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**SOUTH AFRICA'S CHANGING POSITION IN THE
INTERNATIONAL ECONOMIC ENVIRONMENT**

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1.1 INTRODUCTION

The ever increasing cross border flows of trade, investment and finance, as well as the rise of technology, have given rise to a global economy. There are numerous advantages in this shift to a global economy in terms of lower costs and greater economies of scale. However, domestically and internationally, persistent problems of poverty and inequality remain, and transitional economies and new states continue to be economically fragile and politically unstable. Furthermore, most of the technological advances acting as the driving force of the global economy are taking place in the usual cluster of developed countries. Few developing countries have succeeded in harnessing these forces.

South Africa is continent's most developed economy; particularly when compared to the rest of sub-Saharan Africa. As a testimony to its status as one of the leading emerging economies of the world, SA was invited along with Brazil, China, India and Mexico to participate at the G8 Gleneagles Summit in 2005. However, the question remains whether South Africa will strengthen its position as one of the promising markets in the world or prove to be yet another African economy exposed to the vagaries and ruthlessness of the international economic system. This paper tries to assess its trajectory of economic development by analyzing local, regional and global contexts within which the South African economy operates.

2.1 OVERVIEW OF THE SOUTH AFRICAN ECONOMY

South Africa is a middle-income, emerging market economy with an abundant supply of natural resources. It has a well-developed financial, legal, communications, energy, and transportation sectors. SA's stock exchange ranks among the ten largest in the world. The long functioning and modern infrastructure supports an efficient distribution of goods to major urban centers throughout the region. In the decade since the end of Apartheid, the South African economy has grown at an average rate of 2.0 percent. However, it is expected to grow by 3.6 percent in 2005 and 4 percent in 2006¹.

South Africa is the world's largest producer and exporter of gold and platinum; it also exports a significant amount of coal. During 2000, platinum overtook gold as South Africa's largest foreign exchange earner. The value-added processing of minerals to produce ferroalloys, stainless steels, and similar products is a major industry with high growth potential.

The country's diverse manufacturing industry is a global leader in several specialized sectors, including railway rolling stock, synthetic fuels, and mining equipment and machinery. SA's manufacturing sector, along with mining, accounts for approximately 31 percent of the total GDP. Tourism and financial services have become increasingly influential in the services sector, which now contributes up to 65 percent of the GDP.

Primary agriculture accounts for only 4 percent of the gross domestic product, however, it continues to employ 30 percent of the labour force. Major products include citrus and deciduous fruits, corn, wheat, dairy products, sugarcane, tobacco, wine and wool. South Africa has many well-developed irrigation schemes and is a net exporter of food.

One of the great successes of the current South African economic policy has been to get consumer inflation, which had been running in double digits for over 20 years, under control. By 1998, inflation had fallen to 6.9 percent, and in 1999 and 2000 inflation was running at less than 6.0 percent. Although the Rand's rapid depreciation in late 2001 increased inflationary pressure somewhat, but that was not significant enough to reverse the gains. In July 2005 consumer price inflation was at 2.3 percent, one of the lowest rates in decades.

South Africa has also made inroads into reducing its fiscal deficit, from 4.6 percent of the GDP in 1996 to 1.5 percent in 2005, and increasing foreign currency reserves, which stood at \$15 billion in May 2005. Foreign direct investment (FDI) is regarded as the most resilient form of private capital flows, facilitating transfers of new technology, and improving market access.

However, unlike in other emerging economies, the composition of capital inflows in South Africa appears to be biased toward portfolio investment. This requires close monitoring and assessment since sudden shifts in market sentiment can lead to large reversals of portfolio flows, as experienced during the East Asian Financial crisis in the late 1990s. Over the past decade, FDI inflows amounted to an annual average of 1.5 percent of South African GDP, whereas portfolio inflows totaled about 3.5 percent of GDP. This trend contrasts sharply with other emerging economies that share similar risk attributes, with FDI being the dominant source of capital flows (Ahmed, et al, 2005).

Nevertheless, the positive turnaround of the South African economy has created a strong platform for accelerated growth in the next decade; however, serious economic problems remain, exacerbated by the effects of AIDS on the social and economic fabric of the country.

Most importantly, the country's economic system has a marked duality. Due to the Apartheid past, a sophisticated industrial economy has developed alongside an underdeveloped informal economy with strong rifts along racial lines. The industrial economy has an established infrastructure and economic base with great potential for further growth and development whereas the informal economy presents both untapped potential and a developmental challenge for South Africa. Consequently, daunting economic problems remain from the Apartheid era, especially poverty and lack of economic empowerment among the disadvantaged social and ethnic groups.

2.2 OUTLINING THE PROBLEMS

Reducing inequality and poverty, tackling unemployment, and handling the socio-economic effects of AIDS, are some of the key challenges faced by the government on the domestic front. Firstly, poverty and inequality pose the greatest threat to the success of South Africa's young democracy. Ironically, poverty levels in South Africa have remained constant since the advent of democracy. In fact, some studies argue that those households living in poverty have sunk deeper into poverty and the gap between rich and poor has widened (HSRC & Whiteford, 2004). Therefore, although the average per capita income in South Africa at purchasing power parity is estimated at USD 11,100, 50 percent of its population survives below the poverty line – making the income disparity in South Africa among the most extreme in the world.

Further, the rising inequality between the rich and poor also suggests that the poorer households have not shared in the benefits of economic growth. Consequently, at one extreme, 13 percent of the population, mostly in the urban centres, live in "first world" conditions. At the other extreme, 53 percent of the populations (about 22 million people) live in "third world" conditions. In the second group only one quarter of households have access to electricity and running water; only half have a primary school education; and over a third of the children suffer from chronic malnutrition.

Secondly, in 2005 unemployment was at 26.5 percent¹, making it the worst rate in the world by a significant margin². Such high rate of unemployment contributes to poverty directly and indirectly through its effect on the wage level (Kingdon & Knight, 2004). The rate of unemployment also reflects the inherent inequality of the South African society, and the extremely unequal distribution of wealth. Naturally, so far the growth of the economy has not been strong enough to absorb the growth in the labour force in South Africa. However, with the possibility of sustained economic growth rates of around 4.0 percent, the rate of unemployment is likely to decline, even if remaining in the high range for some time to come. More than half-a-million jobs were created in the fiscal year ending in March 2005, effectively bucking the decade-long trend of 'jobless growth'.

Thirdly, 21.5 percent of the population or more than five million people are living with HIV/AIDS in South Africa. This high prevalence rate has a significant impact on the vital demographical statistics with lower life expectancy, higher infant mortality and death rates, lower population and growth rates, and greater changes in the distribution of population by age and gender than would otherwise be expected. Consequently, the population growth rate was at -0.31 percent by 2005 estimates.

In 1990, when the first antenatal surveys to test for HIV were carried out in South Africa, 0.8 percent of the women were found to be HIV positive. In 2003, data showed that the HIV prevalence rate amongst pregnant women was 27.9% (Department of Health, 2003). Ironically, the explosion in HIV prevalence rate happened during the peaceful political transition that took place in the country. Rising human and financial cost of AIDS is likely to have a tremendous impact on South African society, including demographic, household, health sector, educational, workplaces and economic aspects.

Already the epidemic's burden on the health care system is increasingly obvious, although efforts to quantify real impact have lagged. HIV/AIDS thrives in environments of poverty, rapid urbanization, violence and destabilization. In South Africa the particularly vulnerable are those who lack access to information, resources and control over their lives - namely the poor, those living in rural areas and women.

¹ However the official statistics must be viewed on the basis that statistics for the informal sector of the economy are generally not readily available. Unofficial sources, which include those who have given up looking for employment, among other things, put it as high as 41.8 percent. (Kingdon & Knight, 2004)

² Average unemployment rate in Latin America is 8 percent, South East Asia 6.3 percent and for Sub-Saharan Africa it is 10.9 percent (Laborsta, ILO)

A frighteningly cruel aspect of this high incidence of AIDS was pointed out by the World Bank's book *Confronting AIDS* (Ainsworth & Over, 1999), which argues that declines in population growth caused by AIDS would tend to offset any declines in economic growth caused by the epidemic. In other words, in the cold logic of supply and demand, the labor surplus in most African economies means that workers removed from the workforce by AIDS can be replaced without a loss of productivity. However, the impact of the epidemic needs to be seen in the larger context of human welfare as an enormous setback in individual welfare, reversing decades of investments in human capital.

Despite this grim situation, President Mbeki's inexplicable public expression of support for the AIDS dissidents, who question the link between HIV and AIDS, has led to a muddled government policy regarding the epidemic. Undoubtedly, the same government has committed significant financial and institutional resources to transform the public health service to meet the challenges of HIV/AIDS. Budget allocations increased dramatically in the past five years and several multi pronged programmes are being implemented at district and provincial levels. However, the lack of central leadership has prevented a strategic and coordinated approach to the epidemic or the integration of HIV/AIDS services into the primary health care system, which could prove to be the most effective vehicle through which to deliver these services in South Africa.

Aside from these key areas of immediate concern, South Africa also needs to develop strategies and mechanisms to manage its environmental problems, specifically in terms of managing the scarcity of water. South Africa is one of the water stressed regions of the world, as the absence of important arterial rivers or lakes requires extensive water conservation and control measures. Growth in water usage, particularly in the urban areas and the mining sectors, has outpaced water supply. Consequently, in the short term pollution of rivers from agricultural runoff and urban discharge, air pollution resulting in acid rain, soil erosion and desertification are some of the environmental problems the country is faced with.

However, in the long term water security might become the most compelling resource based challenge for South Africa and the entire region. Water in the region is severely limited, unevenly distributed and subject to climatic fluctuations. Research suggests that by 2025, Zimbabwe, Tanzania and Mozambique may experience periods of water stress, while Malawi, Lesotho and South Africa will face 'absolute water scarcity' (Mutembwa, 1998; Turton, 1999). With the inevitable increase in competition for scarce water resources at the local, national, regional as well as sectoral levels, access and control over water resources will determine to a large extent the political, economic and social stability of Southern Africa.

3.1 CONTEXTUALISING THE SOUTH AFRICAN ECONOMY IN THE REGION AND THE WORLD

South Africa is a member of the World Trade Organization (WTO). Further, it is an eligible country for the benefits under the African Growth and Opportunity Act (AGOA), which means that most of its products can enter the United States market duty free. South Africa has done away with most import permits except on used products and products regulated by international treaties. It also remains committed to the simplification and continued reduction of tariffs within

the WTO framework and maintains active discussions with that body and its major trading partners.

South Africa has significantly reduced tariffs and export subsidies, loosened exchange controls, cut the secondary tax on corporate dividends, and improved enforcement of intellectual property laws. Consequently, exports have increased tenfold since the 1990s and had reached 29.1 percent of GDP in 2001, up from 11.5 percent a decade ago. South Africa's major trading partners include the United Kingdom, the United States, Germany, Italy, Belgium, China, and Japan.

Several important achievements have been reached in terms of international economic relations. These include the conclusion of SACU agreements with Mercosur and EFTA, the inclusion of ten new EU members into the SA-EU agreement, mobilization of G8 support for African development, launch of the India-Brazil-SA business forum, and the establishment of the Permanent Trade Forum (bringing together the different government departments). Currently South Africa's government is finalizing the national export and market access information strategy to improve access to the EU and US markets using the SA-EU trade agreement and AGOA.

3.2 THE REGIONAL CONTEXT

South Africa can be regarded as the economic giant on the continent since, while it represents only 3 percent of the continent's surface area, it accounts for approximately 40 percent of all industrial output, 25 percent of gross domestic product (GDP), over half of generated electricity and 45 percent of mineral production in Africa. Consequently, South Africa is regarded as the engine of growth for Africa and also a gateway for investment into Sub-Saharan Africa. Since 1994, South Africa's trade with and investment in other African states has increased significantly.

A recent study (Arora, Vamvakidis, 2005) measures the extent to which South African economic growth is an engine of growth in Sub-Saharan Africa. Results based on panel data estimation for 47 African countries over four decades suggest that South African growth has a substantial positive impact on growth in the rest of continent, even after controlling for other growth determinants.

Naturally, the relative significance of South Africa in the international system is closely tied to the economic performance of the continent. Since the Second World War, the African continent as a whole has only accounted for about 7 to 8 percent of global trade. In the Post Cold War era that figure is down to 2 percent. Ironically, this decline has happened in spite of the fact that African countries have had preferential access, relative to other developing countries, into the markets of the North through a range of preference schemes like AGOA and the 'everything but arms' agreement with the EU.

With further liberalization of the global economy and the reduction of subsidies, the developed country tariffs are coming down. The resultant levelling of the playing field is ironically having a negative impact on African producers. More competitive emerging economies like China, India

and Brazil are claiming an ever increasing share of the global market, often at the cost of the less competitive African economies. In other words, the growth in the market share of emerging economies has rendered useless the preferential agreements between African and developed country markets. The most striking example of this phenomenon is the China's takeover of the global textiles and apparel markets, which is resulting in the closing down of once thriving industries in some of the poorest parts of the world, for instance in Lesotho. At the same time this trend puts the effected industries in the developed world on the defensive.

Further, the deep seated problems of African state formation and maintenance impose critical limitations on their prospects for economic recovery and growth. Amongst scholars as well as multilateral agencies, there is a widespread consensus that regionalism in Africa is not only desirable but necessary. As a pragmatic and conscientious policy reflecting its geopolitical and economic necessities, South Africa has adopted regionalisation as one of its official strategies on the continent.

Historically, African regional strategy has been established in terms of a progressively closer economic integration, which was expected to lead to a Pan-African political union, much like the European Union. However, this regional strategy was doomed to failure due to the weak economic and political structures of the African states and their marginal role in the international economy.

South Africa has taken the lead in replacing the old economy-led strategy towards regionalisation with an explicitly political approach, which is dominated by the issue of regional security 'both in the limited sense of maintaining a basic level of peace, and in a much broader and more ambitious sense of creating the structural conditions required for development within a globalized world economy' (Clapham, 2001: 60).

To this end South Africa has undertaken a range of regional initiatives ranging from facilitating the negotiation of conflict resolution to the New Partnership for Africa's Development (NEPAD) initiative. However, so far success has been limited in promoting the norms of good governance, respect for human rights, and democracy on the continent. The most laudable of these initiatives is the African Peer Review Mechanism (APRM), which could prove to be an effective guide to democracy in Africa. However, the uneasy relationship between the African Union and the NEPAD, as well as challenges to South Africa's leadership role on the continent, has put a lot of strain on the implementation of these lofty ideals.

On the economic front, on the other hand, there has been much more concrete progress. South Africa's trade with other Sub-Saharan African countries, particularly those in the Southern Africa region, has increased substantially. South Africa is a member of the Southern African Customs Union (SACU) and the Southern African Development Community (SADC). In August 1996, South Africa signed a regional trade protocol agreement with its SADC partners. The agreement was ratified in December 1999 and implementation began in September 2000. It intends to provide duty-free treatment for 85 percent of trade by 2008 and 100 percent by 2012.

In 2002, around 16 percent of South Africa's exports went to the continent, however, Africa accounted for only 4 percent of South Africa's total imports in the same year. The trade

imbalance is arguably, to some degree, offset by substantial investment and development initiatives on the continent involving infrastructure, water and waste management, agribusiness, mining and human resource development, among others.

3.3 THE GLOBAL CONTEXT

The two most fundamental changes underway in the global economy are the privatization of capital assets and finance, and the challenges posed by emerging economies to the contemporary organization of political and economic power. An illustration of the first trend can be seen in the increasing privatisation of capital; as private firms more directly manage production and exchanges worldwide, the IMF now controls only 2 percent of the world's liquidity and is able to impose some monetary discipline only on a few developing countries³.

Challenges to the global political-economic organization can be seen in the patterns of the economic performance and the increasing political mobilization of emerging economies. Global output rose by 4.9 percent in 2004, led by China (9.1 percent), Russia (6.7 percent), and India (6.2 percent). Growth results posted by the major industrial countries varied from a small gain in Italy (1.3 percent) to a strong gain by the United States (4.4 percent). Most other developing nations also varied in their growth results, with many countries facing population increases and other factors that erode gains in output.

South Africa is part of this select group of emerging economies, which is vying for a greater share of the international markets and institutions. In the process however, these countries are challenging the political-economic status quo which has been effectively maintained by industrialized countries with the help of international institutions like the UN, IMF, WTO, etc.

Additionally, the major problems associated with this shift toward a global economy are the effects of persistent protectionism, volatile exchange rates, regulation of transnational corporations and capital, and the emergence of new supranational problems such as environmental degradation, complex humanitarian emergencies and international terrorism. The addition of 75 million people each year to an already overcrowded globe exacerbates the problems of pollution, desertification, underemployment, epidemics, and famine.

The emerging global system thus requires innovative solutions, which will have to include international institutions and a much broader collection of states, not just the victors of the Second World War, but states that are both part of problems and solutions to the interrelated challenges of the global economy. South Africa is one such representative state, which is likely to play an increasingly involved role in the international political and economic institutions. The political and economic evolution in South Africa, so far, justifies its standing as one of the emerging leaders of the developing countries in general and Africa in particular.

In the absence of the geopolitical compulsions dictated by the Cold War alliances, the nature of the international involvement of industrialized countries has undergone significant changes, particularly with countries in Africa. Moreover, their own internal problems and priorities have

³ For an assessment of the changing relationship between IEs and developing countries, see Nayyar, 2002

caused the industrialized countries to devote insufficient resources to deal effectively with the poorer areas of the world, which, at least from an economic point of view, are becoming further marginalized. For instance, the introduction of the Euro as the common currency for much of Western Europe in January 1999, while paving the way for an integrated economic powerhouse, poses substantial economic risks due to varying levels of incomes, cultural and political differences among the participating nations. Moreover, due to the economic slow-down, many Western European governments face difficult political problem of channelling resources away from welfare programs in order to stimulate investment and strengthen incentives to seek employment.

Elsewhere in the industrialized world, the terrorist attacks on the US on 11 September 2001 accentuate an emerging threat to global prosperity, illustrated, for example, by the reallocation of resources away from investment to anti-terrorist programs and new political alliances. The beginning of the war between the US-led coalition and Iraq in March 2003 added new uncertainties to global economic prospects. Extreme political difficulties and the high economic cost of establishing domestic order in Iraq became major global problems that continue into 2005.

In this complex scenario, South Africa emerges as one of few African countries to give a credible voice and political clout in dealing with international economic institutions and other major economic actors. It is the most likely African economy to play a crucial role in the continent's development and integration of African countries into the world economy.

4. SOME CONCLUSIONS

Globalization has totally transformed the context within which states and international institutions operate. Liberalization of financial flows, floating exchange rates, technological innovations, migration and new communications techniques have all increased not only the volume of financial transactions and global interdependence, but also volatility in recent decades. This is reflected in the successive significant downward revisions of forecasts of world economic growth in the past few years, financial crises that threaten developing countries, and the chronic development crisis that has paralyzed most of the low-income countries of the world. However, in this era of evermore interconnected and harmonized markets and financial systems, states as well as international institutions will continue to play a central role as regulators and managers of global political and economic activity.

Moreover, the nation-state, as a cornerstone economic-political institution, is steadily losing control both internally and externally. Externally, the international flows of people, goods, funds, and technology challenge the managerial role of the state, forcing it to cede decision making powers to international economic institutions. Internally, a central government often finds its control over resources slipping with increasing privatization and internationalization of resource and capital ownership.

Since the emergence of WTO, the trend in the direction of standardization or harmonization of domestic policies in a wide range of issues – investment, competition, technology, government

procurement, taxation, labour and environmental standards – is referred to as ‘deeper integration’. This deepening global integration has many far-reaching implications for the weaker members in the trade system. The EEC’s proposal for a global investment regime and the US insistence of linking labour standards to trade issues are examples of this process. In spite of the opposition by many developing countries, deeper integration has remained high in priority within the trade regime (Hoekman & Kostecki, 1995).

Advocates of deeper integration - developed countries and transnational corporations - argue that it will ensure more efficient production and would be welfare enhancing. However, this rationale overlooks the existence of a vast multitude of people with little or no ability to participate in market processes. Further, the distributive implications of deeper integration are ignored along with adverse effects on employment, increasing dependence and vulnerability of developing countries, and other considerations.

Firstly, the distribution of gains from trade is uneven and there are clear winners and losers. For instance, increased trade with more competitive economies adversely affects low skilled workers in the importing countries whilst increasing the incomes of higher skilled workers. Social protection and the welfare state play an important role in ameliorating the impact of structural change arising from trade.

Secondly, the effects of privatization and labour market reforms on job losses in developing countries need to be recognised and addressed in such policy areas as social safety nets, education and training. Therefore, on the expenditure side, there is need for the reorientation of spending toward health, education, welfare, housing, and crime prevention, reflecting the importance attached to the goals of reducing poverty and raising living standards, while at the same time strengthening management of public resources. Domestically, the involvement of civil society would help impart greater transparency and credibility to government's macroeconomic policies, their framework and subsequent implementation.

The initial focus of the ANC Government on consolidating democratic institutions has now shifted to promoting economic growth, particularly in the previously disadvantaged sections of the society. Most importantly, a policy of black economic empowerment (BEE), which aims to correct social and racial imbalances and create jobs, has become the focus of the Government's economic policy. However, in the absence of sufficient human resource development, BEE has not lived up to the scrutiny of long term economic or political logic.

The government estimates that the economy must achieve growth at a minimum of 6 percent to offset unemployment. In an effort to boost economic growth and spur job creation, the government has launched special investment corridors to promote development in specific regions. It is also working to encourage small, medium, and microenterprise development. The Government also intends to boost its public works programme to provide employment to unskilled and unemployed persons, concentrating on 21 urban and rural nodes identified in terms of the Government's Urban Renewal and Integrated and Sustainable Rural Development Programmes. However, delivery of these programmes has remained problematic due to rampant government corruption.

In the final analysis, South Africa has to fight many battles on all fronts – domestic, regional, and global - to remain a credible and capable actor in the emerging international system. It has had a good start with strong political and economic structures domestically, and a pragmatic and engaging foreign policy abroad. However, many challenges remain unresolved to its nascent democracy, its international aspirations, as well as to its sustained economic performance.

ⁱStatistical data for this paper has been collected using the following online sources:

- IMF website: www.imf.org/external/country/ZAF/index.htm
- *International Trade Statistics* on the WTO website: www.wto.org/english/res_e/statis_e/statis_e.htm
- *Laborsta Internet* on the International Labour Organisation (ILO) website: <http://laborsta.ilo.org/>
- South African Government Portal: www.gov.za
- Statistics South Africa: www.statssa.gov.za
- US Agency for International Development: Bureau for Global Health: www.usaid.gov/our_work/global_health/aids/Countries/africa/safricabrief.pdf
- US Department of Energy website: <http://www.eia.doe.gov/emeu/cabs/safrica.html> ;
- World Bank Country Data: *South Africa at a Glance*: http://www.worldbank.org/data/countrydata/aag/zaf_aag.pdf

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