

South Africa's Macroeconomic Performance Before And After The Apartheid

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ABSTRACT

South Africa and its political and economic conditions have been a topic of discussion for years. This paper presents data on South Africa's macroeconomic indicators since 1970. Although in certain aspects South Africa's economy has improved since the official end to apartheid, there is still much room for improvement with respect to employment, poverty, health conditions, international trade and price stability.

Keywords: South Africa's Economy; Apartheid

HISTORY

*I*n this section, we briefly discuss the history of South Africa. Our purpose is twofold. First, is to introduce the reader to South Africa from a historical perspective. Second, purpose is to discuss apartheid one of the most critical issues in South Africa for years.

South Africa is a very rich country in natural resources such as fertile farmlands, and mineral resources. Also it is internationally known for its mines of diamonds and gold, as well as metals such as platinum. South Africa has experienced many changes over the years that have hurt and benefited its people. History shows that South Africa was inhabited by people for thousands of years, and the oldest inhabitants were the Khoisan language groups, and today they are found in the western areas. Other inhabitants of South Africa today are the Bantu language group which dates back to around 100 AD, and the Nguni which are ancestors of the Zulu and Xhosa, which date back to around 1500. The first Europeans that reached South Africa were the Portuguese, followed by the Dutch East India Company, and later the French, and the Germans who settled in the Cape of Good Hope. Around the 18th century, the British gained control of the Cape of Good Hope, and this British settlement started a long conflict between the Africaners and the British. This war was not the only one that the British were involved in South Africa. Around 1870 we see the discovery of diamonds at Kimberley and large gold deposits around 1886 in Witwatersand. Both of these discoveries led a lot of Europeans, the majority, of which were British, to immigrate and invest in South Africa. This influx drew a reaction from the Boer, of the Boer Republic, and this reaction led to the Anglo-Boer Wars of 1880-81, and 1899-1902. The outcome of these wars was that by 1910 the Union of South Africa was formed as a self governing body of the British Empire.

Another highlight of the South African history was the formation of the African National Congress (ANC), and its purpose was to eliminate all the restrictions against the blacks. Later in 1948 the National Party (NP), won the so called all-white elections, which started immediately passing laws for stricter policy against the blacks. This of course led to the apartheid. Then in the 1960s as a result of protests, both the ANC and the Pan-African Congress (PAC), were outlawed and Nelson Mandela along with a number of other black leaders were imprisoned. The apartheid policy in its attempt to achieve preferential treatment for whites was very successful, and this can be seen in Table 1.

Table 1 Demographic, Social and Economic Indicators (1978)

	Blacks	Whites
Population	19m	4.5m
Land allocation	13%	87%
Share of national income	<20%	75%
Ratio of average earnings	1	14
Minimum taxable income	360 rand	750 rand
Persons per doctor	44000	400
Infant mortality rate (urban)	20%	2.7%
Infant mortality rate (rural)	40%	
Annual expenditure on education per pupil	\$45	\$696
Pupils per teacher ratio	60	22

Source: <http://www-cs-students.stanford.edu/>

Below we present a timetable of some of the main highlights of South Africa’s recent modern history:

- 1948 The National Party of Dr. Malan comes to power, and the apartheid is voted upon by the white majority
- 1949 The apartheid government passed the Group Areas Act, and 3.5 million people were forced out of their homes
- 1956 20,000 women marched in Pretoria to protest against legislation to tighten the apartheid, against the movement of black women.
- 1959 Anti-apartheid campaigns launched in London
- 1960 The UN commemorates those that were killed in a peaceful anti-apartheid demonstration in Sharpeville
- 1973 The UN General Assembly defined the crime of apartheid as inhumane acts
- 1986 The United States government passed the Comprehensive Anti-apartheid Act, prohibiting new trade and investment in South Africa
- 1988 South Africa was expelled from most international sport bodies
- 1990 President de Klerk lifts a 30 year old ban on the country’s main black opposition group, ANC (African National Congress) and Nelson Mandela is released unconditionally
- 1992 An all-white referendum is approved to dismantle apartheid
- 1994 April, Mandela is elected as the first black president of South Africa
- 1995 Mandela presides over the inauguration of South Africa’s first Constitutional court

ECONOMIC BACKGROUND

In this section we review the current economic conditions in South Africa 19 years after the abolition of the apartheid. South Africa is a country with a population of about 50 million of which the majority live and work in four areas: Cape Town, Port Elizabeth, Durban and Johannesburg (World Bank). As a result, these four cities make the biggest and strongest contributions in the South African economy. South Africa is an upper middle income country (World Bank), with the most stable economy of the African continent. Although South Africa has a stable and fairly strong economy, it has one of the world’s lowest labor participation rates (around 55%) and a very high unemployment rate (above 20%; World Bank). Unemployment as a percentage of the total labor force has remained high over time ranging from a low of 16.9% in 1995 to a high of 31.2% in 2002. In 1994 it was 20% and in 2009 it was 23.8%. Only 41% of the working age population had jobs in 2008, only slightly higher than the 39.4% in 1991 (World Bank). In most other countries the employment to working age population ratio tends to be above 50% (World Bank). This puts a constraint on South Africa’s economic growth, since it is understood that in order to create jobs for all these people the country needs a continuous growth rate of more than 6% for many years, with some suggesting that it would take at least 20 years.

The recent global financial crisis and ensuing economic downturn has caused serious economic problems for South Africa. As a result of the turmoil, its growth rate dropped from 5.5% in 2007 to 3.7% in 2008, and its output shrank by 1.8% in 2009, recovering to 2.8% in 2010 (World Bank). For 2011 the government expects a growth rate of 3.2%, but the OECD is a little more optimistic projecting a 5% expansion. Although these are fairly good rates considering the global economic environment, they are still not good enough to considerably reduce poverty and unemployment.

Although the poverty head count ratio at national poverty line has declined from 31% of the population in 1995 to 23% in 2005 (having risen to 38% in 2000), the income share of the lowest quintile has remained close to the 1993 level of 3% indicating the income inequality has not declined after the official end of apartheid. Furthermore, life expectancy at birth was lower in 2009 (52 years) compared to 1992 (61.5 years) and infant mortality rate per 1000 live births was only slightly lower in 2010 (43.1) compared to 1990 (47.8) although it has steadily declined since 2005 (World Bank).

With respect to international trade, South African exports of goods and services as a percentage of GDP has fluctuated considerably since 1960 with large declines during each of the major recessions in the western world in the early 1980s, 1990s and 2000s. In 2009 exports accounted for 27.3% of GDP compared to 21.3% in 1992. Imports of goods and services as a percentage of GDP have also fluctuated but by smaller amounts ranging from 17.3% in 1992 to 38.5% in 2008 dropping to 28.1% in 2009. South Africa’s current account balance has fluctuated considerably since 1970 being in the red in eleven years prior to 1992 and 13 times after 1992. Since 1995, South Africa has experienced a current account surplus only twice (2001 and 2002).

Figures 1 and 2 show some of the trading partners of South Africa and the percentages of exports to and imports from these countries.



Figure 1 South African Exports (% Of Total)

Source: http://www.economywatch.com/world_economy/southafrica/export-import.html

Figure 1 shows South African export destinations as percentages of its total exports. Thirty-seven percent of South African exports go to four countries, namely Japan, U.S.A. Germany and the U.K. This suggests that South Africa may be overly dependent on these countries for needed export revenues exposing it to risks associated with cyclical fluctuations in these economies. Severe recessions in the U.S., U.K. and to a lesser extent Japan due to the recent financial crisis inevitably created negative demand side shocks reducing South Africa’s export revenues.

Figure 2 shows that 30% of South African imports originate from only three countries namely Germany, China, and the U.S. and that 46% of its total imports originate from only 6 trading partners.



Figure 2 South African Imports (% Of Total)

Source: http://www.economywatch.com/world_economy/southafrica/export-import.html

Table 2 presents important economic indicators for South Africa since 1970. Data include the gross domestic product (GDP), growth rates, GDP per capita, inflation, net inflows from foreign direct investment (FDI), exports and imports.

Table 2. South African Economic Data 1970-2009

Year	1 GDP CON. US \$ bn	2 GDP Per Capita	3 Economic Growth	4 Inflation	5 FDI Net Inflows	6 Exports US \$ bn	7 Imports US \$ bn	Current Account Balance
	Base year 2000	Current US \$	Annual % Δ GDP	% Δ CPI	US \$ million	Base year 2000	Base year 2000	US \$ billion
1970	68.6	3104	5.2	4.1	333	17.96	17.6	-1.289
1971	71.5	3163	4.3	5.7	260	18.51	19.4	-1.488
1972	72.7	3143	1.7	6.5	114	19.07	16.9	-0.192
1973	76	3213	4.6	9.6	23	18.08	18.9	-0.256
1974	80.6	3334	6.1	11.6	696	17.19	22.4	-1.437
1975	82.1	3316	1.7	12.5	167	16.99	21.7	-2.397
1976	83.9	3319	2.2	11.0	18	17.73	19.5	-1.912
1977	73.8	3246	-0.1	11.2	-121	18.54	16.9	0.239
1978	86.3	3275	3.0	11.1	-109	19.15	16.9	1.099
1979	89.6	3325	3.8	13.3	-484	19.51	16.7	2.965
1980	95.5	3463	6.6	13.7	-10	19.51	19.9	3.161
1981	100.6	3561	5.4	15.3	65	18.46	22.6	-4.978
1982	100.2	3460	-0.4	14.6	329	17.97	18.7	-3.525
1983	98.4	3310	-1.8	12.3	71	17.73	15.7	-0.323
1984	103.4	3390	5.1	11.5	419	18.21	18.8	-1.951
1985	102.1	3263	-1.2	16.3	-452	20.04	16.2	2.261
1986	102.2	3181	0	18.7	-50	19.3	15.8	2.765
1987	104.3	3167	2.1	16.2	-191	20.19	16.3	5.104
1988	108.7	3223	4.2	12.8	158	21.85	19.8	2.533
1989	111.3	3227	2.4	14.7	-201	22.33	19.9	1.497
1990	110.9	3152	-0.3	14.3	-75	22.23	18.8	1.551
1991	109.8	3056	-1	15.3	254	21.88	19.2	1.399
1992	107.5	2929	-2.1	13.9	3.4	23.09	20.2	1.980
1993	108.8	2903	1.2	9.7	11	25.48	21.6	2.803
1994	112.3	2934	3.2	8.9	374	26.12	25.1	0.0003
1995	115.8	2960	3.1	8.7	1	28.97	29.3	-2.493
1996	120.8	3020	4.3	7.4	816	31.06	31.9	-1.678
1997	123.9	3030	2.6	8.6	3810	32.7	33.6	-2.227
1998	124.6	2975	0.5	6.9	550	33.77	34.3	-2.199
1999	127.6	2972	2.4	5.2	1503	34.19	31.4	-0.0007
2000	132.9	3020	4.2	5.3	9680	37.03	33.1	-0.0002
2001	136.5	3040	2.7	5.7	7270	37.92	33.2	0.0003
2002	141.5	3108	3.7	9.2	1479	38.29	34.9	0.009
2003	145.7	3159	2.9	5.9	783	38.34	37.8	-1.761
2004	152.3	3264	4.6	1.4	701	39.42	43.6	-6.740
2005	160.4	3398	5.3	3.4	6522	42.8	48.4	-8.518
2006	169.4	3548	5.6	4.6	-183	45.99	57.2	-13.744
2007	178.6	3702	5.6	7.1	5736	48.72	62.4	-20.018
2008	185.2	3796	3.7	11.5	9644	49.87	63.3	-20.083
2009	181.9	3689	-1.7	7.1	5353	40.12	52.3	-11.327

Source: World Bank Databank <http://databank.worldbank.org>

Legend:

1. GDP (constant 2000 US \$ billion), World Bank national accounts
2. GDP per capita (constant 2000 US \$), World Bank national accounts
3. Economic Growth (annual % change in GDP), World Bank national accounts
4. Inflation, (annual % change CPI), World Bank
5. Foreign Direct Investment, Net Inflows (BoP, current US \$ million), World Bank
6. Exports of goods and services (constant, 2000 US \$ billion),
7. Imports of goods and services (constant, 2000 US \$ billion),
8. Current account balance (current US \$ billion), World Bank

The data in Table 2, suggest that the South African economy has performed better after the official abolition of apartheid in 1992. For instance, inflation since 1992 has been in low single digits whereas before it was in double digits and as high as 19% in 1986 (see Figure 3). Also the Gross Domestic Product which was \$110 billion in 1991 (the last year of the apartheid) increased by 65 per cent to \$182 bill. by 2009 (as can be seen in Figure 4 below). Moreover, since 1991 exports have doubled.

Below we see the figures discussed above showing the Inflation Rate and the GDP.

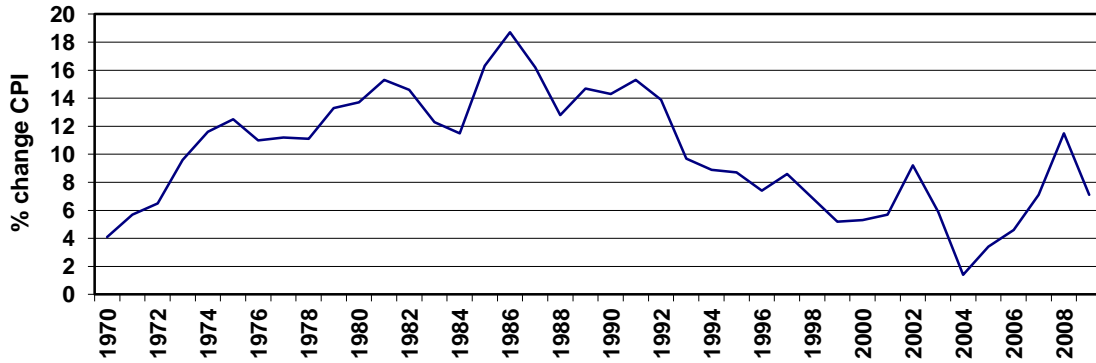


Figure 3 South African Inflation

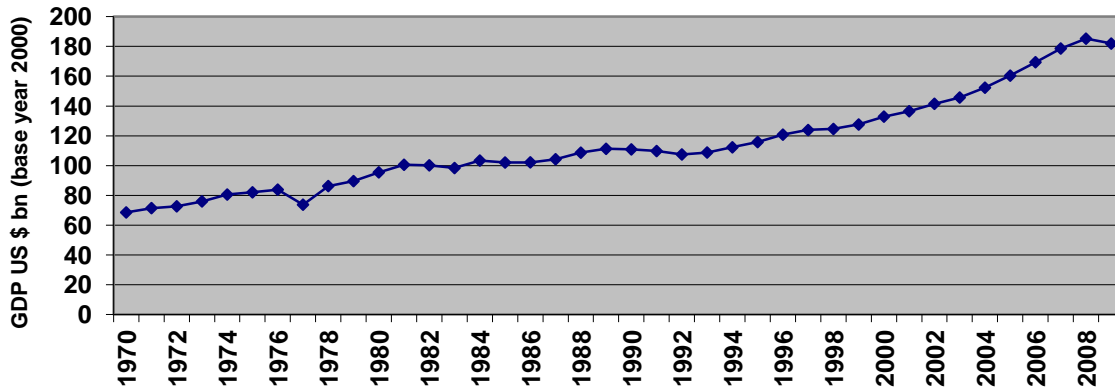


Figure 4 South African GDP (US \$ bn)

CONCLUSION

In summarizing, on the one hand, there appears to be encouraging trends with respect to the infant mortality rate, literacy rate and the poverty head count ratio (World Bank). The economy of South Africa in 2010 had a GDP of \$363.7 billion, and a per capita GDP of \$7280. However, a quarter of its labor force is unemployed, life expectancy remains low, and the poorest 20% of the population have not seen their share of total income rise since 1993. Moreover, in 2010 South Africa had a current account deficit of \$11.327 billion and inflation slightly above 7% (World Bank). Hence, although certain indicators suggest that the residents of South Africa appear to have experienced better days after the official abolition of apartheid, other indicators suggest that there is still much more room for improvement. Of course, the reliability regarding the accuracy of the data collected over time and especially 20 to 30 years ago must be taken into consideration when making comparisons and drawing conclusions.

The South African economy is considered to be an upper middle income economy, but it has one of the world's lowest labor participation rate around 40%, and a very high rate of unemployment (close to 25%). Due to the global financial crisis, its growth rate dropped from 5.5% in 2007 to 3.7% in 2008, contracting by 1.7 percent in 2009 and recovering by 2.8% in 2010. The South African government projects that the growth rate for 2011 will be 3.2%.

Although the economy is improving, there are still several challenges that the government faces:

1. The legacy of apartheid still exists and must be removed from people's minds.
2. The government needs to find ways to improve society as a whole.
3. Although businesses, jobs, and education are improving, the government needs to find ways to eliminate the inequalities created by the apartheid among the population.

In conclusion, some recommendations that can improve the situation in South Africa are the following:

1. Encourage more savings and investment
2. Eliminate product – market regulations
3. Credit should be made easier for small businesses
4. Youth unemployment which is a chronic problem needs to be tackled

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