

Money

■ **GET A QUOTE:**

■ [DJIA 12,133.80](#) ▼ -29

South African government tries to unlock economy

Updated 10/27/2006 4:00 AM ET [E-mail](#) | [Save](#) | [Print](#) | [Reprints & Permissions](#) | [Subscribe to stories like this](#) **RSS**

By David J. Lynch, USA TODAY

SOUTH AFRICA FACTS

Size: 470,693 sq. miles (slightly less than twice the size of Texas)
Population: 46.9 million
Government: Republic
Capital: Pretoria
GDP per capita: \$5,099 (U.S. dollars)
Labor force: 15.2 million
Labor force by occupation: Agriculture, 30%; industry, 25%; services, 45%
Unemployment rate: 26.6%
Population below poverty line: 50%
GDP (official exchange rate): \$187.3 billion
Main exports: Gold, diamonds metals, minerals, cars, machinery

Sources: World Bank; CIA World Factbook; BBC; Statistics South Africa

JOHANNESBURG, South Africa — More than a dozen years after the demise of South Africa's apartheid regime, one out of every four workers is officially unemployed. Including those who've given up looking for work, the country's jobless rate is a staggering 40%.

Fearing that such persistently high joblessness threatens the stability of this multiracial African democracy, the government wants to rev up its slow-growing economy. The goal is to achieve an annual growth rate of 6% by 2014, double the average figure for the first decade of democratic rule, by eradicating a handful of "binding constraints." Priorities include improving substandard education, accumulating foreign exchange reserves, and spending \$49 billion over three years on new roads, ports and power plants.

Such robust growth would represent a big improvement for South Africa, but it would pale alongside the performance of fast-growing developing countries such as India or Vietnam. South Africa's ambitions also remain in the notable shadow of China, which over the past two decades has averaged 9.5% annual growth while lifting tens of millions of people from poverty.

STORY: [AIDS could have bigger growth effect](#)

"I went to China last year; I was completely blown away," says Alan Hirsch, an adviser to President Thabo Mbeki and the architect of South Africa's new economic plan. "It's a very different system than ours. (But) when they decide to do something, they do it."

South Africa has made enormous strides since vanquishing race-based rule in 1994. It inherited from apartheid a pair of conjoined economies: a small first-world oasis of about 4 million whites and a

Related Advertising Links

What's this?

Trade Online as Low as \$6.95
www.usaa.com

Winning Stock Pick
pennystock.net

Top Energy Stocks
www.topenergystocks.com

Advertisement

Get Good on the Nokia E62.

click here.

Good

What's this?

Real estate

Real solutions for your real estate needs.

Choose from the selections below:

The South African government wants to sharply increase economic growth by eliminating a handful of "binding constraints" such as:

- **Currency volatility.** The rand has suffered five shocks since 1994.
- **Inadequate infrastructure.** Roads, ports and power generation that functioned well for an apartheid economy of a few million whites are inadequate for an economy that fully includes the majority black population.
- **Lack of skilled labor.** Eighty percent of schools are substandard, leaving blacks ill-prepared for the workforce.
- **Need to boost tourism and outsourcing industries.** Relying on traditional mining won't provide enough good jobs, meaning new service-sector opportunities must be found.
- **Inadequate small-business development.** A few big companies dominated the apartheid-era economy.
- **Need to upgrade government capacity.** Workers often have their first jobs in public agencies. Top performers are siphoned off by private companies.

deeply poor and deprived backwater for 40 million blacks. Strict race laws had prevented blacks from owning businesses, living outside designated areas or even having a telephone.

"White people had a GDP like Canada. Black people had a GDP like the Congo," says consultant Duma Gqubule.

Since apartheid's negotiated end, a sizable black middle class has emerged, acquiring new cars and patronizing upscale malls and restaurants in northern Johannesburg's suburban enclave of Sandton. In central Gauteng province, the heart of South Africa's economy, monthly new car sales of about 21,000 this year are almost double those of four years ago.

No one wants to trade this young democracy, whatever its inefficiencies, for Chinese authoritarianism. With a per-capita income of more than \$5,000, the average South African is wealthier than the typical Chinese.

Yet South Africa's new formula for goosing the economy, developed with the aid of Harvard University economists, only illustrates the development challenge for countries that lack

China's strengths: a stable currency, low-cost export factories, rivers of foreign investment and a decisive, unified government.

On each count, South Africa has been unable to match the Chinese. Its currency, the rand, has traveled a roller coaster through five separate shocks in 12 years. Apart from minerals, it has few exports of any consequence. And while the government has avoided the free-spending trap and rampant corruption so common elsewhere in Africa, it lacks a coherent strategy for capitalizing on globalization.

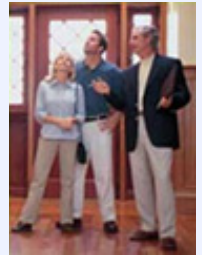
'Clearly, we're way behind'

As public impatience with chronic unemployment mounts, South Africa's inability to attract foreign investment looms as a particular shortcoming. Funds from outside the country accounted for just 2.3% of capital formation in 2004 vs. 8% in China and 15.3% in Brazil. Even last year, when its figures improved sharply because of a large corporate acquisition, South Africa ranked 103 out of 141 countries on its ability to attract foreign direct investment, according to a United Nations scorecard.

"Clearly, we're way behind a lot of countries: certainly China, Brazil, the oil-exporting countries" in outside investment, says Hirsch. "We need more of it."

Still, South Africa's relative stability and prosperity, measured against the rest of the African continent, has made it a magnet for portfolio investment from abroad. All 94 U.S.-based emerging markets mutual funds have stakes in

- **Customized financial solutions**
- **Search properties nationwide**
- **Full service relocation assistance**
- **Apartments for rent in your area**
- **Home improvement options**



[Click here to begin](#)

powered by 

Financing Options:

Need help financing or refinancing a home?

[Click here](#)

South African companies, according to Todd Moss, senior fellow at the Center for Global Development in Washington, D.C. "If you're in emerging markets, you have to be in South Africa," Moss said.

Net foreign investment on the Johannesburg Stock Exchange reached an all-time high this summer. Among the homegrown corporations with sizable foreign ownership is energy producer Sasol, one-third owned by foreigners, according to CEO Patrick Davies.

As Asia's economies discovered during that region's 1997 financial crisis, however, portfolio investment can exit a country as fast as it enters. Investment in tangible assets such as factories and machinery is less fickle; plus, foreign executives involved in building plants often bring more than cash. Foreign direct investment (FDI) also helps developing countries by transferring advanced technologies and first-world management skills.

"The importance of FDI is when it helps to promote a country's broader efficiency," says Stephen Gelb, executive director of The Edge Institute, a non-profit economic policy center in Johannesburg.

Perceptions of political risk may explain some of South Africa's poor showing, which lags behind even the African average. The country's ruling African National Congress surprised detractors by pursuing pro-market policies after winning power in South Africa's maiden democratic election in 1994. Nelson Mandela, elected president that year, inherited a budget deficit of more than 9% of GDP. Today, after years of shrewd management, public sector red ink has shrunk to just 0.3% of the economy. In the United States, it's 3.2% of GDP.

Foreign observers were slow to acknowledge that the new rulers weren't succumbing to pressures for massive redistribution of wealth from whites who had benefited from apartheid to blacks who had been locked out of economic power. Yet today, there is renewed controversy over the pace of what the government calls "black economic empowerment" and the transfer of land from white landowners to black would-be farmers.

As the ANC prepares to select next year a new party leader, who would be virtually certain to succeed Mbeki in 2009 as the country's president, powerful voices within the governing coalition are pushing for more focus on spreading the wealth to the black masses. The trade union federation COSATU and the small Communist Party are using the leadership battle to advocate greater social spending and faster progress on distributing economic gains to blacks, who make up more than 80% of the country's 46.9 million people.

COSATU, which claims 2 million members, also is resisting calls for the relaxation of labor laws that business leaders say unintentionally keep unemployment high. Employers say they are reluctant to hire new workers because it can be difficult and time-consuming to fire those who don't perform. To avoid involvement in often-protracted labor arbitration proceedings, Murray & Roberts, a giant engineering and construction firm, has subcontracted much of its hiring to labor brokers, says CEO Brian Bruce.

"You can't plan for an unemployment figure below 15% for a long time," says Bruce. "So we've just got to work out what it means to be in a growing economic environment with such a high unemployment rate."

More than a decade

It's been more than a decade since apartheid's historic collapse, more than a decade since Mandela completed his remarkable journey from prison to presidency. Yet, South Africa continues to struggle daily with the tangible legacy of generations of race-based rule. Vexing social problems, such as a recent surge in violent crime and the toll taken by one of the world's worst AIDS epidemics, spill over into the economic realm. Life expectancy at birth, about 47 years, is lower than in impoverished Bangladesh or chronically chaotic Haiti.

With blacks now full participants in South African life, it's apparent that the country has simply outgrown its physical limits. As the miles of vehicles crawling between Johannesburg and Pretoria attest, the road network that once adequately served a few million whites is no match for an ever-increasing number of black drivers.

The government has far-reaching plans to address its infrastructure shortcomings with new roads and a high-speed inter-city train, which are supposed to be ready in time for the 2010 soccer World Cup here. New roads. Labor reform. Better-trained workers. It's a daunting to-do list and one that some doubt the government can accomplish simultaneously.

"One of the dilemmas government faces is this is a country with really two economies: a first-world economy and a developing-world economy," says Solomon Ngubane, an official in the government communications ministry. "The question is: Where do you prioritize?"

Posted 10/27/2006 1:01 AM ET

Updated 10/27/2006 4:00 AM ET E-mail | Save | Print | Reprints & Permissions | Subscribe to stories like this 

Related Advertising Links

[What's this?](#)

Trade Online as Low as \$6.95
Get \$6.95 online trades.
Plus, apply online and get 25 free trades.
www.usaa.com

Winning Stock Pick
1,000% gains possible right now!
Early investors profit the most.
pennystock.net

Top Energy Stocks
Fast moving oil and gas stocks with huge potential. Free newsletter.
www.topenergystocks.com

Place your ad here

Advertisement

Newspaper Home Delivery - Subscribe Today

[Home](#) • [News](#) • [Travel](#) • [Money](#) • [Sports](#) • [Life](#) • [Tech](#) • [Weather](#)

About USA TODAY.com: [Site Map](#) | [FAQ](#) | [Contact Us](#) | [Jobs with Us](#)
[Terms of Service](#) | [Privacy Policy/Your California Privacy Right](#) | [Media Kit](#) | [Press Room](#)