

**THE IMPACT OF GLOBALIZATION ON SOUTH AFRICA'S ECONOMIC  
DEVELOPMENT**

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**ABSTRACT**

Globalization has impacted events in different parts of the globe. It is a development which countries have found inevitable. South Africa, a member of the global community and an economic giant on its own, has not been spared by globalization. Economic, political, and social developments in other parts of the world have impacted on South Africa's propensity to provide viable economic benefits for its citizens. Blame for her failure to provide good service delivery has been partially placed on the shoulders of the apartheid administration, even years after the attainment of political independence. Political dispensation in South Africa has failed to meet the post-apartheid expectations of its populace, given that people had high hopes for them themselves. It begs the question for South Africa to still point an accusing finger at the vagaries of apartheid for its failure to deliver the goods to an increasingly restive population, especially in the post-Mbeki era. The global recession has not spared South Africa's economic performance either.

**Key Words:** global; development; service delivery

**INTRODUCTION**

Globalization has become a major topic of discussion and concern in economic circles since the mid-1990s as it became increasingly clear that the trend toward more integrated world markets has opened a wide potential for greater growth, and presents an unparalleled opportunity for developing countries to raise their living standards (Ouattara, 1997). At the same time, however, the Mexican crisis has focused attention on the downside risks of this trend and concerns have arisen about the risks of marginalization of countries. All of this has given rise to a sense of misgiving, particularly among developing countries. This paper attempts to explore the various areas that the South African

administration needs to focus on, not only address the issue of poor service delivery, but the creation of jobs and housing as well as monetary policies that are pro-poor and development-oriented.

## **THE CONCEPT OF GLOBALIZATION**

Globalization has been exposed to a myriad of definitions, but the most comprehensive one has been by Mittelman (2000), who regards globalization as a syndrome of processes and activities, rather than a single, unified phenomenon. The processes and activities, in general, refer to the reduction of barriers between countries. This borderless world is typically referred to as the global village where distance and space disappear, and in which a single community and a common pool of resources exist. The process of globalization has necessarily encouraged closer economic, political, and social interaction. This, in turn, necessitated the activation of multiplicity of levels of analysis in the fields of economics, politics, society, and culture. In most basic terms, the globalization of the world economy is the integration of economies throughout the world through trade, financial flows, the exchange of technology and information, and the movement of people (IMF, 1997). The extent of the trend toward integration is clearly reflected in the rising importance of world trade and capital flows in the world economy (Ouattara, 1997). An increasingly large share of world GDP is generated in activities linked directly or indirectly to international trade. And there has been a phenomenal growth in cross-border financial flows, particularly in the form of private equity and portfolio investment, compared with the past (Ouattara, 1997). In addition, the revolution in communication and transportation technology and the much improved availability of information have allowed individuals and firms to base their economic choices more on the quality of the economic environment in different countries. As a result, economic success in today's world is less a question of relative resource endowments or geographical location than it used to be in the past (IMF, 1997). Now, it is more a question of the market perception of the orientation and predictability of economic policy.

Globalization is characterised by the fact that distance and national borders no longer matter, the ease with which business with a customer across the globe can take place, and that the nation state and geography are no longer relevant for economic purposes. While the opportunities and benefits of the opening of economies are emphasised by its proponents and supporters, disillusionment is growing among many policy-makers and economists about the costs, and risks involved in the globalization of national economies as well as the impact of it on future growth prospects (Loots, 2006).

World Bank (2000a) has been quick to provide a definition which addresses the dynamic (and unpredictable) economic trends of the 21<sup>st</sup> by noting that, “in recent years a quickly rising share of economic activity in the world seems to be taking place between people who live in different countries”. Harris’s (1993) is more specific with reference to economic globalization, which he cites as “the increasing internationalization of the production, distribution, and marketing of goods and services”. Despite the seemingly divergent views on what globalization entails, (Rodrik, 1997; Frankel, 2000; Hemmer, 2001; assert that a cord has been struck by different scholars who have concurred that the driving forces behind economic globalization are:

- A reduction in transport and communication costs in the private sector.
- Reduced policy barriers to trade and investment by the public sector.
- An increase in the availability of and access to information and technology.
- The speed with which information and technology can be transmitted across national boundaries

The most important aspects of economic globalization, therefore, include the breaking down of national economic boundaries, the liberalization of international trade, finance and production activities, and the growing power of transnational corporations (TNCs) and international financial institutions (Khor, 2000). Economic globalization, therefore, manifests itself in various forms such as an increase in international trade, financial flows, and foreign direct investment (FDI). All future reference in this paper to the concept globalization, therefore, implies economic globalization.

## **GLOBALIZATION, GLOBAL INTEGRATION AND DEVELOPMENT IN SOUTH AFRICA**

The rising living standards that accompanied the rapid growth experienced in so many countries in the past few decades are tangible benefits of globalization (Krueger, 2006). This is not a new process, of course—the integration of the world economy can be traced right back to the early traders of the Mediterranean; to Marco Polo who helped foster economic links between Europe and Asia; to the industrial revolution of the 18<sup>th</sup> and 19<sup>th</sup> centuries when people witnessed a sharp rise in world trade. But, the multilateral economic framework established in 1945 provided the basis for the sustained and rapid integration of the world economy that has been broader and more inclusive than in previous periods.

As the process of globalization has continued and has been accompanied by changes in the structure of the global economy, the world has learned valuable lessons about macroeconomic policy and about the ways in which the benefits of globalization can be extended still further (Krueger, 2006). The world in this context means academic economists, national policymakers, the policy-making community, in general, and, of course, the International Monetary Fund IMF itself. Indeed, many of the global economic changes that have taken place have, in turn, had a significant impact on the work of the fund and the other multilateral institutions (Krueger, 2006).

As the global economy evolved over the years, the fund adapted. In the early 1970s, for example, the end of the Bretton Woods system of fixed exchange rates among the major industrial countries led to a fundamental shift in the role and work of the IMF. But, more recently, the 1990s were a decade of remarkable change. The collapse of communism; the dramatic rise in the size and importance of private capital flows; a series of financial crises in some rapidly-growing emerging market economies; and significantly improved understanding of what constitutes sound macroeconomic management. All these factors influenced the performance of the global economy and the work of the IMF. Africa, in general and South Africa, has not been spared by these developments as a member of the global village.

Economic and political events have not spared South Africa. Being a member of the global community and the only African member of the G8, South Africa has been the focus of economic developments in the Southern African region. While the current global recession might have had an impact on all and sundry, but South Africa, being an economic giant on the continent, all eyes have been on her, with some quarters on the continent using her economic performance as a barometer of the impact of the global recession on the continent (Smith, 2001). This article has a dual purpose, that of providing a critique of global integration of South Africa and how she has had to cope with the dynamic global economic developments, as well to analyze the impact of globalization on emerging market economies, in general, and on the South African economy, in particular. South Africa re-entered the international economy in the early 1990s at a time when the process of globalization was beginning to gain momentum, and apart from coping with the forces of globalization, the South African economy also has to manage its emerging market status (World Bank, 2001).

## **THE NATURE OF THE WORLD ECONOMIC ORDER**

The policy choices made to drive and enable economic globalization on international and national levels have, in recent years, led to the rapid liberalization of finance, trade, and investment. Of these three aspects of globalization, the liberalization of finance has been the most pronounced. The current global financial system has had an impact on different players, stakeholders, and institutions and has passed through several stages since the post World War. Bretton Wood system was put in place. These include various structural changes, a severe debt crisis in the 1980s, which undermined developing countries, and a wave of corporate take-overs and mergers between large-scale financial and industrial institutions, most of which have determined economic trends.

The world economy is increasingly being administered by a new generation of financiers manipulating a glut of liquid capital. The unregulated influence of investment and merchant banks, stock brokerage, and large insurance companies cuts across national boundaries and represents a challenge for governments of developing and vulnerable countries. Economic activity, during this period, can best be characterized as 'survival of the fittest', accompanied as it is, by widespread social devastation and hardships for the vast majority of the poor and vulnerable societies around the world.

The world economic order has not been a rational one and has been characterized by profiteering of individuals and individual institutions, most of which are already rich. Speculation has been rife on the economic front. This is due to the fact that savers in many countries can now diversify their portfolios to include foreign financial assets and borrowers can utilize foreign sources of funds (Loots, 2006). On a wider scale, foreign currency speculators entered the market and contributed to the increase in international financial flows.

The speculator has emerged as a key and determinant player, driven by the insatiable objective of generating ever more profit with scant regard for any social cost. The speculators have become increasingly far removed from the real economy, since they do not produce anything to offer to the economies of the world, yet their decisions affect all economic corporations across the many stock exchanges. Khor (2000) indicates that the daily average volume traded on world foreign exchange markets has grown from \$15 billion in 1973 to an average that currently exceeds \$1,000 billion per day. The largest percentage of these transactions is speculative in nature. Their decisions impact on employment and on productive output as well. They operate in different financial markets, ranging from "money, futures, options, capital, derivatives to speculation on the future price of currencies

and commodities” (Turok, 1999) on the world market. The price of oil has been the most concrete example of the role of speculation on world oil prices.

The use of ICTs on economic integration cannot be underestimated. Ideally, technology has shown that it has the propensity to provide the super highway for international transactions. Geographical location and time no longer act as obstacles to the financial systems and its accompanying transactions. The New York Stock Exchange (NYSE), for example, can handle more than 300,000 transactions a day with a capacity of more than 2 billion shares at a time. Any instability on the NYSE will impact negatively on the global financial system. The risk of financial instability for developing countries is currently significantly greater than before and their ability to absorb economic shocks is equally limited. The current economic recession has shown this inability of smaller economies to absorb the prevailing economic shocks.

Capital movements across the world have also been a determinant factor in coming up with trends for economic development. It was estimated that by 1995, daily foreign exchange transactions exceeded the foreign exchange reserves of many individual governments across the developing world. Many reserve banks showed that they have been unable to defend their currencies against aggressive speculative activities by those given to profiteering. Unregulated capital movement was a major factor in financial crisis in South East Asia and Latin America (Turok, 1999). It is estimated that speculative transactions are a huge proportion of all financial transactions. There is a huge liquid pool of dollars internationally much of which is from pension funds. In 1990, there were only 12 Hedge Funds, compared to 35,000 in 1998, both being speculative estimates on the world markets for 1990s. The speculators have been known to use their core capital as a base for borrowing much larger amounts to speculate on derivative markets. The scale of these transactions is potentially explosive, given the fluid nature of economic trends in recent years, all of which hinge on the unpredictable oil prices per barrel on the global market.

The IMF and World Bank have acted as the financial inspectorate of the world, protecting the activities of speculators and the free movement of capital. Their first priority has been the creation and protection of an economic system in which large and powerful economic entities trade, invest, and move capital without hindrance from national governments. The hidden agenda of structural adjustment has been to create conditions for the withdrawal of funds from a country, while the exchange rate is still favorable, that is when it is still high. The standard proscriptions imposed on

developing countries include: currency devaluation, trade liberalisation, privatisation of public enterprises, and withdrawal of subsidies, removal of price controls, exchange rate, and interest rate regulation. They continue to propose an open policy to foreign investment, drastic budget cuts and export promotion at the expense of domestic productive capacity and social upliftment. These policies have caused widespread unemployment and hardships for poor communities throughout the Third World and Eastern Europe. This has resulted in a policy crisis in the World Bank corridors. The liberalization of markets and economic expansion on a global scale should, according to economic theory, improve the economic prosperity of the vast majority of the world's population (Loots, 2006). The question can be raised as to whether the process of economic globalization through the liberalization of finance, trade, and FDI has benefited the world economy in general. Although it is difficult to isolate cause and effect, it is important to take note of the fact that the growth in the world economy has actually slowed down over the past three decades. Economic thought itself has evolved over time, toward the general acceptance of the fact that outward, oriented, and open economies are more successful than closed, inward-looking ones (Ouattara,1997). Consequently, more than at any time previously, individual countries, in all parts of the world, are liberalizing their exchange and trade regimes in the conviction that this is, indeed, the best approach for growth and development.

However, it is, therefore, vital that one differentiates between economic growth and economic development. It is not true that foreign capital will always assist or translate into economic development, that free trade always helps economic recovery, that devaluation removes balance of payments deficits, or that higher interest rates will most likely increase savings. The latest World Development Report (World Bank, 2000c) indicates that the average income in the richest 20 countries is currently 37 times the average in the poorest 20 countries – a gap that has doubled over the past 40 years. It is evident that, although economic globalization has expanded during the past three decades, world economic growth has actually slowed down (Loots, 2006). All these economic myths, and many others, are still being imposed on developing countries by the IMF and World Bank, usually as conditionalities for getting the much needed financial aid from these financial institutions. Towards the end of the 1990s, there have been IMF policies towards Brazil and other countries with the requirements of the US Treasury strategy that provided an early warning system for powerful economic interests against any risk. The IMF recovery package offered to Brazil allowed American Banks an exit route for their investment on favorable terms. Unfortunately, the

result was an increase in unemployment and a decline in social spending in Brazil, which, in turn, increased homelessness and caused widespread hardships for the poor.

Investment banks and brokerage firms have acted as both global speculators and creditors. They contribute to the destabilization of national currencies through aggressive and unregulated currency speculation. This has resulted in increased debt for developing countries. They have even acted as creditors with the intention of collecting debts, accompanied by large and long term charges (Turok, 1999). Thereafter, the IMF and World Bank have intervened and continue to intervene in such instances as administrators of recovery programs. They approve national budgets and provide expert advice to the Central Bank, Department of Finance, and Trade and Industry (Loots, 2006). In addition, they approve monetary, fiscal, and tariff policies. The 'recovery programs' lead to retrenchments, wage freezes, falling incomes, disintegrating health, education and other social services, and dependence on industrialized countries (Smith, 2001).

Integration into a globalizing world economy may create some opportunities, but it is as a highly uneven process in which there are losers as well as winners. Many countries are being marginalized. The global forces shaping globalization include trans-national corporations, multi-lateral institutions, and governments of advanced industrialized countries and the Bretton Woods institutions (Rodrik, 1997). Within the industrialized bloc lingers the United States as a global hegemonic force, dictating the economic conditions, prescriptions, and proscriptions (Loots, 2006). Given the hegemonic role of the US, measures and prescriptions, which specifically benefit the US interests, are being presented as policies for all countries to implement, some on an experimental basis. However, US economic and political hegemony has not been without critics. There is scope for resistance and many opportunities for political interventions within and across countries against the consequences of globalization. There is scope for strategic alliances, especially within the negotiations of the World Trade Organization, which can be used as a platform for a critique of multi-lateral, trans-nationals, and the Bretton woods institutions, whose propensity for poverty alleviation in developing and under-developed countries is beyond doubt. All that is needed is commitment on their part and the abandonment of speculative behavior and profiteering. Given this competitive global economic forum, which South Africa finds itself in, there is need for aggression on its part to country this hostile competition.

## **CAN SOUTH AFRICA SURVIVE THE COMPETITIVE GLOBAL MARKET?**



Given such a harsh economic environment, administered by speculative behavior, South Africa has a daunting task ahead if it is to live up to the status of being the economic giant on the African continent, especially on the backdrop of the economic recession currently bedeviling the global market. It is generally accepted that the previous protectionism of industry in South Africa has to be reversed and that South African commodities and products learn to compete in international markets and against imports into the country (Turok, 1999). This is an imperative imposed on the country by the present world economic order. However, bearing in mind that protectionism has been practiced everywhere, that it enabled many countries to industrialize, (Malaysia kept all its protective tariffs intact for a long time) and that there is still a great deal of protectionism around, especially in the advanced countries, this matter must be approached with great caution. The key seems to lie in the correct sequencing of integration into world markets. Too rapid integration poses the danger of losing local firms, shedding jobs (retrenchment), and undermining the existing economy (Turok, 1999). Also firms, which were excluded from overseas markets by boycotts, need time to establish and build up their presence overseas, experiment with product design, and generally gear themselves up to face international competitors.

One of the most difficult issues in sequencing has been the phasing out of domestic tariffs. Firms, which became complacent under apartheid by virtue of their exclusion of imports, or by the generous export subsidies, became less cost efficient, and fell behind, technologically (Smith, 2001). To gear up their productivity and effectiveness they had, to which meant having to gradually phase out tariffs and add various forms of supply side measures which often take the form of cash incentives for modernization of plant (Smith, 2001). Decisions are required on which sectors of industry should be given priority in the national interest. Perhaps there are lessons from the way Latin America tried to integrate into the world economy. The emphasis was on the export of unprocessed primary products where there is low value added, hence less building of domestic industry, but this did not work. Even now, high tech exports are rare while agricultural exports are abundant. At the same time, advanced country exports into Latin America increased massively, feeding the urge for consumption goods. East Asia managed the reverse of this so that agricultural exports declined while manufacturing and high technology products expanded.

One of the factors influencing the way countries integrate is the growth model imposed on developing countries by the IMF and World Bank, which tends to restrict them to producing and processing raw materials for exports (Harris, 1993). The argument seems to be that industrialized

countries have a comparative advantage in manufacturing, machinery, and finance, so developing countries should focus on minerals and other primary commodities. This makes them vulnerable to reductions in raw material commodity prices and escalating prices of finished goods leading to trade imbalances and hence foreign debt. The result of such policies is de-industrialization, third world debt, informalization of employment, and increasing unemployment. To make matters worse, in recent years, the imports of primary goods by advanced countries have fallen heavily in value as prices have simultaneously fallen. The result is that developing countries have received less in foreign revenues. This problem reinforces the argument that developing countries must diversify their economies and their export commodities as an insurance against falling commodity prices. A sound industrial policy should be pluralistic, that is some production dedicated to exports, some for the domestic market, and some for the region (Turok, 1999).

There have been arguments that for South Africa to become a major exporter, foreign direct investment (FDI) is needed to rebuild the country after years of economic sanctions against apartheid. This is partly to compensate for the low level of savings in the country, which account for the low domestic investment. On the other hand, experience elsewhere has shown that FDI may crowd out domestic investment, that is, displace local capital by foreign capital, thereby advantaging the latter. It is also notable that much of present day foreign capital inflow is short term and speculative and not long term. Such speculative “hot money” may be harmful since it flows in and out rapidly and may destabilize the economy. Malaysia attracted a great deal of foreign investment and, like Chile, had regulations, which curbed rapid withdrawal, but this is not an easy process. On the other hand, the days of import substitution industrialization (ISI), that is, assisted local manufactured goods, which replaced imported goods, seem to be over as international pressures for opening up markets mount. Globalization is upon us and is probably impossible to resist, except by means of sequencing, which is acceptable practice (Rodrik, 1997).

### **THE CASE FOR MACRO-ECONOMIC EQUILIBRIUM**

Equilibrium is the situation where there is no tendency for change. The economy can be in equilibrium at any level of economic activity that is a high level (boom) or a low level (recession) (World Bank, 2000d). Due to the size of many modern economies, equilibrium is a very temporary state, as changing variables shift affect the economy. In simpler terms, macro-economic equilibrium translates to a situation where savings are approximately equal to investment, government spending to taxation, and similarly imports to exports, at least over the long run (World Bank, 2001). It means

that, at equilibrium, injections into the income stream equal the leakages from the income stream. In practical terms, one of the main reasons countries strive for a credible macro-economic profile is the need to attract foreign investment. Such a profile relates to elements like a low budget deficit, low inflation, low interest rates, strong financial reserves, and a stable strong currency. Currently, because of the stringency of South Africa's economic management since 1994, there have been impressive investment records. Indeed, some believe that few progressive governments have managed to have such good fundamentals after a decade in power. However, for South Africa, arguments have been that economic performance seemed to have plummeted during apartheid when the country was under sanctions, more than when it was not. This is what the ANC inherited in 1994.

But a restrictive macro-economic strategy may have a harmful impact on the real economy leading to stagnation. It is perfectly possible to get the numbers right without real benefit to the population as a whole. Some argue that the starting point for economic policy should be issues like unemployment rather than macroeconomic equilibrium. This is the growth-development debate. That is, a proper socio-economic programme must be underway at the same time as a sound macro-economic programme. The problem is financing such a program while also reducing the budget deficit and when foreign investment has not taken off. South Africa's prospects are not that good on attracting foreign investment since she is competing with many other emerging markets, with China having stolen the show.

## **FISCAL POLICY**

Government expenditure should be guided by the need for growth, for increases in employment, and improvements in living standards (Turok, 1999). Government expenditure must also distinguish between spending for current needs (consumption) and long term needs (investment). South Africa should reduce the former but increase the latter as that will ensure that the economy generates new productive capacity (Turok, 1999). Any reduction in investment expenditure, say for budget purposes, is short sighted, since the only hope for a growing economy is investment in such areas as infrastructure of all kinds (roads, electricity.etc), technology capacity, and capital goods (capacity to make machines and machine tools). Also essential is expenditure on labor intensive activities, such as education, which should be distinguished from expenditure on administration. It is noted that it is easier for government to cut investment spending than consumption spending since the latter is more immediately linked to salaries and jobs where opposition can pose problems. But the temptation can be resisted. Government expenditure on infrastructure and services will reduce the inequities of

apartheid, increase productivity, attract private investment (domestic and foreign), and “kick start” industrial development (Turok, 1999; World Bank, (2000c).

Social expenditure is also necessary to promote equity and generate social stability. One of the major problems has been how to achieve income redistribution to enhance social equity. But it is also important for expanding the domestic market. Since there is evidence that much private consumption is by higher income earners, an expansion of consumption at lower income levels would create new demand and thereby encourage manufacturing and the additional provision of services. This kind of incentive is particularly important when the economy is operating below full capacity. In South Africa, it is currently operating at 80%! But implementing income redistribution is difficult and has macro-economic impact. The best policy is to foster demand at the same time as improving supply side productive capacity. On the revenue side, it is important to distinguish between corporate income before and after tax. There is a belief that taxation should be on distribution profit only as that will encourage firms to re-invest much of their surplus rather than hand it out as profit (SA Quarterly, 2009).

## **MONETARY POLICY**

A government’s monetary policy impacts on interest rates, exchange rate, money supply, reserves, and access to credit. It influences investment, household consumption, and government expenditure and therefore should not be greater than the rate of growth of the economy. Encouraging savings and investment are vital elements of policy in highly unequal societies, though increased interest savings do not necessarily and automatically lead to growth in investment. Household and corporate savings have drastically declined in South Africa in recent years and the latter have been shifted abroad by prevailing market forces (Turok, 1999). Devaluation has been the force behind the decline in household and corporate savings in South Africa. Naturally, devaluation weakens the currency of developing countries without necessarily attracting foreign investment. It also causes deterioration in the balance of trade in favor of industrialized countries. Developing countries, like South Africa, end up selling cheap and buying dear, while industrialized countries do the reverse by purchasing raw materials in developing countries cheaply. Conversely, enhancing the value of a currency can also be corrosive, especially of the ability to increase exports. This has been the quandary which South Africa has found itself in, especially in the face of aggressive trading partners, like China.

## **The Case for a Socio-Economic Programme**

As indicated above, macro-economic equilibrium does not preclude a comprehensive socio-economic program. Macro-economic equilibrium does not take into consideration a range of political and social requirements, such as redistribution, equity, and political participation.

### **Redistribution**

There has been an alarmist commentary that integration into the global economy is inevitably accompanied by a period of painful transition (Turok, 1999). In South Africa, there have been substantial job losses in some industrial sector, notably in the motor industry, predominantly due to the recession in industrialized countries, like the USA. There have also been some countervailing improvements in other sectors and in the informal sector, thanks to the bee policies of the post-1994 political dispensation, whose objective has been to economically empower the previously disadvantaged communities. However, what needs to be established is the extent to which integration has an impact on employment and poverty alleviation. The poverty dimension is particularly relevant to the poorer black communities in the urban and rural areas. It is clearly insufficient that skilled jobs be created only in the modern export oriented industrial sectors, while vulnerable communities become dependent upon the social responsibility of the affluent and those in work. This would exclude a large section of the poorer communities from economic activity and condemn them to life of poverty, illiteracy, homelessness, and destitution.

In the long run, unequal societies do not grow. Market forces do not lead to redistribution; it has to come from deliberate policy intervention. A growth strategy, which focuses on the redistribution of resources, is needed. Key elements would include employment generation, diversified production, equitable wages, education, and training. Turok (1999) is of the opinion that, as part of the solution to these problems, there is need for government investment in housing, education, roads, and electricity, etc., as part of a social contract. Redistribution encourages political participation, social stability, and economic growth. Therefore, the government should put interventions to fight crime in the country, especially given the impending World Cup games to be hosted at different spots in the country. The provision of infrastructure and social services will also help improve the living conditions for poor households in both urban and rural areas.

### **Creation of jobs**

South Africa's propensity to create jobs for its citizenry has not been spared by the global recession and economic meltdown. International confidence in South Africa's impressive infrastructure and booming economy has landed the country the lucrative opportunity to host the World Cup scheduled

for 2010, an investment opportunity and a chance for the country to create more jobs for her citizens. In this huge venture, many menial jobs may have been created, though those requiring skills and expertise have gone to expatriates from as far afield as India. This has further revealed the fact that, despite the high unemployment and poverty levels still bedevilling the country, the lack of adequate skills base still haunts the country's working class. This means that the thrust should be on skills training and development, if her job-creation efforts are to come to fruition, especially among the indigenous previously disadvantaged population groups. However, 15 years after the attainment of political independence, politicians are increasingly under pressure to provide and show the endeavours that they have made towards skill developments.

There is no certainty that growth will necessarily translate into increased employment. Instead, there may be jobless growth. A development strategy implies that employment generation will be a prerequisite, targeting the poorest and most vulnerable sectors of society, and influencing the structure of production, investment and distribution, training, and education would be an integral part of any employment generating strategy.

The strength and protection of worker rights will promote stability for both employers and employees. Job security and promotion of trade unions should become a responsibility for stakeholders.

Social spending contributes towards poverty eradication, employment generation, and corrects the distortions of the market economy. A lack of social services in the poorer communities of South Africa contributes to the skills shortages and exclusion from economic activity for the vast majority. There is backlog for social spending in health care, electricity, water provision, and are more likely to be productive. A development strategy would need to correct these imbalances as a prerequisite to economic growth. In addition, the provision of social services will expand economic activity through procurement and sub contracting. Housing projects, hospitals, roads, railway stations, and schools need to be built.

Broadening the base of economy is linked to the expansion of the domestic productive capacity across the whole chain of production. The objective is to provide employment and income to the most vulnerable sectors of society. It encourages linkages between local production and the national economy as part of a broader framework, focusing on expanding the domestic market, which remains vital. Increasing the number of producers will require improved access to capital training and a proactive industrial strategy, with the necessary availability of finance and credit. Broadening the

base contributes towards equitable participation in the economy, the historically excluded, and the social wellbeing of that society.

### **The role of the state**

Developing countries require a proactive development state whose interventions should be targeted, planned, and co-ordinated. The state's role is to ensure equitable and efficient revenue collection, initiate capital investment projects, broaden the base of the economy to include the vulnerable, and ensure a wide spread network of social services.

The base of the South African economy is not developed evenly. This need to be addressed and the state is the only agency able to do so. The existence of two economies in South Africa has not augured well with the general populace as they expressed the view that nothing has really changed since the attainment of independence, which, in the eyes of the ordinary people, is a change of the people at State House, and not whether they have the power to determine the direction of the economic currency within the country. It is the very bone of contention that contributed to Mbeki's ouster as citizens accused him of not doing enough to address the gap between the haves and the have-nots. The people there preferred the populist approach, which they view as having the propensity to improve service delivery. Therefore the state has a vital role to play.

Development institutions are able to enhance technological capacity and are able to attract private sector participation. The different development institutions and delivery instruments need to operate under an umbrella plan with the emphasis on using local resources and meeting the basic needs majority of the population. It is notable that those women have a special role in development and that the record on the use of finance is very good, But support systems, such as childcare, need to be put in place.

The reconstruction and development program remains the cornerstone of South Africa's growth and development strategy, but implementation is poorly co-ordinated. RDP delivery has been slow due to bottlenecks in the system. An evaluation of government capacity to reduce poverty, increase employment, and stimulate economic growth is relevant to the effective implementation of the RDP. The RDP office acted as a conduit for funding to line ministries. We need to evaluate the accountability of line ministries to the RDP program and prioritize the developmental objectives and resource allocation. A large part of the RDP budget was spent on salaries and other administrative

costs. We need to further the question whether civil society participated in RDP process or whether it was top down exercise. The township should receive high priority.

The capacity of the South African state, in relation to our development objectives, need to be reviewed with respect to the capacity of government administration and the efficiency of delivery instruments. It is the state, unduly affected by private commercial interests, whose objective is to influence privatization and government policy at the expense of development goals.

The state should create a favorable environment for the private sector, but it should also be more forceful in ensuring that national objectives are supported by the private sector. If properly coordinated government support for the private sector can contribute to employment creation, increased investment, technological innovation, and equitable distribution of income. The state needs to find a balance between excessive regulation, which restricts economic activity, as opposed to no government oversight, which could lead to deterioration in working conditions and abuse of dominant position. The state should create an enabling environment, which encourages competition and monitors economic activity.

The state plays a crucial role in human resource development, skills training, and promoting domestic technology. Private sector expenditure on training in South Africa has been low compared to other developing countries. Human resource development and technology promotion require the participation of schools, universities, technical colleges' shop floor training, and specialized facilities. Guided by an industrial strategy, the state needs to identify employment generating sectors and the skills that would be required to develop the full potential of these sectors. Government policy needs to be sensitive to sector differences, according to technology application and work organization. Strong linkages need to be established between hi-tech facilities, universities, science councils, reconstruction and development companies, and manufacturing enterprises.

The state needs to guard against excessive bureaucratic consumption, which contributes towards inequality. Income data highlights a widening disparity between those in government jobs and the vast number of unemployed and underemployed. In addition the democratic government must guard against manipulation of tendering. To procure government tenders some private enterprises are employed black staff only to fulfil tendering requirements.

## **REGIONAL INTEGRATION**



There is an urgent policy need to develop a total of South Africa's position in the global economy inclusive of the region .South Africa should ensure that any international interaction should be on terms that benefit the region as a whole. The region should also become a driving force with other progressive forces, to struggle for change in the global environment that will benefit people from marginalized countries. We need to strengthen the countervailing forces, including SADC, OAU, UNCTAD, and other bodies.

We should guard against South Africa being dominant in the regional economy accruing disproportionate benefits from regional integration and lowering of tariffs. We need to create a sustainable environment that ensures equitable gains for all members of the regional economy. Hence, the region has identified the need for development integration, meaning (1) a regional program has to be beyond integration with tariff reduction, and address sectoral cooperation and infrastructural and production capacity constraints, and (2) a regional program must recognize the different levels of development of the partners.

In Latin America, the region has succeeded in promoting regional solidarity against pressures from globalization. Free trade agreements with the US have failed due to lack of asymmetry bringing mutual advantage. There is still a large US restriction of Latin American imports into the US; however, the region provides a fortress against the pressures imposed from WTO rules, IMF, and World Bank prescriptions. Current regional negotiations are securing a mutual benefit and interdependence.

### **SOUTH AFRICA ON THE FACE OF THE GLOBAL RECESSION**

South Africa was not spared by the global recession that gripped the global markets in 2009. The global economy remained firmly in the grips of a recession in the first quarter of 2009, South African markets correspondingly quaked as activity continued to decline at broadly the same pace that had been registered in the previous quarter. Driven by further sharp contractions in real output of the advanced economies in the wake of the financial crisis, the decline in production and international trade volumes reverberated in all parts of the world (Quarterly Bulletin, No.252). Accordingly, emerging-market economies also recorded significantly slower and even negative rates of growth, with declining export demand and lustreless prices of most export commodities acting as powerful brakes on the growth momentum in Africa and elsewhere in the developing world.

The South African Quarterly Bulletin, No.252 further noted that under these circumstances inflationary pressures dissipated in most parts of the world. At the same time, numerous countries continued with their efforts to support aggregate demand by means of unparalleled infusions of fiscal and monetary stimulation. Up to the first quarter of 2009 this did not seem to have had the desired effect. Most recently, however, there have been some improvements in a limited subset of indicators, suggesting that the pace of decline in global demand may be decelerating. Nevertheless, against the backdrop of uncertain global financial markets it remains too early conclusively to confirm the arrival of a turning point in global aggregate demand.

After the South African economy had recorded its first contraction in ten years in the final quarter of 2008, economic activity contracted further – and at a considerably worse pace than before – in the first quarter of 2009, confirming that the domestic economy was in a recession. The manufacturing and mining sectors were the most severely affected followed by the finance, real-estate and business services sector (Quarterly Bulletin, No.252). Economists noted that while virtually all sub-sectors in manufacturing were adversely affected by the further deterioration in both global and domestic demand conditions, it was the basic metals and transport equipment sub-sectors that suffered the largest setbacks. Significantly reduced demand for basic metal and mineral products as well as lower international commodity prices weighed heavily on output in the mining sector. This was compounded by the first contraction in the real value added by the tertiary sector since 1992, largely on account of a decline in real output of financial services, thereby resulting in all three of the major sectors – primary, secondary and tertiary – recording negative real growth in the first quarter of 2009.

Market indicators noted that during the inception of the global recession, South Africa realised a slower pace of increase in the number of civil servants which had become more than offset by the purchase of aircraft as part of the defence procurement programme, resulting in a firm increase in real final consumption expenditure by general government in the first quarter of 2009. At the same time, real gross fixed capital formation, although still increasing, rose at a slower pace than before. Subdued economic conditions and low levels of business confidence resulted in a further reduction in the rate of growth in real capital spending by the private sector, although such growth remained marginally positive. Real capital expenditure by general government also recorded a lower, but still positive, real growth rate in the first quarter. By contrast, the infrastructure drive led to a somewhat stronger pace of real capital formation by public corporations.

Real final consumption expenditure by households receded further in the first quarter of 2009 as this sector's real disposable income contracted for the third consecutive quarter. The decline in real spending was broad-based, involving all the major categories of goods Quarterly Bulletin purchased by households. Real inventory levels also shrank further in the first quarter, consistent with the declining volume of sales in the economy and relatively tight financial conditions, but the decline was considerably smaller than in the preceding period. The further deterioration in the real output of South Africa's most important trading-partner countries adversely affected export volumes during the first quarter of 2009. In addition, the domestic demand for imported goods also declined, albeit not by as much as the contraction in merchandise exports. As a result, the deficit on the trade account of the balance of payments widened once more to a level similar to that recorded in the first quarter of 2008, when exports were restrained by a shortage of electricity. This deterioration was only partly offset by an improvement in South Africa's terms of trade and lower net dividend payments to non-resident investors, which were related to the slowdown in domestic production and declining company profits. Overall, the deficit on the current account of the balance of payments widened to 7,0 % of gross domestic product (GDP) in the first quarter of 2009.

However, despite the global setback brought about by the world recession, especially on US market, South Africa continued to record capital inflows on the financial account of the balance of payments in the first quarter of 2009, albeit at a slightly slower pace than before. Softening risk aversion towards assets in emerging-market economies – including South Africa – resulted in an inflow of portfolio investment capital, in sharp contrast to the large outflow recorded in the previous quarter. Foreign direct investment into the country also contributed to the overall net inflow of capital. The slight moderation in the inflow of capital alongside the widening deficit on the current account of the balance of payments led to a slowdown in the pace of reserve accumulation during the first quarter of 2009. The contraction in global demand and the slowdown in domestic output contributed to a moderation in formal non-agricultural employment growth during 2008, with the number of jobs actually falling in the final quarter of the year. Over the past year, public-sector employment remained fairly buoyant while private-sector employment initially lost momentum and then began to contract.

Year-on-year rates of targeted consumer price inflation moderated further in the opening months of 2009, but nevertheless remained above the inflation target range of 3 to 6 per cent. Food price inflation remained stubbornly high, particularly at the level of the consumer. The deceleration in producer price inflation continued has been consistent with the slowdown in global inflation and the contraction in global demand and declining commodity prices. It was decided to increase the frequency of meetings of the Monetary Policy Committee (MPC) to monthly meetings – with the exception of July 2009 – in order to monitor and respond appropriately to the rapidly changing economic environment. The improved medium-term outlook for inflation and the widening output gap allowed the MPC to lower the repurchase rate by a cumulative total of 450 basis points over the past six months, bringing it to a level of 7,50 per cent after the committee’s May 2009 meeting. Other short-term money-market interest rates emulated the trend in the repurchase rate.

Notwithstanding a significant decline in financing cost, there was a sharp deceleration in the growth in banks’ loans and advances extended to the private sector and in the broadly defined money supply (M3) during the first four months of 2009. This was largely attributable to the deterioration in household and corporate income and expenditure growth, somewhat lower inflation, negative wealth effects, and the effects of tighter credit conditions that prevailed for the greater part of 2008 and 2009. The daily liquidity requirement of the private-sector banks and the amounts provided by the South African Reserve Bank (the Bank) at the weekly refinancing tenders continued to fluctuate in a normal fashion during the past six months, with no indication of any liquidity strains being experienced in the South African money market. Private-sector banks continued to utilise their cash reserve accounts and occasionally their standing facilities with the Bank to accommodate the daily liquidity fluctuations. The Bank scaled down its purchases of foreign currency in the first five months of 2009. Prescribed interest rates, maximum finance charge rates and interest rates on the RSA government fixed-rate retail bonds trended downwards in recent months after the inception and acknowledgement of the recession by the US and other world economies. However, bond yields fluctuated higher from December 2008, influenced by increased bond issues, gains in international oil prices, stubborn inflation and movements in the exchange value of the rand. The break-even inflation rate trended upwards from the beginning of February 2009, partly reflecting changes to the pricing of inflation-linked bonds as a result of the recently introduced headline consumer price index (CPI) measure.

The supply of public-sector bonds in the domestic primary bond market increased in the first part of 2009, while corporate bond issues by the private sector continued on a downward trend. Trading activity in the secondary share market was relatively subdued in early 2009 as participants remained cautious about market conditions. Alongside these lower trading volumes, financial derivatives trading on the JSE Limited (JSE) also declined in the first five months of 2009. Non-resident investors sold South African bonds on a net basis, but actively bought shares in the first quarter of 2009. House prices registered nominal declines in the first few months of 2009, while the total assets of non-bank financial intermediaries declined further as the secondary effects of the global financial meltdown became more evident. More than a decade of fiscal prudence created the necessary space for fiscal policy to respond to the current global financial crisis and its fallout in a countercyclical manner. In part this happened automatically, with tax revenues beginning to fall short of budgeted projections as a result of the slowdown in economic activity. In combination with higher government expenditure, the decline in tax revenues eventually caused a sizeable national government budget deficit to be recorded in 2008/09. Extending the analysis to the non-financial public sector as a whole, there was also a significant widening of this sector's cash deficit in 2008/09 as the larger national government budget shortfall was reinforced by an increase in the borrowing requirement of public corporations in order to co-finance the public-sector infrastructure programme.

## **CHALLENGES AND OPPORTUNITIES**

There are a myriad of challenges, as well as opportunities, associated with integration into the global economy. Putting the economic policies in place that would make economies sufficiently flexible to accelerate their growth rates further and to strengthen their ability to respond to shocks is one of the challenges confronting the global economy at the beginning of the twenty first century. Others include the need to adapt the multilateral framework, established in 1945, in a way that reflects the changing structure of the world economy; and the need to ensure that the benefits of globalization continue to accrue while being spread even more widely than has been the case hitherto.

These are all challenges; but they are also opportunities to build on the enormous gains in economic welfare experienced over the past six decades; and to consolidate what was achieved in the second half of the last century as we look ahead to further economic progress in the present one. Making the most of these opportunities requires, first and foremost, the pursuit of macroeconomic stability linked with pro-growth policies by national policymakers. But the IMF has a crucial role to play. As the world economy has evolved over the past six decades, the Fund adapted as well, in order to

remain relevant, effective, and true to its founding principles. The Fund's history is intricately intertwined with that of the world economy, as a whole.

## **CONCLUSION**

From the preceding discussion of the process of globalization, it is evident that this phenomenon is more complex in nature than what was originally thought. The concept of globalization is a very wide one and can include the fields of economics, politics, society, and culture. However, the driving forces behind economic globalization include the reduction in transportation and communication costs, technological advancement, and the liberalization of trade and investment. Economic globalization, therefore, manifests itself in the increasing involvement of nations in international trade, finance, and investment. Although advances in world trade and FDI attract attention, the liberalization of financial markets has expanded at spectacular rates. However, judging from the world economic growth during the past three decades, the process of globalization is a very uneven process with a relatively small number of countries benefiting from this process.

The impact of this process on emerging market economies is also not conclusive, although it seems that the majority of this group benefited in one way or the other. The evidence shows that international trade is the main driving force in the globalization process (Smith, 2001). The average openness of emerging market economies is approximately 83 percent of GDP. Due to the volatility experienced in the financial flows to these countries, the benefits mostly accrued from increases in international trade, although some countries benefited from strong FDI inflows. No strong correlation, in general, exists between the level of globalization and average real economic growth in emerging market economies for the period 1994-1998. On average, the passive globalizers achieved higher rates of economic growth than the strong globalizers. The losers seem to be the average globalizers, who could only achieve an average economic growth rate of 2.8 percent. An interesting phenomenon seems to be the fact that almost all the strong globalizers are high-technology exporters. In comparison, with other emerging market economies, South Africa seems to be a moderate globalizer (Smith, 2001). The globalization process in South Africa is also mainly driven by trade. Both net FDI inflows and portfolio inflows seem to have a very limited impact on economic growth in the country due to their high levels of volatility. When a composite globalization variable is developed, it can be concluded that a 10:1 relationship exists between globalization and the GDP (Smith, 2001). The composite globalization index also indicates that the globalization drive in the

country took off in 1993. This index will be used to monitor the future globalization process in South Africa.

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