South Africa's Economic Prospects

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South Africa faces formidable challenges, and the economic future of Africa may well depend on its success. John Hall assesses the odds and worries that rapid population growth could prove too great a burden even for this extraordinary new government.

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Time and again, African leaders have rejected the European colonial legacy as a paradigm for economic development and have pursued various, often nationalistic programs deemed to be uniquely African. But no successful examples deserving of emulation have emerged, as some have failed more miserably than others. There have, of course, been hybrid Africanized–European paradigms: African versions of Marxist humanism, of socialism, of central planning. Then there are the Hitleresque or Stalinesque strongman dictatorships. There have even been examples of lackluster British- and French-style parliamentary wrangling. Each of these has typically ended at the same point: stagnating or declining living standards for the population (see Table 1), often compounded by the growing income disparity and deepening foreign indebtedness (see Table 2).

WHITHER WASHINGTON?

There is now also the "Washington" solution, which is based on structural adjustments imposed by the IMF. Fiscal discipline is externally imposed with the ostensible goal of restricting money supply growth so as to reduce inflation and lower interest rates. This program of fiscal discipline is complemented by marketization, which typically includes privatizing state companies, introducing markets for land, and improving production incentives through reworking taxation.

But neither does the Washington solution appear to have the character and substance of a durable answer to sub-Saharan Africa's problems. If a nation's policies are so out of control that an economic structural adjustments program (ESAP) must be imposed from the outside, there is also only a slight chance that the nation's leaders have either the interest or the capacity to implement such adjustments resolutely and successfully. Poorly administered programs do little to improve a nation's economic performance. Chronic budget deficits, inflation, and high interest rates appear endemic to both Zambia and Zimbabwe, for example, even after years of structural adjustments.

Table 1

GNP Per Capita in Selected Years and for Selected Countries
(in Current U.S. Dollars)

Country	1970–75	1980–85	1987–92
Angola	n.a.	$700	$650
Kenya	230	310	310
Malawi	120	170	210
Mozambique	n.a.	190	60
Tanzania	170	290	110
Zaire	410	250	230
Zambia	560	350	450
Zimbabwe	550	640	570

Source: Social Indicators of Development, 1994. World Bank.

Table 2

Total Debt to GDP in Selected Years and for Selected Countries
(as Percent, and Based on Calculations in U.S. Dollars)

Country	1980	1985	1991	1992	1993
Angola	n.a.	36.3	n.a.	n.a.	n.a.
Kenya	46.7	67.0	87.2	79.5	96.2
Malawi	66.3	90.0	76.4	91.8	91.1
Mozambique	n.a.	105.9	327.8	385.5	333.5
Tanzania	48.2	54.3	202.7	244.6	n.a.
Zaire	34.8	85.8	n.a.	n.a.	n.a.
Zambia	84.0	203.2	214.3	221.6	184.9
Zimbabwe	14.7	53.4	52.7	70.4	77.3

Source: Trends in Developing Economies, 1994. World Bank.

Both have sunk deep into debt relative to GDP output (see Table 2). There is growing income inequality, and the level of social welfare would decline even more if it were not artificially propped up by the billions provided as donor aid.

Some cynics think the Washington model works only so long as those enduring the accelerated impoverishment generated by the adjustments remain duped by its novelty or are just too famished to take action against it. African leaders also appear to have a vested interest in mimicking free-market rhetoric; it plays well in the Beltway and brings in the aid flows in the 1990s. Such flows are typically large enough to ensure personal enrichment for leaders, even though the nation's economy is likely to be sliding down a cavernous hole. The important outcome is that international corporations (typically from donor countries) are able to buy up favorably priced assets in Africa's Third World. The improved economic performance never seems to materialize.

Finally, now that the cold war is over, a Soviet-style option no longer exists for sub-Saharan Africa. There is no alternative to Washington's solution. So, structural adjustments are said to work in the 1990s, and there appears to be no challenge.

The exception may be South Africa.

TOWARD THE EURO-AFRICAN PARADIGM

South Africa's current experiment may well be the last attempt based on a European paradigm—but an adapted, sobered version—to be tried on the African

Table 3

Population Growth Rates in Selected Years and for Selected Countries
(as Percent of 100)

Country	1980–85	1985–93
Angola	2.7	2.9
Kenya	4.0	3.4
Malawi	3.2	3.3
Mozambique	2.6	2.6
Tanzania	3.2	3.0
Zaire	3.2	3.3
Zambia	3.4	3.1
Zimbabwe	3.5	3.1

Source: Trends in Developing Economies, 1994. World Bank.

continent. It must, however, be qualified: South Africa has been freed of cold war encumbrances and separated from its colonial history for almost five decades. In South Africa, the European economic model has been experimented with for more than four hundred years.

While often castigated for their bull-headedness, the motley collection of Afrikaaners and wayward British commonwealthers need to be given some credit. They did carve a home for themselves on the African continent, and South Africa is the only economy in sub-Saharan Africa with a significant economic output from products other than minerals and raw materials. There is a sizable manufacturing sector, a technology sector, and a well-functioning financial sector. After great pressure from within and outside—and equally great obstinacy—apartheid has finally been rejected and dismantled.

There are, moreover, signs of economic recovery. Among them are increases in the growth rate of output, including manufacturing, as well as the growth rate of investment, especially foreign investment. Yet these promising indicators—which are clear reversals from the last decade's miserable performance—appear more closely related to the results of the elections in April 1994. The world community responded by reversing policies that had isolated South Africa: reopening export markets, facilitating technology transfers, and releasing capital flows.

In assessing South Africa's economic prospects, however, a series of questions need to be raised. Should South Africa's performance over the last eighteen months be seen as a recovery? In other words, is South Africa merely bouncing back to the previous level of activity after the lifting of sanctions? Or, is it taking the high road? Specifically, we must determine whether an important and needed transformation is taking place, a transformation that will ensure a robust economic performance for South Africa's economy, a performance that is sustainable and that could also spill over and lift up other economies in southern Africa. The future of the southern end of the continent and of the millions of people making their homes there are caught up in the answers to these difficult questions.

GRASPING AN ECONOMIC ENIGMA

South Africa is the only African economy with a large and well-developed infrastructure. The railroad and road network stretches far and is well maintained. Its telecommunications grid is the largest and most advanced on the continent. Johannesburg is justly known as Africa's financial center. There one finds the continent's most active stock market and well-organized gold and diamond exchanges. The university system and training programs are, by a wide margin, the largest and finest on the African continent, providing a sizable and well-qualified work force. South Africa's universities contribute to its indigenous pool of labor, specializing in research and development. Its medical professionals and system of university hospitals are prepared to deal with the wide range of human ailments endemic to the tropical regions of the world. Its agricultural capacity is quite large and can be extended across national borders to increase food output on a continent where such production has decreased in real terms since the 1960s.

Now that apartheid has ended, South Africa serves as the most favorable location for investment in that hemisphere. It has the only national economy that can absorb massive capital investments: it has the infrastructure, integrated industry, financial sector, and human resources to ensure a comparatively high rate of capital efficiency. With its integration into trade organizations such as SADC (Southern Africa Development Community) and COMESA (Common Market for Eastern and Southern Africa), South Africa now benefits from favorable and protected access to extensive markets with high rates of population growth, stretching as far north as Kenya. As for raw materials extraction, South Africans are the most experienced in making mining projects perform in Africa's chaotic business environment. Apartheid's abolition brings the welcome ending of its pariah status among African nations. So, access to the continent's minerals is again wide open.

Multinational corporations that had pulled out either willfully or under the pressure of sanctions and the international boycott are indeed moving back in. Some are testing the waters. Others are investing quickly, in an attempt to make up for lost time. In both cases, the interest in South Africa arises from its position as the largest and most dynamic economy on the African continent. In short, its performance is judged relative to the poor performance of neighboring economies. To be distinguished as the main performer on the African continent, however, says little about international competitiveness and whether an economy is losing ground—that is, falling behind relative to advanced countries in the European Union, East Asia, and North America.

We should remember that in comparison to advanced nations South Africa has indeed lost ground over the last two decades. Once considered in the league of advanced nations, its status is now that of a developing country. This is partly related to changing proportions, as the number of impoverished and disenfranchised has increased relative to the affluent and privileged. This may be a consequence of apartheid, but it is also a feature commonly found on the African continent. It appears related to population growth due to improved health services, especially immunizations that lower infant mortality, while birth rates have not adjusted to this change.

The great increase in population growth in recent decades makes it difficult for South Africa—or for that matter most sub-Saharan nations—to produce a net increase in output over and above population growth. This poses what is perhaps South Africa's most serious challenge: effective family planning policies are necessary if the cycle of population growth outstripping growth rate of output is to be reversed. From 1960 to 1990, South Africa's population essentially doubled, from 17.4 to 35.3 million, and is expected to double yet again, to 80 million by the year 2025 (*Statisches Jahrbuch 1992: Fuer das Ausland.* Wiesbaden: Metzler and Poeschel, p. 213). An extraordinarily successful economic program is indeed needed to keep pace with this population growth.

THE CHALLENGE OF TRANSITION

Most transitions in sub-Saharan Africa have meant the end of the dominance of white Europeans in public administration. Most transitions have pressed the issue of black "empowerment" and have instituted multifaceted programs designed to bring the indigenous populations into the economic driver's seat. These programs have included the nationalization of mines and industries. Many commercial farms producing crops for the colonial mother country have typically been broken up and redistributed as part of land reform programs.

The problem that has emerged is that those propelled into power by the democratic process drain productive resources. The nation tends to fall behind those countries that are not caught in this pernicious cycle of economics overinfluenced by race and politics. If there are great increases in population, poverty spreads rapidly. These appear to be the forces at work in Zambia and Zimbabwe, two of South Africa's neighbors to the north.

IS SOUTH AFRICA'S TRANSITION DIFFERENT?

There are several features that distinguish South Africa's transition to majority rule from the transitions of its neighbors. Most important, it is not caught up in a program of decolonization that was completed in the first part of this century. In addition, South Africa's political transition is unique in that does not involve the creation of a host of new economic institutions.

As an example, South Africa has not needed to issue a new currency, which for many countries in transition has lost its value relative to other currencies. An institution such as the Reserve Bank does not have to undergo a major restructuring, including a recruitment program in search of qualified leaders as expatriates are squeezed out. In fact, South Africa's is the first transition on the continent where qualified labor is not an issue. Qualified people are already there.

Bending or changing direction based on establishing a new set of priorities is the issue. If achieved, there are real gains to be realized. Spending on weapons manufacture and internal security—both of which seemed necessary to enforce apartheid—is now reduced, freeing up resources. Investments in energy independence, such as the expensive Moss Gas project along the Southern Cape, which never generated much more than construction jobs, can now be diverted to modernizing petrochemicals.

The internal boycotts and labor strife that were once clearly divided along racial lines are less relevant now that open and active political participation of all citizens is supported by constitutional changes. There were also a sizable number of people who were opposed to apartheid and lived abroad. Many have returned from exile to lend their support to this new era.

Finally, South Africa is the only African nation to start its transition after the end of the cold war. This reduces internal and border tensions and greatly reduces the forces that historically contributed to instability in other African countries. This also means that a mixed economy will remain the paradigm of choice. It is not too different from the model of the past, though now it is more strongly influenced by social-democratic policies.

The challenges indeed remain. The greatest may well be whether a minority can raise the income of the majority that were historically disenfranchised. The size differentials and relative weights are so great that income transfers would be of limited use. The emphasis must be on production and employment.

In some cases, policies seem already to have gone too far. The current Affirmative Action Program, for example, is contributing to the emigration of a generation of recent university graduates. There is also the real possibility that South Africa's whites will seek to cut their perceived losses and gravitate toward a geographic area, such as the Western Cape, where they have some political representation and can comfortably isolate and protect themselves.

South Africa's challenges are indeed formidable. Fortunately, the first part of the transition has gone smoothly. Its current leadership has broad support. More time is needed, however, to judge whether South Africa is indeed taking the high road in this recovery and can contribute to a significant improvement in southern Africa's economic future.