**NOTES FOR A SPEECH TO THE SEMINAR ON SOUTH AFRICA'S FOREIGN RELATIONS AND THE CREATION OF NATIONAL WEALTH AND SOCIAL WELFARE - CENTRE FOR EUROPEAN STUDY IN AFRICA, RAND AFRIKAANS UNIVERSITY**

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Thank you for inviting me here today, Professor Olivier, fellow speakers and ladies and gentlemen, to address your seminar.

The timing of this topic is particularly good: We hold this meeting at the end of a week when the world's markets – and our own – have taken a serious bruising, and then, just as suddenly, turned up again; a time when our President is again on a mission to try to help rebuild a violence-torn, traumatized part of our region, Rwanda, and, when, at home, we are about to launch the Intergovernmental Fiscal Review, which gives us keen insight into how our provinces are delivering the most crucial parts of our national budget: education, heath and welfare.

It is not an easy time in the world.

That's a truism. It is also a truism that those of us in government have learnt that we not only have to be thick-skinned, as indeed all good politicians need to learn, but also how to take the blame for everything, including those things outside our control. When OPEC raises the oil price, when that price is driven up by a seemingly intractable situation in the Middle East, we know that we, as a country, must not only take the pain, but we as government often get the blame.

Yesterday a columnist in Business Report, Ann Crotty might well have summed it up for us when she wrote, "It would be difficult to figure out how governing this country could be made even a little more challenging."

But one thing we can't say about South Africans is that we've failed to rise to challenges.

A short six years ago we inherited a country torn apart by conflict, a country whose finances were, to put it politely, in a mess.

We inherited a fiscal deficit in the dying days of apartheid of some 10 percent.

We had to make some hard decisions. If we were going to attract investment and promote growth, we had to get our borrowing down.

Our deficit this year is some 2.6% and will stay at that level despite unexpected expenditure on the flood disasters we experienced earlier this year.

On the monetary side, we are pursuing disciplined policies. We have set an inflation target for 2002, and the Reserve Bank is using the clout and the instruments given to it by the constitution to achieve this.

We are concentrating on creating this kind stability and certainty, precisely so that business can make rational decisions in a stable environment.
Precisely because we believe the stability and the strength of our economic management matters, particularly in a world as volatile as ours.

If we want our economy to grow, we have to have the environment that attracts that elusive thing we know as FDI – foreign direct investment—and makes domestic investors comfortable.

We need to keep a steady course in a stormy world.

Even those in the richest country in the world should not be too complacent. Writing this week in Newsweek, the American economist, Robert J Samuelson, warns: "Ours is a world of free-flowing capital. Companies, mutual funds and individuals increasingly invest across national borders. This is one of globalisations' most erratic – and brutal—upheavals."

Before we mourn the rand, we should consider the numbers in the United States. In March of this year, foreigners owned $1.4 trillion worth of US stocks or 7 % of the totals; they held $1.3 trillion of US federal debt – a staggering 35 percent of the total.

The US economy stamps its mark on the whole world.

Perhaps we *can* mourn the rand's tumble, particularly yesterday: as we watched, as spoke on telephones, as we went about our work, the rand fell, two cents, five cents, at one point nearly 10 cents in as many minutes. But we should ask whether this is a reflection of our own economy, or of a global surge.

Because as the rand tumbled, so did the Euro, the Australian dollar, the New Zealand dollar, the Indonesian rupiah and the Greek drachma.

Since the beginning of this year, the rand has fallen some 25% against the dollar; the Euro has fallen 20%, the Australian dollar 27% and the New Zealand dollar a staggering 32%.

Samuelson writes: "The magnitude of capital inflows into the United States ought to give Americans pause. They could reflect America's genuine strengths – or represent speculative excess. We have entered into unexplored territory …even for the United States, what goes around comes around."

Of course this is not to say that many investors don't make rational business decisions – that is precisely why we have put such great store on sound economic management. But there is also this phenomenon of markets that react – or over-react – on perceptions.

Far be it from me to "dis" the markets, as younger people might say, but listen to what no less authoritative voice than the Economist has to say about this phenomenon of the perceptions that drives capital flows.

In an article on technical analysts called "Heads, shoulders and broadening bottoms" --the headline describes the shape of a graph of movements in the equity markets-- the magazine makes the distinction between real empirical trends, and the short term analysis of technical experts in the following way: "Economists who study financial markets have long regarded technical analysis as mumbo-jumbo, bearing much the same relationship to rigorous economic "fundamental analysis" that astrology does to astronomy."

So we're dealing with feelings masquerading as reality.
But in South Africa, faced with the task, as we are, of rebuilding our country, and making it globally competitive, we cannot afford to depend on horoscopes for our analysis.

When we are faced with the kind of volatility that happened on our own markets yesterday, we have to keep our eyes fixed beyond those humps and on the road ahead.

We have had to work to attract investment, and to secure the fundamentals so that we can promote the growth that will allow us to keep our pact with the electorate and offer, not only a better life for all, but also a life with dignity.

Our foreign portfolio investment inflows – about R82 billion last year – is about 10% of GDP. But this capital moves in and out at the speed of an electronic impulse. Our foreign direct investment last year was about R8.4 billion in contrast – only about 1% of GDP, clearly a strong improvement since 1993, when it was a paltry R33 million. Yet it is still not enough to sustain the kind of growth we need.

But we should also bear in mind that, as we have freed up our own economy, our big firms, such as our mining houses, are increasingly free to operate as global players. In the past they had to channel their profits into investments in breweries, motor vehicle plants, newspapers and all manner of industries in which they had neither interest nor expertise; now they have divested themselves of these non-core businesses and are becoming global players in the industries they understand.

But this kind of financial restructuring means capital outflows on our balance of payments from time to time. This is what it means to move beyond a siege economy.

Sometimes in this country we allow ourselves to be intoxicated with gloom and doom scenarios, to the extent that we forget that we hold very real attractions for many investors. The success story at BMW is just one example.

BMW established its major export plant for right-hand drive cars here, in Pretoria. IN just a few years it has increased the value of those exports from about R1 billion to more than R6 billion. We sometimes forget that other companies like Landrover or Corningware, have chosen our country as base for their production and exports.

Many of our own firms have shown themselves to be increasingly adaptable and innovative in the face of this wave of unprecedented globalisation.

Foreign direct investment by South African firms between 1996 and 1998 has averaged 7 percent of total South African gross capital formation. This is in line with the world average of 8 per cent during this period and is almost double that of developing countries.

In particular, South African firms have been quick to take advantage of unexploited investment opportunities in many of our neighbouring countries. By 1999, South African investors accounted for approximately 50% of total FDI into the SADC region, according to Business Map.

“The world is as it is,” wrote VS Naipul in his novel "A Bend in the River” set in the Congo.
Yes, the world is at it is. It is ours, yet it is not entirely ours. The only way we can make it more ours is to engage with it in a meaningful way.

Last month we chaired the annual meetings of the IMF and World Bank in Prague, where we put on the table the most serious issue facing the world today: the growing and desperate impoverishment of almost half the world’s people who live on less than $2 a day.
Most of these people live in Africa, our continent. Most live in countries crippled by an unsustainable burden of debt. Most live in countries that, although they depend on the multi-lateral institutions often for a lifeline, have only a paltry say in how decisions are made. Sub-Saharan

African countries – comprising some 43 of the poorest countries in the world – has a voting share of under five percent compared with the 47% vote that the G7 countries have in these institutions.

It might be very fashionable amongst protestors in the richer countries to demand that they be closed down, but the reality of the world we live in is that, at most, four countries in the whole continent of Africa have access to private capital markets, even though many African governments have reduced their deficits and increased their growth rates.

Where, if the world closes its doors on Africa, are the poor countries to get the capital necessary to launch sustainable development?

It becomes, sometimes, easy to blame the victims of poverty: Poor governance and corruption are issues, to be sure, but an overwhelming one is also that the world is open to Africa only on a limited basis. The cumulative value of trade barriers to African exports to the OECD countries totals a staggering $300 billion – a total equivalent to the combined GDP of all of sub-Saharan Africa. If the governments and civil society of the developed world are serious about the fight against global poverty, they should be more comfortable taking a dose of the "free trade" medicine that they so liberally prescribe to the developing world.

These are the issues that we are now in a position to take up because we can walk in the world with our heads held high.

Next week, we go to the G20 meeting in Canada – a group that includes "systemically significant" countries. Countries, like ourselves, influential, although not powerful; countries with a voice; with potential. The G20 provides us with an opportunity to make new allies among the middle powers to engage with the G7; to push for structural change in a world where the inequalities are often reinforced by what, in the post Cold war era, has been a completely lopsided balance of power.

We do this for ourselves, but we also need to engage on behalf of our neighbours. Because if our neighbours fall by the wayside, we are dragged down too.

We cannot isolate ourselves from our continent or our neighbours. If we are to pursue development at home, we must engage with the institutions and countries that have marked our collective past and still shape our future so that we can shape our own children's inheritance.

This brings me to the challenges that face us here in our own country: the challenge of sustainable development.

Let me return for a moment to the column by Ann Crotty. "Every single group in our country," she writes, "is loudly demanding the rights granted to it by a constitution that makes the UK look like a totalitarian state. It is an impressive constitution that is enforced by a vigorous court and sadly its full application would probably paralyse the government."

Well, perhaps it is sadly true that there are few politicians in the world who do not get momentarily irritated by the often-cumbersome processes of democracy.

But we believe that an enduring strength of our country is precisely that it is built on a kind of vigour AND consensualism that is guarded by strong public institutions. We have myriad institutions designed to accommodate the varying demands of our once riven society, from Parliament to Nedlac, from the Public Protector to the Constitutional Court, from an independent Reserve Bank to a vibrant civil society.

We are blessed with a wealth of political and social capital that channels conflict creatively and constructively. Our democracy is the clearest example of that.

And in this process of vigorous debate, many facts are forgotten or overlooked. One is that government's economic policy, GEAR, was passed by delegates of the governing party at its 1997 congress, not because macro balances are any kind of religion, but because we believed that in order to deliver on reconstruction and development, we needed sound, stable and disciplined policies that would enable us to deliver social services and pursue growth at the same time.

It is worth reminding ourselves that for every R1 billion we don't borrow, we have an extra R150 million to spend on clinics, on schools, on infrastructure. But more than that, if we take on the luxury of excessive debt in this generation, we are burdening our children, who are this country's future.

Today we launch the Intergovernmental Fiscal Review, a complete and consolidated account of our provincial budgets and local government finances. The provinces are in the frontline of delivery of social services. This year, we can say that we have made some important gains. For instance, the huge rate of personnel expenditure in education has declined a little, leaving more money to be spent on schools, textbooks and computers. Financial management has improved and the provinces have turned around a deficit of R5.5 million in 1997/98 to a surplus of R549 million in the last fiscal year; education expenditure is expected to grow at an average of about 6.4% over the medium term.

We have substantially shifted our social spending with real results. So for instance, in 1991, the average black child was likely to be in a classroom with 44 classmates in primary school and 36 in secondary school. By 1997, this had changed to having an average primary school class of 37 in primary and 32 in secondary schools.

The same redistributive pattern is evident in expenditure on health, social security, housing and water.

We still have a long way to go. A report released this week by the Development Policy research Unit at UCT remarks that although South Africa could be classified as a middle-income country, its social indicators suggest that living standards for many of our people are closer to that of a low income country. And the racial inequality is still huge. Of those households living below the poverty line, some 96% are African.

There is as great a correlation between poverty and lack of education and between unemployment and lack of education. This is why we spend the biggest chunk of our Budget – R51 billion – on education. It spending for today, but its also investment for tomorrow.

In conclusion, let me say that the world we live in has never presented more exciting or difficult challenges. In the post-Cold War era of volatile markets and capital flows, it becomes increasingly difficult and dangerous to make mistakes. Yet the opportunities the world opens to us, particularly as a developing country, have never been so broad

To reap the rewards of globalisation we need a strong base: sound economic fundamentals but also a people who can at last shake themselves free of the crippling burdens of our history.
Our task of the moment is to pursue a strategy for growth and development that will carry us through the world in this century. Our task of the moment is also to work with our poorer neighbours to promote regional integration and trade so that we can participate in the global economy as a region.

In Michael Ondaatjie's book, Anil's Ghost, one of the Sri Lankan protagonists remarks to the expatriate heroine who is about to leave Sri Lanka: "American movies, English books – remember how they all end. The American, the Englishman gets in a plane and leaves. That's it. The camera leaves with him. He looks out the window a Mombassa, or Vietnam, or Jakarta, some place now he can look at through the clouds, the tired hero. He's going home. So the war, to all purposes, is over."

But this is not Hollywood, and for most of us there is no plane to get onto, no clouds to fly into.
This is our country. Let's make this our moment.

I thank you.