant in both working groups. The Nafcoc delegation is headed by Michael Leaf who is supported by four other Nafcoc members from other parts of the country.

Leaf, general secretary of Soutacoc, has been promoting the interests of both black business and small enterprises. This culminated in his appointment as convenor of the Business Forum's small business task group as well as the task group addressing the public tender system.

To date, the NEF has tended to address proposals put forward by the labour delegation and which has prompted a reactive response by business as their own proposals were not coming to the fore.

Leaf expressed concern over the non-participation of black business and the SMWG in the public tender system and other aspects of the system.

This week he convened a small business forum meeting of 17 organisations from all over the country on behalf of the Business Forum. This forum addressed the future policies and strategies for small business and a number of initiatives for implementation in the short term.

These initiatives took cognisance of the informal and the rural sectors and included sub-contracting, deregulation, markets, education and training, finance and infrastructure.

It was stated that small businesses needed to have a say in matters relating to them and should not always be lead by bodies that were not party to their interests.

The result was that a broad representation of small businesses would speak at the Business Forum at a 10-a-side meeting of NEF representatives on June 28.

SA is poor — and growing poorer

Cit Press 20/6/93

■ MONEY TALK

SOME rather frightening figures are emerging from Pretoria.

Finance Minister Derek Keys projected in his budget in March that the shortfall between state income and expenditure in the current fiscal year would be about R25,3-billion. This is a massive amount and means that the government will have to continue to borrow huge amounts of money from the private sector in coming months.

The money comes out of our pockets in the form of, for instance, our insurance and pension fund savings that are invested in state loans.

Early indications are that our economy is so weak that tax collections are considerably lower than expected. People who do not have jobs and companies that do not show profits cannot pay tax!

(49)

Consequently, the trend in the first two months of the current fiscal year indicates that the deficit can be as high as R30-billion for the year. This means that the State will have to borrow at the rate of R2,5-billion a month. This money cannot be used productively as the major portion is used to pay interest on existing loans.

Financially, we are painting ourselves into a corner and the big question now is: How are we going to get out of it?

There is no doubt that the taxpayer will have to pick up the tab. But according to institutions such as the International Monetary Fund, South Africans already pay among the highest taxes in the world. Experts warn that if taxes are increased to even higher levels it will dampen the initiative of entrepeneurs who ask themselves: Why should I almost kill myself taking high risks if the state simply takes the bulk of my income?

The answer lies in getting our economy moving again.

This year we will hopefully record a zero growth rate (instead of minus two) or, if we are lucky, some say, about 0,5 percent. This is pathetically low.

The reality is that SA is living beyond its means. We are a poor country when compared to the developed world and are growing poorer by the month. The only people who can stop the process are ourselves.

Allies differ over trade union role

BDay 21/6/93

LINDA ENSOR

CAPE TOWN — Differences between ANC and Cosatu representatives on the role of trade unions in a democratic government's policy formation emerged during a weekend conference on worker rights organised by the SA Clothing and Textile Workers' Union.

ANC head of economic planning Trevor Manuel said trade unions should be concerned primarily with their members' interests and had a limited capacity to influence macro-economic policy formation. It was government's role, for instance, to determine the country's trade policy.

Manuel conceded that trade unions had inputs to make in macro-economic policy, but stressed that the coherence of that policy went beyond the concerns of trade unions and was a concern of government. This was so partly because trade unions represented the sectoral interests of their members, who were a privileged elite of wage earners relative to the unemployed.

Government had a definite role which could not be taken away, but what was important was who sat in government and whose interests were represented there.

Manuel did not believe that Cosatu should develop a "sweetheart" relationship with government after the election. A vibrant democracy required constructive tensions which did not disappear just because there was a tripartite alliance.

In reply, Cosatu's national negotiations co-ordinator Jayendra Naidoo said there was not one issue on which government could take a decision which would not affect workers. There was a need to find a clear mechanism by which government could operate with inputs from the labour movement as the challenges of the future could not be met by excluding labour.

He agreed, however, that government would play a role on a number of levels where the labour movement could not be involved.

Cosatu deputy general secretary Sam Shilowa said Cosatu would be involved jointly with a democratic government in the process of reconstructing and democratising society.

"We have a great interest in the economy and expect to play a permanent role in institutions such as the National Economic Forum, the National Manpower Commission, the Unemployment Insurance Fund and the National Training Board," Shilowa said.

He said trade unions might have to resort to strike action to ensure that worker rights were not tampered with by an ANC government.

Naidoo said Cosatu was negotiating a reconstruction programme and election platform with the ANC. The issue was not the ANC's track record but what rights workers would get in a new SA.

Forum representation queried

BDay 21/6/93

LINDA ENSOR

CAPE TOWN — The National Economic Forum was not sufficiently representative, according to Finance Minister Derek Keys and ANC economic planning head Trevor Manuel.

Speaking at the SA Clothing and Textile Workers' Union conference on workers rights, Keys said government was playing the role of state representative on the forum, but represented only two of the 26 parties at the constitutional negotiations. Therefore the adequacy of the state's representation had to be questioned.

Manuel, also questioned representation on the forum, but attacked the state's presence, saying it had no right, as an apartheid regime, to play any role in determining economic policy. He suggested that government had too powerful a role.

Keys said the forum's existence would be threatened if it neglected the underdeveloped and unemployed sector. Manuel also noted this and that proceedings had little relevance to workers' daily experience.

Keys said the adequacy of business' representation was in doubt, as the 13 business organisations on the forum had not mandated their representatives to take decisions.

(49)

While Keys and Manuel concurred on the policy-making role of the forum, they disagreed on consumer bodies. Keys felt that only those empowered to make deals should be included. Manuel, however, felt consumers should be represented.

New framework for urban development

Municipal Reporter

ARG 21/6/93

AN INTERIM metropolitan development framework — expected to have a major impact on land use in the region — will be ready within three months.

Western Cape Regional Services Council deputy planning chief Mr Peter Tomalin said all rezonings of metropolitan significance would be decided in the light of the framework.

Delegates to an SA Institute of Town and Regional Planners conference on metropolitan development agreed the framework would have a huge impact on planning in the region.

Mr Tomalin said the Cape metropole was characterised by rapid outward sprawl, poor use of urban land, separation of people from activities, and uneven development.

Future development should contain urban sprawl, intensify urban development in urban areas, integrate the city, redress inequalities, and manage the environment in a sustainable way.

The framework would provide an opportunity for planning to be guided by publicly-agreed ethics.

It would not replace existing laws, but would be a tool with which to evaluate applications.

It would ease "equitable access" to metropolitan resources and encourage redistributive development.

The process of preparing the framework was linked to the Western Cape Economic Development Forum.

Forum representation queried

Bday 2/6/93

LINDA ENSOR

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Star 21/6/93

Consumer confidence plummets

(49)

CAPE TOWN — Consumer confidence has fallen to its lowest level since 1985, Stellenbosch University's Bureau for Economic Research says in a survey released yesterday.

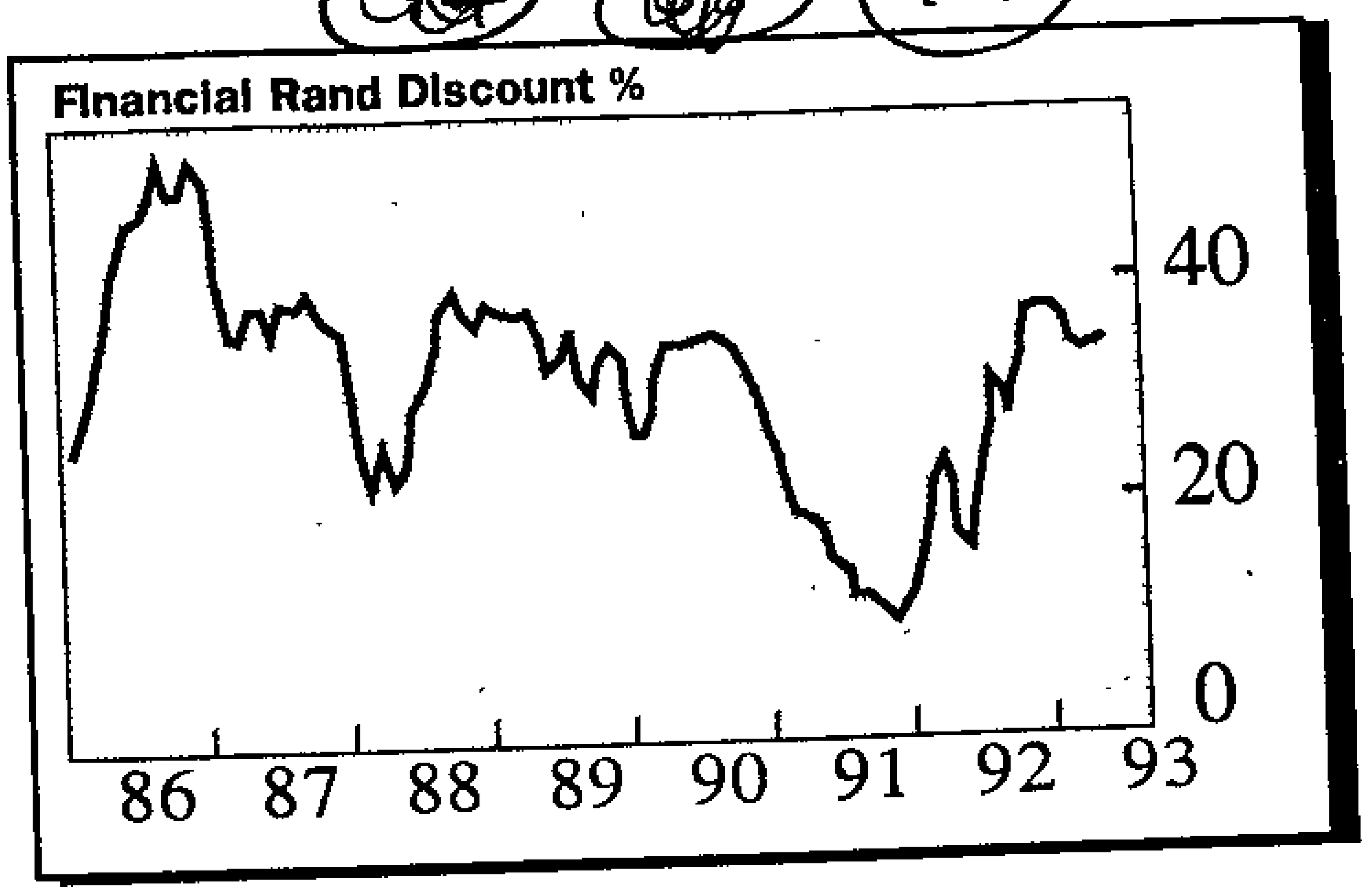
It maintained its view that the economy would at best bottom out this year and the gross domestic product was forecast to decrease by about 0,5 percent, but a real growth rate of about 2 percent was forecast for 1994. — Sapa.

Future of the financial rand hangs in balance

Star 21/6/93

49

By Derek Tommey



Planning attention is beginning to focus on the future of the financial rand.

This follows from the likelihood that South Africa will soon be governed by a transitional executive council and the probability that there will be a general election within the next 12 months — both of which will be good for SA's image overseas.

It also follows from the prospect of a firmer gold price.

These factors could greatly enhance South Africa's position abroad — and thereby eliminate the need for the financial rand.

The financial rand in its current form has been in existence since 1985. South Africa was then in turmoil and the Government wanted to discourage foreigners from taking their money out of the country.

Forcing them to use the financial rand, which stood at a huge discount to the commercial rand, significantly slowed the outflow.

Reasons

Anyone now taking money out of the country in financial rand form has to pay R4,64 for a US dollar.

If the investor could take the money out through the commercial rand, he would have to pay only R3,23 for a dollar, giving him 43 percent more dollars for his money.

Economists give several reasons for ending the reign of the financial rand.

One is that the mere existence of a dual currency is a major deterrent to foreign investors because it signals to the world that South Africa has economic woes and balance of payments problems.

A second reason is that the financial rand exchange rate is not a true reflection of the state of South Africa. The financial rand market is a thin one and the price of the currency can be easily manipulated.

Azir Jammine, director of consulting group Econometrix, says the commercial rand is a much better guide to the worth of South Africa's currency, as ten times more capital transactions are made through it than through the financial rand.

Economists say that any improvement in the investment climate could lead to a speedy ending to the financial rand.

An inflow of foreign capital could quickly lead to the financial rand discount dropping.

Once it dropped below, say, 10 percent, the Reserve Bank could abolish the currency overnight.

With this in mind, planners are asking when it could happen.

"It could be within the next 18 months to 24 months," say Jos Gerson and Heather Kenyon, economists with stockbrokers Davis Borkum and Hare.

But Jammine is not quite so optimistic. He believes it could still be 24 to 30 months away.

However, it could be much sooner if the gold price were suddenly to spurt to, say, $600!

If the Government has learnt anything from the surge in the gold price in 1979 and 1980, it is that exchange controls should be eased immediately, he says.

Planners are also investigating the consequences that could flow from the ending of the financial rand.

Some say that the financial rand rate could become the new commercial rand rate — that is, the rand could drop to more than 4 to the US dollar.

But Jammine does not agree because the commercial rand is the much stronger currency.

Profits

The most the commercial rand rate could drop is about 10 percent.

Foreigners investing in the JSE through the financial rand could make huge profits if the commercial rand held its value.

Any reduction in the 30 percent financial rand discount would similarly increase the value of their investments.

It would be possible for them to show capital gains of 45 percent without any improvement in JSE share prices.

But Jammine points out that South Africa wants not only speculative investment; it also needs people prepared to invest in new factories and industries.

Star 21/6/93

Consumers down in the dumps

CAPE TOWN — The economy is still firmly entrenched in recession and in general has contracted at a fast tempo. (49)

These are among the findings of second-quarter surveys of the retail, wholesale and motor trade compiled by the Bureau for Economic Research (BER) at Stellenbosch University.

It says that while Race Relations Institute statistics show that political violence subsided in the first few months of the year, compared with 1992, crime and violence are still at unacceptably high levels.

"This, among other things, caused consumer confidence to plummet in the second quarter, particularly with respect to their faith in the employment-creating ability of the economy.

"Consumers are concerned about their personal finances in the light of high taxes and high real interest rates," the BER says. — Sapa.

MONEY MARKETS by Tim Marsland

BIDay 24/6/93

Low debt sales spark bull run

49

THE lack of government stock sales in May has set off a mini-bull run in long dated capital market stocks which may be testing key resistance levels around 14% in the next few weeks. Latest government figures show little stock was sold in the long area of the market in May, setting off a paper chase for that stock.

Only about R2bn in government debt was sold in May compared with April's R8,5bn when the market was awash with stock. The rates at which government funded in May were on average higher than those in April. This could mean government switched off the tap once the funding costs became punitive.

Government still has plenty of debt to sell this year, but it seems to be reluctant to do this above the 15% level. The Bank hopes to end the year with an average funding cost of 14,2%.

Government needed to sell large amounts to debt early in the financial year to make up the revenue shortfall.

Nedcor Bank chief economist Edward Osborn said the deficit was R5,3bn in May. Government also repaid a loan of R2,5bn in that month and reduced its Treasury Bill liabilities by R3,1bn. The financing requirement was thus R10,9bn which was satisfied by stock issues of R6bn, borrowings of R1,4bn from the paymaster general account and running down the balance in the exchequer account to zero. This balance was R3,5bn at the end of April. The net result is to convince bulls that 14% on long rates is again within sight.

Preparing for a worst-case scenario

49

JOHN Spira Star 21/6/93.

UP AND DOWN DIAGONAL STREET

The fully democratic South Africa for which so many have been striving for so long is now within spitting distance.

Yet, while it is now but a small minority that opposes the inevitable, there is a widespread lack of awareness of the negative financial factors that could follow in the wake of a democratically elected government.

Protecting your capital could take on an entirely new dimension. Now is the time to plan an investment strategy to comply with the upcoming changed environment.

The implementation thereof is not of immediate urgency, but unless you begin changing gear right now, you could find yourself left behind when the investment climate starts to change. For the investment weather might alter rapidly once the new order has its say.

Several analysts have conducted exercises aimed at highlighting which stock market sectors are likely to derive the greatest benefit from such moves as unbundling and increased spending in the mass housing, medical and educational spheres of the economy.

This, however, is only one (micro) aspect of what could lie ahead.

More profound is the pending macro picture — a scenario in which the merits of investing one's all in the stock market should be seriously questioned.

Before formalising a suitable investment strategy, a hypothetical changed investment environment needs to be briefly sketched — a scenario which, of necessity (since we are examining what amounts to an insurance policy), examines an unduly bearish future containing:

- A heightened (or, at best, unchanged) level of industrial and political unrest as aspirations are dashed and the sore election-losers vent their frustration.
- Higher taxes on corporations and high-income individuals, along with the reimposition of prescribed asset requirements, as the new government tries in vain to meet unrealistic expectations.
- Higher inflation, as the money supply explodes and the nation's scarce resources are ploughed into the public sector at the expense of the infinitely more efficient private sector.
- Higher interest rates to attract the country's savings toward government loans for additional spending aimed at satisfying the needs of the majority.
- Declining living standards.
- A scrapping of the financial rand mechanism, which process would involve a mammoth depreciation of the currency.
- Nationalisation of the mines and financial institutions.
- Obligatory affirmative action policies.
- Punitive exchange control regulations.
- Onerous wealth and property taxes.

Obviously, we fervently hope (and sincerely pray) that it won't come to this. But if we are to be fully honest with ourselves, we have to admit that these probabilities and possiblities cannot be dismissed as flights of fancy.

The litany of woes won't all come to fruition. But some of them might — either as spelled out or in modified form.

Which means that if you are to protect what you have, you owe it to yourself to formulate an investment plan that goes at least some way towards offsetting the threats to your capital that may lie ahead.

Look at your inflation hedge investments in a fresh light. The prospective new game rules, should they develop along worst-case scenario lines, would militate against safety on the JSE — either via direct investment or via indirect media such as unit trusts and endowments.

Corporate earnings and dividends would suffer from increased taxes, higher interest rates, reduced disposable income levels and ongoing industrial action — drawbacks that would even apply to rand hedge stocks, which could be counted on to benefit from a devaluation of the currency.

The spectre of nationalisation would certainly detract from the appeal of gold mining, banking and insurance shares, while any attempt to force the institutions into prescribed assets would (perhaps considerably) curtail the volume of funds available for investment in equities.

Not a happy picture, which, of course, I've exaggerated in order to bring home the need to allocate at least a portion of your capital to an investment haven that would immunise you from all the potential nasties earlier chronicled.

The most convenient of such havens is the Krugerrand — an asset which will appreciate with inflation and devaluation, which is portable, anonymous, storeable, recognisable for the ounce of gold that it is, and which is unaffected by nationalisation, labour unrest and taxation.

It will, moreover, increase in price as the gold bull market progresses.

The unhappy future that I've sketched is probably alarmist, over the top and, maybe, irresponsible. Yet insurance is all about providing against an unlikely, though possible, event.

You'll lose little (if any) money and little (if any) sleep by paying your premium (albeit with no more than a small portion of your portfolio) in the form of Krugerrands.

And after the prime rate declined by half a point, and the overall index rose by 32, guess what happened to Tortoise and the Hare?

Forum launched to aid economic development

B/Day 22/6/93

GRETA STEYN

A NEW forum for economic development — aimed at becoming the development arm of the transitional executive council — has been launched by a range of representative bodies.

Independent Development Trust (IDT) CE Wiseman Nkuhlu said yesterday the Development Bank of Southern Africa, the IDT, the Kagiso Trust, the ANC, the PAC, Cosatu, Nactu, Nafcoc and Fabcos had set up a committee to work on establishing a national commission for economic reconstruction and development. The commission would function outside the National Economic Forum and after the first election should ideally form part of the office of the next head of government.

(49)

He said the committee should be given a mandate and legal status by the transitional executive council. In addition to the preparation of a development programme, it would mobilise international funding.

Nkuhlu confirmed he had outlined plans for the commission at a closed briefing to representatives of international aid donors to SA arranged by the Canadian embassy in Pretoria at the weekend. It is understood the donor community wanted input on which institutions should be supported and how they could obtain detailed information on projects.

Nkuhlu recommended to the international donors that development assistance be channelled through existing institutions during the transition phase. He noted that the IDT had a "reputable board of trustees" while the Development Bank was "ready to reconstitute its board through consultation" as soon as the homelands had been reincorporated.

He urged aid organisations not to choose development institutions on the basis of perceptions, but only after assessing their performance.

Nkuhlu said the committee would manage interaction with the World Bank, the IMF and other donor agencies. It would address which local development institutions should be involved, the role of central government and other tiers of government, and the role of the private sector.

The committee would work closely with the economic forum, the national housing forum and the ANC-aligned macroeconomic research group. It would co-ordinate available studies including international inputs and use them to produce a cohesive national development programme, taking into account financial and institutional considerations.

"To argue that existing forums are capable of preparing a cohesive development programme is incorrect. To produce a cohesive national development programme, the work of the forums must be co-ordinated and trade-offs identified and addressed."

The development responsibility had to be shared by all the major players — any political party that wanted to produce and implement its own development strategy without broad support was being "naive".

Analysts see no green shoots of recovery

Star 22/6/93

By Claire Gebhardt

(49)

The rate of economic decline is slowing considerably, but talk of "green shoots of recovery" is slightly optimistic, economists say.

They were reacting yesterday to reported Reserve Bank forecasts that the economy was moving out of recession, based on an expected slight uptick in real private consumer spending in the first quarter of this year, compared with the final quarter last year.

But as perceived spending directly contradicts offical reports of a fall in retail sales of 1,2 percent for the three months to April, many felt thoroughly confused.

Deputy governor of the Reserve Bank Dr Jaap Meijer, asked to comment, said he was aware of the personal history of Norman Lamont, who recently lost his post as British Chancellor of the Exchequer. Lamont thought he had spotted green shoots in the UK economic landscape as early as October 1991.

"But the British public failed to appreciate that changes for the better were merely changes for the somewhat less bad and included declines in rates of decline."

Frankel Pollak Vinderine economist Mike Brown said one of the problems was that the economy had collapsed so dramatically into a black hole during the second half of last year that it had distorted statistics.

First-quarter figures showed positive growth of 0,8 percent for the first time when compared with fourth-quarter figures last year, he said.

Econometrix director, Dr Azar Jammine, said increased consumer spending in the first quarter was probably an attempt to preempt VAT.

Retail sales which had been plummeting since 1990 had started to move sideways in the first few months of this year and now to move upwards.

The same thing had happened with manufacturing production.

Wealth policies lack detail, says Schwarz

B/Day 22/6/93

ADRIAN HADLAND

PRETORIA — Greater clarity was required from political parties on the question of the redistribution of wealth, SA's ambassador to the US Harry Schwarz said yesterday.

Speaking at a business strategy conference in Pretoria, Schwarz said it was difficult to appeal for foreign investment when key factors in a future economic policy remained uncertain. (49)

The need to make sacrifices and the demand for redistribution were two issues which had arisen continuously in debates about the future of SA, Schwarz told about 200 local and foreign businessmen.

But very little had been said about what should be sacrificed, and how, and to what extent there would be redistribution.

"It does not appear unreasonable to ask those who speak of sacrifices and redistribution to define what they mean, what they intend to do and how they intend to do it," Schwarz said.

Promises of redistribution created expectations which would be difficult to meet or control. There were also too many people who believed that SA owed them something, "that without qualifications, skill or education to work, suddenly everything will be better".

The illusion that inequalities of the past could be redressed without effort and through redistribution needed to be dispelled, Schwarz said.

"Without a work ethic we will not solve any problem in the long term."

He added that improved productivity was a major challenge to SA's economic revival. Calls for a lowering of tariffs, more exports and an open economy should be weighed against SA's competitiveness in the international market.

"Can we compete with other countries, without incentives, in manufactured products and in commodities which are beneficiated with our own labour?" International Academy for Quality president James Harrington said the key to increased profits and market share lay in improving business processes.

While most employees were just unwilling pawns controlled by obsolete operating processes, managers allowed organisations to use these processes untuned to contemporary needs.

People should not be attacked in the quest for improved market share and profits because they were not the problem, Harrington said.

"What must be attacked and restructured are the operating processes that govern the organisation's performance."

Other speakers at the conference included US Service Quality Institute president John Tschohl, management consultant Alan Sheffield and former president of the American Society for Quality Control Robert Maas.

Drought hits timber growers

MARIANNE MERTEN

DROUGHT has damaged SA timber plantations and threatened the future of many growers.

SA Timber Growers' Association (SATGA) director Bruce Ferguson said tree growth in some areas had been "virtually nil". B/Day 22/6/93

Significant tree deaths had occurred, especially near Tzaneen in the northern Transvaal and in KwaZulu/Natal.

This had affected both profit and capital investment of the approximately 2 000 timber growers the association represented, he said.

SATGA's annual report said the organisation's had applied through the SA Agricultural Union for subsidies on 10-year loans — relief worth about R70m — in January, but Cabinet had not yet taken a decision.

Growers needed drought relief to re-establish damaged plantations, the report said.

The application was submitted after assessing tree damage in the summer rainfall areas.

Although growers were also affected by depressed international prices, export opportunities for wood chips had increased when Finland joined Japan and Taiwan as export markets, the report said.

Star, 23/6/93

We will have to woo investors – economist

By Peter Davies

It will be far more difficult to reverse economic sanctions than it was to impose them, Sacob chief economist Ben van Rensburg said yesterday

Van Rensburg was referring to the sudden climate of economic expectancy created by the "South African Democratic Transition Act" proposed by US senators Nancy Kassebaum and Paul Simon. The Act will lift virtually all remaining sanctions and actively encourage foreign aid, private investment and development loans to South Africa.

Van Rensburg says that if and when sanctions are lifted, the country should not expect to "sit back and watch all the money pour in". (49)

He says South Africa will have to make a concerted effort to woo potential investors but he nevertheless views potential sanctions-scrapping as a positive step forward. (230)

"The whole world is currently under enormous economic pressure. Everyone is looking for new opportunities in a world flooded by mass communication. It's very difficult to establish investment opportunities that no one else has tried to develop.

"South Africa is under the magnifying glass. It's therefore vital to get the right systems in place as soon as possible." These systems include a transitional council seen by the outside world as totally representative, and agreement on an election date.

"Expectations out there are high because of a new set of voters. They are expecting a better life. If the new political system is not going to provide it, we are heading for trouble," he said.

Soros to fund trip for open society directors

BDay 24/6/93

LINDA ENSOR

CAPE TOWN — Currency speculator and billionaire George Soros is to fund a visit to Eastern Europe later this year by the 10 directors of the board of the recently formed Open Society Foundation of SA.

The society's executive director, UCT deputy vice-chancellor Mike Savage, said yesterday that board members would visit Hungary, Poland, Rumania and the former East Germany to examine projects undertaken by other open society foundations established by Soros.

The cost of the visit would not be included in the $15m, three-year grant made by Soros for SA's Open Society Foundation.

Board members include chairman Van Zyl Slabbert, Fakile Bam, Alex Boraine, Anthony Heard, Rhoda Kadalie, Mamphela Ramphele, Khehle Shubane, Peter Sullivan and Helen Zille.

Savage, a sociologist, is to take a two-year sabbatical from July 1 in order to take executive control of the foundation. He said he wished to contribute to the creation of an open and democratic society, the emergence of which was not a foregone conclusion.

"Democracy and openness are fragile in their growth and it is important that they be nurtured in their early days," he said.

While scores of applications for financial assistance had been received by the foundation, none had been approved and specific projects had not been identified, Savage said. Emphasis would be given to education and promotion of transparency and accountability in government and civil society.

Projects would have to fall within the ambit of the society's mission statement which declared that the society was committed to promoting the values, institutions and practices of an open, civil and democratic society.

The foundation supported the promotion and protection of human rights and civil liberties; strengthening of a vigorous and autonomous civil society; political pluralism; and an education system which strengthened and supported these values.

Projects that impacted on institution-building would be supported and would not include construction projects, charities, conferences and institutional research. Nor would the society support party-oliticcal initiatives, inventions or private profit-making ventures, short-term emergency relief and scholarships and bursaries.

ANC to head 'buy black' campaign

B/Day 24/6/93

THEO RAWANA

THE ANC would head the campaign to buy first from blacks to improve the black businessman's lot, ANC economics department head Trevor Manuel said in Johannesburg yesterday.

Giving the keynote address at the annual conference of the Southern Transvaal African Chamber of Commerce, Manuel said an ANC government would outlaw banks' discriminatory lending which barred black access to finance, and would change the situation where the economy was controlled by a few conglomerates.

SA industrial policy at present was capital intensive and did not provide for job creation, Manuel said. The public sector was not geared to helping people, the Land Bank was not set up for blacks, the Industrial Development Corporation did not care and 73% of the SBDC's lending volume went to whites.

"We will change all that and introduce institutions for cheaper lending," Manuel said. "The country, too, needs strategies in which people will have access to training."

Blacks should not be confined to the small and medium enterprise sector. "We need 100 more companies like the National Sorghum Breweries," Manuel said.

Nafcoc president Archie Nkonyeni called on political leaders to stop bickering and speed up negotiations.

"If this economy is to be preserved for posterity to build on, then our leaders must rise to the occasion and be the statesmen we believe they are," Nkonyeni said. (49)

He added: "From all business formations, from Nafcoc, from the Business Forum, from the National Economic Forum, and from the conference at Kempton Park, they must be left in no doubt that, even though we know that we are dealing with a situation that has its own realities, its own dynamism and its own imperatives, the nation expects nothing less than going to the polls on April 27 next year."

He said the transitional executive council, expected to be installed soon, should use its greater credibility than that of the current government to quell violence.

The future government and the whole nation needed to commit themselves to policies, programmes and plans that would help the economy to grow. He called on black businessmen to take the initiative.

ɔre money to nurture production capacity

State advised to curb its spending

Sowetan 24/6/93

(49)

By Mzimkulu Malunga

■ BANK'S WARNING South Africa might find itself caught in debt trap:

SOUTH AFRICA could be caught in a debt trap if the Government does not curb its spending.

So says Amalgamated Banks of South Africa in its June economic spotlight.

More money should be spent on nurturing the country's production capacity, it says.

If the ratio of expenditure against revenue continues to rise at the current rate the economy will not be able to sustain it.

The economic spotlight projects an average of two percent economic growth throughout the 1990s.

"With the political preferences of the day determining the functional allocation of public funds, it comes as no surprise that in the current climate social services and education enjoy priority," says the report.

This year the Government budgeted for revenue of R88.9 billion but Absa's spotlight predicts that expenditure will exceed revenue by over R30 billion.

State expenditure rose from around R86 billion in 1991 to R105,1 last year.

Though it is the Government's long-standing intention to shift from direct to indirect taxation as a major contributor to the national income, this is yet to happen, says the report.

The Normative Economic Model tabled by the Government early this year was categoric about the objective to increase indirect tax like Value Added Tax's contribution to public coffers to about 50 percent.

At the moment most of the country's tax revenue comes from income tax and this makes South Africa's upper income groups the most highly taxed in the world, according to Absa.

BUSINES

Gambling, not capital gains, must be taxed

W Mail 18/6-24/6/93

By LYNDA LOXTON

MENTION capital gains tax, and the rich run for the hills. There is a widespread belief such a tax would be a major source of redistributing wealth.

But, said Martin Grote of the Department of Finance's new unit for fiscal analysis at a Cape Colloquium on Economic Policy last week, the new South Africa might do better to restructure its tax system to make it more equitable — and acceptable — and introduce a tax on gambling and lotteries.

A capital gains tax, he said, "would not be a money spinner, and if the government wanted to raise R3-billion or R4-billion quickly, it would do better to introduce tax on gambling and lotteries, which would raise R4-billion to R5-billion".

He stressed he was talking in his personal capacity, but many immediately snatched up his comments as indicating that legalised gambling — and taxes — were on the cards. There has been no government comment on that yet.

The colloquium, organised by the University of Stellenbosch's Economics Project, also spent some time debating the whole economic policy-making process in South Africa — and decided too many mandarins in so-called "independent" bodies were making policy decisions, for which they could not be held accountable.

Philip Mohr of the University of South Africa said what was needed was an expanded National Economic Forum, which was more representative than at present and which could thrash out what the economic goals and priorities should be.

Instead, because of the financial constraints on government, it was leaving policy-making to the Industrial Development Corporation (IDC), the Development Bank of Southern Africa and the Reserve Bank, all of which were regarded as "independent". Reserve Bank Governor Chris Stals has, indeed, emphasised his independence repeatedly over the last few years.

Because they could pay better salaries, they attracted better staff, but delegates were concerned that they appeared to want to remain outside the system, but wanted to prescribe policy within the system.

"So now you have the IDC deciding on projects in which they are the major shareholders and I would argue for more checks and balances on them by linking them up formally with the rest of the policy-making framework," said Mohr.

Similarly, the Reserve Bank alone decided on what happened to the exchange rate when this was possibly the single most important developmental tool in the economy.

De Klerk to meet top US businessmen

APG 24/6/93

Political Staff

PRESIDENT De Klerk is to meet top business people, as well as President Bill Clinton, when he visits Washington next month.

He will also visit Austria on June 28 and 29, and meet President Thomas Klestil, Chancellor Franz Vranitzky and Minister of Foreign Affairs Alois Mock. He will address the Austrian parliamentary group, and prominent business leaders.

He will be in the United States from June 30 to July 4, and will receive the Philadelphia Liberty Medal jointly with ANC leader Nelson Mandela.

Minister of Foreign Affairs Pik Botha said: "What makes the award significant is that the presentation will be made on US Independence Day, July 4, in the city of Philadeplphia, where the US constitution was drafted."

Mr Botha said: "The timing of this meeting is of particular importance; it will take place on the eve of the Tokyo meeting of the Group of Seven from July 7 to 9, which will be attended by President Clinton."

Free Market Foundation executive director Leon Louw, left, and American Chamber of Commerce of Southern Africa director Michael Judin. Picture: ROBERT BOTHA

Years of pain ahead — analyst

25/6/93

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JONATHAN DAVIS

South Africans should not expect a vote for a democratic government under a new constitution until after the turn of the century, Free Market Foundation executive director Leon Louw told a meeting of the American Chamber of Commerce of Southern Africa yesterday.

The process of transferring power would be long and painful, Louw said, even if a transitional executive committee was to be installed after elections. He told the meeting of the chamber in Houghton he doubted whether the scheduled elections would take place next April.

He said SA needed to learn from the experiences of the rest of the world in order to become a "winning nation". He said history showed that two common factors in the formula for such a winning nation were a market economy and a liberal democracy.

He said the experience of the world to date was that a free market economy created "powerful forces" in favour of liberal democracy, probably because of the prosperity produced.

Another important factor in the creation of a "winning nation" was a low level of government participation in the economy.

Louw said SA could hope to achieve an economic growth rate of about 4% under the best circumstances. This was better than it appeared because internationally the best overall improvements in the standard of living had been achieved under a moderately high growth rate, he said.

Tax shock as ANC plans 'wealth levy'

(49) ARG 25/6/93

The Argus Correspodent

JOHANNESBURG. — South Africans, hit by declining living standards, rising inflation and punitive taxes, could soon face another call on their purses — a "reconstruction levy" to pay for the New South Africa.

The ANC's deputy head of Economics, Mr Tito Mboweni, told the Italian-South African Chamber of Trade and Industries this week that the ANC was considering imposing a levy similar to that used to reconstruct Germany after the war.

The levy, effectively a wealth tax, will be a one-off flat rate tax on anyone who earns an income.

The money will not go into a general fund but will be used for upliftment programmes and will be stringently audited.

Mr Mboweni told dinner guests that demands on a future democratic government would be very high, and that the ANC would have to be seen to be delivering.

"We have had to give up nationalisation because of pressure from the International Monetary Fund (IMF), and our own realisation that it wouldn't work."

Action against monopolies would not redistribute wealth.

Equal spending for blacks and whites on housing, schools and hospitals could not be met from government funds, he said.

"This is why we are looking at a reconstruction levy."

Mr Mboweni said whites would not be stripped of their wealth in a democratic South Africa.

Companies that did not monopolise any particular market had nothing to fear from an ANC-dominated government, he said.

BUSINESS

Bank battles to advance millions

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WMail 25/6-1/7/93

A lack of shared vision is hampering development, says the Development Bank of South Africa. **REG RUMNEY** *looks at its annual report*

THE Development Bank of South Africa actually got out into the community only half of the R1-billion or so it had available in its financial year to end March 1993.

The bank disbursed R449-million in loans and grants. It approved total new commitments of R1 754-million, but these have yet to be disbursed.

The problems, according to the 1993 annual report, were the recession, political violence and the uncertain development environment. But chief executive Andre la Grange reckons that just as important is the problem facing development organisations worldwide: a lack of capacity.

In South Africa, there are specific additional problems. Local community support is important and, with divisive feelings now rife in society, agreement is hard to achieve, says La Grange. Also, and this is stressed in bank president Wiseman Nkuhlu's address, there must be a shared vision of the future of the economy. Development is being hampered because this is lacking.

As a contribution to that shared vision, the bank sketches out a three-point economic plan for South Africa in the report, one broad enough to receive widespread support.

The report says the basic conditions for economic growth are: market efficiency, education and integration. Crucial is the fusion into a new entity of the so-called First World and Third World components of South Africa — though the bank does not use these clichéd terms.

The bank points out that the dominant theme of the new South Africa will be the economic development of the previously disadvantaged. It sees challenges in reshaping not only the formal economy, or modern sector, but also in developing the much larger marginalised sector of the population.

A lot is at stake. The future economic prospects of southern Africa depend, says the bank, on the successful reconstruction and growth of the South African economy. Moreover, the process of restructuring the modern sector and that of developing the disadvantaged community must come together in one vibrant, new economic system. Without prompt attention to building bridges between the two worlds, plans for economic growth will founder on unsatisfied expectations.

The modern sector is small, the report notes, and growing too slowly to hold out much promise of higher and sustained growth. Only if the marginalised majority produces the needed skills, management ability and drive, will yearly growth of four percent be achieved.

Bridging the long-institutionalised divide between people, says the bank, will need "purposeful private and public action and support for the idea of an economic reconstruction programme underwritten by local and foreign financial resources".

Among issues to be tackled are employment in industry, access to capital for both homes and business, urban and rural settlement and collective decision-making in industrial projects. On industrial employment, the directors' report notes that the possibility of a programme of vigorous export-led growth and development with high employment is limited.

International comparative advantage based on high degree of skills does not favour South African industry because the country has relied on tariff protection in its import-substituting industries instead of becoming competitive, and concentrated on capital-intensive sectors such as iron and steel.

The bank criticises "recent cases of deliberate and costly fiscal support for highly capital-intensive industries ... Such projects should depend on their own commercial viability". These include, according to La Grange, Mossgas and more recent projects flaunted by the business community like the Columbus Stainless Steel and Alusaf aluminium project. While these projects will earn foreign exchange, they will not create many jobs: "Something else could have been done with the allocation of state funds."

Reconstruction levy looms for taxpayers

Star 25/6/93

(49)

By Claire Gebhardt

South Africans, hit by declining living standards, rising inflation and punitive taxes, could soon face another call on their purses — a "reconstruction levy" to pay for the New South Africa.

The ANC's deputy head of economics, Tito Mboweni, adressing the Italian-South African Chamber of Trade and Industries this week, said the ANC was considering imposing a levy similar to that used to reconstruct Germany after the war.

The levy, effectively a wealth tax, will be a one-off flat rate tax on anyone who earns an income.

Upliftment

The money will not go into a general fund, but will be used for upliftment programmes and will be stringently audited.

Mboweni told dinner guests that demands on a future democratic government would be very high, and that the ANC would have to be seen to be delivering.

"We have had to give up nationalisation because of pressure from the International Monetary Fund (IMF), and our own realisation that it wouldn't work.

"At the same time, anti-trust action is not going to re-distribute wealth."

Equal spending for blacks and whites on housing, schools and hospitals could not be met from the fiscus, he said.

"This is why we are looking at a reconstruction levy."

Mboweni said whites would not be stripped of their wealth in a democratic South Africa.

"We will still have differences, some people will have two cars, a swimming pool and a fancy house, but there will be significant welfare losses by some whites and welfare gains by blacks."

Income would also be redistributed through a living wage and the outlawing of company apartheid whereby blacks and whites doing the same job were paid different wages.

Companies that did not monopolise any particular market had nothing to fear from an ANC-dominated government, he said.

Those who did should not doubt the ANC's resolve to put an end to monopolies and cartels, with the support of the international community.

Mboweni said denials by SA Breweries (SAB) that it monopolised markets and erected barriers to entry had been unconvincing.

"One has only to look at companies like Lion Match, Plate Glass and the like."

The ANC would follow an open-door policy where multinationals were concerned and they would be treated in the same way as South African companies, he said.

"But we will guard against unscrupulous people who are here today and gone tomorrow."

Mboweni said South Africa could not continue to be dependent on the export of primary commodities and the input of manufactured goods.

The ANC would push for the export of manufactured goods to put the country on a different growth path.

Character

"But one of the problems is that South African industry invests very little in research and development — one of our industrial giants invests less than 2 percent in this area."

Human resource development had also to be addressed, particularly the skewed character of business which favoured academic training vis-a-vis technical training and apprenticeship.

Academics said this week that they were uncertain whether the ANC was referring to World World I reparations when an attempt was made to extract a levy from those who had profiteered after the war, or World War II restitution when the West German government passed laws to make reparations to the victims of the Nazis through compensation for loss of property and pensions, or loss of income, liberty and life.

Idea unworkable — tax experts

Star 25/6/93

Tax experts said yesterday the ANC's reconstruction levy would not work because there would be massive evasion, with whites either transferring assets or declaring themselves bankrupt.

Many younger people who had nothing to lose would simply leave the country.

Several whites surveyed said they would bitterly oppose such a tax.

One young stockbroker said he would see the levy as being totally discriminatory because the income level would probably exclude the majority of blacks.

"I had nothing to do with apartheid, I'm just unfortunate enough to have a white skin."

Price Waterhouse's Chris Frame pointed out that there was a vast difference between a tax meant to be poured into reconstruction of the economy and a tax to redistribute wealth.

"Although we don't know how much the levy will be, the problem is that if you levy a tax on 5 million whites to redistribute to 30 million blacks, it would have to be very high to make any difference.

"On the positive side, a one-off flat tax is better than a hike in income tax."

Marius van Blerck, chairman of the SA Fiscal Think Tank, said there was scope for such a tax in a positive environment.

"A lot of people are involuntarily taxing themselves by investing several hundred rands a month in security and they might be prepared to tolerate a certain tax burden if it goes in the right direction."

He said the Think Tank had been approached by the ANC to provide feedback on this and other fiscal matters, as had other political groupings.

FM 25/6/93

DEREK KEYS

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Avoiding the doubt trap

"Come unto me all that travail and are heavy laden and I will refresh you." We're not sure that Finance Minister Derek Keys has ever said anything like that — other than as a member of the congregation — but it exemplifies his attitude of mind: quite a novel one for a member of the National Party Cabinet, let alone the Finance Minister.

Along with his incisive knowledge of the disciplines that his portfolio entails, and his obvious sagacity, it is a very beguiling characteristic and one that has clearly helped win over some important African National Congress leaders to a less suspicious view of free enterprise and economic reality.

His valiant attempts to bolster the flagging sentiments of his former fellow businessmen have also struck a sensitive chord, the resonance of which is important to the ether that is known as business confidence. Last November he warned not only of the debt trap, but the doubt trap and, following on from that, the down-and-out trap.

Well, he attempted in his March Budget to do something about the debt trap, partly by reducing State spending so that the deficit before borrowing — a massive near-9% — could be reduced to just below 7%. Because it is a modest endeavour from an obviously sincere and capable Minister, Keys has enjoyed substantial credibility.

Last week, however, the Minister appeared to be uncharacteristically perturbed by those of us who pointed out, with modesty and qualification, that Inland Revenue receipts for the first two months of the fiscal year did not necessarily reinforce expectations of a 7% deficit before borrowing.

Keys's explanation smacked of justification. The increase in Vat had been introduced slowly to help the disadvantaged (pity he didn't have the same sympathy for those companies with March year-ends) and the lower corporate tax rate came into effect before the 15% tax on dividends declared was payable. And to nail him on a two-month trend out of 12, he felt, was unduly premature.

That is all logical. No-one in his right mind would say the Minister was wrong. But maybe we should remind him of the Lamont trap: a Chancellor protesting the opposite and doing all the right things too late, as currency values were falling all around him. He blamed the Germans, in which he was not alone — but his credibility was shot.

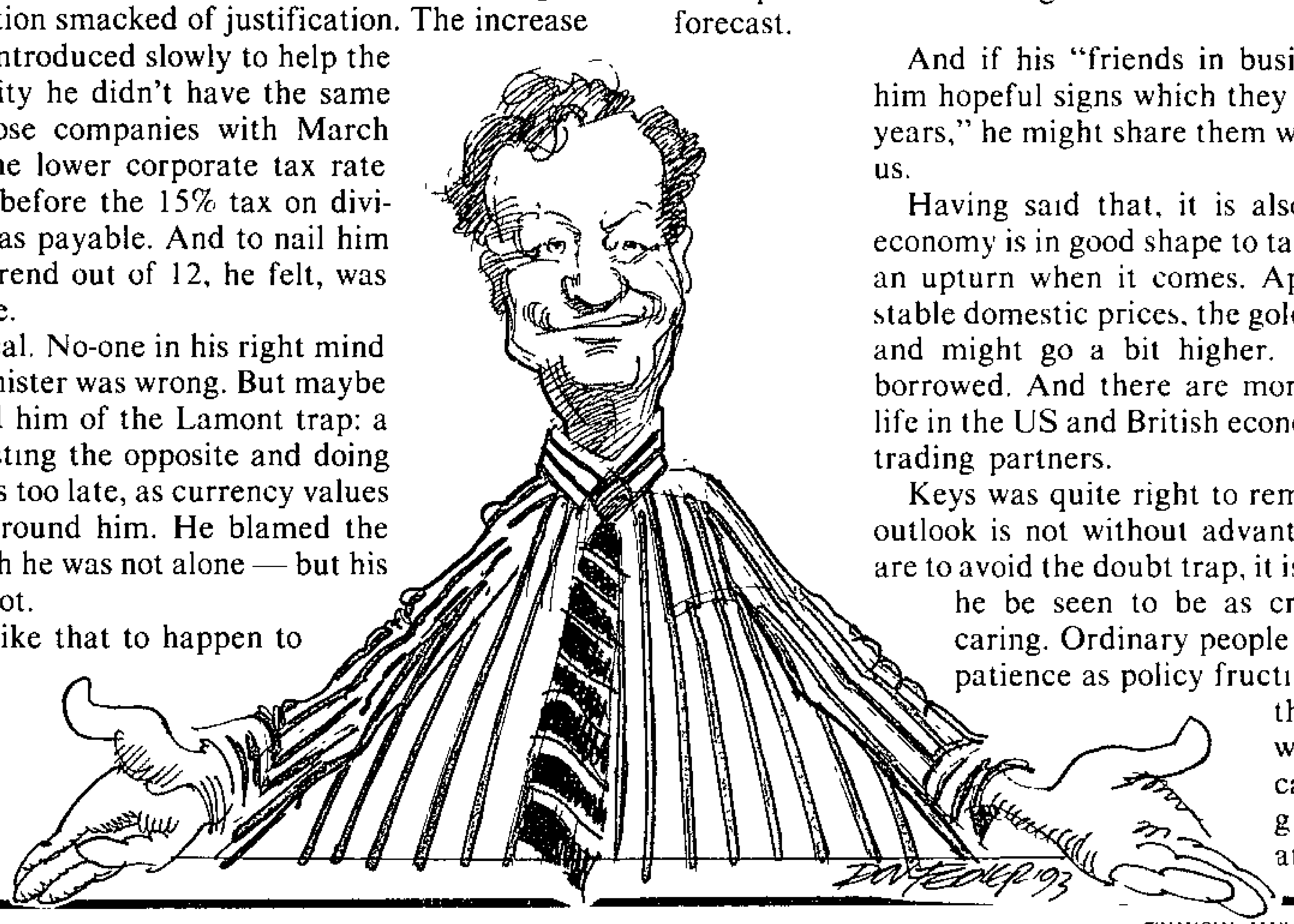
We would not like that to happen to Keys. If the doubt trap — and whatever worse things might follow — is to be avoided, the Minister, above all, must be credible. Though Keys is by no means anywhere near as deep in the mire as was Norman Lamont, too much might be deteriorating around him to justify his optimism.

There may well be no growth in the economy this year. The 1,1% growth in GDP between the last quarter of last year and the first quarter of this year was the result of agriculture recovering from the drought. The non-agricultural sector contracted by 0,5% — a sharper decline than in the fourth quarter of last year, when the economy shrank by more than 2%.

If farming doesn't manage to come up to scratch again in the second quarter of this year, which appears likely, then GDP growth will not be sustained and we may yet find that the economy hasn't bottomed out. And if that is the case, the tax base on which Keys's 7% borrowing requirement was predicated will be too optimistic.

In addition, the foreign currency content of the reserves is looking distinctly wobbly, despite the increase in the gold price — which suggests that the capital outflow remains high, through debt repayment and blatant capital flight.

At about the time of the Budget, Keys expressed the view that inflation would remain in single figures this year despite the increase in Vat. We support that view because we believe that business activity is still declining. And if Keys and the *FM* are right, there is going to be no growth within the economy this year though it probably won't shrink again. Perhaps the Minister might like to rethink his inflation forecast.



And if his "friends in business are giving him hopeful signs which they haven't done in years," he might share them with sceptics like us.

Having said that, it is also true that the economy is in good shape to take advantage of an upturn when it comes. Apart from more stable domestic prices, the gold price has risen and might go a bit higher. We are underborrowed. And there are more than signs of life in the US and British economies, our main trading partners.

Keys was quite right to remind us that the outlook is not without advantage. But, if we are to avoid the doubt trap, it is important that he be seen to be as credible as he is caring. Ordinary people will show great patience as policy fructifies — provided they are treated with as much candour as Keys gives consideration. ■

Blinkered to Left and Right

(49) FM 25/6/93.

Samuel Brittan is an economic commentator and a London *Financial Times* columnist

Why has "socialism" — in the original sense of comprehensive State ownership and direction of the economy — proved a delusion? The most popular argument, especially among businessmen, is some version of the incentive argument. Socialism would be wonderful, it is said, but people do not work for idealistic motives and need something more tangible.

This kind of critique generalises too freely about human nature and ignores many humdrum types of unpaid work, such as routine charitable and social work, regularly and competently performed by thousands. The basic argument against full-blooded socialism is that without a functioning "capitalist" market, even the most noble-minded would lack the information to go about their jobs effectively.

The reason can be put into a few sentences. Efficiency is not just a technical concept. There is an unlimited number of ways of producing anything: skilled workers with complicated machines can be employed or unskilled workers with simple machines. Should word processors or typewriters be used and which type? Should desks be of wood or steel? Is a head office a good idea or can managers link up from their homes? There is no end to such questions.

But, without a pricing system which tells us about the relative scarcity of these different inputs, a manager cannot begin to act rationally. Nor are the resulting losses trivial. The capital-intensive, wildly unsuitable and heavily polluting industrial plants dotting the landscape of eastern Europe are testament to the costs of an inadequate pricing system.

Though this critique is sometimes called the "problem of socialist calculation," it is not a dry accounting matter. The price system — by which is meant relative prices, not the rate of inflation — incorporates the dispersed knowledge of millions of people, which is fed into the economic system in terms of the prices they are prepared to pay for different resources — or charge for their own inputs. A command economy throws this data away.

The main originator of this informational critique of socialism was Ludwig von Mises, an Austrian-born economist who lived from 1881 to 1973. But, after enjoying a vogue in the Twenties and Thirties, Mises faded out of the view of mainstream economists who wrongly believed he had been answered.

A new book, *From Marx to Mises*, by David Ramsay Steele, makes a comparison with Karl Marx. Both thinkers "combined erudition with a combative, frequently vituperative style of presentation, displaying in their writing little patience with critics. Each attracted a small, industrious band of dedicated disciples prepared to brave — and reciprocate — the disdain of conventional thinkers."

Steele was a British Marxist in the Sixties, then became a Mises disciple. He is now a Chicago publisher and more sceptical of both teachers but still impressed by the "socialist calculation" critique. He is thus well qualified to summarise the debate and put it into perspective.

The Mises critique does not apply to many who call themselves socialist but really believe in welfare capitalism. Though Mises opposed this as well, his critique, says Steele, fails to demolish it. But, for most of his life, fashionable ideas went much further. They included the view that factor markets and financial markets could be replaced by conscious planning, as in war, and that intervention could be made at will, for example, by fixing any and all prices at any level the government chooses.

Mises conceded that socialism might work in a static society, where techniques changed little so that the discovery function of the price system was unimportant. It might also work for ascetics not too worried by material prosperity.

As for the Soviet economy, it could function as well as it did because it made use of the prices established in Western markets. Indeed, there was a late book by Stalin urging the comrades to follow the commodity markets more closely.

Eventually, however, revisionist socialists in the West and reform communists in the East embraced prices and markets. In recent decades, most students of political economy have been taught not to refute the Mises critique, but to say that socialist economies need and can have functioning markets and that ownership is irrelevant.

Why then were the reform communists of the Seventies and Eighties mistaken and why could effective markets not be created among largely State-owned industries?

Mises' most convincing answer was the absence of financial markets — including a market in ownership — to determine who should control existing assets and to what uses new savings should be put It was the absence of any mechanisms for placing ownership and control with those who could make most effective use of the assets at their command which was probably the fatal blow to reform communism.

From Marx to Mises is not a perfect book Its main fault emerges in the preface where Steele writes: "In all essentials, this book would be the same if the Soviet debacle had been complete in 1921 or if it had been delayed for another 20 years after 1989." The length of time the USSR existed and the nature of its collapse matter for assessing the importance of the fundamental weaknesses, which no amount of general argument can replace.

The author ends with a call for more rather than less utopian speculation. Though socialism has ineradicable flaws, there might be better options than capitalism. If Marx and his followers had not arrogantly dismissed as "unscientific" all speculation — other than their own asides — about the society of the future, we could have been spared some misery

(49) (453)

ASSET PRICES FM 25/6/93

Double declutch

(453) (49)

Because the origin of the recent bout of asset inflation differed from that of previous periods, it has proved unresponsive to monetary policy measures, applied successfully in the early Eighties in most major economies. This has distorted the current business cycle and delayed the recovery of the international economy.

The issue is dealt with in the annual report of the Bank for International Settlements, published last week. The bank for central bankers points out that an "additional policy lever" exists at a micro level: prudential supervision and regulation.

It says asset inflation in the Seventies came at a time of low and even negative interest rates. In the Eighties, "when rates were positive and much higher," the driving force was deregulation of financial institutions. By promoting competition during the Eighties, deregulation expanded credit beyond levels seen in previous economic upturns. This drove up asset prices which fuelled expectations about "the future income stream from investments."

On the supply side: "Financial intermediaries' willingness to lend increases when asset prices rise because of borrowers' improved ability to provide collateral. In the later stages of asset price booms, anticipated capital gains can become the dominant force and be disconnected from underlying fundamentals in the real economy.

"The downturn can then be triggered by a broad range of factors, including a slowdown in economic activity or a tightening of monetary policy." In the next phase of the cycle, asset prices slump and retard a recovery. What distinguishes the experience of the Eighties, says the Bank, "is the breadth and severity of this phase, following the major expansion of credit during the decade."

The report says that when asset prices and the general price level respond differently to the same credit conditions, it is difficult for monetary authorities to decide on appropriate policy. They "may have to weigh the risk of failing to restrain speculative behaviour, on the one hand, against that of an unwelcome contraction on the other. This dilemma rose most obviously in Japan, where evident signs of speculative excess co-existed with low inflation."

Similar symptoms have been seen in other countries at various times over the past decade. "In Sweden and Finland, for example, asset prices increased by more than 200% in real terms in 1980-1989, only to have a substantial part of the rise reversed in the last three years. In the UK, the upswing can be traced back to the mid-Seventies: an increase of around 150% from trough to peak was only moderately affected by the recession in the early Eighties. Asset price swings in other countries, notably Australia, have also been steep relative to their own past experience and have had serious effects on the financial system and the economy."

An anti-inflation commitment, though necessary at a macro level, might not be enough to prevent inflation and subsequent deflation of asset values and the destabilising effect of these swings on economic activity. "As illustrated by the experience of the Nordic countries and the US savings & loan industry, unless prudential safeguards are strengthened in a liberalised, more competitive financial environment, to complement market discipline, the emergence of distress is a major risk."

Apart from the complicating monetary policy implementation, financial distress in institutions incurs costs — which are borne by the taxpayers. And it prompts government intervention. So one of the "paradoxical consequences of deregulation," says the report, is that it could lead to "more, rather than less, government involvement."

In its review of April 1992-March 1993, the report describes remedial measures taken:

☐ Strengthening capital standards in line with the Basle capital accord;
☐ Improving disclosure;
☐ Bringing nonbank financial companies under an upgraded supervisory umbrella, as in Japan;
☐ Overhauling the supervisory system, as in Finland; and
☐ Pricing deposit insurance, as in the US. "In January 1993, the Federal Deposit Insurance Corp for the first time charged risk-related deposit insurance premiums." These are based on levels of capitalisation and regulators' supervisory evaluations. ■

South 26/6 – 30/6/93

(49)

Wednesday, June 24 quotations for unit trusts

	Buyers	Sellers	Yield
General Equity Funds			
ABSA	151 44	141 66	5 10
BOE Growth	169 36	158 25	2 72
CGF	115 01	108 67	N a
CU Growth	130 61	121 94	3 40
Fedgro	139 41	130 20	4 41
Guardbank	2797 62	2602 50	4 31
IGI	138 60	129 67	3 13
Momentum	271 00	254 21	3 91
Metfund	209 44	194 46	3 66
Metlife	124 05	115 92	6 04
NBS Hallmark	998 91	932 78	4 24
Norwich	399 18	372 75	3 26
Old Mutual IF	2844 63	2649 98	3 63
Old Mutual Grth	246 28	229 56	N a
Sage	2574 20	2401 32	3 49
Saniam Trust	1713 [illegible]	1604 00	3 25
Saniam Indx Trust	1349 75	1263 69	3 58
Saniam Div Trust	474 38	444 73	4 12
Southern Equity	220 40	206 22	3 68
Standard	1268 85	1192 59	6 51
Syfrets Gr	310 48	290 80	4 35
Syfrets Trust	125 48	117 56	4 95
UAL	2248 78	2111 20	4 95
Specialist Equity Funds			
ABSA Ind	133 35	124 73	4 06
Guardbank RF	171 47	159 32	4 92
Guardbank Ind	138 62	129 82	5 27
Old Mutual Top Comp	264 88	246 75	4 21
Old Mutual Ind	371 36	345 40	3 54
Old Mutual Min	300 50	279 88	3 37
Old Mutual Gt	166 21	154 92	3 28
Sage Resources	123 85	115 60	4 33
Saniam Ind Trust	1081 45	1012 59	3 17
Saniam Min Trust	303 30	283 96	4 26
Southern Min	143 82	134 86	3 77
Southern Pure	127 01	118 86	N a
Standard Gold	232 39	217 74	4 51
Standard Ind	[illegible]	104 66	N a
Standard Inter	112 56	105 28	N a
UAL MR	389 92	364 57	3 76
UAL SO	1954 38	1828 74	3 52
UAL Managed	1109 48	1045 59	1 25
Income/Gilt Funds			
Guardbank Inc	118 96	117 71	13 73
Metboard Income	110 16	109 04	12 65
Old Mutual Income	112 22	110 00	12 58
Southern Income Fund	541 06	530 23	N a
Standard Income	34 90	93 92	12 41
Syfrets Inc	109 11	108 61	13 35
Syfrets Gilt	1097 93	1086 95	12 [illegible]
UAL Gilt Trust	189 06	[illegible]	12 38

Outlook for the SA Economy

According to recent statistics, real GDP at factor cost, seasonally adjusted, grew by 1,1% in the first quarter of 1993, compared to the previous quarter. This was the largest rise for almost four years and only the second rise since late 1989. According to some press reports, the "green shoots" of economic spring are beginning to show at last.

But the press didn't do its homework. On closer inspection the figures look rather dismal. The growth was all in agriculture, where seasonally adjusted output apparently leaped by 54%.

And this leap was partly a statistical quirk. The Central Statistical Services' (CSS) seasonal adjustment method allocates total farm output - much of which is reaped in the third quarter - over the whole year, to smooth out the numbers. Actual production will only rise later in the year, when the farm sector should boost GDP by 1% or more. (The 1993 maize crop could total more than 8m tons almost three times last year's figure). Meanwhile, non-agricultural output actually fell in the first quarter - by 0.5%, the 9th quarterly decline in a row. The main losers were construction (output contracting by about 8%- there's no reason to build during a depression), trade and transport. But output rose fractionally in manufacturing, the first sign of life there for a long tims.

More recent figures on the state of the economy are not exciting:

- According to the Retail Liaison Committee, real retail sales fell by almost 6% from March to April, reflecting lower spending after the VAT hike.
- Real money supply growth (Mo) - an indicator of real spending trends - is also depressed. After perking up late last year, it levelled off in the first quarter and fell in April and May.
- In some recent industrial agreements, modest wage rises of under eight per cent for 1993 have been agreed on - helping inflation but undermining real consumer incomes and spending.

Apart from agriculture, then, most current news on the economy is bad. Accordingly, real GDP growth this year could still be negative at about -1%

Prospects over the next year are better. The lively gold price will boost mining and ease balance of payments pressures. And the political process is inching ahead, as the major players move towards agreeing on an election date, leading up to the appointment of a Transitional Executive Council. The last remaining economic sanctions against South Africa should then be lifted, and access to development funds and foreign capital will open up. If the period leading up to the election is reasonably quiet, capital outflows should slow, some foreign capital may flow in, and confidence, investment and growth could well improve.

Equal investor rights — with ANC curbs

S Times (Buss) 2/6/93

By NORMAN WEST

FOREIGNERS will have the same rights as domestic investors during the interim government phase, says a new ANC policy document.

It proposes that future policy remove complex incentive packages and prevent the exploitation of labour.

The guidelines propose an open approach to foreign investment.

Safeguards should be provided for foreign investors. But they could be blocked from investing in certain strategic areas, such as land and natural resources. They might be required to enter into joint ventures.

Companies owned or controlled by non-residents or in which they have a large holding could have limits placed on their borrowing.

Restrictions would ensure the proper capitalisation of foreign investments, as well as retain funds for SA borrowers.

Privileges and investment incentives could be granted to previously disadvantaged groups. They would not be extended to foreign investors.

The document says ANC policy is to secure economic growth in a society that is politically and socio-economically stable and democratic. This is the most favourable environment for both foreign and domestic investors.

The document says that in the event of nationalisation there would be fair compensation in accordance with accepted principles of international law.

The ANC says the apartheid legislative process that governs investment at present is a major obstacle to growth and development.

ANC proposals for the interim stage indlude:

- Labour practices in accordance with all basic International Labour Organisation conventions.
- Investment to enhance job creation.
- Employment practices must counter discrimination in the workplace.
- Investment must incorporate environmentally sound and clean practices and technology;
- Investment should, in particular, incorporate affirmative action programmes.
- Investment must contribute to the security of employment of South Africans.

These principles should be incorporated in the policies of a democratic government and should apply to all investors.

The ANC says that in the interim phase "we will campaign for these principles and will support the further development of codes of conduct, along with Cosatu and the SACC".

MONEY MARKETS by Tim Marsland

Bank may face heavy losses

B/Day 28/6/93

THE Reserve Bank could be facing heavy losses on its forward book as a result of its battle to stem the tide of the runaway rand.

The Bank this week had an active presence in the currency market, borrowing the dollars it used to intervene in the forward market and reselling them in the spot market. Estimates have put this support at around $150m.

(459)

The Bank's problem is that it does not have the physical reserves to support the rand, leading European banks to spread rumours that it had less than two weeks of reserves to cover imports. The Bank's financial position, although under pressure, is nowhere near as precarious as that.

The problem for the Bank is that the dollar is in a strong bull run with little potential on the downside, which will be reflected in continued rand depreciation against the dollar. This means the Bank will have to pay a lot more to repay the dollars it is borrowing now, exacerbating the losses on the forward book.

A central banker's lot is not easy. The Bank cannot sit back and allow the rand to go into freefall. Not only would this increase the forward losses, it would lead to a surge in the price of imported goods which would have negative effects for inflation.

It is the Bank's desire to keep the rand stable against the basket of currencies. Its style of intervention does not necessarily lead to a loss of reserves, but is a cost to the taxpayer. Critics of the Bank need to weigh up which is the lesser of the two evils

focus on BCM

Sowetan 28/6/93

This is an edited version of a speech given by **Nkosi Molala**, former president of the Azanian People's Organisation, at the Northern Transvaal congress of the movement:

WHEN THE BLACK CONSCIOUSNESS Movement came into existence in the late '60s, there was something it did for which it would be hounded, bludgeoned, persecuted and harassed for the rest of its political life and long after its death (assuming that it indeed died).

And this was that not only did the BCM dare the power of white liberalism but it also engineered a process by which the leadership, the control and the pace of the liberation of black people was wrested out of the hands of white liberals and placed firmly into the hands of the oppressed people — black people.

White liberalism, from that time on, was plunged into a political dungeon — it became a political nothing. For this, white liberals will never forgive the BCM.

And when in the early '80s the Charterist movement announced its arrival on the political map of our country, white liberalism saw an opportunity and latched on to it. It supported the Charterist movement both materially and intellectually.

"There is no talk of reconquest of our land. Nor is there a pretence to dabble with property relations of capital. The system of capital is non-negotiable - there is no trading that relates to it"

Ideological trenches

And in order to get even with the BCM, it assumed the front trenches, at least ideologically, of the battle between us and the Charterist movement.

The ideological base from which white liberalism launched the war was nonracialism. It decreed that the BCM was not nonracial and therefore not part of the democratic forces. The consequences of this war, both in terms of loss of life and vandalisation of property, is well-known and well documented.

What is not so well-known is that white liberalism proceeded to ensure that funding institutions provided assistance only to those organisations in whose constitutions was entrenched the concept of nonracialism.

What is also not so well known and so well documented is that white liberalism never saw fit to mete out the same treatment to organisations such as the Natal Indian Congress, the Transvaal Indian Congress and similar political outfits.

Today, white liberalism is again in control. It provides political direction from supposedly liberal institutions of learning. It prepares various charters on a variety of subjects; it determines appropriate strategies and which manner and direction the anger of the oppressed should be channelled. It is indeed involved in very careful and cautious struggle.

White liberalism has and continues to create and recreate a social reality of its choice, in terms of which political relevance is defined. To be sure, this social reality is beginning to make us feel guilty for calling ourselves black. We're all supposed to be nonracials.

But the greatest tragedy of it is that white liberalism no longer does this job itself. It has recruited some among us who, like the born-again Christians, continue to remind us that we are not black people but nonracials. And under the guise of political relevance, white liberalism has usurped the political centre-stage once more and is successfully situating itself, albeit not in person but ideologically, in the corridors of power.

But what and who is white liberalism? In a word, white liberalism is the intellectual and ideological representative of capital. It is that person whose job it is to show systematically how rational the capitalist system is and how natural and immutable the values are which underpin it. It is that person, therefore, who, consciously or unconsciously, justifies and defends the capitalist system and the values that derive from it.

Fight white liberalism

Everybody who is involved in the struggle for the liberation of black people has no choice but to fight white liberalism as well. And to fight white liberalism is, in the final analysis, to fight the system it represents, justifies and defends.

And lest we fall prey to the intellectual subtleties and pervasive trappings of white liberalism, black people should cultivate the practice of revisiting the philosophy of BC.

For it is the only philosophy that asserts our humanity. It is the only philosophy that graduates us from perennial students of white liberals to worthy teachers of white people.

It is the only philosophy that tells us that we also have a contribution to make in the ongoing building of knowledge for the benefit of mankind as a whole. And it asserts that we can make such contribution only as teachers and not as never-ending students.

Our country today stands on the threshhold of the greatest sell-out in the history of struggle the world over. The World Trade Centre, as the name indicates, is indeed a place where people engage in trading. However, the objects of trade here are not ordinary lifeless commodities but the real life and blood of black people.

To be sure, the things for which many of our martyrs laid down their lives do not form part of the trading activity.

There is no talk about the reconquest of our land. Nor is there a pretence to dabble with property relations of capital. The system of capital is non-negotiable — there is no trading that relates to it.

At the end of the day, the whole struggle of our people for liberation has been reduced and equated to the struggle for the vote. But you and I, comrades, know that the vote is but a tiny expression of liberation and not liberation itself.

Doormats of white people

The fact of the matter, however, is that this colossal hoax, this treachery, is going on unhindered and unless something is done, black people will continue to be doormats of the owners of capital — of white people.

What is to be done will not be decided by this paper but by the collective mind of this congress. What this paper seeks to emphasise is that the BCM can no longer afford to give the political affront taking place at Kempton Park undue respect by making it dominate our forums.

What should dominate our forums is the BCM itself and the way forward to the real liberation of black people. This is the real challenge facing our movement.

And it is the extent to which we are equal to this challenge that ONE AZANIA, ONE NATION will be born.

Jo-Anne Collinge reports on a frank review of community-based projects

Fault lines at every level

Star 28/6/93

(49)

COMMUNITY participation is often seen as the master key that will free development from its murky past, when development was either of the separate variety or part of the '80s counter-revolutionary strategy, says Steven Friedman, director of the Centre for Policy Studies in Johannesburg.

But, he says, somehow the key fails to open the door to processes that enable recipients of development aid to take increasingly effective steps to control their lives.

Even with community negotiation, development projects show a tendency to create dependency, division and, even, open conflict.

In a study entitled *The Elusive Community: The Dynamics of Negotiated Urban Development*, Friedman takes a long look at why development goes wrong even with considerable effort to secure community guidance.

He detects fault lines at almost every level. In the organisations that purport to represent communities; in the practices of development agencies; and in the consultant "service" organisations that operate alongside community groups.

The civic organisations, thanks to the support they won in fighting apartheid, are frequently regarded as the "real leaders of the people" and are taken to represent the community in negotiating development projects, he notes.

But Friedman questions whether civic associations — or any other single organisation — can represent an entire community. The notion, he contends, rests on a simplistic belief that communities are homogenous.

"Few civics have attained the representativeness, or the depth of organisation, which would allow them to respond accurately to the full range of concerns in any given locality — particularly those of weaker, more marginal, constituencies," Friedman says.

In this regard he refers to shack dwellers, hostel residents, and hidden interest groups such as illegal immigrants and criminal gangs.

Development agencies who engage simply with the most prominent community group — be it the IFP, the civic body or any other organisation — run the risk of neglecting certain constituencies or imposing solutions on them.

Friedman quotes the remark of an Independent Development Trust consultant who observed. "Dropping scarce resources into deprived communities inevitably creates tensions."

And a worker in the service organisation Planact, who said: "We must begin by assuming that development is destructive."

Softening the impact of this last remark, Friedman says it is not a warning against development. "It merely highlights the point that development destroys something which existed in order to build something new and key elements of the 'community' may have a stake in what is destroyed and which they may wish to defend."

Development is less likely to culminate in conflict where there is a rich, highly evolved organisational life, with even the most marginal groups represented; where the process of development is guided by inclusive negotiations; and where development agencies do not close the options down by offering only pre-packaged options.

But, at this juncture, even the development professionals are not always headed in this direction, Friedman argues.

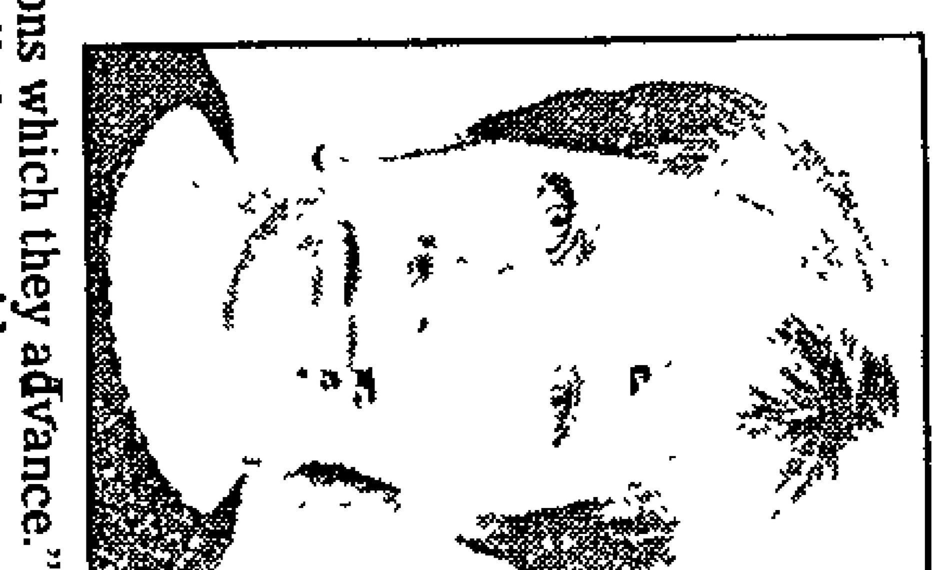
Major funding/development agencies, including the Development Bank of South Africa, the Independent Development Trust, Kagiso Trust and the Urban Foundation, have practices that limit successfully negotiated change.

In some cases, the conditions of loans allow government interests to screen out certain community groups. In other cases, assistance is quite rigidly structured and is offered to communities on a take it or leave it basis. Quite often, the consultation process is "not an attempt to ascertain priorities, but to gain acceptance for an already assembled package".

Alternatively, funding agencies become players in defining community representation by using "people's participation" specialists, who not only seek to understand community dynamics but to shape them by creating "participation committees".

In short, Friedman makes the point that development agencies and their social consultants are not strictly neutral players in the development process. And neither, he argues, are the service groups who lend expertise to clients such as civic organisations and tenants' groups.

"Like 'mainstream' agency employees, service group members have firmly held views on development issues. They would not join service groups if they did not. It is expecting too much to suggest that these views do not colour the options which they advance."



With all these problems, one of the more hopeful signs Friedman discerns is a degree of openness among the players. In the liberation camp he finds a "recognition of a lack of capacity" which encourages an appreciation of the expertise of others.

He speculates that the climate might be just about right to nurture a kind of development policy that paves the way for a subsequent, more competitive, model of change.

Development agents, looking back on their mistakes, might recognise that they have a common interest in adopting development strategies that concentrate, for the meantime, on involving weaker community interests and building skills among the disadvantaged. This, says Friedman, is a necessary stepping stone to creating a society where "genuine interest competition and bargaining will be possible." □

SABS issues warning on quality of SA products

MZIWAKHE HLANGANI

THE poor quality of SA products would make the country uncompetitive in international markets, SA Bureau of Standards president Jean du Plessis said in his 1992 report.

(49) (375)

Du Plessis said the high costs of capital and labour placed limitations on industrial growth.

Growth was further limited by lack of capital investment, frequently outdated capital equipment, illiteracy and a shortage of trained workers and managers.

He expected the decline in growth rate to get worse in the year ahead.

The recession, the longest since the Second World War, had an adverse effect on overall business activity. As a result of SA's economic structural problems there was little prospect of an early turnaround in conditions.

B|DM 28|6|93

Du Plessis attributed the limitations on industrial production to continuing harsh economic conditions.

He said the nature of SABS's activities had insulated it from the recession. But declining production activity and price resistance among customers would make 1993 more difficult than 1992, he said.

The subdued state of the trading partners' economies would exacerbate the situation, he said.

Investigations, tests and services had remained the backbone of SABS's income.

These had contributed a 16,4% increase to R39m (R33,5m) in income. Self-generated income had risen to R73m (R60,7m).

Other important revenue sources included levies for compulsory specification, permit fees for standardisation marks, listing schemes and assessment services.

Star 29/6/93

Concern voiced over financial stability

By Claire Gebhardt

The Reserve Bank warns that the current state of government finances is not sustainable in the long term.

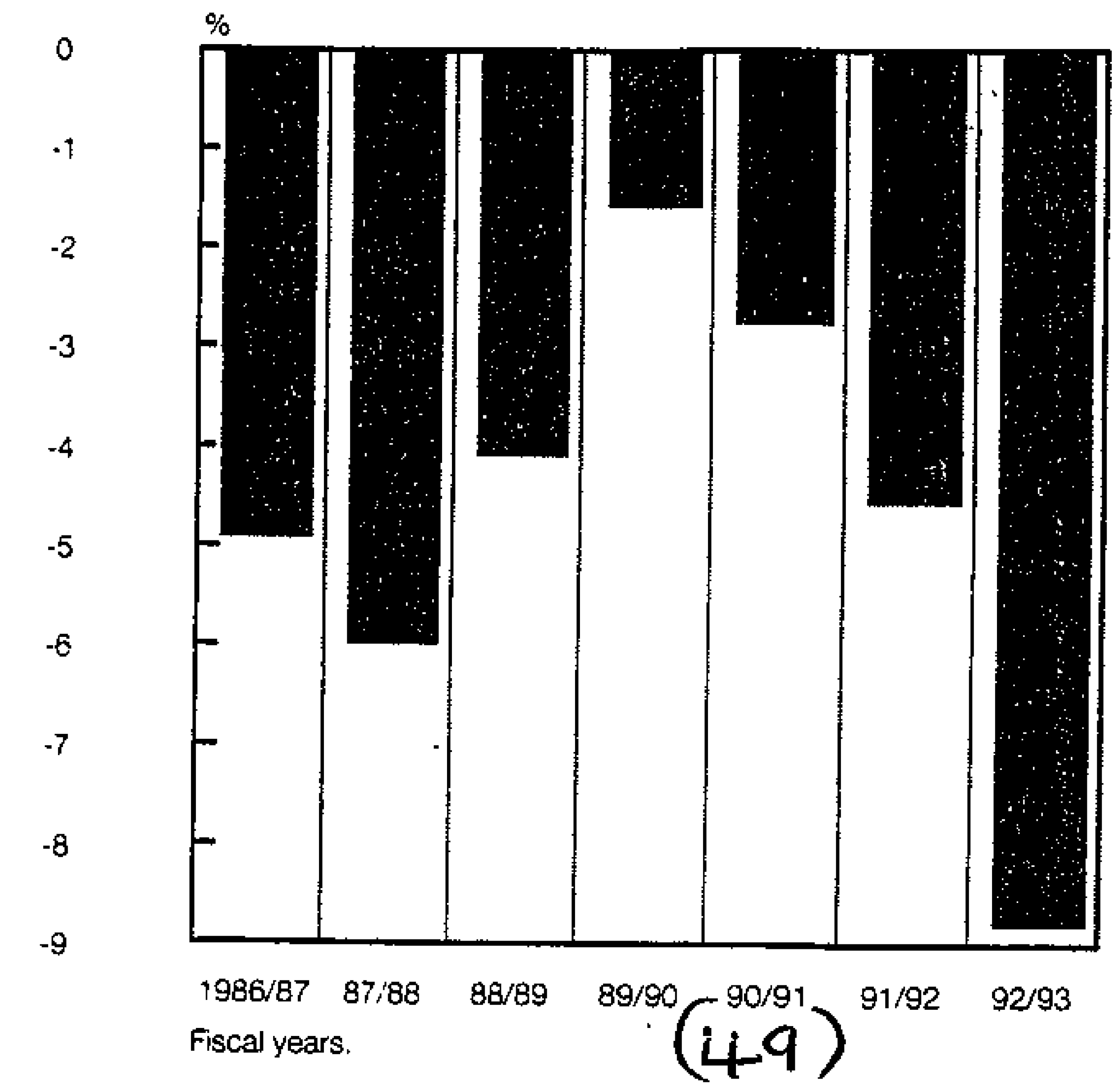
The June Quarterly Bulletin notes that higher-than-expected spending and a considerably lower-than-expected income for fiscal 1992/93 led to a deficit before borrowing of R29,4 billion, or 8,8 percent of gross domestic product (GDP) — nearly double the originally budgeted estimate of 4,5 percent.

Expressing concern about financial stability in the light of increasing government debt, accompanied by increasing interest payments, it calls for a better balance between tax revenues and expenditure.

The bulletin notes that government debt rose by 22,2 percent in fiscal 1992/93 to R154,7 billion at the end of March 1993 — an increase from 41,2 percent of GDP in 1991/92 to 46,4 percent at the end of 1992/93 from an average 34,1 percent in the 1980s.

The massive budget deficit was the result of drastically reduced revenue collections — R9,1 billion, or 10,7 percent less than budgetary estimates.

Total revenue in 1992/93 amounted to R75,5 billion, 4,7 percent more than the previous year, compared with forecasts of R84,7 billion, or 15,7 percent more than the preceding year.



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Deficit before borrowing as a percentage of GDP

On the spending side, excluding drought-related relief of R3,4 billion, the rate of increase amounted to 17,7 percent, only marginally higher than the original estimate and the average rate of increase over the past five years.

A sharp decrease in the proportion of government income from indirect taxes was in direct contrast to the Government's declared objective of raising the share of indirect tax in total tax revenue.

Proceeds from VAT fell substantially short of budget projections, coming in at 7,7 percent lower than the income from General Sales Tax (GST) and VAT in the preceding year, compared with a forecast 12,1 percent increase.

Indirect taxes decreased as a percentage of total government receipts from a peak of 42,1 percent in 1988/89 to 36,9 percent in fiscal 1992/93.

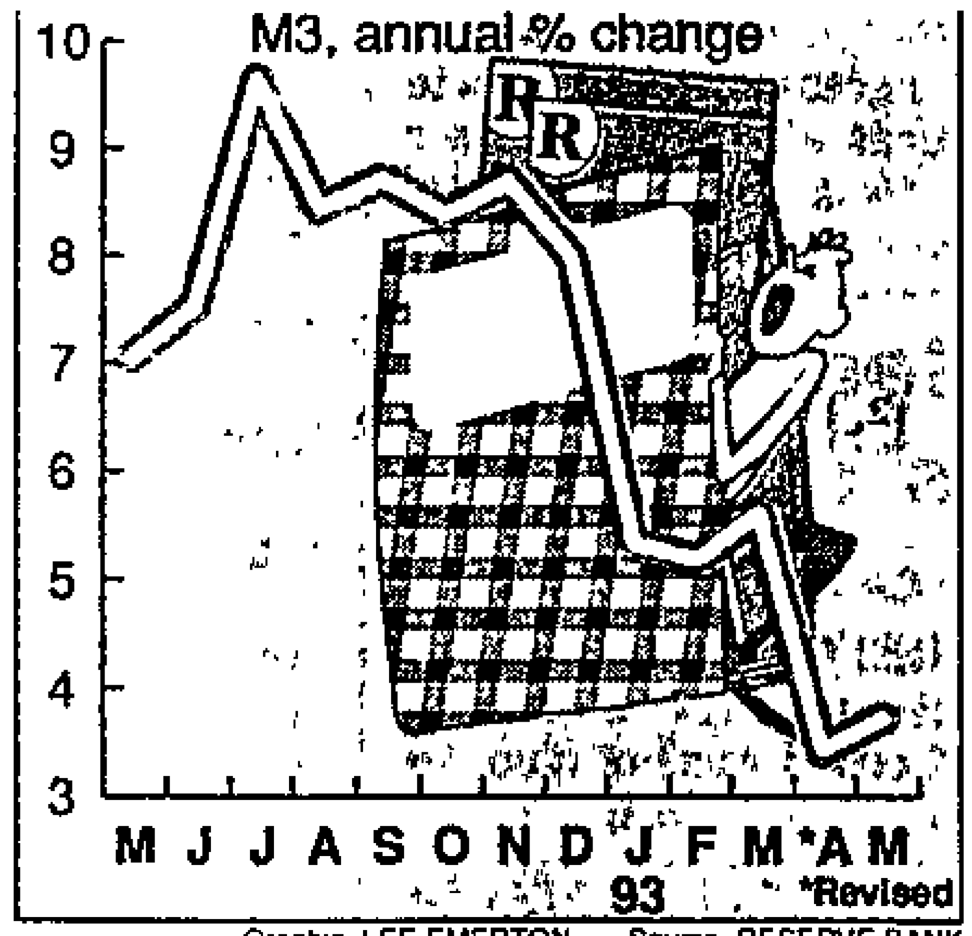
All other major income items, with the notable exception of income from the fuel levy, also performed less favourably than envisaged in the Budget.

Total inland revenue, in particular, rose by only 2,3 percent in 1992/93 because of lower-than-budgeted receipts from income tax on both companies and individuals.

The revenue from personal income tax as a ratio of total government revenue nevertheless rose from 29,4 percent in 1988/89 to 40 percent in 1992/93.

The Reserve Bank cites several factors for the revenue shortfall:

- The length and severity of the downswing;
- A lower value added tax (VAT) rate than originally planned;
- The exemption of certain foodstuffs from VAT;
- The drought and recessionary conditions in the economies of major trading partners.



Graphic LEE EMERTON Source RESERVE BANK

Slow growth in money supply

BDay 29/6/93

GRETA STEYN

MONEY supply growth continues to languish well below the Reserve Bank's targets, reflecting a sharp slowdown in credit demand and balance of payments problems as the economy struggles to move out of recession.

Bank figures released yesterday showed the annual rate of growth in M3 — the broad measure of money — was 3,72% in May after 3,42% in April. In the first three months of the year, M3 was still growing at an annual rate of more than 5%. (49)

Economists said the figures confirmed that domestic factors were in place for a cut in the Bank rate, but pressure on foreign exchange reserves meant the reduction would have to be put off until at least the final quarter of this year.

The release showed a massive R3,8bn contraction in credit extended to the private sector in April from March, pushing the annual growth rate in credit to the private sector down to 5,94% from 8,77% in March. Absa economist Adam Jacobs said the sharp fall could reflect a trend towards settling of debt in a climate of uncertainty, and a cutback in credit spending after the April increase in VAT. Bankers said the unusually high decline could also reflect a move off balance sheet by banks.

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Money supply

BDay 29/6/93

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The Bank has set a target for growth in M3 for the year of 6%-9% , but if the present trends continue until the end of the year, there will be no growth in the stock of money. The Bank's release showed that the annualised change from the base of the current target year was -1,56%. (49)

Jacobs said the sluggish money supply growth also reflected the effect of capital outflows on the stock of money. The indicator did not point unambiguously towards an immediate cut in Bank rate. The BoP problems would have to abate and the earliest opportunity for a cut would probably be October. "But I would not be surprised if it did not happen at all this year, as the Bank has to remain cautious."

ANC plans major tax reform

Business staff 32049 ARG 30/6/93

THE African National Congress has asked South Africa's Fiscal think tank for feedback on four possible areas of tax reform, according to think-tank chairman Mr Marius van Blerck, who said the ANC was considering the possible implementation of a "reconstruction levy".

A form of prescribed assets was also being considered, where the life offices would be required to direct part of their annual cash flow to insfrastructural development, such as housing.

Also under consideration were:

■ The affects on taxation of foreign aid inflows to the new South Africa; and,

■ Recommendations from the General Agreement on Tariffs and Trade (GATT) that export incentive schemes were wasteful.

The possibility of a reconstruction levy, similar to that imposed in Germany after the war, was mooted last week by ANC deputy economic head Mr Tito Mboweni in an address to the Italian-South African Chamber of Commerce. He said the levy, a one-off flat rate of tax on income, would be used for upliftment programmes.

Mr Mboweni said demands on a future democratic government would be very high. Equal spending for blacks and whites on housing, schools and hospitals could not be met from government funds.

A report-back with the ANC was scheduled for July 21.

Economy 'could be expanding modestly'

B/Day 30/6/93

LINDA ENSOR

CAPE TOWN — The economy was showing surprising strength and might even be expanding modestly, Board of Executors senior portfolio manager Rob Lee said in the latest Investment Outlook.

However, as consumer spending was likely to remain weak for some time because of rising unemployment, low wage increases, rising taxes, high real interest rates and debt, it was premature to talk about a general economic upswing.

(49)

Positive developments included the termination of the drought, the slow increase in mining production volume boosted by the weak exchange rate and the higher gold price, and the sharp recovery in manufacturing production.

Other positive features were the commencement of the Columbus and Alusaf projects, the acceleration of Eskom's electrification programme, the growth of notes and coins in circulation, the number of car sales and the amount of electricity generated.

The international economy was slowly moving from a recession to a recovery period.

There were early signs of strength in international steel, chemical and precious metal prices, although base metal prices remained weak.

Lee said Finance Minister Derek Keys would come near to meeting his borrowing and spending targets. The higher rand gold price would boost tax revenue towards the end of the fiscal year while additional amounts spent, like higher salaries for teachers, had apparently been offset by savings elsewhere.

A cut in short-term interest rates was inhibited by foreign capital outflows. Favourable political developments were necessary to reverse downward pressure on foreign exchange reserves and the currency.

Lee expected a Bank Rate cut in about October and, provided foreign exchange constraints were lifted, a fall in capital market rates to about 14% or lower by the year-end.

The equity market was even more resilient than the economy with the All Share index reaching new highs on the strength of the mining board and the industrial index.

Hinge to SA economy

Sowetan 30/6/93

THE South African economy will not achieve its full potential until its existing institutional capacity is transformed in order to empower black people, former SA Perm managing director Mr Bob Tucker said yesterday

In an address to the Forum Europe conference in Brussels, he said South Africa's financial institutions and legal system were examples of institutional richness. However, colonialism and apartheid had had a negative effect on the institutional fabric within indigenous communities

(49)

SA economy boots up for real growth

(49)
CT 30/6/93

By AUDREY D'ANGELO
Business Editor

UNMISTAKEABLE signs that the economy is recovering are being overlooked in the current preoccupation with the political situation, says Board of Executors economist and senior portfolio manager Rob Lee.

He says in his Investment Outlook for July that although "a really strong rebound in economic activity is not possible without more favourable conditions for the consumer" the economy "no longer appears to be sliding and may even be modestly expanding".

Lee thinks that in spite of a poor start to the fiscal year "the Minister of Finance will come close to meeting his borrowing and spending targets" and real growth may be achieved.

Listing reasons for thinking the recovery has started, he says:

- "Following the end of the drought agricultural production in 1993 will be substantially higher than last year;
- "The volume of mining production is increasing — albeit slowly. The recent weakness of the exchange rate and the higher gold price have given a significant boost to this sector.

"The sharply higher gold price will also result in higher capital expenditure on the gold mines; and

- "Manufacturing production has recovered sharply from the extreme lows reached at the time of Bisho/Boipatong last year and seems to be sustainable at this higher level.

"This surprising strength is probably largely explained by a sharp reduction in the level of inventories as the massive destocking process of the past four years comes to an end."

Lee says that in addition to the inventory cycle, "manufacturing production is also being helped by the export sector which seems to be holding up well and will also benefit from the weaker rand".

He notes further:

- "The Columbus stainless steel project and the Alusaf aluminium smelter are now in the early stages of development and orders for local industry are starting to be placed. These are both large projects which will impact increasingly on the economy over the next two years;
- Eskom (and some municipalities, notably Durban), has greatly accelerated its household electrification programme over the last year and this process should gather even greater momentum in the next year or two.

"Electrification has a powerful direct and indirect stimulatory impact on economic and social development; and

- "Several other measures of economic activity, such as the growth in notes and coins in circulation, car sales and electricity generated also seem to be indicating signs of life."

However, Lee warns, the consumer sector in particular is likely to remain weak for some time.

Discussing the international situation, Lee says there has been encouraging data from the US and the UK.

"There are early signs of strength in international steel and chemical prices along with the higher precious metal prices although base metal prices remain weak.

"We remain of the view that the international economy is in the process of moving slowly from recession to recovery."

Keys not the only optimist

ARG 30/6/93

BRUCE CAMERON (49)
Business Staff

FINANCE Minister Mr Derek Keys has found some support for his optimism about the economy from The Board of Executors

BoE economist Mr Rob Lee says in the board's latest *Investment Outlook* there "are increasing signs the economy is no longer sliding and might even be expanding modestly".

But Mr Lee agrees consumer spending is likely to remain weak, and that it is premature to talk of an upswing.

He sees agreement on an effective new government as the starting gun for sustained growth.

Mr Lee also believes that in spite of the poor beginning to the fiscal year with under-budgeted collection of revenue, Mr Keys "will come close to meeting his borrowing and spending targets".

He feels the concentration of the media and the investor on the ups and downs of political negotiation have detracted from "some pretty unmistakeable signs of economic recovery"..

Before the optimism of Mr Keys was dismissed, consideration should be given to.

- The increase in agricultural production with the end of the drought;
- Improvements in the mining sector, with the sharply higher rand gold price boosting capital expenditure on gold mines;
- An apparent switch in inventory policy, with manufacturing production recovering sharply from the low levels of last year to meet increased inventory demands,
- The beginning of the development of the Columbus stainless steel and Alusaf smelter projects, which will have an increasing impact on the economy over the next two years,
- Accelerated electrification of households, which would have a "powerful direct and indirect" affect on economic and social development; and,
- Improved indicators in the growth of notes and coins in circulation (M1) and signs of life in car sales and electricity generation.

But Mr Lee does warn of still rising unemployment, below-the-inflation rate wage increases, the rising tax burden, high real interest rates, debt burdens and low confidence levels

UK broker forecasts SA export-led recovery

Star 30/6/93

(49)

By Neil Behrmann

LONDON — SG Warburg Securities, the large UK securities house, is recommending selective purchases of South African equities and bonds.

Following the revival of the gold price and steep depreciation of the rand against the dollar, Warburg predicts that there will be an export-led recovery in the SA economy.

Contraction

After the contraction of 2,3 percent in 1992, the economy will grow by 0,5 percent this year, says Warburg in a lengthy report.

Growth will improve in the fourth quarter and gain momentum to 2,5 percent in 1994, Warburg forecasts.

Prospects for an upturn before the end of 1993 will not be dependent on export growth alone.

Net foreign outflows of capital must be arrested and private sector capital investment resumed. A further reduction in interest rates would also boost the economy.

Warburg, brokers for Anglo American, "believes firmly that a deal on federalism will be made, even though uncontrolled social unrest poses a serious potential threat to negotiations."

Assuming negotiations remain on course, Warburg forecasts:

- Normalised international commercial relationships.
- Access to foreign capital from the IMF and possibly the World bank.
- Partial relaxation of exchange controls.
- An increase in overseas demand for SA bonds, mining, industrial and financial equities.

Warburg says there are fewer than 10 out of more than 100 listed rand bonds with sufficient liquidity for international investors.

Weakness of the rand, particularly against the dollar, implies that the bonds require a yield of around 20 percent for the international investor.

The volatile financial rand is a further disincentive, although the discount to the commercial rand might narrow in 1994.

Bonds recommended for the overseas investor are Eskom E158, E168 and E169, Govt RSA 150 and Transnet T004.

Warburg is concerned about the poor marketability of SA equities.

Capitalisation

The total market capitalisation of 70 mining and mining financials is only $39 billion, and $55 billion for the 70 leading industrials and financials.

Only Anglo American and De Beers have a market capitalisation over $5 billion.

Four companies led by Richemont, followed by SA Breweries, Gencor and Liberty Life trade on market capitalisation of $3 billion or more.

The majority of companies have capitalisations of well under $1 billion. These are tiny amounts in the huge international capital market.

Since a large proportion of the shares are tightly held, the market liquidity of these companies is a disincentive for foreign institutions.

The financial rand market, through which the securities must be bought, is also very narrow.

The total finrand pool — total value of foreign holdings in South Africa — is estimated at a mere $15 billion to $20 billion.

Warburg contends that gold shares are less attractive following the remarkable run this year and that the industrial sector appears fully valued and "remains vulnerable to short term correction".

Financials in the banking and insurance sector, however have the attraction of "solid earnings growth prospects and good relative value".

The brokers recommend purchases of Amgold, Freegold, Vaal Reefs, Randfontein, Barlow Rand, Kersaf and Liberty Life.

Finance shifts govt money from Bank to private sector

B/Day. 30/6/93

TIM MARSLAND

THE Finance Department had begun shifting money from government's account at the Reserve Bank into the private sector — a move which would substantially reduce month-end pressure on bank margins, sources said yesterday.

The Bank is thought to have transferred about R1,2bn to the "big four" commercial banks yesterday to offset month-end money market fluctuations that result when tax payments are made to government.

The move is in line with the Bank's policy to shift the money to the banking system, as announced by Finance Minister Derek Keys earlier this year.

In terms of the Exchequer Act, the Finance Minister has the right to invest surplus money from the Exchequer account in the private sector as well as other areas.

Reserve Bank money and capital markets GM Andre Kock confirmed that the cash had been deposited with the banks, but declined to disclose the amount.

Market sources believe about R1,2bn may have been placed on call with the Banks in total.

Full transfer of government's account is expected only once legislation has been passed by Parliament later this year.

It is expected that the new system will smooth out the fluctuations that occur in the daily money market shortage at the end of the month when banks have to find enough cash to match tax payments and other demands. The shortage rose to R4,25bn yesterday from Saturday's R3,37bn. However, the shortage is expected to remain flat today.

Those fluctuations cause an upward spike in money market interest rates over the month-end due to the demand for cash.

Interest rates have been static this month-end as June is normally an easy month in terms of liquidity.

The 90-day bankers' acceptance (BA) is trading at 12,05%. Previous months have seen the BA jump by as much as 20 points, coming off again later in the month when liquidity eased.

A money market dealer said the payments had relieved pressure. "We will have to wait and see how the market reacts."

Rand may be weak but the timing could be worse

B/Day 30/6/93

SIMON WILLSON

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CONFIRMATION, if any were needed, that the rand is devaluing across the board and not merely against the dollar came in the June Reserve Bank Bulletin published last week.

The commercial rand's slide of nearly 11% against the dollar in the last six months, from R3,01 in mid-December to its new low of R3,34 yesterday, is its visible and obvious depreciation. What was not so apparent, until it was officially confirmed by the Reserve Bank, was the extent of the rand's fall in non-dollar terms.

A wider appreciation of the rand's decline is gained by assessing its fall against a selection of trading partners' currencies, weighted by trade ranking. By this means the trade-weighted, or effective, average rand exchange rate is expressed against the ranked selection of foreign currencies known as "the basket".

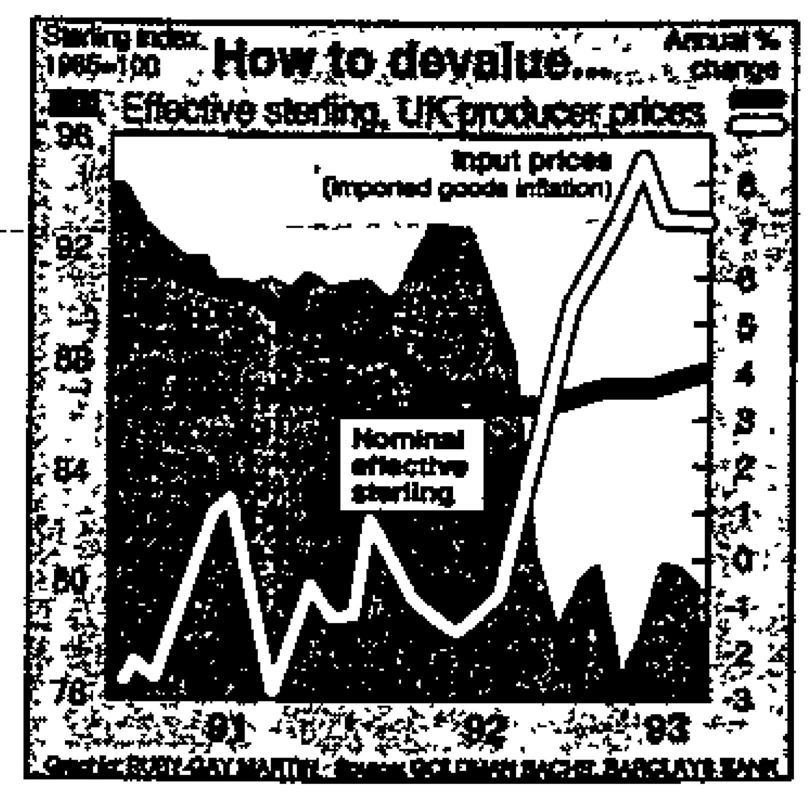
The domestic implications of rand exchange rate movement can best be gauged by stripping both SA's and its trading partners' inflation out of the trade-weighted exchange rate, which leaves the rand's real effective exchange rate. There are, therefore, three intensities of rand weakness: the rand can fall bilaterally against the dollar, against its foreign currency basket in nominal terms and against its basket in real terms.

A lower rand in terms of either the dollar or the nominal currency basket is not necessarily a devaluation. Weakness against the dollar — the currency with the highest weighting in the basket, especially since the removal of sanctions made the US leapfrog Germany as SA's top trading partner last year — can still be offset by strength against other currencies. Moreover, nominal effective rand decline can still be a real effective advance. It is the third stage of rand weakness — when the rand is falling against its foreign currency basket even net of inflation — that really means devaluation. And that is occurring now.

A falling real effective rand enhances export competitiveness, and raises import prices irrespective of source. During 1991 and 1992 the rand dropped respectively by 6,7% and 3,3% against the dollar, and by 6% and 4,8% in nominal effective terms. However, during the same two years it appreciated by 2,7% and 1,3% in real effective terms.

Indeed, last year the average real effective rand was 24,5% stronger than its 1985 level. While a currency shows that kind of real effective advance it can hardly be said formally to be devaluing, whatever its performance on bilateral exchange rates or in nominal effective terms.

But that has changed during the last month. As the latest Bank bulletin mentioned, the fall in the rand's value in the second quarter of this year has been sufficiently steep and broad to spread beyond the usual dollar and nominal trade-weighted depreciation. The rand is now also falling in real effective terms. Indeed, whether by involuntary reaction or through deliberate policy, the real effective rand has probably depreciated more rapidly this month than at any time in the last four years. The official figures that will accurately tell the story will be published only some months hence.



For now, the only available official data show a 6% fall in the nominal effective rand in the first five months of this year, against a 1% drop in the same period last year. Official data cover the real effective rand only to the end of March, and so miss the past few weeks' acceleration of the rand's dollar and nominal effective decline.

Policy questions are among the first to be asked when the exchange rate moves so sharply. The Reserve Bank is vested with nominal control over the exchange rate and is committed by its self-styled "mission statement" to defend the rand's internal and external value. Analysts are already asking whether there has been a conscious decision to let the rand find levels closer to those determined in the market, or whether the authorities cannot intervene in the market to support the rand due to a shortage of foreign exchange.

Since the rand is falling at a politically convenient time — when an election campaign is already gearing up and the first signs of economic recovery are being detected — other observers think they detect the hand of government in the management of the exchange rate.

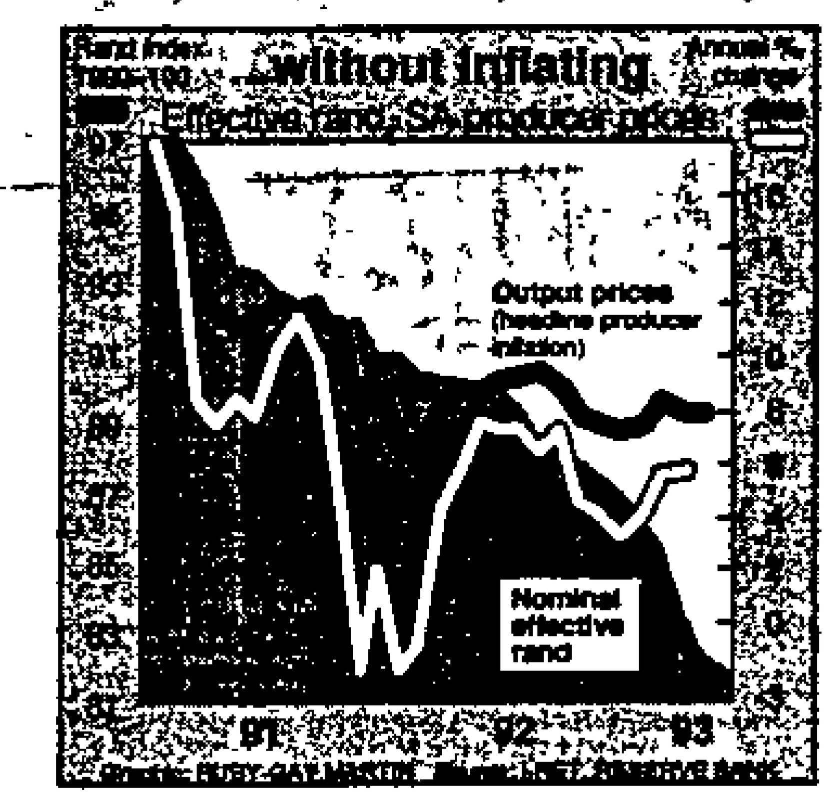
Wherever the truth lies on the policy side, the economic implications of a rand devaluation at this point in the business cycle are easier to perceive. Coinciding with the bullion bull run since April, the lower rand/dollar rate has boosted the rand gold price to record highs and thus represents a stimulus to the mining sector.

In addition, although after two successive monthly trade surpluses straddling R2bn they hardly appear to need it, exporters in general will benefit from more competitive foreign pricing.

But those are the familiar, well-worn economic advantages of devaluation. There are drawbacks, too.

The principal downside to a slide in the rand is the knock-on effect of inflation, which can follow as import prices expressed in rands have to be higher if the rand is weaker. But inflation need not necessarily follow devaluation, as the UK has shown during the last nine months.

Sterling's withdrawal from the European exchange rate mechanism in September last year devalued the pound's nominal effective exchange rate by 15% within two months. Because the UK inflation rate is either similar to, or slightly below the inflation rates of its major trading partners, a real effective exchange rate has less relevance for the UK economy than it has for SA, whose inflation rate is around four times its trading partners' average.



But as the first chart shows the British economy has, to date, escaped inflationary consequences of the fall in the pound. The British experience is analogous to SA's because of the relative openness of the two economies: imports in both countries are equivalent to just over 20% of GDP, which is more than twice the ratio of imports to US GDP. The US economy's comparatively low vulnerability to imported inflation through exchange rate decline helps to explain why Washington is so ready to talk the dollar down at convenient moments.

The UK has resisted inflation from its weaker exchange rate by keeping domestic financial conditions tight, through a mix of deliberate policy and recession. As the chart shows, import prices have risen after sterling's fall, but have not fed through to output producer prices.

This is because UK money supply targets have been set low — the targeted broad money growth range last year was 4%-8% — and because recession has curbed domestic demand by enough to prevent retailers automatically passing higher costs on to prices. Meanwhile, higher unemployment curbed pay increase and prevented inflationary contributions from wage costs.

Almost identical conditions now prevail in the SA economy. Broad money growth is below its 1993 guideline range, and a stagnant real economy is keeping a lid on domestic inflationary pressures. The second chart shows that SA's effective exchange rate and producer inflation indicators are probably about to follow a pattern in the March-December period similar to the UK indicators in the first chart in the nine months from September last year.

But the UK experience suggests that if, for reasons of policy revision or financial stringency, the rand has to be let go, now is probably the best time to do it.