South Africa Essay, Research Paper

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Like many African countries, South Africa has taken sometime to develop into a major player on the world market. This process is now on the up swing as the country is doing well financially in 1999.

During the 1960s the South African economy expanded at an annual average rate of 5.5 percent and experienced average inflation of 2.4 percent. This compared with annual growth of 5.0 percent in Industrialized Organization for Economic Corporation and Development (OECD) countries and inflation of 2.9 percent. The 1970s were turbulent years internationally and the domestic economy grew by only 3.2 per cent. Economic performance was beginning to deteriorate, but a strong gold price shielded policy makers (mostly those with gold) from this reality. In the second half of the 1980s growth had slumped to 1.5 percent, inflation had started to soar (to 15.7 percent on average) and the exchange rate to deteriorate. At the same time annual OECD growth had risen to 3.5 percent.

South Africa’s economic performance in the 1980s and the early 1990s was severely limited by a poor political environment and the deteriorating terms of trade.

The terms of trade – defined as the ratio of export prices to import prices – have always been important in an economy as open as South Africa’s. The terms of trade were steady in the 1960s and rose strongly in the 1970s with the surge in the gold price, but have been on a declining trend since 1981.

The second factor to accelerate economic decline in the 1980s was the political environment. Four decades of apartheid racial policies had heightened conflict between the white government and the disenfranchised majority, as well as between business and labor, as avenues for political expression were sought. Apartheid also created numerous lines of bureaucracy, increasing inefficiencies as well as boosting government consumption expenditure to the detriment of the private sector. A casualty was fixed investment spending, which declined from an average of 24 percent of Gross Domestic Product (GDP), in the 1960s to recent levels of fewer than 15 percent.

The rising conflict led to growing international isolation. By 1986 most countries had imposed trade and some form of financial sanctions. Although these hampered economic growth, exporters were able to avoid most of these restrictions. A more serious development was the withdrawal of foreign credit lines during 1985. Without these credit lines, the country was essentially cut off from the rest of the world. With a Gross National Product (GNP) per capita of $2, 670, South Africa is still in a similar range to countries such as Chile, Mexico, Hungary, Thailand, and Malaysia.

Since the middle of 1993 the South African economy has experienced an upturn in economic activity, having endured a severe recession from 1989 to 1993. Economic activity increased sharply during the second half of 1993 and has continued to rise in 1994. The initial recovery of economic activity was assisted by favorable weather conditions, which led to a sharp increase in agricultural output. The agricultural sector experienced a devastating drought during the 1991/92 season. However, the subsequent recovery in agricultural production during the 1992/93 as well as the 1993/94 season has made a significant contribution to overall GDP estimates. In the first half of 1994 the upturn in activity was negatively affected by exceptional circumstances linked to the major political change in the country. However, the success of the April 1994 elections and the subsequent establishment of the government of national unity (GNU) have removed important obstacles to growth, restoring legitimacy to the governing process and creating a more conducive environment for both domestic as well as foreign investment. By this time all financial and trade sanctions against South Africa have been lifted, allowing the country to establish many new trade and financial links, while numerous international companies have re-established business links. The ongoing reintegration of the South African economy with the economies of the rest of the world is resulting in a rapidly changing and vibrant business environment.

Within this changing economic environment the government developed the Reconstruction and Development Program (RDP) which will provide numerous and important economic opportunities. The RDP outlines a long-term development strategy for the country with the focus on growth through development. To achieve this the RDP seeks to address basic needs (such as housing, electricity, sanitation, water, nutrition and primary health care) by focussing on economic policies that would best encourage the provision of these needs. Such policies include increasing public sector investment (in labor-intensive endeavors), fostering private sector industrial initiatives (which would advance both industrial performance and meet basic needs) and promoting human resource development (to improve labor productivity). The government intends redirecting expenditure towards redistribute limited-cost projects such as school feeding schemes, rural water provision, public works programs and the provision of municipal services.

While the primary focus of the program is on meeting basic needs, it also emphasizes the need for maintaining sound economic policies, for becoming accountable and more transparent, as well as for controlling government spending through improved efficiencies and the elimination of corruption. If handled well and in a fiscally responsible manner, the program will go some way towards meeting expectations and providing a necessary stimulus to growth.

Primary Industry

South Africa has an estimated 72 percent of the free world’s chrome reserves, 88 percent of its platinum group metals, 40 percent of its gold, 45 percent of its vanadium, 83 percent of its manganese, 37 percent of alumino-silicates, 26 percent of zirconium, 40 percent of vermiculite and a large proportion of its gem diamonds. During 1993, gold provided nearly 61 percent of total mineral revenues from exports. Coal contributed nearly 12 percent of total mineral sales revenue. The South Africa mining industry is technologically one of the most advanced in the world. The Chamber of Mines of South Africa, a private enterprise employers’ organization, acts as a co-ordinating body for the mining industry. South Africans are the world’s foremost deep-level miners. SA’s agricultural; forestry and fishing sector contributes approximately 6% to GDP. South Africa is the world’s fourth largest wool exporter.

Secondary Industry

The metal and engineering industry in South Africa is large, sophisticated and extremely versatile. It represents a third of all manufacturing in South Africa and embraces more than 8,000 companies employing around 330,000 people engaged in the manufacture of a very diverse range of products. Last year, this industry’s total production output was valued at more than R60 billion (R=Rand South Africa s currency). As has been the case throughout most of the industrialized world, the South African metal and engineering industry has undergone a severe recession and has experienced considerable rationalization during the past decade. This included the reduction of the hourly-paid workforce from a high of 454,000 in 1981 to around 370,000 in 1994. However, increased mechanization as well as considerable productivity gains in recent years indicates that the industry will emerge from this latest extended recession leaner but more efficient in many ways.

South African steel producers have improved their output potential by modernizing and upgrading existing plant to the point where the local steel industry is now more modern and technologically advanced than many in the industrialized world. Sales of basic iron and steel products in 1993 amounted to nearly R14 billion.

Output of pig iron for the calendar year 1993 was 7,000,000 metric tons, a decrease of six percent on the level of the previous year. South African steel mills output during 1992 of ingots and continuous cast slabs and blooms showed slack domestic demand, but an increase in export volumes. Total output was 8,725,800 metric tons, a decrease of four percent on the previous year. Steel producers supply the major proportion of the demand for rolled, drawn and forged steel products in the domestic market which has been showing improvement from the second half of 1987 until the second half of 1989 when demand started to slacken. This trend continued throughout 1990 and 1991 and into the first half of 1993. Domestic demand improved marginally in the first half of 1994. The steel, construction, engineering and heavy fabrication industries have been responsible for the increasing sophistication of the country’s industrial infrastructure.

The engineering industry has demonstrated repeatedly in the past that it is capable of undertaking major capital projects such as the Sasol synfuel plants and the Koeberg nuclear power station and the recent massive project of exploiting the natural gas fields off Mossel Bay and the construction of a refinery to convert natural gas into fuel Another major project under way is the expansion of the Alusaf aluminum smelting facilities at Richards Bay on the Natal coast. The R6.5 billion project will give South Africa the largest aluminum smelting plant in the world. Manufacturing and employment

Since the mineral discoveries of the late nineteenth century, the South African economy has gradually changed from an agricultural to an industrialized economy. The contribution of the manufacturing sector to gross domestic product (GDP) increased from 4 percent in 1911 to 16.1 percent in 1950 and 23.5 percent in 1993. Agriculture’s share decreased from 21 percent in 1911 to 17.5 percent in 1950 and only 4.6 percent in 1993.

The performance of the manufacturing sector started to weaken during the seventies. Between 1950 and 1960, GDP at factor cost, generated by the manufacturing sector, registered an annual real growth rate of 6.7 percent. The golden sixties followed this decade when the real average rate of increase amounted to 9.6 percent pa. During the seventies an average annual rate of 5.9 percent was registered, while production in manufacturing declined marginally by 0.5 percent between 1980 and 1993.With regard to employment, the manufacturing sector presently employs 18 percent of all employed people in South Africa.

During the sixties, employment in manufacturing increased, on average, by 5.4 percent pa and by 3.0 percent in the seventies. Between 1980 and 1992, employment creation in the manufacturing sector increased by an average of less than 0.2 percent. The marked drop in fixed investment in the manufacturing sector since 1980. This poses a threat to increased employment creation in manufacturing – the latter being a large contributor to employment in South Africa.

The output of the manufacturing sector was worth R188 186 million in 1992. The chemical industry is the largest manufacturing subsection with sales of R34 475 million in 1992, followed by the food industry (R28 851 million), transport equipment (R16 570 mil lion) and iron and steel (R12 970 million). A major influence on the manufacturing sector during the eighties and early nineties has been the decline in the external value of the Rand. In 1980 the Rand recorded an average value of US$1,28 after which it depreciated to 30 US cents in 1993. This decline has had an adverse effect on the cost of imported plant and machinery (reflected in the sharp drop of fixed investment in manufacturing), but on the other hand, it has provided a significant export stimulus for South African manufactured products. The export potential was, however, inhibited by an adverse international environment manifested in boycotts and sanctions.

Labor

South Africa has an economically active population of 12.6 million (1994 estimate), of whom 7.4 million are male and 5.1 million female. This is growing by about 2.7 percent annually, adding 400,000 people to the labor force every year. Few of these people can expect to find jobs. In the late 1960s the economy generated 740 jobs for every 1000 new entrants, but by the early 1990s this figure had declined to less than 80 jobs. The current level of unemployment is measured at 33 percent of the labor force; it continues to rise because the population growth outstrips the capacity of the economy to create new jobs. Unemployment is much higher among the black population than other groups, and lowest among whites and Asians. Blacks account for much of the informal sector. This sector includes many unregulated small businesses as well as individuals providing a variety of services, such as car washing, street vending, and gardening. Due to the inadequate education and training opportunities available to blacks, the South African labor force has a high proportion of lower-skilled workers.

Services and Tourism

Service industries contributed 63 percent of the GDP in 1994. The largest categories are wholesale and retail trade, real estate and business services, catering and accommodation, government, finance, and insurance. Transport, utilities, construction, and community and personal services make up most of the remainder. The financial sector is highly developed and on par with industrialized nations.

Tourism is widely viewed as a rich, potential source of jobs and foreign exchange, and as an eventual alternative to the gold industry, which is in long-term decline. Attractions include the scenic beauty of the Cape wine region, the Drakensberg and the mountains of Mpumalanga, national parks and game reserves, beaches, and the climate. During the apartheid years this potential could not be realized because of the country s negative international image and perceived political instability. Since 1994 the industry has expanded dramatically. The number of overseas visitors increased by 52 percent in 1995 alone, exceeding 1 million for the first time. Total foreign earnings from tourism rose to over $3 billion. At present, however, tourism contributes only about 4 percent of the GDP, well below the global average. Clearly the possibility for expansion exists. Major international hotel groups have entered the market, and growing competition among airlines has reduced fares. The fall in the value of the Rand, South Africa s currency, in 1996 also made South Africa increasingly attractive as a tourist destination. Great Britain remains South Africa s biggest source of overseas tourists with 23 percent of the total, followed by Germany and the United States.

Agriculture, Forestry, and Fishing

The relative contribution of agriculture, forestry, and fishing to the GDP has steadily declined and was less than 5 percent in 1994, but these industries employ more than 1 million people and support many more in the subsistence sector. About one-third of agricultural production is exported. Only 12 percent of South Africa s land area are cultivated, and most of the rest is suitable only for pastoral farming. The principal field crops are maize (corn), wheat, sugarcane, and hay. The major horticultural crops are fruit, including citrus fruit and grapes (for winemaking), and vegetables, including potatoes. Dressed poultry and eggs head the list of livestock products, followed by slaughtered cattle and calves, and fresh milk. Maize, which accounts for 16 percent of total agricultural output, is the staple food of most black South Africans. A significant proportion of poultry and cattle production is also subsistence in nature.

Under apartheid blacks were restricted to the ten bantustans, which made up only 13 percent of the country s total area. Farming in these areas is primarily for subsistence, and traditional land tenure systems vest land in the chiefs or headmen, who allocate small plots to individual farmers. Marketing crops is largely local because of poor infrastructure. Commercial agriculture remains overwhelmingly in white hands, using the labor of about 1.2 million black farm workers. The government has launched a land reform program that promises restitution or compensation to those displaced from their land since 1913, when the Natives Land Act restricting black ownership was passed; the program also pledges the redistribution of 30 percent of the land by 1999, but the government is unlikely to meet this target.

South Africa has little native forest; it has developed one of the largest forestry industries in the world based on pine, eucalyptus, and wattle plantations. Commercial forests cover 1.2 million hectares (3 million acres), or 1 percent of the land area, mainly in KwaZulu-Natal and Mpumalanga provinces. The government owns almost one-third of the plantations. The timber and wood products industry employs more than 200,000 people and provides 90 percent of South Africa s timber requirements and all the country s pulp and paper needs.

The commercial fishing industry employs about 28,000 people. Over 90 percent of the output come from waters off the west coast, which are productive because of the cold Benguela Current. Demersal fish, or fish that stay close to the bottom of the ocean, account for half the total, with hake being the most common catch; pelagic fish, especially anchovies and pilchards, account for about a quarter of the total; fish caught by line include snoek, cob, silverfish, and yellowtail. Rock lobsters are also caught, mainly for export. In terms of volume, multispecies shoal fishing by purse seine (a surface net that encircles and entraps entire schools of fish) is the most important method used, followed by bottom and mid-water trawling of demersal fish.

Sector share of GDP (%)

1960 1970 1980 1993

Primary sector 25.1 17.0 27.9 13.3

Agriculture, fishing 12.4 7.9 6.8 4.6

Mining, quarrying 12.7 9.0 21.1 8.7

Secondary sector 26.6 30.8 28.9 30.7

Manufacturing 21.0 23.9 22.5 23.5

Electricity, gas, water 2.5 2.6 3.1 4.0

Construction 3.1 4.2 3.3 3.2

Tertiary sector 48.3 52.3 43.2 56.0

Internal trade 14.2 15.1 12.2 16.0

Transport 10.3 9.8 8.8 8.1

Finance, real estate 10.8 14.7 11.1 16.3

Community services 1 9 1 9 1 4 2 0

Less: imputed charges -1 5 -1 8 -1 6 -3 7

General movement 8.6 9.3 9.1 15.2

Other producers 4.0 3.2 2.1 2.1

GDP at factor cost 100 100 100 100

With a push toward equality, South Africa can only improve their position on the world market. South Africa has made giant steps towards this goal by ending apartheid and giving land back to the groups of people they took it from. Continuing down this path South Africa will become a major tourist destination thus improving their economy.

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