South Africa

South Africa: Current Path

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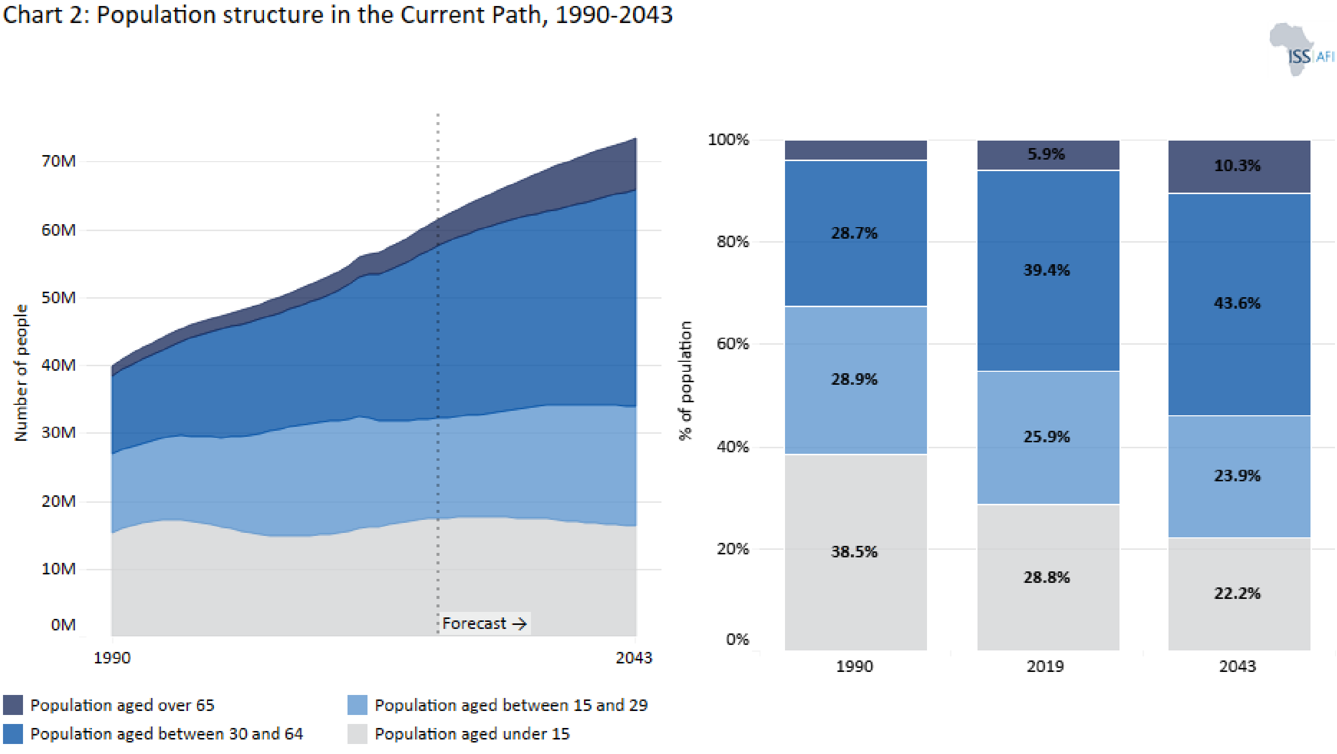
Chart 2: Population structure in the Current Path, 1990-2043



Source: IFs 8.26 initialising from UNPD population prospects estimate and WDI population data

Chart 2 presents the Current Path of the population structure from 1990 to 2043.

Population dynamics play an essential role in economic development, and South Africa has clear potential given the positive size of its working-age population to dependants which points to the potential of a demographic dividend. However, its population is in poor health, primarily due to the effect of HIV/AIDS, compounded by various other factors examined below as part of the Demographics and Health scenario, and education quality is low (see the Education scenario below).

South Africa is one of the few African countries that conducts a regular population census. However, the most recent Census 2022 was done digitally during the COVID-19 pandemic, and since the results depart from other projections, they need to be treated with some care. Therefore, our analysis does not fully incorporate these census results. For example, according to Census 2022, the population increased to more than 62 million in 2022, higher than expected, whereas our 2022 number is 60.6 million.

Given its history, race remains important in South Africa. Black Africans make up the majority of the population at 81.4%, followed by the coloured population at 8.2%. The white population percentage declined to 7.3% in 2022 from 8.9% observed in 2011, while that for Indians/Asians increased slightly from 2.5% in 2011 to 2.7% in 2022.

The median age at 28 years in 2023 is the sixth highest in Africa behind Algeria, Morocco, Tunisia, Seychelles and Mauritius. By 2043, South Africa's median age will have increased to 32.6 years.

The country's population will grow to approximately 66.4 million by 2030 and 74.4 million by 2043. Its average total fertility rate fell from 3.7 births per woman in 1990 to around 2.5 in 2023. South Africa will get to replacement level of 2.1 births by

2037. However, large inward migration flows from the wider region have introduced uncertainty in these forecasts. Our Current Path is for net inflows of two million migrants to South Africa from 2024 to 2043.

In addition, the population is slowly aging. Whereas nearly 6.3% of South Africans were 65 and older in 2023, by 2043, that portion will have increased to 10.3%. While this is not a significant trend compared to many developed countries experiencing rapid ageing, it does indicate a gradual demographic shift that will increase healthcare costs given the expenses associated with treating non-communicable diseases typical of older populations. At the same time, a smaller child population could provide a much-needed opportunity for quality improvements in education.

Chart 3: Population distribution map, 2023

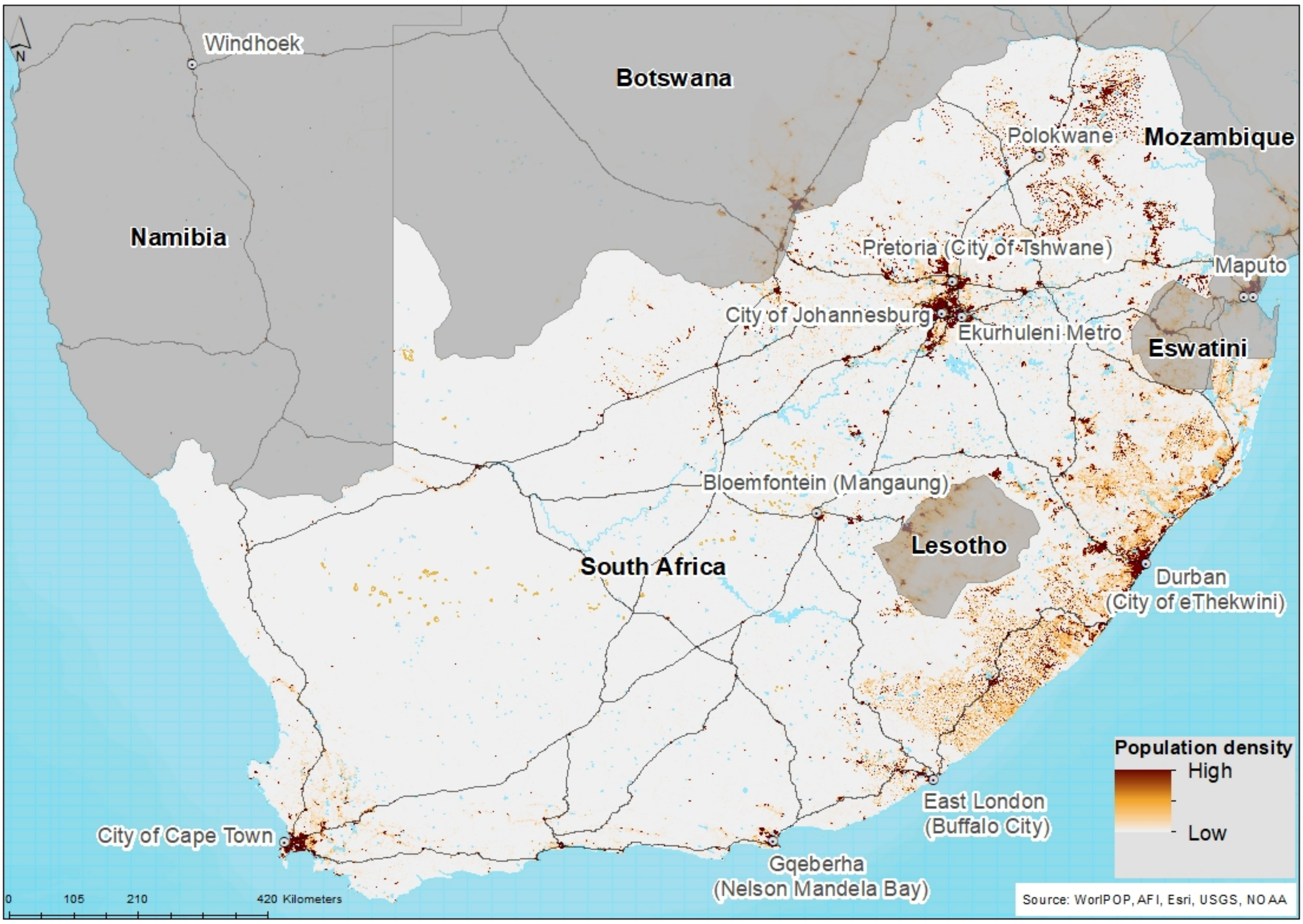
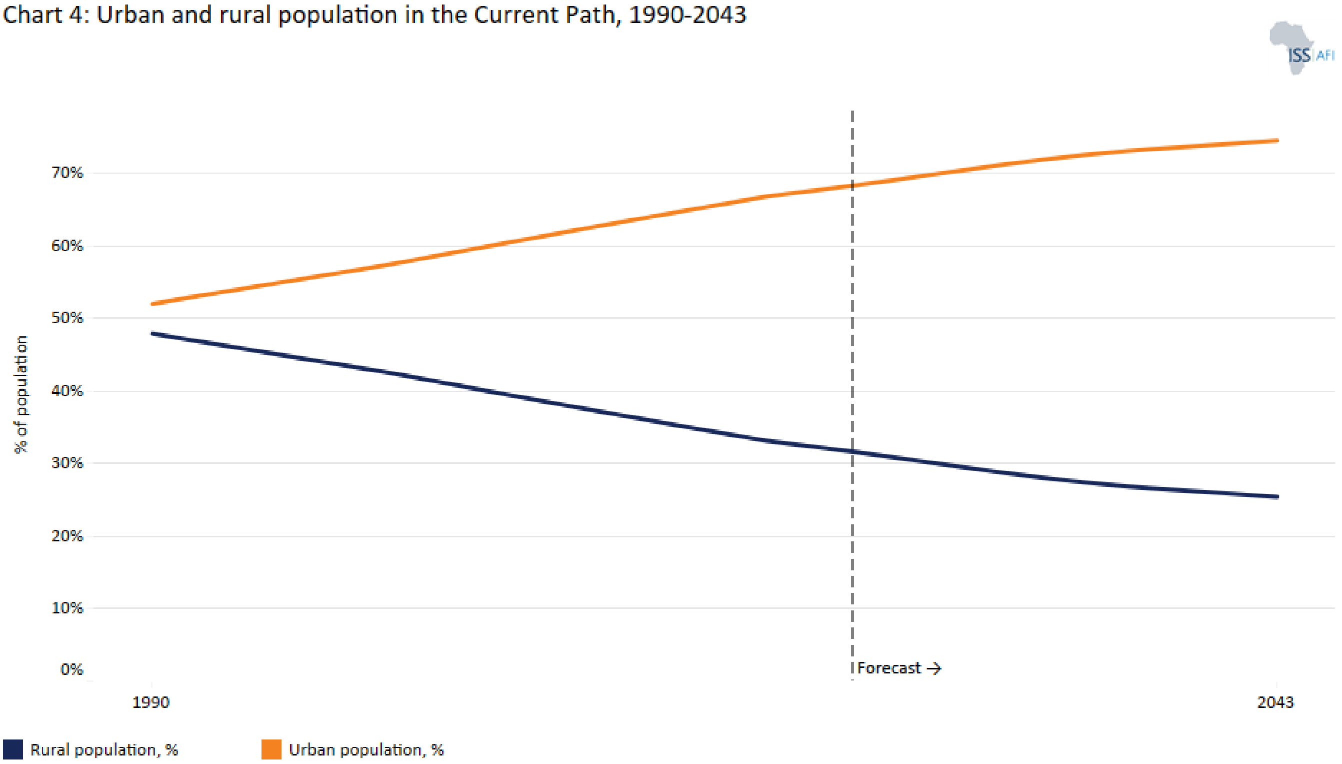


Chart 3 presents a population distribution map for 2023.

The average population density in South Africa is two persons per square kilometre, roughly equivalent to the average for Africa. The density ranges from dense metropolitan areas such as Johannesburg to the sparsely populated plains of the Karoo in the Northern Cape. The coastal areas of KwaZulu-Natal and the Eastern Cape are more populated, while the Northern Cape, with its arid climate, has the lowest population density. There is considerable population movement between provinces. The Eastern Cape, Limpopo and Kwa-Zulua Natal generally record the highest rates of outward migration, with Gauteng and the Western Cape recording the highest inward migration as people search for economic opportunities. This migration pressures urban areas, increasing demand for housing, infrastructure and basic services. Climate change also intensifies resource insecurities, contributing to intra- and inter-provincial migration. Factors like drought in the Northern Cape province and soil erosion and degradation in the provinces of Limpopo and Free State drive people, particularly people with low incomes, to migrate to urban areas for better opportunities.

Immigration trends from StatsSA reveal a steadily growing migrant population dominated by young adults in the region, particularly Zimbabwe and, to a lesser extent, Mozambique, Lesotho and Malawi, mostly gravitating towards the Gauteng province. Zimbabwe leads in sending students for higher education, while Ethiopia, the Democratic Republic of Congo and Somalia are significant sources of refugees. Migration inflows have become an emotional issue in South African politics with accusations of foreigners involved in crime and taking jobs from South Africans.

Chart 4: Urban and rural population in the Current Path, 1990-2043



Source: IFs 8.26 initialising from UN World Urbanization Prospects data

Chart 4 presents the urban and rural population, from 1990 to 2043.

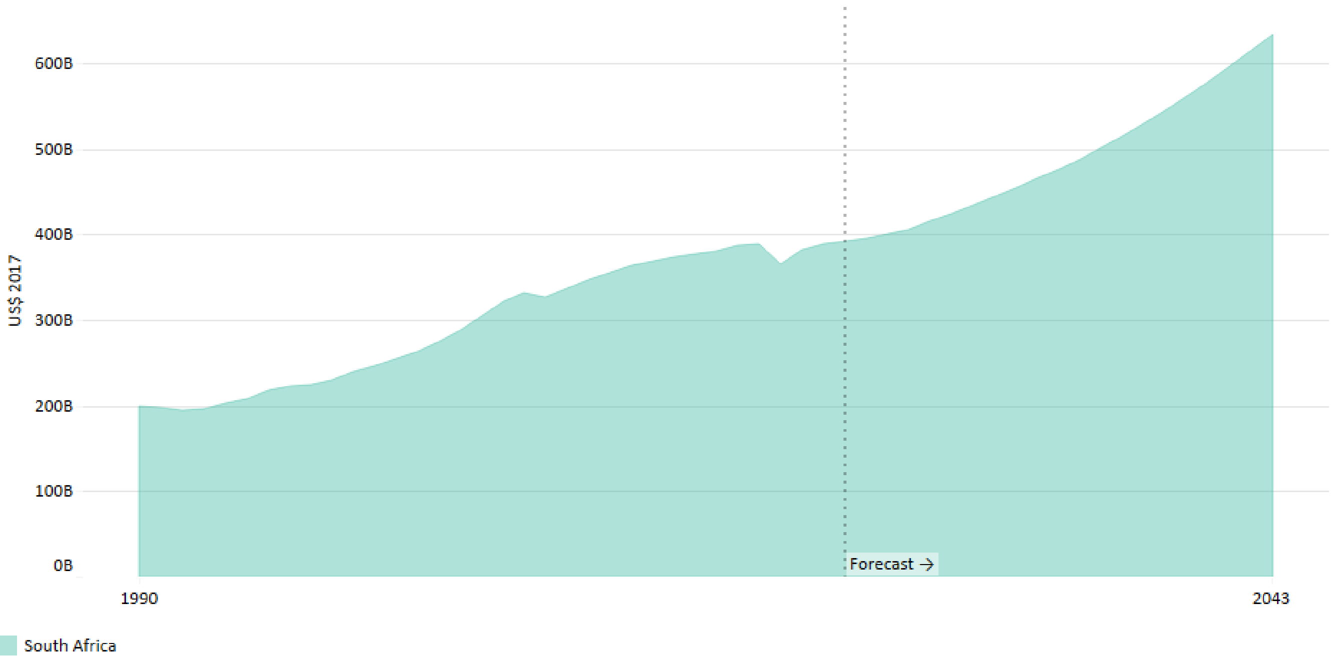
South Africa's cities and urban areas have undergone significant transformation over the past century, driven initially by apartheid policies, industrialisation and economic opportunities. Steady migration from rural areas to cities and towns led to a sharp increase in urbanisation. At the start of the 20th century, only about 10% of the population lived in urban areas. By 1960, nearly 47% of the population resided in urban areas and by 1987, this figure had surpassed 50%, marking a significant shift towards urbanisation. By 2023, 68% of South Africa's population lived in more than 1 200 cities and towns connected by a complex network of roads and highways. South Africa is the 3rd most urbanised country in SADC after Botswana and Angola. We forecast that by 2043, an estimated 75% of South Africans will reside in urban areas, a testament to the progress made in urbanisation.

Apartheid-era policies still have a bearing on today's urban and rural spaces. The former Group Areas Act, which relegated black communities to peripheral townships, created a fragmented urban landscape characterised by long distances between former black, coloured and Indian residential areas and places of work, high transportation costs and inadequate infrastructure. Similarly, rural areas, including former homelands, were systematically marginalised, leaving a legacy of deep-seated economic and social challenges such as unemployment, inadequate infrastructure and high levels of poverty.

Several policies have been implemented over the past three decades to address these disparities with mixed results. The Reconstruction and Development Programme (RDP), launched in 1994, aimed to improve housing and infrastructure in disadvantaged areas, while the Integrated Development Plans (IDPs), introduced in 2000, sought to promote coordinated and sustainable urban development with some success. Strategic Development Plans (SDPs) and the National Spatial Development Framework (NSDF), introduced in 2018, guide urban growth, emphasising spatial justice, economic efficiency and environmental sustainability. In rural areas, the Comprehensive Rural Development Programme (CRDP), initiated in 2009, aims to improve living standards through infrastructure development, agricultural support and sustainable livelihoods, while the Integrated Sustainable Rural Development Strategy (ISRDS), introduced in 2000, coordinates government efforts to enhance service delivery and infrastructure. The Spatial Planning and Land Use Management Act (SPLUMA), enacted in 2013, provides a uniform framework for spatial planning and land use management across the country.

Despite the plethora of initiatives, significant challenges must be addressed to achieve cohesive and inclusive development in urban and rural areas.

Chart 5: GDP (MER) and growth rate in the Current Path, 1990-2043



Source: IFs 8.26 initialising from IMF data

Chart 5 presents GDP in market exchange rates (MER) and growth rate in the Current Path from 1990 to 2043.

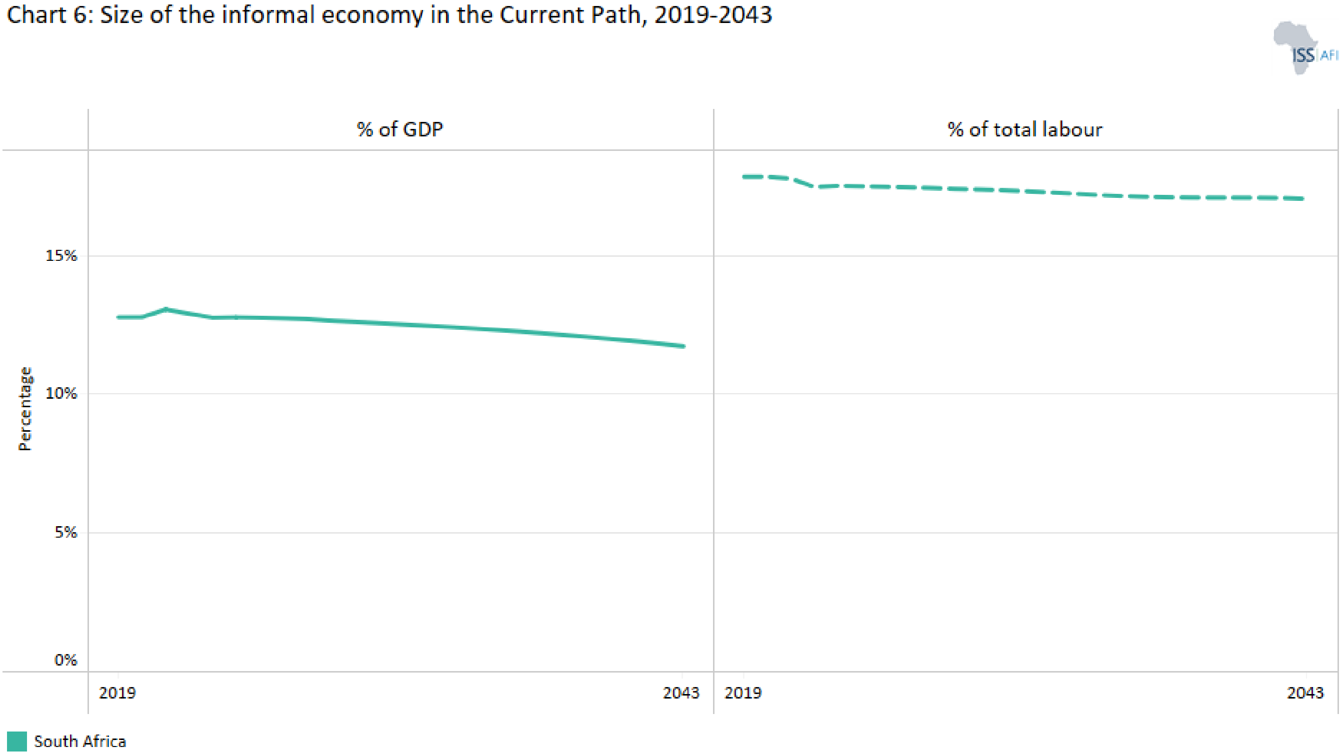
South Africa is caught in a classic middle-income growth trap and, since 2007/8, is growing more slowly than most upper-middle-income countries (UMICs) globally. The trap is the result of the skewed, two-legged structure of its economy, which has a small but skilled and highly productive private sector, a relatively small informal sector, and a large, poorly skilled and unproductive, economically inactive sector, with a substantive public sector somewhere in between these extremes. South Africa's challenges are rooted in apartheid but have been worsened by the global financial crisis of 2007/08, the impact of poor (and bad) governance, widespread corruption to the extent that it bordered on the capture of the state by criminal elements, lack of electricity availability and recently the impacts of the COVID-19 pandemic. The pandemic was followed by two years of higher growth but lagged afterwards.

Addressing the nation on 21 April 2020, President Cyril Ramaphosa sought to turn the COVID-19 crisis into an opportunity, promising 'not merely to return our economy to where it was before the coronavirus, but to forge a new economy in a new global reality.' That, he argued, required a new social compact to accelerate the structural reforms needed to reduce the cost of doing business, promote localisation and industrialisation, overhaul state-owned enterprises and strengthen the informal sector. However, little has come of these promises, and the modest post-COVID recovery did not extend to the job market or to the broader economy that suffered from widespread electricity shortages to 2024, constraining growth. The official unemployment rate increases yearly, and average incomes have not recovered to their pre-COVID-19 levels.

To understand why the country is growing so slowly and forecast how it will likely develop in the next 20 years, our analysis considers the standard sources of economic growth: the contribution of labour, capital and multifactor productivity (known as MFP or technology). Labour productivity in South Africa has declined for several years and is below the average for other UMICs. In addition, low capital per worker is a significant drag on growth. MFP is also lower than in comparable countries, and we discuss the drag that low human capital has on growth elsewhere below.

In the Current Path, South Africa's growth rate steadily improves to 3.1% per annum in 2043 but the average rate from 2024 to 2043 is a modest 2.4%, which is below the average for African UMICs (at 2.7%) and significantly below UMICs globally which is at 3.6%. Yet, even at this modest rate, the size of South Africa's economy (at MER) will grow by 62%, from US$392.1 billion in 2023 to US$634.1 billion in 2043.

Chart 6: Size of the informal economy in the Current Path, 2019-2043



Source: IFs 8.26 initialising from Elgin and Oztunali (2008), and Schneider and Enste (2012) data

Chart 6 presents the size of the informal economy as per cent of GDP and per cent of total labour (non-agriculture), from 2019 to 2043.

Although data on South Africa's informal sector differs between sources[1], it is apparent that the country has a small informal sector (at 13% of GDP) compared to Namibia (17%) and Botswana (19%), two upper-middle-income countries (UMICs) that share similarly high levels of inequality. The South African informal economy is also smaller than the global average for UMIC countries.

Only around 18% of South Africa's labour force was employed in the informal sector in 2023, around five percentage points below the average for UMICs in Africa and three percentage points below UMICs globally.

South Africa’s informal sector will decline slightly to below 12% in 2043 as a portion of GDP, although increasing in absolute size from US$50 billion to US$74.4 billion. The relatively small size of its informal economy and the limited number of informal workers contribute to inequality, extreme poverty and high levels of unemployment.

South Africa's rates of entrepreneurship and self-employment are alarmingly low. A significant portion of the country’s working-age population is not economically active, highlighting the urgent need for more entrepreneurial opportunities and a shift in the labour market dynamics.

South Africa’s rigid labour market exacerbates its structural unemployment, in addition to measures such as constraints on skilled inward employment and an absence of large-scale programmes that provide low-skilled entrepreneurs with business skills. Instead, the government has rolled out an extensive social grants programme and sought to grow employment in the public sector. The extent of South Africa's unemployment challenge is alarming. In 2023 the International Labour Organisation (ILO) would find that it had the highest unemployment rate globally, after only Eswatini, in part reflecting South Africa's small informal sector since it includes informal work in the sector as part of its definition of employment. According to Statistics SA, in mid-2024, 12.4 million South Africans did not work and the unemployment rate was 42.6%. Around 740 000 South Africans enter the labour market each year and given slow growth and a capital intensive economy, the number of unemployed people increase annually.

Chart 7: GDP per capita in Current Path, 1990-2043 compared to global income group

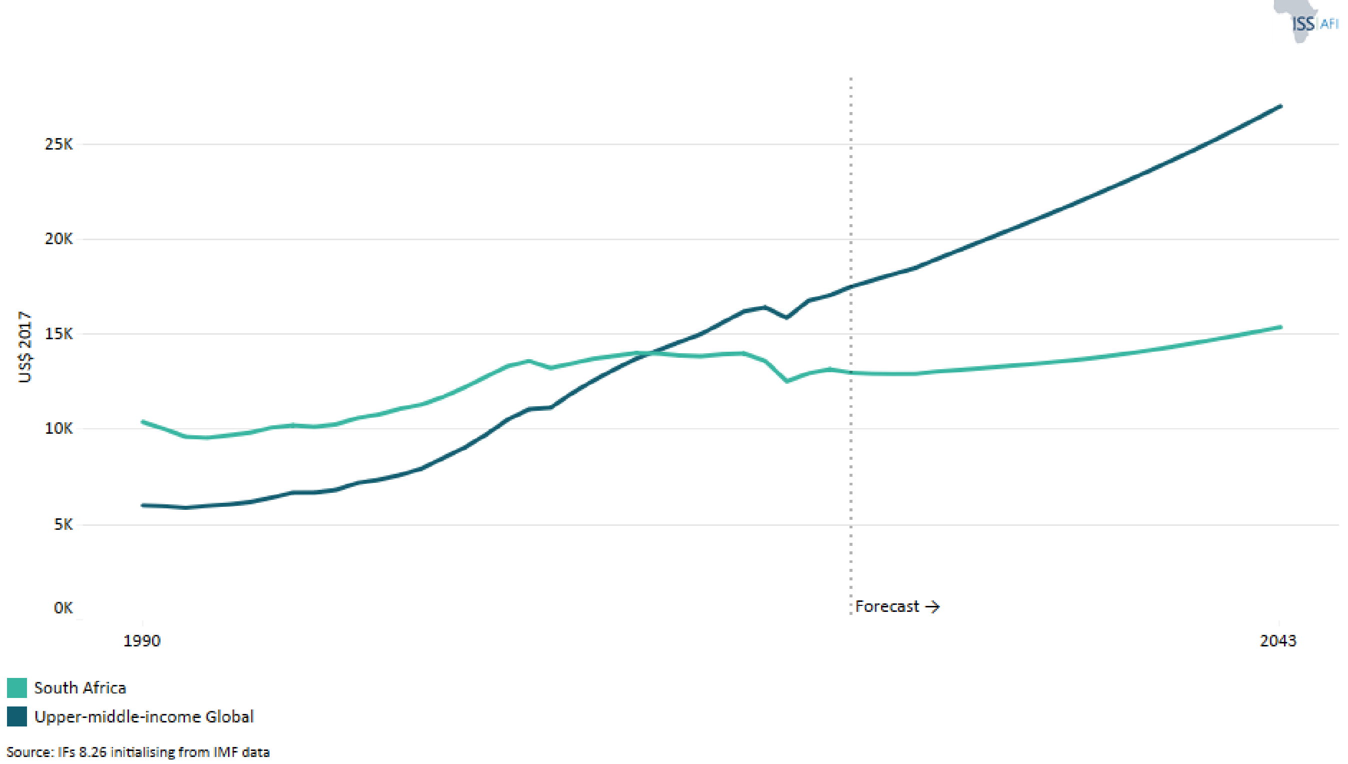


Chart 7 presents GDP per capita in the Current Path, from 1990 to 2043, compared with the average for the global upper-middle-income group.

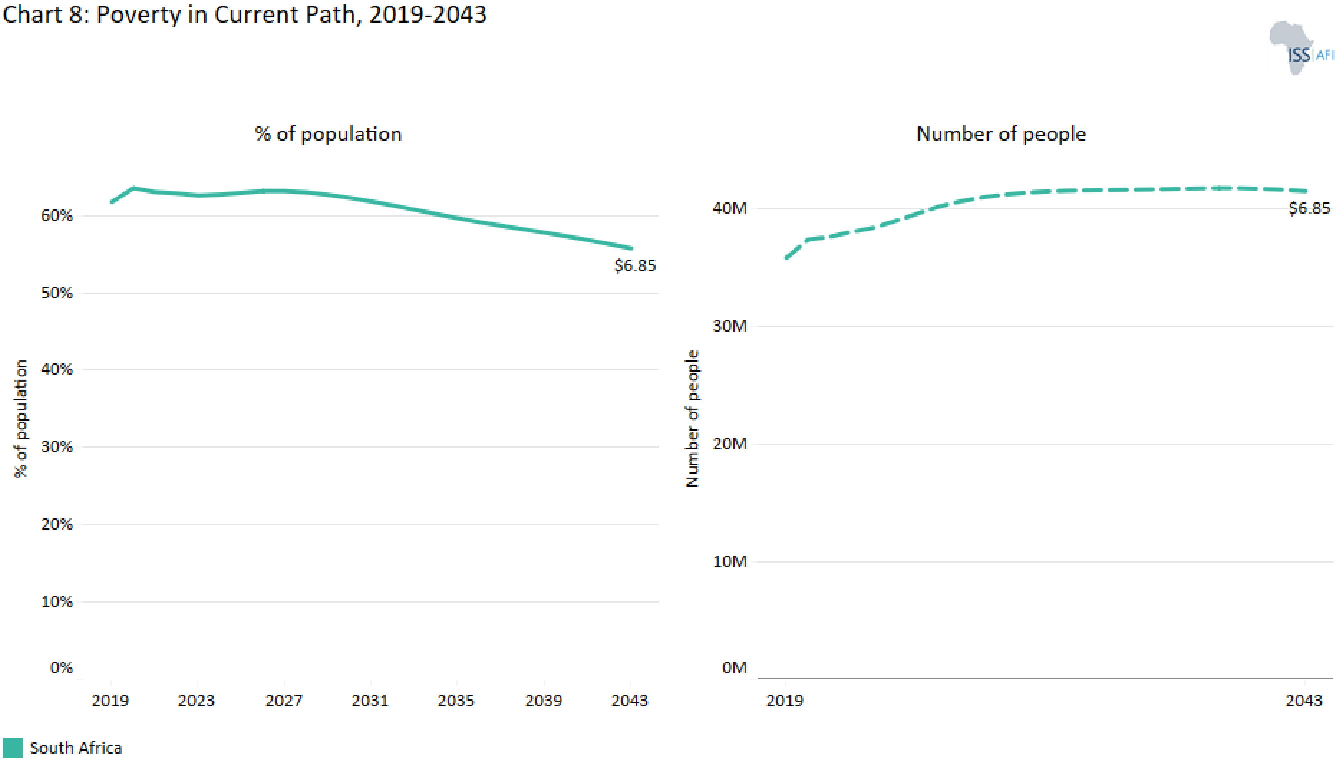
South Africa’s GDP per capita peaked in 1981 and declined after that as apartheid and global isolation took their toll. The economy started to recover after the historic political transition in 1994, and from 1999 to 2008, the GDP per capita grew rapidly. Growth slowed after the 2007/08 global financial crisis and plateaued during the Zuma administration.

In 1990, with the end of apartheid, South Africa's GDP per capita was US$4 180 above the average for upper-middle-income (UMICs) countries globally. By 2023, it was US$4 900 below. In the Current Path, it will further drop by 2043 to around US$12 000 below the UMIC average. Compared to the average for UMICs, South Africa has been stagnating. Years of steady deindustrialisation, weak investment, a growing social-grant-dependent population and lack of adequate investment in critical areas such as education have undermined South Africa's growth, particularly during the ruinous administration of former President Jacob Zuma from 2009 to early 2018.

This starkly contrasts with countries like South Korea and Taiwan, which historically had lower GDP per capita figures than South Africa but have since surpassed the country's per capita income.

South Africa's historical inequalities, high unemployment rates, and social disparities have been exacerbated by the country's low savings rate since it limits the financial resilience of individuals and reduces the availability of domestic capital for investment. These factors contribute to sustained poverty, as economic opportunities are constrained, and social mobility remains limited.

Chart 8: Poverty in Current Path, 2019-2043



Source: IFs 8.26 initialising from UNPD population prospects estimate, WDI and PovcalNet data

Chart 8 presents the rate and numbers of poor people in the Current Path from 2019 to 2043.

In 2022, the World Bank updated its poverty lines to 2017 constant dollar values as follows:

- The previous US$1.90 extreme poverty line is now set at US$2.15 for use in low-income countries.
- US$3.20 for lower-middle-income countries, now US$3.65 in 2017 values.
- US$5.50 for upper-middle-income countries, now US$6.85 in 2017 values.

- US$22.70 for high-income countries. The Bank has not yet announced the new poverty line in 2017 US$ prices for high-income countries.

Among the eight upper-middle-income countries (UMICs) in Africa, only Namibia has higher rates of monetary poverty than South Africa.

Monetary poverty only tells part of the story, however. In addition, the global Multidimensional Poverty Index (MPI) measures each person's overlapping deprivations across ten indicators in three equally weighted dimensions: health, education and standard of living. The MPI complements the international US$2.15 a day extreme poverty rate by identifying who is multidimensionally poor and also shows the composition of multidimensional poverty. The UNDP estimates MPI for South Africa at 39.8% in 2021, significantly lower than the incidence of US$6.85 monetary poverty at 63% in that year. It implies that individuals living below the monetary poverty line may have access to non-income resources.

Using the extreme poverty line of US$2.15 per day, 21.4% or 13.1 million South Africans lived in extreme poverty in 2023, declining slightly to 17% or 12.5 million people in 2043. At the US$6.85 income level, the portion of people living in poverty in South Africa was an extraordinary 62.6% (equivalent to 38.4 million) in 2023, declining to 55.7% (41.6 million) in 2043. These numbers are more than double the average for UMICs globally.

On its current development trajectory South Africa will struggle to reduce poverty because of its extraordinarily high levels of inequality and unemployment, its relatively modest economic growth forecasts and its relatively small informal sector. The 'informal sector' refers to economic activities not regulated by the government and often operates outside the formal economy. Since its first democratic elections in 1994, economic growth has consistently been too low to create jobs for the flood of annual new entrants to South Africa's labour market and those previously unemployed. Thus, poverty in South Africa is widespread, and inequality is amongst the highest in the world. According to the 2022 World Inequality Report, the top 10% of earners held between 50% and 65% of the country's wealth. In contrast, the bottom 50% of the population has never captured more than 5% to 10% of South Africa's national income.

Social grants from the government already support around a third (26 million) of South Africans. They play an important role in constraining poverty increases and have helped constrain inequality growth.

Chart 9: National Development Plan of South Africa

Chart 9 depicts the National Development Plan.

Ahead of South Africa's first democratic elections in 1994, the African National Congress (ANC) and its allies released the Reconstruction and Development Plan (RDP), followed shortly thereafter by the 1996 Growth, Employment, and Redistribution (GEAR) plan. In 2006, GEAR was replaced with the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) to reduce poverty and unemployment more rapidly. GEAR and AsGISA departed markedly from the RDP, shifting government policies decidedly into a pro-market direction, and would provide fertile ground for an internal campaign within the ANC and its alliance partners that would lead to President Thabo Mbeki's resignation as president in 2008 and after a brief presidency by Kgalema Motlanthe, Jacob Zuma became president after the 2009 elections. Zuma resigned in February 2018, shortly after Cyril Ramaphosa was elected as president of the ANC.

Following the global financial crisis, the Zuma government formulated and released three successive economic strategies: the New Growth Path (NGP), the Department of Trade and Industry's Industrial Policy Action Plan, and, in 2012, the National Development Plan (NDP). President Zuma also announced a Nine-Point Plan at the 2015 State of the Nation speech.

Twenty-five part-time commissioners to the National Planning Commission worked on the NDP to eliminate poverty and reduce inequality by 2030. It remains the official long-term development plan, although the ten-year review of the NDP, released in September 2023, found that its vision of a future South Africa has yet to materialise. 'At the heart of our current developmental impasse has been a failure to keep the NDP in focus and at the centre of our developmental trajectory as a country. Instead of keeping the long-term plan in view and using it to inform planning and implementation across government, the NDP was paid little more than lip service, reinforcing incoherent planning and poor implementation.'

In President Ramaphosa's 2019 Budget Speech, he identified the pattern of operating in silos that has led to a lack of coherence in planning and implementation and made monitoring and oversight of the government's programme difficult. To respond to these challenges, he announced the District Development Model, consisting of a process by which joint and collaborative planning was to be undertaken at local, district and metropolitan levels to enable the three spheres of government to work together, with communities and stakeholders, to plan, budget and implement in unison.

Frustration about slow progress was also evident when the National Treasury released its 2019 paper Economic Transformation, Inclusive Growth, and Competitiveness: Towards an Economic Strategy for South Africa that identified six structural reform areas, the estimated impact of which would be to increase GDP by 2–3 percentage points over ten years. These include improving industrial and trade policy implementation, export competitiveness and 'harnessing regional growth opportunities.' The South Africa Economic Recovery and Reconstruction Plan (EERP), released in 2020, emphasised new investments, new industries and new tradable products as the country transitioned to low-carbon energy and includes 're-orienting trade policies and pursuing greater regional integration to boost exports, employment and innovation' as one of its critical structural reforms. It was followed, in October 2020, with the announcement of Operation Vulindlela as a joint initiative with National Treasury with its focus on energy, logistics, water, and telecommuications, as well as reforms to the visa system.

During the national elections in May 2024, support for the ANC, which had governed South Africa since 1994 with an absolute majority, plummeted. In July 2024, it and several other parties agreed to form a coalition government (calling it a Government of National Unity (GNU)) to share power and achieve common goals. Announcing the agreement, President Ramaphosa resolved to 'dedicate the next five years to actions that will advance three strategic priorities: Firstly, to drive inclusive growth and job creation. Secondly, to reduce poverty and tackle the high cost of living. Thirdly, to build a capable, ethical and developmental state.

Endnotes

1. For example the Quarterly Labour Force Statistics estimated that the second quarter in 2024 is that informal sector employment stands at 12% of the labour force, and employment is increasing. The World Bank informality database puts the size of the informal sector at 22.7% and 28.8% of GDP in 2020, and employment at 31.5% of total employment in 2020.

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Cite this research

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About the authors

Dr Jakkie Cilliers is the ISS's founder and former executive director. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria oce of the Institute. His 2017 best-seller Fate of the Nation addresses South Africa's futures from political, economic and social perspectives. His three most recent books, Africa First! Igniting a Growth Revolution (March 2020), The Future of Africa: Challenges and Opportunities (April 2021), and Africa Tomorrow: Pathways to Prosperity (June 2022) take a rigorous look at the continent as a whole.

Ms Alize le Roux joined the AFI in May 2021 as a senior researcher. Before joining the ISS, she worked as a principal geo-informatics researcher at the CSIR, supporting various local and national policy- and decision-makers with long-term planning support. Alize has 14 years of experience in spatial data analysis, disaster risk reduction and urban and regional modelling. She has a master's degree in geographical sciences from the University of Utrecht, specialising in multi-hazard risk assessments and spatial decision support systems.

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