Overcome despondency 7 November 2000

The biggest single change in South Africa during the past year has been in that invisible but very real element, confidence.

The year started with expectations that the economy would grow by 3,5%. Now we are likely to end up with 2,5%. When he made his speech at the opening of parliament, Pres Thabo Mbeki enjoyed the admiration of South Africans and foreigners alike. Now he is recovering from the Aids controversy and the aftermath of Zimbabwe.

White South Africans were carefully optimistic about the post-Mandela South Africa. Then came the Zimbabwean crisis and the conference on racism – and now many are thinking of emigration, of sending their children abroad or, at the very least, of getting some money out of the country.

This drastic decline in confidence is also fuelled by the slow progress in the fight against crime, the fact that many people are feeling poorer and a general feeling of being unwelcome in your own country. Many people see no hope.

But there is another side to South Africa.

Even if the growth rate turns out to be 2,5%, that would still be considerably better than the average of 1,5% maintained in the 16 years between 1977 and 1993. From the time of John Vorster right up to Mandela's inauguration, our economy went nowhere. In fact, considering that the population grew faster than the economy, we went backwards.

But important economic changes have been taking place since the early Nineties – some initiated by the De Klerk government, others by its successors. As a result, the constraints keeping growth at 1,5% are being removed.

Most importantly, the closed economy of the old South Africa is increasingly being replaced by an open economy. The international evidence is overwhelming: open economies grow faster than closed systems.

It is true that this process is painful. Entire industries, such as textile, footwear and agriculture, are experiencing disruption and even destruction. Thousands of people have lost their jobs, large numbers of businesses have closed down and many farmers have lost their land. For instance, a considerable number of fruit farmers in the Western Cape, once widely

admired for their beautiful estates, have been reduced to poverty by globalisation.

And those lucky enough to still have their jobs, remain subjected to the tension and uncertainty of continued restructuring.

This kind of pain is experienced in every country moving from a closed to an open economy. South Africa is probably in year five or six of a process that could last about ten years. And, with the pain, the positive results are coming through.

The flip side of agricultural pain is the lowest food inflation in many years. The flip side of job losses is increased productivity in entire sectors of the economy. When productivity is improved, jobs are usually lost. There are no short cuts.

As with many developing countries, SA is vulnerable because of a dependence on raw materials. But a more open economy has seen this change for the better. In 1994, manufactured goods constituted less than 10% of the country's exports, today the figure is 24% and rising.

Of course crime and Aids are serious constraints. But a closed economy is worse. Economic progress is not a feature of countries with closed economies and low crime rates, such as Cuba, North Korea and Zimbabwe. At the same time, two countries with open economies and a high incidence of Aids, Botswana and Uganda, grow at the same rates as the tigers of Southeast Asia.

In an open economy, there is life after Aids.

One critical feature of an open economy is a floating currency, open to the risk of sharp falls in its external value. But a devalued rand promotes exports and discourages imports, with obvious advantages.

Such a scenario does present problems for importers, particularly of capital equipment, and dollar-based industries. It's also a hassle for those wishing to take money overseas, send their kids abroad, travel or ski in the Alps.

On the other hand, exporters and local manufacturers of imported products benefit. And those businesspeople who manage their capital equipment well, will be able to limit expenses on capital imports. For instance, SA Airways is more profitable now than it was when the Rand was worth considerably more, in spite of expensive imports of new aircraft and parts.

So, SA is not only a bad news story. Many fears for the future – from unemployment and poverty to affirmative action – will be removed by economic growth of 4% or more. We're not there yet with 2,5%, but we're closer than we were with 1,5%.

Pres Mbeki's actions in 2000 were not limited to Zimbabwe and Aids. Important, business-friendly decisions were also taken – and there is reason to be confident about growth of 3% or more in 2001.

By giving ourselves credit for what has been achieved, confidence can be improved. And by keeping our eye on what still needs to be achieved, we can be successful.

Regular column in Beeld, Johannesburg

Cross-reference: Growth, Mbeki