Groupwork Assignment Submission 1 M3

Macroeconomic, historical assessment of the situation in South Africa for 1990-2009

# Abstract

The assignment requires students to reflect on the content and the theory covered in the course as well as previous courses to analyse the effects of policy and global politics of South African economy for the period early 1990s through 2009.

# Introduction

## Economic profile of South Africa for period 1990-2009 and current

In nominal terms, the economy of South Africa recorded GDP of ~$376 Bn (~$790 BN in PPP terms) in 2018 or 1.3% growth[[1]](#footnote-1).

Currently, South Africa is the most industrialized economy and 2nd largest economy in Africa; and is considered one of the four middle-income economies[[2]](#footnote-2) in sub-Saharan Africa. With Industrials contributing ~23% of GDP, its main industries are mining platinum, gold, diamond, etc. auto assembly, metalworking, machinery, textiles, iron & steel, chemicals, fertilizer, foodstuffs, commercial ship repair etc. Its major trading partners include China, US, India, Japan.

its est. 2011 FDI stock stood at ~$74 Bn. On BoP front, its gross external debt stood at ~$48 Bn. Public revenues stood at ~$95 Bn. and public expenses at ~$117 Bn, which has been growing steadily. In 2017 public debt stood at 51% of its GDP.

Long term credit outlook is stable with S&P rating of BB and Moody’s rating of Baa3.

Since lifting of international sanctions in 1996, its (real) economy grew from then ~$170 Bn to ~$300 Bn in 2011[[3]](#footnote-3) or at an average ~2.7% per year.

The first decade of the new regime (democratically elected govt. formed by ANC in 1994) was a promising one for South African economy; during which, the industrial employment picked-up drastically during this period[[4]](#footnote-4). The effects of Reconstruction and Development Program reflected in improvements in poverty rates and shared prosperity[[5]](#footnote-5).

However, post great recession period, the economy began to move southwards and is currently in recessionary phase.

## A quick time lapse of South African Economic history

The first European settlement in southern African subcontinent is recorded to be in around 1652; around Cape Town. It was not originally a colony but a refreshment centre for ships enrooted between Europe and Asia. The Company established a garden at foot of Table Mountain and bartered cattle from Khoikhoi people.

European meanwhile imported slaves and artisans from Malaysia, whose skills have contributed to the clothing being a major industry in the Cape today. Many of the persecuted Huguenots from France and other German and British immigrants began to arrive and grew nascent industrial and modern farming methods. The Khoikhoi people later became willing farm workers.

The continental Europeans merged to speak a Dutch-derived language, Afrikaans, while English remained the official language of business.

The Afrikaners formed two independent inland republics of Zuid Afrikaans Republic (ZAR) and Orange Free State, while the British occupied Cape Colony and Natal. The discovery of diamonds and gold in Cape province in 1866 transformed the ZAR economy and attracted considerable foreign interest and further immigration. The formation of De Beers and Anglo-American was most significant event of its time that transformed the economy of the region. The South African mining sector alone attracted ~60% of foreign investments into whole African Continent.

In order to meet growing demand for the mining sector, the Glen Grey Act, 1894 was a major catalyst. The act imposed payment taxes on locals, which forced locals into the mines. The local mining economy also attracted workers from neighbouring countries/ territories. Soon, as the supply became sufficient, the mining companies formed a cartel to create monopsony and supress wages.

Fast forwarding few years, the effects of great depression were also felt in South Africa. The depression, combined with drought led to forced sale and consolidation of many of these farms, leading to eviction of the residential shopkeepers. These raised the unemployment levels among the white population, which had to compete for jobs with blacks. To aid the ailing ‘white-poverty’ problem, The Commission on the Poor White Problem in South Africa, in 1932, funded by Carnegie Corporation, suggested several steps to alleviate the issue. That would form the foundation of apartheid. The commission recommended reservation of the skilled jobs for whites. Further, the governments formed by Labor-Afrikener Nationalist Party applied sanctions to deny contracts to businesses and mines that would not employ Afrikaners. Post war era saw rapid industrialization of the economy wherein white population would occupy all the occupy dominant positions in the key sectors of the economy.

As a result, full-employment, in combination with labour controls, limitations of free movement of non-white population and use of colour-bars at the company level continued to high levels of disposable income for the white people. However, vast sections of the majority black population remained unskilled, illiterate and lived in deplorable living standards.

The imposition on international sanctions on the country saw first setback to the apartheid system. This was coupled with freezing of investment funds into and out of the country. As a result, despite gold reaching highest levels ever in the 1980s, the South Africans could only invest their surplus domestically to further buy businesses and virtually every activity in the economy.

In 1990s president Frederik Willem recognized this uncertainty of the apartheid system and began negotiations for reforms, along with Nelsen Mandela, which took shaped in 1994 democratic elections.

The African National Congress (ANC) embarked on a policy towards redistribution of wealth and resources under Reconstruction and Development Plan (RDP) and Growth, Employment and Redistribution (GEAR). These program aims at building housing and other infrastructure and imparting skills and education for the black masses in a sustainable manner.

# Methods

The ANC, led by Mandela was voted to power with a mandate to redress the social imbalances created by the apartheid government to the majority of population in the country. The Reconstruction and Development policy was brought in response to that. The policy aimed at redistributing resources to the majority population. The policy framework comprised of building mass housing and civic utilities and amenities, raising health and education infrastructure for the masses and above all, bringing land reform, or redistributing land from minorities to majorities.

The second president of South Africa, upon assuming power in 1999, in its attempt to address declining GDP with rising inflation and a WTO mandate to adopt sound macro policies, replaced Growth, Employment and Redistribution (GEAR) framework. GEAR was in a way a revised version of RDP. Its salient features were:

1. Focus on fiscal deficit reduction.
2. Focus on budget reforms to strengthen redistributive thrust of expenditure.
3. Reduction in tariffs to contain input prices and facilitate industrial restructuring, compensating partly for exchange rate depreciation.
4. A commitment to moderate wage demands.
5. Exchange rate policy to keep the real effective rate stable at a competitive level.
6. A prudent monetary policy to curb rising inflation.
7. Continue global relaxation of exchange controls
8. Speeding up restructuring of state-owned assets
9. Tax incentive to stimulate new investment in labour absorbing industries/ projects.
10. Expansionary infrastructure program to make up for the backlog of social infrastructure.

# Results

A 2001 World Bank Annual Forum paper evaluated the implementation of GEAR program as a mixed result. The paper argues the outcome of GEAR program to be mixed on following grounds:

1. In trade policy reforms, although the non-tariff barriers have been removed, the tariff structure is still discouraging. Further, an environment of anti-export bias for many commodities prevails coupled with lack of tariff rebate system prevents exporting firms to obtain inputs at world prices.
2. The labour market reform front, various discriminatory policy have been addressed, providing fair protection of workers’ rights and improving benefits and condition of employments. However, not enough have been done to create demand for jobs. Moreover, the majority of the South African work force that is unskilled, still has a very high unemployment rate.
3. Sectorial deregulation have preceded slowly, disappointing potential international investors and sending mixed signals regarding govt.’s commitment.
4. Capital flow imbalances. South African investment abroad have increased during the said period, but capital inflows haven’t grown much.
5. Challenged exchange rate stability; both due to international as well as domestic factors. Integration with global economy meant dealing with unexpected international ‘shocks’, particularly experienced during Asian Crisis. On the other hand, defensive interventions to support the rand during this period generated a net position in foreign exchange market that was of its reserves. Although it reduced subsequently, it still remains a concern.

As a result of the above discussed factors, the economy failed to achieve its target 6% growth and create 400K jobs annually.

# Discussion

~~For researching on this topic I read several journal articles, white papers and gazettes and viewed several SA parliamentary footages, media coverage etc. One observation that prevailed over all was, immense racial prejudice and resentment amongst all stakeholders of the South African society, including the elected representatives. Their socio-economic policies are centred towards getting even with the oppressor rather than having inclusive economic growth as their priority. After the National Afrikaner Party was ousted there is no right wing representation in South African parliament, making it a less than functional democracy. As a result, the policies promulgated (including RDP and GEAR) have heavy Marxist influence. Such policies would dry out public finances which could otherwise be used for increasing overall productivity (thereby alleviating poverty). Not to mention these socialist policies are poorly executed by less than competent officials.~~

Despite prudence on monetary front, several structural legacy and policy factors could be attributed to poor economic performance. The 2001 paper rightly argues that the long term sustained growth derive from “structural supply side” concerns and not “demand management” issues. To buttress that claim is that fact that suboptimal development of the country’s agricultural sector and informal sector.

Secondly, the labour market is inflexible in that favouritism and ‘insider-outsider’ dynamics are pretty much prevalent; and on industrial relations front, trade unions have upper hand.

# References

1. Source: [↑](#footnote-ref-1)
2. Surce: [↑](#footnote-ref-2)
3. Source: [↑](#footnote-ref-3)
4. Source: [↑](#footnote-ref-4)
5. Source: [↑](#footnote-ref-5)