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
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 MEC is an analysis of industrial development simultaneously focusing on different dimensions of interdependencies between fractions of capital, industrial sectors and the state that involves, but is not limited to:

- Econonomic 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 interdependecies/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

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

*Non-MEC manufacturing*                     | 23                                            | 6                                           |

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

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>Total light industry</strong></td>
<td>63.2</td>
<td>51.7</td>
<td>38.7</td>
<td>38.4</td>
<td>43.3</td>
<td>36.1</td>
<td>33.8</td>
</tr>
<tr>
<td>Chemicals and chemical products</td>
<td>12.1</td>
<td>9.5</td>
<td>11.4</td>
<td>11.5</td>
<td>16.8</td>
<td>23.9</td>
<td>23.9</td>
</tr>
<tr>
<td>Pottery, glass, other non-metallic minerals</td>
<td>7</td>
<td>6</td>
<td>5.3</td>
<td>4.7</td>
<td>4.0</td>
<td>2.5</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>Basic metals industries</strong></td>
<td>8.9</td>
<td>17.6</td>
<td>13</td>
<td>8.5</td>
<td>8.6</td>
<td>9.8</td>
<td>11.7</td>
</tr>
<tr>
<td><strong>Metal products and machinery</strong></td>
<td>3.3</td>
<td>5</td>
<td>22.7</td>
<td>18.1</td>
<td>12.4</td>
<td>9.4</td>
<td>8.9</td>
</tr>
<tr>
<td><strong>Transport equipment</strong></td>
<td>5.3</td>
<td>7.8</td>
<td>7.2</td>
<td>13.0</td>
<td>9.6</td>
<td>12.9</td>
<td>13.9</td>
</tr>
<tr>
<td>Rubber products</td>
<td>0.2</td>
<td>2.4</td>
<td>1.7</td>
<td>0.9</td>
<td>1.2</td>
<td>1.1</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>Total heavy industry</strong></td>
<td>36.8</td>
<td>48.4</td>
<td>61.3</td>
<td>56.8</td>
<td>52.6</td>
<td>59.7</td>
<td>61.9</td>
</tr>
</tbody>
</table>
CONTRIBUTION OF MEC AND NON-MEC SECTORS TO GROSS DOMESTIC OUTPUT

% Gross Domestic Output

Source: Quantece (RSA Standardised Industry) 2011
CONTRIBUTION OF MEC AND NON-MEC SECTORS TO EXPORTS

% total exports of goods and services

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
NON-MEC MANUFACTURING SECTORS: GROSS DOMESTIC FIXED CAPITAL INVESTMENT

- Food
- Beverages
- Tobacco
- Textiles
- Wearing apparel
- Leather and leather products
- Footwear
- Wood and wood products
- Paper and paper products
- Printing, publishing and recorded media
- Electrical machinery and apparatus
- Glass and glass products
- Television, radio and communication equipment
- Motor vehicles, parts and accessories
- Professional and scientific equipment
- Other transport equipment
- Other manufacturing

R millions (constant 2005-prices)

- 1990
- 2000
- 2010
NON-MEC MANUFACTURING SECTORS: EMPLOYMENT

- Food
- Beverages
- Tobacco
- Textiles
- Wearing apparel
- Leather and leather products
- Footwear
- Wood and wood products
- Electrical machinery and apparatus
- Motor vehicles, parts and accessories
- Radio, TV, instruments, watches and clocks
- Printing, publishing and recorded media
- Paper and paper products
- Other transport equipment
- Other manufacturing
- Furniture
- Textile and other manufacturing
- Other manufacturing

Numbers of employees:
- 1990
- 2000
- 2010
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
Discussion of industrial policy in SA predates the re-emergence of industrial policy on the global agenda

Greater challenges to successful industrial policy today compared with 1994
- Gap between MEC sectors and the rest of the economy
- Fragile macrostructure; macro policy 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