Case Studies in Risk Management
Group Work Project

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1 Introduction

In the previous submissions there was an introduction to the South African economy between 1994 and 2009. In that period there were various policies introduced by the South African government, such as the Reconstruction and Development Program (RDP); the Growth, Employment and Redistribution (GEAR); and the the Accelerated and Shared Growth Initiative for South Africa (ASGISA). These policies intended to establish more equal society through reconstruction and development (Du Plessis et al., 2006), stimulate faster economic growth (History, 2014), and reduce the poverty and unemployment (History, 2014).

The goal of this submission is to discuss the policies and analyze their impact in the South African economy throughout the years following the apartheid until 2009.

2 The growing problems in South Africa

2.1 Public and Monetary policy

In 1994, the first socio-economic program - the Reconstruction and Development program, was put in place to establish more equal society and development as well as strengthening the democracy (Du Plessis et al., 2006). The program had five major policies that included: creating a strong, dynamic and balanced economy; developing human resource capacity of all South Africans; ensuring that no one suffers racial or gender discrimination in hiring, promotion or training situations; developing a prosperous, balanced regional economy in Southern Africa; and democratizing the state and society (Baten, 2016).

The economic impact generated by these policies was not as good as expected due to several issues, among them the poor tax collection strategies and poor fiscal organization. Therefore, in 1996, the government introduced a new macroeconomic policy framework - the Growth, Employment and Redistribution strategy, that aimed to stimulate faster growth by reducing fiscal deficits, lowering inflation, maintaining exchange rate stability and decrease barriers to trade, and liberalizing capital flows (History, 2014).

However, even with the introduction of these major policies the economic growth was minor, private investment was not beneficent enough to overcome the unemployment rates, and the disparity in wealth distribution continued to exist. Due to this, in 2005, the government initiated another program - the Accelerated and Shared Growth Initiative for South Africa that had the goal of improving the previous policies adopted by the government, mainly by reducing poverty and unemployment (Du Plessis et al., 2006).

Moreover, the open trade and investment globally helped the financial sector expand. Other sectors were also positively affected, and that prompted a reduction in tariffs and foreign sanctions that had been implemented during the apartheid. In the early to mid 2000s there was a boom in the global commodity market that drove the employment upwards and increased economic growth of the South Africa (Bhorat et al., 2007).

As referred previously, various economic and monetary policies were introduced since the apartheid in 1994. Figure 1 shows the foreign investment, or the direct investment equity flows (sum of equity capital, reinvestment of earnings, and other capital) in South Africa between 1994 and 2009. It is possible to see that the foreign direct investment was very unstable wit the direct investment equity flows (sum of equity capital, reinvestment of earnings, and other capital) in South Africa between 1994 and 2009. It is possible to see that the foreign direct investment was very unstable with many up and down

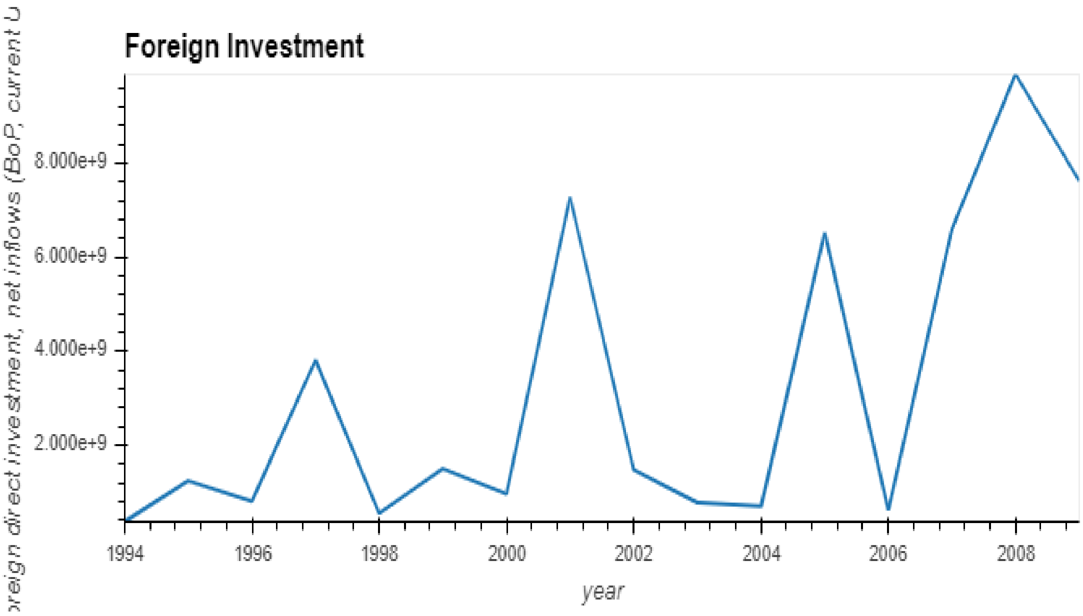

Figure 1: Foreign Investment

movements. With the introduction of the RDP in 1994, the foreign investment improved slightly in the first year and dropped the year after. In 1996, the introduction of the GEAR also prompted an increase in foreign investment although also short lived as two years after the introduction of the policy foreign investment had dropped to levels below the ones registered prior to the introduction of the policy in 1996. After the 2000 crash we can see a peak in foreign investment that was a signal of the reduction of tariffs and foreign sanctions as well as the search in international markets for gold and other natural resources that are abundant in South Africa along with the boom in the commodity market. Shortly after, in 2004 the foreign investment was back to low levels and had another climb in the year after. In 2005, the year of the introduction of ASGISA program, the foreign investment dropped sharply throughout the year, however after that it increased over the years until the Great Recession hit in 2008. The major European investors in South Africa were the United Kingdom and the Netherlands (University, 2019) and they were also highly affected by the crisis and thus the drop in foreign investment was ordinary.

In figure 2, we can observe the Growth Domestic Product of South Africa between 1994 and 2009. Growth Domestic Product is the sum of gross value added by all resident producers in the economy with product taxes and without subsidies. We can see that until 2002 the GDP was steadily decreasing. This means that the policies introduced by the government (the RDP and the GEAR) had what can be considered a negative impact in this economic indicator. After 2002, with the decay of tariffs and foreign sanctions, the GDP had a great recovery, with a slight decrease between 2007 and 2008 prompted by the Great Recession that indirectly affected the South African economy due to their ties with United Kingdom and the Netherlands.

In figure 3, it is possible to see the Real Interest Rate in percentage terms. Real interest rate is the lending interest rate adjusted for inflation (Bank, 2019). We can see that there was an upward peak after the apartheid until 1998. After that, the Real Interest Rate decreased at a very good rate until 2002, following a global trend in the global interest rates. It is possible to infer that the RDP and GEAR policies did not

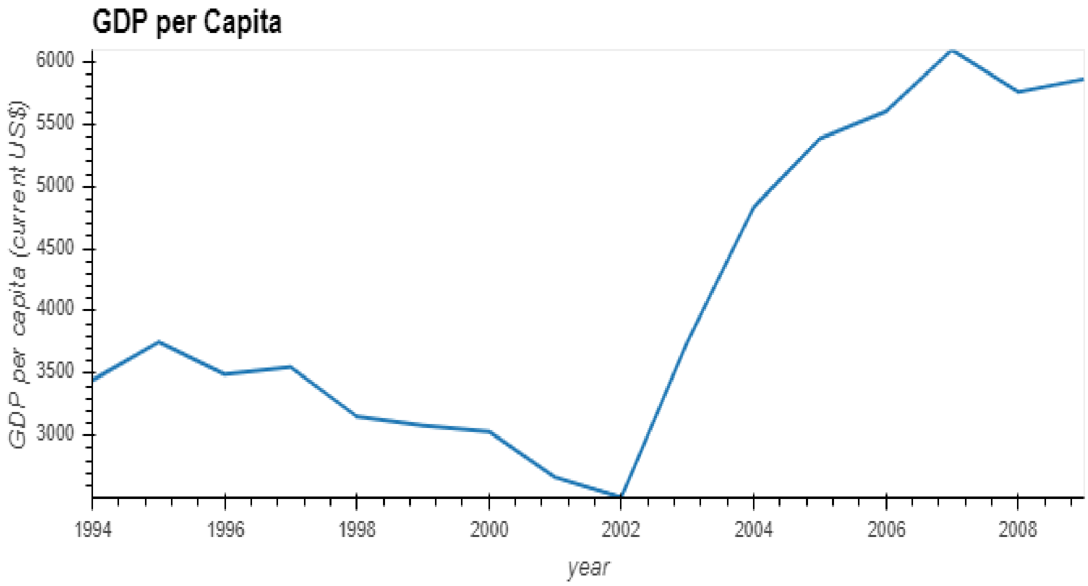

Figure 2: Gross Domestic Product

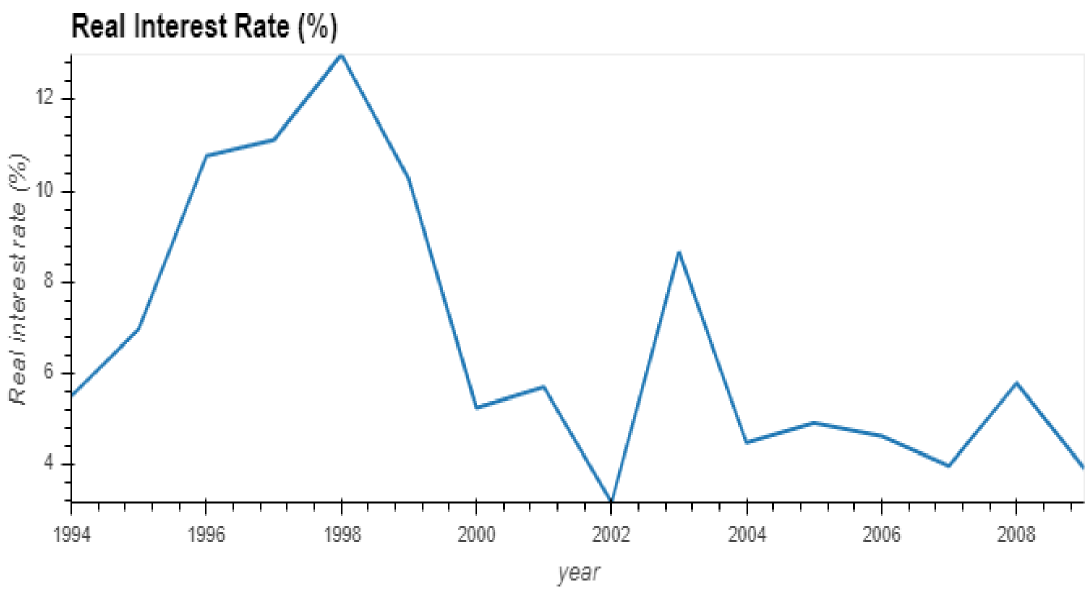

Figure 3: Real Interest Rate

impact the Real Interest Rates in the short term, however they had some impact in the long run. After 2005, the Real Interest Rate has remained fairly constant which is a possible indication of the political and economic stability in the country helped by the introduction of the ASGISA program.

Broad Money between 1994 and 2009 is shown in figure 4. Broad Money is defined as the sum of currency outside banks (Bank, 2019). We can see that it has steadily been rising since the apartheid with short falls prior or during times of global crisis around 2000 and 2008. This means that over the years people are spending more money in the economy with exceptions of times of crisis where they tend to restrict their investments.

According to Bank (2011), in 2009 South Africa went into a recession as there was an increase in unemployment, inflation and government debt. This coupled with the drop

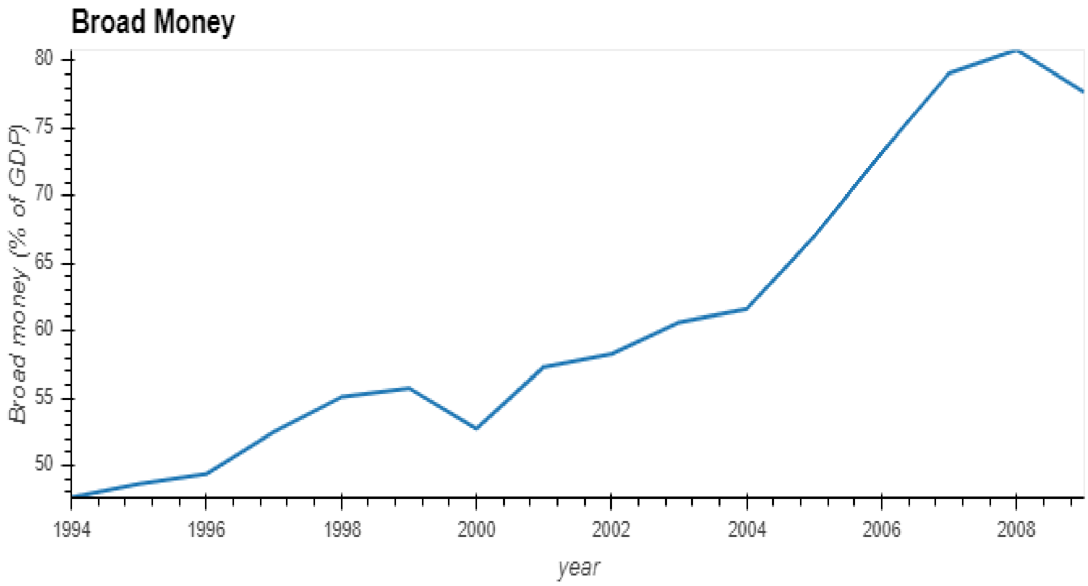

Figure 4: Broad Money

in GDP and the poor global economic environment created a situation of depression in the economy. Looking only at our plots, we can see that they are all in a downward movement (with the exception of the GDP that remains fairly stagnate). That was already an indication of hard times for the South African economy that compiled with the Great Depression worldwide was a hard hit for the people of South Africa which was one of the most affected countries in the continent of Africa (University, 2019).

2.2 Brief discussion of possible future problems

Throughout the years after the apartheid there have been some major policy changes. After the Great Recession of 2007/08, the South African economy was also affected due to the ties of South Africa with major global economies such as the United Kingdom and the Netherlands, among others (University, 2019). This will be another challenge for the South African government to deal with. As observed in the plots in the prior section, most of the economic indicators slowed or decreased during that time and the government may be forced to introduce new policies to address those problems.

Unemployment and inequality will also be a major part of the discussions of the South African government. Although there have been great advances in this area, there is still a lot to do when it comes to racial, social and economic problems (Bank, 2011).

The financial sector is arguably one of the strongest sectors in South African economy benefiting from reforms in the 1990s and adopting global financial standards (Bank, 2019). Due to this, it is expected that it will continue to sustain the economy with the help of other sectors such as the retail and wholesale industry.

3 Conclusion

After this analysis, despite some defiances, it is possible to conclude that more economic and development changes were put in place in comparison with the times prior to the apartheid. The rise in economic growth, political and economic stability may be attributed to the major policies that were introduced by the government after 1994 up to 2009. Good governance and effective communication in addressing major economic challenges were also important in the implementation of these measures.

The policies that have been implemented through this period have progressively strengthened the economy. However, due to poverty and unemployment among the least educated population, the current policies aim to ensure a well distributed prosperity across the different habitants of South Africa. Policy change is an ongoing phenomenon and at every point in time it must be re-evaluated to ensure progress and sustainability. The South African government is required to consider all perspectives when reviewing policies and implement those that will keep the population functional and avoid any risk that is likely to disrupt the peace of the nation.

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