FRIEDRICH EBERT STIFTUNG

Dialogue on Globalization

THE ROLE OF THE STATE IN ECONOMIC DEVELOPMENT IN SOUTHERN AFRICA

by

Pundy Pillay

March 2002

Lusaka, Zambia

Friedrich-Ebert-Stiftung
Department for Development Policy
- Dialogue on Globalization -
Hiroshimastr. 17
10785 Berlin
Tel.:0049-30-26936-914
Fax: 0049-30-26935-959
Roswitha.Kiewitt@fes.de
www.fes.de/globalization

The opinions expressed in this paper do not necessarily reflect the views of the Friedrich-Ebert- Stiftung or the organisations for which the author works.

02/04/03 17:26

1. INTRODUCTION: STRUCTURAL ADJUSTMENT PROGRAMMES, FREE MARKETS AND UNDERDEVELOPMENT IN SOUTHERN AFRICA

At the beginning of the 21st century the task of re-examining the role of the state in economic development is becoming increasingly important for African policymakers because most countries have undergone some form of either externally imposed or self-imposed Structural Adjustment. The Structural Adjustment Programmes (SAPs) have, however, had different outcomes in the different countries but none has succeeded in alleviating poverty and stimulating sustained development. In general however, SAPs have discouraged the state from playing a developmental role, because of a misconception that government should not have any role in the economy other than the regulation of economic activities and the enforcement of law and order. In the light of the widespread poverty, and the high levels of unemployment and income inequality in most African countries in general and in Southern African in particular, it is clear that the state must have a significant role in economic development.

During the 1990s there was a widespread expectation in both industrialized and developing countries that the adoption of laissez-faire capitalism characterized by the liberalization of economic activity together with the globalisation of production systems and of finance would stimulate economic growth, reduce poverty and promote diminishing income disparities within and between countries within the global economy.

For many poor countries in sub-Saharan Africa and elsewhere the prospect that the removal of legal and political obstacles to trade and capital movements would lead to accelerated growth and income convergence with the richer countries was particularly inviting. So during the early 1990s and since then, there has been an accelerating process of economic liberalization in many developing countries. However, overall progress in increasing real incomes, reducing poverty and income inequality and moving towards various international targets for human and social development has been disappointingly slow, except for a few of them.

As part of this liberalization strategy, many of the countries in the Southern African region adopted 'Washington consensus'-type economic policies characterised by unfettered product and labour markets with the state playing a minimal role in economic development. In some countries (e.g. Mozambique and Zambia) Structural Adjustment Programmes (SAPs) were imposed by the multi-lateral agencies, the International Monetary Fund (IMF) and the World Bank, as a non-negotiable condition for the granting of loans. In others (e.g. South Africa) conservative economic policies were self-imposed in the belief that such policies were the only route to attracting substantial foreign direct investment to stimulate economic growth and development. In many of these countries the state appeared to have almost entirely abdicated its role in economic growth and development.

However, it is becoming increasingly evident that the type of capitalism that has been adopted in these countries, that is, a capitalism in which a philosophy of market fundamentalism is dominant and one which is not moderated by the state to any significant extent, is failing to produce the expected outcomes with respect to any of the economic, human and social development targets.

The countries of the Southern African region in general are in an exceptionally poor state with respect to most of these human, economic and social indicators. According to the African Development Bank's classification, ten countries make up the Southern African region: Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia and

Zimbabwe. The tables below show how these countries fare with respect to a range of macroeconomic, human and social development indicators.

Table 1. Southern Africa: Some Macroeconomic Indicators

Indicator	1990	1995	2000
Real GDP Growth Rate (%)	0.6	3.2	2.6
GDP per capita (US $)	1640	1801	1464
Inflation (%)	33.9	70.7	23.0
Fiscal Balance (% of GDP)	- 4.4	- 5.7	- 2.6
Gross Domestic Investment (% of GDP)	17.5	18.3	17.3
Gross National Savings (% of GDP)	18.3	16.7	15.1

Source: African Development Report, 2001.

Table 1 shows a set of macroeconomic indicators for Southern Africa derived from the 2001 African Development Report while Table 2 provides a set of human, social and economic development indicators for the region drawn from the SADC Regional Report 2000.

The macroeconomic indicators which are averages for the region are somewhat distorted both by the dominance of the South African economy in the region (accounting for 80 per cent of regional output) and by the poor performance of that economy in recent years. Nevertheless it is evident from Table 1 that while the economic liberalization policies in these countries are producing the expected results with respect to reductions in the fiscal deficit and the rate of inflation, on that crucial indicator, economic growth, the average rate for 2000 of 2.6 per cent after steady growth up to 3.2 per cent in 1995 is hopelessly inadequate for addressing the chronic levels of absolute and relative poverty in all countries of the region. These relatively low economic growth rates coupled with the relatively high population growth has resulted in declining GDP per capita in the region.

As Table 2 shows, half the countries in the region averaged less than 3 per cent per annum growth for the entire decade of the 1990s. Even in those countries that experienced relatively high levels of growth during the 1990s (e.g. Botswana, Lesotho, Mozambique) the impact on poverty has been less than significant as reflected in their Human Poverty Indices (see Appendix A for an explanation of the HPI and other human indicators). Botswana, for instance, which has been growing consistently and at very high rates for most of the 1980s and 1990s, has a lower HPI than Namibia and Swaziland which have grown at much lower rates during the same period.

It is evident also that economic growth has had little or no influence in reducing the pattern of income distribution (Table 2). The Gini Coefficient for all countries in the region is higher than 0.5 and amongst the highest in the world. Even in Botswana, often lauded as a model for the region, the levels of inequality (Gini of 0.54) and as stated earlier, poverty, are unacceptably high.

Table 2 also shows the human and gender development indicators and infant mortality rates (as one measure of social development). On all of these indicators, the countries of the region compare favourably with the averages for sub-Saharan Africa but fare poorly with respect to the developing country averages. Of particular concern is the wide divergence between the GDP capita world ranking of some countries in the region and their HDI ranking, again reflecting the pattern of poverty and inequality. For instance, Botswana's HDI world ranking is 57 places below its GDP per capita ranking, South Africa's 54 places lower and Zimbabwe 18 places lower.

Table 2: Some Development Indicators by Country: 1998

Country	HDI	GDI	HPI %	GDP per capita (PPP) US $	Gini Coeff. (most recent)	Infant Mortality (per 1000 live births)	Av. Rate of GDP growth (1991-1999) %
Angola	0.419	n.a.	n.a.	1821	0.54	170	0.5
Botswana	0.613	0.598	28.3	6103	0.54	38	5.3
Lesotho	0.583	0.558	n.a.	1626	0.57	94	4.5
Malawi	0.393	0.370	41.9	523	0.62	134	4.2
Mozambique	0.350	0.320	50.7	782	n.a.	129	6.4
Namibia	0.651	0.638	26.6	5176	0.70	57	3.7
South Africa	0.718	0.706	20.2	8488	0.59	60	1.4
Swaziland	0.672	0.659	27.4	3816	0.51	64	2.9
Zambia	0.429	0.415	37.9	719	0.56	112	1.0
Zimbabwe	0.570	0.562	37.9	2669	0.63	59	2.2
All developing countries	0.642	0.634				64	
SSA	**0.464**	**0.459**				**106**	

Source: SADC Regional Development Report, 2000. SSA: sub-Saharan Africa; HDI: Human Development Index; GDI: Gender Development Index; HPI: Human Poverty Index. See Appendix A for notes on HDI, GDI and HPI.

It is evident then that during much of the 1990s, governments in the Southern African region adopted a minimalist role for the state in an environment increasingly dominated by the post cold war market-economics triumphalism. A dominant theme during this period has been the misplaced notion that an efficient economy requires a minimalist state. As the above tables and those in Appendix B show, these policies have undoubtedly had an impact on the human development indicators because such economic policies resulted in huge costs particularly with respect to the provision of economic and social infrastructure, the provision of social services and the availability of employment.

With the collapse of the Soviet Union and the Eastern bloc in 1990, there is now widespread acceptance of the virtues of the market economy and capitalism. However, the debate is not about a 'free market' economy or a 'state-controlled' economy but rather about how the state might play a more constructive role in market economies.

Section 2 of this paper looks at the role of the state in economic development from a historical perspective. Section 3 examines the role of the state in economic development in four SADC countries, namely, Botswana, Mauritius, South Africa and Zambia. Section 4 analyses the implications of globalisation for the Southern African region and what governments in the region need to do to benefit from this process. Section 5 describes the experience with privatisation programmes and the role of governments in that process. Section 6 concludes with a plea for an

active and innovative role for the state given the widespread poverty and general underdevelopment of the region.

2. THE ROLE OF THE STATE IN ECONOMIC DEVELOPMENT: A HISTORICAL PERSPECTIVE

In spite of the rhetoric from free market fundamentalists post-1990, the role of the state in economic development continues to be central across the globe. This role has evolved from a long period, particularly following World War II, of the dichotomy between the state and the market characterized by phases in which the state reigned supreme in the economy to periods where the market was supreme and to those where the two were equally esteemed.

As Rodrik (1997) has remarked, "The first half of the 20th Century, and the interwar period in particular, witnessed a withdrawal from markets, with fascism, Marxism and Keynesianism each contributing its distinct ideas about why the state needed to intervene in order to achieve desired economic outcomes. The three decades following the end of WWII were somewhat anomalous in that there emerged, among capitalist countries at least, widespread consensus in favour of a hybrid set of ideas – Keynesian and welfare state at home, multilateral free trade abroad. The market (then) reasserted its primacy with the conservative revolution of the 1980s."

These changing roles of the state have had an impact on developing countries. For many newly independent developing countries in the 1950s and 1960s, much faith abounded in the role of the state as an agent of economic development as opposed to the role of market forces enshrined in the invisible hand of Adam Smith. With the apparent lack of economic success in much of Latin America and in Africa, along with the collapse of the Soviet Union, the 1980s and 1990s have witnessed a general shift by both academics and policy makers in favour of the market economy. However, this position is not without difficulties. Problems of market failure, information asymmetries and non-existence of some markets in domestic economies remains pervasive in many countries (Sentsho, 2001).

Thus, instead of a total rollback of the state in economic development, the relevant question now is: what is the appropriate nature and scale of state intervention desirable for economic development? Two main views of the role of the state in economic development emerge. The first view relates to the "facilitative role" that the state can play in a country's economic development. The second view is associated with the "directive interventionist" role of the state.

The democratic state represents a state whose ideology is based, among others, on the views of neoclassical economists who believe that when individuals and firms are allowed to operate freely in an economy characterized by perfect competition, the 'invisible hand' of the market is able to determine the optimum allocation of a country's resources. Together with this, it is assumed that the market is able to achieve optimal social welfare because, as individuals and firms maximize their own self-interest (profits), they will unintentionally maximize social welfare (through, inter alia, providing employment, and taxes to fund the provision of social services).

Given this assumed efficient functioning of the market mechanism, government intervention in the economy is viewed as inefficient not only because of bureaucratic blockages, but also because of its tendency to distort market prices and cause misallocation of scarce economic resources. Therefore, in this view, there should be a "rollback" and a "retreat" of the state in economic affairs (Sentsho, 2001).

Under this scenario, the state is expected to play only a facilitative role in economic development. This involves the provision of a 'business-friendly' and 'enabling' environment for the private sector. Within this framework, the private sector's role is to determine the pace and direction of a country's economic development, while the state only acts when the market fails. The latter happens when it comes to the provision of goods and services that, because of their non-rivalriness and non-excludability, are not profitable enough to be provided by the private sector. These include the provision of public services such as defence, education, health and infrastructure, setting up the required legal and institutional framework for the protection of private property; promotion of R&D for technological development, support of the financial sector through the work of the central bank; environmental protection; provision of the needs of those not favoured by the market system; and finally, macroeconomic management (Sentsho, 2001).

The "Direct Interventionist State" is associated particularly with the economic development of the some East Asian countries, particularly Singapore, South Korea and Taiwan. In these countries the visible hand of the state was creatively and innovatively combined with the invisible hand of the market in order to achieve the required economic development. This approach was motivated by the belief that "…markets and governments are both imperfect systems; that both are unavoidable forces of realty; that the operation of each is powerfully influenced by the existence of the other; and that both are processes unfolding in real time." (Rodrik, 1997). Thus, for these countries, the traditional dichotomy between governments and markets loses its meaning.

What did the state in these countries do to promote economic development? First, it studied 'global economic trends' and identified industries/sectors that appeared to be future engines of growth. Initially, these included labour-intensive industries such as textiles. However, as labour costs increased, these countries' comparative advantage in labour-intensive goods was eroded. In order to keep their share of the world market and continue on the path of economic development, these countries shifted to a policy of "industrial targeting' which involves identifying industries with potential for future growth and working to "create" comparative advantage in those areas. By so doing, they moved from low-tech manufacturing where comparative advantage is based on natural resources to high-tech manufacturing in areas such as information technology, biotechnology, robotics, microelectronics and laser technology, where comparative advantage is based on created human resources.

Second, the state invested in the training of both their labour force and entrepreneurs to position them to exploit the emerging opportunities for their countries. This took the form of: (i) expanded formal technical and vocational training; (ii) industrial training in which government encouraged firms to train their employees by subsidizing the cost of training or allowing training expenses to be amortised for tax purposes and (iii) setting up collaborative training with foreign governments and manufacturers who were technology or market leaders in their fields. The existence of a pool of qualified citizens ensured the availability of skilled labour, and equipping citizens with the right skills and work ethics ensured that the benefits of jobs that were created accrued mostly to them. As a result, problems of unemployment, poverty and income inequality were reduced in most of these countries.

Third, the state provided incentives in the form of subsidies and tax exemptions in order to encourage both citizens and foreign investors to develop the identified industries. Fourth, it mixed the invisible hand of the market with the visible hand of the state in order to achieve the required economic development. The state intervened extensively in order to "pick winners" and direct the

market to achieve the desired economic development. As a result, thestate created industries which might not have emerged in the absence of government intervention.

Finally, the state played an entrepreneurial role in the development of these countries. This state entrepreneurship took the form of exploring for opportunities in world markets for setting up strategic industries that had the potential for future growth and aiding the private sector to exploit them. In cases where the private sector was not forthcoming, the state actually took a deliberate step to set up public corporations and state investments to take advantage of emerging opportunities.

However, it is worth noting that, as the forces of globalisaton moved the world towards the market economy, and the essential conditions for a market economy emerged in these countries, the state increasingly moved from being "interventionist" in nature to playing a "facilitative" role, of creating a market friendly environment for the operation of the private sector. Nevertheless, a creative and innovative mixing of the state and market still continues in these countries, suggesting that for a developing country, facilitating and directing the market mechanism is essential for successful economic development.

In conclusion then the role of the state in economic development may be "facilitative" in nature, in which case the private sector sets the pace and direction of economic development while the state plays the subordinate follower position. This is generally the position played by states with a neoclassical ideological inclination. On the other hand, the state may play a "directive interventionist" role in economic development, in which case, it is called a directive interventionist state or an entrepreneurial state. If both the facilitative state and the directive interventionist state are characterized by, among others, a determined developmental elite, a powerful, competent and insulated economic bureaucracy, it may be called a **developmental state**. This latter characteristic of the state is important in that it sets a dividing line between states which are developmental and those which are non-developmental irrespective of whether they are democratic or interventionist (Sentsho, 2001).

3. THE ROLE OF THE STATE IN ECONOMIC DEVELOPMENT: FOUR SADC CASE STUDIES

This section examines the role of the state in four SADC countries: Mauritius, Botswana, South Africa and Zambia. The selection of case studies was influenced by the different outcomes of economic policy, whether it was Structural Adjustment Programmes (SAPs) or self-imposed conservative economic policies, in the four countries. Whereas SAPs were imposed (or as some authors have noted, self-inflicted) on Zambia and have resulted in poor economic performance and a down turn in social indicators, in Botswana and South Africa, the conservative macro-economic policies were adopted voluntarily, and without any direct pressure from the international financial and development institutions. Moreover, Botswana and Mauritius are also seen as successful economic performers in the African context.

The purpose of this section is not to compare economic performance. Given the nature of the countries chosen (Botswana –small, largely mineral-based; Mauritius – small, initially agriculture-based; South Africa – large, dominant in SADC; Zambia, medium-sized, mineral-based), this would not be a fair and appropriate comparison. Rather the intention is to highlight the influence (or the lack thereof) of the state in economic development particularly during the 1990s.

3.1 Mauritius

With a population of just over one million, Mauritius is a small country by any standards. However, it is a country which has achieved high levels of economic growth and development to become one of the most successful economies in the African region.

This success is reflected in the fact that GDP per capita increased from US $700 in 1970 to $3600 in 2000. Between 1975 and 1998, its Human Development Index increased from 0.626 to 0.718, the second highest among all SADC countries. (Only Seychelles at 0.786 had a higher HDI.)

There is little doubt that the state in Mauritius played an active role in its economic and social development. With regard to economic development, the role of the state in the development and implementation of industrial policy was particularly influential.

Mauritius is now seen as an example of a country that has successfully achieved its economic take-off, having evolved from a low-income, predominantly agricultural economy to a diversified middle-income economy since achieving independence in 1968.

In 1970, over 90 per cent of export earnings was from sugar and there was little manufacturing industry or tourism. By 2000, sugar accounted for less than 20 per cent of export earnings, and manufactured goods more than 70 per cent.

The state directed the evolution of the economy from an agriculture (sugar-dominated) base through agricultural diversification, to manufacturing and then to the development of the services sector.

Even prior to independence leading Mauritians had started to question the wisdom of relying only on sugar for its economic prosperity. The first type of economic evolution envisaged was agricultural diversification, especially tea and flowers. However, the lack of success with these agricultural products led to the next phase, namely import substitution. This consisted in encouraging the production locally of a wide variety of goods by giving tax incentives to products and putting up duties to render imported goods less competitive or even limiting their importation.

A wide variety of goods was in fact produced locally but Mauritians had to put up with poor quality, high prices and the periodic non-availability of certain goods. In the final analysis the policy of import substitution yielded limited results.

The next phase involved the development of an Export Processing Zone. The idea of creating an EPZ was inspired by the example of Ireland. Several foreign manufacturers started producing electronic components, jewellery and other value-adding products. But the real take-off occurred in the early 1980s with the arrival of numbers of entrepreneurs from Hong Kong, Taiwan and Thailand. Out of a total exports of RS 37 826 million for 2000, EPZ products account for Rs 31 174 million of which about Rs 26 000 million are for textile products and clothing.

The final phase in this state-induced development process was the development of the services (tertiary) sector particularly the financial and tourism sectors. In the early 1990s it became obvious that the textile industry had reached its optimum development. It was necessary for the further economic progress of the country to look at other areas. After looking at several possibilities it was felt that Offshore Business Activities presented a great potential for development in Mauritius. Thus in 1992 the Mauritius Offshore Business Authority was set up with the objective of offering facilities for business to operate in an almost tax-free environment. The areas that were targeted were financial services, management and consultancy services, and legal and accounting services.

This venture proved quite successful since as at February 2001, the number of entities registered had reached 15 246. Of these 5 930 are off shore companies, 8902 are international companies and 414 Offshore Trusts. The net income for the country from the Offshore Business is estimated at US $20 million. Direct employment in Offshore companies is around 1200.

Tourism is one of the pillars of the Mauritian economy in terms of revenue which was Rs 14.2 billion for 2000. The number of tourist arrivals in that year was 656 000 which was more than double the number in 1990 when the market for tourists was 292 000. Direct employment in the tourist industry is around 8000.

The next logical step for the Mauritian economy is to move into the Information and Communication Technology field. The fairly high level of education and the number of languages spoken are valuable assets. ICT requires very little infrastructure, the most needed raw material is brainpower. Government has announced its intention to convert Mauritius into a Cyber island.

Training is the key word in today's knowledge economy. Conscious of this, the Mauritian government is working out a National Training Strategy that will aim at producing the types of skills that Mauritius will require for its future development. To this end the government has set up a Ministry of Training, Skills Development and Productivity. A Task Force has been set up to prepare the National Training Strategy, with action plans for all the sectors. A Human Resource Development Council will be set up soon. One of its main tasks will be to match training provision with the human resource needs of the various sectors of the economy.

With regard to social development, the state has made a massive investment in the provision of basic social services, particularly health and education, as well as developing a comprehensive social safety net system.

Health care is provided free of charge by the government. Government expenditure on health for 2000 was 8.4 per cent of total public expenditure, that is, 2.0% of GDP or in absolute terms Rs 2.1 billion.

Mauritius has a long tradition of free primary education. Secondary education became free in 1976. Undergraduate courses at the University of Mauritius are free except for small registration fees. Government expenditure on education for 2000 is 14.9 per cent of total public expenditure, that is, 3.8 per cent of GDP, or in absolute terms Rs 3.9 billion.

Mauritius has a comprehensive system of social security for old-age pensioners,widows, invalids, orphans and sick people who cannot work. Government expenditure on social benefits and social welfare was Rs 5.7 billion for 2000, almost equal to the total budgets for Education and Health together.

3.2 Botswana

In contrast to the active and direct interventionist role of the state in Mauritius, in Botswana the state chose to play a facilitative role in economic development. This is clearly illustrated in the National Development Plan which states that: "The process of diversification will be facilitated by government. Government's role will be to create a sound macroeconomic environment, greater and quicker responsiveness to private sector concerns, a transparent bureaucracy, minimal regulations and the maintenance of law and order so that Batswana are assured that their lives and property are secure." (Botswana National Development Plan, 1985).

Botswana is a mineral-based economy and its economic success is almost entirely due to the wealth generated through mining, particularly diamond mining. The analysis of a mineral-based economy (MBE) such as Botswana is useful because MBEs possess unique characteristics but also because it shows how the role adopted by the state has indeed led to high rates of economic growth consistently for several decades but which has failed however to combat high levels of poverty, income equality, and unemployment.

A country with a sizable mineral endowment such as oil or hard rock minerals is supposed to be better off than its non-mineral counterpart at a similar level of income and economic development. However, contrary to these expectations, critics of economic development based on mineral exploitation have argued that many MBEs have on average experienced the opposite – their economic performance has actually been worse than those for countries without a windfall. Some of the characteristics of MBEs which have influenced critics to view them in this way include the following.

First, because the mining sector generally lacks both backward and forward linkages, MBEs are said to be susceptible to enclave development. Enclave development occurs in the case where the booming mineral sector has limited influence in the development of the rest of the domestic economy while at the same time it employs the best skilled local and foreign personnel who are thus very productive relative to workers elsewhere in the economy. As a result, these workers are paid the best salaries in a country generally characterized by low wages and high unemployment, thus creating an island of affluence in the midst of poverty.

Second, it is also often pointed out that because of the lack of competition in the economy, firms in MBEs do not generally use government subsidies productively, but instead choose to use these proceeds in unproductive lobbying for continued protection and subsidization, resulting in widespread rent-seeking.

Third, because of limited citizen entrepreneurship, most businesses in these economies are owned by foreign investors, which poses a problem of sustainability, especially in times of economic recessions and political instability. The abundance of wealth which accrues to those in the booming sector and other sectors whose wages are influenced by the booming sector is also said to retard the development of citizen entrepreneurship.

Fourth, MBEs are said to be generally characterized by an ever widening wage-productivity gap which is due to intense labor bargaining for government to close the gap between wages of those employed in the booming sector, mainly expatriates and a few citizen elites, and those of other sectors of the economy. This creates a wage-followership trend in which all other sectors of the economy demand their wages to resemble those of the booming sector. Thus wages on average increase at a rate which cannot be justified on the basis of productivity.

Fifth, most MBEs are small in terms of both GDP and population size. Consequently, they are not able to take advantage of economies of scale unless they produce for export markets (Briguglio 1998). The implications of this are that: (i) the domestic economy does not generally allow industrialization through ISI. This means that the industrial base of such economies is generally small; (ii) as a result most of these economies are narrowly specialized on the mineral resource both in terms of geographical markets and product variety; (iii) their dependence on the foreign sector is very high (most of such economies have a ratio of trade (exports and imports) to GDP of over 50 per cent; (iv) the openness of the economy means that they are susceptible to external shocks, so that their macroeconomic policy is highly influenced by the external policies of their main trading partners. For instance, Botswana's dependence on South Africa has meant that the country suffers from imported inflation and exchange rate fluctuations from South Africa. Hence the country had to depend on the manipulation of its exchange rate to sustain its external competitiveness.

Models of industrial development and economic diversification in an MBE are based on the concept of economic linkages. There are at least five linkages through which a booming sector may be linked to the domestic economy. Three of these, namely, the backward, forward and fiscal linkages are primary, while the other two, the consumer linkage and the networking linkage are secondary. The *backward linkage* occurs when an incoming firm purchases inputs from domestic firms while the *forward linkage* occurs when the output of an incoming firm is used as a productive input in the domestic industry. The most important among these is the *fiscal linkage*. This involves the state receiving revenues from the booming (resource) sector in the form of royalties, taxes and dividends and using the proceeds thereof for the provision of education, public health and infrastructure. This linkage is especially important in MBEs because, though the receipts may be currently high, the life span of the resources is finite, necessitating steps to move the economy away from dependence on such a resource.

The *consumer linkage* comes about because of payments to workers in both the booming sector and the backward and forward linkage industries that emerge as a result of the resource boom. Industries emerge to satisfy consumer demand in areas whose demand was previously not met by importing. On the other handy the *networking linkage* occurs as the multinational exploiting the resource makes both formal and informal connections with the rest of the local community. This may take the form of political linkages with government officials, charitable linkage with charity groups and organizations and educational linkage with professionals in the community as well as many other social groups.

Ideally, it is desirable that these linkages should exist and abound in a domestic economy, leading eventually to an integrated pattern of development. However, in practice this is not generally the case.

The model of economic development in resource-based economies such as Botswana suggests that these countries may achieve sustainable industrialization and economic diversification if they can use their fiscal linkage not only for recurrent and development expenditure, but also to initiate industries that will continue to sustain current levels of economic growth beyond the resource boom period.

On the recurrent expenditure side the main areas of interest are education, health and infrastructure. In Botswana, expenditure on education accounted for about 25 percent of Central Government recurrent expenditure during 1996 and 1997, while primary health care accounted for about 5 percent. Public education is free from primary level to university level, including overseas training which is generally for engineering and medical students as well as postgraduate training. Overall, it

is reasonable to conclude that the country has done fairly well in the provision of these social services.

However, the most important use of the fiscal linkage is that illustrated by the development expenditure. This falls into two categories. The first part of development expenditure is used for the provision of social services and infrastructure such as the building of schools, health facilities and the construction of roads. The second part is used to provide incentives for industrial development that is meant to achieve economic diversification. In line with this policy, government started the *Financial Assistance Policy (FAP)* in 1982. This policy provides investment funds to both citizens and foreign investors which aim at manufacturing either for domestic or international markets. The main objectives of the program are: (i) to achieve economic diversification through the development of outward-oriented manufacturing enterprises and efficient import-substituting production, (ii) to use funds from the capital-intensive mining and land-intensive beef production to create employment for the country's growing labor force and (iii) promotion of citizen economic empowerment and participation in the country's economic development.

Over the 18 year FAP-period, Botswana did not achieve sustainable industrial development that could have led to the desired economic diversification confirming the standard view of MBEs that they are difficult to industrialise and diversify. The country is still at a very basic level of economic diversification, suggesting that the pessimistic view of critics of economic development based on resource exploitation is validated by data-MBEs are hard to industrialize and diversify. Alternately, the results may be indicative of the fact that Botswana's economic policies, in which the state has played a minimalist role, are not appropriate for the country's sustainable economic development.

A Critique of Botswana's Development Strategy

Even though Botswana has experienced high rates of economic growth during the past three decades, there are a number of concerns about the country's development strategy. These include the increase in the number of both individuals and households living in poverty, the rise in the level of unemployment, restrictive fiscal policies, the continued reliance on traditional exports of beef, copper/nickel and diamonds, and an over-reliance on the free-market mechanism to ensure sustainable development for all.

Income Inequality and Poverty in Botswana

Despite Botswana's sustained economic growth in the post independence era, there is concern that this economic growth has benefited only a few in the country, namely, the urban elite, foreign investors and workers, and cattle farmers. As a result of skewed income distribution and limited economic opportunities for the majority in the country, many individuals and households still live below the poverty datum line.

Overall, the percentage of households living in poverty declined from 48 percent in 1985/86 to 37 percent in 1993/94. At a disaggregated level, the 'severely poor' individuals and households appear to have become worse off over time.

The severely poor individuals in urban areas increased from 16.4 percent in 1985/86 to 19.9 percent in 1993/94. For households these figures are 12 percent and 15.5 percent respectively. For the rural severely poor, these figures declined significantly for both individuals and households. The statistics suggest that, even though poverty in Botswana is higher in rural areas (where the percentage of people living under poverty was 59.5 percent in 1985/86 and 47.3 percent in 1993/94)

than in urban areas (where the percentage of households living under poverty remained constant at about 23 percent during the two sample periods), the number of individuals and households living in poverty has increased significantly in urban areas. A number of reasons have been advanced for this result:

(I) Migration of the poor from rural areas to urban areas in the hope of finding employment and a better life in the modern sector;

(ii) Government directing poverty interventions in the form of drought relief works is generally targeted to the rural areas. Urban areas are excluded, presumably to discourage rural-urban migration; and

(iii) The problem of unemployment in urban areas where the extended family support system, which is relatively strong in the rural areas, appears to be dying a natural death.

The most important reasons for Botswana's high poverty incidence are that: first, Botswana's economic growth is based on the capital-intensive mining and the land-intensive cattle rearing, both of which have little employment benefits for the majority of the people in the country. Secondly, formal sector employment has not grown fast enough to either absorb school leavers who enter the labor force or those migrating from the traditional rural sector.

Whatever the reasons for poverty in Botswana, the overall incidence of 37 percent for households and 46 percent for individuals is unacceptably high for a country with one of the best growth records amongst developing countries during the past two decades.

Unemployment

Even though other sectors of the economy such as the government, financial, manufacturing and service sectors have grown substantially over the years, and have absorbed a large proportion of the labor force, a substantial percentage who are able and willing to work have not been able to find employment in the formal sector. The level of unemployment has been rising over the years. It rose from about 10 percent in 1981 to about 14 percent in 1991, and by 1994 it had risen to about 21 percent. Current estimates put the figure at about 19 percent. Unemployment is high among females and the youth and rising amongst secondary school leavers.

Restrictive Fiscal Policy

Government has over the years pursued an extremely restrictive fiscal policy with respect to both recurrent and development expenditure. The main reasons advanced for this are (i) the problem of implementation capacity whereby government avoids undertaking more projects than it has the capacity to implement, (ii) a desire to avoid future unsustainable recurrent expenditure which may spill over from high development expenditure in the form of maintenance; and finally, (iii) expenditure in the form of lending to parastatals (public enterprises) was also limited in order to reduce their dependence on government. Even though some of them did depend on government bailouts for their losses, government is encouraging restructuring and privatization of all or some of their departments in order to make them financially viable.

These policies which have resulted in budget surpluses and the accumulation of large foreign reserves have come under attack in recent years. For instance, Wright (1997a) argues that because

the operation of Botswana's diamond mines is expected to last for another 50 years and the fact that it is well-managed under De Beers Mining Company, plus the large amounts of foreign reserves which government has accumulated over the years, the 'super cautious' policy of basing development plans on pessimistic expected revenues from diamonds may no longer be a viable strategy. Besides, the expectation of most of the urban dwellers, especially the unemployed youth, is that government should use its foreign reserves in productive investment which will reduce and/or eliminate problems of poverty and unemployment.

Continued Reliance on Traditional Exports

Botswana's development strategy is also criticized for the fact that, even though the country needed the mining sector, especially diamonds, for a take-off into sustained economic growth, this dependence is no longer justifiable. The main questions relate to the failure of the FAP to develop the manufacturing sector and to develop a more diversifies industrialized strategy.

Over-reliance on the Free Market System

One of the major criticisms of Botswana's development strategy is the government's faith in the efficiency of the free market mechanism. This position has overlooked problems of market failure which may be due to externalities, monopoly market power, oligopolistic pricing system, market failure in the product and labor markets as well as problems of adverse selection and moral hazard due to information asymmetry. In addition, there are problems of market failure which are more specific to Botswana. For instance:

(i) Botswana lacks people with business and entrepreneurial skills to take advantage of the economic incentives provided by government to start up profitable and sustainable enterprises.

(ii) The country has attracted limited foreign direct investment because of the socio-economic and political instability which characterized Southern Africa over the past three decades. The main problem here is that, the high risk ratings of neighboring countries plagued by economic and political instability "spill-over" into Botswana, even though individually, the country would have very low risk rating by investors.

(iii) Even though the country's education system has tried to address the problem of limited technical skills required by the manufacturing sector, this continues to be a major constraint to investors.

(iv) A small domestic market which limits possibilities for achieving economies of scale unless production is mainly outward-orientated to foreign markets.

(v) The creation of an export insurance market, which only started operating in the country in 1998, has meant that for a long time prior to this period, exporting in Botswana was a very risky venture. (Sentsho, 2001)

3.3 South Africa

Since the transition to democracy in 1994 South Africa has not adopted a formal Structural Adjustment Programme, but with the *Growth, Employment and Redistribution Strategy* (GEAR) (Dept. of Finance, 1996) it adopted similar programmes and targets.

South Africa's main development strategies since the transition to democracy have contained highly contradictory elements. They have not, in any case, managed to halt the economic slide that began around the mid-1980s (Makgetla, 2001).

Since 1994, the South African government has adopted fundamentally contradictory development strategies. The important features of these strategies are listed below (Makgetla, 2001):

1. A commitment to improving social protection for historically deprived black communities. Social protection refers to government services designed to address poverty, including education, health, welfare, housing and municipal infrastructure. Apartheid skewed social protection heavily toward relatively prosperous whites, leaving South Africa with a considerable development deficit relative to other middle-income countries.

2. A fundamental reform in labour laws. New acts extended labour rights to virtually all workers, irrespective of race or sector; established a dispute-settlement mechanism based on conciliation and arbitration; supported sector-wide collective bargaining; and set up an ambitious, sector-based skills-development strategy. In theory, only domestic, farm and casual workers were left out of some of these laws; in practice, of course, the entire informal sector ignores virtually all of them, including health and safety requirements.

3. With the adoption of GEAR in 1996, the government set restrictive targets for fiscal policy. It aimed to reduce the deficit relative to GDP from 5 per cent to 3 per cent between 1996 and 1999, and to stabilise tax revenues at 25 per cent of the GDP. In the event, it managed to cut the deficit even faster, reaching 2,3 per cent in 1999. These targets had the effect of cutting government spending by 9 per cent in real terms.

   Since 1999, government relaxed its fiscal policy slightly, permitting an increase in the deficit to 2,5 per cent of the GDP in 2001 – although still aiming to reduce it to 2,1 per cent by 2003. Government expenditure in real terms was expected to grow by over 3 per cent last year, and expand between 1 and 2 per cent a year in the next two years. The new policy permitted a substantial increase in military spending together with moderate improvements in the social budget.

4. Policies that effectively extend the reach of the market through privatisation, tariffs and deregulation. These policies are generally not articulated as part of a pure *laisser-faire* philosophy. Instead, they are developed as sectoral measures. The philosophical commitment to free markets emerges primarily from the government's often stated belief that "competition" will almost automatically bring about more efficiency. Most government economic policies now argue that regulated markets should replace government ownership. (See for instance, DPE 2000; DTI 2001) The free-market philosophy has gone hand in hand with an export push, which links most government incentives to export efforts.

These strategies are inherently contradictory. Ultimately, they led to cuts in social services without stemming the rise in unemployment that started in the 1980s.

First, instead of higher spending on services, we have seen a substantial decrease in real terms, as the following table indicates. Even with the slight relaxation in fiscal stance of the past two years, the levels of *per capita* expenditure enjoyed in 1995 will only be achieved around 2005. The government tried to make up the gap through partial equalisation of spending between communities, reducing the amount spent in rich areas. It also cut spending on infrastructure, which is of course always tempting in times of reduced budgets; and held public-service pay increases to around half those of the private sector.

These measures placed a substantial strain on the major social services. This emerged in complaints about deteriorating services, especially in health, poor facilities and underinvestment in infrastructure, and low morale amongst workers.

Table 3. Expenditure on Social Protection, 1996-'99

Function	Expenditure in millions of rand		Average annual change		% of non-interest spending,
	1999/2000	1996/7	1999/2000	nominal	after inflation
Education	42 140	47 841	4%	-3%	27%
Health	24 815	29 928	6%	-1%	17%
Welfare	16 089	19 674	7%	-1%	11%
Police	11 783	14 826	8%	0%	8%
Transport & communication	8 706	9 168	2%	-5%	5%
Housing	3 262	4 381	10%	2%	2%
Water	1 968	2 338	6%	-2%	1%
Total Social Protection	*108 762*	*128 156*	*6%*	*-2%*	*72%*
Total Expenditure	*154 765*	*179 081*	*5%*	*-9%*	*100%*
CPI	*104.5*	*130.4*	*8%*	*0%*	*n.a.*

Source: calculated from, Department of Finance, *Budget Review 2000*, using CPI figures supplied by Statistics South Africa.

The commitment to free markets further undermined services for the poor. In particular, there has been a tendency to privatise and deregulate basic household infrastructure, which is provided by local government and parastatals, and to charge fees for education and healthcare.

The experience of telecommunications confirms this trend. Since it was partially privatised in 1997, the telecommunications parastatal, Telkom, has increased the cost of local calls by about 35 per cent in real terms, while the price of international calls dropped 40 per cent. It also raised the basic rental for fixed lines. The new cost structure spells rising costs for the poor, and lower tariffs for business and the rich, who make far more international calls. The rising cost of telephony has slowed roll-out to the poor. According to the 1999 October Household Survey, among the African

population, less than a third of urban households and less than 8 per cent of rural households have access to telephones, compared to over 85 per cent of white households in both types of region. There has been virtually no improvement in the past three years.

Second, there is at least an ideological contradiction in freeing up all markets while increasing the regulation of labour relations. This situation leads to a continual attack on labour laws from multilateral agencies as well as sections of capital and the state itself.

It is not clear how far this policy contradiction translates into economic effects. Big business has largely refrained from efforts to amend the labour laws, and virtually all studies show that even small entrepreneurs do not rank labour laws as a major obstacle to growth. In 2000/1, when government introduced amendments that would weaken regulation of hours of work and job security, the labour movement reached an agreement with representatives of big business to oppose them.

Opponents of South Africa's new labour laws typically cite the *World Competitiveness Report*, which condemns the laws unequivocally. In the event, the Report derives from an opinion survey of business leaders, without an empirical impact study. Its results indicate a widespread ideological conviction, but does not provide evidence that the mismatch between policies on the labour market and government's other policies in fact causes economic problems.

In sum, South Africa has adopted highly contradictory development strategies since 1994. Government retained a commitment to improving services for the poor and to protecting workers' rights. Yet in overall economic policy, the GEAR signalled a shift to the right. In these circumstances, government policies have largely failed to improve the distribution of income and wealth, and rising unemployment has limited the benefits of the new labour laws.

In the past three years, South Africa has slid gradually into a deep structural crisis. The crisis is indicated by an historically low rate of investment and a rising capital outflow, massive job losses and sluggish growth.

The data (see Appendix C) demonstrate that government policies to date have not managed to ensure growth or development, and that trends actually worsened significantly after adoption of GEAR. Government's own reaction to this situation has been mixed. On the one hand, it has tended to argue that the loss of jobs reflects a once-off and unavoidable cost of establishing freer markets, which in turn will lead to greater efficiency and international competitiveness, and ultimately economic growth. By extension, no change in policy is required. On the other, it has begun to argue that it must now attempt more vigorous interventions at a sectoral level.

Government's shift to the right in economic policy after 1996 was predicated on two assumptions: first, that the South African economy is savings constrained; and second, that free markets would improve efficiency. Both of these assumptions are open to doubt.

It is true that savings are low in South Africa, more or less at the level of investment – about 15 per cent of GDP. The GEAR argued that the government must therefore reduce its spending in order to free up resources for private investment.

In the event, the available evidence suggests that the real problem lies in inadequate domestic demand. The government sees this as a reason for an export drive, arguing that the domestic market is far too limited to stimulate investment. This approach contradicts the ruling party's (African

National Congress) original analysis, embodied in its *Reconstruction and Development Programme* (RDP), in 1994, which argued that massive inequalities cut domestic demand. The RDP therefore argued that growth should be rooted in measures to improve the position of the poor through social spending, improved skills and job creation.

The GEAR assumed that increased government spending will crowd out, rather than crowding in, investment. There is very little evidence to support this view. The GEAR relied on a potpourri of macro-economic models, which effectively used crowding out as an assumption, rather than an argument to be tested against the evidence. A macroeconomic model that builds in a "crowding-in" hypothesis, by the Economic Policy Research Unit in Cape Town, comes to the opposite conclusion. It suggests that increasing the deficit to 5 per cent would stimulate economic growth, which in turn would permit a gradual but decisive decline in the deficit. In other words, according to this model, South Africa is not in a classical debt trap, and therefore increasing government spending will have a stimulatory effect.

A second central assumption in current policies is that free markets will lead to social efficiency. That ignores key market imperfections, especially the unequal distribution of income, externalities associated with development, and resource immobility.

South Africa has inherited a particularly unequal distribution of income. Estimates suggest that in this regard, the country ranks third worst in the world, following Brazil and Uruguay. The richest 10 per cent of South Africans received approximately 45 per cent of the national income, compared to between 30 and 40 per cent for almost all other middle-income developing countries, and 24 per cent in South Korea. (UNDP 2001) Since 1994, efforts to improve the income distribution by enhancing social protection have been largely undercut by the loss of formal jobs.

The distribution of income invariably shapes the outcomes of the market. After all, the market is only designed to reach those who can pay, not to raise living standards for the poor. Thus, for example, on the South African housing market, effective demand has been met, every single participant may be acting efficiently in their own terms – and yet millions go homeless.

Government policy documents typically argue that as consumers exercise their market choices, the market will bring about efficiency. This is clearly unrealistic in the context of the high level of poverty and inequality in the country. Few South African households have the luxury of deciding between quality and price. After all, most earn well under R1000 a month. They have no choice but to rely on the state to provide a minimum of basic services at an affordable price.

In addition, the market will not meet the social and economic requirements of development, since private companies cannot capture the long-term benefits of developmental measures. This emerges clearly in terms of household infrastructure such as water and electricity. For instance, amongst the main informal occupations for women are childcare and hairdressing – both of which are difficult or impossible without access to clean water and electricity. Yet initially, at least, poor people cannot afford to pay the full cost of these services, and therefore remain in the poverty trap.

Finally, markets will not ensure efficiency if resources cannot move rapidly and without cost to new uses. Government policies that cost jobs, such as tariff cuts and privatisation, effectively assumed that all factors, including labour, were mobile. In that case, the unemployment effect would not last long.

The naïve belief that free-market restructuring will create net new jobs is borne out neither by experience nor by theory. Given very high and rising unemployment, workers who lose jobs as a result of privatisation cannot count on easily finding new employment. This is especially true because the largest job losses are in the lower skill levels, and often in rural areas where unemployment is highest. Very substantial costs to society and the economy have resulted (Makgetla, 2001).

In sum, both the macro and micro components of the current government strategy rest on shaky analytical foundations. South Africa needs a less abstract approach that looks at the practical factors facing key sectors and deals with massive income inequalities (Makgetla, 2001).

3.4 Zambia

In Zambia SAPs were imposed by the IMF as a condition for the granting of concessionary loans. However, others (see Saasa, 2001, for instance) have argued that the Structural Adjustment Programmes in Zambia were by and large, self-inflicted rather than imposed by the multi-lateral institutions. This view suggests that the government had also left the determination of socio-economic policies to the IMF and the World Bank instead of taking responsibility for policy formulation. As a result, opportunities to influence economic policy and the conditions that accompanied the SAP loans were lost.

It has also been argued that Structural Adjustment was necessary, because of the structural maladjustment of the Zambian economy and was needed to bring critical sectors of the economy and society into harmony with one another and thereby ensure economic growth (Ndulo, 2001).

With regard to the implementation of the Structural Adjustment Programme (SAP) in Zambia it is clear that the early short-term programmes were harmful to economic growth. There was considerable scope for harmonisation of economic and social policies to ensure avoidance of distorted economic growth but this was not exploited. The main challenge in Zambia's attempt to restructure her economy was the existence of a dichotomy between the modern and traditional, or informal sector. The Zambian economy was characterised by a narrow base, lopsided development and poor distribution of resources between the rural and urban areas. The inherent imbalances also tended to distort the economy.

The SAP in Zambia, however, began with stabilisation programmes, which focused on reducing the money supply and inflation, which together sacrificed economic growth.

Although the Government embarked on a SAP in 1983, it was not committed to the reforms. The SAP was consequently abandoned in 1987 after the December 1986 food riots. A new round of the SAP began in 1988, but the Government did not meet the agreed benchmarks and was distracted by political agitation for reform aimed at reintroducing a multi-party political system. A multi-party political system was consequently re-introduced in 1991 and a new government, which was more committed to macro-economic reform was elected into office.

The new Government implemented more widespread reforms, which resulted in some measure of macro-economic stability and limited improvement of infrastructure. An ambitious privatisation programme was also begun, which has not been very successful and has not sought to empower citizens. The privatisation of some industries was also not transparent, while the sale of the key mining assets was delayed. (see Section 5)

In terms of outcomes of SAPs in Zambia, economic growth was generally low, while inflation had been reduced from triple to double-digit figures. The strategies for managing fiscal policy have also been poor. SAPs have not achieved the aim of avoiding imprudent expenditure. As a result, resources were still being diverted to unintended purposes. The cash budget had in particular stifled economic growth, because the private sector had been denied essential cash flows, due to inadequate public spending

The integrity of the budget was undermined by the Presidential "Slush Fund", which appropriated funds from the national budget for the President to spend as he deemed fit. There had, for example, been cases where the President dished out cash to patients in hospital, when the hospitals had no basic medical supplies, because of inadequate allocation of resources to the health sector (Ndulo, 2001).

One of the key factors limiting policy implementation during the SAP period pertained to the lack of internal capacity to develop and implement policies. In contrasting Zambia with Uganda, it can be noted that unlike Zambia, Uganda had some internal capacity to develop macro-economic policies, which took account of the country's structural imbalances. Consequently, Uganda appears to have performed better than Zambia with similar macro-economic policies. (Ndulo, 2001).

The fear of losing political power was another important factor leading to the inconsistencies in the implementation of SAPs, while commitment to SAPs was largely influenced by the degree of dependence on donors for funding substantial parts of the budget. Zambia's politicians appear to have been more concerned with their survival in office than with economic growth and development.

The economic and social outcomes in Zambia following the adoption of the SAPs suggest that growth and development did not follow from the adoption of these policies. Table 4 shows a range of economic and social indicators derived from the tables in Appendix B. These tables show that on most of these indicators Zambia, at the end of the 1990s, ranked at the bottom end amongst SADC countries.

Some analysts have pointed to the fact that these outcomes were not the directly the consequence only of the adoption of the SAPs but rather the inadequate and inappropriate role of the state in the development process, the lack of internal policy capacity and the inherent corruption in the state apparatus.

Table 4: Zambia – Some Economic and Social Indicators

Indicator	Value	SADC Ranking
GNP per capita (1999, US $)	320	9/13
Life Expectancy (1999, years)	42	10/13
Infant Mortality (deaths per 1000 births)	76	6/13
Adult Illiteracy (%)	23	6/12
GDP growth (av. % p.a.)		
1980-1990	1.3	10/14
1991-2000	0.2	12/14
Govt. deficit (% of GDP)		
1980-1990	- 13.2	14/14
1991-2000	- 3.3	8/14
Gross National Savings (% of GDP)		
1980 – 1990	8.9	12/14
1991 – 2000	9.8	10/14
Gross Domestic Investment (% of GDP)		
1980 – 1990	16.2	11/14
1991 – 2000	13.7	13/14
Growth of Total External Debt (av. % p.a.)		
1980 –1990	7.7	4/13
1991 – 2000	- 1.6	2/13
Consumer Price Index (change, av. % p.a.)		
1980 – 1990	46.2	12/14
1991 - 2000	70.4	12/14
Human Development Index	0.420	10/14
Human Poverty Index, 1998 (%)	37.9	8/11

3.5 Summary

Two features of government intervention in Mauritius' development stand out relating to its role in the country's economic and social development. First, the state through an active industrialisation policy directed the evolution of the economy from an agriculture (sugar-dominated) base through agricultural diversification, to manufacturing and then to the development of the services sector.

Second, with respect to social development, the state through sensible use of fiscal policy, invested and continues to invest massively in education, health and in a comprehensive social security system.

By effectively combining the respective roles of the state and the market Mauritius has been able to achieve consistent growth of its economy benefiting all its citizens. This success is reflected in the

fact that GDP per capita increased from US $700 in 1970 to $3600 in 2000. Between 1975 and 1998, its Human Development Index increased from 0.626 to 0.718, the second highest among all SADC countries.

In contrast to the active and direct interventionist role of the state in Mauritius, in Botswana the state chose to play a facilitative role in economic development, preferring to rely on the free market mechanism to direct economic development. Economic policy in Botswana since independence has been characterised by conservatism in fiscal policy and an unquestioning belief in the ability of the free market to bring prosperity to all citizens.

Such a policy has indeed led to a sustained period of high growth of both GDP and GDP per capita. However, it has also led to unacceptably high levels of poverty, inequality and unemployment, an inability to diversify the economic base away from minerals and agriculture, and a general absence of an integrated pattern of development.

Since the transition to democracy in 1994 South Africa has not adopted a formal Structural Adjustment Programme, but with the *Growth, Employment and Redistribution Strategy* (GEAR) it adopted similar programmes and targets.

The available data demonstrates clearly that government policies to date have resulted in substantial reductions in the fiscal deficit and in the rate of inflation, but have yet to achieve any of the growth or development targets. Moreover, these policies have failed to attract the levels of foreign direct investment that GEAR had proclaimed. Levels of unemployment, poverty and income inequality remain at unacceptably high levels.

The economic and social outcomes in Zambia following the adoption of the SAPs suggest that growth and development did not follow from the adoption of these policies. At the end of the 1990s, Zambia is undoubtedly one of the worst performers in SADC with regard to both economic and social indicators. With respect to economic growth, growth of GNP per capita, savings, investment, inflation, the HDI and the HPI, Zambia ranks amongst the bottom 4 or 5 countries in the region.

Some analysts have pointed to the fact that these outcomes were not the directly the consequence only of the adoption of the SAPs but rather the inadequate and inappropriate role of the state in the development process, the lack of internal policy capacity and the inherent corruption in the state apparatus.

4. GLOBALISATION

Globalisation has ensured that the world has become a smaller place especially during the past decade. The constraints of geography on economies and societies have been gradually receding as intensification of worldwide social interactions are shaping events within boundaries beyond the nation state (Pillay, 2001a).

Most countries have privatised state assets, have opened their economies to foreign investment, and have export-led strategies for economic growth. This combination was supposed to spur growth, employment and an overall improvement in the living conditions of citizens around the world.

However, the financial crisis of 1997/98 has demonstrated the vulnerabilities of the process of globalisation and the growing inequality gap between the haves and the have-nots within societies and between countries that have participated in this globalisation process.

Global integration is thus a selective phenomenon. Many countries benefit; many do not. Measured either in terms of trade or direct investment, integration has been highly uneven. A few developing countries have managed to increase their trade substantially. They are the same countries that have attracted the lion's share of foreign direct investment. And they have also seen the benefits of openness. A recent study by the World Bank showed that 24 countries, home to 3 billion people, and including China, Argentina, Brazil, India and the Philippines, have substantially increased their trade-to-GDP ratios over the past 20 years. On average, their growth rates have improved as well. GDP per head in these economies grew by an average of 5% a year during the 1990s (compared with 2% in rich countries) and their poverty rates declined (The Economist, 2/2/02).

However, another 2 billion people live in countries that have become less rather than more globalised. In these countries – including much of Africa – trade has diminished in relation to national income, economic growth has been stagnant, and poverty has risen. According to the World Bank, income per head in these "non-globalising" countries fell, on average, by 1% a year during the 1990s.

In short, it appears that globalisation is not actually truly global. Much of the world, home to one-third of its people and including large parts of Africa, has simply failed to participate.
Africa in general, and the Southern African region in particular have been relegated to the fringe of the global economy. Economic performance in the region is not very encouraging, because the agricultural sector has been beset by low productivity, which has been worsened by persistent droughts. Industrial production has also been in decline, while the available energy resources have not been exploited to the full. As a result, though Southern Africa was rich in natural resources, it was lagging behind. Changing the situation requires policies that could re-position the region (Saasa, 2001).

In the globalisation context, Saasa (2001) has suggested that the Southern African Region ought to address three main challenges: multiple membership of Regional Integration Groupings; liberalisation of economies; and the EU-South Africa Trade Agreement. With regard to the multiplicity of regional integration groupings, Saasa (2001) noted that 9 of the 14 SADC countries were also members of the Common Market for Eastern and Southern Africa (COMESA), a Free Trade Area with common tariffs. In addition, there are other smaller Regional Economic Integration Organisations within the SADC region, such as the Southern African Customs Union (SACU) and the East African Community (EAC). Such a multiplicity of regional integration groupings has to be considered wasteful.

Liberalisation of economies was the second challenge, which countries in the region had to address. Countries in the region had different degrees of economic liberalisation even though it was a precondition for successful regional integration.

However, according to Saasa (2001), the Southern African Region does not seem to have thought through membership of multiple regional groupings although membership of multiple Free Trade Areas was against the World Trade Organisation (WTO) rules. Yet nine of the 14 SADC countries belonged to multiple Free Trade Areas. Belonging to more than one free trade areas was also difficult, because it means having to manage different trade regimes. Saasa (2001) has raised the issue of whether there were any niches in the regional groupings, which could make it possible to

harmonise the different regional integration groupings. The harmonisation of trade regimes and approaching the global market as a region rather than as individual countries would require multi-country commitment and a strong political will in the region.

The EU-SA Trade Agreement signed in 1999 was the third challenge Southern African countries would have to face, because EU goods would be entering their markets through South Africa. The EU-SA Trade Agreement would therefore pose a threat to infant industries in the region. It could also compromise the SADC Trade Protocol. The other major challenges posed by the EU-SA Trade Agreement to the Southern African region identified by Saasa (2001) were trade diversion and deflection. These could be injurious to producers in the SADC Region, because EU goods would be getting into the rest of the SADC countries on preferential terms. The main question was whether emerging industries in the SADC countries would be able to withstand competition from the rich European Union Countries. To minimise the potential adverse effects of the EU-SA Trade agreement, Saasa (2001) suggests that SADC countries should take up niches in the South African economy, before the EU enterprises took up all the niches. Saasa, however, also acknowledge that the EU-SA Trade Agreement was good for the South African economy, because it provides it with brighter prospects for growth, which would also help the rest of the SADC countries.

To benefit from globalisation it is vital for SADC to negotiate as a region, because other regional integration blocks, notably the EU, negotiate effectively as regions. COMESA, on the other hand, had so far only observer status at the WTO. In this context the governments of SADC countries needed to play an active role to mobilise the collective strength of the region at the WTO. Otherwise Southern Africa would continue to be marginalized with respect to trade and investment flows.

5. PRIVATISATION

The privatisation of state-owned assets is almost always a key feature of structural programmes. This section looks at the experience with privatisation in some Southern African countries and the role of the state in that process.

The World Bank has described the Zambian Privatisation Programme as very successful and even a model for other countries. Most Zambians would, however, probably disagree, especially with regard to how it has been implemented. (Ndulo, 2001).

Privatisation has a bearing on global integration and the attraction of foreign direct investment (FDI). Privatisation programmes, therefore, raise questions about how the country concerned intends to fit into and enhance its participation and that of its citizens in the global economy.

In the immediate post-independence period, it was clear that in many developing countries the state could not absolve itself from being involved in the production of goods and services. It was therefore accepted that the state had a role to play in the production of goods. In the 1990s, however, the theme shifted to defining the mechanism and processes for eventual privatisation.

In Zambia, the limited entrepreneurial capability of the population and the lack of resources made it necessary for the state to get involved in economic activities. State involvement in the production of goods and services, however, had both positive and negative elements. The most important aspect however, was how state involvement was managed. In particular, it was true that State-Owned Enterprises (SOE) were vulnerable to abuse by politicians and managers.

Most SOEs in Zambia were created during the period 1964-74. The original intention in establishing an SOE was not socialism, but the promotion of development. State participation was justified because of the lack of entrepreneurial skills and capital amongst the bulk of the population. However, the state worked in collaboration with the mining companies to create new enterprises. The new enterprises were supposed to be sold to the private sector after some time. However, the state later developed socialist tendencies and Zambia ended up with a large state owned sector, which was mismanaged resulting in steady and consistent economic decline.

Privatisation in Zambia encompassed all the sectors of the economy. The programme encompassed 600 companies and the Government set itself the objective of selling off all the companies within five years. To that end, 164 companies were sold in one year. Pressure to privatise rapidly initially came from the donors, especially before 1991. In the post-1991 period, however, it became an ideological issue and privatisation was then rushed. In the process, the developmental aspects of privatisation were ignored or overlooked. The privatisation process, however, bred incentives for corruption and there were several allegations of corruption during the privatisation process (Ndulo, 2001).

The consequences of a poorly-planned privatisation process in Zambia were severe. First, privatisation weakened the influence of the state in fostering industrialisation. Second, the privatisation policy was also reduced to the whims of a political party rather than a national policy. Political and economic leaders used the privatisation programme to enhance their capital accumulation. Many privatised companies subsequently collapsed, especially the ones which were sold to management buy-outs. Third, and as a consequence of the above, privatisation was associated with the loss of jobs and de-industrialisation. Finally, the process was characterised by the absence of consultation with all the relevant stakeholders.

Overall, it would appear that the Zambian privatisation programme had re-established the pre-independence economic status quo, because most of the companies had been sold back to their pre-independence owners, mostly South African companies. As a consequence, public support for privatisation waned.

The privatisation programme in Angola began just before the 1992 elections. It was spontaneous and not backed by law, because the Privatisation Act was only passed in 1994. The IMF, however, had insisted on the establishment of an institutional framework for executing the privatisation programme.

The Angolan experience shows that privatisation could have different aims ranging from political to economic ones. The 1992 privatisation programme was based on political considerations aimed at creating a new capitalist class. Creation of entrepreneurs in the context of Angola was essential, because the state had stifled the emergence of an Angolan capitalist class, particularly in the post-colonial period.

Economic reasons for privatisation usually include improving the efficiency of state-owned enterprises and balancing the books of the state. Improving the efficiency of state-owned enterprises was not a major concern in Angola. The main concerns were, therefore, probably financial, especially the need to reduce Government budget deficits through abolition of grants and tax exemptions traditionally given to state-owned enterprises. Given the involvement of the IMF this was probably the driving force behind privatisation in Angola.

Privatisation in Angola proved difficult, because of the on-going civil war. The war had in particular put off foreign investors. Local investors, on the other hand, did not have adequate capital to meet the needs of the privatisation programme. It was thus concluded that large-scale privatisation in Angola was unlikely under the present circumstances. Besides, there were a number of institutional problems, which need to be addressed in Angola, before privatisation could successfully be implemented. In particular, clear accounting regulations would be required. Also, the absence of a capital market was a huge stumbling block to developing an effective privatisation programme in Angola.

The poor implementation of the privatisation programme in Zambia and Angola highlights the importance of good leadership not only in the government, but in civil society as well. Countries in the region need to invest in building management and implementation capacities of their public services. Such capacity building programmes also have to be sustained over long periods of time to ensure that they are successful. Singapore is often cited as an example of a developing country, which had built up the capacity of its public service over a long and sustained period with visible success.

A number of critical questions arise about privatisation: first, is privatisation a last-ditch effort to stop, or address fiscal and budgetary pressures? Second, does privatisation guarantee improved performance? The efficiency argument is sometimes irrelevant, because privatisation is about ownership and not management. Again Singapore is often cited as an example as 90% of the large economic units were owned by the Government but worked efficiently. Thus even though the state does not have to go into every business, it needs to play a developmental role, especially in those areas where the private sector could not invest.

The Mauritius' State-Owned Bank can be cited as another example, which again shows the irrelevance of ownership to efficiency. Although the bank was owned by the state, it was one of the most efficient in the world. The IMF and the World Bank, however, wanted it sold to the private sector. As a result, 25% of its equity was sold to Nedbank of South Africa. Similarly, the state-owned telecommunication company of Mauritius was a successful company with subsidiaries in India and South Africa. Again the IMF prevailed on the Government to privatise it. In consequence, 40% of its equity has been sold to the French Telecommunication Company. Thus privatisation sometimes appears to be largely about finance capital getting a grip on resources in the region.

Furthermore, it was observed that most companies, which were offered for privatisation in Zambia were monopolies. As a result, some of the new owners have since sold their companies at a profit to other investors after buying at low prices from the state. This has also resulted in the creation of private sector monopolies.

The experience thus far suggests that privatisation is not necessarily a solution to underdevelopment. As a result, caution should be exercised against blind belief in the idea that the private sector is the only key to economic development. Another factor in the failure of privatisation in these countries related to the low level of participation of nationals in the economy as entrepreneurs. Failure to provide for the participation of local people results in the surrender of all or most economic opportunities to foreigners. It is therefore important to have a mechanism for local participation in the privatisation programmes.

6. CONCLUSION

While the market economy is triumphant more completely and across more of the world than ever before, it is evident also that capitalism, unmoderated by the intervention of the state, suffers from several deficiencies (Turner, 2001)

First, it does not ensure an acceptable distribution of economic opportunities or results. Orthodox economic theory tells us that a market economy will tend to maximize the size of the economic cake and real world evidence confirms that it does more effectively than any other system. But orthodox market theory tells us nothing about the distribution of property rights with which different people will or should participate in a competitive market, or whether the outcome in terms of relative income will be acceptable.

Market fundamentalists moreover assert that the market is so powerful an economic mechanism that it will generate prosperity for all, that we do not need to worry about equality because we will all be rich given time, and that unfettered markets and the lowest possible income taxes will themselves increase the size of the cake.

There is no reason to believe that the distribution of income resulting from the free flow of market forces will result (or indeed has resulted) in acceptable incomes for all, nor that the common prescriptions – such as investing in education and skills – can be relied upon to ensure more equitable societies.

However much we increase individual skills, people with the lowest relative skill will have the lowest-paying jobs, and market theory tells us nothing about whether the incomes they derive from those jobs will be adequate or acceptable. Thus poverty must be defined in both absolute and relative terms. And while taxes above a certain level will reduce incentives, there is no good case for believing that a 30 per cent top marginal rate rather than 40 per cent will increase prosperity for all. In the face of poverty and disadvantage, as is all too evident in Southern Africa, we cannot simply avoid the issue of distribution and the role of the state in economic development.

A second deficiency with the free flow of market forces is that such markets will not provide at all, or will under-provide public or collective goods. Consumer preference may include the desire for high-quality public space, and for clean air and rivers. If these collective goods are under-provided, true prosperity will be less than measured GDP suggests. To provide these goods and services, we need a state taxing, spending and regulating.

Third, some markets act in imperfect ways – ways that are so different from the perfect models of market theory that they cannot be relied upon even to maximize the size of the cake – e.g. labor markets, housing markets and liquid financial markets. Fourth, there are self-interested economic motivations which govern human behaviour and which have vital implications for the application of market principles to areas such as education and health provision. Without government intervention there may be severe under-provision of education, health and other social services especially for those at the bottom of the socio-economic ladder.

There is no doubt that the market economy is a powerful tool to achieve ends but it cannot reflect the full range of human motivation and aspirations. Free-market capitalism therefore cannot be enough. It needs to be made more human and efficient through redistribution, through the adequate provision of public goods, through correctly focused Keynesian demand management, and through

the recognition that not all markets are perfect. This is the challenge facing the governments of African countries and general and Southern African countries in particular.

The case studies examined in the paper show conclusively that free-market economic policies do not lead to growth that benefits all nor do they effectively address the critical issues of unemployment, poverty and income inequality. This is clearly illustrated in the policies of the Botswana and South African governments which have failed to get to grips with these very issues.

Two features of government intervention in Mauritius' development stand out relating to its role in the country's economic and social development. First, the state through an active industrialisation policy directed the evolution of the economy from an agriculture (sugar-dominated) base through agricultural diversification, to manufacturing and then to the development of the services sector.

Second, with respect to social development, the state through sensible use of fiscal policy, invested and continues to invest massively in education, health and in a comprehensive social security system.

By effectively combining the respective roles of the state and the market Mauritius has been able to achieve consistent growth of its economy benefiting all its citizens. This success is reflected in the fact that GDP per capita increased from US $700 in 1970 to $3600 in 2000. Between 1975 and 1998, its Human Development Index increased from 0.626 to 0.718, the second highest among all SADC countries.

In contrast to the active and direct interventionist role of the state in Mauritius, in Botswana the state chose to play a facilitative role in economic development, preferring to rely on the free market mechanism to direct economic development. Economic policy in Botswana since independence has been characterised by conservatism in fiscal policy and an unquestioning belief in the ability of the free market to bring prosperity to all citizens.

Such a policy has indeed led to a sustained period of high growth of both GDP and GDP per capita. However, it has also led to unacceptably high levels of poverty, inequality and unemployment, an inability to diversify the economic base away from minerals and agriculture, and a general absence of an integrated pattern of development.

Since the transition to democracy in 1994 South Africa has not adopted a formal Structural Adjustment Programme, but with the *Growth, Employment and Redistribution Strategy* (GEAR) it adopted similar programmes and targets.

The available data demonstrates clearly that government policies to date have resulted in substantial reductions in the fiscal deficit and in the rate of inflation, but have yet to achieve any of the growth or development targets. Moreover, these policies have failed to attract the levels of foreign direct investment that GEAR had proclaimed. Levels of unemployment, poverty and income inequality remain at unacceptably high levels.

The economic and social outcomes in Zambia following the adoption of the SAPs suggest that growth and development did not follow from the adoption of these policies. At the end of the 1990s, Zambia is undoubtedly one of the worst performers in SADC with regard to both economic and social indicators. With respect to economic growth, growth of GNP per capita, savings, investment, inflation, the HDI and the HPI, Zambia ranks amongst the bottom 4 or 5 countries in the region.

Some analysts have pointed to the fact that these outcomes were not the directly the consequence only of the adoption of the SAPs but rather the inadequate and inappropriate role of the state in the development process, the lack of internal policy capacity and the inherent corruption in the state apparatus.

With respect to globalisation it is true that much of the world including large parts of Africa have failed to participate in this process. Changing this particular situation in Southern Africa will require the governments to mobilize the collective strength of the region at the WTO, to rationalize on the current regional groupings and to determine how economic liberalization can benefit all countries in the region.

The privatization of state-owned assets is almost always a key feature of structural programmes. In Southern Africa, however, the experience with privatization has been mostly disastrous.

The consequences of a poorly-planned privatisation process in Zambia were severe. First, privatisation weakened the influence of the state in fostering industrialisation. Second, the privatisation policy was also reduced to the whims of a political party rather than a national policy. Political and economic leaders used the privatisation programme to enhance their capital accumulation. Many privatised companies subsequently collapsed, especially the ones which were sold to management buy-outs. Third, and as a consequence of the above privatisation was associated with the loss of jobs and de-industrialisation. Finally, the process was characterised by the absence of consultation with all the relevant stakeholders.

Overall, it would appear that the Zambian privatisation programme had re-established the pre-independence economic status quo, because most of the companies had been sold back to their pre-independence owners, mostly South African companies. As a consequence, public support for privatisation waned.

The poor implementation of the privatisation programme in Zambia and Angola highlights the importance of good leadership not only in government, but in civil society as well. Countries in the region need to invest in building management and implementation capacities of their public services. Such capacity building programmes also have to be sustained over long periods of time to ensure that they are successful. Singapore is often cited as an example of a developing country, which had built up the capacity of its public service over a long and sustained period with visible success.

In the Southern African context it is evident also that good leadership in the region is central to sustainable economic development. A particular problem was that historically African leaders were, by and large, were not accountable to the citizens. They also lacked a clear vision of what they wanted to achieve. Most leaders were consequently not providing effective leadership. Lack of effective leadership is therefore often seen as an important reason for the poor economic performance that has characterised the region.

Building national consensus on the priorities for development is also seen as an essential element of development. The absence of a strong civil society in most SADC countries is also a serious handicap in development efforts.

There is a view also that the failure of economies in the region is due to the fact that policies are often based on archaic models developed for other regions. These models failed in Southern Africa,

because the material conditions were different. Similarly, the Structural Adjustment Programmes (SAPs) were a product of the so-called Washington Consensus.

The SAPs have been criticised mostly for their sole focus on aligning the macro-economic fundamentals, which do not, however, address general development and generation of employment. The state therefore still has a role to play even in economies that are undertaking SAPs, because direction of markets was essential for promotion of development. To effectively direct markets, however, the state needed improved regulatory and monitoring capacity.

The Washington Consensus had been discredited in countries without proactive states, because, the market cannot address the structural rigidities inherent in most economies of poor countries. It was in fact these structural rigidities that impeded economic growth and development. Access to productive land is often cited as one of the structural rigidities, which constrained economic growth and development. Markets cannot also address the problem of enclave formal economies. State intervention is therefore essential to address the structural rigidities. It is also required to redistribute wealth, because trickle down effects tend to be slow and weak.

In Southern Africa the argument for the state to play an active role in social and economic development is compelling. However, some countries in the region appear to have abandoned the entrepreneurial or developmental role of the state, which is always required in developing economies with serious structural rigidities ranging from the lack of capital to the lack of adequate entrepreneurial skills amongst the population;

Makgetla (2001) has suggested that the developmental state must fulfil four key functions: to drive an industrial strategy, to improve social protection, to ensure more equitable distribution of assets, and to strengthen democracy in the state and the economy. She uses the concept of a "growth path" as a conceptual tool to highlight the main drivers of growth in an economy. Its key dimensions are:

- The relationships between the main economic sectors;
- The nature of the dominant markets – in particular, whether the economy focuses on exports or domestic needs, on luxury goods or basic necessities;
- Class and economic power; and
- The role of the state.

The new growth path requires four key functions from the state, going beyond the normal roles of ensuring security and basic administration.

First, the state must establish an effective *development strategy* that benefits the majority of the population. The strategy must be geared to structural change, as outlined above. But experience from around the world, notably from South East Asia, indicates that this type of strategy will work only on the basis of broad consultation, with business, labour and broader civil society. Government must set a strong framework, but experience demonstrates the need to enrich that framework with genuine consultation, especially at the sectoral level.

Government can support economic reconstruction by:

- Developing a shared vision for major sectors with business and labour, with specific commitments on that basis.
- Skills development programmes geared to new sectoral developments.

- Funding sectoral activities or investment, through incentives and/or tax relief, as well as measures to cut the cost of credit – possibilities include community re-investment rules, institutional changes in the financial sector and prescribed assets.
- Expanding markets through government procurement and tariff policies as well as by assisting with marketing systems and strategies. The latter is particularly important for both small and micro enterprise and for exports.
- Measures to reduce production costs by re-organising work and upgrading management, and by increasing State investment in infrastructure and production.

Second, the developmental state must provide *social protection* – that is, free services and grants in addition to earned household income - to combat poverty directly. Social protection must combine health, education, policing and housing in ways that support economic growth. That would provide an important stimulus to the economy, both by increasing demand and by ensuring a more productive labour force. In contrast, social protection today is often entirely delinked from economic considerations. For instance, new housing is largely provided in areas far from employment opportunities, and education is still geared primarily toward a final, academic exam rather than practical capabilities such as problem-solving and independent thought.
Improving social protection will require a review of existing fiscal policy. In effect, governments must invest more in this area in order to bring about growth, and that will likely require either higher taxes or a moderate increase in the ratio of the deficit to GDP.

Third, the state must improve the income-generating opportunities available to the poor by enhancing access to both assets and skills. Strategies for improving the distribution of wealth includes land reform; support for co-ops and micro enterprise; strengthening social capital and the public sector; and housing programmes. All of these programmes must be strengthened and accelerated. Moreover, they must be tied in explicitly to sectoral development programmes. For instance, the backward linkages from infrastructure and housing programmes should be reviewed to ensure that they maximise investment and employment.

Finally, the developmental state must ensure the democratisation of governance and the economy. This follows in part from measures to challenge the power of existing centres of capital. But it also requires the transformation of the state itself, to ensure an open, participatory democracy.

REFERENCES

African Development Bank. 2001. African Development Report 2001: Fostering Good Governance in Africa. Abidjan.

African National Congress (ANC), 1994. Reconstruction and Development Programme. Johannesburg.

ANC. 1997a. Declaration of the Mafikeng Congress.

ANC. 1997b. Resolutions of the Mafikeng Congress.

Andrade, Vincente Pinto de. 2001. "Privatisation in Angola". Paper presented at the FES Conference on 'The Role of the State in Development in Southern Africa', Lusaka, October.

Bayliss, K. 2001. Privatisation of electricity distribution: some economic, social and political perspectives. PSIRU/University of Greenwich.

Campos, J.E., and Hilton Root. 1996. The Key to the Asian Miracle: Making Shared Growth Credible. Brookings Institute, Washington, D.C.

COSATU. 2001. "Concept Paper on the Role of the State". Position Paper for the Public Service Job Summit. Pretoria.

Department of Communications. 2001. Telecommunications Policy Directions. Pretoria. Government Gazette. March 20.

Department of Finance. 1996. Growth, Employment and Redistribution: A Macroeconomic Strategy. Pretoria.

Department of Public Enterprises (DPE). 2000. An Accelerated Agenda Towards the Restructuring of State-Owned Enterprise: Policy Framework. Pretoria.

Department of Trade and Industry (DTI). 2001. Driving Competitiveness: An Integrated Industrial Strategy for Sustainable Employment and Growth. Pretoria.

Economist, The. 2002. "Globalisation – Is it at risk?". February 2.

Mashakada, Tapiwa. 2001. "Possible Ways to the Future: State Policies in a Liberalized State – Macroeconomic Policy Post-Washington Consensus", Paper presented at the FES Conference on 'The Role of the State in Development in Southern Africa', Lusaka, October.

Matambalya, Francis A.S.T. 2001. "Tanznaia's Integration with a Liberal Global Economy: A Critical Assessment of Selected Trade and Investment Indicators". Paper presented at the FES Conference on 'The Role of the State in Development in Southern Africa', Lusaka, October.

National Treasury. 2000 and 2001. Budget Reviews 2000 and 2001. Pretoria.

Ndulo, Manenga. 2001. "Privatisation in Zambia". Paper presented at the FES Conference on 'The Role of the State in Development in Southern Africa', Lusaka, October.

Ng'andwe, Chiselebwe. 2001. "Structural Adjustment, Liberalization, and Privatisation in Zambia". Paper presented at the FES Conference on 'The Role of the State in Development in Southern Africa', Lusaka, October.

Pillay, Pundy. 2001a. "South Africa's Key Economic Challenges: Issues for Discussion". FES, Johannesburg.

Pillay, Pundy. 2001b. "The State of the Southern African Economies". Paper presented at the FES Conference on 'The Role of the State in Development in Southern Africa', Lusaka, October.

Republic of Botswana. 1985. National Development Plan, NDP7, 1985-1991. Gaborone.

Rodrik, Dani. 1997. "The 'Paradoxes' of the Successful State", European Economic Review 41:411-442.

Saasa, Oliver S. 2001. "Southern Africa in the World Economy: Globalisation and International Pressures", Paper presented at the FES Conference on 'The Role of the State in Development in Southern Africa', Lusaka, October.

Sentsho, J. 2001. "The Role of the State in Botswana's Economic Development", Paper presented at the FES Conference on 'The Role of the State in Development in Southern Africa', Lusaka, October.

Shayo, Rose. 2001. "Gender Issues in the Agricultural Sector: A Case Study of Tanzania". Paper presented at the FES Conference on 'The Role of the State in Development in Southern Africa', Lusaka, October.

Sikwibele, Anne. 2001. "Education as a Pre-Condition for Economic Development". Paper presented at the FES Conference on 'The Role of the State in Development in Southern Africa', Lusaka, October.

South African Reserve Bank, 2000. Quarterly Bulletin. June. Pretoria.

United Nations Development Programme (UNDP). 2000. SADC Regional Human Development Report. Harare.

UNDP, 2001. Human Development Report, 2001. New York.

Venkataswamy, K. 2001. "Mauritius". Paper presented at the FES Conference on 'The Role of the State in Development in Southern Africa', Lusaka, October.

APPENDIX A: HUMAN DEVELOPMENT INDICATORS

UNDP's 1990 *Human Development Report* defined human development as "the process of enlarging people's (basic) choices". Irrespective of the level of development of a country, the basic choices are for people to lead long and healthy lives, to be educated and to have access to resources for a decent standard of living. These choices are basic in the sense that without them other choices (e.g. political, economic, social freedoms), equally valued, are not available to people. From the human development perspective, economic growth is seen not as an end in itself but only a means to human development.

In subsequent Human Development Reports, UNDP refined and extended the concept of Human Development to include four basic components. The first component is the creation of capabilities – improved health, knowledge and skills so that people can increase their productivity and participate fully in income generation and remunerative employment. The second component is that all barriers to economic and political opportunities must be eliminated so that people have equal access to and benefits from these opportunities. The third component is that people must participate fully in the decisions and processes that affect their lives. The fourth component relates to the sustainability of the development process where human development is sustainable only if the present generation can earn its living without compromising the ability of future generations to do the same and vice versa. (SADC Regional Human Development Report 2000:30).

The 1990 *Human Development Report* proposed an index known as the Human Development Index (HDI) to provide a general measure of human development. The HDI is a composite of three basic components of human development: longevity, education and living standards. These components are expressed in the HDI by the index of life expectancy at birth, the education index (measured by a combination of adult literacy and the combined gross enrolment ratio at primary, secondary and tertiary levels), and the gross domestic product (GDP) index (measured by real per capita GDP converted to US dollars or international dollars using purchasing power parities).

The HDI focuses the attention of policy makers on important challenges of development. It provides a general measure of human progress in a country as an alternative to gross domestic product. Moreover, on the basis of this index, it is possible to compare human progress in different countries, in different regions (as this chapter does), or among different groups of people within the same country. Usually countries and regions are classified into those with low human development (HDI lower than 0.500), those with medium human development (HDI between 0.500 and 0.799) and those with high human development (HDI equal to or higher than 0.800).

As human development is much broader than the HDI shows, three other indices have been constructed. The Gender-related HDI (GDI) uses the same variables as the HDI but adjusts the average achievement of each country in terms of life expectancy, education level and income according to the disparity in the achievements of women and men. The greater the disparity between women and men, the lower is the value of the GDI relative to the HDI. The Gender Empowerment Measure (GEM) reflects the degree of inequality between women and men in the areas of economic and political participation and decision-making.

The Human Poverty Index (HPI) is used to measure poverty. Unlike the HDI which measures overall human progress, the HPI measures the distribution of progress and backlogs of deprivation in the various dimensions of the HDI. Specifically for developing countries, the HPI measures the proportion of the population affected by deprivation in survival (probability of dying before 40), deprivation in knowledge (percentage of adults who are illiterate) and deprivation in economic

provisioning (percentage of people without access to health services and safe water as well as the percentage of underweight children below five years).

APPENDIX B: SOME ECONOMIC AND SOCIAL INDICATORS FOR SADC

Table 1 : Basic Indicators

COUNTRY	AREA ('000Sq. Km)	POPULATION (Millions) 2000	GNP PER CAPITA (US $) 1999	CONSUMER PRICE INFLATION (%) 2000	LIFE EXPECTANCY AT BIRTH (Years) 1999	INFANT MORTALITY RATE (per 1000) 1999	ADULT ILLITERACY RATE (%) 1999
Angola	1,247	12,878	220	120.0	48	115	...
Botswana	600	1,622	3,240	8.2	43	59	24
Congo, Dem. Rep.	2,345	51,654	...	540.0	52	79	40
Lesotho	30	2,153	550	6.0	53	89	17
Malawi	118	10,925	190	27.0	40	129	41
Mauritius	2	1,158	3,590	4.0	72	14	16
Mozambique	802	19,680	230	12.0	40	115	57
Namibia	824	1,726	1,890	8.7	43	72	19
Seychelles	0.5	77	6,540	6.8	...	...	...
South Africa	1,221	40,377	3,160	4.0	48	62	15
Swaziland	17	1,008	1,360	0.2	62	58	21
Tanzania	945	33,517	240	6.1	48	76	25
Zambia	753	9,169	320	24.5	42	76	23
Zimbabwe	391	11,669	520	56.3	42	67	12
Africa	**30,061**	**783,446**	**684**	**12.7**	**53**	**76**	**39**

Table 2 : Gross Domestic Product, Real
(Average Annual Growth Rates)

COUNTRY	Average Annual Real Growth R	
	1980-1990	1991-200
Angola	1.5	-0.3
Botswana	10.5	5.5
Congo, Dem. Rep.	1.1	-6.0
Lesotho	4.0	3.8
Malawi	2.0	3.8
Mauritius	4.6	5.3
Mozambique	-1.8	5.9
Namibia	0.8	4.5
Seychelles	2.9	3.5
South Africa	1.9	1.5
Swaziland	6.2	2.9
Tanzania	3.4	2.6
Zambia	1.3	0.2
Zimbabwe	5.4	3.0
Africa	**2.5**	**2.3**

Table 3 : Overall Government Deficit (-) / Surplus (+)
As a Percentage of GDP at Current Prices

COUNTRY	Annual Average	
	1980-1990	1991-2000
Angola	-10.2	-16.8
Botswana	9.0	4.1
Congo, Dem. Rep.	-6.3	-15.0
Lesotho	-9.7	0.2
Malawi	-7.1	-6.8
Mauritius	-6.3	-3.2
Mozambique	-8.0	-3.2
Namibia	-0.1	-3.9
Seychelles	-8.3	-9.9
South Africa	-4.0	-4.9
Swaziland	-0.7	-1.3
Tanzania	-5.8	-1.9
Zambia	-13.2	-3.3
Zimbabwe	-7.8	-7.4
Africa	**-6.4**	**-4.0**

Table 4 : Gross National Savings
(Percentage of GDP)

COUNTRY	Annual Average	
	1980-1990	1991-2000

Angola	12.4	10.7
Botswana	34.6	38.6
Congo, Dem. Rep.	6.1	-1.6
Lesotho	31.9	19.2
Malawi	11.2	1.3
Mauritius	20.8	28.3
Mozambique	-4.6	7.2
Namibia	19.5	24.4
Seychelles	11.8	26.2
South Africa	23.8	15.9
Swaziland	9.7	16.9
Tanzania	16.7	8.6
Zambia	8.9	9.8
Zimbabwe	14.7	14.3
Africa	**18.3**	**16.9**

Table 5 : Gross Domestic Investment (Percentage of GDP)

COUNTRY	Annual Average	
	1980-1990	1991-2000
Angola	14.9	15.7
Botswana	29.7	28.7
Congo, Dem. Rep.	11.5	6.6
Lesotho	41.2	53.9
Malawi	18.7	17.0
Mauritius	24.3	27.9
Mozambique	8.7	22.0
Namibia	19.8	21.8
Seychelles	26.2	31.9
South Africa	18.7	16.1
Swaziland	25.9	26.3
Tanzania	22.1	20.3
Zambia	16.2	13.7
Zimbabwe	17.3	19.6
Africa	**21.6**	**19.0**

Table 6 : Total External Debt

COUNTRY	Average Annual Growth (%)	
	1980-1990	1991-1999
Angola	2.4	-0.1
Botswana	15.0	-1.3
Congo, Dem. Rep.	9.0	5.1

Lesotho	18.7	8.1
Malawi	8.1	4.7
Mauritius	9.7	4.9
Mozambique	18.3	5.8
Namibia	...	-5.1
Seychelles	20.6	3.6
South Africa	2.8	8.3
Swaziland	1.0	0.9
Tanzania	8.6	2.8
Zambia	7.7	-1.6
Zimbabwe	9.9	5.5
Africa	**7.6**	**1.7**

Table 7 : Total Debt Service
(Millions of US Dollars)

COUNTRY	Average Annual Growth (%)	
	1980-1990	1991-1999
Angola	24.5	...
Botswana	...	-1.4
Congo, Dem. Rep.	-4.3	...
Lesotho	50.0	14.4
Malawi	1.4	2.1
Mauritius	71.0	1.9
Mozambique	...	37.8
Namibia	...	-7.1
Seychelles	80.2	9.1
South Africa	1.5	10.1
Swaziland	15.9	1.2
Tanzania	...	...
Zambia	...	12.4
Zimbabwe	8.4	3.4
Africa	**2.1**	**7.0**

Table 8 : Current Account
(As Percentage of GDP)

COUNTRY	Annual Average	
	1980-1990	1991-2000
Angola	-4.0	-14.5
Botswana	0.6	8.6
Congo, Dem. Rep.	-5.2	-10.0
Lesotho	-13.3	-29.8
Malawi	-6.0	-8.9
Mauritius	-3.9	0.1
Mozambique	-13.7	-19.7

Namibia	1.2	4.1
Seychelles	-12.2	-4.9
South Africa	0.9	-0.2
Swaziland	-11.2	-0.9
Tanzania	-4.7	-11.5
Zambia	-10.7	-5.7
Zimbabwe	-4.1	-4.9
Africa	**-2.9**	**-2.1**

Table 9 : Consumer Price Indices (General)

COUNTRY	Average Annual Change (%) 1980-1990	1991-2000
Angola	1.8	2583.4
Botswana	10.9	10.3
Congo, Dem. Rep.	62.9	3444.0
Lesotho	13.6	10.3
Malawi	16.3	32.1
Mauritius	11.4	6.7
Mozambique	52.3	30.6
Namibia	17.5	9.9
Seychelles	4.0	1.9
South Africa	14.6	8.9
Swaziland	13.9	9.9
Tanzania	30.7	20.2
Zambia	46.2	70.4
Zimbabwe	13.2	31.6
Africa	**15.7**	**23.0**

Table 10 : Terms of Trade
(Average Annual Growth Rates)

COUNTRY	Average Annual Growth (%) 1980-1990	1991-2000
Angola	-3.7	5.4
Botswana	14.8	6.5
Congo, Dem. Rep.	-0.2	2.1
Lesotho	-0.0	-0.0
Malawi	-3.8	-2.8
Mauritius	4.3	2.4
Mozambique	3.8	0.7
Namibia	0.2	-0.5
Seychelles	27.0	4.0
South Africa	5.3	-0.4

Swaziland	2.7	-0.2
Tanzania	-7.2	0.2
Zambia	-1.6	0.0
Zimbabwe	4.7	1.8
Africa	**-2.4**	**1.1**

Table 11 : International Reserves
(Annual Average Growth Rates)

COUNTRY	Annual Average 1980-1990	1991-2000
Angola	...	...
Botswana	28.8	6.2
Congo, Dem. Rep.	1.2	-10.8
Lesotho	6.7	26.9
Malawi	33.8	23.5
Mauritius	62.4	0.6
Mozambique	32.1	15.5
Namibia	...	38.2
Seychelles	9.7	145.1
South Africa	-1.2	21.4
Swaziland	8.9	9.2
Tanzania	68.4	20.5
Zambia	32.0	-7.0
Zimbabwe	-0.9	12.3
Africa	**4.4**	**9.1**

Table 12 : Components of Population Change

	Total Fertility Rate (Per Woman)		Crude Birth Rate (Per 1000 Population)		Crude Death Rate (Per 1000 Population)		Rate of Natural Increase (Percent)	
COUNTRY	1980	1999	1980	1999	1980	1999	1980	1999
Angola	7.0	6.4	50.8	46.2	22.8	16.9	2.8	2.9
Botswana	6.0	4.0	44.1	32.2	9.5	18.9	3.5	1.3
Congo, Dem. Rep.	6.7	6.0	48.3	43.6	16.4	13.3	3.2	3.0
Lesotho	5.3	4.5	38.9	34.2	13.8	13.6	2.5	2.1
Malawi	7.6	6.3	53.5	45.6	21.6	21.8	3.2	2.4
Mauritius	2.5	1.9	22.0	15.9	6.5	6.5	1.6	0.9
Mozambique	6.5	5.9	45.8	41.7	20.2	22.9	2.6	1.9
Namibia	5.8	4.6	40.5	34.5	13.6	20.3	2.7	1.4
Seychelles	...	...	...	...	...	...	...	...
South Africa	4.2	3.0	31.8	25.6	11.1	17.0	2.1	0.9
Swaziland	6.0	4.4	43.1	35.7	13.7	8.1	2.9	2.8
Tanzania	6.7	5.1	46.5	39.4	15.0	15.1	3.1	2.4
Zambia	6.9	5.1	48.4	41.0	14.8	18.3	3.4	2.3
Zimbabwe	6.2	3.4	43.1	30.1	11.8	19.5	3.1	1.1

Africa	6.4	4.8	43.2	36.3	16.9	13.7	2.8	2.3

Table 13 : Population With Access to Social Infrastructures
(Percent of Population)

	Sanitation		Safe Water		Health Services	
COUNTRY	1985	1994-98	1985	1994-98	1985	1992-96
Angola	18	32	28	32	70	...
Botswana	36	90	77	90	...	...
Congo, Dem. Rep.	23	47	33	47	33	26
Lesotho	22	62	36	62	50	80
Malawi	60	60	32	60	54	35
Mauritius	97	98	99	98	100	100
Mozambique	20	46	15	46	40	39
Namibia	14	83	52	83	72	59
Seychelles	99	83	95	83	99	...
South Africa	...	70	...	70	...	...
Swaziland	...	50	54	50	...	...
Tanzania	64	66	52	66	73	42
Zambia	47	53	48	53	70	...
Zimbabwe	26	79	52	79	71	85
Africa	**35**	**58**	**42**	**58**	**60**	**64**

Table 14 : Labour Force By Sector
(Percent In)

	Agriculture		Industry		Services	
COUNTRY	1980	1996	1980	1996	1980	1996
Angola	74	68	10	11	17	21
Botswana	70	42	13	41	17	17
Congo, Dem. Rep.	71	60	13.0	17	16	23
Lesotho	86	81	4	6	10	13
Malawi	83	70	7.0	17	9	13
Mauritius	28	20	24	23	48	57
Mozambique	84	81	7	10	8	9
Namibia	43	40	22	37	36	23
Seychelles	...	...	...	...	...	...
South Africa	17	...	35	...	48	...
Swaziland	74	64	9	13	17	23
Tanzania	86	79	5	7	10	14
Zambia	73	68	10	12	17	20
Zimbabwe	73	66	10	14	17	20
Africa	**70**	**62**	**11**	**15**	**19**	**23**

Table 15 : Labour Force Participation Rate
(Percentage of population of all ages in labour force)

COUNTRY	Total		Female		Male	
	1980	1999	1980	1999	1980	1999
Angola	49.5	45.9	45.7	42.0	53.3	49.9
Botswana	43.6	44.0	41.8	39.4	45.5	48.8
Congo, Dem. Rep.	44.4	41.1	38.8	35.4	50.4	47.0
Lesotho	42.0	41.8	30.9	30.5	53.8	53.6
Malawi	50.3	47.6	49.3	46.0	51.4	49.3
Mauritius	35.5	43.6	18.0	28.1	53.5	59.1
Mozambique	55.3	51.8	53.3	49.5	57.3	54.1
Namibia	43.3	41.3	34.4	33.5	52.7	49.0
Seychelles	...	...	...	...	...	...
South Africa	38.3	40.9	26.8	30.7	50.0	51.5
Swaziland	35.7	35.7	23.5	25.8	48.0	46.2
Tanzania	51.2	51.1	50.2	49.9	52.2	52.4
Zambia	41.8	41.8	37.2	37.1	46.7	46.5
Zimbabwe	44.9	47.8	39.5	42.2	50.4	53.6
Africa	**42.9**	**43.3**	**34.2**	**35.0**	**51.7**	**51.6**

Table 16 : Human Development Index

HDI Rank and Country	Life expectancy at birth (years) 1998	Adult literacy rate (% age 15 and above) 1998	Combined primary secondary and tertiary gross enrolment ratio (%) 1998	GDP per capita (PPP US$) 1998	Human development index (HDI) value 1998	GDP per capita (PPP US$) rank minus HDI rank
53 Seychelles	71.0	84.0	76	10,600	0.786	-12
71 Mauritius	71.6	83.8	63	8,312	0.761	-21
103 South Africa	53.2	84.6	95	8,488	0.697	-54
112 Swaziland	60.7	78.3	72	3,816	0.655	-19
115 Namibia	50.1	80.8	84	5,176	0.632	-40
122 Botswana	46.2	75.6	71	6,103	0.593	-57
127 Lesotho	55.2	82.4	57	1,626	0.569	6
130 Zimbabwe	43.5	87.2	68	2,669	0.555	-18
152 Congo, Dem. Rep. of the	51.2	58.9	33	822	0.430	8
153 Zambia	40.5	76.3	49	719	0.420	12
156 Tanzania, U. Rep. of	47.9	73.6	33	480	0.415	17
160 Angola	47.0	42.0	25	1,821	0.405	-34
163 Malawi	39.5	58.2	75	523	0.385	9
168 Mozambique	43.8	42.3	25	782	0.341	-6
All developing countries	64.7	72.3	60	3,270	0.642	-
Sub-Saharan Africa	48.9	58.5	42	1,607	0.464	-
OECD	76.4	97.4	86	20,357	0.893	-
High human development	77.0	98.5	90	21,799	0.908	-
Medium human development	66.9	76.9	65	3,458	0.673	-
Low human development	50.9	48.8	37	994	0.421	-
High income	77.8	98.6	92	23,928	0.920	-
Medium income	68.8	87.8	73	6,241	0.750	-
Low income	63.4	68.9	56	2,244	0.602	-
World	66.9	78.8	64	6,526	0.712	-

Table 17 : Gender-related Development Index

HDI Rank and Country	Gender-related development index (GDI) 1998		Life expectancy at birth (years) 1998		Adult literacy rate (% age 15 and above) 1998		Combined primary secondary and tertiary gross enrolment ratio (%) 1997	
	Adjusted Rank	Value	Female	Male	Female	Male	Female	Male
53 Seychelles	..	..	..	..	..	..	..	..
71 Mauritius	61	0.750	75.3	68.1	80.3	87.3	63	62
103 South Africa	72	0.689	56.2	50.3	83.9	85.4	94	93
112 Swaziland	93	0.646	63.0	58.4	77.3	79.5	70	74
115 Namibia	98	0.624	50.6	49.5	79.7	81.9	84	80
122 Botswana	91	0.584	47.1	45.1	78.2	72.8	71	70
127 Lesotho	104	0.556	56.4	54.0	92.9	71.0	61	53
130 Zimbabwe	99	0.551	44.0	43.1	82.9	91.7	66	71
152 Congo, Dem. Rep. of the	121	0.418	52.7	49.6	47.1	71.3	27	38
153 Zambia	122	0.413	41.0	39.9	69.1	84.0	46	53
156 Tanzania, U. Rep. of	125	0.410	49.0	46.8	64.3	83.3	32	33
160 Angola	..	..	48.6	45.4	..	..	23	28
163 Malawi	132	0.375	39.8	39.2	44.1	73.2	70	79
168 Mozambique	137	0.326	45.0	42.6	27.0	58.4	20	29
All developing countries	-	0.634	66.4	63.2	64.5	80.3	55	63
Sub-Saharan Africa	-	0.459	50.3	47.6	51.6	68.0	37	46
OECD	-	0.889	79.6	73.2	96.7	98.2	86	86
World	-	0.706	69.1	64.9	73.1	84.6	60	67

Table 18 : Trends in Human Development and Per Capita Income

HDI Rank and Country		Human Development Index (HDI)					GDP per capita (1995 US$)					Average annual rate of change in GDP per capita (%)
		1975	1980	1985	1990	1998	1975	1980	1985	1990	1998	1975-98
53	Seychelles	..	..	..	..	0.786	3,600	4,882	4,957	6,297	7,192	3.1
71	Mauritius	0.626	0.652	0.682	0.718	0.761	1,531	1,802	2,151	2,955	4,034	4.3
103	South Africa	0.645	0.659	0.678	0.705	0.697	4,574	4,620	4,229	4,113	3,918	-0.7
112	Swaziland	0.505	0.536	0.564	0.613	0.655	1,073	1,046	1,035	1,446	1,409	1.2
115	Namibia	..	0.607	0.624	0.644	0.632	..	2,384	2,034	1,948	2,133	-0.6
122	Botswana	0.492	0.554	0.611	0.651	0.593	1,132	1,678	2,274	3,124	3,611	5.2
127	Lesotho	0.466	0.506	0.531	0.561	0.569	220	311	295	370	486	3.5
130	Zimbabwe	0.519	0.546	0.606	0.599	0.555	686	638	662	706	703	0.1
152	Congo, Dem. Rep. of the	0.416	0.430	0.447	0.450	0.430	392	313	293	247	127	-4.8
153	Zambia	0.444	0.456	0.470	0.451	0.420	641	551	483	450	388	-2.2
156	Tanzania, U. Rep. of	..	..	..	0.406	0.415	..	..	..	175	173	0.2
160	Angola	..	..	..	..	0.405	..	698	655	667	527	-1.6
163	Malawi	0.312	0.336	0.347	0.348	0.385	157	169	161	152	166	0.2
168	Mozambique	..	0.302	0.297	0.328	0.341	..	166	115	144	188	0.7
All developing countries		..	..	..	..	0.642	720	1,170	1,520	2,170	3,260	-
Sub-Saharan Africa		..	..	..	..	0.464	780	1,070	1,170	1,450	1,520	-
OECD		..	..	..	..	0.893	5,390	8,690	11,210	16,040	20,360	-
World		..	..	..	..	0.712	1,880	2,970	3,740	5,150	6,400	-

Table 19 : Human Poverty

HDI Rank and Country	Human poverty index (HPI-1) 1998 Rank	Value (%)	People not expected to survive to age 40 (%) 1998	Adult illiteracy rate (% age 15 and above) 1998	Population without access: To safe water (%) 1990-98	To health services (%) 1981-93	To sanitation (%) 1990-98	Under-weight children under age five (%) 1990-98	Poorest 20% (%) 1987-98	Richest 20% (%) 1987-98	Richest 20% to poorest 20% 1987-98	Population below income poverty line (%): $1 a day (1993 PPP US$) 1989-98	National poverty line 1987-97
53 Seychelles	..	..	..	..	..	1	..	6	..	..	..	..	..
71 Mauritius	14	11.6	4.8	16.2	2	1	0	16	..	..	..	..	10.6
103 South Africa	33	20.2	25.9	15.4	13	..	13	9	2.9	64.8	22.3	11.5	..
112 Swaziland	45	27.4	20.2	21.7	50	45	41	10	2.7	64.4	23.9	..	..
115 Namibia	44	26.6	33.5	19.2	17	..	38	26	..	..	..	34.9	..
122 Botswana	48	28.3	37.1	24.4	10	14	45	17	..	..	..	33.3	..
127 Lesotho	40	23.3	26	17.6	38	20	62	16	2.8	60.1	21.5	43.1	49.2
130 Zimbabwe	52	30.0	41.0	12.8	21	29	48	15	4.0	62.3	15.6	36.0	25.5
152 Congo, Dem. Rep. of the	..	..	31.7	41.1	32	0	..	..	..	..	..	..	..
153 Zambia	64	37.9	46.2	23.7	62	25	29	24	4.2	54.8	13.0	72.6	86.0
156 Tanzania, U. Rep. of	50	29.2	35.4	26.4	34	7	14	27	6.8	45.5	6.7	19.9	51.1
160 Angola	..	..	37.7	..	69	76	60	42	..	..	..	..	..
163 Malawi	69	41.9	47.5	41.8	53	20	97	30	..	..	..	..	54.0
168 Mozambique	79	50.7	41.9	57.7	54	70	66	26	6.5	46.5	7.2	37.9	..
All developing countries	-	..	14.3	27.6	28	..	56	31	..	..	..	..	..
Sub-Saharan Africa	-	..	34.6	40.6	46	..	52	31	..	..	..	..	..
OECD	-	..	3.9	..	..	..	..	..	..	..	..	..	..
World	-	..	12.3	24.8	27	..	..	30	..	..	..	..	..

Table 20 : Food Security and Nutrition

HDI Rank and Country	Daily per capita supply of calories		Food production index (1989-91 = 100)
	1970	1997	1998
53 Seychelles	1,930	2,487	143
71 Mauritius	2,355	2,917	109
103 South Africa	2,831	2,990	97
112 Swaziland	2,347	2,483	96
115 Namibia	2,162	2,183	124
122 Botswana	2,103	2,183	91
127 Lesotho	1,986	2,243	100
130 Zimbabwe	2,225	2,145	93
152 Congo, Dem. Rep. of the	2,178	1,755	95
153 Zambia	2,173	1,970	94
156 Tanzania, U. Rep. of	1,770	1,995	103
160 Angola	2,103	1,903	143
163 Malawi	2,359	2,043	116
168 Mozambique	1,896	1,832	140
All developing countries	2,145	2,663	..
Sub-Saharan Africa	2,271	2,237	..
OECD	3,033	3,380	..
World	2,358	2,791	..

Table 21 : Demographic Trends

HDI Rank and Country	Annual population growth rate (%)		Dependency ratio (%)		Total fertility rate		Contraceptive prevalence rate (%)
	1975-1998	1998-2015	1998	2015	1970-1975	1995-2000	1990-99
53 Seychelles	1.1	1.0	..	..	..	..	..
71 Mauritius	1.1	0.8	47.6	42.0	3.2	1.9	75
103 South Africa	2.0	0.6	63.9	53.6	4.8	3.3	50
112 Swaziland	3.0	2.6	85.3	68.9	6.5	4.7	21
115 Namibia	2.7	1.2	83.9	74.5	6.0	4.9	29
122 Botswana	3.2	1.3	82.6	64.7	6.6	4.4	48
127 Lesotho	2.4	2.0	79.1	72.7	5.7	4.8	23
130 Zimbabwe	2.7	1.0	82.1	56.3	7.2	3.8	66
152 Congo, Dem. Rep. of the	3.3	2.9	103.1	89.2	6.3	6.4	8
153 Zambia	2.6	2.2	99.7	78.5	6.9	5.6	26
156 Tanzania, U. Rep. of	3.1	2.3	93.6	78.8	6.8	5.5	18
160 Angola	3.0	2.9	102.2	88.0	6.6	6.8	8
163 Malawi	3.0	2.5	99.6	86.1	7.4	6.8	22
168 Mozambique	2.6	1.7	92.8	84.5	6.5	6.3	10
All developing countries	2.0	1.4	61.7	50.7	5.4	3.0	..
Sub-Saharan Africa	2.8	2.3	91.0	77.6	6.7	5.5	..
OECD	0.8	0.4	50.3	50.9	2.5	1.8	..
World	1.6	1.1	59.0	50.6	4.5	2.7	..

Table 22 : Progress in Survival

HDI Rank and Country	Life expectancy at birth (years)		Infant mortality rate (per 1,000 live births)		Under-five mortality rate (per 1,000 live births)		People not expected to survive to age 60 (%)	Maternal mortality ratio reported (per 100,000 live births)
	1970-1975	1995-2000	1970	1998	1970	1998	1995-2000	1990-1998
53 Seychelles	..	..	..	14	..	18	..	..
71 Mauritius	62.9	71.4	64	19	86	23	18.7	50
103 South Africa	53.6	54.7	80	60	115	83	50.5	..
112 Swaziland	47.3	60.2	140	64	209	90	34.5	230
115 Namibia	48.7	52.4	104	57	155	74	52.4	230
122 Botswana	53.2	47.4	98	38	139	48	68.3	330
127 Lesotho	49.5	56.0	125	94	190	136	43.3	..
130 Zimbabwe	51.5	44.1	86	59	138	89	74.5	400
152 Congo, Dem. Rep. of the	46.1	50.8	147	128	245	207	52.4	..
153 Zambia	47.3	40.1	109	112	181	202	79.5	350
156 Tanzania, U. Rep. of	46.5	47.9	129	91	218	142	61.1	530
160 Angola	38.0	46.5	179	170	301	292	54.4	..
163 Malawi	41.0	39.3	189	134	330	213	72.5	620
168 Mozambique	42.5	45.2	163	129	278	206	60.9	1,000
All developing countries	55.6	64.4	110	64	168	93	28.0	..
Sub-Saharan Africa	45.0	48.9	138	106	226	172	56.4	..
OECD	70.4	76.2	40	12	52	14	12.5	
World	59.9	66.7	97	58	148	84	25.2	..

Table 25 : Gender and Education

HDI Rank and Country	Female adult literacy Rate (% age 15 and above) 1998	Index (1985=100) 1998	As % of male rate 1998	Female primary age group enrolment (adjusted) Ratio (%) 1997	Index (1985=100) 1997	As % of male ratio 1997	Female secondary age group enrolment adjusted Ratio (%) 1997	Index (1985=100) 1997	As % of male ratio 1997	Female tertiary students			Female tertiary science enrolment (as % of female tertiary students) 1994-97
53 Seychelles	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Mauritius	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
103 South Africa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
112 Swaziland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
115 Namibia	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
122 Botswana	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
127 Lesotho	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
130 Zimbabwe	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
152 Congo, Dem. Rep. of the	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
153 Zambia	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
156 Tanzania, U. Rep. of	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
160 Angola	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
163 Malawi	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
168 Mozambique	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
All developing countries	64.5	122	80	82.7	108	94	54.8	128	83	..	..	..	..
Sub-Saharan Africa	51.6	146	76	51.8	101	85	35.8	111	..	..	..	..	..
OECD	..	..	..	99.7	101	100	87.8	106	98	..	..	..	..
World	..	..	..	85.1	119	95	60.8	119	87	..	..	..	..

Table 26 : Gender and Economic Activity

HDI Rank and Country	Female economic activity rate (age 15 and above) Rate (%) 1998	Index (1985 = 100) 1998	As % of male rate 1998
53 Seychelles	..	..	..
71 Mauritius	37.4	121.0	47.1
103 South Africa	46.2	103.5	58.7
112 Swaziland	41.9	105.0	51.9
115 Namibia	53.9	100.8	67.1
122 Botswana	64.7	95.0	77.6
127 Lesotho	47.1	100.2	55.8
130 Zimbabwe	66.6	99.6	78.0
152 Congo, Dem. Rep. of the	61.1	97.2	72.4
153 Zambia	65.4	97.9	76.2
156 Tanzania, U. Rep. of	82.1	97.8	92.9
160 Angola	73.1	97.8	81.7
163 Malawi	78.3	97.7	90.3
168 Mozambique	83.0	97.7	91.8
All developing countries	55.6	102.3	66.1
Sub-Saharan Africa	62.0	99.1	72.1
OECD	50.8	108.3	69.3
World	55.0	103.1	67.8

APPENDIX C: ECONOMIC TRENDS IN SOUTH AFRICA

South Africa is by far the largest economy in SADC accounting for four-fifths of total output in the region. The economic crisis in that country does impact on regional development. This section (taken from Makgetla, 2001) highlights some aspects of this crisis in the dominant economy of the region.

It is clear that GEAR failed to achieve most of its targets, as Table C1 demonstrates. Only the fiscal and tariff targets were realized. However, the objectives set for economic growth, investment, job creation and interest rates have all been missed by substantial margins.

Table C1. GEAR Projections and Actual Achievements, 1996-‘99

	Annual average, 1996-‘99	
	Projected in GEAR	**Actual**
Projections		
Fiscal deficit as percentage of GDP	3.7%	3.1%
Real government consumption as % of GDP	19.0%	19.6%
Average tariff as % of imports	7.6%	4.4%
Real bank rate[a]	4.4%	12.3%
Real private sector investment growth	11.7%	1.2%
Real non-gold export growth[b]	8.4%	6.7%
Outcomes		
GDP growth	4.2%	2.4%
Inflation (CPI)	8.2%	6.6%
Annual change in formal, non-agricultural employment[c]	270,000	-125,200

Sources: South African Reserve Bank, *Quarterly Bulletin,* June 2000; Department of Finance, *Budget Review 2000*; Department of Trade and Industry, Economics Database. *Notes:* a. for actuals, residential bond rate less CPI. b. for actuals, real non-mining export growth. c. figures for 1996 to 2000.

More fundamentally, the economic data paint a picture of a long-term structural crises masked in part by cyclical upturns and crises as well as political factors. The trend toward stagnation started in the mid-‘80s, accelerating from the mid-‘90s. The real problem is that government policies have failed to reverse these trends.

Unemployment climbed from 16 per cent in 1995 to around 25 per cent today (calculated from Statistics South Africa 2001a). This reflects both a loss in formal jobs, partially offset by an increase in informal and survivalist employment, and the natural expansion in the labour force.

The biggest job losses were in mining, manufacturing, the public service and agriculture. Even where economic growth picked up, from the end of 2000, the loss of formal jobs persisted.

Table C2. Formal Job Losses, 1990-2001

	employment in thousands		average annual % change		
	1990	2001	1990-'96	1996-2000	2000-'01
Total	***5 420***	***4 676***	***-0.6%***	***-2.3%***	***-2.1%***
Government services	1 320	1 443	2.8%	-1.3%	-2.1%
Manufacturing	1 549	1 269	-0.8%	-3.0%	-2.7%
Wholesale, retail and hotels	812	878	-1.0%	3.5%	0.4%
Mining and quarrying	705	412	-3.5%	-7.5%	-1.1%
- gold	*499*	*211*	*-5.7%*	*-11.2%*	*-3.4%*
- non-gold	*206*	*201*	*1.0%*	*-2.4%*	*1.4%*
Transport, storage, communication	364	209	-4.3%	-4.4%	-10.8%
Construction	420	218	-3.8%	-9.4%	-2.7%
Financial institutions	185	197	2.3%	-1.8%	-0.2%
Electricity, gas and water	51	40	-4.1%	0.1%	0.3%

Source: Statistics South Africa, STEE, at *statssa.gov.za*

Surveys suggest that growth in informal employment partially offset the loss of formal jobs. Unfortunately, it appears that some of the growth reflected a gradual relaxation in Statistics South Africa's definition of employment. The largest increase occurred between 1998 and 1999, when informal employment purportedly climbed a rather astonishing 40 per cent in one year. But Statistics South Africa itself pointed out that the increase was largely due to the inclusion of subsistence farmers that had previously been excluded (Statistics South Africa 2001a).

More generally, because the data treat virtually any income-earning activity as employment, irrespective of income or hours, the purported informal sector largely constitutes survival strategies rather than acceptable livelihoods. Some two thirds of informal employees in 2000 were peasants and hawkers. Almost 20 per cent reported no income during the month, while another 43 per cent said they earned under R500 a month. In short, the growth in the informal sector promised neither to raise national productivity nor to support most workers in the sector.

Investment languished persistently at under 20 per cent of the GDP. In 2000, investment fell to 14,9 per cent of GDP – the lowest level since 1993. Overall, it remains biased toward capital-intensive sectors, with rising capital outflows.

In addition, the capital outflow grew rapidly and steadily between 1994 and 1999, although it dropped slightly in 2000. In contrast, capital inflows have been markedly unstable, with a massive decline in 2000. As a result, a net capital outflow emerged in that year. Between 1994 and 2001, foreign direct investment into South Africa totaled R45 billion, while foreign direct investment out of South Africa came to R54 billion.

Finally, overall growth has been disappointing, although not as poor as the investment and employment figures might suggest. The democratic transition brought an upsurge. Since 1996, however, national income has grown slowly in real terms, and fallen *per capita.* Hopes for at least 3 per cent growth this year have been dashed by recent international developments post-September 11.