The Economy

Meet South Africa's latest economic indicator: Nelson Mandela, jailed leader of the African National Congress. As DAVID NIDDRIE argues in this review of recent economic developments, Mandela's chances of being released improve as the economy deteriorates. And if current attitudes on Mandela's situation are anything to go by, the economy is in a pretty bad way.

Finance Minister Barend du Plessis: South Africa will have to go it alone

You can tell the state of the South African economy by the eagerness with which President PW Botha addresses the question of freeing Nelson Mandela.

When the economy is looking good, Mandela's chances of release look bad, and vice versa.

And Botha, who as recently as June was suggesting that the editor of an Afrikaans-language paper be fired for calling for Mandela's release, can hardly make a public appearance these days without saying how much he would like to see Mandela free.

Which is another way of saying that the South African economy is in a bad way. And, given the economy's overriding dependence on foreign investment to keep it moving, that in turn translates as: South Africa desperately needs an injection of foreign investment.

The need for foreign investment is not new: South Africa has always relied on foreign capital to feed the economy - which, through the 1950s, 1960s and most of the 1970s, was able to turn that investment into healthy foreign earnings through export.

But by 1985 the picture looked very different:

* a falling gold price (down to US$302 from a 1980 high of $850) had cut foreign income;
* a falling rand value in relation to other currencies made repayment of foreign loans more expensive;
* local interest rates had been pushed up in a Reserve Bank attempt to control inflation;
* and mounting political turmoil at home was feeding pro-sanctions pressure overseas to make South Africa a less attractive investment prospect than it had been in the past.

It was the third of these factors which precipitated the crisis from which the economy has yet to extract itself.

The high local interest rates encouraged local banks (in particular Nedbank) to borrow at low rates overseas and lend out locally at higher rates - making themselves a quick killing.

That, at least, was the theory. But greater forces were at play. Foreign bankers were already cautious about lending long-term to South African institutions, so most of the loans were short-term, but lent out locally for longer periods. Meanwhile the dollar was getting stronger (making the rand proportionately weaker, thus increasing the rand value of the loans). The authorities did nothing to stop the process, either - they were swept up in a fever of 'free market' logic that required an almost mystical belief in the economy's ability to regulate itself.

Between 1980 and 1985 South Africa's foreign debt increased an acceptable 34% - but in rand terms it leapt a staggering 293%, according to Cape Town University economic historian Alan Hirsch. Six months before the crunch finally came in August 1985 a US bank reported: 'South Africa's external finances are in chaos'.

In August US banks, concerned about South Africa's ability to repay its debts, demanded the immediate repayment of all outstanding loans. Unable to repay immediately, Botha's government stopped all repayments, resuming them only in March the following year after extensive negotiations over a timetable.

It was while this process was underway that Botha, eager to demonstrate his ability to control the political turmoil that was helping turn South Africa into a bad investment risk, suddenly discovered the advantages of suggesting that Mandela be freed.

But after successfully rescheduling a debt repayment, he quickly forgot the advantages of freeing Mandela and imposed a savage nationwide state of emergency. The emergency and detention of 30 000 South Africans contained the rebellion of the previous two years - but did nothing to salvage the economy.

In purely financial terms South Africa, having committed itself to repayment of a vast package of loans, was not a particularly attractive investment prospect. It had fallen from 31st to 60th place on the Euromoney magazine credit ratings by late 1986. And politically, its domestic turbulence had re-ignited the international sanctions activity.

The country's economic planners had created a perfect vicious cycle: always reliant on foreign investment, the country needs a regular fix to keep the economy growing at a rate which would both make it an attractive investment prospect and lower the political temperature - a temperature steadily raised by growing unemployment, deteriorating conditions in the townships, and the like. Until the economy is growing steadily and the political temperature is lowered, however, South Africa cannot attract the investment.

Nevertheless, through 1987 Pretoria managed to maintain a careful economic balance, keeping economic activity at a level admittedly too low to do anything about unemployment, but high enough to keep repayments going on its R50-billion foreign debt.

A mini-boom early this year threatened that fragile balance - by 'sucking in imports to feed on', according to Labour and Economic Research Centre economist Stephen Gelb, thus adding to the foreign debt.

Adding to the difficulties, the price

of gold moved downwards amid a glut on the international gold market.

In May, faced with a balance of payments deficit (in which the value of imports exceeds the value of exports) for the first time in four years, Finance Minister Barend du Plessis attempted to enforce a cutback on imports by limiting available credit.

Despite this, the government was forced to draw on its foreign and gold reserves - its 'savings' - to cover the additional outflow of money. According to Hirsch, these reserves fell 28% between December 1987 - when they were already 'critically low' - and July.

In September Du Plessis had to act again, slapping a 60% surcharge on imported goods as part of a package of goods designed to cut R1,5- billion in imports. At the time, local economic analysts warned that 'the economy is running at a considerable pace again' amid a 'noteworthy increase' in the export of capital.

In search of relief, Botha used the opportunity of the October funeral of long-time friend and Pretoria-backer, Bavarian premier Franz Josef Strauss, to undertake a financial fishing trip among the banking gnomes of Switzerland.

But while one pro-government newspaper in Johannesburg described the trip as 'highly successful' and said 'bankers and industrialists are standing in queues to see the Bothas'. But as National Democratic Movement leader Wynand Malan said afterwards: 'Of course the bankers were interested in seeing President Bothha — they want to get their money back.'

The president acknowledged afterwards that the Swiss were not that eager to offer loans. 'I would not say we came to a definite agreement. What we did was inform them of the latest situation in southern Africa, and I think they were very much interested...'

Nor was it for lack of asking. Botha was frank about the reason for the trip: 'It's no secret South Africa needs capital. We're a developing

'Botha used the funeral of Franz Josef Strauss to undertake a financial fishing trip among the banking gnomes of Switzerland'

country and any developing country needs capital... That's the point I've been making to all the gentlemen I've spoken to'.

Assuming Botha was being entirely honest, he enjoyed as little success as Barend du Plessis two weeks earlier at the annual conference of the International Monetary Fund (IMF) in Berlin. Du Plessis said afterwards it was clear South Africa would have to go it alone in attempting to restructure its economy - and at a linked World Bank meeting, he applied for a change in South Africa's status, from donor nation to recipient.

Adding to an already unhappy picture, Botha was greeted on his return from Europe by a US general accounting office report which calculated that US sanctions had lost South Africa R850-million in exports to that country alone. And there was the sale by US interests of R50-million in South African company stock and a fall-off in exports to South Africa's 22 other major trading partners, including R146-million from West Germany alone.

Botha also faced disturbing news on the local economic front, with Anglo American's US subsidiary Minorco bidding for control of the London-based Consolidated Gold Fields. Anglo and other South African corporate giants have had a foot in foreign markets for years. But the Minorco bid was the clearest indication yet of a trend best characterised by Anglo and others (notably Liberty Life and Rembrandt) shifting part of their operations out of South Africa.

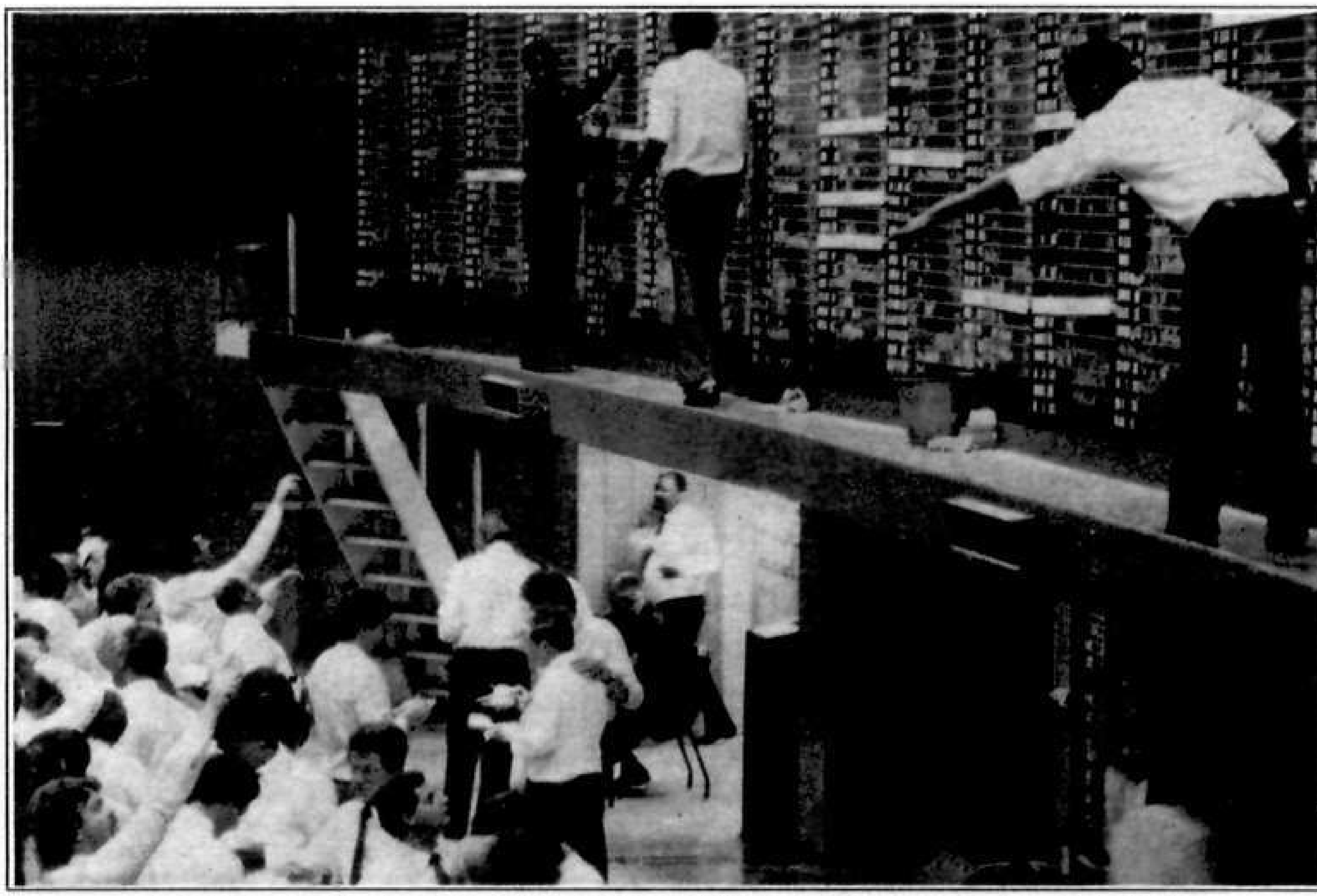
While the companies are not about to pack up and leave the South African economy to its fate (in a very real sense they are the South African economy), their actions represent an attempt to lessen their dependence on South African operations.

At the same time, the National Party was facing a serious challenge in nationwide municipal elections on October 26 - being fought, in many white areas, over the economic and political consequences of his government's policies.

A hasty pre-election announcement of a 15% pay- rise for civil servants (plus an additional 7% for teachers) may have won back some wavering Nationalist supporters. But few missed the acknowledgment by Finance Minister Du Plessis that the government had not yet found the R4-billion needed to back the pay rise. Local economists quickly predicted an increase in general sales tax (currently running at 12%), possibly as early as December.

Botha's trip to Switzerland provides a pointer to what the government sees as a route out of the investment quagmire in which it finds itself.

At his closing press conference Botha said he had told bankers of the importance of South Africa's responsibility towards its neighbours - they 'cannot develop, cannot grow without



Eric Miller - Afrapix

The Johannesburg Stock Exchange: No big crash this year, but still subject to a lot of anguish while the Bothas were in Europe trying to raise foreign loans

(our) support'.

This, plus comments from Du Plessis soon afterwards may help to explain Pretoria's recently-revived passion for regional non-summits and forays into 'black Africa'.

Du Plessis said South Africa's main overseas creditor banks had made it clear at the IMF (and a later World Bank meeting) that there was no hope of major foreign loans: South Africa would have to accept that it would have to go it alone without access to foreign capital markets.

Significantly, he added that he had 'detected a softening of attitudes for the development role South Africa is playing and could play in southern Africa'.

His statement was followed by an announcement by Trade and Industries director-general Stef Naude of a major new export drive spearheaded by the car, automotive parts, textiles, electronics, steel and stainless steel industries. Naude referred to 'foreign markets becoming available to South African goods'.

This combination of industries seems to point in only one direction - north into Southern Africa. And Botha's heavy-handed attempts to charm African heads of state (unsuccessful so far, but showing signs of future potential) must have contained a hidden carrot to get as far as they have already.

With Western bankers apparently more eager to offer loans to South Africa for 'development' in the region rather than within South Africa itself, an economic safari into Africa appears to be a real possibility.

Such an initiative would take some time to bear fruit, however.

Pretoria faces a more immediate image problem which is interfering with its ability to negotiate further loans: reporting on the Swiss trip, *Beeld* - a favourite Pik Botha route for leaks - said many of those who had 'queued up to see the Bothas in Zurich' had spoken of the difficulties created by the continued incarceration of Mandela and the continuation of the state of emergency.

President Botha limited his public comment to the statement that it 'would not be necessary' for Mandela to return to the prison cell where he contracted tuberculosis. He added: 'I hope that he will continue to co-operate with the authorities and will not revert to policies that might lead to violence'.

But with no other prospect in sight for foreign investment, Botha may finally have to play the Mandela card.