The Challenge of Forward Progress in South Africa and Across the Region*

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INVITED LECTURE

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Thank you very, very much for that overly kind introduction. I've learned in political life that it is important to manage expectations, and I don't think you quite did that. I'm reminded slightly of what Lyndon Johnson once said when he was introduced by someone very nicely – "I wish my parents had been here to hear that." He then continued, "My father would have appreciated it, my mother would have believed it." And you know this is a lot better than economists like myself usually get. It was not so long ago that I was introduced by someone who said, "Larry, do you know what it takes to succeed as an economist?" And I said no. And the response was, "an economist is someone who's pretty good with figures, but doesn't quite have the personality to be an accountant." That was in Moscow. And the audience there did not get the joke, which tells you a lot about the challenges that they face.

I am very grateful to the leaders of Pretoria and Vista Universities and to the universities themselves for hosting me on this occasion, and it gives me particular pleasure to return to a university environment. You know, in a new global economy where capital can move across international borders in a heartbeat, where ideas can move across international borders in no time at all, where what can be sold can be traded and moved around the world so easily. If you ask what it is that is distinctive about any of our nations – the United States, South Africa, any country – it is our people. And that makes the institutions which shape our people and which shape our leaders so profoundly important.

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And I believe that in the next generation, even more than in the past, we will find that great universities and well-functioning institutions of higher education will be a crucial element of national economic success. Indeed it's very much true within our own country. If you ask why Silicon Valley is located in Silicon Valley, the answer lay in its proximity to Stanford University. If you ask why the technology community in Massachusetts formed where it did, the answer is the proximity to MIT. The community in North Carolina, proximity to universities there, the community in Austin, proximity to universities there. So I am glad to go to universities because in addition to what led me into higher education in the first place, the pure spirit of academic inquiry, I believe that successful, well-functioning universities, such as those that you are working to create here, are absolutely crucial to the success of nations.

What I'd like to do this morning is talk for a little while about three questions, some of the lessons of recent developments in sub-Saharan Africa. The particular opportunities and challenges that your country, South Africa, faces today, and some crucial implications of the current situation for policy in Africa and for the international community as a whole.

I take it as a major sign of progress and cause for hope that I'm not going to find myself talking primarily about the importance of stable, macro-economic policies or the rule of law or healthy financial systems or the role of markets in private sector developments, because these ideas – which were once controversial – are now much more widely accepted and ingrained. And, there are, I think, other questions that perhaps are more at the cutting edge of thought and action today.

I AFRICA TODAY

When I came to Africa last, in the spring of 1997, it was a period of fresh optimism. Uganda, Mozambique and many others were overcoming decades of poor policies to achieve significant, market-led growth. A new generation of Africans was emerging out of the embers of the Cold War. And the average investment banker was no longer considering the phrase "sub-Saharan emerging market" to be a contradiction in terms. The sense of new opportunities was palpable – and nowhere more than here, in South Africa.

While I think these have been good years in South Africa, the mood has changed somewhat with respect to the continent. *The Economist* magazine, whose covers tend to be harbingers of change – they declared the price of oil at a terminal low point just before it tripled, for example – *The Economist* recently dubbed Africa "the hopeless continent". The stories from the region and the global press are again dominated by pictures of famine, conflict and disease. And we are reminded, once again, that average per capita GDP in sub-Saharan Africa today is still lower in real terms than it was in 1960.

It is in this context tempting – but I believe, badly misguided – to conclude that the optimism of just a few years ago was simply misguided. But I believe the lessons of recent years are more complicated.

They include these lessons:

One lesson is that good policy is necessary, but it is not sufficient in sub-Saharan Africa, where even the most committed governments must overcome some unique handicaps, including the tropical climate, poor soil and vulnerability to infectious disease. And now there is the added burden of HIV/AIDS, which last year killed ten times more Africans than all the region's various conflicts, and here in Southern Africa could reduce life expectancies to levels that were more characteristic of biblical times.

A related crucial lesson is the one that President Mbeki made very vividly during his recent trip to Washington: that sub-Saharan Africa is not one place or one idea, subject to one solution, but 48 distinctive nations. And, even as some countries have fallen back into conflict and economic regress, we must remember that others have made crucial steps forward.

Notably:

- I come here from Nigeria, where I was able to congratulate President Obasanjo earlier this week on the first anniversary of the first democratically elected civilian government in nearly two decades. I was able to offer him concrete U.S. support in the form of our support for a generous rescheduling of its Paris Club debts this year, and to indicate to him that – provided that Nigeria makes significant progress in meaningful economic, financial and social reforms – the United States would support positive consideration by the official financial community of multilateral debt reduction for Nigeria through the Paris Club.

- In Tanzania, where I spoke yesterday to President Mkapa and his economic team about their efforts to chart a new course for their economy after decades of central planning, and where I was greatly moved by my visit to an independent HIV/AIDS clinic that is building the nations's social capital from the ground upwards – working with the local community to educate young people about the virus and provide support networks for those that are already sick.

- And Mozambique, where democracy and rapid growth have replaced two decades of devastating civil war. In all the world, Mozambique was one of the most rapidly growing economies for the entire decade of the 1990s. We will be speaking with officials in Maputo tomorrow about their efforts to keep their reform strategy on track – even as they manage the consequences of the floods this year and the threat of a major malaria epidemic.

At the dawn of a new century, the world has an opportunity to support nations like these and to move forward in a region where too many countries are still falling behind. That is the opportunity that the leaders in the industrial countries seized in our support for a much strengthened debt relief initiative for Africa last year. This initiative rests on two crucial principles:

First, the education and health of African children, or poor children anywhere, should not be held hostage to the power of compound interest. In large parts of this continent, a child born today is more likely to die before the age of five than to reach secondary school, and more likely to be malnourished than to learn to read. That is not as it should be. Governments in countries that are committed to investing in their people should not be prevented from making those investments by the need to divert large amounts of their scarce resources to paying off the misguided loans of the past.

Equally, though, as we support debt relief, it is essential that we recognize our obligations to those we are trying to help, to ensure that, this time, our assistance works – by targeting it to countries and to programs that deliver results, and by applying appropriate conditions. Tempting as it is to believe that simply providing support to countries and letting them use it as they see fit will be a panacea, the overwhelming lesson of history is that it isn't so.

We have very clear, natural experiments to establish this proposition. The economic history of Nigeria, Venezuela, Zambia and other countries with abundant natural resources offer concrete examples of the dangers of external finance without conditions. Large increases in price in these countries led to [ringing of cellphone] – well, that's an appropriate marshall spirit for my remarks and is a powerful – you know I think the inability to turn cellphones off is a powerful testament to the connectivity that we are seeking to create in your country. Again and again, we have seen that when resources come in without conditions, the result is palaces, corruption, Swiss bank accounts, and very little tangible benefit to the people. It doesn't mean we shouldn't work to develop natural resources. It does mean that conditions are appropriate when financial assistance is provided.

I believe that this HIPC initiative gives us a opportunity to refocus development efforts in more effective ways: refocus them in particular on the importance of human development, reduction in poverty, promotion of health and education.

II SOUTH AFRICA'S UNIQUE CHALLENGES AND OPPORTUNITIES

What about South Africa in all of this? Let me say first that I think it is difficult to over estimate the importance of South Africa, for the African continent and for the global economy. There is almost no question that the next two or three decades will see substantial convergence between the economy of South Africa and the other economies of sub-Saharan Africa. And the great question that will determine the future of Africa and its people is whether that convergence is upwards convergence on behalf of the other economies or it is downwards convergence for sub-Saharan Africa.

President Mbeki and Minister Manuel recognize that and have, therefore, focused very much not just on strengthening this economy, but on policies towards Africa as a whole. South Africa comes with formidable advantages: traditions that emphasize the rule of law and at last, bringing to place law that is truly legitimate; a strong infrastructure, both in a physical and tangible sense and in an intangible sense, as well; a clear set of commitments to private sector-led development, to market forces; and a willingness to embrace technology.

Of the many statistics about your country, the one that I was perhaps the most struck by was the one that I encountered in my hotel magazine last night, and that is that yours may be the only country in the world that has more cellphones than land phones. Think about that. Think about it because it speaks to some deep things. It speaks to your country's willingness to embrace connectivity, embrace communications, embrace modernity and their potential to leapfrog problems in many other countries. But that comparison works so well for two reasons:

It works because there are a lot of cellphones, and it works because there aren't so many land phones for a country of your population, and that in turn is a manifestation of what is surely your greatest challenge: the manifest high levels of inequality and division that history has bequethed you. You know the statistics better than I do.

Five percent of South Africans control 95 percent of your country's wealth. Poverty among the non-white population is running at more than 60 percent. And upwards of one in four of your working age population is out of work.

That makes more rapid economic growth a national imperative. Because only in the context of more rapid economic growth will it be possible to more fully and properly distribute the fruits of a market economy. That is why I am so encouraged by the continuing commitment of the South African government, from the top down, to the pursuit of market-oriented, sound, healthy, financial policies. I look forward to discussing those issues in more detail with Minister Manuel in a little while. But my plea to you would be just this – your country is very special and faces very distinctive challenges. Certain laws of economics, that if you print too much money, you'll get higher prices, and not much else. That if people can't be secure that something they own today will still be theirs tomorrow. That if you don't invest in new capacity, you won't be able to produce more tomorrow than you are today.

Those basic laws of economics which have shaped the approach that President Mbeki and Minister Manuel have taken are laws of economics that do not reflect political constraint or realities that we all have to deal with in helping our economies move forward.

III COMPELLING PRIORITIES FOR THE NEW AFRICA

These are crucial elements of policy here in South Africa. Let me conclude by just stressing three themes in economic development policy that I think are perhaps less centrally stressed and less frequently stressed by those concerned with finance and economics, but that I believe are crucial if South Africa and sub-Saharan Africa are to succeed in the future.

First, integration:

Economic integration is the transforming global dynamic of our time. It is success in integrating within a large country and then integrating with a global economy that is the reason why the United States has been successful over the last half century. Only one country globally in the whole world – Botswana, where the circumstances are special – has achieved rapid economic growth over the last half century without achieving rapid growth in manufacturing exports.

That's why rapid labor-intensive growth is important for sub-Saharan Africa and it is important for South Africa. I believe regional integration can make a very great contribution, and that is why the United States very much supports efforts to implement on a faster basis the SADC trade protocol, something I'll be discussing with SADC Finance Ministers later today. We equally believe that President Mbeki is exactly right when he stresses that African integration has to be a complement to – rather than a replacement for – broader, global integration.

And we recognize that if that is to take place, the United States has to do its part and so do the other major industrial countries. And that is why the President was so pleased, at last, to sign into law the African Growth and Opportunity Act last month. That law will open up new, important opportunities for businesses in South Africa and across Africa by significantly expanding their access to the U.S. market, especially in apparel, and will offer strong new support for growth in private investment here in this region.

Second, the crucial role of education:

The second theme that I would stress is the crucial role of education. It's no exaggeration to say that Africa has little chance to succeed economically without improvements in education. No country, globally, has ever succeeded without a literacy rate well in excess of fifty percent. Yet, in sub-Saharan Africa today, close to half of the women cannot read. This will all become in so many ways ever more important in the years ahead, when increasingly machinery will do the work of physical labor and what we can all contribute will be determined more by what we know and can think about than what we can lift.

Education is important in other ways as well. Democracy means little without an informed electorate and it is important in other ways. I was very struck by the worker who said to me in Tanzania yesterday: all the advertising and information campaigns in the world regarding HIV/AIDS will matter little if people cannot read. That is why education plays a crucial role in the debt-reduction initiative and that is why we will be discussing at the Okinawa Economic Summit the priority we associate with concrete, multi-year targets for substantial increases in World Bank lending for education. Particularly for basic education, and particularly to narrow gaps between girls and boys.

South Africa, with the third highest education spending relative to the GNP, has much to contribute to this global effort. It is a leader in the very important respect of gender equality with very similar rates of education for girls and boys. And it is an impressive statistic that bears emphasis that relative to all the countries in the world, your level of spending on education is the third highest relative to your total income. Priority in your country as in mine, though, has to now be not just the quantity of resources devoted to education, but also the quality of resources devoted to education. Well-paid teachers are important, but if the imperatives of the educational establishment come to be larger than the imperatives of providing textbooks for children or chalk for chalkboards or facilities for schools that work, then those priorities are setting education backwards and not forwards.

Third, the importance of core investment in health:

Integration – Education. There's the third thing that must be said. And that is the importance of core investments in health. Finance ministers are not health ministers and the details of health issues are not normally our primary concern. Finance ministers around the world are becoming increasingly convinced that health investments in general, and investments with respect of HIV/AIDS in particular, are not just a moral or humanitarian issue, but an issue of profound economic importance. At a time when 23 million Africans are now infected with HIV/AIDS, some 11 000 are added to the list every day, with 1 700 of them South Africans.

A country where HIV/AIDS is spreading fastest has to be a leader in educating itself and the world about this disease. I hope next month's global AIDS conference in Durban could mark a turning point.

On current trends, more than 5 million South Africans will be infected by 2008. In some hospitals, already, more than a third of the beds are occupied by people with AIDS – and business are beginning to realize the profound effect that this disease will have in declining productivity, rocketing health insurance costs, absenteeism and loss of skilled and experienced labor.

More broadly, anyone who studies the statistics on HIV/AIDS and other infectious diseases in sub-Saharan Africa has to conclude that without more effective approaches to these problems, no national economic policy, however well devised and implemented, is going to yield the results that it should. Even before AIDS, it has been estimated that malaria alone reduced the growth rate of 31 countries in Africa by enough to make their GNP nearly 20 percent lower today than it would otherwise be.

That is why the United Nations Security Council had its first meeting devoted to a health issue this January; why the President has declared HIV/AIDS to be a national security threat to the United States and why we are making it a major budget priority as well. It is something that we will seek to be funding much more fully in the context of debt reduction initiatives and in the context of the work of the international financial institutions.

I salute the President of the World Bank Wolfensohn's commitment to assure that no well designed AIDS program in sub-Saharan Africa goes unfunded. It is appropriated that we all work to hold the Bank and the international community to that commitment by presenting them with well-designed programs.

I think it's appropriate here in a major center of research to highlight the fact that there is the scope with respect to AIDS, with respect to malaria, with respect to tuberculosis, to respect with the very limited number of diseases that account for more than a million deaths each year, to bring to bear the power of modern science, if the right incentives are there.

It cannot be right in the era of Viagra, that of the 1233 new medicines that have been patented in recent years, only 13, or 1 percent, were for the tropical diseases that afflict 90 percent of the world's population – and that of those 13 new products, only 4 came as a consequence of research projects that were aimed at curing humans.

That is why there has been a mobilization of governments, of foundations, of the pharmaceutical industry to bring a new focus to this vital issue. We can do better in the 21st century than we did in the 20th.

IV CONCLUDING REMARKS

Let me just conclude finally by saying this. There may be economic and financial issues that have more dollars involved than what happens in sub-Saharan Africa. But there is no global, economic and financial issue that has greater human consequence than what happens on this continent. There is no country that will be more crucial to what happens on this continent than yours. And there will be no group within this country that will be more crucial to its future than those who are studying in its universities. I'm therefore very grateful to have had the opportunity to share these thoughts on Africa's future and the United States interest in it with you. Thank you very much.