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## South Africa's economic prospects after the elections

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countries. The countries affected can no longer evade a verdict by simply ignoring it, such as recently happened in the question of the EU regulation regarding the importing of bananas. The decisive factor here is the upgrading of the dispute settlement panels and the creation of the appellate court. The recommendations and decisions of these neutral bodies are given priority over demands raised unilaterally by powerful trade-policy opponents.

The WTO members are obliged to use the multilateral dispute settlement procedure whenever it is applicable,

and the sphere to which it applies is defined widely with the expansion of the multilateral rules to services and to the protection of intellectual property. Trade policy arbitrariness (and the "law of the jungle") is thus forced back and the escalation of trade conflicts is prevented. In principle, therefore, unilateral coercive measures and sanctions such as have often been practised in the past, by the USA for example, should in future be largely impossible. This requires, however, that the WTO members be prepared to subject themselves to the new world trade order.

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Bernd Schnatz\*

## South Africa's Economic Prospects After the Elections

*South Africa looks back to half a decade of fundamental changes: apartheid laws have been abolished, sanctions have been lifted and finally at the end of April 1994 the black South African majority was allowed to vote for the first time. How has the political and economic environment to be judged after the election in South Africa? What need for action can be identified for the new South African government to improve the economic prospects of the country?*

Following the phased abolition of apartheid in South Africa within the framework of extensive political reforms since the end of the eighties, the international community has lifted the sanctions previously imposed on the country. The South African reforms reached a peak with the elections in April this year, in which the black majority was allowed to participate for the first time in the country's history. The process of liberalization which has taken place in politics must now be followed by the reintegration of South Africa into the world economy. At present the South African economy is, in many sectors, hardly competitive on an international scale, mainly due to the import substitution policies pursued in the last decades. South Africa will scarcely be able to achieve competitiveness on international commodity markets all

by itself. Because of extensive interventions in the factor and product markets the country is lacking in appropriate technology and risk capital.

Foreign direct investment, providing both scarce capital and modern technologies, will be essential for accelerating the process of economic reform in South Africa. One important precondition for the involvement of internationally active firms in South Africa is that the administrative barriers to entry for foreign investors are kept as low as possible. In addition, South Africa must be highly attractive as a production location for multinational enterprises in order to beat possible alternative locations in southern Africa, Southeast Asia or Latin America. How far South Africa as a production location will be able to stand up to the international competition for investment funding from the industrial countries must be judged on the basis of a review of the political and economic situation and an assessment of the reform programme of the new government in South Africa.

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\* Hamburg Institute for Economic Research (HWWA), Germany. This article is a revised and shortened version of a report written for the Federal Economics Ministry by the present author together with Dr. Karl Wolfgang Menck. The full report (in German) will be published shortly.

### Political Environment

South Africa's reintegration into the world economy requires an economic system based on market principles and lasting political stability. The analysis of the political situation shows that the spectrum of political parties in South Africa is still basically divided in two.

On the one hand there are the extreme parties with their very populist lines of argument, who wish to preserve their obsolete ideal images of society into the new epoch by means of violence. These include, firstly, the radical right-wing parties, who continue to demand a "volkstaat" (homeland for Afrikaners) with limited constitutional rights for the black population, and secondly, the Pan African Congress (PAC) with its militant nationalism, which continues to reject solutions exclusively based on peaceful negotiations with the white population. If the political positions represented by these parties and the ethnically influenced rivalry between parts of the black population continue to lead to violent struggles it is likely to be difficult to ensure conditions in South Africa which offer credibility and which are supportive of economic development in the long run.

On the other hand, there are the moderate parties in South Africa, namely the National Party and the African National Congress (ANC), which want to preserve a favourable economic and political environment in South Africa. The Inkatha Freedom Party (IFP), which represents the interests of the Zulus, has to be placed between the extreme and moderate parties. Since the party did not consider the right of self-determination of the Zulus to be guaranteed, it originally called for a boycott of the elections, withdrawing the call only one week before they took place. The National Party governed South Africa

autonomously from 1948 onward and was originally responsible for the introduction of apartheid. Under the pressure of increasing international isolation and the resulting poor state of the economy, the party reformed the system of racial discrimination and advanced to become the most important counterpart of the ANC. In the ANC too, the more moderate wing, whose economic policy concepts are based essentially on the principles of a social market economy, won the upper hand.

The challenge for the ANC is now to master the balancing act between not profoundly lowering the living standard of the white population in order to avoid the emigration of this relatively well-educated section of the population, and remaining capable of reaching agreements with its own "left wing", whose attitudes are still relatively strongly influenced by socialist ideas. As a result of the ANC's overwhelming election victory, the transitional constitution will be determined essentially by the ANC. Therefore an assessment of the ANC's reform programme is important for judging the country's economic prospects.

### The ANC's Reform Programme

The ANC propagates that the state should play a greater role in stimulating the economy and in mitigating the existing unequal income distribution. Consequently, one priority in the ANC's programme is an increase in the fairness of income distribution via a restructuring of the budget. Funds are to be redirected, above all from the military services, to education, housing construction and the expansion of infrastructure in areas with a primarily black population. In the case of an increase in expenditures the ANC declares itself to be for budgetary discipline and avoiding the accumulation of foreign debt. Furthermore domestic financial institutions should cease

Wolfgang Graf Vitzthum (Hrsg.)

### Europäische und Internationale Wirtschaftsordnung aus der Sicht der Bundesrepublik Deutschland

About half of the essays in this collected volume are assigned to European integration, the other half dealing with the international economic order. Part I, now especially relevant since the coming into force of the Maastricht Treaty on 1st November 1993, begins with an analysis of the ambivalency of the rather lack-lustre economic policy debates in the European Parliament; it continues with a treatment of the two directives on biotechnology law; the label "Fortress Europe" is also considered – in the case of capital markets law somewhat hard to sustain. Part I concludes with an analysis of the, if one may put it, Colbertian nature and the regulatory and potentially dysfunctional consequences of EC industrial policy. Though generally in favour of the strengthening of European integration as well as taking cognizance of the heightened factual interdependency between member states, this first part of the volume voices doubts as well as hopes about the manner in which Europe moves towards further integration. Part II, which is devoted to the international economic order, deals with the suggestion that the GATT structure should be strengthened.

The book is published in German and contains French and English articles.

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to discriminate against certain sections of the population and direct more funds towards the basic needs sector. Affirmative action programmes under the responsibility of the ANC are to create jobs and to reduce racial and regional imbalances on the labour market. With regard to trade policy, the ANC strives for full participation in existing multilateral trade agreements on the one hand, and stronger integration into the markets of southern Africa on the other. Intervention in free trade is, however, intended in a large number of exceptional cases. Foreign direct investment is specifically welcomed by the ANC and is to be accorded the same treatment as investments by South African firms.

The ANC programme shows clear signs of a departure from traditional socialist ideas such as those which were still to be found several years ago in its "Freedom Charta". Nevertheless, the political line of the ANC appears to continue to be strongly characterized by distributional objectives; it is at least not emphasized clearly enough that a more equal income distribution is intended to be realized in the framework of rapid economic growth.

While expropriations are still not explicitly excluded in its programme, the ANC now takes a more moderate position in practice. For example, the mining sector – of central importance for the South African economy – was repeatedly cited as a target for expropriation. Now the ANC proposes only the nationalization of the mining rights. The South African mining houses are relatively unperturbed by this.

The ANC's declarations with regard to the control of the financial sector must be judged more critically. The ANC should learn from the experience of many developing countries, that direct intervention in financial markets (financial repression) in the form of quotas or interest rate ceilings improves neither the allocation of resources nor the distribution of income. Moreover, the money supply oriented policy currently practised by the central bank does not fit properly into the political guidelines of the ANC. A change in the direction of monetary policy towards a more Keynesian oriented interest rate targeting would therefore not be surprising.

The ANC's affirmative action programmes are in general regarded in South Africa as justified, above all when the programmes support equal opportunities on the labour market and do not foresee the introduction of strict quotas for upper management, for which in the short term there will hardly be enough qualified workers from those sections of the population which were previously disadvantaged by the apartheid laws.

Finally, it must be regarded as extremely problematical that the promises made in the ANC policies have not

yet been backed up by a conclusive funding concept. Furthermore, many of the ANC's ideas are still very open to interpretation. If these ideas were expressed more concretely this could stabilize the expectations of economic agents and might contribute to a better general framework for economic activity.

The election results can be interpreted as a clear sign that the vast majority of the South African population is in favour of a peaceful transitional period. Although some radical parties called for an election boycott and tried to disturb the voting process, the overwhelming majority of South Africans voted for a pragmatic policy. The transitional government now faces a vicious circle: without political stability South Africa will remain underinvested and therefore not enough new jobs will be created, but without a reduction in unemployment it will be difficult to stabilize the political environment in South Africa. In the foreground, therefore, is the problem of fulfilling in the short term the material expectations of the black majority. In view of the poor state of the economy, however, the government will not find it easy to live up to the pressure of these expectations.

### General Economic Framework

South Africa is gradually recovering from a long recession which led to negative real growth rates of the gross national product in recent years (cf. Table 1). The poor state of the economy in South Africa at the beginning of the nineties was mainly due to drastic decreases in agricultural output following a serious drought. Although the highest per capita incomes in the African continent are achieved in South Africa, they have been falling continually since 1989 and in 1992 had reached their 1971 level. In general, economic dynamism in southern Africa seems to be weakening more and more, while a number of Latin American countries (particularly Chile and Argentina) are increasingly becoming more attractive for foreign investors now that they are recovering from the debt crisis. The dynamics of South Africa's economy does not bear comparison to the newly industrialising countries of Southeast Asia at all. In southern Africa in recent years impressive growth rates have been achieved only by Botswana (cf. Table 2).

The rate of unemployment in the formal sector in South Africa has now exceeded 40% due to the stagnation of the economy and the overcompensation of the increases in labour productivity by wage rises. Even after the incorporation of the informal sector, which absorbs a considerable proportion of the black population, the rate of unemployment is estimated at over 20%. The high labour costs and the partly subsidized capital costs result for

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South Africa in a too capital-intensive production which does not correspond to the country's factor endowment: the capital-labour ratio is now estimated to be twice as high in South Africa as in countries with a comparable per capita income. Altogether, there is basically an adequate labour force available to foreign investors, but the critical situation of the mainly black unemployed could lead to increasing political instability.

From the point of view of economic stability, relevant criteria for locational decisions by multinational enterprises are, in particular, low inflation, budget discipline and a stable and realistic exchange rate. Recently the inflation rate in South Africa fell short of 10% due to a very restrictive monetary policy, having reached an average of 14.4% in the eighties. With regard to inflation South Africa is still in a better position than the Latin American countries, but it is behind the competing countries of Southeast Asia (cf. Table 2). The budget in South Africa is expansively oriented, in particular because of the present problems in the economy. New debts rose sharply, however, due to inadequate revenue—with the risk of higher real interest rates and thus of lower incentives for private investment.

South Africa's real exchange rate, weighted in relation to its six most important trading partners, has been basically stable since the reintroduction of a dual currency system with the "financial rand" as the investment currency, in contrast to the situation in a number of other countries in southern Africa. The continual depreciation of the rand since the end of the eighties is a result mainly of the currency's strong dependency on the gold price. The difference in value between the financial rand and the commercial rand can be interpreted as a reflection of the confidence foreign investors have in the future development of South Africa. The greater this difference is, the less is their confidence in the South African economy. This indicator shows that the investment climate was worst in South Africa in 1986, that it recovered strongly in 1990 and 1991, and that in 1993 it fell back to its 1989 level (cf. Table 1).

### Locational Factors

South Africa as a geographical location is characterized essentially by its endowment with natural resources. In the agricultural sector, it is the leading African producer of sugar cane, maize and a large variety of fruits. Agricultural production essentially covers the country's own needs and in many areas surpluses for export are also attained. About 30% of total South African exports are agricultural products, so that this sector ranks second, behind mining, in South Africa's exporting

industries. An exception to this rule were the recent years of drought, in which the drastic reduction in harvests made the import of major agricultural goods necessary. Now that agricultural output in South Africa has recovered again, the removal of sanctions, the improved foreign policy climate and potential markets in eastern Europe raise hopes of high export growth rates. Particularly the export of tropical fruits is presently showing remarkable growth.

Furthermore, South Africa has among the world's biggest endowments of a large number of minerals. It has more than 75% of the world's reserves of platinum,

**Table 1**  
**Economic Development of South Africa**  
**1985-1993**

Year	GDP <sup>1</sup> Million Rand	Growth %	Inflation <sup>2</sup> %	Exchange Rate <sup>3</sup> Decline %
1985	112,448		16.4	39.29
1986	112,459	0.01	18.5	50.91
1987	114,220	1.57	16.2	34.60
1988	118,558	3.80	12.7	40.65
1989	121,216	2.24	14.7	26.84
1990	120,488	-0.60	14.4	23.53
1991	119,838	-0.54	15.3	12.96
1992	117,037	-2.34	13.9	41.33
1993	119,549	2.15	9.7	28.30

<sup>1</sup> GDP = gross domestic product at 1985 prices.

<sup>2</sup> Change in the consumer price index.

<sup>3</sup> The exchange rate decline is calculated as the percentage difference between the financial and the commercial rand.

**Table 2**  
**Basic Indicators in Selected Countries**

	Per capita Income 1991 in US-\$	GDP Growth 1980-1991 %	GDP Growth 1992 %	Inflation 1980-1991 %	Inflation 1993 %
South Africa	2,560	1.3	-2.3	14.1	9.7
Mozambique	80	-0.1	-0.5	37.6	35.2
Zambia	n.a.	0.8	-2.8	n.a.	187.2
Zimbabwe	650	3.1	-8.3	12.5	27.6
Lesotho	580	5.5	1.3	13.6	13.2
Malawi	230	3.1	-8.0	14.9	22.7
Namibia	1,460	1.0	5.0	12.6	17.7
Botswana	2,530	9.8	8.8	13.2	14.3
Tanzania	100	2.9	4.1	25.7	22.1
Thailand	1,570	7.9	7.6	3.7	3.6
Malaysia	2,520	5.7	8.5	1.7	3.4
Singapore	14,210	6.6	6.7	5.6	2.4
South Korea	6,330	9.6	4.8	1.9	4.8
Hong Kong	13,430	6.9	3.9	7.5	8.7
Argentina	2,790	-1.5	8.6	416.9	10.6
Brazil	2,940	0.5	-0.9	327.6	2146.3
Chile	2,160	1.6	10.4	20.5	12.7
Mexico	3,030	-0.5	2.6	66.5	9.8
Venezuela	2,730	-1.3	7.3	21.2	38.1

n.a. = not available.

Figures in italics are for years other than those in the column heading.

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manganese and chromium. The most important export raw materials are coal, gold, platinum and diamonds. Altogether, mining is responsible for more than 50% of South Africa's export revenues. The present stagnation of hard coal exports is due firstly to the loss of traditional markets as a result of sanctions and secondly to the increasing competition on the world market since the opening of eastern Europe. South Africa is, furthermore, the world's largest producer of gold, with a share of 27.7%. Structural problems dominate at present, however, in the gold-mining industry due to the gradual exhaustion of the mines and the falling gold content of the extracted gold ore. Regarding the export of platinum, an increase in world demand is to be expected due to stricter environmental regulations as the metals of the platinum group are of central importance in the production of catalysts especially for the automobile industry. South Africa also has the world's second largest deposits of diamonds. The present stagnation on the world diamond market is a result of the additional supply of diamonds from Angola and of falling demand in western industrialized countries. A recovery of the market could result from the improvement of the economic climate in Japan and the USA as well as from increasing purchasing power in the countries of eastern Europe.

The South African financial system is relatively highly developed in comparison with those of other developing countries. The objective of the central bank, which enjoys a high reputation even internationally, is price stability. With its monetaristic concept the central bank has been quite successful since the early eighties, when it gained more independence. In addition, enterprises can fall back upon a well-developed credit sector as well as on a stock exchange in Johannesburg for equity financing. There are also a number of government institutions which provide public funds for the financing of specific projects. Finally, compared to the ACP countries South Africa has a well-developed infrastructure in roads, railways, ports and telecommunications. South Africa's railways are connected to a network reaching as far as the mining province of Shaba in Zaire and Dar-es-Salaam in Tanzania. South Africa could thus gradually grow into the role of a "bridgehead" for supplying the markets of southern Africa.

Furthermore, only a well-trained labour force can ensure a strong investment climate, and human capital plays a very important role for the potential growth of an economy. Although South Africa has the highest level of human capital in southern Africa as measured on the "Human Development Index", it cannot compare with either the Latin American or the Southeast Asian countries. The apartheid policy of the last decades has left

deep marks, particularly in the educational sector. Education in South Africa is very unequally distributed among racial groups. Especially the education of the black population needs great improvement. It is estimated that about a quarter of black pupils leave school after only one year, i.e. even before they have some basic skills in reading and writing. This has resulted in an illiteracy rate in South Africa of about 30%, which is higher than in all of the comparable countries in Southeast Asia or Latin America. It is even higher than in some sub-Saharan African countries, such as Zambia or Botswana (cf. Table 3). At the same time, South Africa is presently suffering from a shortage of qualified workers and teachers for the black community.

Summing up to this point, in the short run there does not seem to be much scope for a dynamic development in South Africa. Despite a number of undeniably positive qualities as an industrial location, especially as regards natural resources and its financial and transport and communications infrastructure, it seems to be unrealistic that South Africa will, in the foreseeable future, grow as rapidly as the dynamic Southeast Asian economies. In addition, a number of Latin American countries which are

**Table 3**  
**South Africa's Endowment with Human Capital**  
**Compared to Other Selected Countries**

	Human Development Index	Literacy	Education/GNP
	1989	1990 %	1989 %
South Africa	0.673	70.0	4.6
Mozambique	0.154	32.9	n.a.
Zambia	0.318	72.8	2.9
Zimbabwe	0.398	66.9	8.2
Lesotho	0.431	78.0	4.0
Malawi	0.168	47.0	3.3
Namibia	0.289	40.0	1.9
Botswana	0.552	73.6	5.6
Tanzania	0.268	65.0	3.7
Thailand	0.715	93.0	3.8
Malaysia	0.790	78.3	5.5
Singapore	0.848	88.0	3.4
South Korea	0.872	96.3	3.6
Hong Kong	0.913	90.0	2.8
Argentina	0.832	95.3	1.5
Brazil	0.730	81.1	3.9
Chile	0.864	93.4	2.9
Mexico	0.805	87.6	4.1
Venezuela	0.824	88.1	4.1
Germany	0.957	99.0	4.5

*Italic figures = estimates by the UNDP.*

n.a. = not available.

The Human Development Index is a number without dimension, calculated from life expectancy, real per capita income and level of education.

opening themselves to world markets at present offer more attractive locational conditions than the Republic of South Africa or southern Africa. Therefore, the new government in South Africa should take immediate action to improve the general economic framework in order to increase the attractiveness of southern Africa as an industrial location.

### **Economic Policy Needs**

In order to consolidate democracy in South Africa it is necessary to improve decisively the situation of the vast majority of the population. The South African government can support this objective by pragmatic and predictable policies as well as by refraining from populist measures with regard to the distribution of income. This also means that those parties which represent the underprivileged sections of the population must correct the unrealistic demands of their voters as soon as possible and, for example, point out that the necessary structural changes in South Africa can also raise social costs in the short run. In order not to endanger political stability, however, this process of restructuring must be accompanied by programmes directed towards fighting poverty. Since these programmes should have positive growth effects, the best strategies for combating poverty are to be found firstly in the development of improved educational and health systems and secondly in the creation of functioning capital markets for small borrowers. In the short term, additional government expenditure to combat poverty will be necessary. This expenditure should be used as far as possible to produce public goods to the benefit of the poor.

Barriers to access by innovative small businesses to the formal financial markets and the problems of funding housing in the townships and rural areas can be countered by small credit programmes. The existing state financial institutions in South Africa – especially the Small Business Development Corporation and the Development Bank of South Africa – offer a good start for the implementation of such programmes as they have already had experience in this area. These banks should offer credit at market-oriented conditions, pay strict attention to achieving a high repayment rate and, as far as possible, grant credits only to those who have no access to the formal banking system. Finally, it could be considered expanding such programmes by further services such as marketing or technological consultation.

In the field of human capital there exists a socially accepted scope for redistribution as well as a potential for increasing the efficiency of resource allocation in South Africa. Measures which are capable of doing justice to both of these goals at the same time are ideal for strengthening political stability. In future, expenditure

on education should concentrate first of all on primary education. This will directly lead to a restructuring of expenditure in favour of the black population. Finally, there must also be a restructuring of funding in the tertiary sector in order to overcome the bottlenecks in the technical and administrative fields and in job training. A similar strategy should be followed in the health system: firstly, government intervention should essentially cover basic health care, and secondly, private insurance should be taken into consideration for funding more advanced health services.

The ANC programme does not yet contain a convincing concept for the financing of the additional expenditure. The restructuring of expenditure will not be sufficient to mobilize the necessary additional funds. Monetary financing of the additional expenditure would only superficially satisfy the needs of the poor. The resulting "inflation tax" would, for one thing, have a strongly regressive effect and, for another, it would undermine the credibility of the central bank. Higher taxes are also unsuitable as South Africa's tax burden is already relatively high on an international scale. Excessively high domestic government debts should also be avoided, as they can lead to higher real interest rates and to a crowding-out of private investment. However, in contrast to a number of Latin American and eastern European countries, South Africa's foreign debts are at present relatively low. Foreign indebtedness is therefore particularly suitable for funding investments in the sphere of human capital-building and in the creation of functioning capital markets, at least as far as high social rates of return are to be expected from these investments.

Monetary policy should be able to continue action independently of the government and be directed towards maintaining price stability. Within the framework of the new central bank law, which is still to be created, the ANC has the chance to signalize its commitment to the principles of a market economy. There are already many indications that the new government will guarantee the independence of the central bank, although there are influential fractions in the ANC who consider stronger political control of the central bank to be desirable. Finally, the central bank should make an effort to abolish the dual currency system within the next few years.

The most important parties have now recognized that there is a need to give foreign trade policy a new direction. The policy of import substitution and autarky with regard to strategic goods, which was followed for several decades and was intensified by sanctions, should be replaced by an export-led trade regime in order to promote the competitiveness of enterprises and to increase the country's import capacity. The change in paradigm in the

foreign trade regime must, however, be regarded rather as a long-term phenomenon, requiring a period of restructuring in the entire economy. Priority must be given to the extensive liberalization of foreign trade, even though in view of the threat of unemployment selective adjustment assistance should be considered for a transitional period. Nevertheless, the future welfare of South Africa will be strongly determined by the speed of its successful reintegration into the world market.

### Regional Cooperation and Integration

The new government wishes in future on the one hand to participate fully in the GATT mechanisms and on the other to promote regional integration in Africa. This is not necessarily a contradiction if the member states intend that the region should follow an open trade policy, no matter what form of regional economic cooperation is aimed for and how intense it is intended to be. The political reforms and the end of the "Cold War" now bind South Africa more closely to the rest of southern Africa, which in the past tended to try to reduce its dependence on that country. In the meantime, many countries in southern Africa have recognized that only the Republic of South Africa, in view of its relatively large economy, can guarantee the success of economic integration in the region. Once stability is achieved in South Africa, the strengthening of its integration into the markets of southern Africa promises welfare gains for all the countries involved.

Opportunities for regional integration are, in principle, to be found within the framework of the Southern African Customs Union (SACU), of which South Africa is already a member, in the Southern African Development Community (SADC) and in the Preferential Trade Area for Eastern and Southern African States (PTA).<sup>1</sup> Talks are already taking place between South Africa and the SADC as well as the PTA. In view of the potential migration pressure South Africa will probably not extend its cooperation with larger countries in southern Africa beyond a free trade zone or a customs union. Correspondingly, an integration model with several levels would seem a possibility: South Africa and Lesotho could form an economic union at the centre, Swaziland could be integrated with the two countries to form a common market, and the remaining SADC members (Namibia and

Botswana) could finally be added to form a customs union. Other countries in southern Africa could then be taken into the union when their currencies satisfy a minimum requirement regarding convertibility. In a transitional period they could be granted preferential market access by means of association agreements. When choosing the form of future cooperation, it should be taken into account that some companies in South Africa have already established close contacts to neighbouring countries and to other countries in the region.

Although the opening of regional markets would probably expand South Africa's exports in the short term, in the long term it would impose additional adjustment pressures on South Africa, because of the possible relocation of labour-intensive, low-technology branches of production to neighbouring countries offering lower labour costs.

### Outlook

South Africa's need for reform continues beyond the elections. Even if the new South African government retains the country's traditional openness towards multinational enterprises, an investment boom by foreign companies in South Africa is not to be expected in the foreseeable future. In particular, the political environment in South Africa is still too unstable to provide confidence for foreign investors. The political situation in most of the Southeast Asian and Latin American countries is currently considered to be more stable than in South Africa. With regard to its qualities as a production location, South Africa cannot compete with the newly industrializing countries of Southeast Asia and it is increasingly losing ground to the reforming countries of Latin America in the international competition for capital. The reasons for this are to be found in the considerable distortions in the South African economy that require considerable reform efforts throughout a rather long transition period.

If the new government initiates the necessary reforms within the context of credible and market-friendly policies, South Africa will in the medium term offer good opportunities for more intensive international cooperation. In particular South Africa's excellent endowment with natural resources already makes it one of the world's most important suppliers of raw materials today. In the future, these connections might develop into technical and financial cooperation between international and South African companies. In the course of its political stabilization and its reintegration into the world markets South Africa could, because of its well-developed infrastructure both in finance and in transport and communications, also serve multinational enterprises as a "bridgehead" to southern Africa.

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<sup>1</sup> The members of the SACU are Botswana, Lesotho, Namibia, South Africa and Swaziland. The SADC consists of Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe. Angola, Burundi, the Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Rwanda, Somalia, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe are organized in the PTA.