South Africa’s Quest for Inclusive Development

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Abstract

The end of apartheid in 1994 ushered in a new era in South Africa and with it came the challenge of building a democratic, inclusive and stable society. The government led by the African National Congress initially followed a neoliberal stance to manage the economy and a redistributive strategy to close the income disparity with a streak of a developmental state. These two tracks were at times at odds with each other.

The last decade has shown widening inequality and slow progress in addressing poverty, deprivations and other dimensions of wellbeing. Economic growth resulted in huge regional disparities and left a large middle-class vulnerable to uncertainties. In response, the government adopted an ambitious strategy called the New Growth Path that combined the goal of strong economic growth, job creation and broad economic opportunity in one coherent framework. This effort towards greater inclusion is not without challenges.

Keywords: South Africa, Neoliberalism, Inclusive Development, New Growth Path.
1. **Introduction:**

The end of apartheid and the coming to power of the African National Congress (ANC) redefined the development paradigm in South Africa. The new government, after many years of social and economic malaise, adopted a neoliberal view on economic development. As a first step, prudent macroeconomic policies combined with political stability had positive effects on investment and GDP growth. To foster inclusion, the government launched the Black Economic Empowerment (BEE) program in order to address the huge racial economic inequality inherited from the apartheid regime. Democracy, together with macroeconomic stability helped to transform South Africa into a regional economic power with a strong influence in Africa and around the world. In 2011, the country joined the BRICS (Brazil, Russia, India, China and South Africa) as an emerging economy with an important regional influence.

However, neither neoliberalism nor the BEE and few other social protection initiatives could address poverty and inequality that remained entrenched to this date. In the last two decades, South Africa has faced a very low standard of education and one of the highest unemployment rates in the World. When it comes to racial and regional disparity, South Africa is also one of the most unequal countries in the World. Furthermore, economists often agreed on the disappointing levels of growth that the country has recorded since the democratic transition. Compared to other emerging countries such as Chile, it appears that South Africa’s GDP growth could have been much higher with a more inclusive growth policy. The huge social problems which are apartheid’s legacy remain a threat for the socio-political order. Recently, South Africa attempted to consolidate the neoliberalism practice with an inclusive development approach into a common framework by adopting the New Growth Path (NGP). The challenge for the government is to accelerate a shared and balanced growth.

The objective of this chapter is to show the interplay of ideas and experiences that have shaped South Africa’s path of development in the pre and post-apartheid era. Section 1 gives an overview of the change in the development paradigm as well as the socio-economic performances from the apartheid’s regime to the democratic South Africa. Section 2 focuses on the neoliberal shortfalls and South Africa’s challenges in achieving high and inclusive growth. Finally, Section 3 deals with the concept of growth inclusiveness for the future of South Africa’s social democracy and draws some lessons from the Chile’s experience in implementing this concept.

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2 This is close to what is popularly known as the Washington Consensus. Williamson (1989) first used the term «Washington Consensus» to describe the reform package based on private sector development, trade and financial liberalization and market deregulation that the World Bank and the International Monetary Fund imposed on developing countries as a precondition to receive aid. It has become afterwards synonymous of neoliberalism.
2. From Apartheid to a Democratic South Africa

South Africa’s experience confirms that development is a combination of economic, institutional and political factors. Democracy has been crucial in attracting foreign investment, building confidence and creating an environment conducive to growth. As argued by Faulkner and Loewald (2008), growth trends revolved around political change. As shown in Figure 1, after reaching a peak in 1980, South Africa’s economy continued to deteriorate until the end of apartheid in 1994. The recovery in post-apartheid period was slow with momentum achieved only in the mid-2000. Recently, GDP per capita has been growing at rate higher than the country’s historic potential. But, most of the growth has come from expansion in domestic demand putting pressure on government budget which deteriorated significantly since the global economic crisis in 2008/09 (Figure 2).

**Figure 1: Trends in actual and potential per capita GDP in South Africa: 1960-2010**

![Graph showing trends in actual and potential per capita GDP](source: AfDB database (2011) and authors’ computations)

**Figure 2 - Fiscal Balance (% of GDP)**

![Graph showing fiscal balance](source: AfDB Database (2011))
The willingness to integrate previously disadvantaged groups within the formal economy has expanded both the domestic demand and supply. The reintegration of the country within the world economy has increased foreign investment and demand for South African products leading to better economic growth. In contrast, the apartheid era clearly appears as a period of economic and social stagnation.

### 2.1 The Social and Economic Malaise of the Apartheid Era

Prior to 1994, South Africa went through a period of declining and volatile economic growth (Figure 3) and high inflation rates. Economic growth was mainly driven by changes in commodity prices, notably gold and other minerals. Between 1970 and 1994, Faulkner and Loewald (2008) demonstrate that investment declined, employment growth slowed down and competitiveness worsened. In opposition to the apartheid government, the international community imposed trade and financial sanctions to the country.

**Figure 3: Trends in real GDP growth in South Africa: 1960-2010**

Apartheid was a political system “predicated on a racially exclusive institutional framework that eroded political rights and freedoms, property rights and generated high levels of political uncertainty”³. During apartheid, Black South Africans were legally excluded from any political and economic participation. They were discriminated against in employment, skills development, in business ownership and control as well as in access to basic social and physical infrastructures. The social security system was designed mainly for whites. The result was predictable. South Africa relied for decades on natural resources to continue to grow with little investment on human and physical resources to stay competitive and dynamic. As a result, the economy lost its competitiveness edge rapidly from which it has yet to recover fully (Figure 4).

³ Fedderke et al, (2001)
The historical exclusion of the majority of citizens from sharing the country’s wealth and opportunities created structural rifts that would take decades to mend. In consequence, inequality and chronic poverty persist in the midst of wealth and prosperity. For the ruling party, the dilemma of ensuring a successful transition without disrupting social, political and economic fabric is evident; hence it may not be surprising if its quest for an inclusive development strategy may continue to be elusive.

**Figure 4: Trends in total factor productivity in South Africa: 1980-2010**

Source: AfDB database (2011).

### 2.2 South Africa’s Development Paradigm

After apartheid, development policy in South Africa focused on the debate over the superiority of either state-controlled or market systems. As many other developing countries, South Africa expected that globalization and the replacement of traditional industries by modern sectors would become a panacea for economic development. In consequence, South Africa’s government has restrained its intervention in the economy so as not to obstruct the free market in line with a neoliberal approach to economic policy. It was also clear that the legacy of racial and regional disparity caused by the apartheid era could not be left to the market to be resolved. An active role of the state was needed. The government took steps to address the needs of the disadvantaged groups through improved public service delivery (low cost housing, water and electricity), social safety nets and most importantly the Black Economic Empowerment (BEE) initiative which has attracted enormous interest on both sides of the ideological divide. Chart 1 below summarizes the policy orientation of the government of South Africa as it evolved in a post-apartheid period. The recent emphasis on job creation and a much more active engagement of the state gives the redistributive strategy more a streak of a developmental state than a neoliberal stance. These apparently two-track approaches are discussed in turn in the next sub-sections where the Growth,
Employment and Redistribution (GEAR) was the first to embody neoliberal model while some of the elements of the redistributive strategy reflect a developmental state approach particularly the BEE and the recent New Growth Path (NGP).

**Chart 1: Evolution of growth and redistributive Strategies in South Africa**

2.2.1 *The Growth, Employment and Redistribution (GEAR) Strategy*

In 1996, the Growth, Employment and Redistribution (GEAR) strategy followed the Reconstruction and Development Programme (RDP) that was put in place at the end of the apartheid era in 1994. The GEAR strategy focused on (i) macroeconomic stabilization and (ii) trade and financial liberalization as a priority to foster economic growth, increase employment and reduce poverty. The GEAR was designed along the neo-liberal convictions to economic policy where priority was given to liberalize the economy, allow prices, including exchange rates to be determined through market forces, protect property rights, and improve the environment for doing business. As a consequence, the South Africa’s government reduced fiscal deficits, lowered inflation, maintained exchange rate stability, privatized state assets, cut tax on company profit and decreased barriers to trade and liberalized capital flows. The final objective was to get a 6% annual growth rate by 2000 by encouraging private investment.\(^4\)

\(^4\) Only in 2006, South Africa’s GDP growth reached 6% (see Figure 1).
According to Khamfula (2004), the fiscal policy has been the major success of the post-apartheid era. Following the autonomy of the SARS (South African Revenue Service) in 1997, there has been significant improvement in revenue collection. Moreover, within the MTEF (Medium Term Expenditure Framework), budgeting gained greater certainty for planning and implementing policy programs in a three-year rolling framework. The fiscal restraint combined with a strategic efficient allocation of resources led to a significantly reduced fiscal deficit. As shown on Figure 2, the fiscal deficit has been kept below 3% of GDP over 1998/99 and 2008/09. Public debt levels were below 40% of GDP. The South African government is committed to transparency and good governance in allocating public resources.

However, the GEAR faced multiple challenges. It was one strategy – adopting market oriented reforms - with many objectives. The assumption that redistribution would come from job creation in a context of reduced public expenditures was not realistic. The global economic crisis in 1998 with a decline in world demand for South Africa’s exports such as gold put an end to the GEAR strategy. Both monetary and fiscal policies had to be relaxed. First, Mid-1998, the exchange rate stability which was maintained by high interest rates to avoid capital flight was dropped in favor of the independence of the monetary policy. In February 2000, South Africa formally adopted an inflation-targeting monetary policy framework to maintain inflation between 3% and 6%. On the fiscal policy side, South Africa adopted a counter-cyclical fiscal policy stance in 2006. Fiscal policy has become expansionary since 2009/10 as shown in Figure 2. As a result, the neoliberal policy adopted by South Africa was not sustainable.

Since the end of the apartheid, South Africa’s growth strategy has focused on both domestic and foreign private investment. Nowadays, South Africa’s private business regulatory climate is one of the most conducive in Africa. The *Ease of Doing Business* Report (World Bank, 2012) ranks South Africa as the 35th easiest country to do business globally.

2.2.2 The BEE: The Very First Step towards Inclusive Development

The first democratic government faced the enormous challenge of having South Africa’s development based on cohesion, inclusion and opportunity. The ANC therefore launched the Black Economic Empowerment (BEE) to rectify inequalities by giving economic opportunities to disadvantaged groups. In that sense, it was the first step towards inclusive growth.

The 1994 RDP had an initial ambitious social development plan, to extend rights and to alleviate black South Africans’ poverty, with a focus on openness, civil liberties and land redistribution. The ANC wanted to balance both the need for market stability with the demand for justice. However, the 1996 GEAR has led to reduced state subsidies to private welfare organisations. For Gray (2006), social security became the only poverty alleviation measure within the development welfare system. Indeed, in the post-1994 period, the right to social security and assistance has been secured for all people in need and the benefits to children have been
expanded. The White paper for Social Welfare, published in 1997, introduced the concept of “developmental social welfare” which means that both social and economic developments are interdependent and mutually reinforced.

The year 2003 appears as a reversal of priorities in the South Africa’s development approach with a focus on equity and social development. This change emerged in 2003 with the publication of a very critical report on socio-economic rights by the South African Human Rights Commission. The South African Social Security Agency (SASSA) was created in 2005. Since 2003, BEE has become BBBEE - the new Broad-based Black Economic Empowerment policy whose strategy is presented in Table 1. Indeed, the 2001 report of the Black Economic Empowerment Commission⁵ pointed out the fact that the BEE needed to be broadened and hence more inclusive.

In 1994, corporate South Africa appointed black non-executive directors and sold businesses to black empowerment groups. Financial institutions provided funding for black people without capital to go into business. The BEE program was however interrupted by the global market crisis in late 1998. For Andrews (2008), the outcomes of the BEE program have been mitigated. BEE beneficiaries were a small closed group, especially because the BEE structures were protected by elites. A second generation empowerment was slower, but more meaningful. All along the years, BEE has changed from black acquisition in SMEs to a process with specific measures aimed at increasing black equity and participation at all levels of the society.

At inception, BEE garnered political support as it was largely believed that as the participation of disenfranchised groups in economic spheres grows proportionately to their numerical-political power, it would lessen the potential for civil strife thereby preserving business confidence in the economically dominant minority (white South Africans) and eventually producing a non-racial ‘growth coalition’ necessary for sustainable capitalist development (Bräutigam et. al., 2002). Correspondingly, BEE is described as ‘a coherent socio-economic process that brings about significant increases in the number of black people that manage, own and control the country’s economy and a way of reducing income inequalities.’ (Sartorius and Botha, 2008).

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Table 1 - Strategies for fostering BBBEE

<table>
<thead>
<tr>
<th>Policy Instrument</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislation</td>
<td>Government introduced into Parliament a Broad-Based Black Economic Empowerment Bill to establish an enabling framework for the promotion of BEE in South Africa. The legislation allows the Minister of Trade and Industry to issue guidelines and codes of good practice on BEE, as well as establish a BEE Advisory Council.</td>
</tr>
<tr>
<td>Regulation</td>
<td>Government uses a ‘balanced scorecard’ to measure progress made in achieving BEE by enterprises and sectors. The scorecard will measure three core elements of BEE: (i) Direct empowerment through ownership and control of enterprises and assets, (ii) Human resource development and employment equity and (iii) Indirect empowerment through preferential procurement and enterprise development. The scorecard also allows government departments, state-owned enterprises, and other public agencies, to align their own procurement practices and individual BEE strategies. The scorecard also facilitates the process of setting measurable targets for BEE.</td>
</tr>
<tr>
<td>Restructuring of state-owned enterprises</td>
<td>BEE can be achieved through the transfer or sale of an equity stake in a state-owned enterprise (SOE) to black enterprises. Initial public offerings of shares in SOEs can be utilized to promote ownership by black people individually, or by community- and broad-based enterprises, through setting aside discounted shares. Worker and community ownership and management of SOEs is another option that is available to government to pursue BEE. In addition, preferential procurement by SOEs, employment equity, subcontracting, and management development are other means through which the restructuring of SOEs will contribute towards achieving BEE objectives.</td>
</tr>
<tr>
<td>Preferential procurement by government</td>
<td>Preferential procurement is an effective instrument to promote BEE. Clear targets are set to increase the levels of preference to black-owned and black-empowered enterprises. The final target will be set once research on existing levels of black empowerment procurement has been completed. Government will expand its supplier development programs to ensure that more black enterprises are created and are able to meet the requirements of purchasers in the public sector.</td>
</tr>
<tr>
<td>Institutional support and a BEE Advisory Council</td>
<td>A strong, coherent and effective voice of black business is an important part of the BEE. In particular, a strong black business presence is needed in the National Economic Development and Labour Council, the various Sector Education and Training Authorities, and the various Export Councils. Government supports initiatives in this regard. In addition, government establishes a BEE Advisory Council to advise on the implementation of the BEE Strategy. Such advice can be incorporated in codes of good practice that the Minister of Trade and Industry can issue in terms of the Broad-Based Black Economic Empowerment legislation.</td>
</tr>
<tr>
<td>Partnerships and Charters</td>
<td>Government pursues its BEE objectives through two categories of instruments. The first set relates to the use of various government tools to promote BEE, such as procurement, regulation, financing, and institutional support. The second set is the forging of partnerships with the private sector. Partnerships between government and the private sector, including trade unions and community-based organizations, represent a key vehicle for the formulation and implementation of BEE programs at different levels and in different sectors. The complexity of different sectors and enterprises requires a flexible approach that allows each to determine the form and manner in which it will contribute to BEE within the broad parameters outlined in the legislation. Sector- and enterprise-based charters are one form that such partnerships could take. An important element in this regard is the creation and development of new black-owned enterprises. For those medium and smaller enterprises, government will launch an extensive outreach campaign to encourage the adoption of the scorecard approach across the country. Government will issue a Code of Good Practice.</td>
</tr>
</tbody>
</table>

The BEE (through the Broad-based Black Economic Empowerment Policy) envisions the creation and development of new enterprises that produce value adding goods and services; attract new investment and employment opportunities with the aim of redistributing wealth by transforming the ownership of companies and eliminating the racial divide. The fundamental pillars of company transformation include: ownership, management control, employment equity, skills development, preferential procurement, and enterprise development. A company’s BEE status is determined by a scorecard that quantifies performance based on predetermined weights assigned to the seven pillars. According to Sartorius and Botha (2008), BEE has led to a gradual increase in the black middle class, while ownership of capital on the Johannesburg Stock Exchange (JSE) has, as at 2008, grown to 4% due to direct intervention through BEE industry charters, and legislative measures.

Detractors, on the other hand, claim that the lack of coherent definition of BEE measures distorts beneficiary groups and as a result has only served to enrich the politically connected elite and in its current form is patrimonial and an instrument for accumulating patronage (Engdahl and Hauki, 2001; Boshkoff and Mazibuko, 2003). Others fear that BEE measures could impede foreign investment (Southall, 2004 and 2005; Jackson et. al., 2005) and contribute to a widening premium to foreign ownership of firms. While foreign firms are exempt from the BEE ownership provision they are expected to comply with other elements including preferential procurement of inputs from PDI owned companies. However, Mebratie and Bedi (2011) show that after accounting for firm level fixed effects, foreign firms were not more productive than domestically owned firms in South Africa. In other words, since FDI is considered to disproportionately favor more productive firms, and since there are no productivity premium to foreign ownership, compliance with BEE procurement measures are not bound to favor foreign firms vis-à-vis domestic firms.

### 2.3 The Geopolitical Transformation of South Africa

Since the democratic transition, South Africa has displayed remarkable socio-political stability, which has resulted in a strong influence in Africa and internationally. South Africa has the most advanced and diversified economy in Africa. Its geographical position grants it a privileged role as gateway to Sub-Saharan Africa. Trade liberalization has in particular been at the forefront of the country's post-apartheid economic strategy, reflecting a commitment to outward-stimulated development. South Africa also accounts for a significant proportion of global foreign trade even if its shares have recently declined (Kappel, 2010).

South Africa’s key role in economic cooperation and regional integration initiatives is underpinned by the size of its economy (the largest in Africa) and positive growth spill-overs to the rest of the continent. Through its membership in various regional and sub-regional groupings,
the country supports efforts to deepen economic integration in Southern Africa and the continent. Economic integration has accelerated among SADC, EAC and COMESA, covering 26 countries with a market of around 600 million inhabitants and a GDP of about US$1 trillion. The establishment of the Grand FTA (Free Trade Area) is expected to be launched at the end of 2013 (AfDB, OECD, UNDP and UNECA, 2012).

In 2011, South Africa ascended to the position of leading emerging economy by adding an ‘S’ to the BRIC (Brazil, Russia, India and China) group. South Africa is the smallest of the BRICS in terms of population (about 49 million in 2010) and land area (1.22 million km²) but it ranked third in 2011, before China and India, in terms of nominal GDP per capita (USD8,342 at PPP). South Africa is also the only meaningful economic power in the Southern Africa region and in Africa (Kappel, 2010). It exercises leadership with respect to investment, trade, monetary integration and institutional influence. Within the CMA (Common Monetary Area), the South African Reserve Bank influences the foreign exchange regulations and the monetary policy of its member states. Lesotho, Namibia and Swaziland have a fixed currency to the South African rand. The CMA is also allied with the SACU (Southern African Customs Union) with the exception of Botswana which is the only SACU member out of the CMA. South Africa businesses clearly dominate the 15 member states of the SADC (Southern African Development Community).

South Africa’s position as a technologically advanced nation with high-qualified people is demonstrated by its leadership in terms of expenditures for R&D.

3. The Challenges of Post-apartheid Strategies

Following the 1994 democratic transition, South Africa’s pattern of growth has not affected racial and regional disparity significantly. The GEAR was not acceptable to the trade unions who favored the BEE because it involved a very tight fiscal policy and a reduction in social expenditures. For example, while significant achievements have been made in areas such as access to basic water supply, improvement in service delivery remains a priority in South Africa. The quality of health care and education is extremely heterogeneous across provinces. Primary and secondary schools often fail to provide useful employment skills, hence prolonging the severe skill gap inherited from apartheid and hampering economic development and the reduction of unemployment. The gap between disadvantaged (black) and advantaged (white) schools persists, with dramatic differences in repetition and drop-out rates. In addition, important provincial disparities persist in terms of the availability of medical staff and the quality of services. A further problem is that most urban black South Africans are highly concentrated in suburban townships, far from economic opportunities. High transport costs and crime inhibit job searching in townships. Development of skills is a high priority.
3.1 The Shortfall of Neoliberalism as a Development Strategy

Some of the weaknesses of the neoliberal model to economic policy have been discussed extensively\(^6\). The key limitations involve on the lack of reforms and programs to improve quality of education or provide safety nets for the poor. Williamson (2002) summarizes as “disappointing” the results of the neoliberal theory because (i) there were no mechanisms for avoiding the economic crisis, (ii) the implementation of reforms was incomplete and (iii) there was insufficient improvement in income distribution. Williamson (2002) also quotes Chile as a country which has adopted the relevant policy reforms together with the neoliberal approach and has successfully improved long-term economic performances.

Williamson in Kuczynski and Williamson (2003) therefore expanded the reform agenda of the Washington consensus by 10 additional policies to particularly address inequality and social issues:

1. Corporate governance
2. Anti-corruption
3. Flexible labor markets
4. WTO agreements
5. Financial codes and standards
6. Prudent capital-account opening
7. Non-intermediate exchange rate regimes
8. Independent central banks/inflation targeting
9. Social safety nets
10. Targeted poverty reduction

In South Africa, economic growth was a “proxy” for human development. Other things being equal, economic growth should benefit the whole society by market-driven trickle-down effects. No consideration was given to inequality, poverty or social well-being. Sen’s work on social justice and inequalities (1985, 1992) inspired a new conception of development which has led to the growing acknowledgement of the multidimensional nature of development and to different strategies moving from promoting growth to promoting well-being. Sen’s capability approach has contributed to an enlargement of the concept of well-being and to new development strategies. International organizations such as the World Bank (2001, 2006) have adopted the notions of “quality of growth” and “pro-poor growth” which reflect a more important concern about non-monetary dimensions of well-being. Renewed interest laid on process, agency,

\(^6\) W. Easterly (2005), S. Fischer (2003), R. Kanbur (2001), P. Krugman (1990) and D. Rodrik (2006a) have discussed extensively the basic percepts of the neoliberal theory.
institutions and political reforms have started becoming a crucial aspect of the human development agenda. The concept of good governance for social justice which aims at empowering disadvantaged groups such as women, ethnic minorities and the poor, has gained importance. However, most importantly, the global financial crisis in 2009 reinforced the notion that markets are not self-regulating and left the place for interventionism.

3.2 Disappointing Socioeconomic Performances

Before 1994, separate and mostly unequal education services contributed to the creation of large urban communities with no schooling or very low level of education. On human capital development, South Africa is sometimes far above the average regional values (see Table 2).

<table>
<thead>
<tr>
<th></th>
<th>Net Primary enrolment ratios (%) 2006/10</th>
<th>Under 5 mortality (per 1000), 2010</th>
<th>Maternal mortality (per 100 000), 2008</th>
<th>Adult HIV prevalence rate (aged 15-49), 2009</th>
<th>Human Development Index, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>N/A</td>
<td>192.5</td>
<td>610</td>
<td>2</td>
<td>0.486</td>
</tr>
<tr>
<td>Botswana</td>
<td>86.9</td>
<td>44.3</td>
<td>190</td>
<td>24.8</td>
<td>0.633</td>
</tr>
<tr>
<td>Lesotho</td>
<td>73.1</td>
<td>96.2</td>
<td>530</td>
<td>23.6</td>
<td>0.450</td>
</tr>
<tr>
<td>Madagascar</td>
<td>98.5</td>
<td>92.8</td>
<td>440</td>
<td>0.2</td>
<td>0.480</td>
</tr>
<tr>
<td>Malawi</td>
<td>90.8</td>
<td>110.8</td>
<td>510</td>
<td>11</td>
<td>0.400</td>
</tr>
<tr>
<td>Mauritius</td>
<td>94</td>
<td>17</td>
<td>36</td>
<td>1</td>
<td>0.728</td>
</tr>
<tr>
<td>Mozambique</td>
<td>92.3</td>
<td>140.2</td>
<td>550</td>
<td>11.5</td>
<td>0.322</td>
</tr>
<tr>
<td>Namibia</td>
<td>89.1</td>
<td>43.1</td>
<td>180</td>
<td>13.1</td>
<td>0.625</td>
</tr>
<tr>
<td><strong>South Africa</strong></td>
<td><strong>84.7</strong></td>
<td><strong>60.5</strong></td>
<td><strong>410</strong></td>
<td><strong>17.8</strong></td>
<td><strong>0.619</strong></td>
</tr>
<tr>
<td>Swaziland</td>
<td>82.8</td>
<td>88.1</td>
<td>420</td>
<td>25.9</td>
<td>0.522</td>
</tr>
<tr>
<td>Zambia</td>
<td>90.7</td>
<td>146.5</td>
<td>470</td>
<td>13.5</td>
<td>0.430</td>
</tr>
</tbody>
</table>

Source: AfDB Database (2011) and UNDP online.

South Africa has one of the highest unemployment rate in the World, close to 40% if discouraged workers are included (Rodrik, 2006b). The unemployment rate has increased significantly since the democratic transition and has particularly affected the young, unskilled and black populations and those living in homelands and in remote areas. Rural unemployment rates are higher than urban ones. For Rodrik (2006b), the reasons lie on the shrinkage of the non-mineral tradable sector since the early 1990s’ and the weakness of export-oriented manufacturing which have reduced the demand for unskilled workers.

In opposition to the neo-liberal macroeconomic policies, the labor law has been quasi-corporatist in South Africa. The National Economic Development & Labour Advisory Council (NEDLAC) which is a corporatist institution was created for discussing public policies. A debate over a considerable degree of rigidity in hiring and firing workers and rigid labor laws is currently going. While firms are reluctant to hire workers without enough flexibility to fire them, the minimum wage for the 19 year old workers and the ratio of minimum wage to value added is
almost 3 times the average for other BRICS countries (AFDB, OECD, UNDP and UNECA, 2012).

Given the importance of labor income in total household income, unemployment across regions and different socio-economic groups is strongly correlated with the geographic and socio-economic distribution of income and poverty (Duclos and Verdier-Chouchane, 2011). The authors demonstrate that poverty levels in South Africa have remained constant since the advent of the democracy-Figure 5.

**Figure 5 - Poverty (headcount) in South Africa, with a poverty line of USD 3**

South Africa's relatively sophisticated formal economy coexists with a large informal economy such as near-subsistence agriculture. The country further suffers from large socio-economic inequalities in incomes, mostly resulting from the apartheid regime. These disparities manifest themselves geographically and racially, in the form of a high unemployment rate, wide areas of poverty, a significant prevalence of crime and insecurity, and a high degree of economic informality. Most of the economic activity takes place around the province of Gauteng where Johannesburg and Pretoria are located. Figure 6 indicates that poverty varies significantly across regions while the Gini coefficient, reflecting the degree of inequality is high in all regions. The political and economic oppression of the blacks has indeed skewed the country's poverty profile along racial lines (Duclos and Verdier-Chouchane, 2011).
The more deprived population in terms of income and wealth also has more limited access to economic opportunities and basic services. All of this poses important challenges for South Africa's economic and social development. Land redistribution is an ongoing issue. Most farmland is still owned by the white population. Land transfers have so far been mutually agreed by buyers and sellers, but they have been hints of possible expropriations to attain the official objective of transferring 30% of farmland to black South Africans by 2014. As of 2008, however, only between 5 and 7% of land had been transferred, raising doubts on the achievability of the target. A new legislation has been proposed in 2011 to replace the current willing seller-willing buyer model (AfDB, OECD, UNDP and UNECA, 2012).

Beyond the limited progress in social development, South Africa has not realized its full potential in terms of economic growth. The absence of high levels of economic growth is a concern in South Africa, especially when comparison is made among the BRICs or other developing countries such as Chile. Disappointing levels of growth has been highlighted by many experts and has opened the way for a renewed growth policy based on inclusiveness and human development.

4 Future Path of Inclusive Development in South Africa

Recently, official policy has attempted to reorient government spending to fight deprivation in areas such as access to improved health care and quality of education, provision of decent work, sustainability of livelihoods, and development of economic and social infrastructure.

The South Africa’s government is one of the few governments in the World which has committed itself to being a developmental state. The definition of a developmental state has increasingly been given to governments that strive to promote social, economic and political inclusiveness by relying on creative interventions where markets fail and complementing them
where they thrive through partnerships. In 2007, the ANC announced that the South Africa development state will have to be undergirded by the principles of democratic government. However, Van Eck (2010) disagrees with the fact that a developmental state could co-exist with a democracy and prefers the concept of “social democracy” based on the Scandinavian model. For the author, developmental states refer to the East Asian Authoritarian regimes.

4.1 South Africa’s Social Democracy and the New Growth Path (NGP)

In his 2009 inaugural speech, President Jacob Zuma stated:

“It is my pleasure and honor to highlight the key elements of our program of action. The creation of decent work will be at the center of our economic policies and will influence our investment attraction and job creation initiatives. In line with our undertakings, we have to forge ahead to promote a more inclusive economy.”

The speech reflected the deep structural challenges the South African economy had been confronted with in the post-apartheid world: jobless growth fuelled mainly by expansion of domestic demand which coexisted with extreme inequality and severe rate of unemployment (Ministry of Economic Development, 2011). It is indeed a statement that called for a new and bold approach to overcome the social and economic woes the new South Africa faces. In 2010, unemployment rate among the young was close to 40% and inequality during the 2000s was one of the highest in the world where close to 40% of the national income went to the few 10%. It is clear from Figure 7 below that South Africa’s growth in the post-apartheid period came mainly from expansion in the services sector (often non-tradable) while the traditional sources of growth such as agriculture and industry, particularly mining became less and less important for growth hence in the process shading hundreds and thousands of jobs.
The New Growth Path embraces the concept of developmental state where the government confers upon itself a crucial role in directing resources to attain pre-defined social and economic programs. In the NGP the priority is the creation of decent jobs by identifying what is known as areas of “job drivers”. In this setting, public investment is expected to be directed at the promotion of infrastructure development, improving value chain in agriculture and mining, investing in green economy, encouraging light manufacturing sectors, tourism and other high-level services. According to the NGP, the government would like to expand employment to the tune of five million jobs by 2020 through high GDP growth rates and improving the employment intensity of growth which has seen significant decline in the past decade from 0.8 to 0.67.\(^7\) A number of policies should reduce the mismatch between demand and supply of labor and ensure an effective interface between employers and job seekers. The NGP is a very ambitious framework that encompasses a lot of sectors and fields and reconsiders South Africa’s policies in education, skills development, labor, technology and trade. However, the NGP has been inaugurated in 2010 and is currently too recent to be assessed in terms of socioeconomic performances. A draft “National Development Plan: Vision 2030”, by the National Planning Commission is currently undergoing public comment.

Is the NGP a significant departure in the policy orientation of the ANC and thus the government it leads? Chile is another country from which South Africa can draw a lesson.

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\(^7\) Employment intensity of growth or elasticity of employment with respect to growth measures the rate of change in employment per one percent growth in a country’s GDP.
4.2 Lessons from Chile

Chile and South Africa are ranked as upper-middle income economies by the World Bank. One could find a lot of similarities between the two countries in terms of structure of the economy, importance of mining and the role of S&T capacity. South Africa and Chile were both under economic and political difficulties before the advent of democracy. In Chile, it was because of Pinochet’s dictatorship until 1990 while in South Africa, it was apartheid. With the new regimes, both countries had to start from scratch and invent a development path.

In both countries, the socioeconomic performances have significantly improved with the new democracy. In Chile, the GDP growth reached an average annual rate of 7% over 1990/97 (Figure 8). Chile is considered as the most successful country over time during the neo-liberal paradigm of the 1990s’.

![Figure 8 - GDP growth in Chile (%)](image)

However, Öniş and Şenses (2005) notice that Chile has deviated from the neoliberal theory. The government has been effectively involved in (i) creating export activities based on natural resources and (ii) maintaining controls over short-term capital flows. In Chile, the socialist party has also complemented the neoliberal approach by policies aimed at improving productivity and education and at providing subsidies to the poor families conditioned on their children attending school. For Joseph Stiglitz (2002), the Chilean success story is due to this combination of approaches. Chile did not succumb to following the dictates of the neoliberalism. The country
was “selective, adding and subtracting to the standard recipes in ways that allowed it to shape globalization for its purpose” (p. 2, op. cit.). Joseph Stiglitz (2002) refers to “a virtuous circle” for the case of Chile where the high economic growth allowed the government to provide vital social expenditures in education and health without deficit financing. The Chilean success is first related to state ownership of key industries such as the copper industry. The country selectively privatized but around 20% of exports still come from the state-owned enterprise CODELCO (the National Copper Corporation of Chile). The second factor is the country intervention for stabilizing capital flows by imposing a tax on short-term capital inflows. In contrast, Van Eck (2010) argues that South Africa now relies on short-term, speculative foreign capital portfolio flows to compensate for a current account deficit. Finally, Chile did not fully liberalize its capital market. Furthermore, Chile put considerable emphasis on social policies. The country’s strong public institutions combined with sound macroeconomic and market-oriented policies have contributed to its economic success.

5 Conclusion

South Africa's successful transition from apartheid to full democracy in 1994 has given the world a powerful demonstration that a peaceful shift from political conflict to cooperation was possible. The country has moved from segregation, marginalization and exclusion to cohesion, inclusion and opportunity. The new institutional framework provided political rights, freedoms and property rights to the previously disadvantaged population, generating political stability. Concerning the fiscal policy, transparency and predictability have been widely acclaimed. South Africa's economy has also gone through a rapid opening to the rest of the world. The interactions between growth, policy and institutions have been crucial.

However, the GEAR strategy adopted in 1996 was based on the neoliberal theory and barely mentioned poverty. Only few sporadic initiatives took into account social inequalities and well-being from 1996 to 2003. South Africa’s social performances have shown deficiencies in the labor markets and very low progress in terms of education, skills, health care and poverty and inequality reduction. A comparison with Chile makes it clear that South Africa has not released its full economic potential. Despite modest rates of growth, unemployment and persistent inequality continues to haunt the country. In the last decade, the sources of growth in South Africa have shifted from agriculture and mining to services, which in relative terms are skill intensive. As a result, unemployment, particularly among the young stood at a hoping 40%, one of the highest in Africa and perhaps in the world.

The government stepped up to the challenge recently by introducing a New Growth Path (NGP) informed by a notion of a developmental state which in some ways is a departure from its neoliberal stance of the early years. The NGP plans to generate at least 500,000 jobs every year for the next decade by focusing on what the government calls sectors with high employment potential such as infrastructure, agriculture, mining, industry and tourism. The NGP also lays out plans to reform land ownership, minerals reserve rights, business regulations, etc. to improve
efficiency of the utilization of natural resources. In its sectoral and structural focus, the NGP is comprehensive in what can be done. Although Finance Minister’s speech\(^8\) in February 2012 highlights that priority programs required for implementing the NGP are funded, it however lacks on how this can be achieved given the fiscal implications of such a huge public investment underlying the NGP. Particularly intriguing is lack of clear export promotion strategy which seems a natural source of sustained growth for South Africa, labor market reforms which has been credited for persistent high unemployment and industrial policy to improve the country’s competitiveness in the global economy.

In spite of a strong democracy, good macroeconomic performances and clear engagement in regional and global affairs, South Africa faces serious development challenges. Levels of income inequality and unemployment are among the highest in the world. South Africa well-developed economy coexists with an underdeveloped and marginalized economy. Violent crime and HIV/AIDS pandemic constitute considerable social challenges.

\(^8\) Pravin Gordhan’s speech is available at: http://dchetty.co.za/2012/02/south-african-national-budget-speech-2012-by-pravin-gordhan/
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<table>
<thead>
<tr>
<th>n°</th>
<th>Year</th>
<th>Author(s)</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>149</td>
<td>2012</td>
<td>John C. Anyanwu</td>
<td>Accounting for Poverty in Africa: Illustration with Survey Data from Nigeria</td>
</tr>
<tr>
<td>147</td>
<td>2012</td>
<td>Ousman Gajigo, Emelly Mutambastere and Guirane Nadiaye</td>
<td>Gold Mining in Africa: Maximization Economic returns for countries</td>
</tr>
<tr>
<td>145</td>
<td>2012</td>
<td>Jeremy D. Foltz and Ousman Gajigo</td>
<td>Assessing the Returns to Education in the Gambia</td>
</tr>
<tr>
<td>143</td>
<td>2011</td>
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</tr>
<tr>
<td>142</td>
<td>2011</td>
<td>Thouraya Triki and Issa Faye</td>
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</tr>
<tr>
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<td>2011</td>
<td>Guy Blaise Nkamleu, Ignacio Tourino and James Edwin</td>
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</tr>
<tr>
<td>140</td>
<td>2011</td>
<td>Adeleke Salami, Marco Stampini, Abdul Kamara, Caroline Sullivan and Regassa Namara</td>
<td>Development Aid and Access to Water and Sanitation in sub-Saharan Africa</td>
</tr>
<tr>
<td>138</td>
<td>2011</td>
<td>Cédric Achille Mbeng Mezui</td>
<td>Politique Economique Et Facteurs Institutionnels Dans Le Développement Des Marchés Obligataires Domestiques De La Zone CFA</td>
</tr>
</tbody>
</table>