THE SOUTH AFRICAN ECONOMY

by

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The most impressive aspect of the South African economy is its strength, despite the relatively small size of this country. Although it has been buffeted by the aftermath of the Sharpeville crisis, its international position today in many ways is stronger than it was prior to that incident. While this is not meant to imply that the economy is invulnerable, nevertheless it would be a serious error to underestimate the position that the past few years' events have brought about.

South Africa's gross national product in 1963 was about 6-2/3 billion rand, or, at $1.40 = 1 rand, about $9.3 billion, up not quite 25% since 1960. Gold production last year was $1.025 billion, or 72% of the Free World production. This represented a rise of almost 40% since 1960. More significantly, South Africa is no longer dependent on foreign capital to provide for her investment needs. In 1963 gross savings were more than 1-1/2 billion rand, or $2.2 billion, exceeding gross capital formation by 10%, thus permitting it to reduce the net capital investment in South Africa by foreigners by about 172 million rand. Despite this repayment official reserves were rising steadily; at the end of 1960 these amounted to some 171 million rand, whereas by last September they reached some 450 million rand. Net capital formation in 1963 was more than 12% of gross national product, or about half again as much as the proportion for the United States.

South Africa's foreign trade position is also quite favorable. Estimates for 1964 indicate that exports (other than gold) rose more than 3% from 1963, to reach a total of $1440 million; for the same period imports rose a quarter, to $2.1 billion. This excess of imports, of course, was more than covered by the country's gold output. In addition, based on 1963 data, it would seem that South Africa pays out on the foreigners' investments about five times as much as received from its own overseas investments.

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South Africa can no longer be labeled an underdeveloped economy, although many regions within the country certainly fall within that categorization, especially the reserves, to which reference shall be made subsequently. Agriculture currently accounts for but a tenth of national income, with mining contributing another eighth; manufacturing now is as important a contributor as these two sectors combined. In contrast, half a century ago the two primary sectors accounted for almost half the country's income, whereas manufacturing contributed less than 7%. The share of manufacturing in the total has been growing steadily, in part because of the isolation from sources during the two World Wars, in part because of the government's deliberate protective policy. Incidentally, this does raise the question whether the manufacturing sector is really competitive; only 20% of exports are supplied by this sector, whereas the primary sectors account for two-thirds the total. This prominence among exports stands out, in particular, for the mining sector; although it contributes only one-eighth of total national income, it accounts for more than half of total exports. Gold alone equals 40% of the total, with uranium supplying an additional 9% and diamonds 5%. Great Britain is both the main customer and supplier, accounting for not quite 30% of both exports and imports; the United States ranks second (16% of exports, 8-1/2% of imports), with West Germany, Japan, and Rhodesia the other main trading partners.

The racial composition of the economy is also of interest. Of a total population of some 17 million, 3-1/4 million are white (of whom 60% are Afrikaans), half a million are East Indians, 1-2/3 million Colored (mixed blood), and close to 12 million are Africans. Half the Africans live in urban areas, and another fifth on white-owned farms. As a percentage of the total, almost 40% of the Africans are in agriculture, whereas only 10% of the whites are. Incidentally, the colored people are also highly dependent on this sector, for it accounts for a fifth of their total employment. 14% of the Africans are in mining, compared with 5-1/2% of the whites and less than 1% of the Colored and Asian workers. On the other hand, only 8% of the Africans are in manufacturing against 20% of the whites, 4% in commerce and finance against 20-1/2% for the whites, and 2% in transport, storage, and communications, against 11% for the whites. 18% of the Colored people are in manufacturing; almost half the Asians are in manufacturing, commerce and finance. Services account for 20-25% of employment for each racial group, the Asians being on the lower side, the Coloreds on the upper end of that range.

Because of the sharp racial cleavages, annual averages of incomes are meaningless, unless broken down by subgroups. Here the estimates are necessarily rough, and the data given here are purely to impart some idea of the relative standing. One survey, now some 13 years old, gave the following income ratios:

Africans:	in reserves	1.0	Whites	15.0
	on farms	1.2	Colored	1.9
	in cities	2.2	Asians	3.0
	average -- all	1.5		

In 1962 the average white in the mining industry earned about $3,400 per year, against $210 for the Africans and $575 for the Asians and Colored. In manufacturing the gap was not quite so wide; the average white earned about $2,750, whereas the African earned $550 and the other two racial groups $850. On the other hand, it is estimated that the poverty line for the city African is about $800 annually, much more than the average income in either of these two sectors. It is estimated that the African receives about a fourth of the country's national income and that within a third of a century -- say, by the year 2000 -- his income should exceed the total South African income now being earned. Put another way, based on recent trends the total income accruing to the African by 1989 may exceed the present national income accruing to the Europeans, and by 1991 it should exceed the income currently accruing to all the non-Africans.

While much of this differential in earnings can be attributed to productivity differences, we should note that it also reflects government policy. There are government barriers to job training for the African, as well as restrictions on his trade union activities. Certain occupations are reserved for the whites, although shortages of available skills are forcing the government to make some compromises with this rigid division. Moreover, a large part of the work force, particularly in the mines, is migratory. For example, only two-fifths of the mineworkers are from South Africa, whereas another fifth come from the High Commission territories -- which, it is true, are really South African enclaves -- plus a quarter from the East Coast countries and a sixth from other tropical territories. As a consequence, the average turnover of African labor often exceeds 100% per annum -- that is, the employer cannot expect his typical African employee to remain with him for even a year. This is hardly conducive to the development of skills on the job! This migratory characteristic, as is well known, is a compound of government restrictions on permanent settlement for the African combined with the almost continent-wide pattern of movement between the tribal sectors and paid employment, the need to keep "one foot in the reserves" as security for old age.

Furthermore, on the mines there is really no chance for competition for African employees to push up their wage rates. The mines through their Chamber of Mines recruit all Africans through two organizations set up for this purpose and so individual bidding is eliminated. This concentration of control is characteristic throughout the economy. Two banks, for example, dominate finance. 94% of industry is controlled by the English element plus foreigners' investments; Afrikaan industrial ownership is but 6%, their greater representation being in agriculture. Diamonds, as is well known, is a virtual monopoly of the Anglo-American-De Beers group, a control that is exercised throughout the world.

The relative importance of the African in the South African industrial picture may not increase, and indeed it would not be surprising if it decreased. At present slightly more than a quarter of the total employment in manufacturing is white. Over the next decade or so more than a third of the growth will be in white employment. The non-white element, in other words, will add a smaller proportion to total manufacturing employment than its current share. Moreover, despite the low wages paid the African we must not overlook the possible impact of automation. In the United States there are many indications that it is the least skilled that have suffered from the introduction of the automated plant. Similarly, there are some signs that a comparable effect will make its beginning in South Africa. If so, then we could see a relatively slower growth in the type of job filled by the African and a relatively more rapid growth in the skilled trades normally filled by the European.

It will be recalled that the proportion of non-whites to total employment is much lower for manufacturing than for the rest of the economy. Since the current growth trends indicate that it is the manufacturing sector that should show the greater rate of progress, we see another factor making for a relatively slower growth in the contribution of the African. Whether this decline in relative importance, despite an expansion in absolute numbers, makes for less dependence by industry on the African is difficult to assess. But it would seem to indicate, as a minimum, that the economy will not become increasingly dependent on his labor. Hence, <u>it is doubtful if we can look to any amelioration in the attitude of the dominant white group towards African hopes for political progress as a result of the latter's economic strength, since this is unlikely to increase in relative terms</u>.

The economics of apartheid is an interesting speculation, even though we cannot assess how completely it will be carried out in actuality. One estimate places the number in the reserves by the year 2000 at 15 million Africans, three times the present number. Since the agricultural potential of these lands is quite limited, most of the increase must find jobs in secondary industries. If wages are to be no lower than the accepted poverty level -- admittedly low -- this would require an investment of at least $3,000 per worker, or about $12 billion. Almost half the economy's annual savings would have to be diverted to this end just to meet the minimum; the resultant slowdown in growth for the rest of the economy would undoubtedly work to nullify this aim.

It may also be of interest to look a bit at the American involvement in the South African economy. This, of course, is not nearly as great as that of the British, but nevertheless it is sufficiently large to give us pause before expecting our interested economic sectors to take any significant action that might jeopardize this stake. South Africa purchased almost half a billion dollars worth of goods from this country in 1964, up 40% over 1963. This equalled a bit less than a fourth of all that country's imports. On the other hand, exports to the United States declined about 8%, to $145 million. In light of our current balance of payments worries, it is interesting to note that our favorable balance of trade with the South Africans last year amounted to $359 million, a source of earnings that covered a fifth of our basic deficit.

In addition, our direct investments in that country -- plants that are either branches or subsidiaries of American corporations -- amounted to $415 million by 1963, or about 1% of all American foreign investments of this nature. American manufacturing interest in South Africa comprised not quite 40% of this figure, or $158 million. During that year we invested an additional $12 million in South Africa. Against this our operations netted us $83 million in income, of which just over one-half was reinvested in South Africa. Again reverting to the balance of payments yardstick, we received net $28 million from South Africa as a contribution toward diminishing our balance of payments deficit, plus adding to our assets in that country by some $55 million. Nor does the American corporate interest in that economy stop with these figures; in 1963 it exported to South African affiliates some $40 million worth of goods, in contrast to only $31 million to all other affiliates in Africa. And 1963 also was a better year for those companies with South African affiliates than with units in other parts of the continent. Whereas sales to South African affiliates rose about 30% over 1962, sales to affiliates in the rest of Africa declined more than 60%. (Incidentally, these sales figures should not be added to our previous statistics; they would be included in the total foreign trade data.)

Although data are not too current, it may also be of interest to contrast American trade with South Africa with that of the rest of Africa. And, as expected, the South African market stands out as a most attractive one. Based on statistics for the first nine months of last year, our exports to South Africa exceeded those to Tropical Africa by 15%, whereas the year before they had been 9% less. North Africa, it might be added, bought more than did either of these other two African areas. Our imports from South Africa were much less, comparatively, than from Tropical Africa, so that the favorable balance of trade with South Africa contrasts sharply with a marked unfavorable balance with Tropical Africa. Again, if we reinterpret these statistics in light of our balance of payments problem, what these figures imply is that we have more to lose from reducing trade with South Africa than with Tropical Africa, that the former sector of our trade is actually helping to reduce our deficit, while the latter part is aggravating it. While this is not meant to imply that the balance of payments impact is the sole -- or even the major -- criterion for economic policy, nevertheless, it is not so unimportant that we can overlook it.

One scanty set of statistics which will give some clues regarding the profitability of investing in South Africa. Based on 1958-62 data American investments in South Africa showed a rate of return two-thirds higher than did the average for all American investments abroad, and more than twice as high as investment within the United States. Data on British investments show a similar picture. The British earned more than a third higher (per pound invested) on the investments in South Africa than on all their foreign investments, and more than three times the rate that they earned on their investments in the United States.

Attention should also be drawn to the crucial role played by South African gold. As already remarked, South Africa produces more than 70% of the Free World's gold. It is often the case that production exceeds the amount that actually ends up in monetary reserves. To stop purchasing gold would cause a grave situation for the major world currencies, especially now that both the dollar and sterling reserves are suspect. While it is always hazardous to venture a prediction in the political sphere, it would seem a safe statement to make if we rule out the possibility of boycotting South African gold. Once this is granted, then we immediately give South Africa enormous financial strength to withstand any other kind of economic offensive. If necessary, that country could stop paying out on foreign investments. This coupled with gold production would net about $1-1/4 billion annually as an offset to any loss of merchandise exports and capital inflows. This kitty is equal to three quarters of the annual South African import needs in 1963. If we were to add a stern pruning of non-necessary imports, then it is quite likely that the country could meet all foreign payments required without exporting a single good.

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