



15/9/2004

## South Africa's Second Decade

Article written by FW de Klerk and published in the Wall Street Journal.

Some observers believe that the critical period for emergent democracies is not their first decade – but the ten years that follow. If this is so, what are the prospects for South Africa during its second decade?

South Africa's first ten years were marked by some remarkable successes. Apart from consolidating democracy, the ANC government implemented sound economic policies that have reduced inflation and interest rates to the lowest figures in more than two decades. South Africa has recorded ten years of uninterrupted economic growth – averaging about three per cent per annum. This is not the 5% – 7% that it needs to address its social problems, but it is by no means a bad performance during a period of global volatility and uncertainty. South Africa has also proved that it can compete effectively in global markets. During the past ten years it has increased its manufactured exports from 36% to 58% of the total. The country now earns more from the export of excellently built BMWs, Mercedes and Volkswagens than it does from gold. Its tourist industry is booming: its game parks, beaches, and mountains have become increasingly attractive destinations for visitors from all over the world.

Despite all this there are a number of serious concerns for the country's second decade.

The first of these is AIDS. The disease has already reduced life expectation from 63 years in 1990 to only 47 years now. Within the next ten years more than 5 million South Africans will die of AIDS and leave behind them some two million orphans.

Apart from – and perhaps linked to – AIDS is poverty and inequality.

Ironically, under the traditionally socialist African National Congress South Africa has become an even less equal society than it was ten years ago. Since 1995 the GINI

coefficient (which measures inequality in societies where 0 is absolute equality and 1 is absolute inequality) has risen from 0.6 to 0.63. There is an increasing cleavage between its emerging multiracial middle class and unionised labour elite on the one hand and a growing poor and unemployed black underclass on the other. Although the government has built more than a million new houses; although it has increased welfare allowances to children and pensioners, almost half the population – most of them black – now lives below the poverty line. The prime reason for poverty is unemployment which has increased among black South Africans from 36.2% in 1995 to 46.6% in 2002. The roots of unemployment are complex: they include retrenchments necessitated by cutthroat competition in globalised markets; the lack of skilled workers and managers; and sluggish domestic and foreign investment. However, a central cause is undoubtedly the government's rigid labour laws that have driven the cost of labour well above that of South Africa's competitors in other emerging economies.

The other half of the population has prospered. Strong and vocal trade unions have effectively protected the interests of their members – only 2% of whom live beneath the poverty line. The middle class has grown rapidly as black South Africans have moved into middle and senior posts in government and in the private sector. According to one estimate the middle class now comprises more than 7.5 million South Africans (about 17% of the population). This number includes 3.5 million black South Africans (10% of the black population); 3.25 million whites (60% of the white population); half a million coloureds – people of mixed origin (15% of the coloured population); and a quarter of a million are Indians (25% of the Indian population).

The Government is acutely aware of the threat posed by poverty and inequality – and particularly by the continuing highly visible inequality between black and white South Africans. Despite quite impressive black advances spurred by affirmative action, whites still hold most of the best jobs in the private sector and own most of the assets – including 80% of the country's farmland and more than 65% of the equity on the Johannesburg Securities Exchange (blacks own less than 5% and the rest is owned by foreign interests, including former South African companies that have listed overseas since 1994).

South Africa's second decade is therefore destined to be dominated by the ANC government's efforts to address the continuing inequality between black and white South

Africans primarily through its black economic empowerment programmes. It has set ambitious targets for black ownership of land and equity and for more equitable black representation at all levels of management in the private and public sectors. The success of this process will, in turn, be determined by the following factors:

- Firstly, South Africa needs *real* transformation that will, within the next ten years, substantially address the needs of the poorest South Africans – rather than further enrich the country's emerging black elite and middle class. In particular, the government must eliminate all remaining barriers to job creation by relaxing its own rigid labour approach.
- Secondly, transformation must take place within the framework of the basic rules governing the globalised economy. The government is fully aware of the need to maintain property rights, economic freedoms and basic standards of administration and management.
- Thirdly, transformation must be implemented in such a manner that it does not undermine national unity or lead to inter-community friction. South Africa's constitutional transformation worked well precisely because it was the result of negotiations and compromises between parties that represented the great majority black and white South Africans. However, whites have not been sufficiently consulted with regard to the principles underlying black economic empowerment and feel increasingly alienated.

South Africans need to talk to one another about the challenges of the second decade, just as they did fourteen years ago when they reached agreement on their new democracy. The stakes are very high. The country's ability to reach a balanced national consensus on transformation will be a key factor in achieving success during the next ten years – and in determining whether South Africa will succeed in realising President Mbeki's dream of becoming the first African country to join the ranks of the first world. ♣

*This article was originally published in the Wall Street Journal on 15 September 2004.*