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The Post- apartheid South African Economy in the global economic system, 1994 - 2004

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by Nephumbada. Ntevheleni

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**Submitted in partial fulfillment of the requirements for the degree of
Masters in International Relations at the University of Venda**

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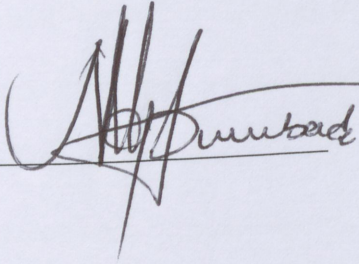
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Declaration

I, Mr. Nepfumbada Ntevheleni, hereby declare that this dissertation for the Masters in International Relations degree at the University of Venda, hereby submitted by me, has not been submitted previously for the degree at this or any other university, that it is my own work in design and in execution, and that all reference material contained therein has been duly acknowledged.

Signature: _____



Date _____

23 APRIL 2010

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Dedication

This dissertation is gratefully dedicated to my parents, Mr. Tshitereke Joseph Nepfumbada and Mrs. Tshisikhawe Wilhemina Nepfumbada. It serves as a token of appreciation to their unconditional love and support throughout my academic journey.

was more of a teacher than a supervisor during this academic journey. Your courageous supervision, unfailing knowledge and guidance have taught me to be persistent, even though when I approach difficult mountainous odds. Not forgetting the University of Venda Librarians who jointly with their management were able to stand my wishes prior to use the library facilities even beyond their library regularities.

I wouldn't have made it, if it wasn't of my loving, understanding, supportive and courageous wife Mrs. Lydia Nepfumbada, who together with my daughter Miranwa Nepfumbada were able to stand my absence and proactive negligence throughout my studies. I say to you both "you are amazing", that's what a family is for. "Keep it up" my friend, academic as well as social colleague, Mr. Othani Sengwe together with my brothers and sisters, your love and support is highly appreciated.

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I wouldn't have made it, if it wasn't of my loving, understanding, supportive and courageous wife Mrs. Lydia Nepfumbada, who together with my daughter Murunwa Nepfumbada were able to stand my absence and productive negligence throughout my studies, I say to you both "you are amazing", that's what a family is for, "keep it up" . My friend, academic as well as social colleague, Mr. Ofhani Sengani together with my brothers and sisters, your love and support is highly appreciated.

Abstract

Since 1994, South Africa's economy has not been the same. The transition period meant that the country had to make critical choices in the country's interest.

International and internal forces had to be balanced for the sake of a new developing economy. South Africa had to align its economic development along better development initiatives elsewhere.

Balancing political and economic options was not an easy task as shown by the adoption of the GEAR at a time when expectations in the country were very high.

The country established closer links with financial institutions such as the IMF, World Bank and WTO. This highlighted dominance of the capitalist system in South Africa and around the globe.

Therefore, South Africa's economic as well as political reform depended in both the internal and the external forces.

Abbreviations

ADR – American Depository Receipts

AU – African Union

BESA- Bond Exchange of South Africa.

BNC- Binational Commission. SA-US Commission which was established in 1995 under joint chairmanship of Deputy President Thabo Mbeki of South Africa and USA Vice President Al Gore.

DTI- Department of Trade and Industry.

ECOWAS - Economic Community of West African States.

FDI - Foreign Direct Investment.

FSB – Financial Service Board.

FTA- Free Trade Agreement.

GATT- General Agreement on Trade and Tariffs.

GDP – Gross Domestic Product

GEAR – Growth, Employment and Redistribution .

IDA – International Development Agency

IMF – International Monetary Fund.

JSE – Johannesburg Stock exchange

MAI – Multilateral Agreement of Investment.

MFN- Most Favoured Nations.

NIE's –Newly Industrializing Economies.

NEPAD - New Partnership for Africa's Development.

OECD - Organization for Economic Cooperation and Development

SADC – Southern Africa Developed community.

SAFEX - South Africa Futures Exchange

SARB – South African Reserve Bank

UN – United Nations.

USAID – United States Agency for international Development.

UNDP – United Nation Development Programme`s.

WORLD BANK- Superior world Financial Agency

WTO- World Trade Organization

Chapter 1

1.1 Introduction

The South African economic impact on the global world cannot be discussed with an exclusion of the apartheid regime which had become the most impacting factor to South Africa's stagnant economic, social and political development for the past decades.

The progressive exclusion of black people from the South African polity from 1910 inevitably produced political reaction from within the African continent and from the international community. South African racial stratification and racially based socio-economic inequalities became central to domestic and international debates for the past decades.

South Africa's pervasive system of legalized racial discrimination (apartheid) has made it the focus of worldwide revulsion. The international attack on this morally offensive system had forced the South African government into a defensive posture so much that, unlike the past, no government official would ever dream of attempting to justify traditional apartheid principles in the international arena of opinion. But long before, the international climate made apartheid an untenable proposition. South Africa's legalized system of racial discrimination was under attack from within by a small part of internal battle which were waged on moral grounds by the south African decent people both whites and non-whites.¹

South African's growing pains had prevailed in most sectors of life, domestic, social, religious, political and foremost economic. The great gulf had also existed between the modern sector of economy and the traditional subsistence sector, which have created a dualism in the economies of all African countries.²

¹ *W.E W Williams : South Africa 's war against capitalism, Praeger Publishers, New York 1989,P.1*

² *Stephen Gelb : South Africa's economic crisis, David Phillip Publishers (PTY), Cape Town,1991, P.88*

This had resulted from international economic sanctions, which had been continuously
White South Africans had not only been the economically dominant group, they also
have been politically dominant. This has in general had a favourable economic
consequence in that financial integrity and administrative efficiency had been set in
western standards. Legislation and government had on the whole favoured a progressive
economic policy. It cannot be denied that since 1911 certain legislation were designed to
suit and protect the privileged positions of the white South Africans which has had the
effect of restructuring economic opportunities for non-whites and had prevented optimum
resource allocation.³

Over the last two decades from 1970 to 1990, notable changes have occurred in the
distribution and direction of economic inequality in South Africa. Broadly speaking from
the turn of the century until 1970, the unequal shares of income between blacks and white
remained constant, white received nearly three quarters of the total, Africans about a
fifth, Asians and coloureds less than the tenth. Over the next decade a substantial
relocation took place. By the 1980s the white share had fallen to 60%, and that of the
Africans had risen to 29%. The shifts continued throughout the 1980's, and reduction on
inequality prevailed until 1991.⁴

The then President P.W Botha when addressing the opening of parliament on 30 January
1986 said that, "we believe that the human dignity, life, liberty, and property of all South
Africans must be protected, regardless of the colour, race, creed and religion".⁵

In the rest of his speech, he had emphasized that the South African government was
committed to one citizenship to all South Africans within an undivided country. Such a
statement marked a significant break away with the apartheid ideology of the former
chief executives of South Africa.

³ Hobart Houghton : *The South African Economy 2nd edition*, Oxford University, New York, 1964, P.28

⁴ Robert Schrire : *Wealth or Poverty, Critical choice for South Africa*, Oxford University, New York,
1992, P.37

⁵ W.E Williams : *South Africa 's war against capitalism*, Praeger Publishers, New York 1989, P.1

This had resulted from international economic sanctions, which had been continuously more detrimental to the then struggling South African economy. Stagnation had already set in at the beginning of the 1970s and the sanctions imposed in 1985 and 1986 can at most be said to have contributed to a process already underway. Inward-looking import – substituting industrialization coupled with exploitation of cheap black labour was at the core of the economic plan of the apartheid regime. It was at the same time, the intentions that South Africa would become a political and economic powerhouse in the constellation of states in Southern Africa. Strategic rather than economic consideration therefore played a major role, and inefficiencies generated by unviable project selection and a host of arbitrary apartheid laws and price controls hindered an appropriate allocation of economic resources.⁶

In sum, apartheid was not only a political system in which the majority of the population had no legal rights to vote, it was also an economic and social order, organized to benefit the white minority. Absurd legislation as social as well as political institutions and policies constrained the movement of people and economic resources dislocated the economic system and created inequalities of enormous dimensions. These contributed to political instability as well as to an inappropriate pattern of economic development. By the year 1973- 1974, the previous growth strategy had become unsustainable. Production and prices of gold, which formed the backbone of the import-substitution strategy, began falling and at the same time South Africa initiated a destructive policy in the region. Instead of concentrating on the development of the economy, the apartheid regime misused resources to sabotage and undermine the neighbouring states and in fact South Africa itself became an economic catastrophe.

Economic inequality is expressed directly and visibly in the above contrasts', which juxtaposed the affluence and deprivation. No matter how glaring the difference between a shack and a mansion, or between a settlement camp and a suburb was, it did not convey the full reality of inequality.

⁶ Finn, Tarp and Peter Brixen : *The South African Economy*, Routledge Publishers , New York, 1996, PP.10 and 11

1.3 Background of study

Those inequalities were followed by the Government of National Unity (GNU) in 1994 which took over an economy suffering from important structural weakness including:

- Country economic structure which was highly dependent on a variable of international environment.
- Industrial sector which was not, in general, competitive by international standards.
- Worn out capital stock which was technologically neither situated to make use of the large reserves of unemployed and low skilled labour force.
- Lack of skilled labour due to the low home investments in the black majority.
- And finally, an overwhelming concentration of economic power and capital.

The above mentioned factors have been mentioned only to draw attention to the fact that economic development of any country depended not only upon the available resources, but also upon the suitable environment. In any study of South African economy, it will be misleading to ignore political factors which had prevailed before.

Walter Williams substantiated the above facts by saying that “explanation on apartheid and its contrasts, cruelty and economic contradictions when discussed, a better understanding of the economic workings of apartheid, provides the west with a better basis to form an appropriate response in its international relations with South Africa”.

1.2 Background of study

The modern economic history of South Africa began with the discovery of diamond and gold during the last third quarter of the nineteenth century. These discoveries immediately created a boom in South African economy. All of a sudden South Africa was converted from an agrarian economy to mineral economy. Gold in particular became a staple product that drove economic events for a number of decades. At the end of World War I, South Africa had become the leading World gold producer.

Since then South Africa had a unique product in the international markets known as gold. The production of gold together with its competitiveness in the economic world pulled labour from inside and outside the country. The extraordinary expansion of gold exports based on the ore bodies with low mineral content located at deep levels required large quantities of cheap labour to be profitable. In the 1970's the formidable growth machine began to stall. Manufacturing became dominant during the period of the Second World War with massive urbanization. The manufacturing sector had overtaken mining as the most component of GDP. Both sectors however were in trouble. The year 1974 marked the oil Shocks, onward complicating South African global economic life. South Africa was traditionally a net capital importer but during this period it was dying.⁷

By 1985 South Africa 's economy had already taken a downward plunge because of apartheid. Over the periods stipulated above and their events thereof, international business had gone over several metamorphoses.

South Africa 's 1994 elections took place simultaneously with the establishment of the world trade organization (WTO). This period had reflected a widespread recognition of South Africa in the international trade regime. World trade organization mechanisms and other multilateral organization processes were opened and were intended to bring more flexible and more effective means of dealing with the global economic trade problems.

⁷Hobart Houghton : *The South African Economy 3rd edition, Oxford University Press 1973 , P.43*

Global economic policies had been developed and South Africa was also part of the process. The international arrangements had reflected the threshold in the Global economic relation.⁸

The international business was believed to be increasingly governed by a complex system of multilateral regimes. South Africa had faced some economic complexity since 1994, on how to respond to the changes in the way in which the world economy works. Those changes in the world economy were characterized by economic Globalization. South Africa's entry into a globalized financial Markets and the opening of international competition had led South Africa to a sharp increase in participation of non-residence in domestic financial markets. Those achievements were said to be in place because of economic globalization.

The United Nations Development Programme's (UNDP) 1997 Human development report pointed out that the process of globalization described and prescribed the system of economic relation between countries in the world today.⁹

This meant that international flow of trades; finance and information were being integrated into a single global market. The process was also aimed at integration of the world market where national commodity capital, financial and currency market are joined together into single market which operates according to a set of rules which are applied universally. Transnational corporations, multi-lateral institutions and governments of advanced industrialized countries tend to be the driving force of globalization.

In this decade, South Africa had been squeezed out by output increase by the major competitors namely, United States, Canada and Australia in the name of global integration, worse yet South African industries were still struggling with domestic political problems. But on the eve of post-apartheid era in 1993, minerals dominated

⁸ Mats Lundahl: *From crisis to growth in Africa*, London and New York 2003, P. 231

⁹ UNDP Report : *Human Development Report (internet material) South Africa, 1998 P. 82*

South Africa's exports, with gold accounting for over 28 per cent of the total value and other sectors of the extractive industry for another 24 per cent. The pattern established in the nineteenth century was still present at the beginning of South Africa's Democracy, but it was modified by 35 per cent contribution in the manufacturing of goods.¹⁰

The value of gold had also started to face some negative fluctuation in the market by the year 1990. That was the sign of gold bidding farewell in the international market because industrialization had already taken its course. Gold was seen as the staple which had not fared particularly well in the world economic competition, because it was once staple and was also capable of pulling the economy ahead at a brisk pace, but by 1990 it became the product facing severe problems.

Further expansion on the study on how South Africa had impacted the globe economically in the past decade is still needed, bearing in mind that South Africa's economic structure was highly dependent in the variable of the international environment thereby contributing on the instability of the currency.

1.3 Statement of the Problem (Problem Formulation).

- Economic growth is always a developing country's number one priority, and particularly so, if a country has already straightened out its politics, of which South Africa had done since 1994. But South African apartheid legacy had made its economy hard to interpret since South Africa's economic system was not recognized in the global economic system. Our understanding is that, a country's economy should be able to address the citizens needs such as proper education, job opportunities, standard health services, housing, fundamental human rights and in general the quality of life that is desirable and the means of achieving it.

¹⁰ N.Natrass :*The crisis of Gold Mining (World Development)*, London & New York, 1995 P.24

But it was still hard to interpret South `s achievements since its democratic dispensation ¹¹

- South Africa `s economic growth over the last three decades was put before political development. Of course, South Africa has done it that way because of its legalized pervasive way of ruling (Apartheid) and it has placed the country in a difficult position. South African economy today hovers in a limbo of critical uncertainty. Analysts, both the despairing and the optimistic, search for convincing signs on where South Africa was herding to, but the answer was very difficult to interpret especially in this first decade of its democracy.
- From the fall of apartheid, in 1994 until 1997, the country `s special status as a modern political phenomenon had caused harsh judgment about its economic capabilities. The period of transition from autocracy to democracy is over, the country and its economy along with it, is entering its democratic adulthood. In case of international experience, South Africa undertook its economic transformation without the assurance that it will be there to carry it through.
- The most important economic challenge that South Africa had, was to respond to the changes in which the world economic system works. Those changes in the world economy are known as economic globalization. South Africa`s economic transition took place when there were enormous changes in the international world economic system. Nation states including South Africa were pressured by the rules of the world trade organization (WTO), International Monetary Fund (IMF) and the World Bank. Those pressures have led South Africa not to simply conform with their system haphazardly. The establishment of General Trade Agreements (GATT) was also the major step in the process. Developing states including South Africa`s economic performance seem to have been pressured,

¹¹ L. Venter : *When Mandela goes, The coming of South Ajrica `s second revolution, South Africa Transworld publishers, 1997, P129*

because of unequal balances in their national economies.¹² Clear findings need to be outlined on how the above mentioned institutions had contributed in South Africa's slow economic reform.

- The removal of regulatory and other barriers which were obstacles to the freer movement of commodities, finance and capital, had made South Africa to become a member of the global society. Our understanding is that, there was no point of departure apart from conforming to the international economic system, because no state is economically self-sufficient, all states are in some measure dependent on outside sources for some share of their economic goods, or they require external markets to sell their products and thereby striking the balance on their current accounts.¹³ South Africa's economic integration need to be known whether it had gained that impressive pedigree, more than just a contractual determination and/ or whether it is reaching its minimum standard of production.
- The entry of South Africa into the globalized financial markets and the opening of international competition led to a sharp increase in the participation by non-residents in the domestic financial markets. Non residents were responsible for about one-third of the turn-over on the JSE Securities exchange and approximately one-eighth of the volume of South African bond exchange. The above deduced that, South Africa's integration into the world financial markets required a major restructuring of the institutional arrangements in the South African capital markets, as a result, it could lead to improvements in official reserves of imports.¹⁴ Is that restructuring viable?
- Devaluation of gold which was once a staple economic magnet and the instability of South Africa's currency at the stock exchange had impacted negatively in

¹² R. Davies : *Globalization : The challenges facing South Africa*, internet material, South Africa 2002, P. 1

¹³ A. Aziz Said : *Concepts of international Politics in Global Perspective*, New York, Prentise Hall, 1995, P. 209

¹⁴ Tito Mboweni : *Globalization and implication for monetary policy in South Africa (Internet) South Africa*, Cape Town 2002, P.1

South Africa's foreign exchange. Restructuring of the new production system at the stock exchange was said to be an answer. How valid is that?

- Changes in the world economic system (Globalization) offered countries opportunities to improve their markets through increased financial integration and technological improvements. However those opportunities were mainly accessible to those countries that are highly developed rather than those that are still developing (Third world states). Fairness of the game seems to be lost in the process of globalization; since a country's economic performance is determined by its economic strength globally.
- Monetary policies have made the world economic system more complex in such a way that it had reduced credibility of the money supply as the guideline for policy. Although the objective of monetary policy has been better focused within the context of globalization, the country's involvement and performance through the process need to be measured.

1.4 Aim of the study

The aim of this research is to evaluate whether South African economy has reached that impressive pedigree in terms of its accessibility in the international community. Financial institutions such as the World Bank and the IMF which were not simple to access due to conditions attached had started to avail themselves in South Africa with new conditions attached to their borrowings. Therefore, South Africa's economic prosperity will be measured and evaluated whether it is still dependent to the capitalist orthodox or it had gained momentum during its first decade of democracy.

1.5 Objectives of the study

- The study revealed the need for global economic integration as an instrument for successful nation state. More emphasis will be on the reform of South Africa's economic relation in its first decade of democracy.
- The study also distinguished whether international financial institutions namely IMF, World Bank and WTO are of help to emerging states taking into consideration to their involvement in South Africa 's reform process..
- The study also measured the impact of globalization on the monetary policy of South Africa as an economic powerhouse of Africa, thereby proving South Africa's economic viability to the international community.
- Foreign exchange between countries is measured by a country 's performance in the currency status, therefore the study will elaborate on the performance of South Africa 's currency and the restructuring of the new production system at the stock exchange and its impact on domestic and international investors.

1.6 Research questions

1. Is there any need for South Africa to integrate its economy to the international community?
2. How did International financial institutions such as the International Monetary Fund, World Bank and World Trade Organization contribute to South Africa 's economic reform?

3. Does South Africa 's currency needs any restructuring on the production system at the stock exchange?

1.7 Significance of the study.

The study contributed to knowledge of the country 's economic challenges in the first decade of its democracy.

It had also form part of the apparatus used to reveal South Africa 's post-apartheid, economic reform. Therefore the study served as the mirror to South African economic performance in the first decade of its democracy, thereby giving South African economic planners ideas to make further economic improvements.

1.8 Limitations and Delimitations of the study

- The topic understudy is broad, and some important data might have be left out due to its vastness.
- The study invited both the pros and cons, but had mostly limited itself from the negative part of global integration.
- More recent data and figures might not be available, but available information was utilized.

1.9 Definition of terms

BALANCED TRADE- An alternative economic model for free trade.

EXPORT - Foreign sales of final products to countries and companies at eligible countries at net.

GLOBALISATION - Global world economic system.

IMPORT- Foreign sales of final products from countries and companies at eligible countries at net.

TRADE – Reciprocal exchange of goods between countries.

1.9 Research methodology

- This study combined both qualitative and quantitative research methodology, because the nature of this study required both. The weakness of the other method could be comprehended by the strength of the other method. Therefore employing both methods have led in bringing clear outcomes of the study.
- Newspapers, periodicals, academic papers and boardroom briefing documents that contain analysis and forecasts of the South African economy were also used.
- South African bureau of economic research was also used to get more recent economic issues.

- South African Reserve bank economic bulletin were also perused for valid data analysis.

This chapter introduces previous work done by other authors related to the study. It

- Department of trade and industry was also consulted in this study. Activities that have contributed to bringing about changes in South African economic activities.
- Websites of various relevant institutions and government departments was also perused for the sake more updated data.

International economic activities such as trade, investments and foreign ownership have expanded in both volume and importance. The new economic actors such as nations, regions, industries and enterprises in the international arena serve as the major instruments for a country's performance in its economic activities.¹³

Unless South Africa was completely closed to the international trade, its economy could not operate with impunity of the balance of payments implication of economic policy. Even for the world, foreign exchanges are needed to satisfy import requirements.¹⁴ And that happens only when a country is fully closed to the international community.

As the pace of change quickens in South Africa, more attention had been devoted to economic reforms that will have to be brought about for a legitimate post-apartheid order. The problems that faced South Africa in trying to bring about a radical economic transformation after 1994 were of course unique. Yet it should not be forgotten that for almost a decade several citizens of African countries had attempted to bring about fundamental reforms in their own economies so that they can grow faster and more of their citizens could be economically productive, but actual growth was not moving together with expectations.¹⁵

¹³ L.E.Prasanna, *The roles of the state in global economy*, Boston University, Kluwer academic, 1997, p.10

¹⁴ Moshiri, *Economic growth in South Africa*, Pretoria: HEAC, 1992, p. 73

¹⁵ *Robert Colvin's 'Wealth or Poverty? Critical choices for South Africa'*, Oxford University Press, 1992, p.77.

Chapter 2

This chapter introduces previous work done by other authors related to the study. It reviews weaknesses and strong points about international economic activities that have contributed in bringing about changes in South African economic activities.

2.1 Literature review.

International economic activities such as trade, investments and foreign ownership have expanded in both volume and importance. The new economic actors such as nations, regions, industries and enterprises in the international arena serve as the major instruments for a country's performance in its economic activities.¹⁵

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¹⁵ L.E Preston : *The rules of the game in global economy* Boston University: Kluwer academic,1997, P.36

¹⁶ Abedian : *Economic growth in South Africa*, Pretoria HSRC, 1992 P. 75

¹⁷ Robert Schrire: *Wealth or Poverty? Critical choices for South Africa*, Oxford University Press, 1992, P.77

On the same vein, Nelson Mandela have argued that South Africa should look to the United States or Great Britain for lessons on how to avoid an unhealthy concentration of economic power and stagnant growth.¹⁸

However, while acknowledging the very real difference between the African continent and western countries; it would be a mistake to believe that South Africa cannot be considered in some purposes, an African economy.

A large proportion of South Africa `s Black population was still involved in low productivity agriculture. Thus the millions impoverished Blacks in the southern countryside were in a position roughly similar to the rural majority in many African countries. This had symbolized that domestically South Africa`s economic growth is still in limbo, and foremost internationally.

For instance, South Africa had a very sophisticated manufacturing sector; it still has the export / import profile of an African country. One raw material –Gold- accounted for 40% of the total exports, and mineral production accounts for 64% of total exports.¹⁹ This happened in its sophisticated domestic manufacturing. This automatically showed that, South Africa had not yet managed to escape the same reliance on its raw material that afflicts most other African countries.

South Africa`s international dimension on economic reform had a closer relationship with South Africa and the African continent`s economic reform process. For all its political, economic isolation, and for all its structures of protectionism and other controls over economic transactions, South Africa `s economy remained highly `open` to the rest of the world. From the very beginning of its economic development, the economy `s international links have played an important role, both qualitative and quantitative, in determining the capacity to generate and distribute output and income. These links have included purchases and sales of goods and services, the latter including their services of

¹⁸ Mandela speaks at business meeting Sechaba ,Johannesburg, August 1990, P.26

¹⁹ EIU 1989, South African country profile.; London Economists intelligent Unit 1990-1991, P. 49

capital and of unskilled and skilled labour. In their absence, the nature, shape and scale of economic development in South Africa would have been very different.²⁰

In this sense, South African economy had always been highly dependent upon the outside world, and this international dimension has remained crucial for the future pattern of economic development. In relative terms, South Africa have always had a small population and limited domestic markets, both of which have rendered more difficult task of achieving high average living standards. Nearly a decade contrary of racially-discriminatory practices and laws- for forty years formally institutionalized by the apartheid system- have severely distorted the outcomes of course, particularly in so far as distribution of the benefits has been concerned. With or without Apartheid, however, it is these same capacities to engage in fruitful commerce with the international economy which represented the key to future prosperity.

International investments, according to many analysts, had become more important than trade as a source of integration and interdependence of the international economy. Trade and investments correspondingly stimulated economic growth. The power of markets was the determining factor that helps in investments and foreign exchange. Therefore, South African markets were mostly based on organizations such as the World Bank, the IMF and United Nations. These institutions served as fair judge and jury on the economic path adopted by countries.

International trade is also furthered by stable, routine relations among different nations who can use a common currency in exchanges. Mercantilism or economic nationalism of states together with Colbert, Burleigh, Cromuell and Frederick the Great believed that, "for a Nation State to increase its power in the world economy, trade is the only means to this end."²¹

²⁰ Robert Schrire: *Wealth or Poverty? Critical choices for South Africa*, Oxford University Press, 1992, P.57

²¹ R. Isaak : *Managing world economic change*, Angel wood cliffs, New York, Prentice- Hall 1991,P.11

Therefore South Africa's trade liberation programme since 1994 resulted in the combined share of total external trade in relation to the GDP increasing rapidly from approximately 40% in 1993 to 66% by 2007. The increasing diversification of the export basket resulted in the country becoming less dependent on primary commodities. An IMF report on economic development in South Africa since 1994 stated that "trade liberalization is likely to have had a substantial positive impact on South Africa's growth rate". Although this might be true, a more open economy also makes the country increasingly vulnerable to events on the global fronts as well to currency volatility. The increasing of openness of the local economy is reflected by substantial rise in the export penetration ratio over time. Robust economic growth, the strengthening of the Rand, as well as conducive domestic condition in support of higher private consumption expenditure and fixed investment activity, especially over the past four years, saw the demand of imported consumer goods as well as capital increasing sharply since 2003.

And again, South Africa's participation in the WTO negotiations had enabled its export to reach all corners of the world with European Union being the key market for South Africa's exports, followed by United States and Japan. Regionally, SADC stands out as the prime market for S.A's exports. With regard to imports, the EU remained South Africa's largest trade partner. While China becoming the larger source of imports, with its share in import basket rising from 17% in 1994 and almost 11% by 2007.

In the meantime, popular struggles led by the organization of civil society have mushroomed globally to fight against the current globalization of poverty by multilateral financial and trading institutions. In Southern and Eastern Africa, popular organizations of civil society have observed that the WTO has facilitated the concentration of wealth and power in the hands of a few transition corporations and finance capital based in the major capitalist countries of the North and tiny elites in the South. In sum, Harare meeting defined the WTO as illegitimate because it served as an instrument for the

acceleration of globalization in the interest of capital and represent a new form of colonization. That is Zimbabwean experience.²²

In this context, South Africa was faced with no option but to continue the struggle of economic independence based on alternative values from international financial institutions, international organizations and regional organizations with fair and clear development strategies

In South Africa, economic growth has brought with it a current account deficit. There was of course, no economic law that dictated that this must always be so: some mature countries have the best in both worlds, namely, high growth rate and large current account surpluses. However, the course of that was being that South Africa's growth experience was problematic, thereby distorting industrial growth structures. For the post-apartheid foreseeable future, the relevance of current account for policy was the simple but inescapable fact that growth brings trade deficits and that this trade deficit has to be financed.

Economic growth, integration and balance of payments need a symbiotic relationship process, in which the rest of Africa has done in assisting post-apartheid South Africa. South Africa's reconstruction, reorientation and reintegration into Africa and the global system also needed democratic South Africa to contribute dynamically in filling of gaps and the elimination of significant deficits in Africa's problematic political economy.

The above information had led us in asking the question as to whether South Africa was internationally competitive in its first decade of democracy.

South Africa had a relatively large and diversified manufacturing sector of long standing, clearly the most advanced manufacturing sector on the African continent. It was largely privately owned and responsive to market forces. It served as the reasonable –seized

²² Siphobuthlezi: *Journal of Development Economics for Southern Africa*, University of Fort Hare Press, 2000, P. 16

domestic market with concentrations of high income and sophisticated tastes. It has been open to inflows of new technologies from the developed industrial countries, and has drawn on a base of a well trained managers, engineers and technicians. It has established areas of competence in several complex activities. Many of these are in heavy and technologically demanding industries that have matured behind the protective barriers into international competitiveness, such as metallurgy, chemicals, paper and some industrial mining equipment. In addition, it also exports significant amount of textiles and processed food. In 1991 its manufactured exports amounted to \$7, 6 billion up to \$5, and 3 billion in 1998.²³

But since 1994, the country had enjoyed positive but quite low levels of economic growth. While any growth in a difficult global economic climate has been an achievement, it has been accompanied by steady population expansion. This had virtually eliminated per capita GDP growth. In addition, South Africa `s growth has been `jobless growth`, with the number of people employed in formal non-agricultural employment falling between 1994 and 2002. There were indications however, that a more favorable set of conditions are now in place. The productive potential of economy may well grow faster than the 3 per cent ceiling that has recently confined it, although few think the 5 - 6% growth that have made substantial inroads into the country`s unemployment crisis is likely to be realized. Like any emerging economy, South Africa remained highly vulnerable to external condition that it cannot control or even influence.

South Africa `s late nineteenth century mining and agriculture dominated economy became progressively a manufacturing economy, with manufacturing exceeding other sectors by the mid-twentieth century. Services have achieved greater significance across the past three decades. The country entered the twenty- first century a reasonable diversified and robust economy, dominated by the service sector (65 %) with the secondary sector (including manufacturing) accounting for 20% and the primary sector for only 13%. Manufacturing, finance and government are the three biggest industrial

²³ H.P Baker et al : *South Africa and the world economy in the 1990`s*, Cape Town, Idasa and the Aspen institute, 1993,P 50

categories. Despite the shift towards a more diversified economy, some scholars had argue that resources remain the heart of economy. While mining itself accounts for only 5.8% of GDP (Statistics South Africa 2002a: 33), there are strong relationship between mining and sectors such as electricity, no-metallic mineral products, iron and steel industries. For this reason, some analysts claim a 'mineral-energy complex' still accounts for the fifth or even a quarter of the output of the economy.

3.1 The need for South Africa's economic integration into the international

The then changes in its economic and political situation, which required a far greater openness to the world trade led South Africa's industry to face difficult problems of industrial competitiveness and restructuring. The roots of the problem lied on long standing features in its economic regime and industrial strategy. In recent years there has been considerable liberalization of South Africa's trade regime. Quantitative restrictions have been largely replaced by tariffs. Export incentives had improved greatly. On the other hand, the multilateral organizations like the World Bank and local institutions and the Industrial Development Corporation which supports rapid and sweeping liberalization had also featured in the process.

In conclusion, Rapid liberalization seemed to be far from reach because developing countries depended on using technologies imported from developed countries, which were not so easy to access for international competitiveness.

The next chapter had revealed that though international integration more international trade barriers as well as political barriers which were long awaited for, have been opened for countries to access their economic prosperities.

Chapter 3 Africa's Integration into the Global world

This chapter exposes how South Africa had reacted to its economic integration into the international community.

3.1 The need for South Africa 's economic Integration into the international Community.

Internationally and domestically, governments whether developing or developed have an obligation to promote their free flow of goods, services, money and work by concluding treaties and agreements on trade, investment and global or regional economic integration as a pre-requisite for globalization. Arrangements including preferential tariffs, free trade association, custom unions, common markets and economic unions have to multiply for the sake of international competitiveness.²⁴

Geographically, the most comprehensive economic international arrangement was through the WTO (World Trade Organization) which most probably, is intended to serve as the forum for eventual negotiations on the multilateral agreement on investments (MAI), although the negotiation task took place within the framework of OECD. The world trade organization is also a legal and institutional foundation for the multilateral trading system. It provided the principal contractual obligation determining how governments frame and implement domestic trade relation and regulations among countries evolve through collective debate, negotiations and adjudication.

²⁴ <http://www.ilo.org>: International labour office : globalization and working rights 2004, P. 4

3.1.1 South Africa's integration into the Global world

Notably, South Africa's integration into the global community was all about material interest. Material interest's conception of economic integration as a social progress had an impressive pedigree more than just a principal contractual obligation determining how government frames and implements domestic trade relations and regulation. Economic integration has been justified simply as a method of maximizing prosperity, but ultimately as a means of servicing laudable political ends.²⁵

Material interest's conception of integration was again driven by national interest. National interest addresses preferences of the nation's leaders, which were goals that were sought by the state and those goals or objectives must be related to general societal goals which persist over time and have a consistent ranking of importance.²⁶

In more contemporary foreign policy circles, the position advocated by material interest is often called "constructive engagement". More political than economic theory, one variant of constructive engagement posits that trade with, and investment in, repressive countries will promote political liberalization and greater respect in human rights by exposing the population to liberal human rights values. The theory, by marrying material interest and moral principles, is immensely appealing, creating a natural consistency among both myopic profit-seeking companies and the most conscientious, human rights – sensitive policy makers. The wish of every role players of integration in this sense is to have the net positive results throughout the process, which in reality was not the reflection of what developing countries have experienced or experiencing thus far.

South Africa's vision in the whole process of international economic integration was based on "constructive engagement" which promotes freedom, the opening of the

²⁵ *Yale Human rights and Developmental Law Journal* Jan 2002, vol 1 P.2

²⁶ *Antoni Van Nieuwkerk: South Africa's national interest, African security review* vol. 13, No 2, 2004,P.3

international world and the development of an independent middle class which is fueled by economic growth.

Seeraj Mahomed, director of Cooperative Strategy in industrial development cited that “South Africa had treaded a tight rope spanning global economic integration and domestic development”. Many economists and senior officials of the World Bank and International Monetary Fund continued to preach the open trade policy. On that regard investments policies are required to achieve growth and end poverty.²⁷

Dan Rodrick of the Kennedy school of government at the Harvard University also argued that “the new agenda of global integration was built on shaky imperial ground and it have seriously, distorting policy makers’ priorities”.²⁸

Bearing that in mind, South Africa had introduced major changes to its domestic, political and economic structures. After years of isolation from the global economy, foreign sanctions were lifted and companies ceased disinvesting from South Africa. Profitable opportunities were open up for South Africa to reintegrate its economy into the global economy.²⁹

Given the state of the country, an outward orientated strategy was required. South Africa’s integration into the global economy was a necessary imperative if there was to be any hope of achieving growth and development. Not only was the South African economy in stagnation, apartheid policies also had damaging spill-overs on the southern region.

South Africa had to integrate with the world whilst also creating the appropriate domestic environment sustaining a return which required and still requires coordinated national efforts. The RDP, which was released by the ANC prior to 1994 was the policy framework of socio-economic transformation in South Africa, and was the outcome to broad consultation to identify the challenges, objectives and strategies for revitalizing the

²⁷ Seeraj Mahomed: *Lessons on global integration* 2003, P. 2

²⁸ *South African Foreign policy Magazine*, March /April 2001.

²⁹ *The South African DTI news and events, Special collection*, 22 June 2004

economy and society. In 1996, the government had introduced its micro-economic framework, the growth, employment and redistribution. As South Africa integrates itself into the global economy, challenges remained that of improving its rates of economic growth and attracting of necessary levels of foreign direct investment in order to create the much needed employment and eradication of poverty.

Therefore South Africa's compliance with international agreements and standards had become expensive and had diverted valuable resources, institutional capacity and political efforts away from development needs. For example, privatization as the means to increased economic viability had not actually cover South Africa's economic gaps. In return it had cost much to South Africa 's job losses. The rules of admission into the world economy did not only reflect little awareness on development priorities, they were often completely unrelated to sensible economic principles. WTO rules on antidumping, subsidies and countervailing measures, agriculture textiles were utterly devoid of any economic rationale beyond mercantilist interest of a narrow set of powerful group in advanced industrial countries.

South Africa had moved a long way along the road of global integration, but the whole reflection seemed to be the replacement of development by economic integration.³⁰

International economic integration has brought some negative consequences as well as positive lessons. New technologies have continued to make the world a smaller place for trading. The linkages between the stock exchanges in many countries had increased significantly in the 1990's. The empirical evidence showed that due to elimination of obstacles to free trade, greater financial market integration has led to greater market efficiency and better risk- and- return combination for investors. There has been a sharp increase in the weight of foreign assets in the portfolio of some agents, as well as the correlation between the relevant stock indices and the ability to explain the behavior of returns in other markets. The disadvantage of the greater integration of financial markets

³⁰ Seeraj Mahomed: *Lessons on Global integration 2001*, P.2

was that it has reduced the ability of domestically focused policies to deal with the problem arising in the respective domestic financial markets.³¹

On the other hand, the advantage was that, South Africa entered the economic transition with some advantage in relation to global economic development. South Africa's manufacturing sector was relatively large and diversified. It has been open to inflows of foreign direct investments and technology. It had also developed a global competitive edge in some complex activities such as metallurgy, mining equipment, chemical and paper. South Africa seemed to have fitted the profile of kind of countries that have indeed been able to take advantage of changed investor sentiments to re-enter international capital markets in a major way.³²

South Africa's share prices were increasingly influenced by the views of international investor development in London, New York, Frankfurt and Tokyo which had a greater influence on domestic share prices than actual development. South Africa saw a major swing in foreign exchange rates in this decade. The sophisticated financial system compared favorable with those of most industrialized countries and surpasses those of emerging market countries. Although great strides have been made in this decade with global and regional integration, the process of financial integration has had a few setbacks. South Africa had experienced the contagion effects of periodic emerging market crisis that forced painful adjustments.

Prior 1994 dispensation, South Africa had resembled the crisis that had been underway for some time in the United States of America, with many bankruptcies among savings and loan associations. The equivalencies were the decline of interest in South African building societies. By the late 1990's, this has been spreading among commercial banks as declining real estate prices created bad real estate loans, and more stringent regulatory standards which had led to the insistence that non-performing loans be recognized sooner

³¹ Address by T.T Mboweni (Governor of South Africa Reserve Bank): South Africa's integration into global economy, Rand Afrikaans University, Johannesburg 25/10/2000, P.1

³² [Http// www. The south African economy – Goliath Business news htm, SA social research, 2September2005](http://www. The south African economy – Goliath Business news htm, SA social research, 2September2005)

and more completely. South Africa's higher credit standards led to the denial of credit to small companies thereby causing bankruptcies.³³

The scenario was a symbol of disintegrated relations between South Africa and the international financial institutions of which in the post-apartheid era, South Africa was able to negotiate with the IMF for special debt allocation since there is an economic connection initiated as the fruits of its democratic government.

The same scenario has been analyzed by the Japanese government. Japan had analyzed the technological trend closely, and has noted that there was a lag between 1970, or just before the oil shocks, and 1985. During that period South Africa had no technological breakthrough that was able to stimulate whole new industry. Investment in new technology lagged. Since then, there was a spurt of new investment affecting South Africa. Japan further gave its own example about the Toyota motor company. In Japan, one can walk into a Toyota dealership and select a personalized Toyota vehicle from a checklist of 70 items. One can also choose the model, engine size of his own choice with desired extras due to high technological achievements, but that could never happen in South Africa prior the democratic dispensation.

The opening of Japanese and Chinese market to South Africa had brought some achievements in terms of technology and motor industry. International trade in this regard had grown by as much a 10 % from 1985- 1996. South Africa has joined the ranks of the successful exporters of manufacturers amongst the globe.

South Africa had introduced major technological changes domestically and globally. The opportunities for manufactured goods stand in sharp contrast with South Africa's appraisal of the prospects of gold. Gold has long been a key export, and indeed a motor of growth for the South African economy. Influential economists foresaw much higher

³³ Bob Tucker and Bruce R. Scott: *South Africa prospects for successful transition*, Cape Town, Juta & Co, Ltd, 2004, PP 39 and 40.

prices ahead for gold, and thus a strong role for gold mining in the South African economy.

This view rested on widely held perception that world gold production would not keep increasing – and, indeed, would decline- and that the demand of gold would rise. It was anticipated that this decline in supply and rise in demand would lead to gradual rise in gold price to 500\$ by 1995.

During the 1980's, Pierre Wack, prepared the scenarios on the supply of, and demand for, gold until the turn of the century. There was the continuing and significant increase in the world supply of gold and at a lower cost of production than the average for South African mines. The uniqueness and the image of gold were not adequately protected, because of South Africa 's poor representation the international trade regime. The continuing trend of disinvestment by those predominantly western gold investors who would have been described as 'stable holders' and an increasing dependence on predominantly for eastern gold investors who were much more flexible in switching to other investment countries on a price rise. The increasing supply of gold at a lower cost threshold than prevails in South African mines. The weak demand for gold for jewelry, and the increasing of far eastern investors who had tended to cut off any price surge in the early stages, had resulted in a depressed price in the second half of 1996.³⁴

The breakaway of the previous apartheid legacy had given birth to a logical new investment in gold mines. The anticipated weak gold performance and retrenchments in the gold mines were not experienced in a drastic manner. Although gold price from 1991-1995 remained depressed, chances of improvements were deemed to be high due to South Africa 's connectedness to the globe. If depression could have persisted, gold would continue to loose its important stand as a South African export.

³⁴ Bob Tucker and Bruce R. Scott: *South Africa Prospects for successful transition*, Cape Town, Juta & Co, Ltd, 2004, PP.43 and 44

South Africa's banking sector was also affected by the adjustments. The official policy has been to open up the South African banking sector to foreign participation, and to expose South Africa's banking institutions to foreign competition. As a result of the policy, 15 foreign banks have registered branches in South Africa and 60 foreign banks to do business in the country through representative offices. The South African banking sector had remained sound and well managed. The four big banks in South Africa have assets of over R500 billion. The registered banks in South Africa had an aggregate balance sheet of R772 billion by the end of year 2000 with capital and reserves of R714 billion.

Through the process, institutional investors such as insurers and pension funds were allowed to exchange part of their rand – dominated portfolios for foreign currency dominated assets through swap transaction entered into with foreign counterparts. In accordance with the principle of relaxing exchange controls, permission was granted in June 1995 to South African institutional investors. Indeed South Africa's integration into the world financial markets had undergone major restructuring of institutional arrangements. The Johannesburg Stock Exchange (JSE) had introduced changes to provide for corporate ownership, foreign ownership of stock brokerage firms, dual capacity trading, negotiated commissions, and electronic screen trading.³⁵

The process of economic integration is synonymous with regionalization.³⁶ Therefore, it is very difficult to talk about integration without talking about some of the major economic relations between South Africa and the globe. Such examples are, South Africa and Africa's relation, South Africa and Japan, South Africa and USA relation together with South Africa and European union's relation. Through this bilateral links, South Africa had secured a stable and sustainable access to the main markets for its exports and for attracting capital. These bilateral links remained as traditional major poles of global economic growth and leading markets and sources of investments and technology. This

³⁵ Address by T.T Mboweni (Governor of South Africa Reserve Bank): *South Africa's integration into the global economy*, Rand Afrikaans University, Johannesburg 25/10/2000 ,P.2

³⁶ J.Matthew: *The international Economic relation for South African Students*, Johannesburg, Southern Book Publishers, 1987,P.6

consideration informed free trade agreement (FTA) between South Africa and the EU. This is also the rationale for the FTA negotiations with amongst others are the US and European Free Trade Association (EFTA) comprising Switzerland, Norway, Iceland and Lichtenstein.

3.1.2 South Africa and Africa

South Africa is inextricable part of Africa. Official liaison with other African countries is therefore a priority. South Africa's global economic strategy can be viewed through the lens of economically reinvigorated Africa. South Africa had strong and mutually dependant economic links with Southern African states. In 2002, around 16% of South African exports went to the continent- a figure that needs to be balanced in Africa accounting for only 4% of South Africa's total import in the same year. The trade imbalances were, to some degree, offset by substantial investment and development initiatives on the current evolving infrastructure, water and waste management, agribusiness, mining and human resource development, amongst others. South Africa participates in a number of trade relationships, both regional and bilateral. South Africa became a member of the Southern African Development Community in 1994. In the year 2000 the SADC protocol on trade was implemented, which includes the establishment of the SADC free trade area by 2008. Trade amongst SADC countries doubled between 1998 (R16 billion) and 2002 (R32 billion) where South Africa's contribution was part of the statistics. In 2002 imports from the region increased substantially to R42 billion. Key trading partners are Zimbabwe, despite political instability; Zimbabwe was the largest export destination for South African goods in 2003, accounting for some R6.5- billion. Imports from Zimbabwe amounted to R2.6-billion in the same year. Technical and Cultural Co-operation between South Africa and Zimbabwe was reviewed in 2002 with the aim of strengthening bilateral relations.

Mozambique was also a key destination for South Africa's exports to Africa, on its own accounting for some R5.6- billion in 2003 (some 18 % of South Africa's exports to Africa). Mozambique's underdevelopment meant that, the trade balance was heavily in South Africa's favour. Amongst these countries, are Zambia, Angola, Nigeria, Kenya,

Tanzania, Mauritius, Malawi, Ghana, and Democratic Republic of Congo which serves as major regional economic partners of South Africa.³⁷

Prior 1994 South Africa's relation to Africa was poor, but for the past five years after the first democratic elections, South Africa's representation in Africa had doubled, and by February 1996, it had official relations with 50 African countries. Offices have been opened in 25 of these countries. Africa has become South Africa's third largest continental export market, after Europe and Asia. South Africa's export to Africa in 1995 amounted to R140 billion, which is 61% more than in 1994.

If gold sales and unallocated exports to the developed world were excluded, Africa accounted for 15 per cent of South Africa's merchandise exports - mostly intermediate and final goods such as chemicals; textiles; rubber ware; foodstuffs; clothing; vehicles and other machinery. South Africa's imports were far less from the rest of the continent than it exports to African countries. However, South Africa became an important market for manufactured products from Zimbabwe, Botswana, Lesotho and Swaziland, for cattle and sheep from Namibia, and for beef from both Namibia and Botswana.

3.1.3 South Africa and Japan

Japan's formal political and economic relations with South Africa can be traced back to 1910 when Japan appointed an Honorary Consul, Mr. Jeppe, in Cape Town. South Africa became an important trading partner for Japan in Africa in the 1960's, but due to South Africa's apartheid policies, bilateral relations were restricted to this domain. South Africa established a consulate general in November 1962 at the imperial hotel in Tokyo. Consular relations were upgraded to full diplomatic relations in 1992; during this period relation with South Africa remained limited, also considering Japan's support to UN sanctions. Full diplomatic exchanges commenced in 1994.³⁸

Although Japan has historically been a key partner of South Africa, the relation was initially based on the export of strategic raw material and agricultural products from

³⁷ [Http://www.SouthAfrica.Info](http://www.SouthAfrica.Info) : south Africa and SDC, 2004

³⁸ Embassy of Republic of South Africa in Tokyo: News Bulletin 2008, P. 1

South Africa and the intensive or value added goods. The structure of trade has now changed to include value, most notably vehicles. Japan is now top trade partner (import) for South Africa. South Africa has enjoyed positive net trade with Japan since 1999 and the trade balance was over 13 billion. Key Japanese export to South Africa includes the transport, especially automobiles and machinery, especially electrical machinery sectors. South African exports include base metal, notably Ferro alloys, non-ferrous metal and intermediate iron and steel. Since 2000 and 2001 onward vehicles export from South Africa (as Germany's assembly point), the BMW 3 series and Mercedes Benz became the first value added product to be registered amongst South Africa's exports to Japanese.

Prior 1994 there were no foreign direct Japanese investments in South Africa. However since 1994 dispensation, there have been over 42 major investments in South Africa by Japanese companies which include; Bridgestone Corporations, Denso corporations, Hino motors Ltd, Komatsu Ltd, Mitsubishi corporation and many more. South Africa's integration to Japan means a fortune to South African economic prosperity.

3.1.4 South Africa's relations with the United of America States

The United States of America (USA) was one of South Africa's largest trading partners and a country with which South Africa maintains close political ties intensified by its post apartheid achievements.

The special relationship South Africa enjoyed with the US was illustrated by the SA-US Binational Commission (BNC), which was established in 1995 under the joint chairmanship of Deputy President Mbeki and US Vice President Al Gore.

The BNC consisted of six committees, dealing with Human Resource Development, Science and Technology, Conservation, Environment and Water Affairs, Agriculture, Business Development, and Minerals and Energy. Since the BNC was established, considerable progress has been reported by the committees in promoting US investment in South Africa, improving bilateral trade, building free markets, reducing pollution, conserving water, managing waste, empowering and educating young people, protecting the environment, and improving agricultural practices.

From South Africa's point of view, one of the most important benefits of BNC lies in the opportunities it provided to South Africans who have been disadvantaged in the past. Apart from the activities of the BNC, the US also contributed considerably to the RDP through the United States Agency for International Development (USAid). In October 1997, the USAid granted South African Government R200 million in aid to meet South Africa's development needs in crucial areas such as justice, education, health care, economic policy, housing, and urban and private-sector development.

US Secretary Madeleine Albright visited South Africa in December 1997. President Bill Clinton paid a State visit to South Africa in March 1998 - the first such visit by an American president.³⁹ Those were signs to show total commitment, good moral support and involvement in the reform process that South Africa have just initiated since its democracy in 1994.

Apart from BNC's special assistance, post apartheid South Africa's foreign trade had also began in 1994 and 1995 with the USA. Many of United States companies that have sold off shares or operations in South Africa in the past decade returned to do business. By the early 1996, at least 225 United States companies employed more than 45000 South African workers. South Africa - United States trade relationship have increased rapidly since 1995. During 1995 SA had imported roughly US \$ 2, 75 billion worth of u exports, mostly manufactured goods. This had represented more than half of United States exports in Africa. South Africa exported roughly US \$ 2.21 billion worth of metal, alloys and precious stones to the USA in that year, representing the only significant source of African products other than petroleum.⁴⁰

3.1.5 Economic relations with Europe

South Africa's relations with Europe accurately reflected its international importance as part of Africa's trading bloc, source of investment and exporter of technology. Europe was responsible for a third of total global trade; is the biggest source of investment for

³⁹ <http://www.South Africa The consulate General, revised version, New York, 1997, P.3>

⁴⁰ <http://www.South Africa - Foreign Trade and investment htm, 1996, P.1>

South Africa, and accounts for over half of South Africa's total foreign trade. Seven out of ten of South Africa's top trading partners are European countries.

Since the end of South Africa's international isolation and the gradual easing of exchange control, Europe had become an important destination for South African investment and a vehicle for effective integration into the global economy. At the same time, European investment in South Africa had assumed a larger and more important dimension.

A new element was added to relations with Europe after the democratization of South Africa and after European development agencies started intensifying their programs and expanding their presence in the country. Both bilateral development co-operation and multilateral development programs through the European Union (EU) now had formed a substantial element of the South African RDP process.

The democratization of South Africa had also brought new dimension of political goodwill from Europe into play. It is directed at the stabilization and development of all the elements supporting democratic development in South Africa and is recognizable in both a range of new formal bilateral agreements intended to coordinate and expand co-operation as well as a search for a meaningful role in developing the region through interregional co-operation. The latter initiative by Germany, actively supported by its EU partners, was officially launched in September 1994 in Berlin and has since proven to be an important forum for the EU and the SADC for strengthening democracy, promoting regional integration, combating illicit drug trafficking, promoting AIDs and HIV awareness, water and energy resource development and the clearance of landmines.

Relations with Europe, with the EU as the pivot, were historically substantial, economically crucial, expanding in range and gaining in momentum.

Equally important for both economic development to underpin internal progress, and international integration, were South Africa's relations with Central and Eastern Europe with its emerging and realigning economies. Political goodwill on both sides seeks to ensure that relations are normalized in all spheres of interest.

After an initial period of intense activity during which a range of agreements were signed and private sector involvement was initiated, a gradual consolidation took place resulting in the perception that interest had declined. Renewed interest from the private sector in this area will be supported by the Government and assistance will be rendered in identifying opportunities.⁴¹ This was intensified by its relation with the European Union.

3.1.6 The European Union

The negotiations on the future relations between South Africa and the European Union (EU) had been established but somewhat delayed because both sides had taken time to give serious consideration to the development of a format for the Free Trade Agreement (FTA) which was proposed by the EU. The FTA which was mooted by the EU was intended to facilitate much improved trade access to the European markets for South Africa, but the parameters that were proposed by the EU within the negotiations had maneuver, and were to be restrictive to South Africa's opinion.

South Africa's submission emphasized trade and development instead of free trade. The South African approach was that the SADC Trade Protocol should be first satisfactorily developed before South Africa and EU embarked on in-depth trade negotiations. South Africa also identified two more factors which were inhibiting negotiations. Firstly, the EU excluded some 39 per cent of South Africa's agricultural exports from negotiations. Secondly, the EU insisted on certain linkages. They insisted on the finalization of several minor agreements, for example on Sea Fisheries and on Wine and Spirits, before the long-term bilateral agreement could take effect.

The substantial European Programme for Reconstruction and Development (EPRD) which is the EU's aid Programme to South Africa, amounted to 500 million ECU until 1999. It has been effectively introduced and was contributing widely to South Africa's

18.. <http://www.South Africa – Foreign Trade and investment htm>, 1996, P.4

reconstruction and development programs. EU funds under the EPRD have already been fully committed to specific projects which will run up to 1999.

The EU remained South Africa's largest trade and investment partner. During negotiations, South Africa ensured that the relationship developed, will have a positive ripple effect on the economy and development of both the SACU and the SADC.

The EU accorded South Africa duty-free entry on most of its industrial exports in early 1995, and the two were negotiating terms for the purchase of South Africa's agricultural products. In 1996 the EU granted South Africa a qualified membership in the Lomé Convention, to take effect in 1997. The Lomé Convention gives African, Pacific, and Caribbean countries preferential access to European markets.

In conclusion, it could be said that, "global economic integration or regionalization had some effects in South Africa's economy". Under certain circumstances it can lead to higher employment and increase skewness in the distribution of income between developed and developing nations. In South Africa, integration has created more vibrant economic relations between countries and international organizations. Since 1994 global companies had flocked to South Africa to take advantage of the country's vast investments potential. In the words of Jim Meyer, the president of American chamber of commerce in South Africa, "The sophisticated business environment in South Africa had provided a powerful strategic export and manufacturing platform for achieving global competitive advantage, cost reduction and new market access". Almost half the members of American Chambers of Commerce in South Africa are a fortune of 500 companies, and over 90% operate beyond South Africa's borders into Southern Africa's borders and across the continent.⁴² The South African government is now committed to African renaissance, which is based on the consideration of democracy and the co-operative approach to resolving the challenges that the continent faces. South Africa in 2002, hosted the launch of African union (AU), a step towards further unification of Africa in pursuit of socio-economic development. In 2004 the AU decided that south Africa should host the Pan African Parliament, and it have met for its second session in South

⁴² [Http://www. More about South Africa: S A info.htm](http://www.moreaboutsouthafrica.com). January 1999, P.8

Africa, the first time on South African soil, in September of that year. Lastly, through the New Partnership for Africa `s Development (NEPAD) the development programme of the EU- South Africa continues to work with the rest of the continent and its partners in the industrialization world of the development and regeneration of the African continent.⁴³

South Africa had participated in the AU and UN initiatives to resolve economic as well as social conflicts and promote peace and security on the continent- in among the countries, the DRC, Burundi and Sudan. South Africa has contributed to the achievement of stability, democracy and faster development.

South Africa `s integration into the international community had brought more vibrant South African economy and most long awaited Africa `s economic paradigm with more amplified voice.

It could also be articulated that South Africa was seen to be still a bit behind with its international economic interconnectedness, not because of too much globalization, but because of too little.⁴⁴ That will be clearly outlined in the next coming chapter with its relations to international financial institutions.

⁴³ *South African yearbook 2008: Last modified 27 October 2009 P. 71*

⁴⁴ *M. Moore : Trade, poverty and human face of globalization, Reuter Public Policy series, London school of economics, 2000, P.1*

Chapter 4

Financial institutions had also played their part in countries' economic reform. Discussions on this issue have been outlined in this chapter with reference to South Africa's post-apartheid economic reform.

4.1 The IMF, World Bank and WTO involvement in South African economic reform.

4.1.1 The IMF and the World Bank

The IMF and World Bank were the fruits of the wartime collaboration between the United States of America and the United Kingdom on the future of the international economic system in the post-World War II period. The fund was a concrete response to the perceived international monetary problems of the 1930's and the imperatives of Post-War economic reconstruction. The IMF was established in 1944 and began its operation in 1947. It was then designed and characterized to perform three important roles in the international monetary system. Firstly, it had been designed to regulate the financial relation for its members. This regulatory function included an element of rule, supervision and law enforcement with respect to exchange rates and balance of payment restrictions. The fund also acted as a lender of the last resort to countries with chronic payment problems. It lastly acted as a consultative organ, which creates a climate in which governments are persuaded to dismantle exchange controls and to permit the free trade and free movement of capital.⁴⁵

South Africa had received its first loan from the IMF in 1957/58. It had also received three credits from the IMF in 1970, which were mainly to assist with balance of payment

⁴⁵ Barry and Angela Lown: *Accountability of international Monetary Fund*, Ottawa: International Development Research Centre, Burlington, Ashagnte 2005, P. 214

problems emanating from the then weak gold price.⁴⁶ The IMF also provided South Africa with the credits on special drawings rights (SDR) of 91.2 million in 1976 and (SDR) of 162 million in 1977. All those borrowings were resources to support the South African government's programme to strengthen the country's balance of payments.⁴⁷

The above example typified the rather close relationship which characterized South Africa's dealing with fund virtually throughout the post- World War II period. The relationship was cemented by the geo-political and strategic interest in the context of the cold-war.

South Africa's relationship with the fund was not strong and can be described best from the period of 1981 when gold declined its price and high imports which have resulted in the massive current account deficits. While the gold price was indeed falling, this was also for the apartheid regime, a period of great political instability, both internally (the Soweto uprising) and externally (the ill fated raid deep into Angolan territory). South Africa's deficits on current account of the balance of payments was US\$4380 million. By mid 1982 South Africa approached the IMF for a stand-by loan of \$ 1.1 billion which was regarded by the South African authorities as being important to prop up the credibility in the international financial circles. This was to be the last loan to South Africa until the demise of apartheid. The loan was repaid by the end of 1987.⁴⁸

This implied that South Africa's relationship with the IMF was not brought about by 1994 election but was long in place until it was disturbed by the intensifying 1982 international sanctions. Although South Africa remained loyal on its borrowings, the relationship did not last long due to pressures resulting from apartheid. A 1983 United States law (the German amendment), required that the US executive Director at the IMF opposed loans to South Africa unless the secretary of the treasury certified in person

⁴⁶ Brian Kahn: *Debates over IMF reform in South Africa, Studies on international financial architecture, Fridrich- Ebert- Stiftung, FES Library, 2000, P. 2*

⁴⁷ V. Padayachee: *IMF and the World Bank Post Apartheid South Africa: Prospects and Dangers: Economic Trends Working Paper, UCT, RSA, 1992, PP.16 and 20*

⁴⁸ Padayachee : *IMF and the world bank in post apartheid South Africa, prospects and dangers Economic Trends Working paper UCT, South Africa 1992, P 16 and 20*

before the United States senate and the house of banking committees that the loan would reduce the distortion caused by apartheid. South Africa received no more IMF loan for a decade thereafter.⁴⁹

Yet, the IMF had made billions of dollars of loan to apartheid South Africa during the late 1970's and early 1980's. During this period, the apartheid regime had began to sell state assets to white-owned conglomerates and raised interest rate to the highest level in South Africa's economic history, and the IMF was the one prodding to do so.⁵⁰ The IMF constantly argued that South African workers were overpaid and that South Africa should implement a value added tax to shift the burden of tax payment further to lower income to the people. The apartheid regime had generally followed that advice and was applauded by the IMF.

After the changes announced by the de Klerk government in the early 1990's, the IMF along with the World Bank began to increase its visibility in South Africa, with increasing number of, and more broad based visits, including contracts with the academics, labour movement and NGO's. It was clear at that stage that the IMF was concerned about the economic policies that would be followed by the new government. This was at the time of intense debate over future economic policy. The major debate revolved around the choice between redistribution before growth, or growth before redistribution. In 1992 an IMF occasional paper on South Africa added to this controversy with prescription that was favourable to the latter point of view.⁵¹

In 1993, the IMF had granted South Africa \$ 750 million (about R5.1 billion) which was for drought relief. Actually the draught had ended eighteen month earlier. The loan carried conditions such as, a lowered budget to prevent the new upcoming government to spend more on social programmes, and lower wages to civil servants. The conditions

⁴⁹ Jonathan Michie and Vishnu Padayachee : *The political Economy of South Africa*, Harcourt & Company, London 1997, P.28

⁵⁰ *The Sowetan Newspaper: South Africa's economic history and the IMF*, Trevor Ngwane, George Dor, 12th July 2000, P. 19

⁵¹ Brian Kahn: *Debates over IMF reform in South Africa*, *Studies on international financial architecture*, Fridrich- Ebert- Stiftung, FES Library, 2000, P. 3

subsequently become government policy in the form of GEAR. The loan was a secret agreement, it only leaked to the business press in March 1994.

Since the Asian crisis of 1998, there have been numerous debates and discussions internationally about the need to design a new international monetary architecture. Inevitably, much of these discussions have revolved around the role of the IMF and the World Bank. The recently published Meltzer Commission Report was one of the outcomes of these debates. This report came up with a number of controversial recommendations about the role of the IMF in the international monetary system, as well as some governance issues.⁵²

Surprisingly there has been relatively little debate in South Africa concerning issues of reforming the international financial architecture, or indeed about reform of the IMF itself. Although there was a strong antipathy towards the IMF and the World Bank in certain circles -particularly labour movement and South African Communist Party circles and some constituencies within the African National Congress (ANC)-, this was usually expressed in terms of the influence, direct or indirect, that these institutions have on economic policy formulation in the country. As South Africa has not been a regular borrower from the IMF, nor has it had a structural adjustment programme, the issue of access to IMF resources does not weigh heavily on the domestic debate. The only recent explicit critique of the IMF has come from the government, in advance of the IMF spring 2000 meetings in Washington, with the Minister of Finance, Trevor Manuel, calling for internal changes within the IMF. The questions raised related to the internal governance structure of the IMF, and the access (or lack thereof) of developing countries to IMF resources. It appeared that the focus was on championing developing country causes, rather than narrow South African interests. Other concerns related to the IMF revolved around the debt of HIPC countries, an issue which the South African Council of Churches, in conjunction with the Jubilee Initiative had embraced.

⁵²Brian Kahn: *Debates over IMF reform in South Africa, Studies on international financial architecture, Fridrich- Ebert- Stiftung, FES Library, 2000, P. 1*

Again and again in Southern Africa and across the third world, the IMF 's free market economic advise and conditions on loan has been disastrous.

Former chief economist of the World Bank, Joseph Stiglitz cited that “the IMF is populated by the third rate economists, therefore, its crisis of legitimacy is the control exercise by the USA government, which is based on ownership of 18% of the IMF shares, enough to veto anything the US disagrees with ” .

The demands made by the Jubilee South towards the HIPC's on debt relief was viewed within the matrix of the global political economy which led to asymmetrical relations between the developed and underdeveloped countries. Jubilee South thus defies “illegitimate and immoral debts” as the consequence of the exploitative nature of international capitalism.⁵³

Apart from the above, on the 4th of February 2000, the IMF had initiated its efforts to promote transparency of its view and analysis of economic development and policies with South Africa through Public information notice (PIN). After the executive board discussion of Article IV consultation with the member countries of its surveillance of development at the regional level of post- programme, it was revealed that South Africa's financial market conditions were improving.

The IMF didn't remain the financial monster to South Africa 's new economic dispensation, instead it had revised its conditionalities through the above mentioned initiatives which are reviewed periodically.

On the other hand, the World Bank was having different strings attached to its relationship with South Africa.

South Africa was one of the founder members of the World Bank. The first World Bank mission visited South Africa 1n 1949/50 in order to undertake a survey of the economy

⁵³ Siphon Buthelezi: *Journal of Development Economic For Southern Africa*, University of Fort Hare Press, December 2000, P. 113

and of investment opportunities. The country received the large project loan from the World Bank in the 1950's and early 1960's. Over the period 1946 to June 1967 South Africa received 11 loans totaling to \$ 241.8 million from the IBRD. Seven of these loans were in support of the development of South Africa 's transportation system and the remaining four were to Eskom, for improvements and extensions to the electricity grid and network.⁵⁴

Since then the country had not qualified for some time for a loan from the Bank's concessionary International Development Agency (IDA) facility, which is reserved for the poorest developing countries. In fact South Africa subscribes capital to (IDA) but could not borrow from the facility. South Africa had not received any project loan or any other World Bank support since the mid-1960's. South Africa repaid and finish its entire loan obligation from the World Bank in 1976.⁵⁵

The post-apartheid South Africa together with the IMF and the World Bank had to redraw a new development strategy in 1994 as a form of reparation to previous apartheid economic irregularities. Those development strategies depended on a variety of external and internal factors; the state of and change in the global economy. South Africa 's development strategy and the underlying strength in the micro-economic fundamentals, the ability to develop without running into serious and persistent balance of payment problems, its dependents upon external borrowings, its capacity to monitor and control its foreign debt.

The fund in the post- apartheid era had emphasized financial discipline into South Africa 's economic policy. The fund had also emphasized discipline and macro-economic balance and to accept that through the new process there can be painful adjustment in the structure production, in order to achieve growth.

⁵⁴ IBRD: *Annual Report 1940/1950 and 1950/51*, P.13

⁵⁵ V. Padayachee: *The political Economy of South Africa*, Harcourt & company, Limited London: 1997, P.29

According to the IMF and the World Bank, South Africa is not rated as a typical developing state, because through its integration to the world, it has an inherent and developed strength of the economy which is impressive. From the introduction of the first debt standstill agreement at the end of 1985 to the end of 1989, South Africa's foreign debt had declined by \$3.1 billion or by 13%. The country's debt to export rate had declined from 128% to 79% in this putting South Africa among developing countries with some of the lowest relative foreign debt burden in the world.

The post-apartheid South Africa era had a relatively favourable foreign debt situation which the IMF and the World Bank take it as an advantage for South Africa to be offered some funds in easier terms.⁵⁶

South Africa had also played a crucial role in a mutual beneficial reconstruction and development program as a whole. A democratic South Africa working cooperatively with the other countries in the region had been legitimately recognized by the World Bank and was used as an advantage in the bargaining over the terms of foreign capital flow. Non-exploitative cross-border projects were one way in which the World Bank and the other loans were attracted to the benefit of South African residents.

While the Bank had little to do with South Africa since 1967, the fund had maintained a regular presence through 1970s and 1980s, and has held annual consultation with the department of finance and the Reserve Bank. Since the post-apartheid era in 1994, the pace and regulation of the IMF and the World Bank visits to South Africa had intensified, and the nature of work had changed. Both institutions have held consultation with a wide range of interest groups including labour and opposition political organizations, including recommendations for future economic policy.⁵⁷

⁵⁶ Pauline H. Baker, Alex Boraine and Warren Krafchik: *South Africa and the Economy in the 1990's*, PP. 192 and 193

⁵⁷ Pauline H. Baker, Alex Boraine and Warren Krafchik: *South Africa and the Economy in the 1990s*, Idasa publication, Cape Town & Johannesburg, 1997, PP. 192 and 193

The general point that needs to be made in this regard was that, it could appear that new funding or balance of payment support was being contemplated. At the meeting with the UN agencies in may 1992, these institutional agencies, including the World Bank were informed by COSATU and the ANC that there would be a problem, should formal agreement be reached and lending relations be resumed, the formal agreement with these institutions will have direct impact and would bind a future government to policies agreed by its predecessor. Therefore, it was agreed that signatures will be done in full in a democratic elected government and were indeed done with clear understanding of the agreement.⁵⁸

Finn and Tarp had also commends to the fund for its efforts during the post-apartheid era, but argues that the policies the fund proposes to address South Africa's problems are not very helpful. He questioned the fund's promise that a contraction of public sector expenditures was a pre-condition for a greater private saving and investment, and criticized the fund's analysis of constrains on tax revenue for being too static, arguing that it takes no account of the impact of future growth on tax revenues.⁵⁹

This meant that, it is quite obvious that the re-orientation of the fiscal spending priorities will be needed in South Africa, but one is left speculating whether the IMF would be prepared to impose conditionalities to ensure this takes place in reality. Fiscal moderation may well be advisable, but rigid adherence to the standard IMF model to reach the conclusion was not the most convincing analytical route to follow given complexity of the situation in South Africa.

The above was challenged by Patrick Bond, who argues that the IMF had said nothing about the redistribution of investments away from the overtraded luxury consumer goods sector, ignored expanding budget option outside taxation.

⁵⁸ *United Nations Conference on Socio-Economic Problems of South Africa, Windhoek 1992*

⁵⁹ *Pauline H. Baker, Alex Borrairie and Warren Krafchik: South Africa and the Economy in the 1990s, Idasa publication, Cape Town & Johannesburg, 1997, P. 197*

Therefore South Africa seemed to be set full into the notorious IMF quicksand; blanket prescription for different disease.⁶⁰

4.1.2 WTO and South Africa

South Africa also believed in multilateralism as an approach for governance of the global economy and as the key pillar of its economic strategy. In this regard South Africa had supported the rules based multilateral trading system of the world trade organization (WTO), which was seen as being able to mitigate against the abuse of economic powers. However, South Africa had also recognized the shortcoming of inequalities of the WTO system from the view point of developing countries. In general, South Africa's interest and those of other developing countries coalesce around market access and ensuring that the WTO facilitates its economic development.⁶¹

It was for this reason that South Africa played a critical role in the launch of the Doha round of trade talks and responding to the uneven balance of power in the world and also played a role in the G20 at the collapsed Cancun talks, which was a watershed moment in the WTO.

The establishment of the WTO in 1994 previously known as GATT was just a new wine in an old bottle, because WTO was seen as the organization based on rules emanating from the old GATT.⁶² This happened simultaneously with the dawn of the new South African democratic dispensation.

Michele Fratianni et al, pointed out that the World Trade Organization was in crisis as the driver of free trade, because it was in reality understaffed and overworked technical bureaucracy with little political impact. The WTO is the secretariat of the General Agreement on tariffs and Trade (GATT), which has succeeded in its 54 years of existence

⁶⁰ Patrick Bond: *Work in Progress*, Wits University Press, 1981, PP. 28 and 29

⁶¹ South Africa: Department of Trade and Industry. *Special collection*, 2006, P.1

⁶² Francois Beckman (MP/DA): *Globalization: perspectives from political parties: Delivered paper, Facilitated by Konrad Adeneur, October 2001.*

in serving as a facilitator for national governments to cut tariffs, mainly on manufactured goods. But the WTO is not politically powerful. All of its successful eight rounds of tariffs cuts had to be first negotiated and then implemented by sovereign governments. The WTO has no military support structure or large cadre of administrators to enforce its will. It has only a staff of 200 professionals, mostly trade lawyers and economists. Therefore it only performs the role of an impartial signaling device to guide nation states in the direction of trade liberalization (in accordance with agreement signed), and it also act as the arbitrator when rules were broken. Unfortunately, these rules are sometimes unclear, reflecting 'constructive ambiguity' introduced by trade negotiators from sovereign governments to avoid breakdown of talks. The most common way to infringe on the WTO 's rules is by failing to adhere to the principle of granting most-favoured nation (MFN) nondiscriminatory treatment.⁶³

WTO and World Bank debt relief programme over South Africa's previous debt

Former South Africa 's President Thabo Mbeki also articulated that globalization benefited the wealthy northern countries while doing nothing for the poor countries in the south. He adds by saying that "World Trade Organization also allowed developing states to be disadvantaged by lack of capital flows and negative trade rules and regulations which are currently in place". Massive resource transfer into developing countries and broad based development round at the WTO operations will be required for proper balanced trade outcomes.⁶⁴

WTO and World Bank debt relief programme was seen to be an answer to the debt crisis

But some deliberations were taken in 1994 by WTO and the South African Department of Trade and Industry. The new Department of Trade and Industry announced deep tariff reduction in clothing and textiles and automobile components that went far beyond those demanded under GATT. At the time, the cuts did not slot into a strategic package, aimed at impelling those industries into new or more competitive directions. It was 'sheer economic Darwinism', as one commentator put it. Simultaneously the minister responsible (Trevor Manuel) declared that the worst case for this economy is for South Africa to throw its industries to the vagaries of international competition rapidly and so

⁶³ Michele Fratianni et al : *Sustainable Global Growth and Development*, USA, Ashagante publishing company 2003,P.81

⁶⁴ *Independent Newspaper, Business Report* , South Africa,24 May 2004

destroy investments and jobs. In 1996, Manuel presided over a new macro-economic strategy that described 'the central thrust of trade and industrial policy' as the pursuit of employment creating international competitiveness. Among the measures employed would be the abolition of import surcharges, phasing out of GEIS by the end of 1997 and, in the case of telecommunications, lowering tariffs to zero per cent far below the 20% level required under GATT.⁶⁵

The pace and sequence of reform are crucial, therefore the structures of WTO inhibits some collective action. But it is also true that, in some sectors, South Africa has lifted tariffs at a faster pace than required by WTO agreement. The essence of this issue will flow throughout the decade from 1994 until 2004.

4.1.3 IMF and World Bank debt relief programme over South Africa's previous debts.

South Africa's economy since 1994 had undergone several reparations internally and foremost externally. The debt relief issue was raised to debtors and ended up gaining international momentum and it was possible that some form of multilateral agreement were reached. What was not clear, however, was whether South Africa will get the holistic benefit from the process, given its existing stage of development. The sudden development of interest in debt cancellation had a question which indeed was not clearly answered. Write-off programme was seen to be an answer to set backs that has beset emerging and developing markets in the wake of Asian crisis. This programme had also something to do with the sudden increase in international interest in debt relief on the part of the leaders of industrialized world. Such calls were also seen as having some altruistic intentions; they were also made in the knowledge that debtor countries would not be the only ones to benefit from the process.⁶⁶

This implied that, In a global world, any improvement in the economic performance of developing economies including South Africa arising from the reduction in debt servicing

⁶⁵ *Hein Marias: South Africa Limits to Change, the Political Economy of Transition, RSA University of Cape Town Press, 1998: P.115*

⁶⁶ *Raymond Parsons: South Africa's economy 1990-2004, Johannesburg and London Sydney 1997, P. 71*

cost would almost certainly result in an increased demand for imported capital of consumption goods from industrialized countries in much the same way as export guarantees facilitated increase export from countries offering such assistance.

South Africa have realized that the proponent of such relief was for restoring the influence of IMF and the World Bank amongst nations whose perception of those organization have been negatively affected by their inability to prevent the Asian crisis from developing in the first place. The ability of South Africa to access the debt write-offs was linked to, and conditional upon, their adoption of IMF-type structural adjustment programme. Whilst this had not necessary cause South Africa to view the debt write-offs negatively, it had encouraged a more realistic assessment of the benefits that can be derived from the process. There would be no argument that South Africa had met the criteria set by Bill Clinton on the debt write off process. Since South Africa had already embarked upon structural adjustment programme that was largely consistent with the IMF norms, there was little additional risk in accepting conditional offers of write-offs. There was nothing to be lost because South Africa was regarded as a developing nation by international agencies.

According to the South African Reserve Bank (SARB), the South African government had a total of R102 billion of which R2 billion was foreign debt by the end of 1994. Following the election in 1994, government debt had climbed dramatically to R210 billion of which foreign debt amounted to R5 billion. By the end of 1998 sovereign debt had risen further to R336 billion of which about R15 billion was foreign. Since the foreign debt of 1994 had an average maturity of only 30 month, there was no significant "apartheid era" foreign debt to write-off. South Africa's level of foreign debt was low. Therefore foreign debt level was low and the focus on any write-off was on the domestically held debt of R205 billion. This had to be the main element in the debt cancellation debate. However 76% of the marketable portion of the debt was "owned" by private pension fund, public investment commissioners, banks and insurers which implies that the write-offs had significant implications for those portion of the population that have their life saving tied up in such institutions. In terms of tempering with the vested

rights, the fall-out from a write-off of such debt would completely overshadow any of the recent controversial steps taken to tax certain income of pension funds and life assures.⁶⁷

However, it should be understood that the problem encountered by South Africa in debt servicing and write-offs was not the repayment mechanism as the process, or the loan itself, but the motive or their giving and use to which they are put. Loans are often necessary for all the first world and third worlds.⁶⁸

First world consumers use by far the greater part of the world `s capital loans as it does to everything else. The first world loans are used productively to develop that world and accumulate profits. Loans directed to third worlds, South Africa inclusive, arrested development and shackle to its economies to the first far from experiencing development. The average annual growth of third world countries fell from 6% in the pre-loan in 1980. Likewise per capita growth fell from 3.5% to 1%. South Africa had spent 12% of the national budget on servicing its debts. It was the fourth highest item on the budget at R50.6 billion. That amount, if released, could have gone a long way towards development.

Jubilee South Africa as part of the Jubilee South movement is an NGO which had campaigned for the wiping out of third world debt since the last three decades. And South Africa is regarded as an upper middle income country as such it was not rated in the same league for debt relief as a poverty stricken third world, but Jubilee South Africa argues that not only that developing countries cannot pay their debts, but it was immoral for south Africa to do so, since South Africa was bearing the cost of debt incurred by the illegitimate apartheid government. It was then estimated that South African government has paid over R500 billion since 1994 in servicing the apartheid debt.

⁶⁷ Raymond Parsons: *South Africa `s economy 1990-224, Johannesburg and London Sydney 1997, PP 72,73 and 74*

⁶⁸ Fatima Meer: *The G8 nations offer to wipe out the non-existing third worlds debt, internet 2005, P.2*

At the end of the year 2000, the SARB reported that total foreign (public and private) debt amounted to approximately \$36.9 billion, down from \$38.9 billion in 1999. The ratio of total foreign debt to GDP has remained steady at around 26 to 30 percent over the past three years, while interest payments as a percentage of total export earnings have decrease from 8.6 percent in 1999 to 6.2 percent in 2000. The government primarily finances its debt through the issuance of government bonds.

To a lesser extent, the government has opted to finance some short term debt obligations through the sale of foreign exchange and gold reserves. As a corollary to its restrictive financial policies, the government has not opted to finance deficit spending through loans from commercial banks. South Africa's liquid and sophisticated domestic capital market helped the country to cope relatively well with the 1998 global financial market crisis. The country did not require an IMF program and could easily afford not to borrow from international markets.

Domestic debt, of which the bulk is medium and long term, with an average duration of close to five years, accounted for over 90 percent of the national government's total debt portfolio. Foreign debt, almost entirely capital market debt, accounted for only six to seven percent of the portfolio and is mainly dominated in U.S. dollars, Euros, and Japanese yen. In February 2001, the government announced that as part of a more active debt management policy, a program of debt consolidation was underway, new long-dated inflation linked bonds were to be issued, and a bond stripping facility introduced. After extraordinary receipt sand payments, the Net Borrowing Requirement (NBR) for 2000/01 came to R16.8 billion (\$2.4billion). The SARB has made strong progress on reducing the liability of its net open forward position (NOFP). At end 2000 the NOFP stood at \$9.5 billion. Currently, it is \$4.8 billion, which was roughly 64 percent of reserves.⁶⁹

South African government has held that it can afford to pay the debt and recalcitrant attitude would jeopardize the country `s good standing in the international finance and

⁶⁹ *Bureau of Economic and Business Affair: South Africa Report on Economic policy and trade practices. USA Department of States, February 2000.*

result in capital flight and reduction in urgently needed capital inflows. South Africa had thus devised the GEAR policy (Growth, Employment, and Redistribution) to stimulate foreign investment. Gear has operated since 1996, but the expected results were in vain. The liberation of exchange controls has inflated the profits of foreign investors, while thousand of workers in clothing, textiles, footwear, mining and other industries were losing their jobs almost everyday.⁷⁰

Emad Mekay added by saying that, when third world states asked for wiping out of its debts, they also ask that they be given the kind o kick- Start. South Africa was supposed to be assisted to kick-Start its economy since it was drained by the illegitimate apartheid regime, but exploitation continued to prevail mostly in the core sectors of its economy. Therefore the reality is that, when the first world financiers were asked to wipe out third world debts, they were in fact asked to wipe out nothing since the borrowers have already paid back the initial principal three to four times over.⁷¹

This was substantiated by South African President Thabo Mbeki in year 2000, who cannot be faulted one way or the other, on his presentation to the G8 nations. He was absolutely correct in asking that over the cancellation of debt, the spearheads of IMF and World Bank were supposed to further support former debtors with monies to build up necessary structures to aid their developments. The first world financiers can afford to wipe out the 24 Trillion debt owed by the third worlds without any great strain to its system. It has wiped out debt of the similar volume in the first world, so what can stop them from doing the same to the third worlds?

Developing countries, South Africa included, required the aid not to be given in a way that helps their developments but that there be more aid sufficient to kick start even after the write –off. Relatively small amounts of money could make enormous difference in promoting some sectors like health and literacy. In real terms, adjusted for inflation, the amounts of development assistance have actually declined, and even more so either as a

⁷⁰ Emad Mekay: *Chioke: IMF and World Bank meeting files, 2000, Vol 2, P1*

⁷¹ Emad Mekay: *Chioke: IMF and World Bank meeting files, 2000, Vol 2, P2*

percentage of developed country income or a per capita basis for those in the developing countries. The way in which assistance has often been given to South Africa has been done in a way that creates impediments to effective economic reform⁷²

Therefore developing countries that think reform has been imposed on them did not really feel that they have invested and committed to such reform, yet the participation was essential if real societal change is to happen. Even worse the conditionality had undermined the democratic process as an entity. At last there was a glimmering of recognition by the IMF, that conditionality has gone too far, that the dozens of conditions made it difficult for South Africa to focus on priorities. But while there has been an attempt to refine conditionality within the World Bank too.

Debt repayment had become an important mechanism for transferring wealth from the people of the South to financiers of the North. According to the United Nations, developing countries paid US\$1,662 trillion in debt servicing between 1980 and 1992. This amount is three times the original amount owed in 1980. Yet in spite of the above transfers the total Third World debt still stands at over US\$1.3 trillion.

It is not commonly known that the Third World has repaid almost a trillion dollars of principal over and above US\$771 billion in interest. In sub-Saharan Africa the ratios of foreign debt to Gross National Product rose from 51% in 1982 to 100% in 1992 and of foreign debt to total exports from 192% in 1982 to 290% in 1992, a period during which the Third World debt crisis was allegedly resolved.

The external debt of the Third World had become an eternal debt and stands as the largest immediate obstacle to growth and sustainable development.

It was therefore crucial that progressive forces in South Africa should have add their voice to the calls made internationally to cancel Third World debt as the first step towards building equitable and just relationships between and within different parts of the world. The meager gold sales belatedly proposed by Camdessus (IMF Managing

⁷² J.E Stiglitz : *Globalization and its discontents*, USA, Norton Paperback 2004, P.24

Director) to help finance extremely limited debt relief - and only for those countries which religiously adopt the IMF's 11 Commandments were far too little, far too late, and it was a reflection of the exploitative character of Northern political leadership of the IMF that even these gold sales were not approved at the last meetings.⁷³

With equal dismay, we have learnt through the press that the World Bank was on the verge of making its first loan to South Africa since 1967. The Bank has, since 1994, offered advice to several key ministries charged with implementing the Reconstruction and Development Programme, as well as contributing to the Finance Ministry's Growth, Employment and Redistribution plan. The Bank's own Commandments differed little from the IMF's, and it was of no surprise that government's underperforming infrastructure, land reform, and housing policies all follow directly from Bank advice.

The Bank had apparently sold Minister Manuel a US\$67 million loan to improve the competitiveness of South African firms, a dubious proposition in view of the Bank's notorious, self-confessed tendency towards over-optimism regarding Third World exports. Consistent with the RDP, the South African government should renew its previous self-reliant policy of avoiding World Bank loans. And given its record to date, the Bank should close its Johannesburg office and cease dispensing its unpopular neo-liberal economic and social policy advice.

In the light of the near-universal failure of IMF and the World Bank policies in the developing world, extreme caution upon Finance Minister Manuel was needed. Rather than naively providing Camdessus legitimacy to sell IMF policies to critics in trade unions and social movements, Minister Manuel should have taken up the mantle of leadership by using IMF and World Bank platforms to call for the cancellation of Third World debt, including the inherited US\$18 billion apartheid foreign debt. Indeed Manuel should be using these opportunities to call for the democratization and transformation of the World Bank and IMF into agencies which serve the interests of poor people and

⁷³ *TWN Third world network : Why South Africa should say no to IMF policies: Debt crisis, , 16 October 1996, P.3*

workers, rather than continually undermining our constituencies for the benefit of international banks and corporations.⁷⁴

In conclusion, IMF policies were being adopted under the 'home-grown' rubric in South Africa, and it was therefore crucial for South African citizens to understand how many other countries have also surrendered their economic sovereignty to the IMF and World Bank, and the enormous financial and social costs they pay as a result. Finally, it was also crucial for all progressive, democratic South Africans to record their determination that the IMF not recolonize South Africa, the African continent and developing countries across the world.

4.2 Neo-liberal ideologies and policies imposed on South Africa by the IMF as the promise for viable economic growth.

Neo-liberal ideologies and policies are nothing else other than the mercantilist economic ideology. In the early 1990s, the World Bank has sent advisors to South Africa to recommend neo-liberal ideologies and policies which were said to be the most reliable means viable for South Africa `s economic growth. By the year 1993 the IMF had already granted \$750million loan as the condition for adoption of the neo-liberal policies. The international financial institution (IFI) neo-mercantilist policies emphasized centralized corporate control over underdeveloped economies though trade agreements while only allowing liberalization in areas that the developed economies and their multinational corporation already dominate, such as international capital flows. globalization had currently being imposed through WTO, regional trade agreements and IMF adjustments (SAPs) which hark back to 19th century imperialism. In 1996 the President of South Africa Nelson Mandela and the ANC adopted the elements of the neo-liberal or

⁷⁴ *TWN Third world network : Why South Africa should say no to IMF policies: Debt crisis, ,16 October 1996, P.8*

mercantilist agenda enthusiastically in the first post-apartheid national economic program in 1996.⁷⁵

According to Pretoria's critics, instead of fundamentally challenging global apartheid, the South African government has been lubricating the financial, trade, and investment processes that were amongst the most damaging.

Evidence was found not only in the enthusiastic local application of the Washington Consensus through the GEAR strategy. In addition, key South African officials were lending legitimacy to the World Bank, IMF, World Trade Organization, and like-minded institutions. At home, the same officials persist in denying the need to roll back free-market processes, even in areas such as patent protection on HIV/AIDS drugs and exchange controls, where there is an overwhelming case for breaking global apartheid's chains.

However, even if the post-1994 period offered South Africa a profoundly pessimistic account of South African and international macroeconomic management, this by no means implies that pandering to international elite was a permanent affliction. There is evidence to suggest, on the contrary, that the free-market Washington Consensus ideology began to ebb during the late 1990s, and that popular resistance is already affecting not just state policies, but also the international balance of forces.

Can the damage done be reversed? Probably, if popular pressure exerted from below aims to end, not to perpetuate global apartheid. We can consider this by reflecting on a single case of concrete activism, which is indicative of broader potentials.

The Witwatersrand University in central Johannesburg was the site of a "World Bank Bonds Boycott" campaign by students, staff, and faculty (www.worldbankboycott.org). The short-run demand is simple: that university finance officials commit never to buy bonds issued by the World Bank. Currently, Wits officials can take 15 percent of the University's R1billion endowment offshore. Some of that money—the amount varies day

⁷⁵ A. Nowicki : *Zimbabwe Magazine*, February 2004, P.15

by day depending upon investment trends—gets channeled into bonds issued by the World Bank and sold to Wits via international fund managers. The same is true of most major South African institutions, and, indeed, virtually all funds that have access to international capital markets buy at least a small share of internationally rated, top-grade World Bank securities.

The strategy of closing—"nixing"—the World Bank and IMF was a good one⁷⁶

And to that end, the World Bank Bonds Boycott was an inspired tactic, since it allows activists and ordinary people to get involved in fighting global apartheid every day in their own communities (not just at major demonstrations in Seattle, Prague, Washington, Quebec City, and so on).

There were many reasons specific to South and Southern Africa why getting the World Bank to pack up shop would be beneficial to local peoples. Borrowing the Wits activists' rhetoric, here are some of those reasons for bond boycotting the World Bank:

Subsequently, it involved neo-apartheid lending and policy advice by the Bretton Woods which includes:

- an \$850 million IMF loan to South Africa in December 1993 that carried conditions of wage restraint and cuts in the budget deficit, which in turn hampered the transition to democracy;
- Bank promotion of "market-oriented" land reform in 1993-94, which established such onerous conditions (similar to the failed Zimbabwe policy) that instead of 30 percent land redistribution as mandated in the RDP, less than 1 percent of good land was redistributed;
- the Bank's endorsement of bank-centered housing policy in August 1994, with recommendations for smaller housing subsidies;

⁷⁶ Patrick Bond: *Reflection from South Africa: Breaking the chains of Global Apartheid*, *International Socialist Review*, Issue 19, P1

- Bank design of South African infrastructure policy in November 1994, which provided the rural and urban poor with only pit latrines, no electricity connections, inadequate roads, and communal taps instead of house or yard taps;
- the Bank's promotion of water cutoffs for those unable to afford payments, opposition to a free "lifeline" water supply, and recommendations against irrigation subsidies for black South Africans in October 1995, within a government water-pricing policy in which the Bank claimed (in its 1999 "Country Assistance Review") to play an "instrumental" role;
- the Bank's conservative role in the Lund Commission in 1996, which recommended a 44 percent cut in the monthly grant to impoverished, dependent children from R135 per month to R75;
- the Bank's participation in the failed GEAR policy in June 1996, through contributing both two staff economists and its economic model;
- the Bank and IMF's consistent message to South African workers that their wages are too high and that unemployment can only be cured through "labor flexibility";
- the Bank's role, including research support and encouragement of municipal privatization, in Egoli 2002, the plan to privatize and commercialize most Johannesburg municipal services by the year 2003;
- the Bank's repeated commitments to invest, through its subsidiary, the International Finance Corporation, in privatized infrastructure, housing securities for high-income families, for-profit "managed health care" schemes,
- and the now-bankrupt U.S.-owned Dominos Pizza franchise;
- the consistent failure of Bank and IMF "structural adjustment programs" in Southern Africa since the 1980s; and
- the stubborn refusal by the Bank and IMF to cancel debt owed by our impoverished neighbors since the mid-1994 except in tiny amounts and with brutal conditionality provisions.

There were, to be sure, people of good conscience who dispute "nix it" strategies and tactics. Some have made valiant efforts since the early 1980s to "fix" the IMF, World Bank, international financial markets, and other manifestations of global apartheid. In

fields like environmental regulation, gender sensitivity, community participation, institutional transparency, corporate accountability, and even the highlighting of poverty, the fixers can claim a few victories.⁷⁷

But, simultaneously, broader social, environmental, and economic conditions worsened dramatically. Reformers could claim less and less legitimacy for their efforts, which often appear as merely shifting deck chairs on a Titanic-esque global economy.

4.3 South Africa `s Gear policy

South Africa had accepted GEAR Policy which was drawn solely by 15 economists picked from the World Bank (neo-liberal Think Tanks) and various African development banks in 1996.

GEAR programs emphasized commercializing and then privatizing all South Africa `s public companies and their services. Its results were intended to drastic cut of government spending and secondary taxes on corporate profits. This meant substantially and prematurely reducing tariff designed to protect South Africa `s key infant economic sectors include textiles and value-added manufactured Agricultural goods. GEAR also liberalized capital control and foreign exchange rates that left the value of South Africa `s national currency, the Rand, and the SA `s import and exports economic activity highly susceptible to the volatile and rapidly changing nature of international capital market.

By the year 2000, during President Thabo Mbeki `s regime, GEAR had already accomplished the exact opposite of its stated aims, while the IMF praised the 3% growth in 2003 as the result of Gear. More than 10,000 formal sector jobs were lost in the first year of GEAR implementation.

⁷⁷ Patrick Bond: *Reflection from South Africa: Breaking the chains of Global Apartheid*, *International Socialist Review*, Issue 19, P.2

Patrick Bond, a professor at Witwatersrand University in Johannesburg, termed GEAR policy as “homegrown structural adjustment.” By 2004 South Africans was forced to deal with self-imposed corporate- controlled globalization in an increasingly desperate ways that meets with increasing repression.

Joseph E Stiglitz also cited that “many developing countries spend too much energy doing things they should not do. This distracts them from doing what they should be doing”. The problem here was not that South Africa is too big for its gradual development. The turning of state business into a private business thinking that it will do well for a country had not done well thus far for its economic growth both domestically and internationally.⁷⁸

Therefore South Africa `s economic growth has been slow but gradually exaltation in the international economic philosophy of the moment and the government. South African Communist Party (SACP) and COSATU have implicitly criticized the government of begging to embrace a neo-liberal economic policy framework where gross benefits are outside South African boundaries.⁷⁹

It has been commented in the SARB quarterly bulletin that economic growth without job creation has been a troubling aspect in South Africa `s economy over the past decade⁸⁰ . .

According to ANC Quarterly Bulletin (Umrabulo), It has stated that if by the end of 1995, the economy continued to grow at around 3%, as it was likely to do if no changes were made to the way it was working, government will not be able to deliver what it said it would in the Reconstruction and Development Programme (RDP).

Two alternatives for South Africa have been described, as the "Low Road" and the "High Road". The "Low Road" suggests that if the new government maintained the old economic system, with a continuing trend of about 3% growth rate per year, the long

⁷⁸ J.E Stiglitz : *Globalization and its discontents*, USA, Norton paperback 2003, P.23

⁷⁹ Jonathan Michie and Vishnu Padayachee: *The political Economy of South Africa*, Harcourt & Company, London 1997, P.23

⁸⁰ SARB Quarterly Bulletin No 210, 1998, P.1

term outcome would be raising unemployment, limited scope for social spending and at the end of the day, increasing social discontent. The "High Road" suggests a strategy for economic growth and development which targets 6% economic growth and the creation of 400 000 new jobs per year. For the government to deliver on its promises to the people, it needed to implement a strategy that would take South Africa along the "High Road" of economic growth and development.

It was within this context that the Minister of Finance, Trevor Manuel, presented a macro-economic framework, "Growth Employment and Redistribution" (GEAR) to Parliament on 14 June 1996. The strategy seeks to get the South African economy onto a new path, one that will ensure:

- a competitive and fast-growing economy which creates enough jobs for all work-seekers;
- a redistribution of income and opportunities in favour of the poor;
- a society in which sound health, education and other services are available to all;
- an environment in which homes are secure and places of work are productive

These were the same goals which underlie the RDP but opposite was the case.⁸¹

And what the notion above had brought was exactly the opposite of what South African economic reform strategies had projected. These automatically meant that, the ANC regime was having positive hopes about this Mercantilist ideology but was found to be very hard to implement, thereby leading to retarded effort initiated by the IMF, World Bank to south Africa's economic reform process.

The type of investment that South Africa needed for long-term economic growth is investment in expanding production and creating jobs which can happen if new factories could be developed and new small businesses interconnectedness with international companies. The total of such investments is called Gross Domestic Fixed Investment.

⁸¹ ANC Quarterly Bulletin (Umrabulo) Understanding GEAR: The government new economic Strategy, 1997, 2nd quarter, P.10

The people who invest this money cannot just take the cash and run when they are concerned about the economy.

This chapter clearly revealed how South Africa's economic situation with its monetary policy. Therefore IMF, World Bank and WTO had not positively impacted South Africa's reform process, thereby making South Africa to be valued less in the international community because of its deteriorating domestic social performance.

That will be seen in the next coming chapter, whereby issues pertaining the performance of South Africa's currency at the stock exchange are clearly outlined.

the stock exchange.

3.1.1. South Africa's Currency

South Africa's unit of money, the rand, is called the currency. The value of South Africa's currency is set by comparing its buying power with other countries' currencies on the international markets. South Africa pegged its value to the United States dollar.

The rand was worth more than the US dollar for the majority of the period in 1961 until 1982, when mounting political pressure, international sanctions placed against the country, it had started to erode its value. The currency peg was ended with the dollar for the first time in March 1982 and collapsed to 2.90 to 1.00 to the dollar until June 1984 when devaluation of the rand against the dollar.

The year 1985, had marked some uncertainty in the market, which was trading at over R3 per dollar, and in July during that year all foreign exchange trading were suspended for three days to try to stabilize the rand. The situation returned again by the state president P.W. Botha's speech in August of that year. The speech had weakened the rand to as low as R2.40 per dollar. The currency value had recovered between 1980-1985 trading near the R2 level before it fell again and even trading below it.

⁴² SARB Quarterly Bulletin, September 1987: 42-43

Chapter 5

This chapter clearly revealed how south Africa's currency together with its monetary policies had performed prior the democratic dispensation and in the post- apartheid era, bearing in mind that there was a new production system which was introduced at the stock exchange as the means to patch the gap created by the apartheid legacy.

5.1 South Africa 's currency and the restructuring of the new production system at the stock exchange.

5.1.1. South Africa 's Currency

South Africa's unit of money, the rand, is called the currency. The value of South Africa's currency is set by comparing its buying power with other countries' currencies on the international markets. South Africa usually compares its currency to the United States dollar.

The rand was worth more than the US dollar from the time of its inception in 1961 until 1982, when mounting political pressures combined with sanctions placed against the country, it had started to erode its value. The currency broke above parity with the dollar for the first time in March 1982 and continued to trade between R1- R1.30 to the dollar until June 1984 when depreciation of the currency gained momentum.⁸²

The year 1985, had marked some emergence of weakening of the rand, which was trading at over R2 per dollar, and in July during that year all foreign exchange trading were suspended for three days to try to stop devaluation. The situation worsened again by the state president P.W. Botha 's speech in August of that year. The speech had weakened the rand to as low as R2.40 per dollar. The economy recovered somewhat between 1986-1988 trading near the R2 level most of the time and even breaking beneath it

⁸² SARB Quarterly Bulletin, September 2002, P.2

sporadically. The recovery was short-lived however, and by the end of 1989, the rand was trading at a level of more than R2-50 per dollar.⁸³

This had made it clear that by the early 1990s, a stage of uncertainty about the future of the country and its currency had been disturbing to investors. The rand had depreciated again until the level of R3 to the dollar by 1992. The host of local and international events influenced the currency after that, most notably the 1994 democratic elections had experienced the weakening of the rand to over R3-60 to the dollar. The election of Tito Mboweni as the new governor of the South African Reserve Bank and the inauguration of President Thabo Mbeki in 1999 had seen a quick slide to over R6 to the dollar. The controversial land reform program that was kicked off in Zimbabwe, followed by the September 2001 attacks in light had propelled the rand 's weakest historical level of R13.84 to the dollar in December 2001.

Although a sudden recovery was experienced by 2002, the fact remained that the rand had been weakening since the 1980s up to the post apartheid era.

Therefore, the downward sliding of the rand could be attributed to a range of factors. South Africa 's worsening current accounts deficits, which had widened to a 36 years high of 7.3% of GDP, and inflation at 5 years high of just under 9%, escalating global risks aversion as investor's concern over spreading impact of the sub-prime crisis grew, and a general flight to "safe havens" away from the perceived risk of emerging markets.⁸⁴

These are some of the uncertainties that prevailed during those times and still continuing during the post apartheid era. South Africa was left with no options but to see no economic improvement in the post-apartheid scenario. The international community in this regard, had been impacting negatively into South African currency and integration automatically became a negative factor replacing development

⁸³ SARB Quarterly Bulletin, September 2002, P.4

⁸⁴ Mats Lundahl and Lennart Peterson: Post -Apartheid South Africa Research paper No 2009/56, November 2009, P.23

South Africa's currency cannot be mentioned with an exception of the South African Reserve Bank. The Reserve Bank is a direct result of the disruption caused by the First World War and formed part of a more comprehensive set of measures meant to deal with unsatisfactory monetary and financial conditions of that time. South Africa's Reserve Bank became a member of the Bank of International Settlements on 30 June 1971

Therefore, the Reserve Bank revolves itself with the country's financial relations with international financial institutions, and it also maintains close contact with some other foreign central banks, private financial institutions, as well as with certain foreign governments, using that 'non performing' currency as an agent for foreign exchanges.

Until the late 1960s, South Africa had a fixed exchange rate for its currency; thereafter, the rand was pegged to major foreign currencies. In 1979 the government switched to a system that formally expressed parity against the dollar. The value of the rand followed changes in the balance of payments and moved roughly with sterling and other weaker currencies until 1985. The foreign-debt crisis of that year caused the rand to depreciate at an unprecedented rate, and it fell to an all-time low of less than US\$0.40. The rand recovered somewhat in 1987, reaching US\$0.43, but it declined steadily, with minor adjustments, after that, dipping to about US\$0.26 in late 1995. Between February 1 and May 1, 1996, the rand lost roughly 16 percent of its value, falling from R3.7 to R4.33 = US\$1, or a value of about US\$0.23.⁸⁵

A parallel currency, the financial rand, was used exclusively for the movement of nonresident capital during the 1980s and the early 1990s. Financial rand developed out of currency-exchange controls instituted in the early 1960s, known as the "blocked rand." The financial rand was available only to foreigners for investment in South Africa and was created by the sale of nonresidents' assets in the country. This two-tiered currency system insulated the country's foreign reserves from politically motivated capital flight, because all divestment by nonresidents was automatically met by new investment, and the price of the financial rand varied independently of the commercial rand. Financial

⁸⁵ D.Hobart Houghton and Jenifer Dagut: *South Africa Yearbook: South African Economy 1987-1994*, P.15

rand invariably stood at a discount to commercial rand, but the size of the discount depended on South Africa's relative attraction as an investment destination. For example, the discount had stood at almost 40 percent during most of 1992, but declined to about 20 percent in late 1993.

Reserve Bank governor Chris Stals, under pressure from the banking and business communities, said that the government would phase out the financial rand in 1994 or 1995, assuming that South Africa's foreign currency reserves reached at least R20 billion and that the discount between the financial and the commercial rand narrowed to about 10 percent. Foreign currency reserves were precariously low in early 1994, but in a dramatic reversal of the capital outflow of 1993, increased steadily throughout 1994 and early 1995. In March 1995, with foreign reserves of only about R12 billion, the government abolished the financial rand. The newly unified currency traded well on international currency markets, marking a vote of confidence in South Africa's business potential.

For the first half of 1996 South Africa had a currency crisis. The value of the rand fell fast against the dollar. This affected S.A's imports very badly. In January 1996 a farmer could import 4 tractors for R1 million. By June, a farmer could again buy 3 tractors for the same R1 million. Government expenses were also badly affected. For example, if SA had to pay R30 million interest on a foreign loan in January, in June it would have to pay R38 million for the same loan.

There were a number of reasons for the currency crisis:

- Rumours about Madiba's health made people who buy shares on international markets nervous about future stability in South African politics;
- The Minister of Finance, Chris Liebenberg, resigned and was replaced by the first black ANC finance minister, Trevor Manuel. This made investors even more nervous.
- The South African Rand was actually valued at more than it should have been through government policy controls;

Therefore, between 1994 and the end of 2003 the rand had lost 50% of its nominal value, because of higher inflation than among South Africa's trading partners. In real effective terms, the decline amounted to 15%.

The government had no clear economic plan. Business and the union federations (Cosatu, Nactu and Fedsal now Fedusa) had published two different documents on the economic strategy that government should follow. Nobody was certain about which path the government should take.

All these factors had led to a currency crisis in the last quarter of 1996 to 1997. South Africa's own business people lacked confidence in the government and panic easily. People who buy and sell shares on international markets also panicked easily. When the rand started falling in value, they became nervous and sold their shares. The more people sold, the lower the value dropped. In other words, there were more people who wanted to get rid of their shares than people who wanted to buy them. The Reserve Bank stepped in and began buying rands. This slows down the fall of the rand. But the Reserve Bank had to use some of our foreign currency reserves to do so and could not spend more than South Africa had.

The only real thing that the government could do was to come up with a clear plan for the economy as soon as possible. That is one of the reasons for the fast development of the Macro-Economic Strategy.⁸⁶

In response to 1996-1998 crises, the South African reserve bank had intervened via its reserves and via an increased short term interest rate, exacerbating the macroeconomic effects on crisis waned faster. The 1996 and 1998 borrowings of US dollar in the forward market and selling them in the spot exchange market led to net losses equivalent to 10 and 8 % of GDP respectively. This lent little credibility to the intervention in the foreign exchange market and rising interest rates choked off investment. In 2001, this was

⁸⁶ ANC Quarterly Bulletin (Umrabulo) Understanding GEAR: The government new economic strategy, 1997, 2nd quarter.

avoided. The past decade had seen a reduction of the budget deficit and the inflation targeting lent further credibility to future stable policies.⁸⁷

5.1.2 The new production system at the Stock exchange

South African stock exchange operator, the JSE was set to launch a currency futures market that will give retail investors access to offshore foreign exchange markets while giving added stimulus to the country's economy.

The rand future market, which will operate on Yield-X, the JSE's interest rate exchange, will also allow individuals to trade in the currency futures market through a regulated exchange for the first time in South Africa.

Currency futures will be used for trading, hedging and speculating, says Yield-X senior manager, Warren Geers. Participants will be able to take a view on where the currency is moving to and protect themselves by buying or selling currency futures.

According to Geers, currency futures will bring offshore markets closer to home. This means positive growth for our economy. They will also provide a successful mechanism to ensure that the development of South African financial markets happens in a safe and controlled way.

Finance Minister Trevor Manuel had given the JSE the go-ahead to launch the market by 2007/08, which simply means that; it would "deepen SA's financial markets and increase liquidity in the local foreign exchange market".

⁸⁷ Mats Lundahl and Lennart Peterson: *Post Apartheid Research Paper no 2009/56, wider.unu.edu.*
Publication November 2009 P.29

According to news agency Reuters, market players have welcomed the move, with analysts saying it would put South Africa on par with other developed markets as well as to facilitate foreign investment.

The JSE's currency futures contracts were standardized, cash-settled, rand-denominated contracts. Rand dollar contracts were traded to begin with, with more currency futures contracts expected to follow.

Individuals and foreigners would be allowed to trade currency futures without limits, while pension funds and long-term insurance companies would also be able to trade subject to their 15% foreign allocation allowance, and asset managers and registered collective investment schemes subject to their 25% foreign allocation limit.

Corporates and Trusts would not be allowed to trade currency futures unless they have a valid exchange control approval number or approval from the South African Reserve Bank.

The JSE chose Yield-X as the platform for the new market because of the link between currencies and interest rates. The Yield-X platform "had ensured that only standardized contracts will be traded on a fully electronic platform, resulting in guaranteed settlement, a transparent dealing environment and true price discovery," says Geers.⁸⁸

Therefore, South Africa's currency would always fluctuate, especially if external forces are still the driving forces of South Africa's economy. But, if the restructuring of the new production system at the stock exchange still prevails with more emphasis on the inclusion of the new African economic paradigm through NEPAD, changes on the strength of the currency could be experienced in the near future.

The above statement comprehended the issue of globalization which seems to make sense now if Africa could speak with an amplified voice when dealing with global issues. That means employing policies and goals of NEPAD under the leadership of African Union (AU). The next chapter outlines that.

⁸⁸ *South Africa info htm: JSE's new trading system goes live, 9March 2007*

Chapter 6 African context of globalization

When combining the essence of discussions in the previous chapters, they came with one definition of Economic globalization, which will be discussed fully in this chapter.

6. The Impact of Globalization on the South African Monetary Policy.

6.1 Definition of globalization

Economic globalization- is commonly known as the removal of barriers to trade and investment through trade liberalization and privatization. The aim of economic globalization is to remove the obstacles to the global movement of capital and the production of goods and services that have accumulated in industrially developed capitalist countries. Today s` globalization could be called ‘corporate globalization’ or ‘global corporatization’ considering that corporations not only produce goods and services but also define and control economics as well as social, political and cultural aspect of our lives.⁸⁹

Economic Globalization was unlikely to be matched with any similar political evolution dissolving political borders. The state system had endure for the foreseeable future and national political leaders had, with less autonomy, authority and control, presided over national economies constrained by international forces. Thus, while political borders may endure irreversible borders of global production, economic exchange and capital flows had continued to erode economic segmentation. Depending on the structure of rule, globalization can either be an intensely exploitative arrangement or a tool for promoting development and growth.⁹⁰

⁸⁹ Buthelezi S: *Journal of development economics for Southern Africa*, Volume 1 Number 8 2000, P.204

⁹⁰ S. Javed Maswood: *The south in international economic regimes*, Australia, Griffith Business school 2006, P.14

6.2 South African context of globalization

Globalization referred to an evolving pattern of cross-border activities of firms, involving international investments, trade and collaboration for the purpose of product development, production and sourcing. It is driven by firm strategies to competitive advantage internationally, use favourable local inputs and infrastructure and locate in final market.⁹¹

South Africa had introduced major changes to domestic political, social and economic structures as a response to globalization since 1994. Therefore, an assumption was taken that profitable opportunities were opened for South Africa to reintegrate its economy into the global economy.

Globalization and its impact in the South African economy was more complex than the way it was thought. South Africa as mentioned above had re-entered the international economy from isolation at the time when forces of globalization, especially for developing countries – seemed to gain momentum. Although the economic growth pattern was lower than acceptable norm in other emerging economies, the forces of globalization were much stronger than it was expected. Approximately 98 % of the current growth performance in the country can be explained by the forces of globalization. The regression results also indicated that the South African economy had benefited from the gradual relaxation of exchange controls. The relative small impact of trade volume on economic growth was also in line with the conclusion in the international literature in this regard.⁹²

Skeptics like Krugmann and Rodrick stated that the effect of trade openness on growth “was at its best, very tenuous, and at worst, doubtful.” The volatility in the investment flows had a little relatively weak impact on the GDP. The benefits of the decrease in the

⁹¹ T.T Mboweni: *South Africa `s integration into global economy 25/10/2000 (OECD Jobs study) P.2*

⁹² E. Loots *Globalization and economic growth in SA, Rand Afrikaans University, South Africa, 2002 Annual forum, 2002, P.1*

nominal coverage import tariff indicated that, on average, import tariff are at a competitive level. The variables that have the greater substantive significance in the model were the proxy for trade volume, followed by financial liberation variable, the trade liberation variable and, lastly, the negligible capital accounts openness variable.

This implied that, South Africa `s significant factor was the gradual liberation of import tariffs and exchange control that have benefited the South African economy. The trade impact was however still disappointingly low. The aspects that demanded greatest attention by policy makers was that which related to total investment flows to the country. The trade pattern since 1990 was evident that after a period of stagnation during the early 1990, international trade started to increase from the latter part of 1994. Financial flows in the form of FDI's, portfolio and other investment flows made a dramatic turn-around from dominantly negative flows to most positive inflows from the third quarter in 1994.

In contrast with the long-term upward trend in trade since 1994, the investment flows were still extremely volatile. The volatility can be explained, firstly, by the fact that South African companies and individuals due to exchange rate restrictions and international sanctions did not have the opportunity to invest abroad. Since 1994 a large number of South African companies expanded to become transnational companies. The gradual relaxation of exchange controls also permitted companies and individuals to invest abroad. A second explanation for the volatility in capital flows is the relative openness of the capital markets for foreign speculative attacks against the rand.

Globalization was seen as nothing else but the 1990's economic orthodoxies. The word "dot financial pages and company reports" were heard in speeches of virtually all mainstream politicians, from John Redwood to Tony Blair, common currency started to be more common and was used to mean that the world economy has reached a new stage which governments and works alike are virtually powerless to withstand. This new stage was supposed to have been brought about by the growing internationalization of production and marketing. This consensus was usually articulated by neo-liberal

proponents of free market capitalism of which South Africa had already adopted through IMF structural adjustment programme.⁹³

E.Loots 2002 said that “economic globalization can be analyzed within two distinctive dimensions”. The trade dimension which focuses on the impact of openness and liberalization on economic growth and development in economy. The other dimension is financial and capital accounts openness and liberation. From the early 1990’s the emerging market economies became more prominent players in the world economy capital accounts openness and financial liberation was generally seen as two related process. The existence of black market premium in the market for foreign exchange, either in the index format or as a dummy, was tested but seems insignificant. The standard and poor investors’ credit rating for developing countries, used in the dummy variable format did not provide a significant fit enough evidence of the IMF- based indicator.

Lastly, she said that the globalization process in emerging markets economies including South Africa proved to have mixed results- some positive and some negative. In general, what seemed to be important was the timing and sequencing of monetary policy changes. From the trade perspective, the benefits of trade volumes in growth seemed to be fairly small in the 1990’s. Trade liberation impact was much larger especially in case of Latin America

On the very same context, new technologies have continued to make the world a smaller place for trading. The linkages been the stock exchanges in many countries had increased significantly in this decade. Recent empirical evidence showed that due to elimination of obstacles for free trade, greater financial market integration has led to greater market efficiency and better risk and return combination for investors. There has been a large increase in the weight of foreign assets in the portfolio of some agent, as well as the

⁹³ Chris Herman: *International Socialism quarterly Journal* December 1996, vol.2

correlation between the relevant stock indices and the ability of domestically focused policies to deal with the problem arising in the respective domestic financial markets.⁹⁴

These have meant that the South African share prices were increasingly influenced by the views of international investors. South Africa's sophisticated financial system compared favourably with those of most industrialized countries and on the other hand had surpassed those of many emerging –markets countries. Although great strides have been made in this decade with global and regional integration, the process of financial integration has had few setbacks.

6.3 Globalization and South African Monetary Policy.

Monetary policy consists of decisions (excluding the taxing and spending powers decision), but possible decisions involving the borrowing powers of central government that are made and implemented by monetary authorities. Monetary policy also consists of decisions rather than actions of the application of measures. In the conduct of the monetary policy, the monetary authorities may make use of a variety of policy instruments namely open- market operations, central bank discount policy, selective credit control, deposit and/ or lending interest rate control, official foreign borrowing etc.⁹⁵

South African monetary policy can be defined as the measure taken by the monetary authorities to influence the quantity of money or the rate of interest with the view of achieving price stability, full employment and economic growth. Monetary policy of South Africa is conducted by the South African Reserve Bank.

⁹⁴ T.T Mboweni : *Globalization and implication for monetary policy in South Africa*, Cape Town, 2002, P.2

⁹⁵ L.J. Fourie et al : *Fundamentals of the South African financial system*, South Africa, Southern Book publishers, UCT: 1994.PP.287,288,289 and 290

This implied that strong links has been between the monetary variables (such as the quantity of money and interest rates) and macroeconomic variables (such as the price level, the level of employment and the gross domestic product (GDP)).⁹⁶

Monetary policy also used various instruments in its attempt to influence the quantity of money and/or interest rates. In contrast to the direct measures applied in earlier decades, the emphasis was on market- orientated policy which is still the same in this decade. An example of such policy instrument is the repo rate established by the repurchased tender system of the reserve bank. The repo rate is the rate at which the reserve bank grants assistants to the banking sector and therefore represents a cost of credit to the banking sector. When the repo rate is changed, the interest rate on overdrafts and other loans extended by banks also tends to change.

Reintegration of South African economy into the world economy also had some important implication for its monetary policy.

Chris Stals said that “South Africa need to find consensus on what the objective of monetary policy should be in South Africa”. In the international community of central bankers, there was a widespread consensus that the primary goal of monetary policy must be the domestic price stability. Price stability however was seen as the only means to this end, but not a financial goal of overall macroeconomic policies. Furthermore, monetary policy, being only the sub-element of overall macroeconomic policy, tasked with the responsibility to create and maintain such a stable financial environment that will be conducive for sustainable economic growth at an optimum rate in the medium and longer term.⁹⁷

This means that South Africa however had some confusion on what the task and functions of the central Bank should be. The most important delusion, supported by certain business people, politicians and even some academics, are linked to the now Defunat Phillips curve approach in terms of which assumption is made, that a higher inflation can produce a sustained lift in growth and employment. Worldwide experience,

⁹⁶ SARB *Quarterly Bulletin* 1996 Vol, P.1

⁹⁷ C. Stals: *Monetary Policy in South Africa, Address to the second South African Economy, investments and trade conference, London, 7 October 2004*

as long back as in the 1970's, provided sufficient evidence that the assumed trade-offs of higher inflation for lower employment could only be exploited over the limited period in which inflation expectations did not fully adjust to the new higher rate of inflation.

Chris Stals proceeded by citing another reason on why the conventional theory of demand management through the application of monetary policy as no longer appropriate in the macroeconomic management. The Phillips curve approach was based on the theory of demand-driven inflationary or deflationary condition. The worldwide situation in the 1970's when there was simultaneous rise in inflation and in unemployment in many countries refuted the theory of trade-off and forced new thinking on particularly the implementation of monetary policy.

In South Africa, considering many attacks made on reserve policy during the past decade, there was still a major lack of consensus on what the prime objective of monetary policy should be. Unless South Africa can get consensus and support for the almost global approach of contemporary central bank policy, and unless can agree to pursue the policies also in South Africa, the road to internationalization of south African economy will be rough and difficult.

The other challenge that was faced by South Africa was based on the Britton Woods system of fixed par values. The main intermediate objective of monetary policy was of the protection of the exchange rates, or the external value of the currency. By linking global exchange rates or through the fixed gold parities, there was a convergence of inflation at a relatively low level, at least for many countries that succeeded in manufacturing fixed exchange rates, over relatively long period of time. Today some smaller countries still attached their exchange rates to the selected major international currencies, and then accepts the avoidable consequence that the rate of inflation in the economy of the anchor currency, e.g. Argentina with its convertibility law of 1peso = 1US Dollar.

In the whole process there was a misunderstanding in South Africa about what is meant by the independence of the Reserve Bank. The bank can never be made responsible for determining the overall macroeconomic policy objectives of the country. The South

African government was seen to be prerogative. The central Bank was supposed to be given the clear mandate from government on what its policy objectives should be.

Some challenges faced by South African monetary policy.

- The need for South Africa to convince South Africans and the global community that the task for monetary policy is to protect the value of the currency.
- Monetary policy must be adapted to the changing environment in which South Africa has to operate.
- The need for South Africa to guard against growing pressure inside the country for the curtailment of the autonomy of the Central Bank.
- Reserve bank must continue to guide the SA financial system. This will require further progress in the gradual elimination of exchange control, the modernization of the payment system. The encouragement of development of more efficient market and in the context of Africa, support for cooperation and integration of financial markets within Southern Africa Development Community.⁹⁸

Monetary policy had also reacted to both internal and external shocks.

From the election in April 1994, the new South African government has been committed to a long term development strategy for generating rapid and widely shared-growth in two publicized programmes. Post election growth performance proved disappointing after an initial upturn. Real annual GDP growth averaged 2.4 percent in 1997 and 0.5 percent in 1998, compared to 4.2 and 3.1 percent in 1995 and 1996 respectively. Apart from south Africa `s labour market inflexibility, increased trade competition and the declining of gold prices from late 1996, probably the most important factor impeding growth was having high real interest rates.⁹⁹

⁹⁸ Chris Stals : Governor `s address Pretoria, South African Reserve Bank 22August 1994

⁹⁹ Aron and Muelbauer: *Estimating Monetary Policy rules for South Africa*, in Norma Laayza and Klaas, *Volume, Central Bank, analysis and economic policies 2002*, PP.427, 428,429 and 430.

This simply means that capital inflows had increased markedly after the elections, through from a lower base following a decade of financial sanctions. Flows, particularly short-term flows, accelerated with the lifting of exchanges controls on non-residents in March 1995, after the dual exchange rates system was unified.

Aron and Abedeuis 1999 argued that SARB had a dual monetary policy objective from April 1994 until the first currency crisis in February 1996, to contain inflation through an interest rate policy based on explicit monetary targets, and to stabilize the normal exchange rates by preventing appreciation of the currency interventions. SARB had claimed that the rand was floating and that interventions were too smooth temporarily and revisable short term fluctuations. With an open capital account and persistent capital flow, a policy trade-off arises where sustainable exchange rate 'target' had occurred at the expense of higher inflation, higher interest rates and eventually led to the reduction of output. Heavy industrialized interventions in the market occurred at the expense of the monetary targets. Sterilization of the effect of the reserve accumulation began late in 1994.¹⁰⁰

Private sector credit grew strongly. Deviation of money also grew from target growth zones and persistent overshooting from 1994 onward. Monetary policy was tightened considerably, attracting even more inflows. The exchange rate interventions were clearly unstable. Foreign investors anticipated a significant relaxation of domestic exchange control at the budget in early March 1996, to help Chris Stals (former governor of Reserve Bank) to combat the appreciations. However the currency crisis was well underway by mid-February and the bilateral rand had depreciated of its currency. Later crisis occurred in October 1996, November 1997 and April 1998 triggered largely by contagion effect from the Asian crisis, and remained at that level until the end of 1999, falling to 18.25 percent prior to the April 1998 crisis, when it rose as high as 25.5 percent. Apart from technical adjustment of 100 basis points in early September 2001, monetary policy has been reviewed. The Repo rate has also been reduced on two occasions. This in turn has led to equivalent reduction in the commercial bank prime lending rate. Here domestic factors remained conducive to contained declines in inflation.

¹⁰⁰ Chris Stals: *Governor's address Pretoria, South Africa Reserve Bank, 1995, P18*

There had been a little pressure coming through from domestic expenditure growth, capacity utilization rates were not a cause of concern and an increase in unit labour cost were lower than the inflation rate. Monetary policy internationally has also experienced major changes. Most major central banks had ceased their monetary policy stance, a trend that was evident even before the tragic events in the United States in September 2001. Those trends were intensified and more coordinated after those events. Changes were made on the face of the deepening global downturn with the threat of recession. International developments have had mixed effect on inflation outlook in South Africa. On the negative side, crisis in Zimbabwe, Argentina and Turkey have impacted negatively on the Rand, with potential inflationary consequences. The 2001 scenario of the rand weakening against most major currencies have led to further challenges to monetary policy.¹⁰¹

Therefore, monetary policy decisions taken in response to external and domestic shocks under inflation targeting had significantly improved relative to the latter apartheid legacy. Further, inflation targeting has not disadvantaged potential investments in terms of level of tax adjusted, while inflation has been in target range in this decade.

Finally, the important role of complementary policies to support South Africa 's monetary policies were motivated for future improvement.

In conclusion, the issue of globalization could make sense if complementary monetary policies are to be implemented, for South Africa to be able to cope with norms and values of the international orthodox of globalization. Globalization is here to stay and countries need to device means of coping with it.

¹⁰¹ SARB Quarterly Bulletin: Monetary policy review October 2001

Chapter 7

7.1 Conclusion

The post-apartheid South Africa unlike the Sub-Saharan African countries had stood a **better chance to quicken** its pace of economic reform. The reason being that South Africa had sophisticated industrial, mining and agricultural **sectors which are both qualitative and quantitative**. South Africa possessed a degree of technological sophistication and have created **linkages to the world economy** which have no parallel on the rest of the continent. As a result of the contrast between South African economy **and others on the continent, many planning which have been brought about by the government of national unity in 1994 have tended to ignore the African experience. The need for total integration** to the international community was stressed in the study as it was **not properly outlined** in previous studies.

The fact that had make the study not to guarantee total reform in South Africa, was the type of mixed economy it posses. Review on the role of the state in creating a sound reliable public control and private sector operations were needed. Because any post-apartheid government must still have a vision on how it wants to transform the economy to help its constituencies and the private sector as a whole.

Internationally, post-apartheid South Africa was able to prove its economic competitiveness which has led to visible improved foreign relations with western giants and most recognized international organization, such as the UN and its superior security council.

Controversies only lie within the international financial institutions. Over this decade there have been considerable controversies in Africa concerning the reform programmes suggested by the IMF and the World Bank in the issue of stabilizing and adjustment of

African economies. Structural adjustment was supposed to be accompanied by debt write-off with a little incentive given as kind of kick-start to third worlds.

Unless South Africa was closed to the international trade, its economy could not operate in mindful of payments implication of economic policy. A pace of change in South Africa had quickened and considerable economic liberalization has been experienced and quantitative restrictions have been largely replaced by tariffs, export incentives which had improved greatly.

Although rapid liberalization is far from reach, South Africa `s technological implications had improved drastically and was accompanied by more bilateral links that it had secured and sustainable access to markets for its export and for attracting capital. Bilateral links traditionally are major source of investment and technology. Therefore, South Africa was able to attract more investment in its economy.

Financial institution such as IMF, World Bank, WTO had improved its visibility to post-apartheid South Africa. The visits had different strings attached to South African economic policy. New borrowings were established with lenient conditions attached. The IMF had also initiated its efforts in promoting transparency of its view and analysis of economic development and policies with South Africa through public information policy (PIN). South Africa was obliged to adhere to this policy because it has proved beyond reasonable doubt that these institutions are the central pillars in the global economy and are also known to be architects of the world economy.

Therefore South Africa could not delink itself from these institutions even though when it was deceived through GEAR economic policy, which had failed to launch the improved economy on post -apartheid economic pattern based on growth through redistribution. By 1997, economic growth was below expectations and was not adequate to absorb the employment crisis which is worsening daily.

Globalization and its tools such as IMF, World Bank and WTO were seen as *nothing else* but the 1990's orthodoxies.

South Africa's Finance Minister Trevor Manuel, in a keynote address to the German Foundation for International Development, characterized as early as December 1998 the emergence of *South African strategy* of economic development and revealed that South Africa's new reliance should dwell in the African renaissance as a new vision of political and economic renewal in Africa. It takes the global competitive marketplace as point of departure.'

Critical assessments of this strategy, which had been successfully promoted as the development paradigm by a number of African governments with the backing of the G8, have pointed out that its concept blends nicely into the neo-liberal mainstream of globalization. It is fully in line with the economic strategy of South Africa's present government, seeking closer integration into the dominant structures of the world economy. As Ian Taylor and Philip Nel have warned, the inherent danger of such a strategic move might lie in the message that it serves to legitimize instead of aiming to restructure the existing global power relations, to which African countries have been a victim. The driving force behind such a policy was its linkage with globalization, export-driven trade policies and a nascent transnational elite', and maintain that 'making neo-liberalism somehow "work for all", rather than rethinking the overall global trading system, is the key strategy of South Africa particularly and New Africa more generally. South Africa's Minister of Finance Trevor Manuel, in his capacity as the Chairman of the Development Committee to the International Conference on Financing for Development in Monterrey on 18 March 2002 stated: 'There is general consensus that globalization provides an opportunity for countries to improve standards of living. The key challenge is to attempt to manage globalization in such a way that it does lead to poverty reduction.

There was massive expansion of South African capital into the continent of hitherto unprecedented dimensions. Already since 1991 South Africa has been the largest foreign direct investor (with an annual average of \$ 1.4 billion) within the continent. Large scale

operations were undertaken by a variety of private companies as well as (ex-) parastatals, ranging from Spoornet and Portnet via Eskom and Sasol to South African Airways. MTN and Vodacom compete as operators in the telecommunication business also abroad and invest in the potentially huge markets of Nigeria and the DRC. Financial institutions such as Standard Bank join the "traditional" multinationals in the mining sector, which have a longstanding experience in seeking other profitable opportunities to accumulate further.

Globalization was also

Presumably greener pastures were explored and invaded by the local giants in the wholesale and retail business. South African chain stores mushroom all over the continent, South African Breweries owns and controls large parts of the beverage sector elsewhere. This penetration of neighbouring and continental markets goes hand in hand with the particular pro-active role of South Africa in engaging in and addressing international trade issues through a strategic involvement of the ministers for trade and for finance respectively in the current efforts to modify the global economy under the WTO. It is complemented by a parallel intensification of South-South cooperation seeking the consolidation of an alliance between the economically more powerful transitional economies such as South Africa, Brazil, India and China.

Therefore, findings of this study had revealed disappointments that South Africa and Africa as a whole have experienced through independence. The adoption of western ideologies which were recently characterized by globalization and international integration had not brought joy to the African continent. This had shown that careful attention was not taken when economic designs of the state and the management of economic policies were put into place. An example of such scenarios is the South African Growth, Employment and Redistribution. The process was intended to boost South African economic gaps which were created by apartheid. But, the total opposite of the expected outcomes were experienced, where massive loss of jobs occurred by privatizing the most source of economic pillars of the country.

Transition from autocracy to post-apartheid economic order was very difficult to plan for and have involved a large number of *ad hoc* policies to South Africa.

7.3 Recommendations

The study had revived an appropriate debate for participants in this economic order. South Africa `s future to move away beyond the mercantilist ideology and to come with the new African economic order such as NEPAD was now relevant through experienced form of repression they experienced from the west.

Globalization was seen to be here to stay and would continue to harm the third worlds if Africa cannot come up with its own economic strategies of dealing with the globe. Massive distribution of resources can also happen even without any dependency mechanism or influence from the western ideologies and their policies.

7.2 Recommendations

- NEPAD seem to be one of the solutions to South Africa `s economic growth as well as its international competitiveness, because it is grounded in the full realities of South Africa's relations with the continent, including those beyond its immediate regional neighbourhood in Southern Africa. At the same time it is also grounded in the realities of globalization, especially the unevenness of its impact amongst and within nations, and reflects an attempt to shift the continent, including South Africa itself, towards a more effective engagement. This was substantiated by Stephen Gelb, previously member of Thabo Mbeki's team drafting the original policy documents preceding NEPAD, reminded in a recent analysis published with his Edge Institute of the South African president's earlier approach. In a 1997 speech the then-Deputy President referred to the need for South Africa 'to "walk on two legs" in its foreign policy – to cultivate strong relations with the South, as well as strategic relations with the industrialised countries'.
- The suggestion from a more or less critical distance is that NEPAD offers the opportunity for South African capital to expand further in Africa and abroad by creating new market access. NEPAD is hence considered as a lubricant for a South African expansion into other parts of the continent and internationally, which under an Apartheid regime until the early 1990s would have not been conceivable. Almost ironically, only a politically correct post-Apartheid government allows the promotion of and greases a process, which is again (though not exclusively) to the benefit of those who already profited from the previous undemocratic system at home and can now enter spaces abroad.
- Such understanding recommended that the existence of AU and the intensification of aims and objective of NEPAD forms a vibrant part of South

Africa 's economic reform agenda. The idea of the former South African President **Thabo Mbeki** and Nigerian president **Olusegun Obasanjo** is still to be pursued, because, NEPAD does not intend to challenge the international community but rather fight the creation of polarization within Africa. NEPAD also intensifies the private sector and more particularly foreign investments and the driving force of development.

- But clearly so, NEPAD will not be able to replace demands for a fair share in the world's resources by those who have been the victims of domination and exploitation for far too long. At best it might be able to slightly increase the far too tiny piece shared from the global cake with stakeholders in Africa (stakeholders should in this context of course read as shareholders). Instead of a meaningful radical alternative, NEPAD seems to be much closer to "more of the same" - namely capitalism as a new form of global apartheid, as Patrick Bond keeps on warning in his recent writings. Along similar lines, Ian Taylor reminds of the active role elites in the South have played in this recent process of capitalist expansion termed (misleadingly) "globalization" by supporting the new Washington Consensus, resulting in the promotion of the liberalization of trade and capital movements.
- Real international integration, economic co-operations between Africa and the World will only make sense if South Africa and Africa are committed to the objectives of the AU and NEPAD.

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