

**SOUTH AFRICA -
STRUCTURAL
CHANGE &
INDUSTRIAL
POLICY**



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OVERVIEW

Structural transformation

- A declining share of agriculture in gross domestic product (GDP) and employment; rise in productivity of labour and capital until similar to other sectors
- Rapid urbanisation
- Rise of a modern industrial and service economy
- Demographic transition of birth and death rates from high to low

Necessary existence of innovation, diversification and technological dynamism



OVERVIEW

Structural transformation and African policy

- January 2014 – AU states adopted Common African Position (CAP) on a post-2015 development agenda
- Acknowledgment that previous approaches have failed to deal decisively with underdevelopment
- Four desired CAP outcomes identified:
 - sustainable economic transformation and inclusive growth
 - innovation, technology transfer and Research and Development (R&D)
 - human Development
 - financing and partnerships

OVERVIEW, CONTINUED...



Structural transformation & South Africa, Pre-1994

- Import substitution
- Protectionism
- Sanctions (sustained import substitution)
- End result – structurally transformed
- But behind this: constructed dualism - social engineering with respect to rights, education and opportunity
- As a result, structurally transformed economy co-existed with untransformed components of economy

OVERVIEW, CONTINUED...

Structural transformation & South Africa, Post-1994



- Dualism remains
 - E.g. one third of the adult population do not possess bank accounts yet SA ranks third globally out of 148 countries in financial market development
- Further transformation occurring, 're-primarisation' and decline of manufacturing, as % of GDP and in exports
- Import substitution replaced by open trade regime and increased imports

EVOLUTION OF SA ECONOMY, POST 1994



- **GDP sluggish, unemployment high**

| Year | GDP (Millions USD) | Annual growth GDP (%) | GDP per capita (USD) | Annual growth GDP per capita (%) | Unemployment (% of labour force) |
|------|--------------------|-----------------------|----------------------|----------------------------------|----------------------------------|
| 1993 | 130405 | 1.23 | 3479.92 | -0.88 | - |
| 1994 | 135777 | 3.23 | 3546.67 | 1.05 | 20.00 |
| 2000 | 132877 | 4.15 | 3019.95 | 1.61 | 26.70 |
| 2005 | 247051 | 5.28 | 5234.31 | 4.09 | 23.80 |
| 2010 | 363240 | 3.09 | 7266.08 | 1.70 | 24.70 |
| 2012 | 384312 | 2.55 | 7507.67 | 1.34 | 25.00 |

EVOLUTION OF SA ECONOMY, POST 1994



- Agriculture % continued to shrink
- Manufacturing declined, services grew

| Year | Agriculture | | Industry (mining/ manufac./construction/elec./gas) | | | Services | |
|------|-------------|-----------------------|---|--------------------------|-----------------------|----------|-----------------------|
| | % of GDP | % of total employment | % of GDP | Of which % manufacturing | % of total employment | % of GDP | % of total employment |
| 1994 | 4.60 | - | 34.98 | 20.92 | - | 60.42 | - |
| 2000 | 3.27 | 15.60 | 31.78 | 18.98 | 24.20 | 64.94 | 59.40 |
| 2005 | 2.67 | 7.50 | 31.17 | 18.49 | 25.60 | 66.16 | 66.60 |
| 2010 | 2.58 | 4.90 | 29.84 | 14.20 | 24.50 | 67.58 | 61.90 |
| 2012 | 2.57 | - | 28.41 | 12.38 | - | 69.02 | - |

EVOLUTION OF SA ECONOMY, POST 1994



- Food, beverages and tobacco; machinery & transport equipment have remained relatively constant
- Chemicals, textiles & clothing both declined
- Other manufacturing grew

| % Value Added in Manufacturing by Product Type | | | | | |
|--|-----------------------------|-----------|---------------------|-----------------------------------|---------------------|
| Year | Food, beverages and tobacco | Chemicals | Textiles & clothing | Machinery and transport equipment | Other manufacturing |
| 1993 | 17.77 | 9.80 | 8.37 | 15.58 | 48.48 |
| 2000 | 15.47 | 6.53 | 4.90 | 13.71 | 59.39 |
| 2005 | 17.14 | 6.46 | 4.11 | 14.73 | 57.57 |
| 2009 | 19.05 | 6.42 | 3.00 | 13.07 | 58.45 |

EVOLUTION OF SA ECONOMY, POST 1994



Competitiveness

- Manufacturing competitiveness has declined since 2003
- Higher cost of labour in the manufacturing sector has not been matched by a similar rise in labour productivity
- Rising cost of other inputs (energy, transport)
- Rising capital intensity in the sector
- SA re-entered global economy too late, rise of mechanisation and automation had begun

EVOLUTION OF SA ECONOMY, POST 1994



Trade - exports

- Trade deficit for most years since 2004
- Changes in SA's export composition (merchandise) from 1997 to 2012 reflect some de-industrialisation:
 - agricultural raw material exports decreased slightly (4 to 2%)
 - fuel exports increased (7 to 12%)
 - ores and metals exports has increased fourfold (8 to 31%), Chinese demand. However, analysts believe SA largely missed commodity boom in mining due to policy uncertainty and impact of this on investment.
 - manufacturing exports decreased (55 to 45%)
- Agri sector still highly competitive

EVOLUTION OF SA ECONOMY, POST 1994



Trade - imports

- Rising import penetration by competitors, exacerbated by rapid, generous liberalisation of tariff regime post 1994
- Changes in SA's import composition (merchandise) from 1997 to 2012 reflect some de-industrialisation:
 - food unchanged (6%)
 - fuel imports increased (1 to 22%)
 - ores and metals imports unchanged (1%)
 - manufacturing imports decreased but remain significant (80 to 62%)
- Return to protectionist paradigm

POLICY, POST 1994



Macro-economic

- The Reconstruction and Development Programme (RDP) in 1994 focused on: housing, education, jobs and health care
- Growth, Employment and Redistribution (GEAR) in 1996. Five year plan, aimed at: strengthening economic development, broadening of employment, and redistribution of income and pro-poor socioeconomic opportunities. Heavily criticised by some stakeholders as SA's home grown structural adjustment programme

POLICY, POST 1994



Macro-economic, continued...

- New Growth Path, in 2010, aims to: increase employment, develop a more equal society through massive investment in infrastructure and skills development, & better coordination with private sector and labour
- This most recent strategy is accompanied by a National Development Plan: Vision for 2030
- These have been supported by two Industrial Policy Action Plans (IPAP 1 and 2). As with Brazil, industrialisation remains a key focus. Range of incentives, to develop small and local businesses, to promote employment and competitiveness, FDI

POLICY, POST 1994



FDI policy

- Post-1994, liberalised, open regime for investment
- Two decades later, apparent mediocre outcomes of the open investment regime has led to pressure for a new approach towards inward FDI. The new investment policy aims at extracting maximum domestic benefits from each investment. FDI is no longer seen as automatically beneficial, only if delivers development
- Bilateral Investment Treaties allowed to expire or cancelled
- New investment promotion framework being created
- Government to impose requirements for local and black economic empowerment partnerships, as well as local content agreements, to maximise benefits of FDI.

POLICY, POST 1994



Way forward?

- Policy path very contested terrain, no consensus
- Historical divisions between government, business and labour remain entrenched
- Political calls for economic liberation, second phase of transition from past
- Challenges of competitiveness, financing of the current account deficit, electricity supply constraints, domestic and foreign investor confidence, slow de-industrialisation
- Structural challenges remain largely unchanged
- Calls for new approach, social compact between key societal stakeholders
- May lead to genuine dialogue post-2104 election



THANK YOU