Mandela's economic legacy threatened by inequality

BLOOMBERG, *Cape Town*

NELSON Mandela emerged from 27 years in apartheid jails in 1990 pledging to seize South Africa's mines and banks. Four years later, his government slashed spending and courted foreign investors, paving the way for the longest period of growth in the country's history.

The former president and Nobel Laureate, who died Thursday at the age of 95, was instrumental in getting the African National Congress, which led the fight against apartheid and has ruled ever since, to embrace an open economy.

"Only a Mandela could have realigned the ANC's economic policy from the mindset of the 1950s, with the development state, with socialism, with nationalisation, to the world of the 1990s and beyond," Robert Schrire, a politics professor at the University of Cape Town, said in an interview. "He recognised that for the poor to prosper, the rich had to feel they had a future in the country."

Yet Mandela's legacy of economic stability is beginning to come under attack as the country fails to slash unemployment and reduce inequality. The jobless rate remains 24.7 percent, while average earnings for black households are a sixth of their white counterparts. The ANC's youth wing last year waged a campaign for the nationalisation of banks and mines, the very policies ditched by Mandela in 1994, and poor communities have staged a series of protests against a lack of housing and basic services.

The rand has plunged 19 percent against the dollar this year, the worst performer of 16 major currencies tracked by Bloomberg.

"We still have racial unemployment, racial poverty and racial inequality," said Sidumo Dlamini, president of the 2.2-million-member Congress of South African Trade Unions, the country's largest labour grouping and a member of the ruling alliance. "Our country is still in white hands."

Mandela's embrace of spending rigour and financial reform allowed the economy to expand for 15 years, until the third quarter of 2008, when the global financial crisis pushed it into recession. That growth and rising tax receipts enabled the post-apartheid government to extend welfare grants to about 16 million people and give more than 85 percent of households access to electricity, up from 45 percent in 1996.

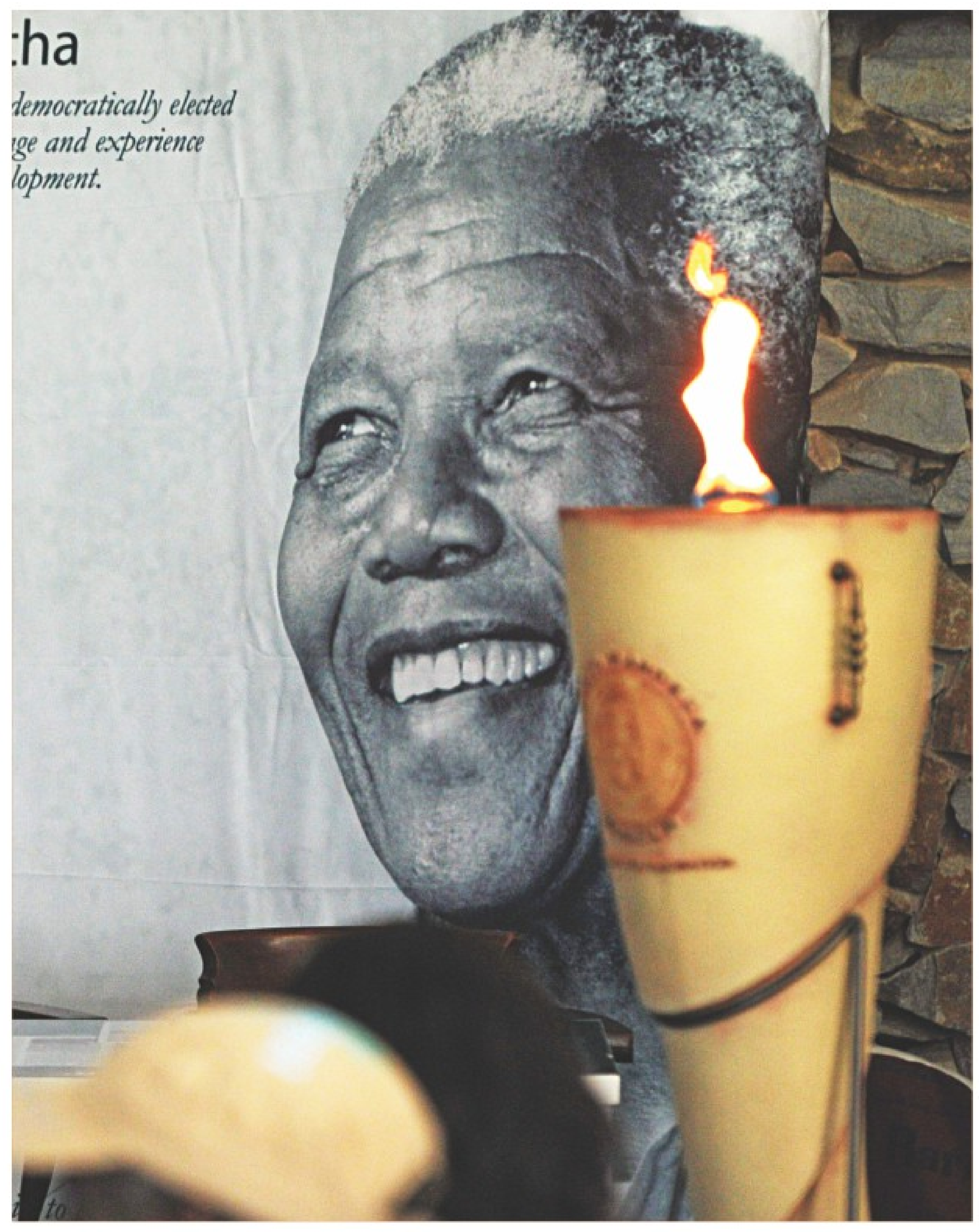
Instead of nationalising companies, Mandela coaxed foreign investors into the country. His ideological shift laid the groundwork for Lakshmi Mittal's LNM Group to buy Africa's biggest steelmaker in 2004 and London-based Barclays Plc to take control of South Africa's largest consumer bank in 2005. In 2011, Fayetteville, Arkansas-based Wal-Mart Stores Inc bought a majority stake in the nation's biggest general-goods wholesaler.

Restoring confidence in South Africa's economy in 1994 was a significant achievement. Apartheid had turned South Africa into a pariah state, subjected to international sanctions and boycotts. The economy was hemorrhaging foreign capital, had only enough reserves to cover 10 days of imports and was running a budget deficit of 9.1 percent of gross domestic product.

Mandela asked Chris Liebenberg, who had just retired as chief executive officer of what is now Nedbank Group Ltd, the country's fourth-largest bank, to become finance minister. He accepted the job on condition that South Africa would have a market-related economy and exercise fiscal discipline.

"Those were tough times," Liebenberg said in an interview. "We were heading for bankruptcy. Mandela was very mindful that the ANC having not been in government would not be as astute in managing the economy as it should be. He came to me because I was a banker with lots of international contacts and experience."

In his first budget, Liebenberg raised taxes, equalised the tax system for all racial groups and slashed the defense budget. Those measures helped the government to raise $750 million in 1994 in its first post-apartheid international bond sale, 50 percent more than originally planned. By 1999, the finance ministry had reduced the budget deficit to 2.3 percent of GDP.



AFP

A flame lights up a portrait of Nelson Mandela, at a ceremony in memory of the former South African president in Qunu yesterday, two days after his death.

Mandela also persuaded Chris Stals, the central bank governor, to postpone his retirement by five years to help manage the country's transition.

"We made steady progress from day one on for those first five years," Stals said in an interview. "Our main task was to bring us back into the world economy. Mandela certainly made a major contribution to that. The trust people had in him and his policies certainly enabled us to lay a very good foundation."

That trust was hard won.

Mandela was sentenced to life imprisonment after being convicted of treason in June 1964, serving much of his sentence on Robben Island near Cape Town. His economic thinking was framed in terms of the ANC's 1955 Freedom Charter, which called for the country's mineral wealth and banks to be transferred to the ownership of the people.

"The question of nationalisation of mines is a fundamental policy of the ANC," Mandela said shortly after his release. "I believe the ANC is quite correct in this attitude and we should support it."

A year later, he assured foreign companies their investments were safe following talks with then-Chinese Premier Li Peng, who told him nationalisation wasn't viable and that China was considering selling state companies.

"The world had changed while Mandela was in jail," said Iraj Abedian, an economist who helped craft the Mandela's administration's 1996 hallmark economic policy, which won praise from international investors. "His engagement with the role players in the political, economic and financial world brought that reality home."

Mandela helped set the broad parameters of economic policy, while leaving formulation and execution to his subordinates, according to Liebenberg, who now helps manage charities established by the former president.

"Until Mandela set his stamp on a policy I think it would not have been possible to drive it through the ANC," Liebenberg said. "It certainly would not have been possible to drive it through government."

Abedian, now CEO of Pan-African Capital Holdings, a Johannesburg-based advisory service, was struck by the attention to detail that Mandela, a trained lawyer, gave to policy making.

"He would go through every document word by word, line by line," Abedian said. "It was a question of understanding the rationale for every step, weighing it up, questioning it in detail, far more than people would believe."

Stals recounts how after Trevor Manuel was appointed finance minister in 1996 and the rand tumbled 8.8 percent in the space of a month, Mandela would phone him two or three times a day for market updates.

"He showed a great interest in what we did and he was always quite well-informed," said Stals. "He liked to discuss the monetary policy issues. He never really interfered, he never really gave instructions."

Still, the stability that Mandela engineered in those early years after apartheid never made South Africa an economic dynamo. Economic growth has averaged 3.5 percent since 2004, compared with 10.5 percent in China and 7.7 percent in India.

Moreover, the Gini coefficient, a measure of income inequality, has risen to 0.63 in 2009 from 0.59 in 1993, making South Africa one of the world's most unequal societies. Poverty remains most prevalent among black South Africans, who make up 79 percent of the population of 53 million.

Mandela never tackled labour laws that companies say stifle investment, or turned around an education system that has left South Africa with labour shortages for skilled jobs.

A wave of violent labour unrest that swept the country in 2012 has continued this year, with workers in the mining, agriculture and transportation industries going on strike for higher wages. The unrest peaked on Aug 16, when police killed 34 protesters at a Lonmin Plc platinum mine.

Labour unions and the South African Communist Party blame the 1996 economic framework, known as Growth, Employment and Redistribution, for entrenching apartheid-era inequity. The policy, which was spearheaded by Manuel and described by Mandela as "non-negotiable," sought to trim state borrowing, contain inflation and gradually relax exchange controls.

"Established capital benefited from stabilisation and liberalisation measures," while the interests of the poor and working class were largely overlooked, said Blade Nzimande, the SACP's general secretary.

The ANC's Youth League revived calls for nationalisation, saying drastic steps were needed to distribute the country's wealth more equitably. The league has toned down its demands since its leader Julius Malema was expelled from the ANC last year.

Mandela did the best he could for the country under the circumstances, Abedian said.

"Very few people appreciated what unstable macroeconomic conditions apartheid had left behind," he said. "In that type of environment what was critical was to have a credible, not necessarily an instant, solution. Mandela realised what steps had to be taken to normalise and stabilise the economy."

Nepal fears for tourism after EU airline ban

AFP/FILE

Nepalese firemen and volunteers help extinguish flames from the wreckage of a Sita plane after it crashes in Manohara, Bhaktapur on the outskirts of Kathmandu on September 28, 2012.

AFP, *Kathmandu*

NEPAL expressed fears Friday for its tourism industry after the European Union blacklisted its airlines due to safety concerns.

EU Transport Commissioner Siim Kallas announced on Thursday that the bloc had placed all of Nepal's airlines on its safety blacklist, banning them from flying to the EU, saying their safety record "does not leave us any other choice".

"This is very unfortunate. This will damage our tourism industry," said Mohan Krishna Sapkota, spokesman for the tourism and civil aviation ministry.

"In our meetings with the European Union officials, we had assured that we were working on maintaining safety standards. In the past several months, we have prepared safety manuals and monitored our airlines regularly," he said.

Sapkota said the government was yet to receive official notification from the EU and would comment further after a meeting of officials later in the day.

No airlines from Nepal fly to the EU but tourists, pilgrims and professional climbers -- most of them Europeans and Americans -- rely on the country's 16 accident-prone domestic airlines to reach remote areas.

The state-run Nepal Airlines, which flies to half a dozen foreign destinations including Hong Kong and Dubai, is the only local carrier operating international flights.

The Himalayan nation has suffered a number of air crashes in recent years, usually attributed to inexperienced pilots, poor management and maintenance.

A Chinese tourist and a local pilot were killed when an ultra-light aircraft crashed into a hill in the tourist town of Pokhara in early October.

In May, 21 people, including eight Japanese tourists, were hurt when a small plane skidded off an airport runway in northern Nepal.

In May last year 15 people were killed at the same airport, while in September 2012 19 people, including seven Britons and four Chinese, were killed after a plane crashed minutes after taking off from Kathmandu.

The Kathmandu Post newspaper on Friday reported that Nepalese aviation officials had met the EU representatives in Brussels last month in which they had asked for a six-month period to improve safety standards.

More than 800,000 foreign tourists visited the Himalayan nation last year.

Employment in a globalised world

MD ALI ASHRAF

WE live in a world where millions of human beings are on the verge of being fired or must accept part-time work due to a drop in their income.

They become pawns, initially interchangeable, subsequently useless and finally invisible in this new world devoted to technology and characterised by trade and international exchanges.

In many parts of the world unemployment or the insufficient amount of work available to workers has become the major problem as the accentuation of the poverty.

In some countries where income level varies widely and social exclusion is widespread, the shortage of job is combined with another problem: the ever increasing number of the workers who earn too little to survive.

Women and the young bear the brunt of this phenomenon. The creation of the world market has made it possible to increase production of goods and the number of job worldwide, but it can also lead to uncertainty and insecurity from the viewpoint of the work.

Indeed even if new technologies create job and improve product quality, they sometimes create unemployment as well.

Consequently the creation of jobs must be guaranteed. One of the best means of achieving this goal is to increase production and income throughout the world. Governments should continue to focus on their economic, social and employment policies in the search for full productive employment to ensure more sustainable and lasting economic growth.

Full employment requires a stable political, economical and social framework, i.e. policies capable of creating economical and financial stability, a legal and institutional framework, which guarantees property rights, freedom of association and respect for contracts, and competent, efficient and responsive public administration.

We must also recognise that employment structure has changed. New forms of employment are emerging as people are changing job frequently and working days are shorter and working hours are more flexible.

Accordingly, there are needs for new policies to guarantee job security, social protection and labour market flexibility via collective bargaining and amendments to labour laws.

Finally, the fundamental rights of workers to join a trade union without hindrance and discrimination and associate with others to participate in collective bargaining on wages and working condition should be ensured.

Forced labour or any form of illegal work related discrimination must be banned.

In recent years, a growing trend of globalisation of economies has been seen, characterised by a sweeping liberalisation of international trade, increased flow of direct investment, globalisation of the money market as well as the confirmation of the role of international economic institutions in financial, monetary and commercial state policy.

STAR

Workers should enjoy the right to join a trade union and participate in collective bargaining on wages and working condition.

Child labour and migrant workers are amongst the issues to be reviewed in the light of new economic context in order to find solution.

In recent times, the flow of fund has increased with the help of the integrated global production system.

These have generated considerable growth in the trade volume not only in foreign currencies but also in derivatives.

Industrialised countries fear the loss of jobs and relocation of production units of export sectors, especially of labour intensive industries, toward developing countries.

These concerns are becoming a reality for developing countries and those in transition because of exorbitant social costs, most often tied to economic liberalisation, and the switch to market economies, especially in the light of the present economic and global political condition.

All developing countries are not only facing internal and external financial deficit problems, debt servicing, growing unemployment, population growth and growing poverty, but they also have to adapt to this new global situation characterised by the ruthless regional and international competition.

Present globalisation process may promote production and employment worldwide. It is also true that increased international trade and investment flows may lead to expansion of the market and a better distribution of world economic resource.

To materialise fully, these prospects require international measure to reinforce inter-state economic relation and openness. This could be in the form of international aid to developing countries to reinforce their competitiveness in the global economy and through the eradication of inequality and poverty at the world level.

Economic globalisation has a significant impact on the labour market, especially in developing countries and those in transition.

Most of these countries are adopting economic recovery and structural adjustment programmes to enable them to switch to the reduced role for the private sector. They are also shifting from protectionism to international markets.

In such a context, these countries must liberalise their trade and currency as well as undertake a number of corrective measures for micro economics to overcome price and other distortions.

They must also ensure a better distribution of resources to increase their international competitiveness and take maximum advantage of trade development and growth as well as international economic investment flows.

In all probability, the implementation of these reforms will lead to increased growth rates and faster productive job creation.

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