E7 Workshop – Renmin University
Draft Report from South Africa

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E7 Development Report: SOUTH AFRICA (draft)
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racial-apartheid ‘Swiss cheese’ geography of white (and ‘Indian’ and ‘coloured’) areas, with bantustans for rural black Africans
class-apartheid ‘Swiss cheese’ geography of formerly white areas and former bantustans: correlation of bantustans to current poverty and state service shortages
so what was apartheid?

half-century of SA political-economic theory: ‘race-class debate’ and underdevelopment

- liberal-modernisationist (pro-market), 1960-90s
- ‘colonialism of a special type’, 1960s-90s
- ‘articulations of modes of production’, 1970s
- ‘fractions of capital’, late 1970s
- ‘racial capitalism’, early 1980s
- social history, 1980s
- ‘Regulation Theory’, late 1980s
- ‘Minerals-Energy Complex’, mid-1990s
- ‘developmental state’, early 2000s
- uneven and combined development (2000s)
historical poli-econ periodisation with tensions between national-global and production-finance

- battle over colonial control from the first settlers in 1652 through 1804;
  - early capitalist crises of the 1810s-60s;
- the turbulent emergence of the financial-mining nexus during the 1870s-80s;
  - massive centralisation of financial and mining capital during the 1880s;
- the relation between financial speculation and politics during the 1890s-1900s;
  - the reassertion of local control during the 1910s;
- financial restructuring of local economic geography during the 1910s-20s;
  - international financial collapse during the 1930s;
  - the gold-based recovery of the 1930s-40s;
- the rise of Afrikaner finance during the 1930s-50s;
  - the financing of post-war development; and
  - the contemporary rise of finance
Deglobalisation:
growth of infant industries
during Great Depression

Globalisation and world stagnation

20th c. South African growth/decline
Great Depression (1929-32 in SA)

A semi-Keynesian state

SA’s longest-ever depression, 1989-93
SA currency strength, financial liberalisation, 1995

Apartheid debt crisis, 1985
stagnation in world GDP growth, 1960s-2000s

World GDP per capita growth, 1961-2003 (annual change in per cent)

deep-rooted capitalist stagnation due to ‘overaccumulation crisis’ (and then 1985 banking crisis) finally responsible for late 1980s break between white Johannesburg capital and racist Pretoria government

Source: Nicoli Nattrass, Transformation 1989
pre-1994 roots of neoliberalism: unilateral late-apartheid regime shift

1) *sanctions* bite English-speaking business, 1985;
2) F.W. DeKlerk transferred power *from* ‘securocrats’ *to* ‘econocrats’ by 1989;
3) *inward-oriented* siege economy – state investments, border industrial zones, subsidies, low interest rates – phased out, late 1990s;
4) *IMF* macroeconomic advice adopted, 1989;
5) longest *depression* in SA history, 1989-93;
6) *Iscor* (state iron company) privatised, 1989;
7) *Value Added Tax* installed, 1991;
8) *Normative Economic Model* adopted, 1993;
1990-94 roots of neoliberalism: African National Congress technocrats co-opted

1) more than a dozen World Bank ‘reconnaissance missions’ (‘Knowledge Bank’) from 1990-94 in all sectoral areas (ANC made radical Mass Democratic Movement allies cooperate);

2) ANC allowed intermediary agencies like Anglo American Corporation’s Urban Foundation thinktank and the Development Bank of Southern Africa to play crucial role in shaping transition in hotly contested fields like housing, water, energy, land, healthcare and education;

3) October 1993 agreement to repay apartheid debt - $25 billion in foreign loans from commercial banks, and somewhat more domestically – prevented subsequent ANC government from social spending;
1990-94 roots of neoliberalism

4) **Interim Constitution** in November 1993 assured property rights and ‘independent’ Reserve Bank (i.e. banker-biased, democracy-insulated);

5) **International Monetary Fund** set the stage for other neoliberal economic policies – e.g. public sector wage and spending cuts – as condition for December 1993 $850 mn loan;

6) IMF manager Michel Camdessus told Nelson Mandela to reappoint apartheid-era finance minister (Derek Keys) and central bank governor (Chris Stals).
**post-apartheid neoliberal consolidation**

1) General Agreement on Tariffs and Trade (soon became the [World Trade Organisation](https://www.wto.org)) hit South Africa hard in mid-1994, as fast-declining manufacturing protection reversed the anticipated gains of liberation for workers;

2) in early 1995, dissolution of the dual exchange rate system (a ‘financial rand’ used to deter international capital flight during the prior decade) and encouragement of stock market investment by international finance meant a huge inflow;

3) then, on five separate occasions in the subsequent fifteen years, dramatic outflows and currency crashes of at least 25%;

4) first of these runs, in February 1996, followed a rumour (unfounded) that Mandela was ill, and left the president and his team so psychologically shaken that they ditched their last left vestige, the Reconstruction and Development Programme ministry, and within four months imposed macroeconomic ‘Growth, Employment and Redistribution’ neoliberal policies.
Labour force participation rate low
Source: International Monetary Fund Article 4 Consultation, Staff Report, September 2009

![Graph showing labor force participation rate for various countries in 2007.](image)

Sources: World Bank, World Development Indicators; and Statistics South Africa.

1/ For South Africa, data represents 2009Q1.
protest - from racial apartheid...

a scene from Soweto, 1976
... to class apartheid

a few kms from Soweto, a scene from Riverlea, next to Soccer City, October 2009
ubiquitous ‘service delivery protests’
SA’s recent growth was driven to too great an extent by unsustainable growth in consumption, fuelled by credit extension. Between 1994 and 2008 consumption driven sectors grew by 7.7% annually, compared with the productive sectors of the economy which grew by only 2.9% annually. This has meant that even at the peak of our average annual growth - 5.1% between 2005 and 2007 - unemployment did not fall below 22.8%. Manufacturing – which constitutes a sizeable chunk of our value added production – has not enjoyed sufficient dynamism. This is mainly because the relative profitability of manufacturing has been low as a result of a number of factors.
• These include:
  · A volatile and insufficiently competitive currency;
  · The high cost of capital relative to our main trading partners; particularly that channeled towards value-added sectors such as manufacturing, resulting in a too limited allocation of capital to these sectors;
  · The monopolistic provision and pricing of key inputs into manufacturing;
  · An aged, unreliable and expensive infrastructure system;
  · A weak skills system; and
  · The failure to adequately leverage public capital and other large and repetitive areas of public expenditure.

• The negative, unintended consequences of this growth path are manifold they include large and unsustainable imbalances in the economy, continued high levels of unemployment and a large current account deficit. These weaknesses have been exacerbated by the global recession. Taken together these challenges are enormous.
in defence of ANC rule

• “developmental state is now under construction, combining increased welfare spending (child grants and pensions) with smart industrial projects and a major increase in state infrastructure investment”;
• “social democratic ideology of ruling party includes critique of SA big business and 'global apartheid’”;
• “with Zuma victory at Polokwane and power of Cosatu-SACP-ANCYL-ANCWL bloc, a turn to the left can be expected – with nationalisation, looser monetary policy and serious industrial policy on the agenda, and worker-leaders appointed to cabinet”
results of neoliberalism

- society became much more unequal, with the Gini coefficient up from an extremely high 0.60 in 1994 to 0.72 in 2006;
- unemployment doubled to a rate around 40% (if those who have given up looking for work are counted, around 25% otherwise);
- state delivery of houses, water/sanitation, electricity, healthcare and education are considered either inferior or more expensive than during apartheid;
- a ‘general decline in the state of the environment’ since 1994, according to the leading state regulatory official following a 2006 ecological audit;
results of neoliberalism

• to finance state infrastructure spending and steady tax cuts for corporations (down from a rate of nearly 50% in 1994 to less than 30% today), Manuel engineered a parasitical growth process that looks impressive at surface level – a 5 percent GDP increase for much of the 2000s – but isn’t;
• GDP growth fails to incorporate the depletion of non-renewable resources, and if such calculation is adjusted, SA would have a net negative per person rate of national wealth accumulation, according to even the World Bank;
• most profitable sectors of the SA economy, as everywhere, have been finance, insurance and real estate, as well as communications and commerce, due to speculative and trade-related activity associated with late neoliberalism;
• labour-intensive sectors such as textiles, footwear and gold mining shrunk by 1-5% per year, and overall, manufacturing as a percentage of GDP also declined;
• private gross fixed capital formation was a meager 15-17 percent from 1994-2004.
The root cause of crisis and neoliberalism:

- SA’s sustained overaccumulation problem in existing (highly-monopolised) industry, with manufacturing capacity utilization down to the high 70s percentage range during the early 2000s;
- Instead of funding new plant and equipment in this environment, corporate profits were redirected into speculative real estate and the Johannesburg Stock Exchange: there was a 50% increase in share prices during the first half of the 2000s, and the property boom which began in 1999 had by 2007 sent house prices up by a world record 400% (in comparison to just 100% in the US market prior to the burst bubble and 200% in second-place Ireland);
- Free-market macroeconomic and microdevelopment policies logically accompanied these structural shifts.
‘Developmental state’ to the rescue?

- **Coega** industrial complex aimed at attracting persistently elusive aluminium smelter (by early 2008 electricity shortages made this unlikely as it would add 3.5 percent demand to the stressed grid while creating only 800 jobs), perhaps anchored by PetroSA R80 bn oil refinery;
- **Lesotho Highlands Water Project** mega-dams which permit hedonistic water consumption in Johannesburg while raising prices for townships;
- several bloated soccer stadiums for 2010 Soccer World Cup;
- R50(?) billion arms deal;
- more than R1 trillion on nuclear and coal-fired power plants notwithstanding danger of nukes (loose bolt – ‘sabotage’ said Erwin – at Koeberg) and SA’s world-leading CO2 emissions rate; and
- **Gautrain** R20 billion fast rail network allowing wealthy travelers easy albeit expensive access between Johannesburg, Pretoria and the OR Tambo airport;
- new Durban airport, Dube Trade Port, dug-out port and doubling of Durban-Joburg petrol pipeline (R150 bn).
Currency volatility
Source: Stephen Gelb, Edge Institute

Mid-1980s near-revolution

Post-apartheid macroeconomic ‘stability’

Liberation
Five currency crashes, 1996-2008

Source: I-Net Bridge
Interest rate reactions

Highest ‘real’ rate in SA’s modern history

Removal of financial rand exchange controls, March 1995
Figure 6.1: Cost of Capital: Long-Term Real Interest Rates in South Africa and our Main Trading Partners, February 2011

Source: The Economist.
SA banking profits amongst world’s highest (return on equity, 1996-2005)

Source: ABSA Bank testimony to Competition Commission
During 2006-08, SA bank lending soared from 100-135% of GDP

Source: SA Reserve Bank
SA economy driven by consumers, in turn driven by credit surge

Source: IMF
Inequality indices worsen, 1993-2006
Both Theil and Gini measures rose

<table>
<thead>
<tr>
<th>Year</th>
<th>Gini coefficient</th>
<th>Theil: total value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>0.672</td>
<td>0.899</td>
</tr>
<tr>
<td>1994</td>
<td>0.665</td>
<td>0.880</td>
</tr>
<tr>
<td>1995</td>
<td>0.674</td>
<td>0.899</td>
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<tr>
<td>1996</td>
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<tr>
<td>1997</td>
<td>0.674</td>
<td>0.906</td>
</tr>
<tr>
<td>1998</td>
<td>0.683</td>
<td>0.937</td>
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<tr>
<td>1999</td>
<td>0.685</td>
<td>0.938</td>
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<tr>
<td>2000</td>
<td>0.682</td>
<td>0.935</td>
</tr>
<tr>
<td>2001</td>
<td>0.685</td>
<td>0.937</td>
</tr>
<tr>
<td>2002</td>
<td>0.670</td>
<td>0.921</td>
</tr>
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<td>2003</td>
<td>0.686</td>
<td>1.013</td>
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<tr>
<td>2004</td>
<td>0.678</td>
<td>0.967</td>
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<tr>
<td>2005</td>
<td>0.683</td>
<td>1.012</td>
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<tr>
<td>2006</td>
<td>0.685</td>
<td>1.030</td>
</tr>
</tbody>
</table>
## Comparative inequality: SA #1

Source: International Monetary Fund Article 4 Consultation, Staff Report, September 2009

### Income Distribution, latest year

<table>
<thead>
<tr>
<th>Gini Index 1/</th>
<th>Share of Income Held By:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Top 20 %</td>
<td>Bottom 20 %</td>
</tr>
<tr>
<td>South Africa</td>
<td>58</td>
<td>62.7</td>
</tr>
<tr>
<td>Brazil</td>
<td>55</td>
<td>60.8</td>
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<tr>
<td>Chile</td>
<td>52</td>
<td>60.0</td>
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<tr>
<td>Argentina</td>
<td>50</td>
<td>55.4</td>
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<tr>
<td>Mexico</td>
<td>48</td>
<td>53.3</td>
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<tr>
<td>China</td>
<td>42</td>
<td>51.9</td>
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<tr>
<td>Indonesia</td>
<td>39</td>
<td>47.3</td>
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<tr>
<td>India</td>
<td>37</td>
<td>45.3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>36</td>
<td>44.0</td>
</tr>
<tr>
<td>Australia</td>
<td>35</td>
<td>41.3</td>
</tr>
<tr>
<td>Korea</td>
<td>32</td>
<td>37.5</td>
</tr>
</tbody>
</table>

Source: World Bank, World Development Indicators.

1/ A measure of distribution of income or consumption, where 0 represents perfect equality and 100 represents perfect inequality.
Consumer debt reaches unprecedented heights

Source: SA Treasury
But credit card and home mortgage bond ‘non-performing loans’ soared since 2007

Source: IMF Executive Board Article IV Consultation, October 2008
Doubling of default rates during 2008, from less than 30% of net interest income to over 50%.

Source: SARB
Non-performing loans* in selected emerging-market countries

Percentage of total gross loans and advances

- Brazil
- Chile
- Czech Republic
- Hungary
- India
- Indonesia
- Malaysia
- Mexico
- Russia
- Philippines
- Turkey
- South Africa

Fourth quarter of 2010

Source: International Monetary Fund, Financial Soundness Indicators

* Definitions of asset quality in loan portfolios may vary across countries
World’s biggest property bubble: 389% increase, 1997-2008
Responsible for construction and finance (motor of economy, jobs)

The Economist’s house-price indicators
% change

<table>
<thead>
<tr>
<th>Country</th>
<th>Latest</th>
<th>Q4 2007</th>
<th>1997 on a year earlier</th>
<th>2008</th>
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</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>3.7</td>
<td>2.0</td>
<td>24</td>
<td></td>
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<tr>
<td>Italy</td>
<td>1.1</td>
<td>5.1</td>
<td>104</td>
<td></td>
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<tr>
<td>France</td>
<td>0.8</td>
<td>5.7</td>
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<tr>
<td>China</td>
<td>-0.9</td>
<td>10.2</td>
<td>na</td>
<td></td>
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<td>-1.3</td>
<td>12.2</td>
<td><strong>389</strong></td>
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<td>Sweden</td>
<td>-1.6</td>
<td>11.3</td>
<td>145</td>
<td></td>
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<tr>
<td>Japan</td>
<td>-1.8</td>
<td>-2.8</td>
<td>-33</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>-1.9</td>
<td>5.9</td>
<td>66</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>-2.5</td>
<td>-4.2</td>
<td>na</td>
<td></td>
</tr>
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<td>Spain</td>
<td>-3.2</td>
<td>4.8</td>
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<td>Australia</td>
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<td>14.0</td>
<td>163</td>
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<td>United States (OFHEO)</td>
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<td>0.6</td>
<td>84</td>
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<td>Singapore</td>
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<td>31.2</td>
<td>na</td>
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<td>Denmark</td>
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<td>119</td>
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<tr>
<td>Netherlands</td>
<td>-5.2</td>
<td>2.8</td>
<td>90</td>
<td></td>
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<tr>
<td>New Zealand</td>
<td>-8.9</td>
<td>8.0</td>
<td>102</td>
<td></td>
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<tr>
<td>Ireland</td>
<td>-9.8</td>
<td>-6.0</td>
<td>193</td>
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</tr>
<tr>
<td>Hong Kong</td>
<td>-14.0</td>
<td>21.4</td>
<td>-35</td>
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<tr>
<td>Britain</td>
<td>-17.6</td>
<td>7.1</td>
<td>150</td>
<td></td>
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<tr>
<td>United States (Case-Shiller national index)</td>
<td>-18.2</td>
<td>-8.7</td>
<td>66</td>
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<tr>
<td>United States (Case-Shiller ten-city index)</td>
<td>-19.2</td>
<td>-8.3</td>
<td>102</td>
<td></td>
</tr>
</tbody>
</table>

Index (2001 = 100)

Annual % change between Q1 2008 and Q1 2009

Construction 1.3%
Finance 3.5%
Trade -4.9%
Manufacturing -5.3%
Mining 0%
Investment reactions: **capital strike**

Anglo American, DeBeers, Old Mutual, SA Breweries, Didata (following Gencor, Liberty Life)

SA’s biggest firms moved offshore, many after getting permission by Trevor Manuel to relist financial hq on London Stock Exchange

Source: South African Reserve Bank
Key factor: **overproduction**  
(proxy: manufacturing capacity utilisation)
Belated fixed investment rise: state megaprojects (e.g. stadia, Gautrain, Medupi, Coega, SAA, arms) – but domestic savings don’t keep up

Source: SA Treasury
Hence the need to attract more foreign savings, making SA vulnerable to rapid swings, leading in turn to dramatic increases in foreign debt.
Rapid rise in SA foreign debt, 2000s
Current account deficit out of control

South African Current Account Balance, US$

Source: IMF
Current account deficit mainly due to dividend/profit/interest outflows
With high interest rates and high currency, current account deficit now getting serious (emerging markets current account/GDP)

Source: IMF Article 4 Consultation, 8/07
## World’s most risky emerging market

<table>
<thead>
<tr>
<th>Country</th>
<th>Current-account as % of GDP*</th>
<th>Short-term debt as % of reserves*</th>
<th>Banks’ loan/deposit ratio</th>
<th>Overall risk ranking†</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>-10.4</td>
<td>81</td>
<td>1.09</td>
<td>17</td>
</tr>
<tr>
<td>Hungary</td>
<td>-4.3</td>
<td>79</td>
<td>1.30</td>
<td>16</td>
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<tr>
<td>Poland</td>
<td>-8.0</td>
<td>38</td>
<td>1.03</td>
<td>14 =</td>
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<td>South Korea</td>
<td>1.3</td>
<td>102</td>
<td>1.30</td>
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<tr>
<td>Mexico</td>
<td>-2.5</td>
<td>39</td>
<td>0.93</td>
<td>12 =</td>
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<tr>
<td>Pakistan</td>
<td>-7.8</td>
<td>27</td>
<td>0.99</td>
<td>12 =</td>
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<tr>
<td>Brazil</td>
<td>-1.5</td>
<td>22</td>
<td>1.36</td>
<td>10 =</td>
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<tr>
<td>Turkey</td>
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<td>70</td>
<td>0.83</td>
<td>10 =</td>
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<tr>
<td>Russia</td>
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<td>28</td>
<td>1.51</td>
<td>9</td>
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<tr>
<td>Argentina</td>
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<td>Venezuela</td>
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<td>Thailand</td>
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<td>India</td>
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<td>Taiwan</td>
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<td>7</td>
<td>0.68</td>
<td>1</td>
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</tbody>
</table>

Sources: HSBC: Economist Intelligence Unit  
*2009 forecast  †Higher scores imply greater risk