

racess that, at least, the style of government might change and could lead, in the end, to substantial reforms. The general election called for September 6, 1989, should clear the air and lead to a fresh start. The recent formation of the Democratic Party, comprising the former Progressive Federal Party and the independent liberals of the English and Afrikaner language groups could challenge the Conservative Party's current status as the official opposition. Second, the ending of South African involvement in Angola and eventually in Namibia should lighten the financial and human resources burden and result in less onerous taxation. Third, the economy performed better in 1988 and seems set to do so at about the same pace in 1989. There are other signs of potential changes and these are outlined below.

On the debit side, State spending and taxation remain high (the budget allows for an increase in State spending of 15% but precedent suggests it is likely to exceed 20%); political stability continues to be elusive (the Black detainees' hunger strike in March served as a reminder that the status quo is no longer acceptable); the economy is starved of foreign investment capital and, at a 2 to 3% growth rate, is progressing at less than half the pace required to absorb the rapidly expanding work force, without making inroads on the officially admitted 17% scale of unemployment (closer to double that in reality).

The Economy

The South African economy grew at a rate of 3% in real terms in 1988. This represented a steady improvement from -1.5% in 1985 to just under 1% in 1986 and 2.5% in 1987. Current estimates suggest that growth will continue at a rate of 2 to 3% throughout 1989. Over the same period, inflation has gone from 16.2% in 1985 to 18.6% in 1986, 14.7% in 1987 and 12.4% in 1988. By February 1989 it had risen again to 13.5% and is expected to average 15% for the entire year.

Contributing to the relative prosperity experienced in 1988 were substantial and well distributed rains which increased crop and livestock production, causing a beneficial ripple effect throughout the economy.

The Government's policies of fiscal and monetary stimulation following the 1985 recession began to bear fruit late in 1987 and, combined with an upswing in business and consumer confidence, resulted in heavy consumer spending in 1988. While this benefited business in general, it exceeded expectations, sucking in imports and threatening the trade surplus needed to meet international loan obligations of US \$1.2 billion in 1989 and considerably more in 1990. To restrain consumption and contribute to the trade surplus, credit curbs were introduced and interest rates raised in May 1988. The Government has projected a surplus of Rand 4 billion on current account for 1989 but this is regarded as over-optimistic, given that the relatively good year of 1988 produced a surplus of just under Rand 3 billion and that the first quarter of 1989 seemed headed for a deficit. With the world economy less buoyant in 1989, observers expect additional official measures might have to be introduced to further cool consumer spending and reduce imports.

Gross domestic fixed investment rose in 1988 by more than 19%, the first double digit increase on a yearly basis since 1982 - this despite consumption curbs, high interest rates, the drain of capital caused by disinvestments and continuing political uncertainties. While the rise in fixed investment has been welcome, its qualitative aspects have been less so. For example, it has comprised smaller scale, renewal projects spread over a longer time scale than previously. Capital expenditures generally are expected to peak around mid 1989, then decline again.

Mining is an exception, with considerable new investment pouring into base metals and ferro-alloys. Gold, under price pressure, has remained flat but is expected to revive and there is still scope for expansion. Despite Government efforts to diversify and reduce the economy's dependence on mining, its importance is growing. Sanctions have, if anything, enhanced the role of mining because products like ferrochrome, platinum, rhodium and vanadium are relatively immune to them, given their essential nature to the Western economies and South Africa's position as a major and stable supplier. Platinum and diamonds are expected to expand and gold, also untouched by sanctions, should take off when its price rises. Inflation, however, has pushed up mining costs and the easy, high grade, shallow deposits have had their day. Future expansion will come from low grade, deep and costly-to-work ore bodies.

The anticipated decline, apart from mining, of fixed capital expenditure is blamed to a significant degree on excessive Government consumption expenditure which has effectively crowded out the private sector. Any additional Government measures to cut consumer consumption could also discourage capital investment incentive. This, in turn, could impair employment opportunities, income creation and capital accumulation over the longer term. Investor confidence is not expected to grow without first, a reduction in Government consumption expenditure and the high tax rates required to feed it and, second, the creation of political and social stability. The latter seem unlikely without the institution of a new constitutional dispensation which satisfies the aspirations of the great majority of South Africans of all races.

Political

While such a dispensation is not an immediate prospect, there is now a belief in many quarters in South Africa that it is no longer unattainable. Hope and confidence are growing that the departure of Mr. P.W. Botha from the State Presidency will usher in a more flexible and pragmatic regime led by Mr. F.W. de Klerk who has already assumed leadership of the National Party. Legislation is under way to provide for 'free settlement' or racially integrated areas. In essence this simply accords recognition to what has become a fact in certain areas, as well as acceptance that this development is irreversible. Many South Africans believe this could be followed shortly by the abolition of the Group Areas Act, a variety of other land control laws, the Population Registration Act and other racially restrictive legislation.