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SOUTH AFRICA 2008

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Key indicators

Real GDP growth	2006	2007*	
World	4.0	3.7	▼
Sub-Saharan Africa	5.8	6.1	▲
South Asia	9.0	8.2	▼

*Estimate Source: World Bank

Consumer prices	2007	2008*	
Advanced economies	2.2%	2.6%	▲
Emerging and developing economies	6.4%	7.4%	▲

*Forecast Source: IMF WEO, April 2008

Mood change in the Middle East

Enhancing the integrity of the political process in the Middle East is a crucial ingredient to securing peaceful development in the region, Bassma Kodmani, executive director of the Arab Reform Initiative, told a plenary session yesterday.

In her "plea for a political approach" to reform in the Arab countries, Kodmani (pictured) said that there is now a "real change of mood, of spirit" in Arab societies, where people at the grassroots are becoming more confident about expressing discontent.

Encouraged by the rise of independent media, poor and marginalised citizens, while remaining concerned about issues such as water and land reform, are slowly finding commonality with more elite groupings that are pressing for judicial and parliamentary reforms. Another thread linking these social strata is a mutual abhorrence of violence. "Radical groups advocating violence find very little support in society now," said Kodmani.

national treasury
Department: National Treasury
REPUBLIC OF SOUTH AFRICA

The World Bank

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Emerging markets take a hit, but prove resilient

The panel on financial market turmoil. From left: Mansoor Dailami, World Bank; Ramon Moreno, Bank of International Settlements; Hans Timmer, World Bank; Dennis Dykes, Nedbank; Lesetja Kganyago, National Treasury; and Justin Lin, World Bank

The impact of financial market turmoil on emerging markets was the subject of wide-ranging discussion yesterday.

It is the developing world that is taking the biggest "hit" from the global credit crunch, said the director-general of South Africa's National Treasury, Lesetja Kganyago, during a panel discussion. He pointed out the paradox of capital's so-called flight to safety from emerging markets, given that the crisis originated elsewhere.

"For heaven's sake," he said, "risk aversion should be felt by the developed world."

Kganyago emphasised that the questions of "food, fuel and finance" were core concerns for emerging markets.

Hans Timmer of the World Bank, a co-author of the *Global Development Finance 2008* report released yesterday, said that the 2008 growth forecast for the developing world is still strong at 6.5%. This is four times that of high-income countries. Strong growth in developing countries is "helping high-income countries to export their way out of their problems", he added.

The Global Development Finance 2008 report concludes that, despite recent financial market turmoil and other adverse conditions, most developing economies have proved resilient. Timmer argued that "the right policy mix can preserve growth" in the developing world, albeit at a more moderate level given the global economic slowdown.

Mansoor Dailami, manager of development economics at the World Bank, asserted that the impact of global financial turmoil on developing country markets has "been limited so far". However, he pointed out that the internationalisation of banking heightens the risks of transmission of financial shocks, since 40% of domestic banking assets are now owned by foreign banks.

Can public health investment boost growth?

The challenge of measuring the impact of public health investment on economic growth was a principal theme that emerged during a discussion yesterday afternoon. The panel included South Africa's Minister of Finance, Trevor Manuel, Paul Schultz of Yale University, William Jack of Georgetown University, World Bank adviser Maureen Lewis and Anil Deolalikar of the University of California.

"Health investments are obviously likely to contribute to growth more in poor countries than in rich countries," said Manuel. This comment followed a presentation by Schultz, who showed that while the developed/developing world income gap had widened, the infant mortality gap had narrowed. Schultz predicted that the gap in life expectancy would increase as future improvements in developing countries health outcomes would be more expensive to achieve.

All the speakers concurred that maximising the gains of health investment on economic growth is a complex challenge, whether such investment is in the developed or the developing world. Expensive investments in health today may only realise results in 20 to 30 years, making it difficult to budget because the returns cannot be accurately estimated. "Government should play a role in the development of human capital, but how government should allocate public funds is unclear," said Deolalikar.

Day two in brief

HIV/AIDS: two views

A senior UNAIDS economic adviser yesterday argued against the view that poverty leads to the increased probability of AIDS infection in Africa. Robert Greener noted that HIV infection rates correlate with variables that are associated with wealth. Examples of this include the fact that the wealthy are more mobile and have more leisure time, all of which increase the likelihood of contracting HIV. Prevention strategies therefore "must cut across all socio-economic strata of society" and not focus only on the poor.

Olive Shisana, the executive director of South Africa's Human Sciences Research Council, took a different view. She cautioned against applying findings from specific regions to Africa as a whole. She noted that, in South Africa, infection rates are highest among the poor, although they remain high among all income groups. South African data shows that HIV infection rates are highest in slums, but there is no comparable data for other African countries. ⊕

Olive Shisana, executive director of South Africa's Human Sciences Research Council

Harsha Thirumurthy of the University of North Carolina followed patients on anti-retroviral therapy (ART) in western Kenya and found that, after commencing the therapy, patients were 11% more likely to work, and those that did worked 19% longer. Patients' children showed a 21% increase in school attendance and significantly increased nutrition outcomes. Similar evidence of the benefits of ART were also found at mines in South Africa and Botswana, where absenteeism among AIDS-sufferers was found to decline after miners began treatment. ⊕

The world is unlikely to see an "over-response on the supply side" of agricultural production in the coming period should investment in this sector increase in the wake of global scares over rising food prices, said Professor Michael Spence yesterday, on the sidelines of the conference. ⊕

Rising manufacturing exports, such as clothing, from countries such as Kenya and Madagascar are contributing to short-term poverty reduction, particularly for women and the less-educated residents of urban areas, said Takahiro Fukunishi, of Japan's Institute for Developing Economies, adding that improvements in productivity are now needed to sustain competitiveness in a climate of high labour costs. ⊕

Panelists during yesterday's session on health and economic growth

Nazmul Chaudhry of the World Bank, in a session on human development, asserted that instead of concentrating on public goods such as water quality and sanitation, India's public health sector competes directly with the private sector by focusing only on treatment. The poor suffer more from preventable diseases than the rich, he said, suggesting that health spending may be inequitable and inefficient. ⊕

In a session on south-south FDI versus north-south FDI, Stephen Gelb of the Edge Institute tested two hypotheses on inward FDI in Kenya, Uganda and South Africa: are firms in the south more willing to enter other developing countries, and do southern firms provide more potential for positive spillovers and benefits to host countries? Gelb did not find evidence in support of either hypothesis. ⊕

Rajiv Kumar of the Indian Council for Research on International Economic Relations spoke of the results of a study on FDI that showed industry size, export orientation and advertising intensity are positively related with FDI inflows. ⊕

Ramiarison Herinjatovo Aimé of the University of Antananarivo attributed Africa's underperformance in export-oriented manufacturing to the impact of structural adjustment programmes, low productivity, low capital intensity and a generally poor investment climate. Comparing Africa and Asia, he argued that their different development outcomes result from different orientations. Asian development practitioners focused on instilling national pride, investment-, technology- and trade-focused policies, and the central government and business sector are key players. Western donors in Africa instead concentrate on poverty reduction, health, education and governance policies. ⊕

"Access to credit is more binding in Africa than Asia," said David Olusanya Ajakaiye, research director at the African Economic Research Consortium, at yesterday's breakfast meeting on Africa's domestic private sector. Improving access to credit was one of a suite of public policy responses suggested as means to improve networks and level the playing field for private sector development. Others included the removal of barriers to entry/exit, the establishment of transparent, formal market institutions and support for industrial clusters. ⊕

Sunil Kant Munjal, chairman of Indian company Hero Corporate Services Limited, said in a plenary devoted to the subcontinent that the average Indian can today spend twice as much he or she did in 1985, and in 20 years will be able to spend four times more than he or she can today, reflecting the benefits of rapid economic growth. The country – 54% of whose population is below the age of 35 – has seen four consecutive years of near 9% growth. Yet India still has 200 million people living in poverty. Trickle-down from growth is not fast enough, said Munjal, noting that people will not wait two generations to reap the benefits. ⊕

At left, Ritva Reinikka, head of the World Bank's Middle East and Africa region, with incoming World Bank country director for South Africa Ruth Kagia.