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ASPECTS OF GROWTH EMPIRICS IN SOUTH AFRICA

by

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SUMMARY

ASPECTS OF GROWTH EMPIRICS IN SOUTH AFRICA

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Economic growth is the single most important factor in the economic success of nations. Growth can be robust in trying circumstances over the short term, but usually requires the basic tenets of peace, safety and security, the rule of law, price and exchange rate stability and a market friendly ambience to be sustainable over decades.

Achieving this is a formidable task, but does not guarantee success, because other factors, such as pessimism or uncertainty in the business community, rumours and corruption, can impede progress.

Government policy plays a vital role in economic growth, but measures of it are scarce and problematic. Similarly, economic data focus on outcomes, rather than on causes, for example, numbers employed rather than labour market policies.

Growth analysts generally use indirect measures to analyse growth causes and effects. There are more of these, but many are also volatile over the long term.

Economists devised empirical tools to compensate for these obstacles, and such tools were used in this study to investigate South Africa's growth record, in order to determine what worked and what did not.

This study shows that measures of openness of the economy to trade are indicative of growth. A robust and export-oriented manufacturing sector

contributes to growth and perpetuates itself. This implies that barriers to trade, such as tariffs and quotas must be minimised and manufactured exports promoted, rather than primary products such as iron ore and coal.

Nonproductive government spending reduces the growth rate and should be minimised, and the largest expenditures should be on safety and security (because crime incidence reduces growth), housing for the poor, and education, while most other services such as electricity, transport and communication should be privatised.

While investment is important, its link to growth is bi-directional. However, productivity is a significant contributor to growth. Unused capacity of human resources and machines is productivity's main detractor. Policies to enhance rival competition in the private sector, with full utilisation of capacity, increase productivity growth and can have sizeable spin-offs for economic growth and living standards.

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LIST OF ABBREVIATIONS

| | |
|-----------|--|
| ADF | Augmented Dickey Fuller |
| AGOA | African growth and opportunity act |
| AIC | Akaike information criterion |
| DF | Dickey Fuller |
| EDP | Economic development programme |
| EG | Engle-Granger |
| FDI | Foreign direct investment |
| GDE | Gross domestic expenditure |
| GDP | Gross domestic product |
| GEAR | Growth, employment and redistribution – A macro economic strategy |
| GNP | Gross national product |
| HDI | Human development index |
| HPAE's | High performance Asian economies: Japan, Hong Kong, Korea, Singapore, Taiwan, Indonesia, Malaysia and Thailand |
| HSRC | Human Sciences Research Council |
| IBM | International Business Machines |
| IMD | International Institute for Management Development |
| NEM | Normative Economic Model |
| OECD | Organisation for Economic Cooperation and Development |
| R&D | Research and development |
| SARB | South African Reserve Bank |
| s.d. | standard deviation |
| SDIs | Spatial development initiatives |
| s.e. | standard error |
| STATS SA | Statistics South Africa |
| TBVC | Transkei, Bophuthatswana, Venda & Ciskei |
| TIMMS | Trends in International Mathematics and Science Study |
| VAR model | Vector autoregressive model |
| WCY | World Competitiveness Yearbook |

Refer to table 6.1 on page 131 for the list of acronyms used for variables in chapter 6.