South Africa: Getting in GEAR

Don't ask the turkeys to vote for Christmas.

Christopher Stals, Governor South African Reserve Bank

It was a cool, midwinter evening in Johannesburg as Thabo Mbeki thumbed through the Reserve Bank's *Quarterly Bulletin* for June 1997.[1] The First Deputy President of the Government of National Unity, and likely successor to Nelson Mandela in 1999, wanted to see for himself the latest results of GEAR—the macroeconomic strategy for Growth, Employment, and Redistribution that his government had adopted just one year earlier. Mbeki, with a Masters degree in economics from Sussex University, searched the report for signs of good news. Although immensely pleased that South Africa seemed to be politically stable and recovering from Apartheid, he was looking for evidence of job creation, private investment, and disinflation. He wondered if Chris Stals was likely to lower interest rates soon to give the South African economy a needed boost.

GEAR was the political and economic culmination of a series of studies and plans proposed since 1990—the beginning of the end of Apartheid. First came the Change of Gears Scenario, proposed by an international team of analysts financed by Nedbank/Old Mutual.[2] Then there were Anglo-American's "High Road - Low Road" scenarios, the Platform for Investment in 1992, the African National Congress's (ANC) Reconstruction and Development Program in 1994, and Growth for All, from the business community in 1995.[3] GEAR, released in June 1996, was produced by a technical team supervised by Trevor Manuel, the new Minister of Finance.

The GEAR strategy was designed to deliver real GDP growth of 6% by the year 2000, with job creation of 400,000 per annum. This was more than double the present growth trajectory, but was necessary to cut into structural unemployment which had already surpassed 37%.[4] In the wake of Apartheid, the massive unemployment primarily of black South Africans underlay a wave of crime and violence that had reached epidemic proportions. Investment and savings, meanwhile, had dropped to record lows. Education, housing, and infrastructure desperately needed attention, while AIDS appeared to be spreading rapidly. With GEAR, the ANC acknowledged the limitations of government and recognized that the market would have to play a major role in rebuilding the economy. But first, to curb inflation, the government would have to curb fiscal deficits and credit growth. Although the Reserve Bank's effort appeared to be working, it left too few funds for needed programs, and had pushed real short-term interest rates to 12%.

As he looked over the figures, Mbeki wondered if macroeconomic growth would be rapid enough to ease South Africa's severe social problems and sustain the extraordinary political stability

Professor Richard H.K. Vietor prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

that currently prevailed. Perhaps, he thought, more was needed than macroeconomic reform—possibly a more aggressive microeconomic strategy—to reposition South Africa in the increasingly competitive global economy.

Conquest by Europeans

In total area, South Africa is nearly as large as Western Europe minus Spain, and is home to about 44 million people.[5] It is divided into two main regions: a relatively arid inland plateau, fringed by coastal plains on three sides. An escarpment, dominated by the Drakensberg Mountains, separates the two. Climatically, it is divided into a winter-rainfall area in the southwest and one of summer rainfall in the east. [See map, **Exhibit 1**.] The zones were sufficiently different that relatively little interaction occurred between the pastoral people of the west (KhoiSan) and the iron-age cultivators (Bantu tribes) that occupied the east (Transvaal, Natal, Highveld) in the centuries prior to 1000 AD.[6] There were relatively few rivers or lakes in South Africa, but the coastline stretches 2,900 kilometers. South Africa shares borders with Namibia, Botswana, Zimbabwe, Swaziland and Mozambique, and completely surrounds Lesotho.

European settlers, representing the Dutch East India Company, established a fort and refueling station at Table Bay (Cape Town) in 1652. For the remainder of the century, immigrants gradually encroached on the grazing lands of Khoikhoi herders. Slave labor was imported from elsewhere in Africa, Malaya, and from India. As colonial farmers penetrated northward, conflict between the Dutch and the Khoikhoi became endemic.[7] By the mid-eighteenth century, colonial settlers had begun extending control over indigenous laborers, enforcing travel passes for the "bastard hottentots" and indenturing women and children. The Europeans' dialect, a simplified form of Dutch, evolved into the Afrikaans language. By 1795, the Xhosa tribes in the east came increasingly into conflict with colonists to the south and with competing African tribes.[8] In the early 1800s, a series of inter-tribal wars broke out, in which the Zulus, headed by Shaka, dominated for almost a decade.

Meanwhile, the British had captured Cape Town from the Dutch and had established a crown colony in 1806. Two years later, the slave trade was curtailed and, before long, anti-slavery sentiment in Great Britain put increasing pressure on South African slave owners. In 1828, Parliament outlawed slave ownership. Two days later, the governor of the Cape Colony then promulgated Ordinance 50—making "hottentots and other free people of colour" equal before the law with whites. The law, which was opposed by British settlers and Afrikaners, did not curtail discrimination, eliminate poverty, or usurp entrenched domination by whites.

Afrikaners who could not tolerate British domination picked up stakes and migrated northeast, to find new lands in territories they named Natal, the Orange Free State, and the Transvaal. The Great Trek, between 1836-1854, brought Afrikaners in conflict with the Zulus, where western rifles invariably prevailed. Over the next 30 years, European expansion into the northeast was marked by near constant warfare with Zulu and other African tribes and the repeated reassertion of British colonial authority over new Afrikaner states.

As early as the 1860s, distinctions among four racial/ethnocultural groups were emerging in the Cape Colony. Census data in 1865 reported 180,000 Europeans (British and Afrikaners), 200,000 Hottentots and others collectively called "coloured," 100,000 Kaffirs—the black Africans who dominated eastern populations—and a few thousand Asians.[9]

In 1867, alluvial diamonds were found at the confluence of the Vaal and Harts rivers. Several years later, diamond-bearing formations were discovered, extending deep below the surface of what became Kimberly—the diamond city. As mining moved underground, masses of people were required to do manual labor. Skilled operatives, mostly white Europeans, commanded high wages, while manual labors—mostly black Africans—were paid far less. After a few chaotic years, the British high commissioner issued rules which *defacto* excluded black persons from owning mines. Gradually, a two-tiered, racially segregated workforce and migratory social system emerged. By 1887, a British immigrant named Cecil Rhodes had acquired control of the Kimberly mines, renamed deBeers Consolidated Mines.[10] About the same time, gold was discovered 30 miles from Pretoria—at what is today Johannesburg. Together, these discoveries, which inspired an immense immigration, changed the face of South Africa. Eventually, platinum, chrome, and other rare ores were discovered, making South Africa the world's leading producer of rare minerals. [**Exhibit 2**]

The mining boom in the Transvaal led to a rapid expansion of British immigration and growing friction with the established Afrikaner population. The quasi-autonomous Transvaal Republic was managed by an elective Volksraad and a president named Paul Kruger. Kruger's efforts during the 1890s to expand Transvaal were thwarted by Cecil Rhodes, then governor of the Cape Colony. An attempted insurrection by British settlers led to a clampdown by Kruger, the importation of arms, and a tighter alliance with the Orange Free State. When negotiations failed, the Boer War ensued, lasting three years—from 1899 to 1902. The British engaged in a scorched earth policy, leaving thousands of Afrikaner women and children to die in concentration camps.

British victory and the Peace of Vereeniging led to the establishment of British colonial rule. South Africa would be, in the words of Lord High Commissioner Alfred Milner, "a self-governing white community, supported by well-treated and justly-governed black labour from Cape Town to Zambesi."[11] Black Africans were disenfranchised, "pass laws" restricting travel were tightened, and labor conditions were enforced by the military. Colonial elections, held in 1907, resulted in Afrikaner victories for Louis Botha and Jan Smuts. Within two more years a constitution was drafted and in 1909, the British Parliament passed the South Africa Act. On May 31, 1910, the Union of South Africa became a self-governing dominion of the British Empire.

Segregation and Apartheid

The era of formal segregation—1910 to 1948—was a period dominated by racist assumptions in Africa, much of Asia, and in America. In South Africa, where whites dominated the capitalist economy, race and class coincided, blacks were poor, unskilled, and uneducated, and were generally subordinated to whites. Even in industrial relations, race mattered. White mineworkers earned 11 to 15 times as much as black mineworkers. And as the material gap between whites and other ethnic groups narrowed, it widened between whites and blacks. In the 1990s, the top 10% of South Africa's population earned 67 times that of the bottom 20%.[12]

During the 1910 to 1948 era, the United Party, lead by Botha and Smuts, ruled an increasingly racist state. In 1911, the Mines and Works Act granted white workers a monopoly on skilled positions. In 1913, the Natives Land Act prohibited Africans from purchasing land outside the reserves. Subsequent legislation set aside 12% of South Africa's lands as native reserves—areas which would eventually become the "homelands." As urbanization accelerated, the government tried to limit the flow of Africans into cities with complex pass laws. Permits were required to leave the farm where one lived, or the town where one worked. A 1922 law authorized urban governments to establish and enforce locations for black residence.

Black South Africans resisted, but gradually adapted. They formed various political organizations; the most important turned out to be the African National Congress – established in 1912. The ANC, headed by lawyers, clergy, and journalists, elicited white support and used constitutional means to oppose racism. More radical organizations, such as the Industrial and Commercial Workers Union, were ruthlessly suppressed.[13] During World War II, a group of young ANC activists developed a platform against segregation: *Africans' Claims in South Africa*. Among these activists were young professionals from the best missionary schools and colleges, including Oliver Tambo, Walter Sisulu, and Nelson Mandela.

But World War II deepened Afrikaners' worries about race relations, because of the massive influx of black Africans into the cities. Literary and political debate ensued over the need for complete separation of races. A 1946 government report was torn between the appeal of complete segregation and the labor needs of the industrial economy. The word "Apartheid" was coined by Afrikaner intellectuals to mean "apartness." When the National Party won the election of 1948, the prime minister appointed Hendrik Verwoerd to the Senate, and then to Minister of Native Affairs. Over the next 16 years, the last 8 of which Verwoerd was prime minister, Apartheid was implemented in its most brutal form.

Four ideas, according to historian Leonard Thompson, were at the heart of Apartheid:

> First, the population of South Africa comprised four "racial groups"—White, Coloured, Indian, and African—each with its own inherent culture. Second, Whites, as the civilized race, were entitled to have absolute control over the state. Third, white interests should prevail over black interests; the state was not obliged to provide equal facilities for the subordinate races. Fourth, the white racial group formed a single nation with Afrikaans and the English-speaking components, while Africans belonged to several (eventually 10) [geographically] distinct nations or potential nations—a formula that made the white nation the largest in the country.[14]

These ideas were shortly written into law: the Prohibition of Mixed Marriages Act, the Immorality Act, and the Population Registration Act. Pass laws were strengthened, and Africans were removed from farms to homelands, and from urban neighborhoods to satellite townships. Under the Group Areas Act (1950), government divided cities into zones where members of only one race could live. An estimated 3 million people were forcibly resettled from farms, "black spots," and strategic development areas to the new townships. These were fenced and guarded. Working papers were needed for residents to come and go. The government took charge and severely constrained the education of black Africans. "If the native in South Africa today," testified Dr. Verwoerd in 1953, "is being taught to expect that he will live his adult life under a policy of equal rights, he is making a big mistake."[15] "Whites Only" notices appeared everywhere—taxis, buses, elevators, hearses, church halls, restaurants, cinemas, schools, and universities.

Repressive legislation kept coming: the Riotous Assemblies Act (1956), the Unlawful Organizations Act (1960), the Sabotage Act (1962), the Bantu Laws Amendment Act (1964), the General Law Amendment Act (1966), the Internal Security Act (1976), and so on. To enforce Apartheid, the bureaucracy was expanded and a large Security Force operated with increasing impunity. By 1969, even white South Africans bluntly acknowledged the implications of Apartheid. As C. M. Botha, the Minister of Bantu Administration, put it in Parliamentary debate,

> For whites and for each Bantu Nation separate development is the course. Bantu person can be present in the white areas solely for their labour—not for a stake or a share in the Parliament, or for anything else….The Bantu cannot strive towards the top on an equal footing with the whites in our politics, social matters, labour, economy and education in white South Africa. This is our territory, and here there are only limited opportunities of that nature for them….In their homelands there are measureless and limitless opportunities for them….That is the morality of our policy.[16]

Under the combined weight of poverty, repression and forced resettlement, black community structure broke down. In Soweto, with a population over four million by today, 8 to 20 people lived in typical four-room houses; many lived in two-room shacks, thrown together with cardboard, scrap lumber, and corrugated metal, that had sprung up after influx control laws collapsed in the mid-1980s. In Crossroads, outside of Cape Town, a single water tap was shared by 25,000 people. Uneducated children stole to survive, and eventually acquired arms.

Opposition to Apartheid swelled. The laws of the early 1950s were actively protested by the African National Congress. Marches and meetings were repeatedly broken up by police with thousands of volunteers arrested and jailed. In 1955, a huge meeting was organized in Kliptown, a village near Johannesburg. Three thousand delegates assembled as the Congress of the People, adopting the following charter:

> We the People of South Africa declare for our country and the world to know that South Africa belongs to all who live in it, black and white, and that no government can justly claim authority unless it is based on the will of all the people.[17]

As violence escalated, nonviolent protest became increasingly difficult to sustain. In 1960, when 5,000 people demonstrated peacefully against pass laws in Sharpeville the police opened fire and killed 69, half of whom were women and children. This tragedy finally pushed the ANC leadership toward violence. Nelson Mandela organized Umkonto we Sizwe as a militant wing, with the following manifesto: "The time comes in the life of any nation when there remain only two choices—submit or fight. That time has come to South Africa."[18]

In 1963, the government arrested leaders of Umkonto we Sizwe. Among them, Nelson Mandela and Walter Sisulu received life sentences on Robben Island. A few years later, a 22-year-old student named Steve Biko formed the South African Students Organization and began developing the ideology of Black Consciousness. In 1976, when black schoolchildren demonstrated in Soweto, a police crackdown eventually led to the killing of 575 people. Dozens of black South Africans died in detention of the Security Force. Steve Biko was among those arrested, beaten, and killed in August 1977.[19]

Later that year, the UN Security Council imposed an arms embargo on South Africa, and vice-president Walter Mondale told Prime Minister Vorster that America supported majority rule. During the next several years, South Africa's foreign relations deteriorated sharply, as more and more foreign powers denounced Apartheid. The government, meanwhile, imported oil and invested heavily in the economy to duplicate imported sources of capital goods. In 1985, Chase Manhattan Bank precipitated a financial crisis by refusing to roll over its loans to South Africa. In the wake of intensive citizen action, and over President Reagan's veto, the US Congress passed the Comprehensive Anti-Apartheid Act, imposing a wide-ranging boycott on commerce with South Africa.

GDP growth had long since begun to slow, from a high of 6.5% in the mid-1960s to zero by 1986. Total factor productivity, which had slowed during the 1960s, became negative in the 1970s. It did not help that the real exchange rate actually rose in the 1970s when the price of gold rose to \$800/per ounce. Income per capital peaked in 1981, long before sanctions were applied. Appreciation of the Rand made South African-manufactured exports less competitive, causing a decline of investment, turning the current account negative, and undermining job creation.[20]

As the domestic situation deteriorated, the government began searching for reform. Some of the worst segregation laws were amended and a series of dialogues commenced between ANC members in exile, church leaders, government officials, and business leaders. The economy, meanwhile, plunged into a deep recession, putting even greater pressure on the government. In 1989, when Prime Minister Botha resigned after a stroke, the National Party elected F.W. de Klerk in his place. De Klerk, nearly 20 years younger than Botha, realized that a negotiated settlement was the only feasible solution. On February 2, 1990, he lifted the bans on the ANC and the Pan African Congress, removed restrictions on 33 other organizations, suspended capital punishment, and freed political prisoners. Nine days later, after 27 years in prison, Nelson Mandela was released to a tumultuous public welcome.

Later that year, the basic Apartheid laws were repealed. Two more years of talks led to an interim constitution endorsed by de Klerk, Mandela, and 18 political parties. In April 1994, South African citizens went to the polls in a surprisingly free and peaceful election, and gave the ANC 63% of the vote. Nelson Mandela was inaugurated president on May 10, 1994.

The New South Africa

The constitution, approved in December 1996, established a federal system of government: a two-house national parliament and nine provinces—each with a premier, regional legislature, and significant local authority. The parliament consisted of a 400-seat National Assembly, with direct elections and universal suffrage; and a 90-seat Senate appointed proportionally by elected parties. President (Nelson Mandela) and Deputy President (T.M. Mbeki) represented the dominant party—the African National Congress (with 252 seats); the National Party (with 82 seats) was also represented by a Deputy President (F.W. de Klerk), until he resigned in 1996. The Zulu-dominated Inkatha Freedom Party (with 43 seats) was lead by M.G. Buthelezi, who occupied the Ministry of Home Affairs. A cabinet of 27 ministers ran the executive branch. The president appointed a supreme court to head a three-tiered court system. Other distinctive features included a Bill of Rights, a council of traditional leaders, recognition of 11 official languages, and such specialized institutions as a public protector and a commission on human rights.

Gauteng was the smallest of the nine new states, but it had the largest, most urban population (in Johannesburg, Soweto, and Pretoria), the largest share of disposable income, and the highest population growth. The Western Cape, with the second-largest city of Cape Town, also had a large share of disposable income, relatively low poverty, and a concentration of business. KwaZulu-Natal, where the city of Durban was located, was the third-largest province by population and disposable income.

Because of the government's relatively high investment during the 1970s, South Africa's infrastructure, primarily serving the white population, was unusually well-developed. Eskom, the state electric company, provided nearly 40,000 megawatts of power, at a mere 2.3 U.S. cents (compared to 7 cents for example in the United States) per kilowatt-hour. Twenty-one thousand kilometers of railroads, 58,000 km of highways, 5 million telephone connections, modern radio and television broadcasters, port facilities, and air transportation all made South Africa seem much like a European country. SASOL, the state petrochemical company, provided 45% of the nation's liquid fuel from coal, using unique liquefaction technology. A system of state-owned industrial and medical laboratories yielded a first-world health-care system (for whites) and a weapons industry that was globally competitive.

South Africa's private business sector was modern but relatively labor-intensive and high-cost compared to global competitors. The mining industry accounted for about 9% of South Africa's GDP, nearly 50% of foreign exchange earnings, and provided 600,000 jobs. Half a dozen ores led world production, with a host of others providing export revenues and most domestic needs. Agriculture (and forestry) was another successful sector, producing about 5% of GDP. South Africa was one of only six countries that was regularly a net food exporter. In addition to grains, meats, and most vegetables it needed, South Africa also exported citrus fruits and fine wines. The timber industry provided 90% of South Africa's pulp and paper needs.

A third of South Africa's manufacturing sector was in metals refining and manufacturing. Ferroalloys and aluminum were exported, as were heavy fabrications. Electrical engineering and electronics were also successful sectors. Manufacturing contributed 24% of GDP and employed about 1.5 million. The finance sector—banks, insurance, brokerage firms, and building societies—were quite modern, although somewhat high-cost. The Johannesburg Stock Exchange was the twelfth-largest in the world, with market capitalization of $224 billion.[21]

Because of the years of inward-looking protectionism, South Africa's business structure was highly concentrated. Corporate acquisitions during Apartheid (buy firms using their protected cash flows) resulted in a number of interlocking conglomerates, dominated by a few financial institutions. Old Mutual, Sanlam, SBIC, and ABSA each controlled more than R100 billion in assets; FNB, Anglo American, Liberty Life, Nedcor, and Investec followed with more than R50 billion. Eskom, the state electric utility, was tenth. Two dozen other financial companies, including three new black-owned conglomerates, and industrials, food companies, and mining houses followed—70 firms each with more than R4 billion in assets. There were also many large multinational firms—headed by Royal Dutch Shell, Daimler-Benz, Siemens, and Volkswagen—active in South Africa, although foreign investment still had not recovered from the trough of the Apartheid era [**Exhibit 3**].[22]

"Unbundling" and "black empowerment" were structural phenomena that had proceeded hand in hand since 1994. Unbundling referred to restructuring of business ownership by the selling off of diverse operating units owned by the large conglomerates. To ameliorate racial criticism, black empowerment encouraged the rise of black managers to senior executive positions, mostly in public-sector firms, and more specifically, the emergence of black-owned or black-controlled conglomerates. Through the use of pension funds from black unions, and leveraged buyouts, a series of increasingly large mergers had resulted in 18 black-controlled firms listed on the Johannesburg Stock Exchange[23] [**Exhibit 4**]. Led by spin-offs from Anglo American of Johnic and JCI, more and more black-owned conglomerates had catapulted into the financial limelight. Metlife, New Africa Investment Ltd. (NAIL), and a dozen other firms controlled about R35 billion in assets.[24] A new black business leadership, headed by Cyril Ramaphosa, Dikgang Moseneke, and others was emerging. While they still had much to learn, their holding companies were at least performing satisfactorily.[25]

South Africa had a well-developed system of labor organizations. In 1996, there were some 200 unions, representing about 3.5 million workers. These were organized into several federations, the largest of which was the Congress of South African Trade Unions (COSATU, with 1.6 million members)—an ally of the ANC. Coming out of the 1994 election, organized labor negotiated with business and government in a trilateral forum—the National Economic Development and Labour Council (Nedlac). In the Labour Relations Act of 1995, the parliament promoted collective bargaining, without compelling it. The Act created bargaining councils for wages, workplace forums for plant-level issues, and a Commission for Conciliation, Mediation, and Arbitration. In this format, large conglomerates of cartelized firms would settle on relatively generous terms, leaving small firms unable to make such concessions and thus be unable to compete.[26]

In 1997, problems were deepening between COSATU, the business community, and the ANC government. A Basic Conditions of Employment Act was pending, which would reduce weekly hours worked (from 46 to 45), increase overtime pay, and provide paid maternity leave of up to 4 months. Two other amendments were pending that would provide a payroll tax to ensure training and an affirmative action scheme. Although both laws obviously had good motives, they would entail complex regulation and greater cost—something that the business community did not need as it struggled to become competitive.[27] COSATU, moreover, had withdrawn its support of the GEAR, and was beginning to agitate for more government spending to reduce unemployment.

Social Challenges

In the wake of the post-Apartheid boom, South Africa faced severe social challenges. Among the most pressing of these were crime, education, unemployment, infrastructural expansion (housing, electrification, and water), internal migration, immigration (and emigration), and AIDS. Racial issues bound most of these problems together.

Crime in South Africa had become endemic. As recently as the 1970s, South Africa had been a fairly low-crime society. But family and community life became increasingly fragmented as an immense number of black South Africans migrated from the countryside to the cities. Unemployment, poverty, and their new urban environment broke down the values that had governed personal and family relationships. This situation was exacerbated by years of civilian resistance to authoritarian government in the wake of the Soweto uprising. It became increasingly acceptable for armed teenage dropouts to attack the systems that had oppressed them. Violence and theft escalated as the government liberalized the Group Areas Act after 1986. Criminal syndicates eventually developed to organize the drug trade, auto theft, and truck hijacking.

The most serious problems were murder, rape, motor vehicle theft, and robbery. Rapes had doubled in the past six years, and murder was up 51%. In 1996, 26,000 people were murdered in South Africa. This was more than eight times the rate in the United States, which itself was the highest of the developed countries. More than 96,000 motor vehicles were stolen (three times the rate, per-thousand-vehicle of the United States), and 13,000 hijacked (the driver was present); 3,700 trucks were hijacked.[28] Even political violence, while down from 1994, remained high—with 1,000 deaths and 1,600 injuries in a year.[29] A total of more than 2 million serious crimes was reported in 1996—about one for every 21 citizens.

Fear of crime had become palpable in some areas, such as Johannesburg, to the point where people had changed the ways in which they behaved. Homes were surrounded by high walls, with barbed wire fencing and elaborate alarm systems. People thought twice about going out in the evening, about where they parked, and about what belongings they carried. Security services proliferated. Law enforcement, meanwhile, was underfunded, understaffed, and corrupt. The South African Police Service had fewer than half as many officers per capita than did the United States, and they tended to be poorly trained. Some 45,000 did not have drivers' licenses; and as many as 30,000 were functionally illiterate. Even worse, the judicial system had broken down. Courts were underfunded, prisons were full. Of 1,000 crimes committed, 450 were reported to the police, 230 solved, 100 prosecuted, 77 convicted, 36 imprisoned, and 1 rehabilitated.[30]

Education. The start of the school year in 1996 marked history in South Africa. For the first time in 50 years, discrimination in public schools was ended. A single national education department was now responsible for compulsory education for children ages seven to fifteen. The inequitable expenditures (e.g., R5,403 whites, R2,184 blacks per capita) would be rectified. But the task was sizable. An estimated 37% of the adult population was illiterate; approximately 5 million people over four years old had no education. To meet the needs of 12 million children, expenditures needed to be increased dramatically, and redirected. Two thousand new schools, 65,000 new classrooms, and 50 million books would be needed. An average student-to-teacher ratio of 37:1 prevailed in primary schools. This ratio ranged as high as 60- or 70-to-one in some areas.

Teacher training was also essential. About 40% of African teachers were unqualified or underqualified. Many of these teachers needed more basic education, as well as teacher training. State teaching colleges were fully enrolled but underfunded—despite the fact that 20% of the federal budget was being devoted to education.[31] Tertiary education in South Africa was much better, but suffered from the same imbalances of racial discrimination that plagued primary schools. Some 350,000 students were enrolled at South Africa's 21 universities, but the pass rate for black students was far below that of whites. Other issues that had recently arisen included the conversion to more Afro-centric university life and the nonpayment of bills.[32]

Labor. South Africa's labor market was severely distorted. Years of segregation and Apartheid had rationed access to education, skills, jobs, housing, and health care according to skin color. To make matters worse, the state implemented various policies that directly undermined the opportunities for much of the population to earn income. As the South Africa Foundation noted, "Forced removals, Group Areas, the Land Act and assaults on the urban informal sector dispossessed millions of people of valuable assets and skills, and undermined the capacity of the economy to provide employment in rural areas….The legacy of past labour and welfare inequalities is still powerful, and bedevils the efficient functioning of the labour market today."[33]

In the spring of 1997, the formal unemployment rate was 37.8%; the informal rate was estimated as high as 45%. The World Bank estimated that South African males aged 15 to 64 had one of the lowest labor force participation rates in the world.[34] The effects of this labor market on new entrants was devastating; only 1 in 30 new entrants could find a job in the formal economy. Thus, between 1980 and 1994, 97% of new workers—4.4 million—could find no work! Unemployment was worst among the unskilled [**Exhibit 5**]. The economy seemed to have no capacity to create jobs. Recent figures suggested that as companies consolidated and modernized, they had actually cut employment by 71,000 in 1996.

A related problem was the efficacy of the labor market. Unskilled unionized workers were paid 20% to 40% more than non-unionized workers—an exceedingly high gap by world standards. And the formal-informal gap was probably the highest anywhere. One study, for example, showed semi-skilled, unionized workers making R1,400 per month, versus R650 in the informal sector.[35]

Long-term youth unemployment was awful. "About 2.3 million people in their teens and twenties, who have entered the labor market, have no gainful employment…most have been unemployed for more than four years."[36] And if something didn't change soon, another 200,000 to 300,000 would be unemployed in each of the next few years. A final problem aggravated by unemployment was income inequality. It was among the most severe in the world [**Exhibit 6**].

The high level of unemployment was a cumulative result of a macroeconomy that had not worked properly for many years. This was the problem that worried Chris Stals, governor of the Reserve Bank, more than any other. He did not see any way for the economy to create the 400,000 jobs annually that were necessary to keep the unemployment rate from rising still further.[37] Most of South Africa's business and political leaders agreed. Land reform and government expenditures could provide some jobs, but if budget deficits were to be reduced, economic growth and a low-wage, flexible labor market would have to do most of the work. The business community supported a two-tier labor market—one tier for organized workers maintaining their benefits and rules, and a second tier with minimal regulation to encourage "outsiders" to enter the labor-intensive, formal sector.[38]

Infrastructure. The inequitable provision of infrastructure had caused additional problems. Too many homes still lacked electricity and plumbing—indeed, there were far too few homes. The latest statistics showed about 73% of urban households, and just 15% of rural households, had electricity. Among black South Africans, the numbers were worse. Eskom, the national electric company, had undertaken a program of making 1.5 million new connections in five years; this helped, but was still not enough [**Exhibit 7**].[39]

Perhaps even more fundamental were water and sewage services. In 1994, 54% of African homes in urban areas had running water; only 8% in rural areas. Others had water on their site, or near their site, used tanks, wells, or public kiosks. The government had engaged in 12 huge water projects since 1994, but even when those were completed in 1998, many people would still not be served.[40] In urban areas, only 85% of the population (72% of Africans) had flush toilets. In rural areas, it was less than 12%. Chemical lavatories, latrines, and buckets were still widely used—even in cities.

Housing. Lack of adequate housing was another element of South Africa's infrastructural problem. With an estimated 8.3 million households in South Africa, the formal housing stock was about 3.4 million units. About 1.5 million urban households lived in "informal housing units"—service sites designated for water or electric service, where shacks had been constructed. There were also more than 1 million families living in squatters shacks, and another 5% of households in hostels. In rural areas, another 17 million people lived in a mix of formal and informal structures. The backlog of housing needed was at least 1.5 million units, and this was increasing (due to immigration and population growth) by about 180,000 units annually.

> "Housing the nation," read the preamble of a 1995 White Paper on Housing, "is one of the greatest challenges facing the Government of National Unity. The extent of challenge derives not only from the enormous size of the housing backlog and the desperation and impatience of the homeless, but stems also from the extremely complicated bureaucratic, administrative, financial and institutional framework inherited from the previous government."[41]

Although the 1994 Reconstruction and Development Programme targeted construction of one million homes in five years, the budget set aside R2.9 billion in the 1995/96 budget to support housing—an increase of 80% over the previous year. Households with incomes of R3,500 or less were eligible for state housing subsidies. Yet, by the end of 1995, just 6% of the 50,000 loans targeted had been granted; just 10,000 homes were built. Only about 35,000 were built in 1996, leaving a backlog of funds available of several billion Rand.

There were many housing-related problems. The cost of a cheap, four-room home, with sewage and electricity, was about R65,000 to R70,000. Several big banks had agreed to provide fixed-rate mortgages for up to 80% of the value of the house, at about 22% interest. A severe problem, however, was that many would-be borrowers did not understand either the concept of a mortgage, or the difference between the bank and the government. Thus, by early 1996, the Mortgage Indemnity Fund (set up by the government) reported that banks had repossessed 70,000 properties due to non-performing loans. In some of the townships, formal boycotts of mortgage payments had been organized by borrowers who did not have jobs.[42]

In the 1997/98 budget, R4 billion was allocated to housing—a 156% increase plus the roll-over of the unused R1.7 billion. The federal government had allocated Provincial Task Teams to implement and streamline construction and housing delivery. For 1997/98, 192,000 new homes were planned.[43]

Immigration and Emigration. Official immigration to South Africa in the most recent year was about 6,400 people: 43% from Europe, 25% from Asia, and 25% from Africa. Emigration, which amounted to more than 10,000, went mostly to Australia, Canada, and Europe. A rising concern in South Africa was that a growing number of professionals—doctors, managers, engineers—were leaving, amounting to something of a brain drain.

But informal, or illegal, immigration was far greater. The coordinator of border control for the South African Police offered an estimate (in 1995) of nearly 5 million, costing taxpayers as much as R5 billion, annually. Deputy President Mbeki still estimated the number of illegal immigrants in the country as two million to three million.[44] The vast majority came from sub-Saharan Africa—Zimbabwe, Mozambique, Angola, and Botswana. Typically, males came to the townships around Johannesburg to find work, living with relatives or townsfolk already there. Eventually, their wives and children, and perhaps siblings and parents, would join them—severely aggravating the housing and services capacity of the township.

AIDS. These massive movements of people only aggravated South Africa's exposure to AIDS. Just a few years ago, South Africa was relatively free of AIDS. But in the past three years, surveys conducted on women attending antenatal clinics revealed an epidemic of HIV infection. By October 1995, an estimated 1.8 million people, 90% of whom were African, were infected. The demographics reflected the heterosexual character of the epidemic in Africa. The highest rate of infection were females in their teens, or early twenties. Figures showed a doubling rate of 15 months, which explained the estimate of 2.5 million HIV positive cases by spring 1997. The official government estimate recently put the level of HIV infection at 5 million to 6 million by 2005—17% to

24% of the sexually active population. Although the government was expanding educational programs as quickly as possible, lack of funds, extreme poverty, congestion in the townships, and cultural prejudices of African men all interfered with progress.[45]

Growth, Employment and Redistribution (GEAR)

By 1996, South Africa had recovered from the stagnation that had prevailed since the early 1980s. GDP was growing at 3%, and inflation had declined to 8.5% [**Exhibit 8**]. Much as this pleased both business and political leadership; the government's fiscal deficit was still 5.6%—an amount that forced too much additional borrowing, a growing current account deficit, and a depreciating currency. This became all too obvious in February, when a run on the Rand drove its value down about 16%—or about 8% in real terms. Worse yet, growth was not enough to create new jobs. As mentioned, an estimated 71,000 jobs were actually lost for the year 1996. If nothing changed, the Ministry of Finance believed it faced the prospect of continuing slow growth with fiscal deficits causing higher inflation and interest rates and too little job creation.

It had become clear to almost everyone—including ANC leadership and the Government of National Unity—that the existing growth path would not reduce unemployment, provide revenues necessary for social services, or redistribute income. Something more was needed. So in June 1996, Financial Minister Trevor Manuel announced a new macroeconomic strategy—GEAR—that would hopefully accelerate non-gold exports, private sector investment, and infrastructural development. Doing so would push GDP growth to 6% and job creation to 400,000 by the year 2000. At the center of this program was deficit reduction—a real change of heart for the ANC government.[46]

The GEAR's medium-term strategy was as follows:

1. an acceleration of fiscal reform, reducing the deficit to 3% of GDP by 2000, to help counter inflation; this included further revision of the tax structure and a more redistributive thrust of expenditures;
2. gradual relaxation of exchange controls while maintaining monetary policies consistent with inflation reduction;
3. trade and industrial policy reforms, including further reduction of tariffs, tax incentives to stimulate investment, small and medium business development, and a competitive policy with the development of industrial clusters;
4. public sector asset restructuring, including better governance and regulation of public corporations, the sale of nonstrategic assets, and public-private partnerships in transport and telecommunications;
5. an expansionary public infrastructure investment program;
6. a structured flexibility within the collective bargaining system to support a competitive and more labor-intensive growth path; reduced minimum wage schedules for young trainees, and increasing incentives for more shifts, job sharing, and employment flexibility;
7. a social agreement to facilitate wage and price moderation, accelerate investment and employment, and enhance public service delivery.[47]

When the strategy was initially announced, it was immediately attacked by some members of the ANC and the trade union leaders. There was a sense that it was produced by "eight white men," and did not represent the interests of South African labor.[48] But as the government's commitment to GEAR appeared to deepen, business become increasingly enthusiastic. By March 1997, when Trevor Manual made his budget speech, there was general enthusiasm for the plan and for government's financial management.

Fiscal Policy. For the fiscal year ending in March 1997, the budget deficit stood at 5.6% of GDP. The budget proposed reducing it to 4% in 1998 [**Exhibits 9a** and **9b**]. The primary balance (revenues minus expenditures, excluding debt service) was actually positive—2.4% of GDP. Direct taxes remained high, but there were plans to shift more revenue dependence to the value-added tax. Budgetary reform was making progress, with reduced defense expenditures and some privatization revenues allowing somewhat greater expenditures on housing and infrastructure. One clear problem, however, was the government wage bill. Government's real wages were up 4.9% in 1996 [**Exhibit 10**].[49]

Monetary Policy. In March 1997, the Minister of Finance announced a series of exchange-rate liberalizations. Controls were to be lifted on capital outflows by individuals of up to R200,000. Corporations could hold foreign currency earnings offshore for 30 days and could transfer up to R30 million for approved foreign investments. Local institutional investors could invest up to 10% of total assets offshore.[50]

Overall, the monetary policy of the South African Reserve Bank was to control the growth of M3, so that inflation would fall toward 4% or 5%; an additional goal was to maintain a constant real exchange rate for the Rand. Chris Stals, the Bank's governor, felt he "didn't have much choice" regarding monetary policy, since global inflation rates were down to 2% to 3% in the economies with which South Africa competed. This had led to a very high, short-term interest rate—about 17.75% for short-term bonds and 20.25% for the prime rate. Stals understood that rates this high dampened investment, but they reflected the high inflationary expectations. As he put it, "You can't lower rates by creating more money."[51]

Real exchange rates were the other important reflection of monetary policy. The sharp fall in the value of the Rand in 1996 reflected a loss of confidence by investors. Although nonmineral exports were stimulated, imports recovered after about 9 months, and the effects had begun to wear off after a year. Stals did not think real depreciation worked—at least for the South African economy. Thus, his target, to the extent that it mattered, was a constant real exchange rate. If inflation came down, exchange rates should stabilize [**Exhibit 11**].

Although sympathetic to the need to reduce unemployment, Stals seemed firm in his commitment to reduce inflation. The real problem, he thought, was structural inflexibility of labor markets. He had recently spoken out on this point, and caused quite a political stir. But he believed real wages simply had to stop rising if South Africa were to effectively control inflation and if it were to expand nonmineral exports without further devaluation.[52]

Trade and Industrial Policy. Another important change in GEAR was a focus on supply-side policies to make South Africa's economy more competitive and productive. South Africa had already begun to lower tariffs (from an average of 15% to 9%), and proposed to go further in 1997. Export incentives, moreover, that did not comply with WTO rules were to be phased out.

The GEAR also offered several new policies. The National Infrastructure Investment Framework had identified R170 billion in needed capital spending. The 1997/98 budget provided R14.5 billion for capital and social infrastructure—mostly housing, water and sanitation, and municipal infrastructure. Two new programs included the Spatial Development Initiative (SDI) and small business development. The former designated 10 development corridors where industries could be concentrated to achieve external economies—industrial areas, metro-service corridors, agri-tourism areas, etc. Most SDIs were designated along the coast of the Indian Ocean, but an additional 10 had been identified for development inland.[53] For Small, Medium and Micro Enterprises (SMMEs), a program of wholesale loans and loan guarantees was established to help broaden and deepen the structure of enterprise in South Africa.[54]

Most business executives and bureaucrats recognized the need for South African business to reduce costs and become more competitive. In some sectors, such as defense, metals, electronics and petro-chemicals, there was potential for exporting more in competition with developed countries.[55] But that would not be enough. There needed to be some effort to grow labor intensive businesses—for South Africa's own market and for markets throughout Africa and the Indian Ocean rim. These neighboring economies were now growing at 5% annually and created a market that South African business could potentially tap [**Exhibit 12a**].

Public Sector Asset Restructuring. Because the government was so heavily invested in the economy (i.e., 30% of GDP), there was a sense that public corporations needed a stronger, clearer set of principles to guide their behavior. The government was working on governance programs, including dividend and tax policies for government-owned corporations, a National Empowerment Fund to deepen employee ownership, treatment of pension and medical-aid fund deficits, and a more competitive and transparent bidding system.

The heart of this initiative, however, was privatization. But progress was slow, with opposition from labor unions intensifying. Six radio stations had been privatized, and restructuring committees were looking at sales of various airlines, airports, resorts, and so forth. Public-private Partnerships, a related initiative, had begun with the sale of 30% of Telkom to Southwestern Bell/Telekom Malaysia, for $1.3 billion. According to Dikgang Moseneke, the chairman of Telkom, this not only provided an infusion of capital but also of management skills, of technology, and especially of training. More than 300 engineers were currently receiving specialized training and would eventually spend time in Malaysia or the United States. Moseneke planned to double Telkom's network in four years, at a cost of R53 billion. Doing so would indeed require an immense injection of capital and skilled labor.[56]

Flexible Wage and Labor Structure. In many ways, this was the element of GEAR on which the rest depended. The level of unemployment was intolerable and had to improve if political stability were to be maintained. GEAR envisioned creation of about 400,000 jobs annually by the year 2000, to reduce unemployment to 32%. Unlike previous plans, GEAR depended on the economic growth of 6% to accomplish at least 30% of this job creation; another 25% could be achieved by the infrastructural and public works expenditures of government; and 30% needed to come from institutional reforms in the labor market—skill development, wage moderation, and strategies to enhance flexibility through collective bargaining.[57]

These policies echoed the private sector's call for a dual wage strategy. In other words, as new jobs were created, younger workers were trained (either by government or by the private sector) and employed; they had to be willing to accept lower wages and benefits inferior to those guaranteed to unionized workers. Real wages could not rise significantly, nor faster than productivity, if South Africa were to become more competitive. Unfortunately, organized labor could see the problem domestically, but was less familiar with working conditions elsewhere—especially in India, China and Indonesia, where wages were one-fifth as high. Thus, its willingness to tolerate low wages and harsh working conditions was increasingly doubtful.

A National Social Agreement. The final aspect of GEAR was its call for social cooperation. The government was committing to a tougher fiscal policy, with monetary restraint and constant fixed exchange rates. In return, it promised to deliver better income distribution and social policies; "orderly collective bargaining between organized labor and employers must remain the foundation of industrial relations."[58] Nedlac, the tripartite organization for discussions between business, government, and labor, was the primary vehicle for achieving this social pact. Yet the Nedlac mechanism was not working very well, and COSATU had recently opted out.

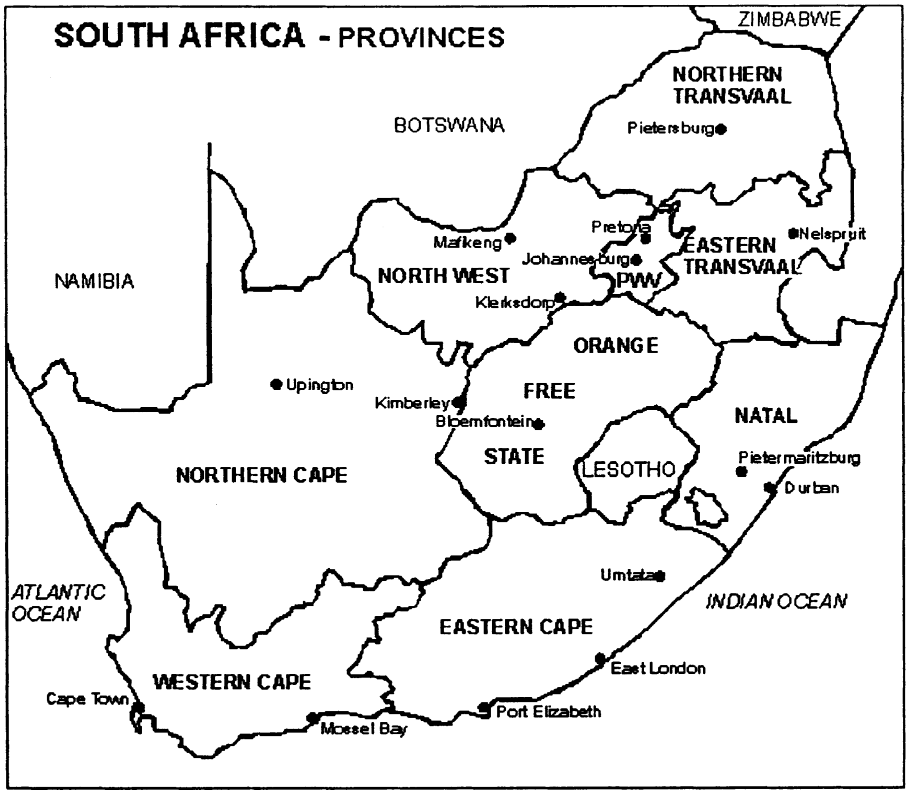
The Challenge

In just three years since its first democratic election, South Africa had remained incredibly peaceful, and had grown, albeit slowly. But now the South African Chamber of Business concluded, "The challenge for the authorities lies in their political will to harness the economy's potential, and set the economy on the growth high road as set out in their GEAR strategy."[59] Although the economy had slowed during the last two quarters of 1996 and the first quarter of 1997, it appeared to be ready to expand again, with a more realistic budget, a somewhat depreciated currency, and stable inflation. The Department of Finance was projecting growth of 2.25%, with inflation of 8.5% and an increase in real wages of 2.5% [**Exhibit 13**].[60]

Even though growth was somewhat less than that which the GEAR had called for, most South African business executives were satisfied. It had, after all, been only a year since the GEAR was announced. Government was working hard to implement these various proposals, yet it would take some time to affect the real economy. Some people faulted the program for not reducing deficits fast enough.[61] Others felt that unemployment had to be addressed immediately, either by public works or reducing hours worked per employee.[62]

Delivery, as one economist put it, was the key; not strategy. The GEAR was fine, but its implementation through the political process over the next two years was crucial.[63] This, of course, would be the prime responsibility of Thabo Mbeki during the months running up to the election in April 1999. But as he dealt with one or another interest group, Mbeki had to wonder if the GEAR was adequate for dealing with South Africa's institutional weakness and if it was doable. As the ANC's candidate for the next presidency, and with Nelson Mandela's endorsement, Mbeki was almost certain to win. Yet, if the economy didn't improve soon, organized labor would just be one of the interests abandoning ship.

Exhibit 1 South African Maps



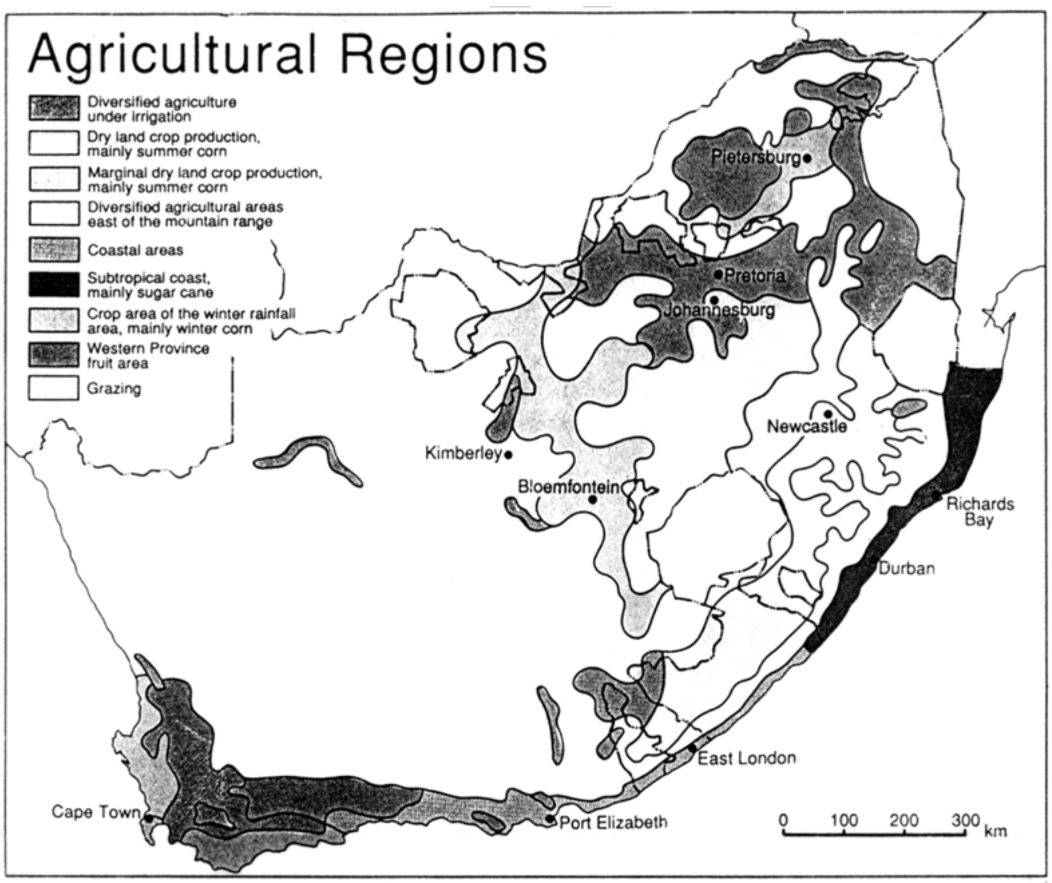
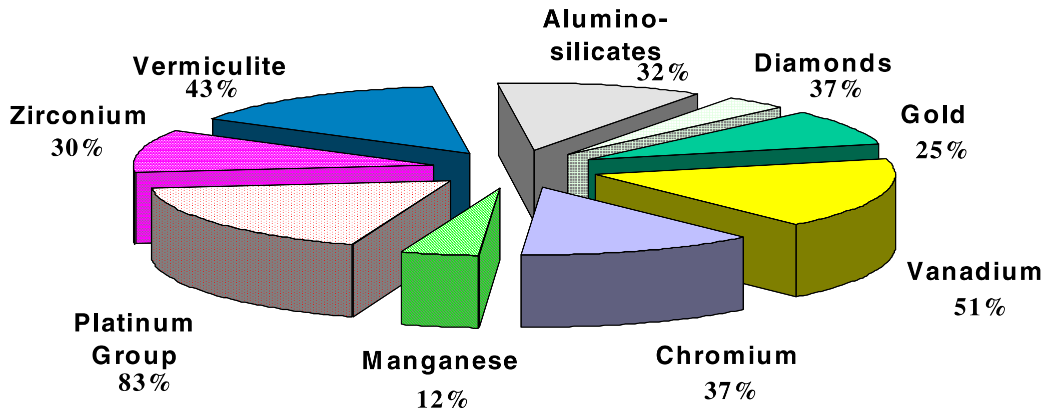


Exhibit 2

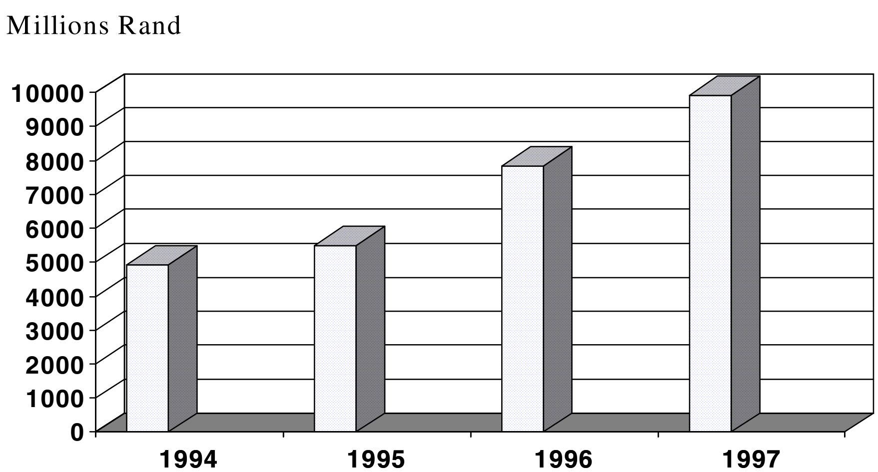
South Africa's Share of World Mineral Production, 1994



source: South Africa at a Glance, 96-97 (Editors, Inc., 1997), 102-103.

Exhibit 3a

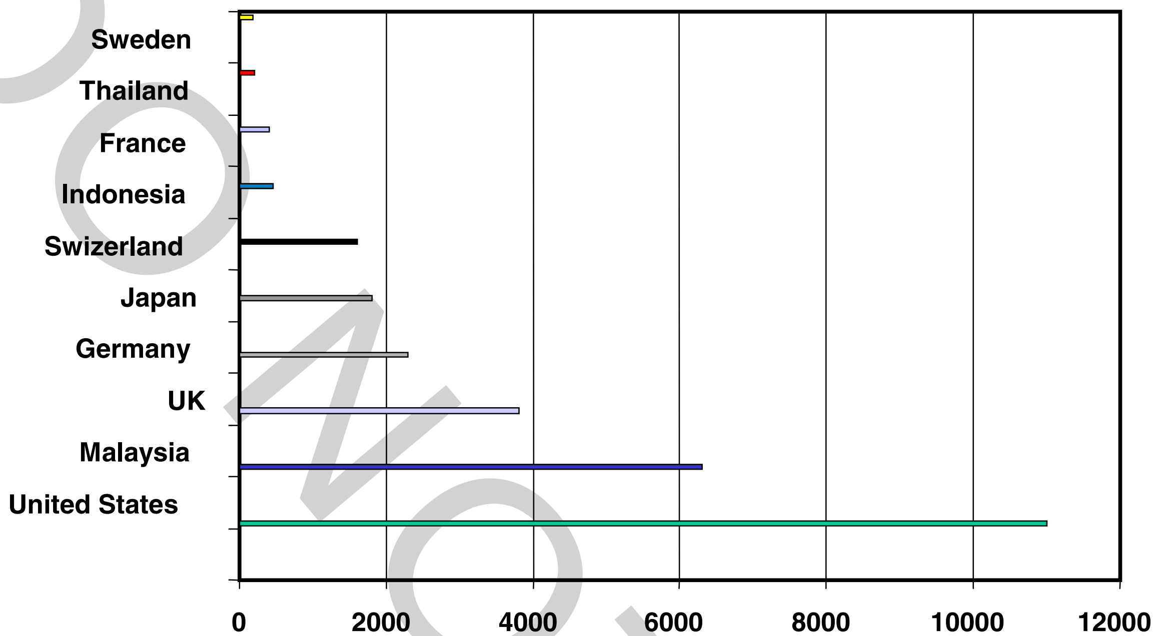
Annual Foreign Direct Investment in South Africa, 1994-1997*



* May 1994 thru April 1997
source: "FDI Essential for Economic Growth," *Financial Mail, Speical Survey of Top Companies,* June 27, 1997, 314.

Exhibit 3b

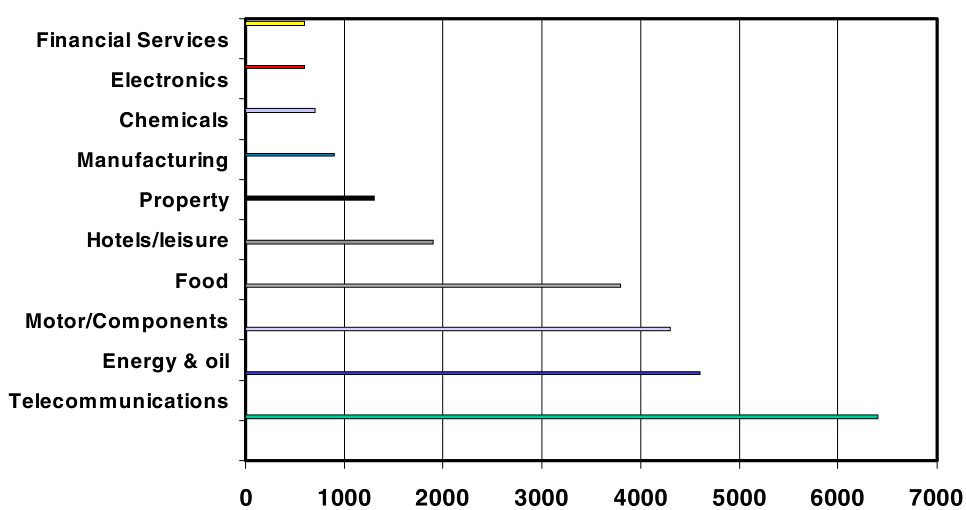
Foreign Direct Investment in South Africa, by Source



Total FDI in Millions of Rand, 5/94 - 4/97.
Source: "FDI Essential for Economic Growth, *Financial Mail*, June 1997, 315.

Exhibit 3c

Foreign Direct Investment in South Africa, by Sector



Total FDI in Millions of Rand, 5/94 - 4/97.
source: "FDI Essential for Economic Growth, *Financial Mail*, June 1997, 314.

Exhibit 4

Top Black- Controlled Firms in South Africa in 1996

Ranked by Assets	Company	Sector	Total Assets (Rm)
1	Metlife	Insurance	10,910
2	Johnnic	Industrial Holdings	10,435
3	JCI	Mining	8,515
4	New Africa Inv.	Industrial Holdings	1,247
5	Saflife	Insurance	1,112
6	Aflife	Insurance	1,089
7	Cap Alliance	Insurance	1,059
8	Real Africa Inv.	Industrial Holdings	894
9	Real Africa Hld.	Industrial Holdings	890
10	Botswana Rst.	Copper	828

Sources: "Black Economic Empowerment," Financial Mail, Special Survey, June 1997, 174

Exhibit 5

Average Population, Growth Rate, and Unemployment Rate, 1991, 1994

	Population in 1991 (000)	Population in 1994 (000)	Average annual growth rate	Unemployment rate
African	**28,383**	**30,475**	**2.4%**	**41.1%**
Asian	**987**	**1,027**	**1.3%**	**17.1%**
Coloured	**3,280**	**3,424**	**1.4%**	**23.3%**
White	**5,061**	**5,165**	**0.7%**	**6.4%**
Total/aver.	**37,771**	**40,091**	**2.05%**	**32.6%**

source: South Africa Survey, 1995/96, 12.262.

Exhibit 6

Income Distribution by Population Group - 1993

	Population share	Income share	Per capita income (R)	Disparity ratio*
African	76.2%	29.3%	2,717	11.8
Asian	2.6%	4.8%	12,963	2.5
Coloured	8.3%	7.4%	6,278	5.1
White	12.9%	58.5%	32,076	1
Total/aver.	100.0%	100.0%	7,062	4.5

* White to other.

source: *South Africa Survey, 1995/96,* 12, 280.

Exhibit 7

Electricity, Water, Telephone Availability, 1994

	African	Coloured	Indian	White	Total
Electricity for lighting					
Urban	67%	90%	99%	99%	82%
Rural	16%	60%	74%	93%	21%
Telephone in dwelling					
Urban	25%	51%	73%	88%	51%
Rural	2%	7%	47%	83%	5%
Flush toilet					
Urban	72%	93%	98%	100%	85%
Rural	7%	45%	63%	99%	12%

source: *South African Survey, 1995/96,* 328, 380, 408.

Exhibit 8 National Income Accounts

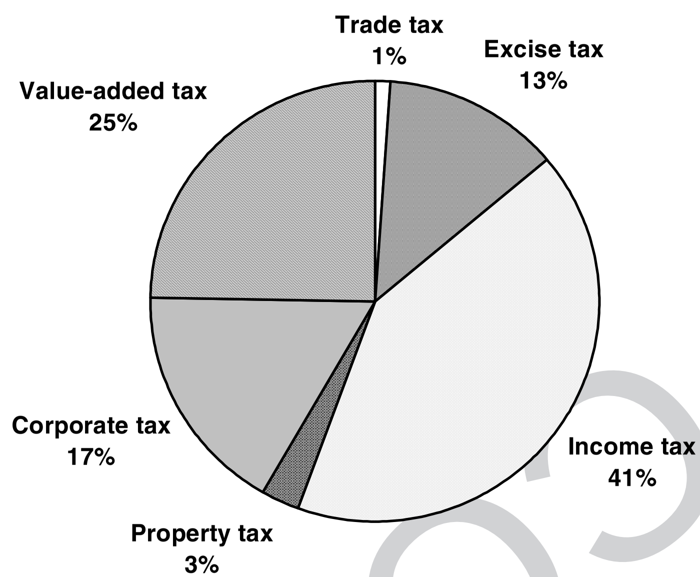
	1989	1990	1991	1992	1993	1994	1995	1996	1997Q1[a]
Nominal GDP (R billion)	240.6	276.1	310.1	341.0	383.7	431.7	485.8	543.0	559.6
Real GDP (1990 prices)	276.9	276.1	273.2	267.3	270.7	278.1	287.5	296.5	293.9
Real GDP growth (%)	n/a	-0.3%	-1.0%	-2.2%	1.3%	2.7%	3.4%	3.1%	-1.0%
Real Values									
Private consumer expenditures	n/a	159.5	158.7	156.4	156.9	161.7	169.4	175.8	n/a
Gross domestic fixed investment	n/a	54.1	50.1	47.5	46.2	50.2	55.4	59.1	n/a
Govt. consumer expenditures	n/a	52.7	53.9	54.7	56.3	58.6	58.8	61.8	n/a
Exports of goods	n/a	70.7	70.7	72.5	76.0	76.7	83.9	90.4	n/a
Imports of goods	n/a	54.0	55.2	58.2	62.2	72.3	84.2	90.6	n/a
Change in inventories	n/a	-7.0	-4.9	-5.7	-2.4	3.1	4.3	-0.1	n/a
Gross domestic savings as a % of GDP	n/a	n/a	n/a	n/a	n/a	n/a	17.2	16.9	13.5
C/GDP %	n/a	57.8%	58.1%	58.5%	58.0%	58.1%	58.9%	59.3%	n/a
I/GDP %	n/a	19.6%	18.3%	17.8%	17.1%	18.0%	19.3%	19.9%	n/a
G/GDP %	n/a	19.1%	19.7%	20.5%	20.8%	21.1%	20.5%	20.8%	n/a
X/GDP %	n/a	25.6%	25.9%	27.1%	28.1%	27.6%	29.2%	30.5%	n/a
Im/GDP %	n/a	-22.1%	-22.0%	-23.9%	-23.9%	-24.9%	-27.8%	-30.6%	n/a
Nominal GDP per capita (US$)	n/a	n/a	2,957.0	3,079.0	2,955.0	2,955.0	3,201.0	2,977.0	n/a

[a]Q1 Annualized data

Source: *South Africa* , *A Country Report* , ABSA Bank Internal Data.

Exhibit 9a

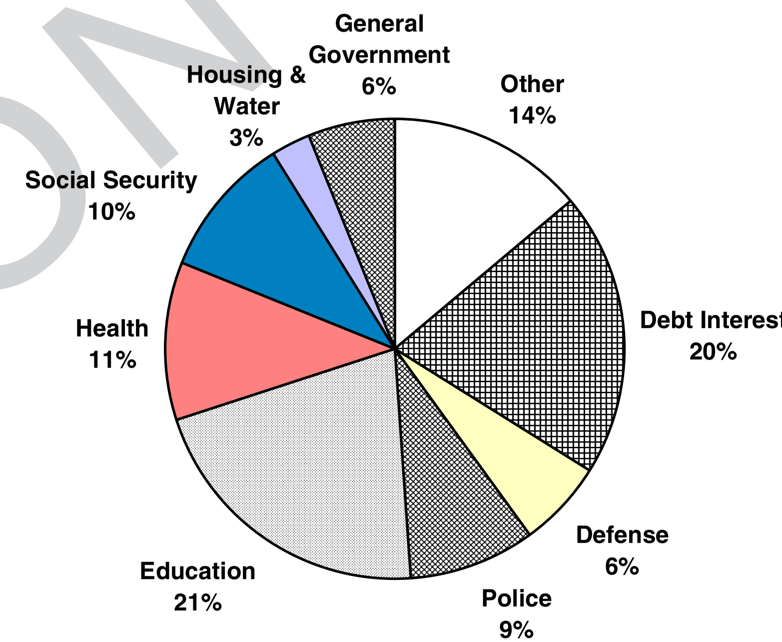
South African Government-Revenues 1997/98 Budget



Sources: Department of Finance, *Budget Review*, 1997

Exhibit 9b

South African Government-Expeditures 1997/98 Budget



Sources: Department of Finance, *Budget Review*, 1997

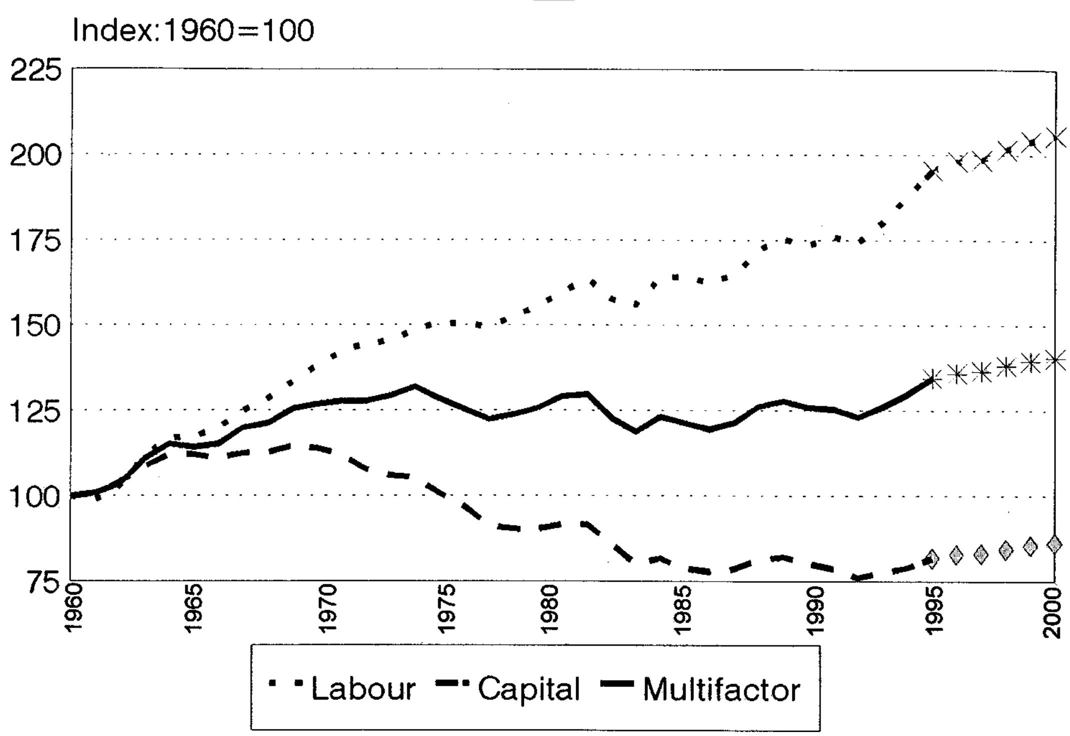
Exhibit 10a GNP Per Capita, Real Wages and Prices

(Pct. change from previous year)

Year	GNP per capita	Average Real Wages Private	Average Real Wages Public	CPI	PPI	GDP Deflator
1985	-3.2	-3.7	-4.3	16.3	16.9	16.2
1986	-1.7	-2.4	-2.7	18.6	19.6	16.3
1987	1.2	1.0	2.3	16.1	13.9	14.2
1988	1.7	2.7	-0.9	12.9	13.2	15.1
1989	-1.2	-0.6	3.7	14.7	15.2	17.2
1990	-3.8	0.0	0.7	14.4	12.0	15.1
1991	-2.7	0.7	2.1	15.3	11.4	13.5
1992	-4.5	1.5	1.4	13.9	8.3	12.4
1993	-0.5	0.1	-1.5	9.7	6.6	11.1
1994	2.0	1.4	6.0	9.0	8.2	9.5
1995	0.8	2.5	-1.9	8.7	9.6	8.9
1996	1.6	1.8	0.6	7.4	6.9	8.4

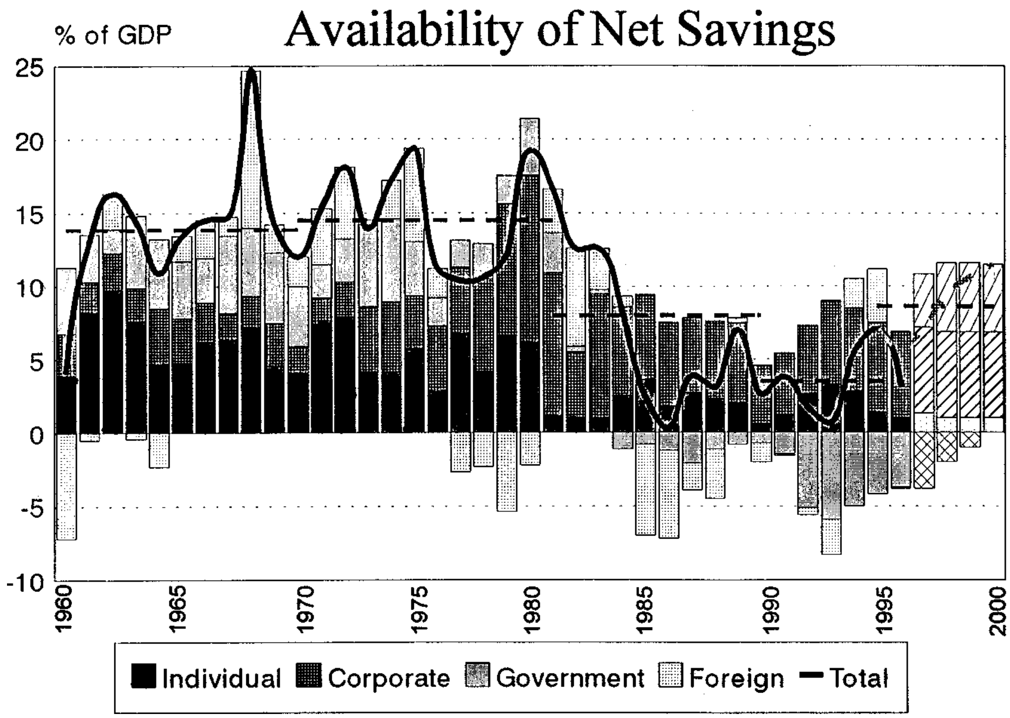
Source: Republic of South Africa, Department of Finance, *Budget Review*, 1997, p.2.10.

Exhibit 10b Productivity



Source: A.J. Jacobs, Chief Economist, ABSA Bank, *"Economy Presentation,"* July 1997.

Exhibit 10c Availability of Net Savings



Source: A.J. Jacobs, Chief Economist, ABSA Bank, "Economy Presentation," July 1997.

Exhibit 11 Exchange Rate and Money Supply

Year	Nominal Exchange Rate		Real Exchange Rate		US $ Exchange Rate		M3	Domestic Credit	Prim Rate
	1990 = 100	Pct. change	1990 = 100	Pct. change	Rand per $	Pct. change	Pct. change	Pct. change	Pct.
1985	151.8	-32.4	82.0	-22.6	2.228	-33.8	12.3	15.9	N/A
1986	127.8	-15.8	85.6	4.3	2.283	-2.4	9.3	8.3	N/A
1987	131.6	3.0	99.8	16.7	2.036	12.2	17.6	15.0	N/A
1988	114.7	-12.8	95.8	-4.1	2.273	-10.4	27.3	26.5	N/A
1989	103.3	-9.9	95.4	-0.4	2.622	-13.3	22.3	17.4	N/A
1990	100.0	-3.2	100.0	4.8	2.588	1.3	12.0	19.4	21.0
1991	94.0	-6.0	103.0	3.0	2.761	-6.3	12.3	12.3	20.2
1992	89.5	-4.8	104.8	1.8	2.852	-3.2	8.0	10.4	18.9
1993	81.2	-9.2	100.2	-4.4	3.267	-12.7	7.0	9.4	16.2
1994	73.7	-9.3	97.1	-3.0	3.550	-8.0	15.7	19.9	15.6
1995	69.5	-5.7	97.4	0.2	3.627	-2.1	15.2	13.2	17.9
1996	60.5	-13.0	89.4	-8.2	4.292	-15.6	13.6	16.1	19.7
1997 Q1a	59.6	-9.4	91.1	6.9	4.441	-14.6	12.9	17.1	20.25

a Rates of change for Q1 are annualized.
Source: Republic of South Africa, Department of Finance, *Budget Review* 1997, p.2.11.

Exhibit 12a

South Africa Balance of Payments, Millions of Rand

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997 1Q[a]
Merchandise exports (excluding gold)	32,125	38,384	42,735	44,709	49,010	56,512	64,952	81,289	98,818	105,610
Net gold exports	19,701	19,140	18,177	19,587	19,391	22,449	23,671	22,537	26,294	26,816
Service receipts	8,884	11,543	11,346	12,386	13,310	14,525	17,970	20,118	21,978	26,670
Merchandise imports	(39,408)	(44,266)	(43,408)	(47,385)	(51,883)	(59,869)	(76,251)	(97,962)	(116,326)	(122,913)
Service payments	(18,011)	(21,539)	(23,711)	(23,312)	(25,153)	(27,997)	(31,709)	(36,259)	(39,060)	(43,681)
Direct investment payments	(1,750)	(2,105)	(2,227)	(2,195)	(2,466)	(2,127)	(2,204)	(2,392)	n/a	n/a
Interest	(4,615)	(5,588)	(6,118)	(5,594)	(5,228)	(6,046)	(6,531)	(7,555)	n/a	n/a
Current account balance	3,383	3,467	5,324	6,187	4,975	6,049	(1,207)	(10,157)	(8,479)	(7,940)
Long term capital movements	n/a	(606)	(102)	(1,730)	(1,511)	(272)	3,503	15,125	4,885	n/a
Public authorities	n/a	(469)	511	1,051	3,142	(2,886)	4,102	6,854	6,913	n/a
Non-monetary private sector	n/a	(15)	(650)	(2,657)	(3,964)	2,675	775	6,448	(826)	n/a
Basic balance	n/a	2,861	5,222	4,457	3,464	5,777	2,296	4,968	(3,594)	n/a
Short-term capital movements not related to reserves	n/a	(2,830)	(1,670)	(424)	(3,197)	(14,969)	825	4,109	(1,029)	n/a
Total capital movements not related to reserves	n/a	(3,436)	(1,772)	(2,154)	(4,708)	(15,241)	4,328	19,234	3,856	n/a
Change in net gold and other foreign reserves	n/a	31	3,552	4,033	267	(9,192)	3,121	9,077	(4,623)	n/a

[a] Annualized data

Source: South African Reserve Bank, *Quarterly Bulletin,* June 1997

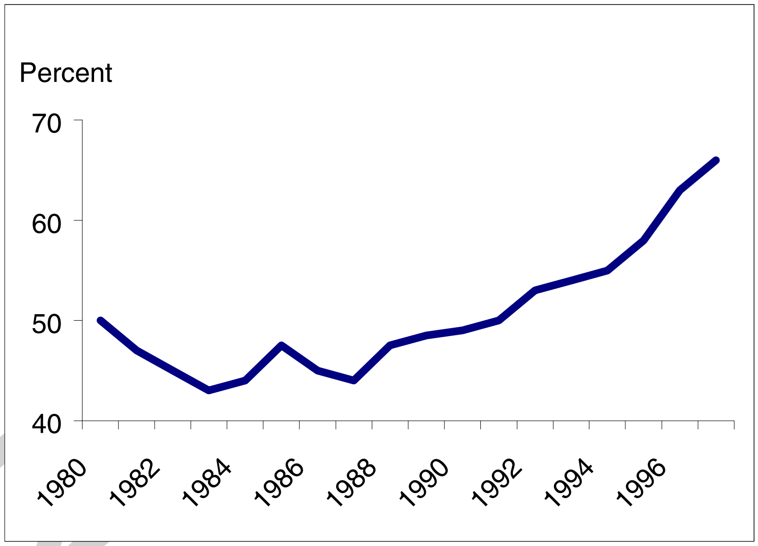
Exhibit 12b

South Africa Current Account Balance in Millions of US Dollars

	1988	1989	1990	1991	1992	1993	1994	1995
Total Imports	(17,210)	(16,810)	(16,778)	(17,156)	(17,216)	(18,287)	(21,452)	(27,001)
Total Exports	22,432	22,399	23,560	23,289	24,009	21,438	24,947	28,611
Trade Balance	5,222	5,589	6,783	6,134	5,794	5,850	3,494	1,610
Net Services	(899)	(926)	(680)	(764)	(1,222)	(1,530)	(1,494)	(1,971)
Net Income	(3,281)	(3,286)	(4,096)	(3,183)	(2,925)	(2,577)	(2,369)	(2,476)
Net Transfers	161	186	60	56	94	130	50	16
Current Account Balance	1,204	1,564	2,065	2,243	1,741	1,873	(319)	(2,820)

Source: IMF, International Financial StatisticsYearbook, 1997

Exhibit 12c Trade as a percentage of gross domestic product



Sources: South African Reserve Bank, Annual Economic Report, 1998.

Exhibit 13 GEAR, Integrated Scenario Projection

Model characteristics	**1996**	**1997**	**1998**	**1999**	**2000**	**Average**
Fiscal deficit (% of GDP, fiscal year)	5.1	4	3.5	3	3	3.7
Real government consumption (% of GDP)	19.9	19.5	19	18.5	18.1	19
Average tariff (% of imports)	10	8	7	7	6	7.6
Average real wage growth, private sector	-0.5	1	1	1	1	0.8
Average real wage growth, government sector	4.4	0.7	0.4	0.8	0.4	1.3
Real effective exchange rate (% change)	-8.5	-0.3	0	0	0	-1.8
Real bank rate	7	5	4	3	3	4.4
Real government investment growth	3.4	2.7	5.4	7.5	16.7	7.1
Real parastatal investment growth	3	5	10	10	10	7.6
Real private sector investment growth	9.3	9.1	9.3	13.9	17	11.7
Real non-gold export growth	9.1	8	7	7.8	10.2	8.4
Additional foreign direct investment (US$m)	155	365	504	716	804	509

Results	**1996**	**1997**	**1998**	**1999**	**2000**	**Average**
GDP growth	3.5	2.9	3.8	4.9	6.1	4.2
Inflation (CPI)	8	9.7	8.1	7.7	7.6	8.2
Employment growth (non-agricultural formal)	1.3	3	2.7	3.5	4.3	2.9
New jobs per year ('000)	126	252	246	320	409	270
Current account deficit (% of GDP)	2.2	2	2.2	2.5	3.1	2.4
Real export growth, manufacturing	10.3	12.2	8.3	10.5	12.8	10.8
Gross private savings (% of GDP)	20.5	21	21.2	21.5	21.9	21.2
Government dissavings (% of GDP)	3.1	2.3	1.7	0.7	0.6	1.9

Source: *Growth, Employment and Redistribution: A Macroeconomic Strategy*, 14 June '96, p.7-8.

Exhibit 14 International Comparative Exhibits

Country	GNP per capita in dollars	Purchasing power parity of GNP per capita, 1995 int'l $	Pct. share of income (lowest 20%)	Pct. share of income (highest 10%)	Gini Index[1]	% with access to sanitation	Population growth rate	Electricity production, kwh per capita, 1994	Telephone mainlines per 1,000 people	Adult illiteracy percentage
South Africa	3,160	5,030	3.3	47.3	58.4	46	2.2	4,617	95	18
Argentina	8,030	8,310	-	-	-	89	1.3	1,885	160	4
Brazil	3,640	5,400	2.1	51.3	63.4	73	1.5	1,640	75	17
China	620	2,920	5.5	30.9	41.5	-	1.1	773	34	19
Ghana	390	1,990	7.9	27.3	33.9	29	2.8	360	4	-
India	340	1,400	8.5	28.4	33.8	29	1.8	416	13	48
Indonesia	980	3,800	8.7	25.6	31.7	55	1.6	277	17	16
Kenya	280	1,380	3.4	47.7	57.5	43	2.7	131	9	22
Mexico	3,320	6,400	4.1	39.2	50.3	70	1.9	1,608	96	10
Nigeria	260	1,220	4.0	31.3	45.0	63	2.9	140	4	43
Pakistan	460	2,230	8.4	25.2	31.2	30	2.9	450	16	62
Uganda	240	1,470	6.8	33.4	40.8	60	3.2	-	2	38
Zimbabwe	540	2,030	4.0	46.9	56.8	58	2.4	667	14	15

All data as of 1995, unless otherwise indicated. Income distribution data is from various surveys in the 1990s

1. The Gini index measures the difference between a perfectly equal distribution of income and the actual distribution. Index values range from zero (perfect equality in income distribution) to 100 (representing perfect inequality).

Source: The World Bank, World Development Report 1997.

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