

# **South Africa's Quest for Inclusive Development**

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## **Abstract**

The end of apartheid in 1994 ushered in a new era in South Africa, and with it the challenge of building a democratic, inclusive, and stable society. The government led by the African National Congress initially adopted a neo-liberal stance to manage the economy, and a redistributive strategy to close the income disparity, with a streak of a developmental state. These two tracks were at times at odds with each other. The last decade has shown widening inequality and slow progress in addressing poverty, deprivations, and other dimensions of well-being. Economic growth resulted in huge regional disparities and left a large middle class vulnerable to uncertainties. In response, the government adopted an ambitious strategy called the New Growth Path that combined the goals of strong economic growth, job

creation, and broad economic opportunity in one coherent framework. This effort toward greater inclusion is not without challenges.

**Keywords:** South Africa, neo-liberalism, Black Economic Empowerment, inclusive development, New Growth Path

## Introduction

The end of apartheid and the coming to power of the African National Congress (ANC) redefined the development paradigm in South Africa. After many years of social and economic malaise, the new government adopted a neo-liberal approach to economic development.<sup>2</sup> As a first step, prudent macroeconomic policies combined with political stability had positive effects on investment and GDP growth. To foster inclusion, the government launched the Black Economic Empowerment (BEE) program in order to address the huge racial economic inequality inherited from the apartheid regime. Democracy, together with macroeconomic stability helped to transform South Africa into a regional economic power with a strong influence in Africa and around the world. In 2011, the country joined the BRICS (Brazil, Russia, India, China, and South Africa) as an emerging economy with an important regional influence.

However, neither neo-liberalism nor the BEE and a few other social protection initiatives could address the poverty and inequality that remained entrenched to this date. In the last two decades, South Africa has faced a very low standard of education and one of the highest unemployment rates in the world. When it comes to racial and regional disparity, South Africa is also one of the most unequal countries in the world. Furthermore, economists have often pointed out the disappointing levels of growth the country has recorded since the

democratic transition. Compared to other emerging countries such as Chile and Malaysia, it appears that South Africa's GDP growth could have been much higher with a more inclusive growth policy. The huge social problems that are apartheid's legacy remain a threat to the socio-political order. Recently, South Africa attempted to consolidate the neo-liberalism practice with an inclusive development approach into a common framework by adopting the New Growth Path (NGP). The challenge for the government is to accelerate a shared and balanced growth.

The objective of this chapter is to show the interplay of ideas and experiences that have shaped South Africa's development path in the pre- and post-apartheid era. The chapter opens with an overview of the change in the development paradigm and socio-economic performances from the days of apartheid to the democratic South Africa. It then focuses on the neo-liberal shortfalls and South Africa's challenges in achieving high and inclusive growth, and concludes with a review of the concept of growth inclusiveness for the future of South Africa's social democracy.

## **From apartheid to a democratic South Africa**

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

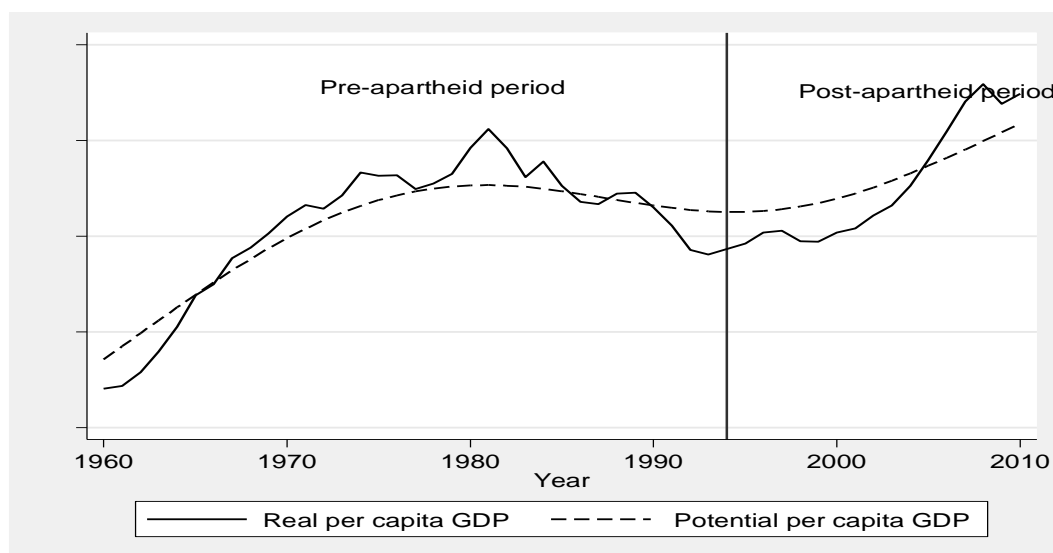


Figure 41.1: Trends in actual and potential per capita GDP in South Africa, 1960–2010

Source: AFDB database (2011) and authors' computations.

The willingness to integrate previously disadvantaged groups within the formal economy has expanded both the domestic demand and supply. The reintegration of the country within the world economy has increased foreign investment and demand for South African products, which in turn has boosted economic growth. In contrast, the apartheid era clearly appears as a period of economic and social stagnation.

### ***Malaise of the apartheid era***

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

Apartheid was a political system “predicated on a racially exclusive institutional framework that eroded political rights and freedoms, property rights and generated high levels of political uncertainty” (Fedderke, de Kadt, and Luiz 2001). During apartheid, black South Africans were legally excluded from any political and economic participation. They were discriminated against in employment, skills development, and business ownership and control, as well as in access to basic social and physical infrastructures. The social security system was designed mainly for whites.

The result was predictable. South Africa relied for decades on natural resources to continue to grow, with little investment in human and physical resources to stay competitive and dynamic. As a result, the economy rapidly lost its competitive edge, a loss from which it has

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

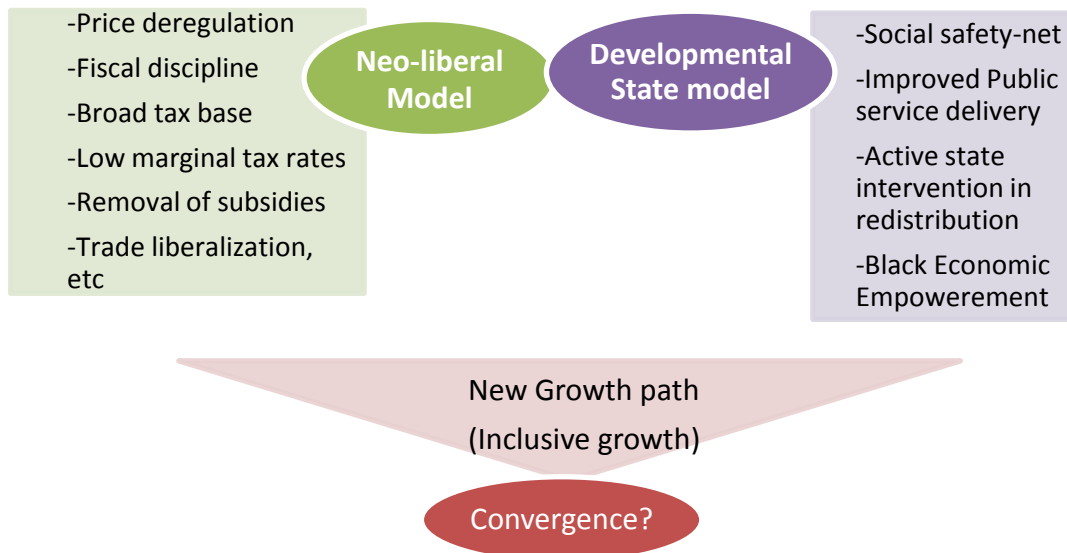
### ***South Africa's development paradigm***

After apartheid, development policy in South Africa focused on the debate over the superiority of either state-controlled or market systems. Like many other developing countries, South Africa expected that globalization and the replacement of traditional industries by modern sectors would become a panacea for economic development. In consequence, and in line with its neo-liberal approach to economic policy, South Africa's government has restrained its intervention in the economy so as not to obstruct the free market. It was also clear that the legacy of racial and regional disparity left by the apartheid era could not be resolved by the market: the active involvement of the state was needed. The government took steps to address the needs of the disadvantaged groups through improved public service delivery (low-cost housing, water, and electricity), social safety nets, and most



important, the Black Economic Empowerment (BEE) initiative, which has attracted enormous interest on both sides of the ideological divide.

Chart 1 below summarizes the policy orientation of the government of South Africa as it evolved in a post-apartheid period. The recent emphasis on job creation and a much more active engagement of the state give the redistributive strategy more a streak of a developmental state than a neo-liberal stance. These apparently two-track approaches are discussed in turn in the next sub-sections: the Growth, Employment and Redistribution (GEAR) strategy was the first to implement the neo-liberal model, while some of the elements of the redistributive strategy reflect a developmental state approach, particularly the BEE and the recent New Growth Path (NGP).



### *The Growth, Employment and Redistribution (GEAR) strategy*

In 1996, the Growth, Employment and Redistribution (GEAR) strategy followed the Reconstruction and Development Programme (RDP)<sup>3</sup> that had been put in place in 1994, at the end of the apartheid era. The origin of the RDP could be traced back to the labor movement that since the 1950s had strived to institute social security and welfare programs for all industrial workers, irrespective of race. The emergence in 1985 of the powerful Congress of South African Trade Unions (COSATU), which brought under its umbrella close to 450,000 workers from a wide range of industries, ushered in a new phase in the struggle

against apartheid. The movement ratified the Freedom Charter introduced in 1955 by a multiracial trade union with a strong emphasis on civil and democratic rights. By the time the ANC came to power, it was natural for its policy to be influenced by the unions, as they had provided the core power base and support during the struggle and its immediate aftermath. The RDP became an election manifesto and ideological reference point for the ANC that established continuity between the Freedom Charter of 1955 and the post-apartheid world. “The RDP originated in an attempt by labor to produce an accord that would tie a newly elected ANC government to a labor-driven development program” (Visser 2004: 6). The RDP’s mantra was “growth through redistribution,” which focused on meeting people’s basic needs in such areas as employment and access to clean water, electricity, housing, land, health and education services.

However, as it became clear that the objectives of redistribution would not be feasible without a growing economy and a vibrant private sector, the RDP began to lose supporters within the policy circles. The 1994 White Paper on Reconstruction and Development was the first official document that clearly indicated a departure from the tenets of RDP, with emphasis on fiscal conservatism and managing economic transformation. The pressure on the ANC to steer the economy toward faster growth reached a turning point in early 1996, when the country faced a currency crisis with the rand losing nearly 25 percent of its value in a short time.

To reassure investors, both domestic and international, the ANC-led government announced a conservative macroeconomic strategy known as Growth, Employment and Redistribution (GEAR), with emphasis this time on a neo-liberal framework. The ministry of RDP was abolished in March 1996 and the technocrats in government (Development Bank of South Africa, South Africa Reserve Bank, Treasury) took charge of leading policy reforms. The World Bank published three growth scenarios for South Africa recommending sound economic policies and increased levels of private investment (Fallon and Pereira de Silva 1994). In 1996, two representatives of the World Bank joined the small technical team—which contrasted with the broad consultative approach of the RDP—in charge of drafting the GEAR.<sup>4</sup> This new strategy focused on macroeconomic stabilization, and trade and financial liberalization, as the means to foster economic growth, increase employment, and reduce poverty. As a consequence, the South African government reduced fiscal deficits, lowered inflation, maintained exchange rate stability, privatized state assets, cut tax on company profit, decreased barriers to trade, and liberalized capital flows. The final objective was to achieve a six percent annual growth rate by 2000 by encouraging private investment.<sup>5</sup>

According to Khamfula (2004), fiscal policy has been the major success of the post-apartheid era. Following the autonomy of the South African Revenue Service (SARS) in 1997, there has been significant improvement in revenue collection. Moreover, within the Medium Term

Expenditure Framework (MTEF), budgeting gained greater certainty for planning and implementing policy programs in a three-year rolling framework. Fiscal restraint combined with a strategically efficient allocation of resources led to a significant reduction of the fiscal deficit, which remained below three percent of GDP from 1998–99 through 2008–09. Public debt levels were below forty percent of GDP. The South African government is committed to transparency and good governance in allocating public resources.

However, the GEAR faced several challenges. It was a single strategy—adopting market-oriented reforms—with multiple objectives. The assumption that redistribution would come from job creation in a context of reduced public expenditures was not realistic. The global economic crisis in 1998, coupled with a decline in world demand for South Africa’s exports such as gold, put an end to the GEAR strategy. Both monetary and fiscal policies had to be relaxed. First, the exchange rate stability—which was maintained by high interest rates to avoid capital flight—was dropped in mid-1998 in favor of the independence of the monetary policy. In February 2000, South Africa formally adopted an inflation-targeting monetary policy framework to hold inflation between three and six percent. On the fiscal policy side, the country adopted a counter-cyclical fiscal policy stance in 2006. Fiscal policy has become expansionary since 2009–10. As a result, the neo-liberal policy adopted by South Africa was not sustainable. In 2006, the Accelerated and Shared Growth Initiative for South Africa

(ASGI-SA) was adopted as a new framework for economic and social development in South Africa.

### *A first step toward inclusive development*

The first democratic government faced the enormous challenge of having South Africa's development based on cohesion, inclusion, and opportunity. The ANC therefore launched the Black Economic Empowerment (BEE) initiative to rectify inequalities by giving economic opportunities to disadvantaged groups. At inception, BEE garnered political support, as it was widely believed that as the participation of disenfranchised groups in economic spheres grew proportionately to their numerical-political power. Thus the potential for civil strife was expected to decline, preserving business confidence in the economically-dominant minority (white South Africans) and eventually producing a non-racial "growth coalition" necessary for sustainable capitalist development (Bräutigam, Rakner, and Taylor 2002).

Correspondingly, BEE is described as "a coherent socio-economic process that brings about significant increases in the number of black people that manage, own and control the country's economy and a way of reducing income inequalities" (Sartorius and Botha 2008). In 1994, corporate South Africa appointed black non-executive directors and sold businesses to black empowerment groups. Financial institutions provided funding for black people

without capital to go into business. However, the BEE program was interrupted by the global market crisis in late 1998.

The year 2003 marks a reversal of priorities in South Africa's development approach, with a focus on equity and social development. This change emerged with the publication of a very critical report on socioeconomic rights by the South African Human Rights Commission (SAHRC 2004). As a consequence, the South African Social Security Agency (SASSA) was created in 2005. In 2003, BEE was replaced with the Broad-Based Black Economic Empowerment (BBBEE) policy. Indeed, the 2001 report of the Black Economic Empowerment Commission<sup>6</sup> pointed out that the BEE needed to be broader and more inclusive. A second generation of empowerment was slower, but more meaningful. Over the years, BEE has changed from white businesses' efforts to increase black acquisition in small to medium enterprises (SMEs) to a process with specific measures aimed at increasing black equity and participation at all levels of society.

The BEE (through the Broad-Based Black Economic Empowerment policy) envisions the creation and development of new enterprises that produce value-adding goods and services, and attract new investment and employment opportunities with the aim of redistributing wealth by transforming the ownership of companies and eliminating the racial divide. The seven pillars of company transformation are: ownership, management control, employment

equity, skills development, preferential procurement, enterprise development, and socioeconomic development. A company's BEE status is determined by a scorecard that quantifies performance based on predetermined weights assigned to the seven pillars. According to Sartorius and Botha (2008), BEE has led to a gradual increase in the black middle class, while ownership of capital on the Johannesburg Stock Exchange (JSE) has, as at 2008, grown to four percent due to direct intervention through BEE industry charters and legislative measures.

Detractors, on the other hand, claim that the lack of coherent definition of BEE measures distorts beneficiary groups and as a result has only served to enrich the politically connected elite, and that in its current form the program is patrimonial and an instrument for accumulating patronage (Andrews 2008; Engdahl and Hauki 2001; Boshoff and Mazibuko 2003). For Tangri and Southall (2008), the government has been too cautious in implementing BEE, as ANC leaders have feared the consequences for economic growth and investment if white business is obliged to relinquish large ownership levels to black investors. The authors conclude that "reconciling populist goals with capitalist-led economic growth remains problematic for ANC rulers." Others fear that BEE measures could impede foreign investment (Southall 2004 and 2005; Jackson, Alessandri, and Black 2005) and contribute to a widening premium to foreign ownership of firms. While foreign firms are exempt from the BEE ownership provision, they are expected to comply with other elements, including



preferential procurement of inputs from Previously Disadvantaged Individual (PDI)-owned companies. However, Mebratie and Bedi (2011) show that after accounting for firm level fixed effects, foreign firms were not more productive than domestically owned firms in South Africa. In other words, since foreign direct investment (FDI) is considered to disproportionately favor more productive firms, and since there are no productivity premiums to foreign ownership, compliance with BEE procurement measures is not bound to favor foreign firms vis-à-vis domestic firms. As a conclusion, the outcomes of the BEE program have been mitigated, and have generated a lot of controversy.

### ***The geopolitical transformation of South Africa***

South Africa's strong geopolitical position sits in stark contrast to the enormous internal socioeconomic challenges the country faces. Since the democratic transition, South Africa has displayed remarkable sociopolitical stability, which has resulted in a strong influence in Africa and internationally. South Africa has the most advanced and diversified economy in Africa, and its geographical position grants it a privileged role as the gateway to sub-Saharan Africa. Trade liberalization in particular has been at the forefront of the country's post-apartheid economic strategy, reflecting a commitment to outward-stimulated development.

South Africa also accounts for a significant proportion of global foreign trade, even if its share has recently declined (Kappel 2010).

South Africa's key role in economic cooperation and regional integration initiatives is underpinned by the size of its economy (the largest in Africa) and positive growth spillovers to the rest of the continent. Through its membership in various regional and sub-regional groupings, the country supports efforts to deepen economic integration in Southern Africa and the continent. Economic integration has accelerated among the Southern African Development Community (SADC), the East African Community (EAC), and the Common Market for Eastern and Southern Africa (COMESA), covering twenty-six countries with a market of around 600 million inhabitants and a GDP of about U.S. \$1 trillion. The establishment of the Grand Free Trade Area (FTA) is expected to be launched at the end of 2013 (AFDB et al. 2012).

In 2011, South Africa ascended to the position of leading emerging economy, adding an "S" to the BRIC (Brazil, Russia, India, and China) group. South Africa is the smallest of the BRICS in terms of population (about 49 million in 2010) and land area (1.22 million square kilometers) but it ranked third in 2011, ahead of China and India, in terms of nominal per capita GDP (U.S.\$8,342 at purchasing power parity/PPP).

South Africa is also the only meaningful economic power in the Southern Africa region and in Africa (Kappel 2010). It exercises leadership with respect to investment, trade, monetary integration, and institutional influence. Within the Common Monetary Area (CMA), the South African Reserve Bank influences the foreign exchange regulations and the monetary policy of its member states. Lesotho, Namibia, and Swaziland have a fixed currency to the South African rand. The CMA is also allied with the Southern African Customs Union (SACU), with the exception of Botswana, the only SACU member that is not part of the CMA. South Africa businesses clearly dominate the fifteen member states of the Southern African Development Community (SADC).

South Africa also took the lead in resolving conflicts in many countries, proving itself as an advocate of peace and stability in the region. It was much easier for the policy-makers to build regional integration than to deal with domestic issues.

The evolving geopolitical position of South Africa has fed into domestic policy stances primarily through business climate improvements. Since the end of apartheid, South Africa's growth strategy has focused on increasing both domestic and foreign private investment. Nowadays, South Africa's private business regulatory climate is one of the most conducive in Africa. The 2012 *Doing Business* report (World Bank and IFC 2012) ranks South Africa the 35<sup>th</sup> easiest country to do business globally.

## **The challenges of post-apartheid strategies**

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

### ***The shortfall of neo-liberalism as a development strategy***

Some of the weaknesses of the neo-liberal model of economic policy have been discussed extensively.<sup>7</sup> Since the RDP was abandoned in favor of the neo-liberal policy, serious clashes have taken place between the government, the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU). The former called for social security programs and a coherent industrial policy to create and maintain jobs, while the latter requested the end of the privatization process, which it blamed for creating unemployment. In the neo-liberal discourse, economic growth was given primacy, with the benefits spreading gradually to the whole society through a trickle-down process. However, the growing gap in income between social groups, the slow pace of growth, and growing public dissatisfaction and frustration prompted South African policy-makers to adopt new priorities, new consultations, and new decision making mechanisms.

### ***Disappointing socioeconomic performances***

Before 1994, separate and mostly unequal education services contributed to the creation of large urban communities with no schooling or a very low level of education. On human

capital development, South Africa is sometimes far above average regional values (see Table 1).

Table 41.1: Selected social indicators in Southern Africa

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

*Source: AfDB Database (2011) and UNDP online.*

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

Dani Rodrik was part of the Harvard team of economists in charge of assessing the ASGI-SA policies put in place in 2006. It was an interesting attempt to bring global thinking to the heart of South African policy making. At that time, the Harvard economists were concerned about the rapid increase of the trade deficit due to the surge of imports, particularly if exports didn't grow and commodity prices declined. Therefore, they recommended the strengthening and diversification of the non-commodity tradable sector such as manufacturing by using a stable and competitive exchange rate. However, once again macroeconomic stability was favored over the strategic objectives of creating jobs and reducing inequality and poverty.

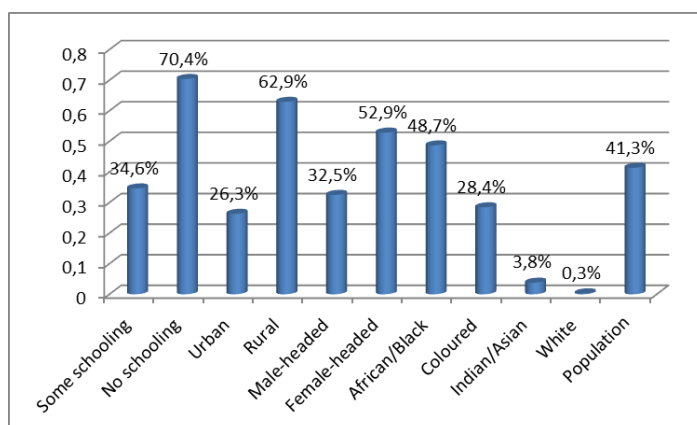
In opposition to the neo-liberal macroeconomic policies, South Africa's labor law has been quasi-corporatist. The National Economic Development and Labour Council (NEDLAC),



which is a corporatist institution, was created to discuss public policies. A debate over a considerable degree of rigidity in labor laws and in hiring and firing workers is currently ongoing. While firms are reluctant to hire workers without enough flexibility to fire them, the minimum wage for nineteen-year-old workers and the ratio of minimum wage to value added is almost three times the average for other BRICS countries (AFDB et al. 2012).

Given the importance of labor income in total household income, unemployment across regions and different socioeconomic groups is strongly correlated with the geographic and socioeconomic distribution of income and poverty (Duclos and Verdier-Chouchane 2011). Poverty levels in South Africa have remained high since the advent of democracy.

**Figure 3 - Poverty (headcount) in South Africa, with a poverty line of USD 3 in 2005**



Source: Duclos and Verdier-Chouchane 2011

South Africa's relatively sophisticated formal economy coexists with a large informal economy such as near-subsistence agriculture. The country further suffers from large socioeconomic inequalities in incomes, mostly resulting from the apartheid regime. These disparities manifest themselves geographically and racially, in the form of a high unemployment rate, widespread poverty, high rates of crime and insecurity, and a high degree of economic informality. Most of the economic activity takes place around the province of Gauteng, where Johannesburg and Pretoria are located. Poverty varies significantly across regions, while the Gini coefficient, reflecting the degree of inequality, is high in all regions. The political and economic oppression of the blacks has indeed skewed the country's poverty profile along racial lines (Duclos and Verdier-Chouchane 2011).

The more deprived population in terms of income and wealth also has more limited access to economic opportunities and basic services. All of this poses important challenges for South Africa's economic and social development. Land redistribution is an ongoing issue. Most farmland is still owned by the white population. Land transfers have so far been mutually agreed by buyers and sellers, but there have been hints of possible expropriations to attain the official objective of transferring thirty percent of farmland to black South Africans by 2014. As of 2008, however, only between five and seven percent of land had been transferred, raising doubts about the achievability of the target. New legislation was proposed in 2011 to replace the current willing seller–willing buyer model (AFDB et al. 2012).

Beyond the limited progress in social development, South Africa has not realized its full potential in terms of economic growth. The absence of high levels of economic growth is a concern in South Africa, especially when compared to the Brazil, India, China, or other developing countries. The disappointing level of growth has been highlighted by many experts and has opened the way for a renewed growth policy based on inclusiveness and human development.

## **Future path for inclusive development in South Africa**

As previously indicated, the gravity of weak socioeconomic performances emerged dramatically with a very unfavorable report published by the South African Human Rights Commission (SAHRC 2004). The report exposed faulty land rights, poor working conditions, a deteriorating safety and security environment, weak economic opportunities, and infringement of social rights, and concluded that “whether unintended or not, unfortunately the outcomes of some of the programs and projects have given birth to results not entirely different from those under the system of apartheid.” (SAHRC 2004, 57) As a consequence, since 2004, the government has been mandated to reverse the damage done by the GEAR and

to halve poverty and unemployment by 2014 through balanced, accelerated, and shared growth.

### ***Accelerated and Shared Growth***

The Accelerated and Shared Growth Initiative for South Africa (ASGI-SA) was launched in 2006. Contrary to the GEAR, this new strategy involved a broad consultation of stakeholders, members of civil society, and partners, as well as an expert review from abroad, for example by the team of economists and social scientists based at Harvard University. Recently, official policy has attempted to reorient government spending to fight deprivation in areas such as access to improved health care and quality of education, provision of decent work, sustainability of livelihoods, and development of economic and social infrastructure.

South Africa's government is one of the few governments in the world that has committed itself to being a developmental state. The term "developmental state" has increasingly been used to describe governments that strive to promote social, economic, and political inclusiveness by relying on creative interventions where markets fail and complementing them through partnerships where they thrive. In 2007, the ANC announced that the South Africa developmental state will have to be undergirded by the principles of democratic

government. However, Van Eck (2010) disagrees with the notion that a developmental state can co-exist with a democracy and prefers the concept of “social democracy” based on the Scandinavian model. In her opinion, developmental states refer to the East Asian authoritarian regimes. Three years after the implementation of the ASGI-SA, the government of South Africa decided to go one step further toward economic inclusiveness. The idea that sound macroeconomic policies have to be supplemented by social measures has become the new objective of the development strategy.

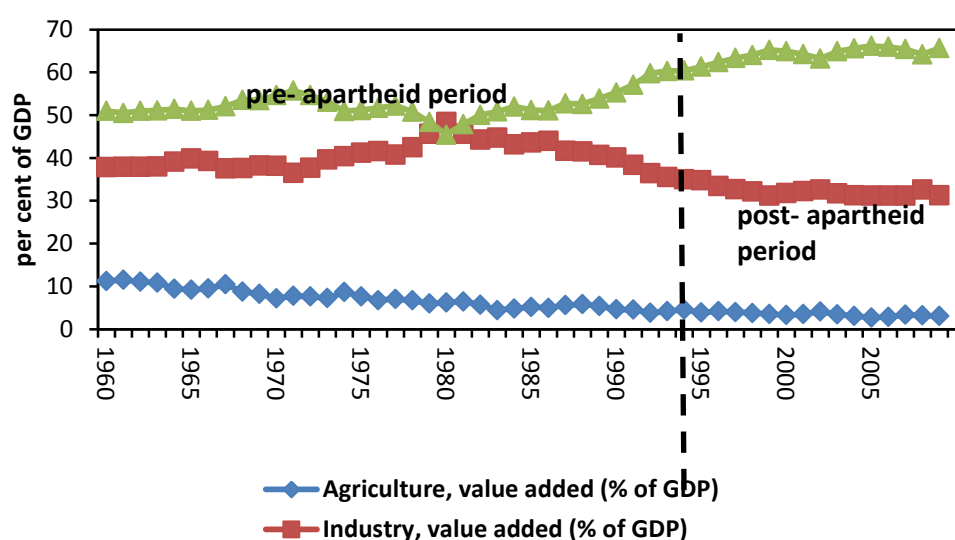
### ***Social democracy and the New Growth Path***

In his State of the Nation address, President Jacob Zuma (2009) stated,

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

President Zuma’s speech reflected the deep structural challenges the South African economy had been confronted with in the post-apartheid world: jobless growth fuelled mainly by

expansion of domestic demand which coexisted with extreme inequality and severe rate of unemployment (South Africa, Ministry of Economic Development 2011). It is indeed a statement that called for a new and bold approach to overcome the social and economic woes the new South Africa faces. In 2010, the unemployment rate among the young was close to forty percent and inequality during the 2000s was one of the highest in the world: close to forty percent of the national income went to ten percent of the population. South Africa's growth in the post-apartheid period came mainly from expansion in the services sector (often non-tradable) while traditional sources of growth—such as agriculture, industry, and mining—became increasingly less important for growth, in the process shedding thousands of jobs.

**Figure 4 - Growth decomposition of GDP from 1960 to 2010**

Source: AfDB Database (2011)

The New Growth Path (NGP) embraces the concept of the developmental state where the government assumes a crucial role in directing resources to attain pre-defined social and economic programs. The NGP's priority is the creation of decent jobs in areas identified as "job drivers." In this setting, public investment is expected to be directed at the promotion of infrastructure development, improving value chain in agriculture and mining, investing in green economy, and encouraging light manufacturing sectors, tourism, and other high-level

services. According to the NGP, the government would like to expand employment by five million jobs by 2020 through high GDP growth rates and improving the employment intensity of growth, which has seen significant decline in the past decade, from 0.8 to 0.67.<sup>8</sup> A number of policies should reduce the mismatch between demand and supply of labor and ensure an effective interface between employers and job seekers.

The NGP is a very ambitious framework that encompasses a wide range of sectors and fields and reconsiders South Africa's policies in education, skills development, labor, technology, and trade. However, the NGP, inaugurated in 2010, is still too recent to be assessed in terms of socioeconomic performance. A draft *National Development Plan: Vision 2030* issued by the National Planning Commission is currently undergoing public comment.

### ***Is the NGP a significant departure in ANC policy?***

The COSATU critically responded to the government in a document entitled *Government's New Growth Path Framework: One Step Forward, Two Steps Backward*,<sup>9</sup> which concludes that the NGP is not a "new breakthrough in economic thinking and policy. It re-states positions that are, in one way or another, found in GEAR, the Employment Strategy Framework, ASGI-SA and the series of Budget Statements." More precisely, for the



COSATU, the NGP should incorporate priority industrial sectors, change in patterns of control and ownership of the economy, and an activist role of the state, particularly with regard to employment and direct delivery of infrastructure. The document also argues that certain conceptions on BEE have to be reviewed as the social pact idea is problematic in the context of massive income inequalities. One could wonder whether South Africa's development strategy does not focus more on form than substance.

## **Conclusion**

South Africa's successful transition from apartheid to full democracy in 1994 has given the world a powerful and enduring lesson that a peaceful transition from a polarized, undemocratic, and repressive regime to a democratic and cooperative social order is possible. The country has moved from segregation, marginalization, and exclusion to cohesion, inclusion, and opportunity. The new institutional framework provided political and property rights and freedoms to the previously disadvantaged population, generating political stability. The transparency and predictability of the country's fiscal policy have been widely acclaimed. South Africa's economy has also undergone a rapid opening to the rest of the world. The interactions between growth, policy, and institutions have been crucial.

The 1994 RDP was a very promising program regarding rights, justice, and poverty alleviation with a focus on openness, civil liberties, and land redistribution. However, the GEAR strategy adopted in 1996 was based on the neo-liberal theory and barely mentioned poverty. Between 1996 and 2003, only a few sporadic initiatives took social inequalities and well-being into account. South Africa therefore reversed its priorities over the mentioned period but came back again with some poverty and inequality reduction measures with the adoption of the ASGI-SA in 2006 and the NGP in 2010.

The development path of South Africa has followed the political dynamics over very short periods with some back and forth. The main deduction is that short-term policies and policy reversals are not favorable to long-term structural change and development. The second main conclusion is that despite several internal challenges, South Africa did extraordinary well in terms of external leadership and geopolitical transformation. Internal contradictions between economic and social performance pledge for a new activist role of the state. Apparently, the NGP is still not the ideal development strategy because it cannot fulfill this role.

South Africa's social performance has shown deficiencies in the labor markets and very low progress in terms of education, skills, health care, and poverty and inequality reduction. South Africa has not achieved its full economic potential. Despite modest rates of growth, unemployment and persistent inequality continue to haunt the country. In the last decade, the

sources of growth in South Africa have shifted from agriculture and mining to services, which in relative terms are skill intensive. As a result, unemployment, particularly among the young, stood at an alarming forty percent, one of the highest rates in Africa and in the world.

The government has recently stepped up to the challenge by introducing the NGP, informed by the notion of a developmental state, which in some ways is a departure from its earlier neo-liberal stance. The NGP plans to generate at least 500,000 jobs every year for the next decade by focusing on what the government calls sectors with high employment potential such as infrastructure, agriculture, mining, industry, and tourism. The NGP also lays out plans to reform land ownership, mineral reserve rights, business regulations, etc., to improve efficiency of the utilization of natural resources. In its sectoral and structural focus, the NGP is comprehensive in what can be done. Although Finance Minister Pravin Gordan's National Budget Speech<sup>10</sup> in February 2012 highlights that priority programs required for implementing the NGP are funded, it fails to address how this can be achieved given the fiscal implications of such a huge public investment underlying the NGP. Particularly intriguing is the lack of a clear export promotion strategy, which seems a natural source of sustained growth for South Africa; labor market reforms to reduce persistent high unemployment; and industrial policy to improve the country's competitiveness in the global economy.

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

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<sup>1</sup> The findings, interpretations, and conclusions expressed in this chapter reflect the opinions of the authors and not those of the African Development Bank, its Board of Directors, or the countries they represent.

<sup>2</sup> This is close to what is popularly known as the Washington Consensus. Williamson (1989) first used the term "Washington Consensus" to describe the reform package based on private sector development, trade, and financial liberalization and market deregulation that the World Bank and the International Monetary Fund imposed on developing countries as a precondition to receive aid. It has since become synonymous with neo-liberalism.

<sup>3</sup> Details of the RDP can be found at [http://www.africa.upenn.edu/Govern\\_Political/ANC\\_Recon.html](http://www.africa.upenn.edu/Govern_Political/ANC_Recon.html) (accessed February 17, 2013).

<sup>4</sup> For further details on why and how the RDP was switched to the GEAR, see Kotzé (2000).

<sup>5</sup> This target of six percent growth in GDP was finally reached in 2006.

<sup>6</sup> The report is available online at <http://www.kznhealth.gov.za/TED/commission.pdf> (accessed February 17, 2013).

<sup>7</sup> Easterly (2005), Fischer (2003), Kanbur (2001), Krugman (1990), and Rodrik (2006a) have extensively discussed the basic precepts of the neo-liberal theory.

<sup>8</sup> Employment intensity of growth or elasticity of employment with respect to growth measures the rate of change in employment per one percent growth in a country's GDP.

<sup>9</sup> COSATU's response is available online at <http://images.businessday.co.za/Cosatu.pdf> (accessed February 17, 2013).

<sup>10</sup> Pravin Gordhan's speech is available online at <http://dchetty.co.za/2012/02/south-african-national-budget-speech-2012-by-pravin-gordhan/> (accessed February 17, 2013).

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