F.R. TOMLINSON COMMEMORATIVE LECTURE

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SOUTH AFRICA, AFRICA AND THE WORLD : A POLITICAL ECONOMY PERSPECTIVE

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1. INTRODUCTION

The global changes that occurred in the world in the eve of the 21 st century are unprecedented since the second world war. I refer here to the collapse of the communist system world wide[1], the slow but sure democratisation process in the third world and of even more local interest, the abolishment of the apartheid system in South Africa.

Perhaps it is appropriate to take stock, and discuss briefly the political economy of post-war South Africa, Africa and the position of us and our continent in the global economy.

2. SOUTH AFRICA

Compared to other developing countries, South Africa was well placed for rapid economic development after 1945. It enjoyed many advantages which have elsewhere been associated with steady growth: a stable political system (for a developing country), abundant natural resources and foreign exchange earnings, established trade and financial systems, fairly sophisticated skills and technological base, and a reasonably competent state administration (Moll, 1994). Furthermore, and here apartheid demonstrated a large degree of similarity with communism, the system maintained relative law and order through the effective and mostly brutal control of the population - except population growth.

Yet, contrary to expectations in comparison with other developing countries in the same league, the South African economy consistently grew sluggishly, suffered poor export growth, especially in manufactured goods, and endured mediocare productivity growth. This overall picture may be misleading: parts of the economy functioned well, others badly, parts were subject to varying degrees of state intervention, others rather little; and these interventions in turn varied largely in competence.

A probable explanation for this slow growth is that aspects of the system constrained economic growth, as manifested particularly by the slow growth of labour productivity and skills. Today nearly half of our adult population is illiterate and unsuitable for work in the secondary or tertiary sectors. In fact, being based largely in agriculture and mining if not unemployed, they can effectively be regarded as a natural resource, rather than as labour (Lim, 1980). And this is also the crucial barrier to growth in much of Africa and in parts of Latin America and South East Asia.

Due to low investments levels, particularly during the eighties, the industrial structure is ageing (even in commercial agriculture), while technology may be deteriorating. The revival in private investment is questionable mainly because of violence, industrial action, unfavourable profitability and foreign exchange controls.

Furthermore, South Africa relies heavily on gold and other raw material exports. Such commodities suffer from declining terms of trade, with world demand appearing to decline over the long run. Because of this, we should move towards faster-growing export markets for processed primary products and especially manufactured products. We also have to safeguard and if possibly increase the export potential of our agricultural sector. The existing high inequality, widespread poverty, and uncontrolled influx of illegal immigrants - some estimates put it to 10-12 million - aggravates the situation.

Nevertheless, there are some positive characteristics which may help to put South Africa on the road to become a winning nation:

- The macro-economy is stable and firmly under control.
- The economy has some fairly advanced industrial sectors and large firms. which could take the lead in breaking into international markets.
- The world economy is growing and the conclusion of the Uruguay round of GATT negotiations should lead to a liberalised world trade environment and this offers opportunities to participate in it on grounds of comparative advantages, especially in newly opened markets, such as Africa and the former communist countries.
- In spite of high levels of illiteracy and a badly functioning education system, we have some expertise here that is unique to Africa and to many other third world countries.
- Our natural resource base, although declining, is still substantial.

- We have a first world infrastructure, including also sophisticated financial and capital markets, and
- We have natural beauty and an extremely high potential to increase our share in the international tourist market.

According to Terence Moll (1994) the local economy is, while weak in some respects, under control and it has considerable promise for the future. The world economy will however be hard and unforgiving in the decades ahead, and the old inward-looking development strategies simply won't work. What is needed is, firstly, a pragmatic reworking of the relationship between state and market. It is important in considering the appropriate role for governments to recognise, especially in developing countries, that people with the human capital required to be effective analysts, administrators and civil servants are extremely scarce resources. Such skills need to be economised and used only where they have the highest marginal social product. It has long been recognised that the efficient use of a nation's resources requires that a number of very important activities and services be provided by government; there are some goods and services that a competitive market would not supply at all or would provide in less than optimal amounts. These include public goods where consumption is not exclusive, such as maintenance of law and order, protection of civil rights, national defence, public parks, research and communication, basic education and health care.

Finding the appropriate relationships between the roles of government and the market, between laws, institutions and regulations on the one hand, and the allocative and distributive functions of markets on the other, is the most important task of policy analysis and policy formulation (Johnson, 1994).

Another necessity is a vigorous industrial policy designed to move South Africa back into world markets as efficiently as possible. Combined with this, labour market policy is crucial since some trade-off between wages and employment is undeniable particularly for unskilled workers. Our entire trade union movement should be made aware of the South Korean success story, of limiting wage rises with the aim of increasing employment. In fact, real wage growth should match productivity growth only once near full-employment situation is reached. Sadly, the opposite is happening in South Africa today, with the resultant consistent rising unemployment. The Korean model is also relevant from an equity point of view, since the most severe poverty in South Africa is not amongst people with formal employment in the modern sector of the economy. Most economists would agree that the RDP can only succeed if supported by strong real growth in the economy.

The opening up of markets all over the world, also in Africa tempted me to look at African developments.

3. AFRICA[2]

In the mid-nineteenth century, after the end of the slave trade and before the imposition of direct colonial domination, Africa found itself both marginalised from the world economy and highly dependent on it. This situation still holds at the end of the twentieth century. Africa's increased marginalisation has been both economic and political strategic, but the former is most significant. Africa is no longer very important to the international division of labour or to the major actors in the world economy. Africa generates a declining share of world output. The main commodities it produces are becoming less sought after or are more effectively produced by other developing countries. Trade is declining, nobody wants to lend, and a few want to invest, except in selected parts of the mineral sector. Africa's per capita income levels and growth rates have declined since the first oil crisis in 1973, while its percentage of world wide official development assistance rose from 17% in 1970 to about 38% in 1991 (Callaghy, 1994). For the period 1982-1992, average annual GDP growth for Africa was 2% and for all developing countries 2,7%. The World Bank's baseline projections for the decade beginning in 1992 are more optimistic, projecting an annual GDP growth of 3,7%.

The forecast does, however, anticipate a 50% rise in the number of poor people, from 200 million to 300 million, making Africa the only region in the world with an overall increase in poverty. The continent's share of developing countries' agricultural exports declined from 17% to 8% between 1970 and 1990. Meanwhile, the rate of return on investment in Africa fell from 31% in the 1960's to just 2,5% in the eighties. Whatever one thinks about the role of foreign business and capital, it is important to note that Africa increasingly imposes enormous difficulties for them, such as political arbitrariness and administrative, infrastructural, and economic inefficiency. Because foreign capital has the considerable ability to select the type of state with which it co-operates, it is very doubtful that Africa will play any significant role in current shifts in the patterns of production or in the international division of labour. Some other hard facts further underscore Africa's marginalisation: the amount of external financing through bonds for East Asia in 1991 was $2,4 billion, and for South Asia $1,9 billion, while it was zero for Africa; and flight capital as a percentage of GDP at the end of 1990 was 15 for South Asia, 19 for East Asia, and 28 for developing Europe and for Central Asia, while it was 80 for Africa. During the 1980's, 43 of the 139 British firms with industrial investments in Africa withdrew. While Japan is now the major donor, it is not likely to be a major investor in Africa; in the 1980's, for example, the number of Japanese commercial companies operating in Kenya decreased from 15 to 2. Yet Africa has in other ways become more tightly linked to the world economy. This increased involvement has two aspects: an extreme dependence on public actors from outside Africa, particularly the IMF and the World Bank, in the determination of African economic policy; and the neo-classical thrust so developed, which pushes the continent toward more intense reliance on and integration with the world economy. Both these aspects are directly linked to Africa's debt crisis. In 1974, total African debt was about $14,8 billion; by 1992 it had reached an estimated $183,4 billion or about 109% of Africa's total GNP.

Much of the recent rise has come through borrowing from international financial institutions, especially the IMF and the World Bank, and this borrowing has been associated with economic reform programmes, usually referred to a structural adjustment. In 1980 debt through international financial institutions constituted 19% of the total, whereas by 1992 it accounted for 28%.

This cannot be rescheduled and significant arrears are accumulating, with the result that IMF and World Bank assistance to some countries has been cut off. Much of the rest of Africa's debt is bilateral or government-guaranteed private medium and long-term debt and is thus rescheduled by leading western governments through the Paris Club, and not by the private banks as in Latin America. Despite its relative smallness by world standards, the enormous build-up of African debt puts terrible strains on fragile economies. By the end of the 1980's the debt was equivalent of 350% of exports. Only about half of debt service owed is paid in any given year and this tends to dampen foreign direct investment. Given such debt, African countries have benefited from rescheduling concessions such as longer terms and grace periods, lower interest rates, and the rescheduling of previously rescheduled debt. Between 1989 and 1991, about $10 billion of concessional debt, especially that incurred by the continent's low income nations, was written off by western countries, including the initially unwilling USA.

As in other areas of the third world, this external debt burden and the consequent disparate need for foreign exchange have left African countries highly dependent on a variety of actors from outside the continent, all of whom have used their leverage to "encourage" economic liberalisation. In practice it means that specific economic policy changes are requested in return for the lending of resources. The primary intent of these economic reform efforts is to integrate African economies more fully into the world economy by resurrecting the primary-product export economics that existed at independence and making them work better this time by creating a more "liberal" political economy.

At present however, as a result of its economic marginalisation and relatively weak reform efforts. Africa is in many respect lost between state and market. It wanders between ineffective states and weak markets, both domestic and international, and the latter are increasingly indifferent (Callaghy, 1994). This is why it is so important that South Africa must find the most appropriate mix between the role of the state and that of the market in order to be able to grow and use our comparative advantages to help ourselves and consequently to help Africa.

NOTES

1. Even Cuba, the last communist state in the western hemisphere has recently embarked on market liberalisation.

2. For the purpose of this lecture, Africa means Sub-Saharan Africa.

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