

INDUSTRIAL POLICY AND SOUTH AFRICA'S ECONOMIC TRAJECTORY: FROM APARTHEID TO PRESENT DAY

UNU-WIDER CONFERENCE ON LEARNING TO
COMPETE: INDUSTRIAL DEVELOPMENT AND
POLICY IN AFRICA

HELSINKI, 24-25 JUNE 2013

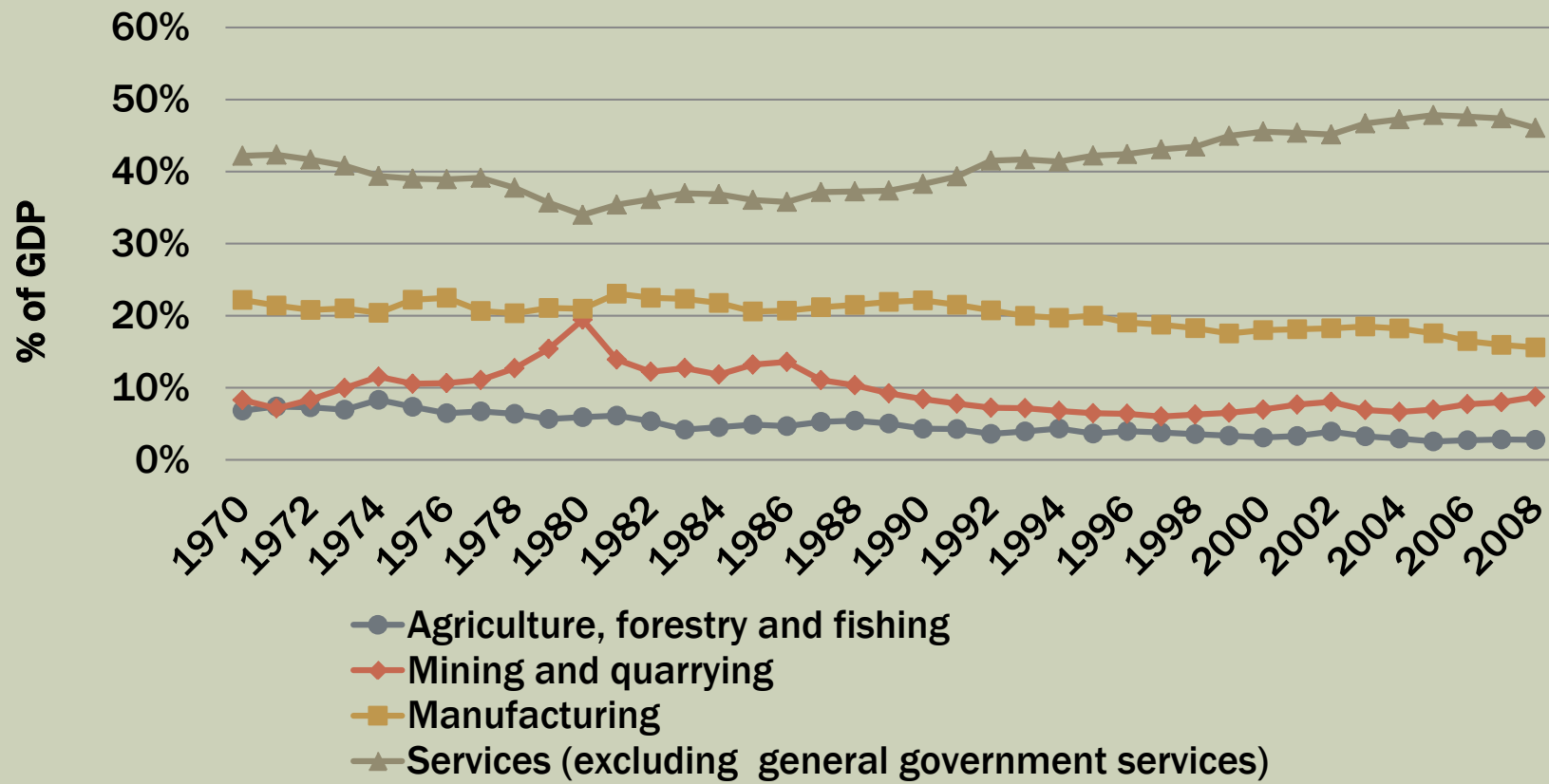
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Newman

CONVENTIONAL UNDERSTANDING OF THE NATURE OF THE SOUTH AFRICAN ECONOMY

- Largest and most industrialised economy in SSA
- But need to get behind 'success story' based on aggregate experience
- Moderate growth experience since 1994:
 - Average annual GDP growth rate between 1994 and 2008 was 3.61% compared with 1.44% for the period 1980-1993
- Triple crisis of PUI
 - Income Gini Index 63.1 in 2009 compared with 59.3 in 1993
 - Unemployment rate in 2010 was 25% (30% by expanded definition)

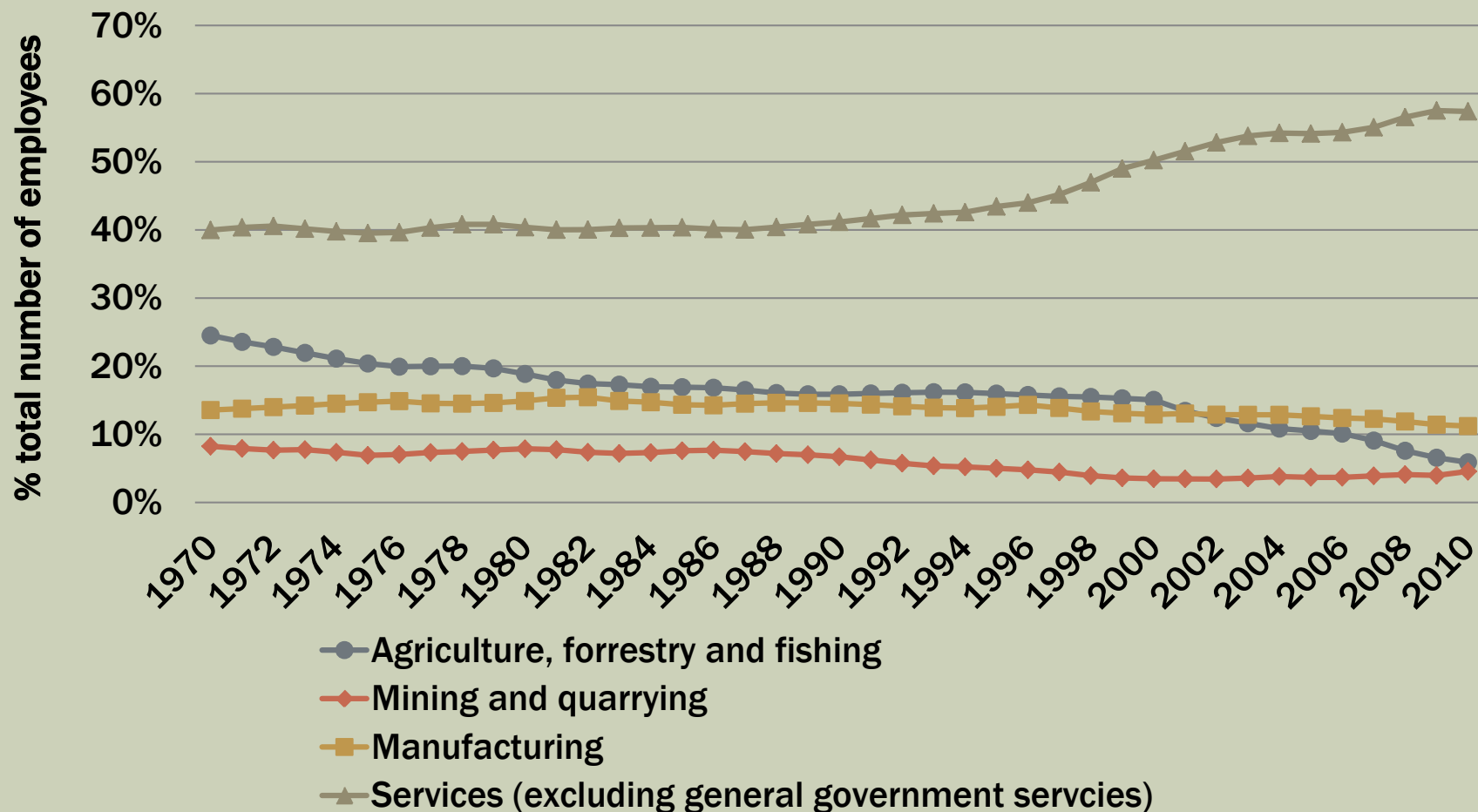
EVOLVING INDUSTRIAL STRUCTURE IN SOUTH AFRICA: CONVENTIONAL ANALYSIS

Sector contributions to GDP, 1970-2010



Data source: SASSID 2012

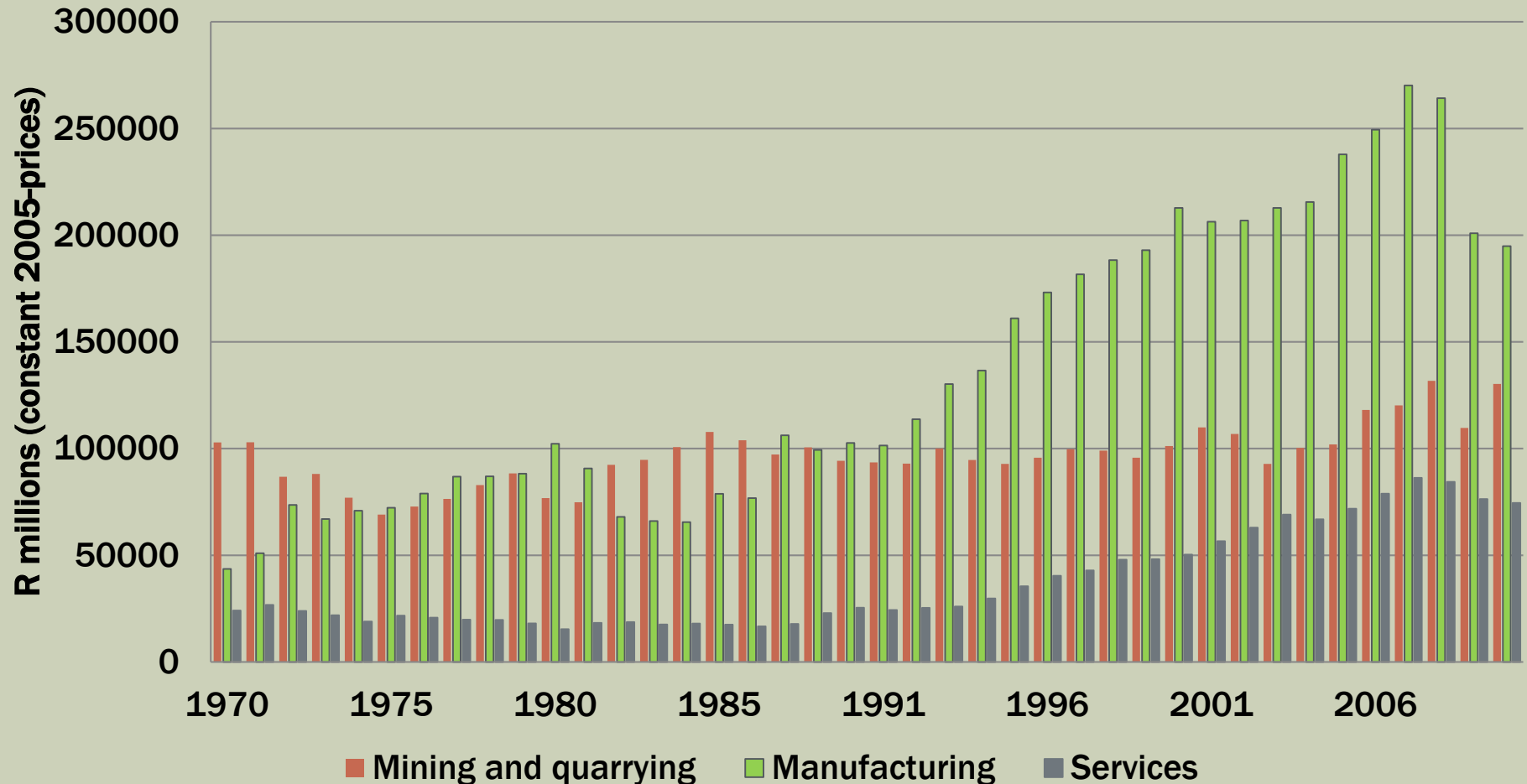
Sector contributions to GDP, 1970-2010



Data source: SASSID 2012

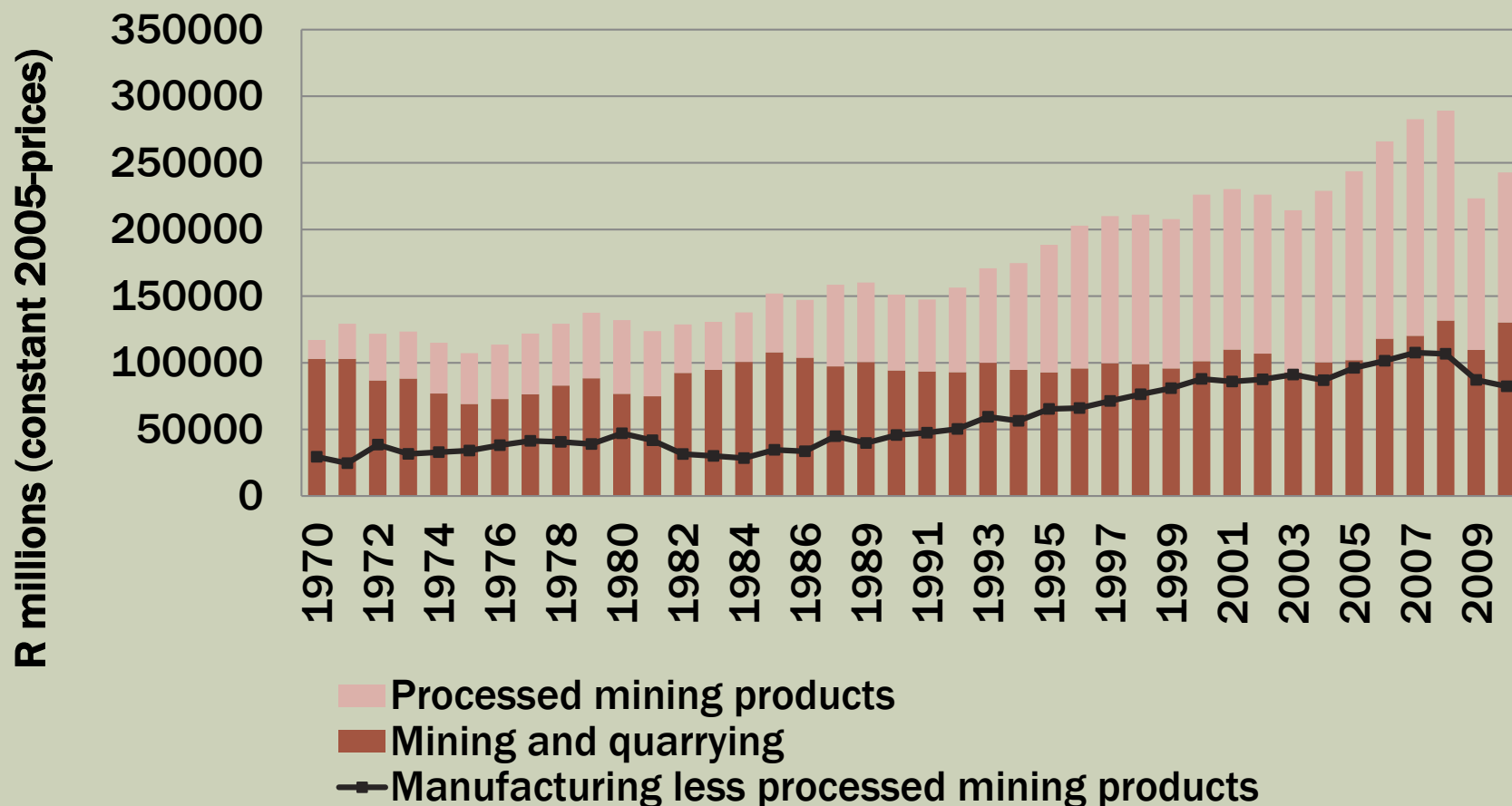
DIVERSIFICATION FROM RESOURCE DEPENDENCE?

Mining, manufacturing and service export values in constant (2005) prices



Data source: Quantec 2012

Mining and processed mining products export value in constant (2005) prices



Data source: Quantec 2012

OUR APPROACH

- **Classical Political Economy:** concerned with the nature and dynamic of capital accumulation and economic growth in dynamic historical evolution
 - Historical
 - Class formation, dynamics and evolution and how this is played out in the evolution of industrial structure and industrial policy
- **Analysis through prism of Minerals-Energy-Complex**

THE MINERALS-ENERGY-COMPLEX: HISTORICAL EVOLUTION OF THE SOUTH AFRICAN ECONOMY

- The MEC is an analysis of industrial development simultaneously focussing on different dimensions of interdependencies between fractions of capital, industrial sectors and the state that involves, but is not limited to:
 - Economic and political analysis (including the state) through the emphasis on evolving class relations and conflicts and how these are reflected in patterns of accumulation and economic and social reproduction
 - Empirical identification based upon material interdependencies/linkages (input-output) between sectors that reveal a coherent, cohesive set of industrial sectors with very strong linkages with each other and relatively weaker linkages with sectors outside of the MEC core.

BOUNDARIES OF THE MEC: EMPIRICAL IDENTIFICATION OF THE MEC BASED UPON MATERIAL LINKAGES REVEAL A CORE SET OF INDUSTRIES MADE UP OF MINING AND RELATED INDUSTRIES

MEC subsector	Share of inputs from MEC sectors (% of total)	Share of output to MEC sectors (% of total)
Coal mining	26	90
Gold and uranium ore mining	55	5
Other mining*	23	77
Coke and refined petroleum products	88	18
Basic chemicals	77	60
Other chemicals and man-made fibres	67	37
Plastic products	68	30
Non-metallic minerals	73	8
Basic iron and steel	82	59
Basic non-ferrous metals	91	59
Metal products excluding machinery	70	41
Machinery and equipment	63	53
Electricity gas and steam	53	47
<i>Non-MEC manufacturing</i>	<i>23</i>	<i>6</i>

Data source: Quantec Input-Output tables 2011

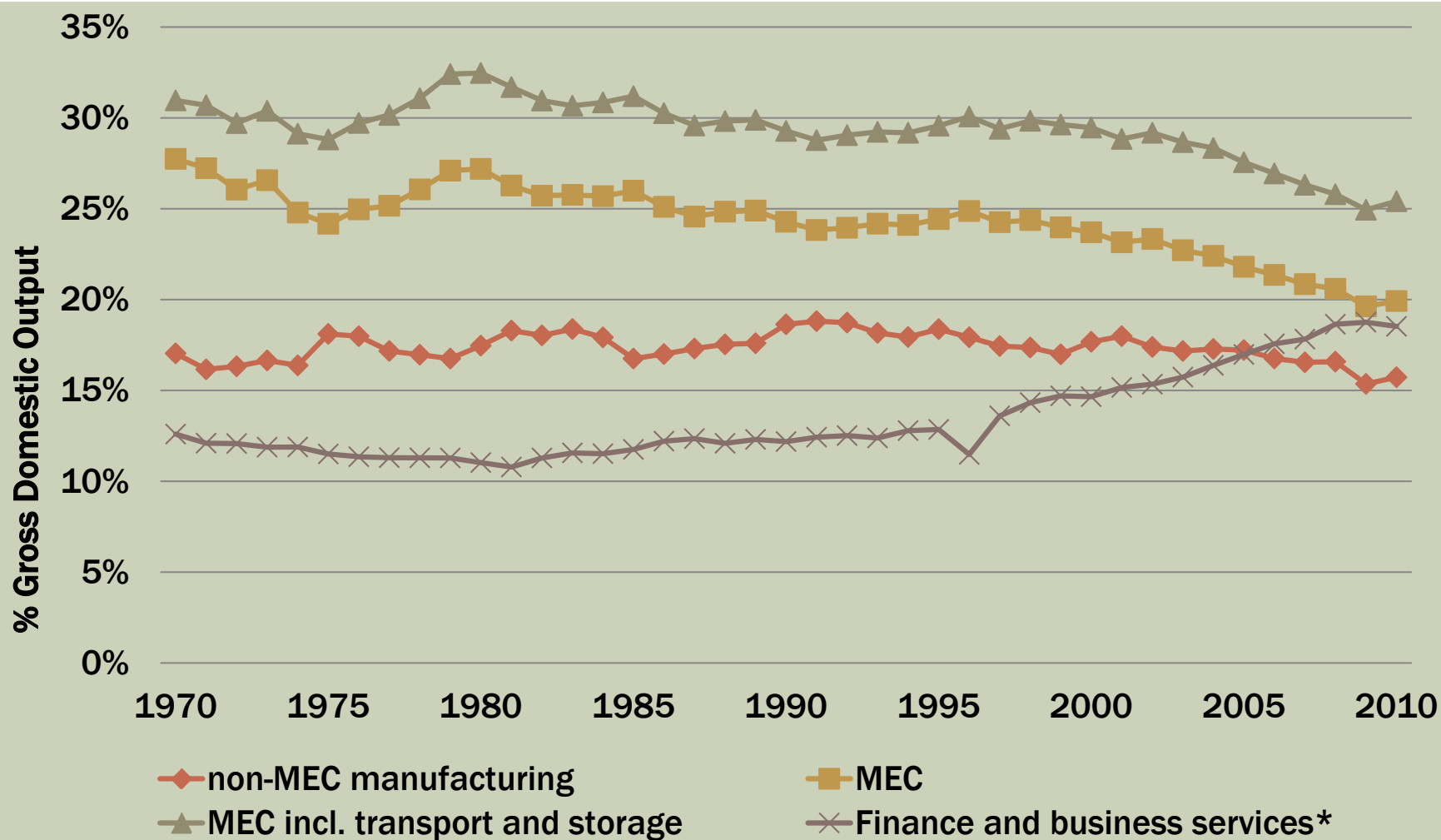
INDUSTRIAL POLICY AND STRUCTURE UNDER APARTHEID

- Class interests marked by disjuncture between English and Afrikaaner Capital.
 - Economic power concentrated in the hands of English mining and finance capital
 - Afrikaaner interests in control of the state (in particular since 1948)
- **Industrial policy as means to create an Afrikaaner industrial class and therefore erode the disjuncture**
- Complex interdependence between English and Afrikaaner capital in this process
- In consequence, industrial policy involved:
 - Promotion of finance
 - Promotion of Afrikaaner mining interests
 - State owned mega projects critically dependent on mining inputs and as inputs into mining (energy)
 - Heavy protection of consumer durables serving a small section of society
 - Labour intensive activities small scale and focussed on addressing the 'poor white' problem
- Outcome: heavily skewed industrial and highly concentrated ownership in the form of 6 diversified conglomerates
- **Broad based economic development was not the goal of industrial policy**

SHARE OF SECTORAL NET VALUE OF OUTPUT IN TOTAL MANUFACTURING 1924-2010

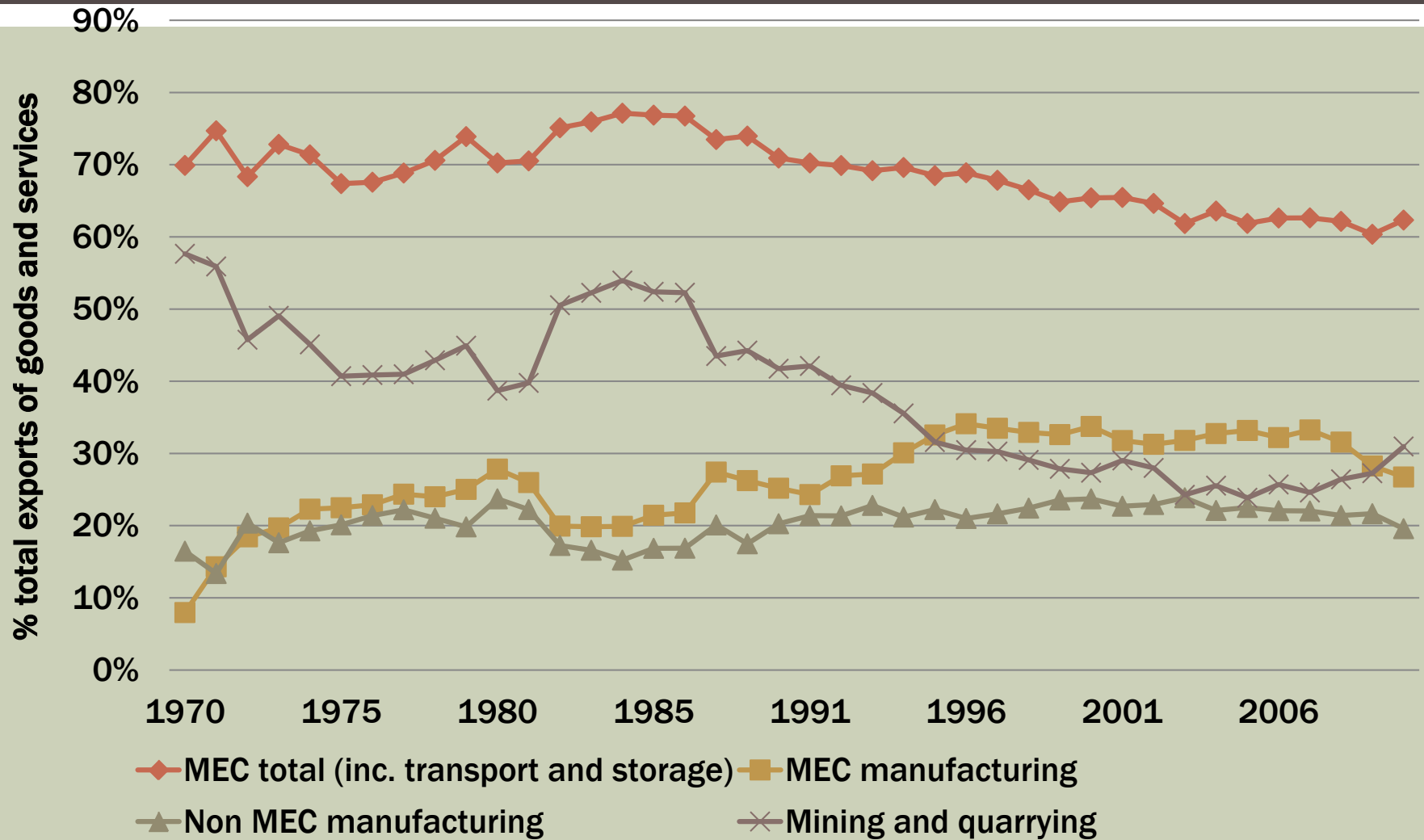
	1924	1948	1975	1975 ⁺	1990 ⁺	2000 ⁺	2010 ⁺
Total light industry	63.2	51.7	38.7	38.4	43.3	36.1	33.8
Chemicals and chemical products	12.1	9.5	11.4	11.5	16.8	23.9	23.9
Pottery, glass, other non-metallic minerals	7	6	5.3	4.7	4.0	2.5	2.7
Basic metals industries	8.9	17.6	13	8.5	8.6	9.8	11.7
Metal products and machinery	3.3	5	22.7	18.1	12.4	9.4	8.9
Transport equipment	5.3	7.8	7.2	13.0	9.6	12.9	13.9
Rubber products	0.2	2.4	1.7	0.9	1.2	1.1	0.9
Total heavy industry	36.8	48.4	61.3	56.8	52.6	59.7	61.9

CONTRIBUTION OF MEC AND NON-MEC SECTORS TO GROSS DOMESTIC OUTPUT



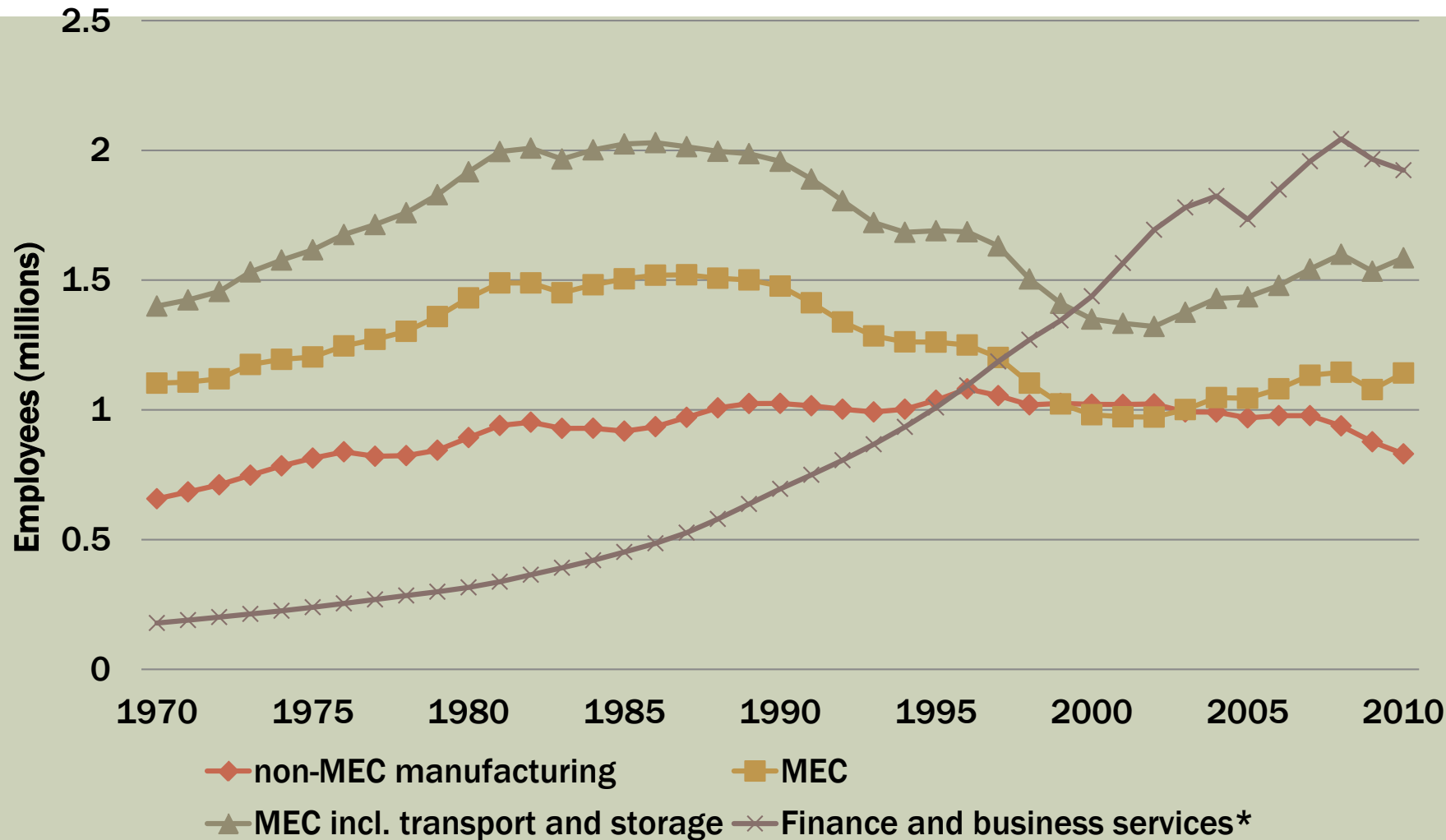
Source: Quantec (RSA Standardised Industry) 2011

CONTRIBUTION OF MEC AND NON-MEC SECTORS TO EXPORTS



Source: Quantec (RSA Standardised Industry) 2011

CONTRIBUTION OF MEC AND NON-MEC SECTORS TO EMPLOYMENT

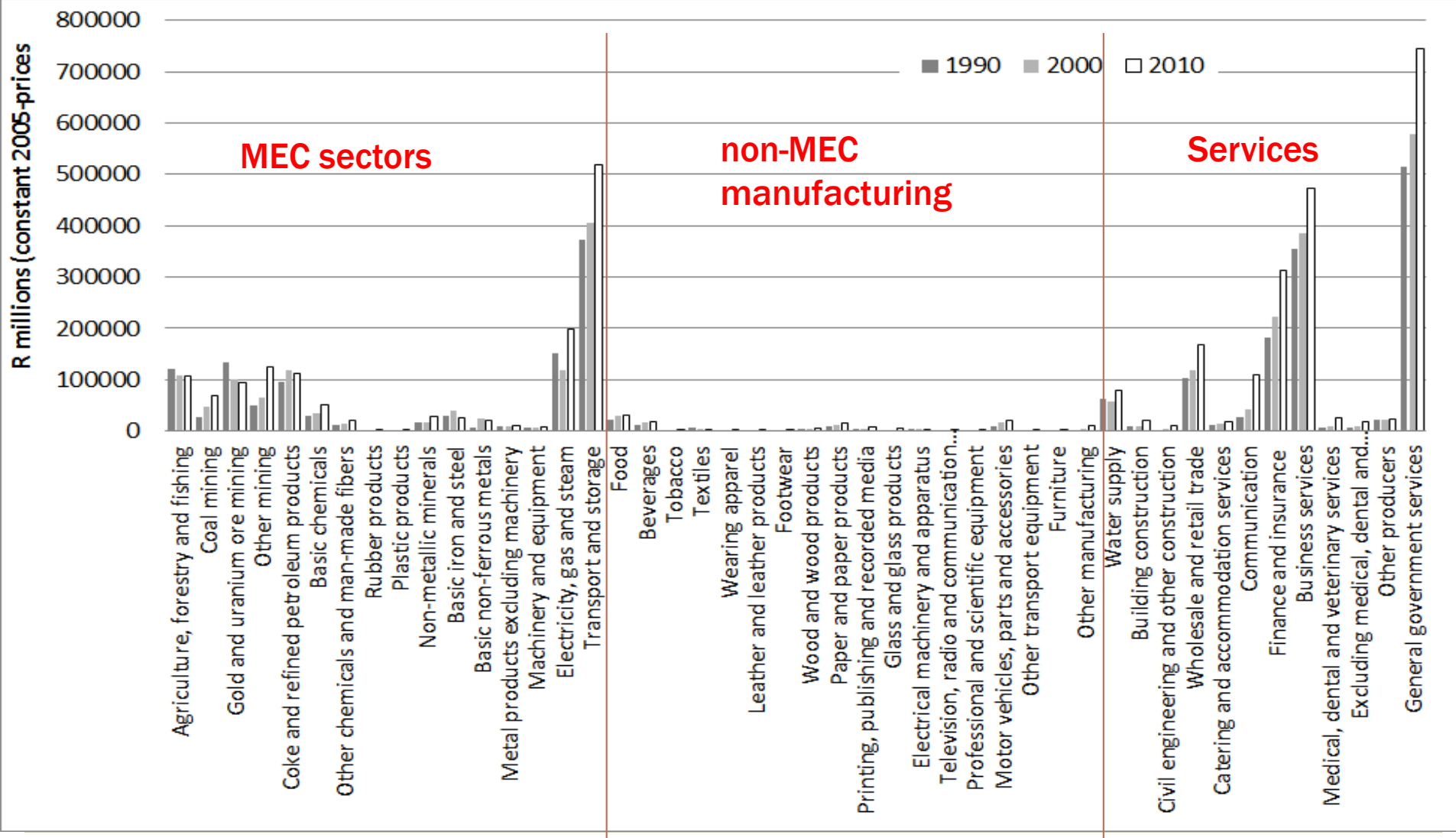


Source: Quantec (RSA Standardised Industry) 2011

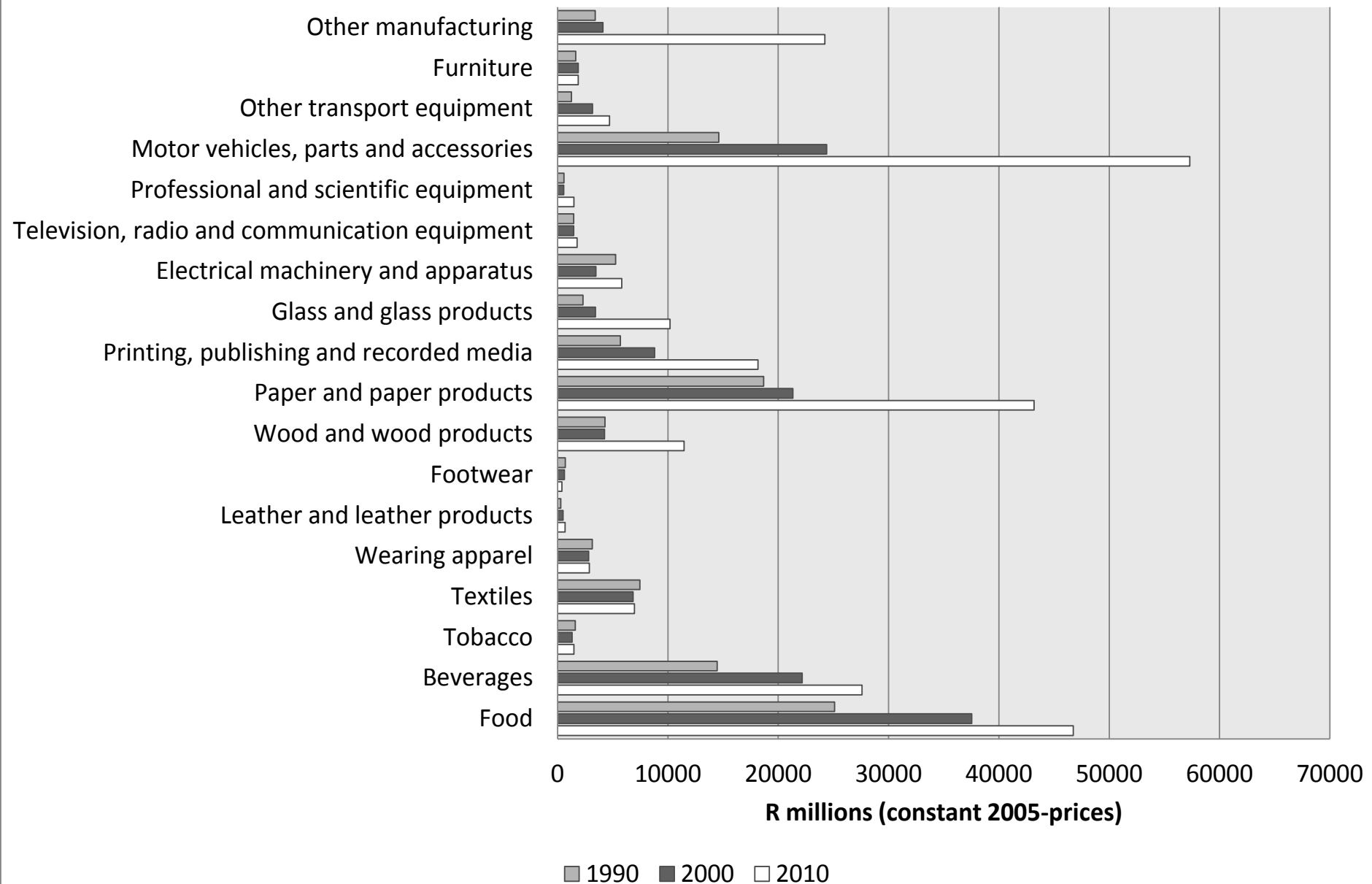
INDUSTRIAL POLICY AND STRUCTURE POST-APARTHEID I

- Late 1980s:
 - Economic and political disjuncture eroded
 - South African economy controlled by 6 diversified conglomerates
- Trade and financial liberalization and privatisation adopted in closing years of apartheid driven by:
 - capital's fear of political transformation
 - potential gains from global reintegration
- Macro policy GEAR onwards serves particular class interests
 - Offshore listing and managed capital flight seeking to benefit from financialised accumulation
- Washington consensus conception of industrial policy:
 - Narrowly focussed on stable macroeconomic environment
 - Industrial intervention scattered and small scale (supply side oriented)
- Any gains in terms of industrial diversification made in the 1970s and 1980s quickly unwound with import competition and deconglomeration

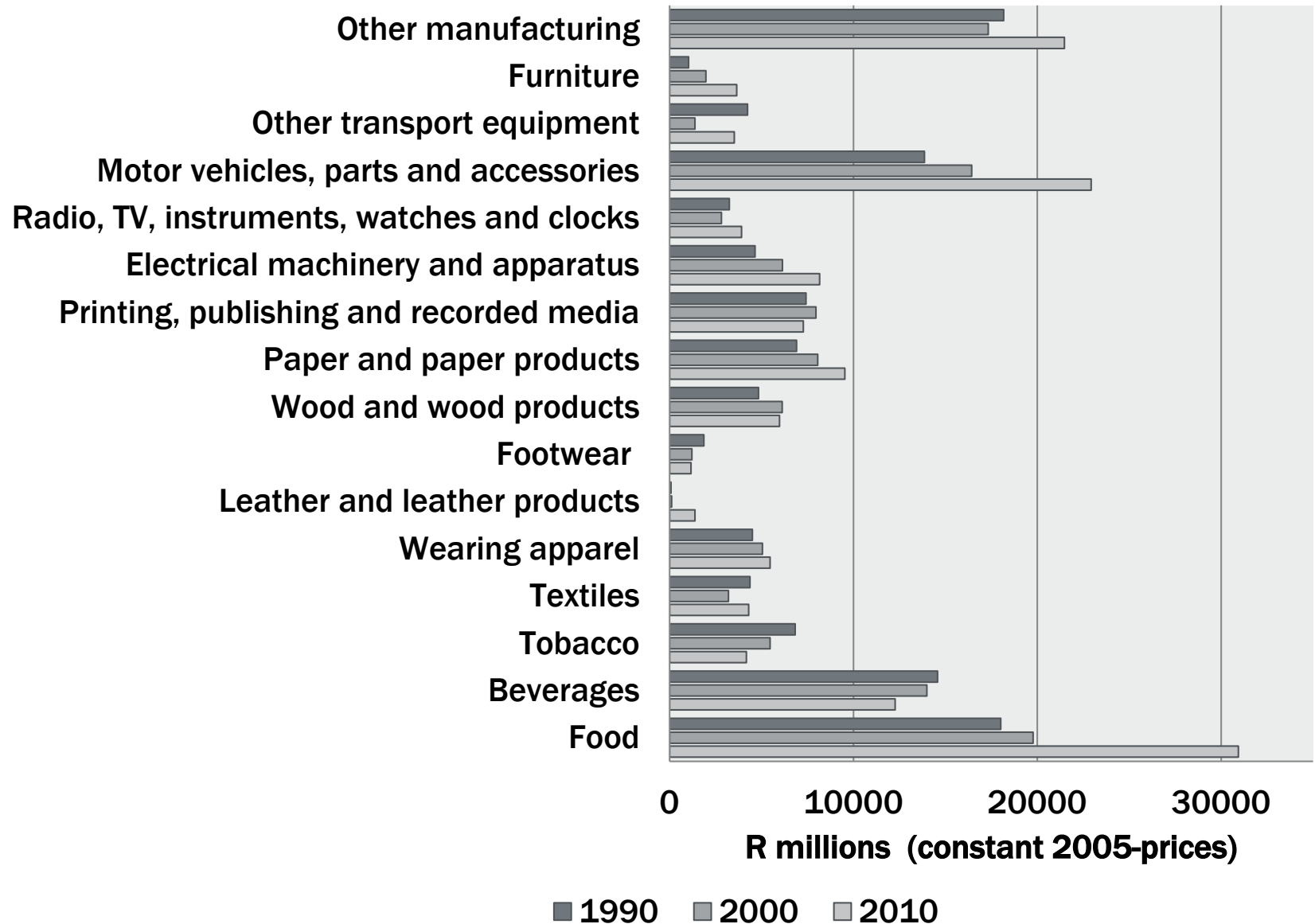
DISTRIBUTION OF CAPITAL STOCK ACROSS SECTORS



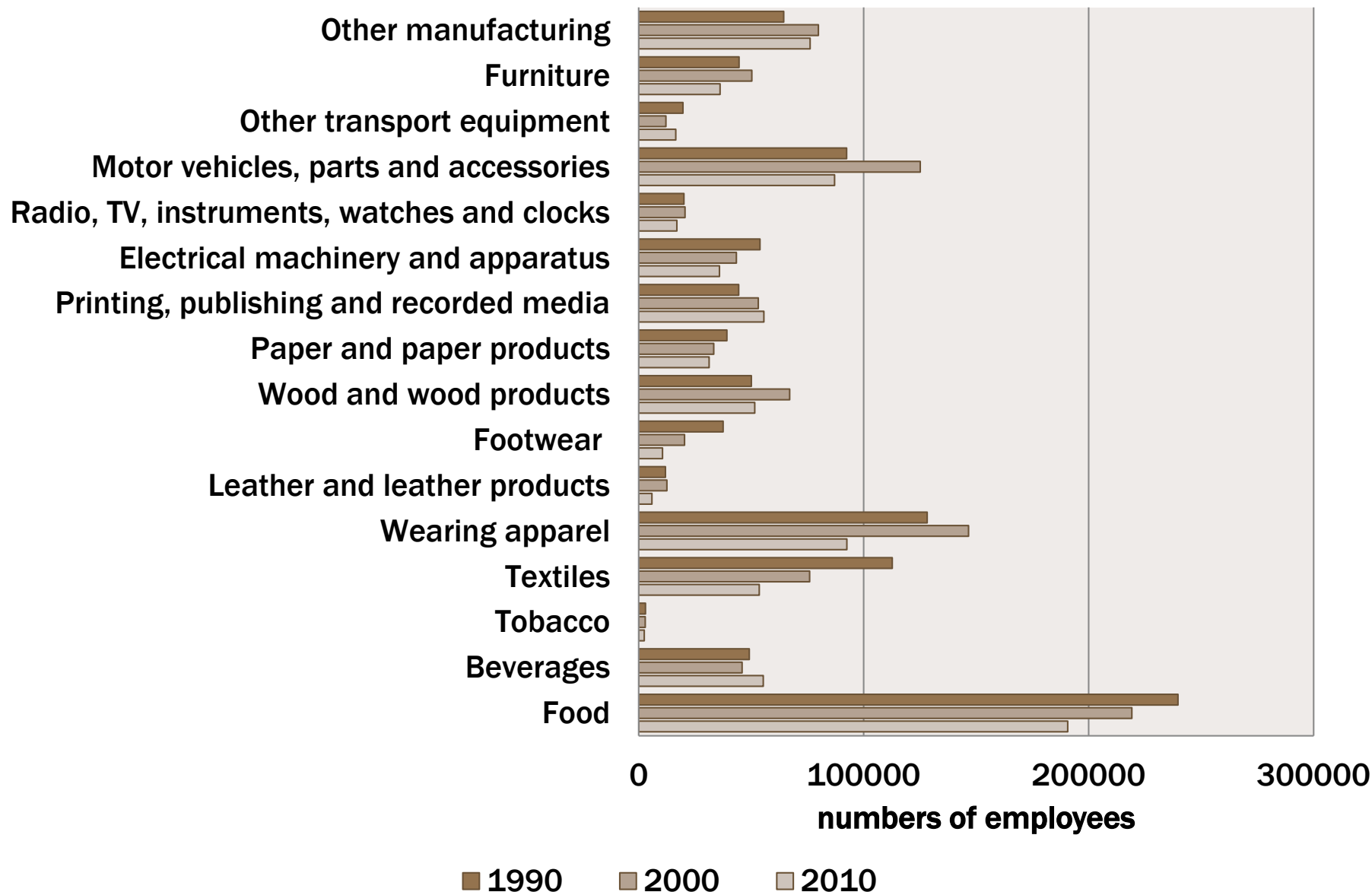
NON-MEC MANUFACTURING SECTORS: GROSS DOMESTIC FIXED CAPITAL INVESTMENT



NON-MEC MANUFACTURING SECTORS: VALUE ADDED AT FACTOR COSTS



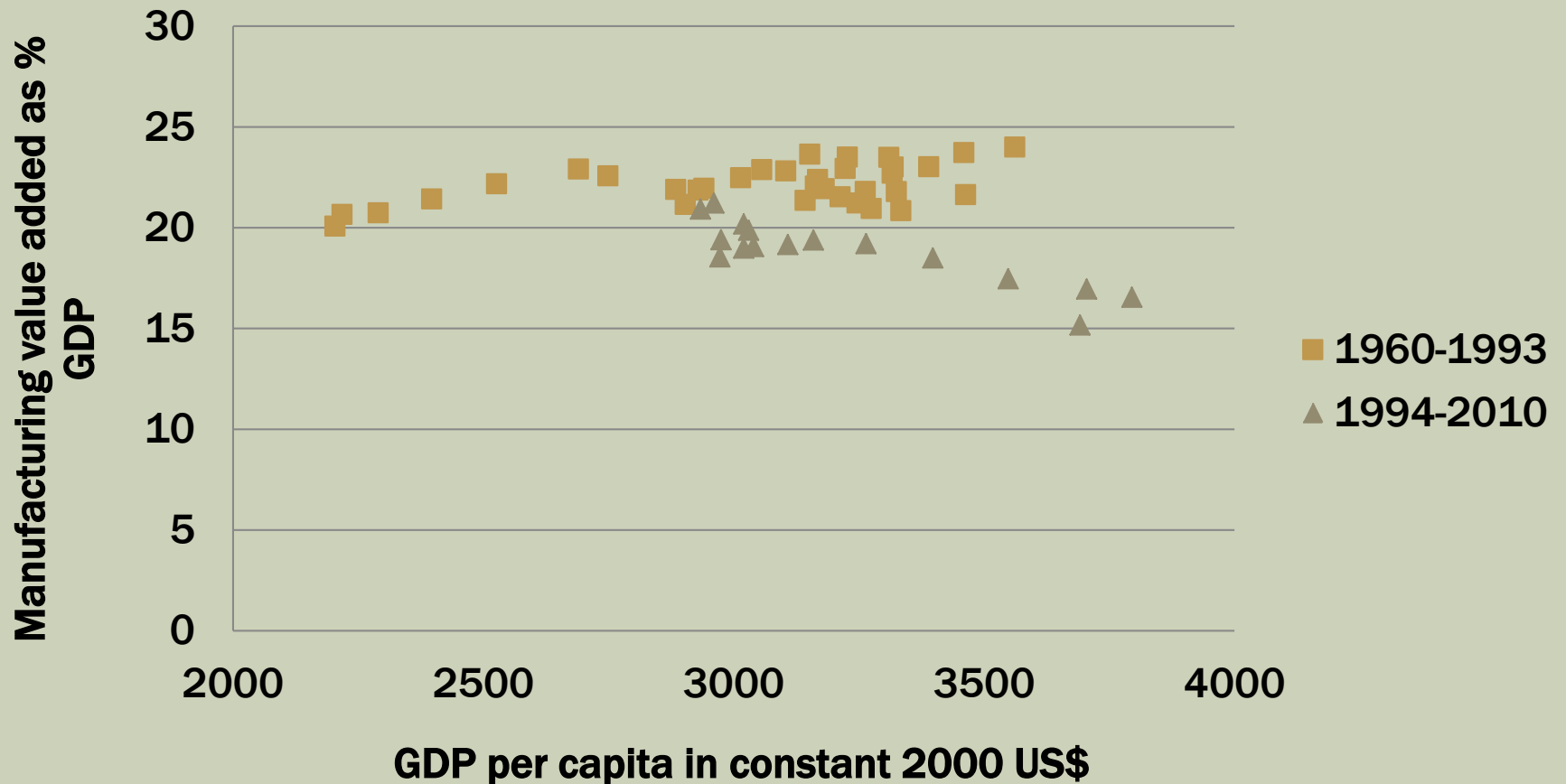
NON-MEC MANUFACTURING SECTORS: EMPLOYMENT



INDUSTRIAL POLICY AND STRUCTURE POST-APARTHEID II

- In consequence, macroeconomic policy sets in chain interdependent developments:
 - Trade liberalisation, increased imports and volatile export earnings leading to persistent current account deficit (largest as a share of GDP compared with economies of comparable income)
 - Strong defence of inflation targeting and high interest rate policy to attract short-term policy inflows for balance-of-payments
 - Short-term inflows as a source of instability
 - Reduce the availability of funds for long-term investment (high cost of borrowing and maturity mismatch)
 - Inflate and 'develop' the financial sector
 - Employment generation largely in service sectors and highly procyclical (credit-driven)
- Gap between MEC core and the rest of the economy now wider than before
- Premature deindustrialisation? – *question of industrialisation processes and stages*

'PREMATURE' DEINDUSTRIALISATION



Data source: World Bank WDI 2012

INDUSTRIAL POLICY AND REINDUSTRIALISATION TODAY

- Discussion of industrial policy in SA predates the re-emergence of industrial policy on the global agenda
 - NIDP 2007, IPAP 2007, 2010, 2013
- Greater challenges to successful industrial policy today compared with 1994
 - Gap between MEC sectors and the rest of the economy
 - Fragile macrostructure; macropolicy undermining industrial policy
 - Financialisation
- If industrial policy aims to bring about structural change, reindustrialisation and sustainable job creation it requires an integrated, interconnected approach to bring about the same in structure (maximise pull effects)
- National Development Plan (NDP) purports to be supportive of job creation but industrial policy weak and modest in its aims.
 - No concern for structural change