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Southern Africa in the Year 2000: An Optimistic Scenario

by Millard W. Arnold

Preoccupation with developments in the Gulf, concern over the possible resurgence of hard-liners in the Soviet Union, and the priority being given to the reconstruction of eastern Europe have all but obscured a range of fundamental political and economic changes taking place in southern Africa that are reshaping the future prospects of the region, and over time of the continent as a whole. The consequences of apartheid in South Africa and various levels of conflict and unrest in other countries have suppressed the capacity of this third of the continent to generate long-term, sustainable economic growth. Now, however, a genuinely representative political order in South Africa is a realistic prospect, and negotiations are under way that could end the protracted civil wars in Angola and Mozambique. If these goals are realized, the major impediments to integrated regional development would be eliminated. Although the road ahead is filled with unpredictable twists and turns, the time has come to assess the promise of a postapartheid southern Africa and to offer an optimistic "what if" scenario.

An Overview of Regional Resources

Over 100 million people—a quarter of sub-Saharan Africa's population—reside in the southern states of Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Tanzania, South Africa, Swaziland, Zambia, and Zimbabwe. The World Bank's categorization of nations according to per capita income supports the generalization that this is sub-Saharan Africa's most economically productive region. Six of the countries—South Africa, Zimbabwe, Swaziland, Botswana, Angola, and Namibia—are among sub-Saharan Africa's 15 strongest economies.

Moreover, unlike any other region of sub-Saharan Africa, the countries in the south are remarkably compatible in their judicial, financial, and institutional infrastructures. With the exception of Portuguese-colonized Angola and Mozambique (which are only gradually building closer ties with the local commercial network), all have similar tax structures, commercial codes, property laws, judicial processes, accounting systems and business styles, as well as a common language. Although a common currency does not exist, in practical terms the freely convertible South African rand serves a similar purpose in most of these countries.

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With several excellent deep-water ports, redeemable rail systems capable of further integration, and major air links with most of the European capitals, southern Africa has the makings of a substantial integrated transportation and telecommunications network. In South Africa and Zimbabwe the region has the beginnings of a major money center, because the continent's most sophisticated and active stock markets and financial institutions are in these two countries. Most important, the region's mineral, oil, and agricultural potential has barely been tapped. Approximately 60 percent of the world's gold reserves, 75 percent of its rare earths, 75 percent of its manganese, 65 percent of its phosphate, 55 percent of its cobalt, 90 percent of its chromium, and 60 percent of its diamonds are located in Africa, the vast majority in southern Africa.

The case of Angola warrants special attention. Although virtually the sole source of its current income is the approximately 500,000 barrels per day of oil produced in the northern enclave of Cabinda and offshore wells, known reserves are at least 2 billion barrels. Moreover, exploration has yet to begin on the estimated 51 billion cubic meters of natural gas associated with the oil deposits. Before decades of anticolonial and subsequent civil war took their toll, Angola was the world's third largest producer of coffee and a net exporter of agricultural products. Other resources include diamond reserves conservatively estimated at 180 million carats, extensive timber areas, iron ore, coastal fishing areas, and hydroelectric power.

Mozambique presents significant opportunities as well. Only some five percent of the country's arable land is currently cultivated—land that in preindependence days produced a range of exportable cash crops including cashew nuts, sugarcane, cotton, tea, and sisal. Eventually, the Cahora Bassa dam (constructed by a consortium of South African, German, and French firms) can be the basis for what is planned to be Africa's top hydroelectric complex. Known mineral resources include coal, tantalite, ilmenite, iron ore, bauxite, graphite, diamonds, uranium, platinum, natural gas, and gold. The government has recently approved a $100 million mineral sands project with Johannesburg Consolidated Investment Company that could generate $44 million of annual revenue. Trans-Natal Coal Corporation of South Africa, the British multinational Lonrho, and the Brazilian state-controlled mining firm Companhia Vale do Rio Doce have signed a contract to develop a major coal deposit that could produce 7 million tons a year. Lonrho has also indicated interest in Mozambique's gold and platinum potential and Namibia's diamonds and gold.

Zimbabwe probably has more mines than any other country on the continent except South Africa. Although mining represents only some 7 percent of Zimbabwe's GDP, it generates 43 percent of the country's foreign exchange. Current development of the $200 million Hartley Platinum Project (by the Australian company Delta Gold) will give Zimbabwe 3 percent of the world's annual production of platinum.

When Mozambique's railways and roads again become functional, the ports of Maputo, Beira, and Nacala, with a combined potential handling capacity of between 7 and 12 million tons per year, will play an important role as outlets to the sea for the landlocked neighboring states of Zimbabwe, Zambia, Malawi, Botswana, and Swaziland. In addition, because of its close proximity to the Johannesburg-Pretoria industrial complex, Maputo is an economically attractive alternative to South Africa's own port of Durban. On the west coast of the region, Angola's Luanda and Lobito are logical ports for the transshipment of goods to and from Zambia. Another outlet to the sea for Zambia is the Tazara railway linking the country to the port of Dar es Salaam in Tanzania. After years of problems, this Chinese-built railway is now regarded as a significant element in the regional transportation grid. Eleven countries and organizations have indicated their confidence in its future by undertaking to supply Tazara with $140 million for the refurbishment of engines, rolling stock, and other machinery.

Also noteworthy is the growing recognition by countries of the region that policy reform is as important as infrastructure when it comes to achieving economic growth. Within the past five years, Mozambique and Tanzania have scrapped the socialist models of the early postindependence period and opted for market economies. Angola is moving in that direction. Zimbabwe, despite a lingering allegiance to socialist rhetoric, is steadily giving greater freedom to the private sector. Subsidies are being removed, government regulations revoked, the civil service trimmed, price and labor controls lifted, and import restrictions relaxed. Virtually every government in the region has drafted a new investment code in an attempt to attract foreign capital. Indeed, some comparative studies indicate that Mozambique and Zambia may have two of the most liberal investment codes on the continent. With the exception of Zambia, the region is not unduly burdened with debt, nor does it have the drought, famine, and systemic refugee problems that characterize much of the rest of the continent.

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The "Destabilization" Interlude

Although Portuguese colonial rule left Angola and Mozambique ill prepared for self-rule, and the economic policies that both countries pursued after independence were not oriented toward growth, the major constraints on economic development throughout southern Africa have been political.

A sequence of regional developments beginning in the mid-1970s set off alarms in the halls of government in Pretoria. These included the establishment of Marxist-oriented regimes in Angola and Mozambique when these nations suddenly achieved independence following the collapse of the Caetano regime in Lisbon; the unexpected emergence of Robert Mugabe, a perceived Marxist, as the elected prime minister in newly independent Zimbabwe in 1980; and the formation that same year of the nine-nation Southern African Development Coordination Conference (SADCC), dedicated to four goals, of which the first was a reduction of external dependence, especially on South Africa.

South Africa's leaders became convinced that the survival of the Republic as they knew it required an aggressive military and economic "total strategy" to counter what they perceived as a Soviet-engineered "total onslaught" ultimately aimed at subverting the Republic. Pretoria's "total strategy" took the form of a systematic "destabilization" campaign against neighboring countries known or believed to be providing bases or other support for the outlawed African National Congress or Namibia's SWAPO. The United Nations has estimated that the cost to the region of South Africa's destabilization policy was $60 billion for the period 1980-1988. In Mozambique alone, attacks by South African-backed rebels on such key economic targets as power lines, mining facilities, and transport routes reduced the value of exported goods from $281 million in 1980 to $76.6 million in 1985.

Beginning with the Nkomati Accord signed with the government of Mozambique in March 1984 and moving through ups and downs to the 1988 Angola-Cuba-South Africa accords that set in motion Namibia's transition to independence, Pretoria's regional policy has largely shifted from destabilization (which became increasingly unaffordable in economic terms and less justifiable in relation to Soviet actions) to bridge-building.

Political Prospects in South Africa

Although there are deep divisions among both blacks and whites in South Africa and the negotiation process faces many potential blocks, a point has been reached where all parties have too much to lose by abandoning the joint search for a workable postapartheid system of government. How long the process will take is another matter. Black leaders are under pressure to show results sooner rather than later, while the white leadership must deal with a constituency that would prefer fundamental changes later rather than sooner.

Under the present constitution, which accords blacks no vote, parliamentary elections are due by 1994. Given President F.W. de Klerk's parliamentary majority, it may

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be possible to postpone that date, but not indefinitely. Although negotiations between the government and the ANC are moving slowly and have not yet directly engaged the constitutional issue, there is a growing body of opinion —black and white—that South Africa will have a new multiracial constitution and some form of genuinely representative government by 1995.

In all likelihood, the government that emerges from the process now under way will be a coalition including the ANC as the majority party but having significant white participation. Should that be the case, there would be some parallels to the SWAPO-led government of today's Namibia. A key implication of such a development would be that coalition governments tend to eschew radical policies in favor of compromise and pragmatism, an approach that, realistically, South Africa will have little choice but to follow.

The Postapartheid Economic Challenges

Professor Servaas van der Berg of the University of Stellenbosch has estimated that the cost of introducing parity between the races in health, education, housing, and pensions could cost a future government as much as $17 billion per year over the next decade in addition to normal expenditures. Once parity is achieved, van der Berg says that between 18.8 and 21.6 percent of the gross domestic product would have to be spent on education alone. As the present population of over 30 million grows at a rate of between 2 and 3 percent a year, the economic costs will mount accordingly. The nature of coalition governments, along with these somber realities, will dictate pragmatic economic and social policies.

Although South Africa is the continent's most highly developed country, the economy has structural imbalances that will be difficult to overcome. Mining still accounts for nearly 70 percent of exports (with gold constituting approximately 40 percent), but declining revenues over the past several years indicate that gold may have lost its glitter. As the *Financial Times* (London) noted in June 1990, South Africa has in the last decade gone from being the world's lowest-cost producer to the highest. Labor costs have risen and much deeper excavation is required to extract the metal as the richest deposits are mined out. The capital needed to meet these costs is increasingly difficult to obtain, given the depressed state of South Africa's economy and the country's inability to borrow abroad as a consequence of its debt moratorium.

Lower productivity in the overall economy has resulted in structural unemployment of blacks, officially reported to be 17 percent but unofficially said to be in excess of twice that figure and growing. Of even more concern, over half of the black population is illiterate (owing in part to the disruption of education in the troubled townships in the 1980s), resulting in the paradox of a country simultaneously experiencing massive unemployment and a shortage of professional and technical workers.

Although the economic situation appears daunting, it is not hopeless. The principal obstacle to growth is not the country's structural problems but apartheid. The Investor Responsibility Research Center (Washington, D.C.) estimates that the overall impact of diminishing foreign reserves, disinvestment, and the country's considerable efforts to avoid sanctions have cost the economy between $15 and $27 billion. The abolition of apartheid will bring an end to trade and investment sanctions (which have cost South Africa an estimated $3.2 billion); give South Africa access to capital markets; open the possibility of debt restructuring; enable the bureaucracy to shed much duplicative activity associated with apartheid; and permit access to bilateral and multilateral assistance from abroad.

Of these projected benefits, perhaps the most important would be access to capital markets. An internationally and domestically acceptable representative government and a perception of political stability would largely stem capital flight, bring an end to sanctions, halt corporate disinvestment, and permit the country to roll over its maturing loans. The potential impact on the economy is significant. By some calculations, financial sanctions have cost South Africa more than $14 billion over the past five years.

In a recent advertisement in the *Financial Times*, Chris Stals, governor of the South African Reserve Bank, suggested that if a future South Africa were to consider dismantling its present system of financial controls, lift its debt moratorium, eliminate the dual financial system, and end its restrictive fiscal and monetary policy, the country might become eligible for balance-of-payments support from the International Monetary Fund. Such eligibility would enhance prospects of securing additional commercial lending. Although South Africa's per capita income makes the country technically ineligible for World Bank support, Stals suggested that the costly challenge any postapartheid government would face in reducing the vast economic disparity between blacks and whites might lead the Bank to make an exception.

Another postapartheid priority would be reorganization of the budget to do more for less. Elimination of the expensive homeland bureaucracies and a further trimming of military spending would free funds for more critical domestic needs. Although allocations to the six self-governing homelands increased by nearly 30 percent to $2.28 billion last year, Finance Minister Barend du Plessis has warned that their 1991-1992 budgets will be severely trimmed.

In the process of reassessing priorities, any pragmatic future government would be forced to look more closely at privatization for a single compelling reason: privatization of selected public assets could net the government between $80 and $200 billion. Finally, if market share could be recaptured—and there are indications that this is already happening in the case of coal and some agricultural products—South Africa would receive a much-needed windfall through increased trade with the international community. The European Community has already lifted its ban on new investments and opened an investment promotions office in Johannesburg.

Should South Africa succeed in ironing out its serious internal distortions, the country would be reasonably well positioned financially to pursue rational economic and social policies while providing a sound foundation for sustainable, export-oriented growth. Regional expert Stephen R. Lewis makes this point succinctly: "[T]he lowest 40 percent of the

population in South Africa receives less than 10 percent of total income. If the economy could return to the annual growth rate in excess of 5 percent that it achieved in the 1950s, the income of the poorest 40 percent could double after only two or three years of economic growth, without any decline in incomes in any other part of the population, if growth is carefully directed." ("After Apartheid," *The Washington Post*, February 18, 1990)

SADCC in Transition

Although SADCC was established in 1980 as a regional economic organization, its primary purpose was first and foremost the political isolation of South Africa. With the demise of apartheid, the political justification for SADCC's original objectives will fall away, and more rational trade patterns can and will emerge. Member-states will have more freedom to act in their own national interests regarding South Africa, basing economic decisions on economic rather than political considerations. As a result, South Africa, Swaziland, Botswana, Lesotho, Namibia, and perhaps Mozambique could develop into a closely knit economic zone. A similar relationship already exists or is evolving within the context of the Southern African Customs Union comprising South Africa, Botswana, Lesotho, Swaziland, and Namibia (whose members trade freely among themselves and share a common pool of customs receipts). The more likely prospect, however, is that SADCC will eventually evolve into a regional trading bloc or common market along the lines of the European Economic Community (EEC).

If the devastating internal wars in Angola and Mozambique can be resolved, the way will be cleared for the daunting task of developing the significant economic potential of these countries. In the postapartheid era, a large part of the goods and services required for the reconstruction of Mozambique and Angola will be procured in South Africa, thereby giving a boost to the Republic's construction and manufacturing industries.

Looking Beyond the Region

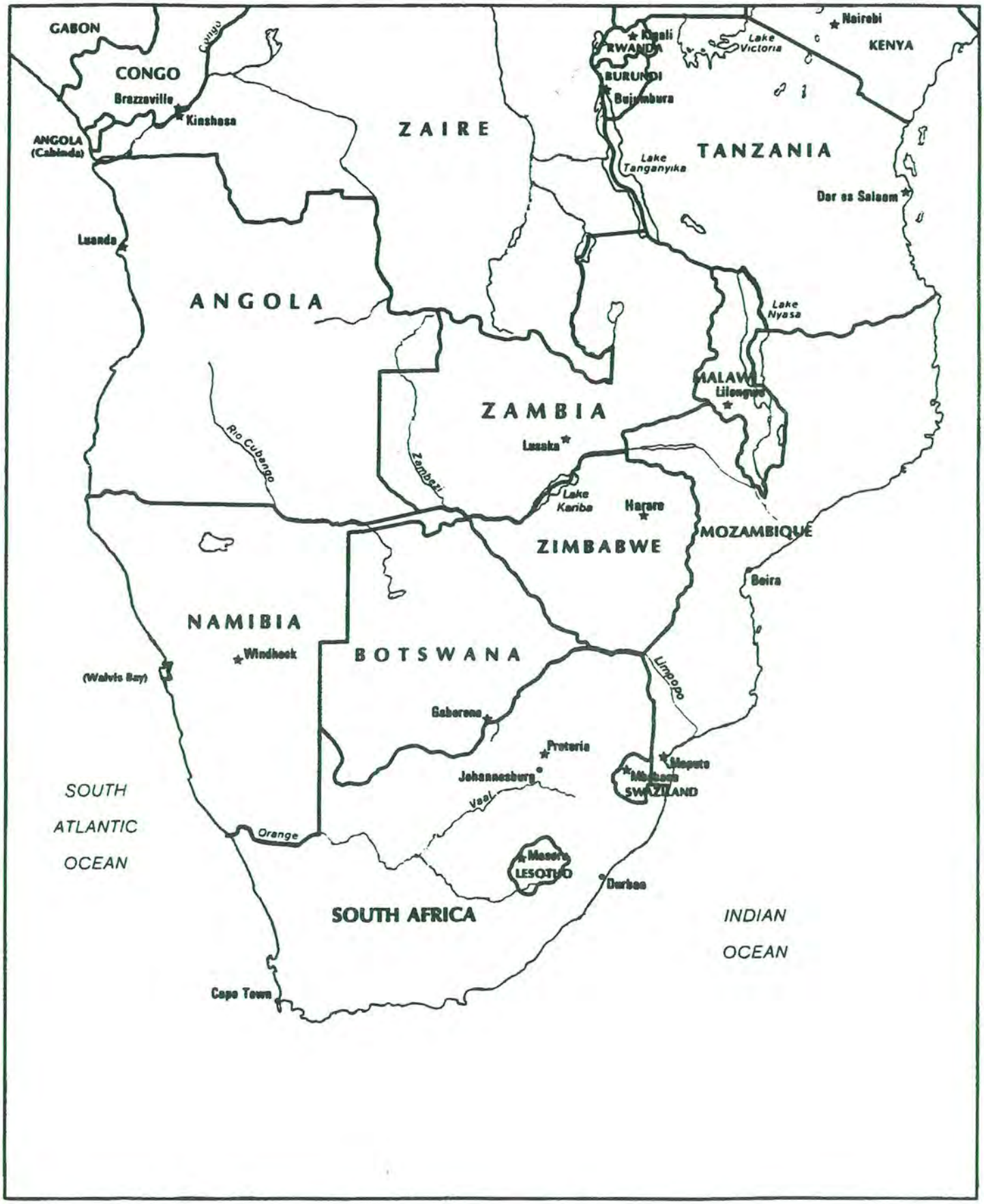
Although foreign investment is critical to growth in southern Africa, development capital will be difficult to attract in the immediate future. Eventually, however, growing economic integration of the region could attract outside interest in three-way deals linking outside investors, South Africa (with its infrastructure and expertise), and the neighboring countries. Such agreements would be likely to emerge first in the mining sector. At present, however, only Zimbabwe among the SADCC nations with significant mineral resources (Botswana, Zambia, Angola, and Namibia) has the investment, skills, and technology to exploit these resources fully.

Constructive economic developments within the region would have a positive impact throughout the continent. Two major Nigerian voices have already been heard on this point. Following an August 1990 visit to South Africa that included meetings with President de Klerk and a wide range of other individuals and groups, former head of state General Olusegun Obasanjo said it was time to start thinking of opening ties with Pretoria. In a newspaper interview, Nigeria's current president, General Ibrahim Babangida, said that he supported Obasanjo 100 percent and saw nothing wrong with normalizing relations with South Africa "if eventually the stumbling block, which is apartheid," is removed.

Commercial links between the two largest economies of sub-Saharan Africa would have enormous implications. Nigeria's more than 100 million citizens are perhaps Africa's most voracious consumers, and a ready market for the agricultural and manufactured goods produced by South Africa. On the other hand, South Africa lacks petroleum, which Nigeria produces in abundance. Although Angola also has oil resources and is much closer to South Africa, the price of doing business in Nigeria's attractive market would probably be a reciprocal trade agreement (i.e., a deal to buy Nigerian oil). South African investors could also benefit from Nigeria's efforts to attract foreign investors through its debt-conversion strategy. Another noteworthy historical footnote is that many of Nigeria's leading entrepreneurs have long argued that the most effective way of ensuring black empowerment in South Africa would be to invest in the homelands and South Africa's various industries.

One of the reasons for postindependence Africa's economic decline is that there has been no country or region with sufficient economic strength to serve as a catalyst. With the emergence of a southern Africa free of the shackles of war and apartheid, Africa would finally have at its disposal the engine for growth that it so desperately needs.

Millard W. Arnold, currently a senior associate at the Carnegie Endowment for International Peace, is on sabbatical from his Washington-based law firm, Land, Lemle and Arnold. He is also president of Associates International, a consulting firm specializing in African affairs. He served as deputy assistant secretary of state for human rights and humanitarian affairs in the Carter administration; was formerly executive director of the Nigeria-U.S. Business Council; and has been a consultant to the Southern African Development Coordination Conference (SADCC) on regional investment codes. He edited *Steve Biko: Black Consciousness in South Africa* (New York: Random House, 1978) and *Steve Biko: No Fears Expressed* (Johannesburg: Skotaville Publishers, 1987). Mr. Arnold recently returned from Mozambique, where he helped establish a chamber of commerce and advised the government on the preliminary draft of a new constitution. His previous contributions to *CSIS Africa Notes* include "How Disinvesting Corporations Could Foster Economic Empowerment of Black South Africans" (issue no. 83, March 1988) and "Swaziland: In Transition to What?" (issue no. 30, July 1984).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