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ECONOMIC POLICIES IN THE NEW SOUTH AFRICA

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South Africa's first non-racial election has stimulated extensive debate about how to address the country's contemporary social and economic problems. This Briefing Paper summarises the major proposals being put forward to resolve these problems, first by drawing attention to the marked degree of consensus reached by the major parties, and then by outlining the major points of contention. The Briefing Paper goes on to describe the main features of the economy the new government will inherit, and ends by discussing a number of key internal and external factors which will influence the economy in the years ahead.

The new South Africa: policy continuity

Two distinct sets of pressures and forces will influence the economic policies implemented in the post-election period. One set of influences follows from the importance given by policymakers to different social and economic problems, and the manner in which it is believed they should be addressed, with different external factors constraining policy implementation. The other group of pressures and influences will emerge from the strengths of different internal interest groups. At one extreme are the privileged few whose position in society – status, wealth and access to social and economic services – is most likely to be maintained by preserving the status quo. At the other extreme are the poor and previously marginalised majority (see Box 1), expecting to reduce their social and economic insecurity and improve their access to social services.

The dominant interests of the old South Africa were: the very small number of large corporate groups, most with roots in the mining industry, and their employees; the white, and growing number of black, administrators who managed the apartheid state; and the overwhelming majority of whites, including the commercial farm sector, whose relative status was enhanced and supported by institutionalised racism. Until recently, four mining groups controlled 80% of the Johannesburg Stock Exchange (JSE), with Anglo-American Corporation and De Beers owning half the value of shares quoted.

The two main political parties whose elected officials are likely to form the Government of National Unity, are the National Party (NP) and the African National Congress (ANC). The National Party has its roots in the dominant groups who benefited directly from the apartheid system, especially among the Afrikaner community. The ANC's support has come traditionally from the victims of the apartheid system and has included two particularly influential groups: the South African Communist Party and the 1.2 million members of COSATU – the Congress of South African Trade Unions.

Historically, these two parties have represented very different approaches to economic and social policy – although they both shared the conviction that the state should intervene substantially in economic life. For many years, the NP guided an economy which allocated substantial subsidies to its supporters. For many years, the

Box 1: Apartheid's Legacy of Poverty

For generations, institutionalised racism – for the last 50 years through the vicious system of apartheid or separate development – and economic policies favouring the white minority interacted to form an economy characterised by serious structural weaknesses and a deep divide between the affluence of a privileged few alongside the extensive poverty and social deprivation of the majority.

The apartheid system also discouraged the systematic collection of key social and economic data, especially those relating to the black majority; thus, the accuracy of key economic statistics remains seriously in doubt. This presents the incoming government with problems in designing social and economic programmes for the new South Africa. It also means that the poverty data available are only approximate.

Today, South Africa is inhabited by *about* 40 million people. According to the racial classification used in the census, some 76% of the population are categorised as black, 13% as white, 8.5% as coloured, and 2.5% as Asian. Around 8% of the population, the vast majority of them white, account for 90% of personally-owned wealth. In contrast, between 30% and 50% of the population, almost all of whom are black, live below the poverty line.

A quarter of blacks live in what were termed the 'independent homelands' of Bophuthatswana, Ciskei, Transkei and Venda, another third in the so-called 'non-independent homelands', comprising Gazankulu, KaNgwane, KwaNdebele, Kwazulu, Lebowa and QwaQwa. The remaining 42% live mainly in townships on the outskirts of the major metropolitan areas, their number swelling daily with rural migrants. One third of black urban households have incomes below the minimum income level, but the ratio rises to some 83% of households in the 'homelands'.

The apartheid system controlled not only where people lived but their every movement (through the infamous pass laws). Almost 2 million blacks officially designated as 'homeland' residents are migrant workers. An additional three quarters of a million people commute daily to work, often taking many hours to travel. About one third of all formally employed black men live apart from their families.

In aggregate, it is estimated that

- one in four blacks in South Africa live in squatter camps or crude temporary housing;
- over 40% of blacks have no access to clean water;
- about 50% of blacks are illiterate and one in four children are not in school; and
- only some 10% of rural blacks have access to basic sanitation, and only 5% have access to electricity.
- poverty afflicts proportionately more women and girls than men and boys.

In the 15 year period to 1992, state spending on black education has risen by 15% a year, compared with increases of 9% for coloureds and only 3% for whites. Yet, today, the poorest 50% of the population still receive only about one fifth of total state spending on education, health, housing and social welfare. 30% of state spending on secondary schooling, 65% of state spending on university education, and 75% of capital expenditure on tertiary education goes to whites.

ANC advocated radical change in the management and ownership of the economy, including outright nationalisation, and radical redistribution of wealth, including land.

More recently, economic policy-making has been marked by two characteristics. First, since the late 1980s, South Africa has been awash with the views of business, academics and international institutions, particularly the IMF and the World Bank, which have sought to influence politicians in a debate about the future of the country's economy and society. Secondly, the recent period has witnessed growing areas of agreement between the two leading political parties about the nature and structure of the economy and the pace and direction of social and economic change in the post-election period.

- Both the NP and the ANC have moved markedly away from their respective forms of faith in state intervention in the economy. From the mid-1980s, the then government began to expose the economy more to the discipline of the market. Both the NP and the ANC have accepted the general thrust of further market-oriented policies for the future. There is agreement that South Africa should have a mixed economy which engages more in the world economy, and which is driven internally more by market forces, albeit guided by a relatively active state.

- There is agreement that the new government needs to expand education and health services substantially and provide housing for the black majority.

- There is agreement on the need to ensure that high rates of growth are achieved; that economic policies encourage the inflow of private foreign investment; and that budgetary expansion is not inflationary. Indeed, a 'letter of intent' has been signed with the IMF agreeing the need to hold the budget deficit in check – key targets, such as budget deficit ratios, were not publicly disclosed.
- Agreement has been reached with the GATT for South Africa to simplify its external tariff system, reducing rates on average by one third in a phased programme.

- An accord has been signed by the ANC and the NP, giving the Reserve Bank even more autonomy than it had previously, 'provided there is regular consultation between the governor and the minister of finance'.

- Earlier indications that outright nationalisation of economic assets would form a substantive part of the ANC's future economic policies appear to have been set aside, though nationalisation still remains on the agendas of both COSATU and the SACP. Relatedly, though, a number of the larger conglomerates – such as the Anglo American Corporation and Gencor – have responded to criticism of the concentration of economic power and have announced measures to begin to 'unbundle' their diverse assets.

The new South Africa: policy differences

This evident, and growing, consensus on approaches to future economic policies should not, however, conceal some sharp differences which remain both between and within the major political parties. These relate mostly to two clusters of issues.

- The precise role to be given to the state and the market. Issues here include the emphasis to be given to supply as well as demand management issues; the extent to which the concentration of corporate power should be diluted; the linked issue of asset ownership and nationalisation; and the details of land reform (see Box 2).

- The speed at which the majority's human resources needs, and their access to the general infrastructure, should be improved. Differences exist on how the necessary resources should be raised, and the relative importance to be given to budgetary and monetary stability.

In *The Key Issues in the Normative Economic Model* (NEM) (March 1993), the National Party/de Klerk government explains its preference for changes built upon maximising growth. Structural changes are to come from the expected flexibility to be achieved by sustained and higher growth rates, which, it is hoped, will encourage significant inflows of private foreign investment.

Specific targets in the NEM include the following: raising the gross investment-to-GDP ratio to 26% by the year 1997, reducing the budget deficit (to zero by the year 1997) and the tax revenue-to-GDP ratio from 31% in 1992 to 24% by 1997. These targets are to be achieved by maintaining a competitive exchange rate and keeping a tight grip on inflation (to be reduced to 3–6% by 1997). Another aim is to reduce the ratio of state expenditure and transfers to GDP from 27% in 1992 to 20% by 1997.

The ANC's *Reconstruction and Development Programme* (RDP) places more emphasis on processes of development than on providing specific targets for key economic indicators, its uppermost aim being to 'meet the basic needs of the people'. The RDP also confirms that programmes should be financed in ways that do not cause undue inflation or balance of payments difficulties, and that the overall debt burden should not increase. The approach 'reflects a belief that growth, equity and sustainability can reinforce each other'.

More detailed and far-reaching is the report from the Macro-Economic Research Group (MERG), set up jointly by the ANC and COSATU, *Making Democracy Work: a framework for macroeconomic policy in South Africa*. While the RDP (and not the MERG report) has been formally adopted by the ANC, MERG illustrates one way in which the general objectives of the RDP might be fleshed out more technically.

The MERG approach is to target the poor directly, and focus on providing them with the means (education, housing, health, wage levels, etc) to participate in the country's economy. It places great emphasis on infrastructural development, dominated in the first instance by public-led investment, and on easing supply bottlenecks in the economy. MERG simulations are based on maintaining (not reducing) prevailing levels of real government expenditure, and on a moderate growth (not a reduction) in government revenues as a share of GDP. Various potential dangers are acknowledged: inflation, balance of trade deficits, and large capital outflows. But it is argued that the strategy is consistent with achieving macro-economic balance, which it accepts as a target.

Debate has been sharpest, or is likely to intensify in the post-election period, over three key policy areas: land and agricultural reform, industrial and trade reform and mineral rights (see Box 2).

Box 2: Three Key Policy Areas

Land. Both the NP and the ANC recognise the importance of rural development and expanding access to land, but priorities and approaches differ. The ANC argues that a national land reform programme is central to future rural development. In contrast to the NP which places major emphasis on market-based initiatives, the ANC's approach would comprise a redistribution of residential and productive land to those who need it (but cannot afford it), and restitution for those who lost land because of the apartheid laws. All major groupings, including the farmers' union, have now accepted the need for some sort of reform, including restitution, but the precise way forward has not been agreed.

Yet the problems of executing a significant land and wider agricultural reform programme are immense, not least because of differing views about the relative importance to be given to this issue. While the rural areas contain some 35% of the population (40% of the black population), the combined effect of decades of neglect of small-scale black agriculture, high differentials between rural and urban incomes and the higher level of urbanisation has been to down-play the importance of rural reform. Equally, studies by the World Bank suggest that a reform programme which transferred 30% of white land to blacks, with the latter providing 20% of the costs from their own resources and borrowing a further 30%, would cost about Rand 13bn (some US$3.5bn) at 1993 prices (a transfer of about 3% of national income), but would only lead to some 600,000 people being resettled.

Given the scale and complexity of the problems, it is unlikely that a comprehensive new land and rural development programme will start for some time.

Industrial and trade reform. Industrial and international trade reform are closely related policy issues. All sides of the policy debate want to lower rates of external protection, reduce across-the-board subsidies to inefficient industries, and diversify exports. All sides, too, argue that the necessary industrial restructuring needs to be sensitive to potential employment losses.

Thereafter, at one extreme, the NEM approach would aim to increase the influence of the market by working to reduce subsidies and trade protectionism as rapidly as possible. It acknowledges that 'temporary adjustment assistance' will be needed 'during the transition' but argues that 'no selective discretion ... should take forms which contradict the basic principles of the general adjustment programme'.

In contrast, an ANC/MERG approach would aim to change structures through improving industrial performance and expanding production by deliberate policy. Specific initiatives would include promoting competition both by stimulating small and medium-sized enterprise and by pursuing a vigorous anti-trust policy, consistent with recent reports and recommendations from South Africa's Competition Board. Major emphasis would also be placed on a series of policy measures aimed at raising productivity levels, and at expanding industrial output and exports, boosted initially by direct incentives.

Mining. Neither major party questions that the new government should encourage continued expansion of the mining sector, including further foreign investment, and that, as a result, no new mining taxes should be introduced for the foreseeable future. What remains unclear is the extent to which a future ANC-led government would act to take reserves into state ownership and precisely how it would encourage the industry to increase the degree of mineral processing prior to export. The ANC has argued that its wish to pass mineral rights to the state is intended only to bring South Africa in line with public ownership in other countries, while sweeping suggestions to institute a national marketing body to oversee the export of certain specified minerals now appear to have been dropped.

In the immediate post-election period, a 'mining forum' is likely to be set up quickly. This would comprise representatives of the new government, the (non-foreign) mining companies and the unions; it would be given the task of first continuing the debate, and then thrashing out the details of a new mining policy for the country.

The economy the new government will inherit

The size of the economy. Compared with most developing countries, South Africa's economy is large: only 10 such countries have an absolute gross domestic product (GDP) greater than South Africa. In 1992, Reserve Bank data put its GDP at Rand 327.1bn (US$114.8bn). The World Bank terms South Africa an 'upper middle income' country, with a GNP *per capita* comparable to Venezuela, Argentina, Brazil and Mexico.

Within Sub-Saharan African (SSA), South Africa's economy is three times larger than the next biggest, Nigeria. Data for 1991 show the following comparisons (in which South Africa is included in data for SSA):

- with just 7% of the total population of SSA and 5% of the total land area of the continent, South Africa accounts for 36% of total SSA GDP;
- South Africa's merchandise exports account for 39% of total SSA exports, its imports for 32% of the total;
- South Africa produces almost the same value of manufactured goods, and exports twice the value of manufactured goods (if processed minerals are included), as the rest of SSA combined.

The dominance of (gold) mining. For most of this century, the economy has been dominated by one commodity – gold. Some 35% of world gold production takes place in South Africa (down from 74% in 1979). Gold accounts for 50% of total mineral production and for over 30% of total export earnings. Historically, diamonds played an important role in the economy but, in recent years, coal and platinum have also become major internationally-traded commodities. South Africa is ranked first in the world in terms of reserves of manganese, platinum, chromium, gold, vanadium and alumino-silicate, and number two in terms of coal, uranium, zirconium and asbestos. Minerals, including processed minerals, account for over 60% of the country's total exports.

Profits from mining, the institutionalised division of land, and the setting of black unskilled wage levels more to single than family-based needs, combined to provide the resources in both the public and private sectors to shape the economy, and especially to help determine the pattern of agricultural and manufacturing sector development.

The manufacturing sector. From at least the 1920s, the government played an active and direct role in nurturing the expansion of the manufacturing sector, assisted by the establishment of a tariff regime which worked to protect the emergent manufacturing sector from foreign competition. Manufacturing grew at an annual rate of over

7.5% from 1946 to 1970, raising the ratio of manufacturing value added (MVA) to GDP from 13% to almost 25%, the typical share for a middle-income developing country. By 1970, heavy industry accounted for 60% of total manufacturing production. The economy, however, remained inward-oriented. By the early 1990s, only some 10% of manufactures were exported.

International sanctions encouraged the state to invest directly, and stimulated private sector involvement in a number of key strategic and highly capital-intensive industries including SASOL (oil from coal), MOSSGAS (offshore gas to liquid fuel), ARMSCOR (armaments), the automobile industry, the nuclear industry, and iron and steel, including stainless steel. Today, much of South Africa's manufacturing sector remains uncompetitive internationally. However, in broad terms, studies by the World Bank and the Industrial Development Corporation of South Africa both suggest that the sector is more competitive in capital-intensive products.

Agriculture. South African agriculture is rooted in differential racial access to land: by the early 1900s, only 13% of the total land area was apportioned for the majority black population, leaving the remainder for white settlement. As a result, South African agriculture is broadly divided into the commercial, largely white, sector and the subsistence, entirely black, sector. Overall, agriculture accounts for only between 4% and 7% of GDP, annual production being very sensitive to drought.

But agriculture, including processed products, accounts for over 20% of exports and, except in severe drought years, South Africa is a major regional food exporter. Yet the range of commercially-produced products – including livestock, horticulture, food grains, sugar, forestry and fishing – is critically influenced by the capital-intensive nature of commercial agriculture, supported by substantial state subsidies. According to World Bank studies, a substantial proportion of the 60,000 white farms appear to be economically inefficient (40% of total production originates from 1% of farms), and much white farm land is under-utilised.

Growth prospects and the lifting of sanctions. The new government will inherit an economy which is beginning to expand: after three years of contraction, GDP grew by an estimated 1.1% in 1993, and first quarter forecasts for 1994 suggest GDP growth of between 3% and 4%. This expansion is being boosted, in part, by the ending of sanctions. This has: eliminated the need to export at a discount and import at a premium; lowered the costs of acquiring new technologies; led to the opening up of new markets for South African products; and stimulated the resolution of South Africa's prevailing debt problems (see below) and allowed it to borrow internationally at prevailing market rates.

On balance, most of the beneficial effects of the ending of sanctions will tend to be short-lived. Nonetheless, the impact on resources of not having to implement sanctions-related projects such as SASOL, MOSSGAS and the 1980s policy of sub-regional destabilisation will be significant for the longer-term reallocation of domestic resources.

Growing unemployment. Since the 1960s, the rate of economic growth has slowed, with underlying structural problems worsened by economic, and especially financial, sanctions, which became particularly effective in the post-1984 period. Even in the best post-1945 years, new formal sector jobs were not being created at a pace fast enough to absorb all potential job-seekers (see Table 1). By the early 1990s, the Reserve Bank judged that some 47% of the working population were not employed in the formal sectors of the economy. In the 30 years, 1962–92, *per capita* GDP in South Africa has risen in real terms by only 16%. GDP *per capita* peaked in 1981 but since then has fallen by 17%.

Table 1: Average annual rate of growth

Years:	*1948-60*	*60-70*	*70-80*	*80-90*	*90-93*
GDP	*4.3*	*5.7*	*3.5*	*1.5*	*-0.5*
Formal Sector Employment	*2.2*	*2.6*	*1.6*	*0.5*	*-1.5*

Falling savings and investment ratios. In the period 1983–92, the ratio of gross domestic fixed investment to GDP fell from 26% to 16%, the lowest level since 1946. The domestic savings-to-GDP ratio fell from 25% to 16%.

The balance of payments. South Africa has usually had a surplus on the current account of its balance of payments. Indeed, in the 5 years to 1992, it had an accumulated surplus on current account of over $9bn – largely because of a massive trade surplus of $28.5bn. This positive balance, required by a growing inability to obtain external finance because of sanctions, was made possible by the slowdown in economic activity which reduced demand for capital imports in particular: the import-to-GDP ratio fell from 23% in the mid-1980s to below 20% by the early 1990s.

The positive current account was, of course, mirrored by the performance of the capital account. In the 30 years to 1979, an almost continuous (though small) net inflow of capital funds was recorded, largely as a result of inflows of private investment. But there was a cumulative capital outflow of $16.7bn between 1985 and 1992.

The reasons for this reversal in the capital account lay largely in decisions and perceptions of private investors and bankers regarding South Africa, together with the linked expansion of trade and financial sanctions. A critical factor concerned attitudes and policies related to South Africa's external debt.

International debt. South Africa has never had a major external debt problem. In 1980, total external debt of $17bn required interest payments equivalent to only 3.3% of export earnings. South Africa's particular debt crisis arose in mid-1985 because a group of creditor banks announced that they would not roll over their short-term loans. In the throes of a liquidity crisis, the government announced that it would freeze repayments of about 60% of its outstanding debt. Agreement to 'regularise' external debt arrangements was finally reached in late 1993, by which time the country's total external debt had fallen to below $17bn, with the debt-service ratio less than 6%.

In late 1993, South Africa agreed to repay the $5.17bn outstanding debt affected by the standstill agreement (32% of its total foreign debt) in half-yearly instalments to the year 2001, while the remainder of the debt, of which about 30% is medium and long term obligations, will be paid as it falls due. From 1994 to 1998, repayment commitments amount to about $2bn a year, estimated at some 2% of GDP and 8% of exports.

Government finances. South Africa's central government budget deficit remained below 4% of GDP to the mid-1980s, when the government debt-to-GDP ratio stood at 33%. But in recent years the budget deficit-to-GDP ratio has risen significantly, reaching an average of over 4% by the early 1990s, jumping to 6.8% in the financial year 1992/93, and to an estimated 6.4% in the year 1993/94. By 1992, the ratio of government debt to GDP had risen to over 40%. Inflation averaged 12–15% in the post-1985 period, three to four times higher than in South Africa's main trading partners. Economic slowdown and tight monetary policy helped to slow the rate of inflation in recent years, and in 1993 the rate fell to an estimated 9.7%.

External Influences and the Future

Trade prospects. For the foreseeable future, South Africa's economic growth will continue to be closely linked to the level of (largely capital) imports, whose prices are likely to continue to rise.

The prospects for South Africa's major mineral exports are far from bullish. Greatest attention is focused on *gold* for which price prospects remain low compared to gold production costs in South Africa. Unless new reserves are exploited, annual production is expected to continue to contract – from current levels of some 600 tonnes to between 200 and 450 tonnes in the next 5–10 years. Yet new reserves are located in deep ore bodies which require (at current prices) a world price close to $450 a troy ounce. In early April 1994, the price was less than $390.

Prospects for *chrome, nickel, zinc, copper and uranium* prices remain depressed, while South Africa has continued to lose market shares in most of these minerals in the 1990s. While the world *diamond* market picked up in early 1994, and De Beers was able to raise prices, little major change in price or demand is expected. The best mineral export prospects for the long-term appear to lie in *coal* (because of its low-sulphur content and low cost) and *platinum-group* metals (because of rising demand for catalytic converters). However, together, these account for less than 15% of total export earnings, and the recent rise in platinum prices (South Africa produces 77% of world production) has been due more to concerns about stability in South Africa than to any change in fundamentals, while coal prices fell sharply in 1993.

Concessionary capital flows. Given a likely shift into trade deficit, the need to service already-contracted foreign debt and, currently, extremely low levels of domestic saving, significant capital inflows will be needed for helping to finance growth.

South Africa has already begun drawing down funds from a $850m Compensatory Financing Facility (CFF) from the IMF. It is expected that soon after the election it will arrange a series of largely sectoral loans with the World Bank, perhaps amounting to a cumulative $1bn, adding to it's foreign debt payment obligations.

Access to additional concessionary finance, especially, official development assistance (oda), is likely to play a relatively minor role in South Africa. All the major OECD donor countries will want to mark their support for the new government with pledges of aid funds and, in the short term, this is likely to result in annual aid commitments running into several hundred million dollars. But there are unlikely to be additional aid flows on a scale which will make a significant difference to South Africa's financing requirements – $340m in oda was received already in 1992. If any additional aid commitments are made by bilateral donors or by the European Union, they are unlikely to either be large or sustained. A 50% increase over 1992 aid disbursements to about $500m would be considered large for most SSA countries; yet this represents less than 3% of South Africa's 1992 import bill and a mere 0.1% of GDP.

Box 3: South Africa and International Trade

It is not yet known what trading arrangements South Africa will have with its two major partners, the European Union (EU) and North America. However significant preferential arrangements are not expected - a view reinforced by the imposition of five year 50% anti-dumping tariffs on South African exports of ferro-silicon to the EU in March. More importantly, the global reductions in tariff and non-tariff barriers as a result of the recent GATT agreements, together with the (eventual) dismantling of the Multi-Fibre Arrangement, will increase the need for South Africa to compete internationally in terms of price and quality. This will hasten the need to address the problems of its protected industries, even if some gains in terms of agricultural exports can be expected from implementing the GATT agreements.

Foreign private investment. Of far greater potential significance are the prospects for foreign private investment, portfolio and direct. South Africa is particularly well placed to benefit from the recent surge in portfolio investment in search of profitable emerging markets, not only because of its strength in African terms, but also because of its high dividend yield and its recent return to growth. In the year to March 1994, the dollar index of the JSE rose by almost 20%; net foreign investment in bonds and equities totalled Rand 4.23bn in 1993, compared with Rand 313m in 1992. While this upsurge of foreign interest is welcome, and may well continue, it provides a risky basis on which to build long-term growth.

Historically, private direct foreign investment (DFI) has played a key role in the economy. It is unlikely, however, that in the next 2–3 years there will be a major surge in new private direct capital investment. There are three major reasons for this.

- The best guide to future DFI is current levels of DFI. While the outflow of the 1980s period has already been reversed – over 130 new foreign investments were made in the three-year period to mid-1993, and the pace has quickened since then – the size of new investment is still small in comparison with the 1960s and the 1970s. Part of the reason for this is a substantial presence of foreign companies in South Africa. Although over 250 foreign companies disinvested in the 1980s, many retained a presence. Most disinvesting companies were North American; most investors from the EU stayed, and investment by Asian companies, though still small, continued to increase. There are already over 600 foreign firms with direct investment or employees in South Africa.
- Most potential investors are unlikely to commit

substantial amounts of new capital until they are assured that the level of political violence will be significantly reduced: non-equity involvement is often first favoured by new entrants. In addition, new investors are unlikely to commit large equity funds to South Africa until it becomes clearer what investment and locational incentives will be offered. Some are likely, too, to wait until trade and financial arrangements between South Africa and its neighbours, especially the members of the Southern African Customs' Union (SACU), are clarified.

- While foreign companies will look favourably at South Africa because of its position as a regional centre of economic activity, perhaps in some cases providing a base for extending global activities, it is unlikely that major investment decisions will be made until the timing and extent of South Africa's own trade liberalisation programme becomes clearer.

Nonetheless, private FDI inflows will continue. At a minimum, there is evidence that South Africa is being viewed as a more favourable locale for investment than the former Soviet republics, not least because of the investment commitments already made in the country by international capital.

Internal pressures and influences

The new government will be subjected to an array of domestic pressures and constraints. While external pressures will especially influence the level of economic activity, internal factors are more likely to influence both the pace and the nature of change.

Most immediately the government will face pressures to demonstrate its commitment to both a steady expansion of jobs, and greatly improved access to housing and electricity, education, health services, and land. It is likely to find it difficult to resist quickly expanding social programmes. Pressures to increase the budget deficit beyond the level which it considers prudent are likely to be intense: they will be even harder to resist if (or when) the pace of economic growth begins to slacken.

Zimbabwean experience suggests that it is easier (because quicker) to redress discrimination in access to social services by going for quantitative expansion: providing schools and clinics where there were none before. There is, however, a grave risk that the quality of service provided will be poor, resulting in the new facilities being severely under-utilised as potential users either stay at home or search out higher quality alternatives.

A further implication of the need to provide tangible results to an electorate with high expectations of rapid change is that the government is likely to find itself devoting a large amount of time and energy addressing a series of direct and immediate issues. This will tend to push even further into the background some of the more substantive structural issues of the economy which will need to be addressed. As a result, the government will be likely to grow increasingly cautious about challenging the economic power, income and profits of those interest groups who are responsible for providing a large share of formal sector jobs, and who play a major role in influencing the views of foreign investors (and sometimes donors) about the economy and its prospects.

Across a country which is already deeply divided, and in which political violence has been widespread, the new government requires peace in order to provide the conditions necessary for sustained growth. But the prospects for peace are themselves partly dependent upon evidence that job opportunities are increasing and basic services becoming more readily available. A mix of too high expectations of employment growth and poverty eradication could quickly lead to disillusion, thus making the return to peace even more difficult to achieve. One fear is that disillusion about the future (fuelled by violence) will stimulate a skills exodus, exacerbating the serious skills problems which South Africa already faces.

Providing the tangible benefits which both South Africa and the international community desire will depend critically on the ability of the government to implement its new policy agenda. Here again, South Africa faces a difficult future. The core of the apartheid state was set up to promote the interests of the white minority, and its policies were executed by civil servants broadly supportive of their own interests. To the extent that the needs of the majority were serviced at all by the state, the administration was riddled with inefficiencies. In more recent years, the administration of the 'homelands' spawned hundreds of thousands of new unproductive jobs, leading to a significant duplication of services. There is growing evidence of corruption. Thus the new government will be faced with the need both to address the inefficiencies of the old system and to attempt to put in place a system capable of administering more complex and far-reaching tasks.

Conclusion

Most South Africans are profoundly aware of the extent and depth of the social and economic problems which they face. Yet, in spite of all these problems and the continued violence which has marked the election period, there exists a significant degree of optimism across the country. Such optimism is important to the discussion of the country's economic future because international experience suggests that sound performance is often dependent upon people and nations believing that they can achieve the goals they have set for themselves, overcoming major obstacles in the process.

International experience also suggests that the outside world will be more ready to praise any success in South Africa, when it occurs, than it will be to provide resources and assistance to the level required to help ensure such success. South Africa's economic future and its ability to steer itself away from the violence of the apartheid system thus depend crucially on the ability and commitment of its own people to work together to build that future.

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