



TIPS NEWSLETTER OCTOBER 2015

This newsletter reports on some of our research projects and provides details of the training seminars and conferences we have organised this year and are busy planning

TURNING TWENTY

In 2016 TIPS will be turning 20 years old! To celebrate this milestone, we will be planning a number of activities during the course of the year, including a celebratory function in March.

FORUM 2016

Following the successful 2015 annual TIPS forum, work has started on the 2016 forum. The theme of the 2016 TIPS forum will be **Industrialisation and the Mining Economy**. The call for papers will be circulated soon and we are again looking forward to an exciting conference. The theme of the forum comes out of the work that TIPS has been doing for the Mining Phakisa and the need to explore the role of the mining economy, given recent developments and a falling commodity price.

RESEARCH PROJECTS

Trade and Industrial Policy Pillar Manufacturing Circle Survey

TIPS continues to work with the Manufacturing Circle on its quarterly survey and bulletin.

The Manufacturing Circle Survey aims to capture current and expected economic and business trends in the South African manufacturing sector. The second quarter 2015 survey contained quantitative and qualitative questions

that were completed by 73 small and large-sized manufacturing companies from different sectors.

A Development Dialogue session was held in August when TIPS economist Baba Tamana-Gqubule presented on the latest quarterly Manufacturing Bulletin. The objective was to disseminate key findings to academia, government and the private sector. These include:

- Most of the surveyed firms felt that manufacturing business conditions in Q2 2015 were muted. Subdued demand, compromised commodity prices, a volatile rand exchange rate, electricity disruptions, increasing labour costs, and spillover effects from the Q3 2014 strike action, were cited as reasons.
- An inadequate skills pool, failure to benefit from government's local procurement programme, and mostly stable labour productivity defined the operating environment during Q2 2015.
- Domestic sales continued to outweigh exports. About a quarter of respondents reported positive growth in domestic sales. Factors affecting demand were: dampened global demand, sluggish performance of the South African mining sector and an inability to compete with imported goods, mainly from China. Despite muted demand conditions, some firms reported a positive growth in export sales, spurred by a competitive exchange rate and demand from the rest of the African continent.

Trade & Industrial Policy Strategies (TIPS) NPC is a research organisation that facilitates policy development and dialogue across three pillars: trade and industrial policy, inequality and economic inclusion, and sustainable growth. Its working model integrates research and analysis, policy development, disseminating information, capacity building, technical support, and programme design and management. TIPS is also involved in training and skills transfer and works with the country's leaders in matters pertaining to economic, trade and industrial policy analysis.

Manufacturing Circle survey continued

- In the current context of production pressures, almost half the firms upgraded their plant capacity or processes over the quarter to maintain their positions within relevant value chains. Firms that upgraded capacity, did so to improve efficiency or productivity, with significant implications for job creation.
- Elevated production costs continued to prevail in Q2 2015. Most respondents reported high cost escalation remaining a stumbling block. This mainly concerned costs of imported raw materials. In addition, above inflation increases in electricity tariffs, labour costs, and municipal charges contributed to the escalation of the surveyed firms' total cost base over the quarter. Predictably, electricity was by far the most cited input shortage experienced during the quarter.
- Uncertainty around the ongoing energy crisis is at the top of manufacturing firms concerns. In the event of electricity disruptions, the respondents, relied on "own-generation" capacity or rescheduled production to mitigate against production disruptions.
- The challenges facing the mining sector are being felt by manufacturing firms with the survey reflecting this impact on performance.

Sustainable Growth Pillar Mining Value Chains

Mining value chains and green growth in South Africa – A conflictual but intertwined relationship: As the world grapples with multiple economic, social and environmental crises, sustainable development, notably through the transition to a green economy, has been acknowledged as the way forward. Such a paradigm shift would entail the transformation of the mining and linked manufacturing industries: these industries, which remain world basic activities for development (with agriculture), appear instrumental for any successful growth transition. However, recognising the finite nature of mining activities and their fundamental economic role in the South African economy requires a move beyond the notion of mining value chains being unsustainable due to the non-renewable nature of the extracted resources. It shifts the focus to how mining value chains can contribute to a green growth path, i.e. moving from a purely economic model (aimed at maximising growth) to an approach encompassing the four intertwined (economic, social, environmental and governance) spheres of sustainable development.

A study by TIPS highlighted that mining value chains are at the heart of society's material quality of life, providing resources that are integrated in almost every product and service around the world. Mining and related downstream manufacturing industries are also strategic drivers of growth, through their multiple forward and backward linkages with other key industries.

In South Africa, the sector has generated benefits for the economy and society, from increased output, revenues, investment, exports and foreign exchange, to employment, local economic development, training opportunities and new technologies. At first sight, however, the transition to a green economy, which relies on the sustainable use of natural resources and the protection of the environment, implies a complex balancing act for mining value chains with short- and long-term consequences on the industry's business models. Parallel, pressing priorities, such as labour issues and the lack of incentives for reforms on the environmental front (such as the lack of support and the improper enforcement of regulations) have hindered the urgent sustainable transformation required in the sector.

Given their scope and essential role to the economy and society, the transition to a green economy will not fundamentally challenge the central position of mining value chains in South Africa's (and the world's) development path. Developing green industries and services will, however, generate considerable mining-related opportunities. As such, South Africa's National Development Plan: Vision for 2030 confirms that mining and related sectors will continue to feature prominently in the country's economy.

Nevertheless, the shift to a green economy will structurally affect the demand for mineral-based products, such as what to produce and how to produce, which will require proactive responses from industry and government. Acknowledging the intertwined but conflictual relationship between mining and sustainable development means adopting a prism of analysis that investigates the industry's net long-term contribution to a green economy, considering the contradictions and challenges, and the potential benefits and opportunities.

The main conclusions include: the development of mining value chains is conflictual but deeply intertwined with the goal of sustainable development; the response of mining value chains to the shift to a green economy cannot be business-as-usual and requires a proactive approach by business, government, labour,

non-governmental organisations and the research community in support of sustainable development; the transition to a green economy will not fundamentally challenge the central position of mining value chains in South Africa's development path; the development of green industries and services will generate considerable mining-related opportunities, which South Africa is ideally placed to seize; the shift to a green economy will nevertheless structurally affect the demand for mineral-based products; and while mining and manufacturing

companies are already investing in the green economy, most prospects on both the supply and demand side remain underexploited or untapped.

* A Working Paper by Gaylor Montmasson-Clair, TIPS Assistant Programme Manager draws on this research prepared for the Global Green Growth Institute, the Economic Development Department and the Department of Trade and Industry. Download: [Mining value chains and green growth in South Africa: A conflictual but intertwined relationship](#).

TIPS regularly hosts development dialogues and seminars. These allow policy practitioners, economists and individuals to engage in topics pertinent to economic and sustainable development.

DEVELOPMENT DIALOGUE SEMINARS

In the third quarter of the year the following dialogues were held:

Electricity Planning and the Tough Choices: – 9 July 2015: TIPS Programme Manager Dr Neva Makgetla explored the *Electricity Pricing and Economic Development in South Africa: The Real Tough Choices*. From the 1980s, growth in South Africa depended on low-cost, coal-fuelled electricity. This trajectory is no longer viable due to the rising costs of both new investment and climate change. TIPS undertook an assessment of options for managing the cost and economic impact of options for adapting to the new realities of electricity in both the short and long term.

TIPS Assistant Programme Manager Gaylor Montmasson-Clair gave a presentation on *Repositioning Electricity Planning at the Core: An Evaluation of South Africa's Integrated Resource Plan*: This review, based on an internationally-recognised framework developed by the World Resources Institute and Prayas Energy Group, unpacked the key pillars of an Integrated Resource Plan and reviewed South Africa's performance.

Second Quarter Manufacturing Bulletin — 21 August 2015: TIPS Economist Baba-Tamana Gqubule presented the findings of the Manufacturing Circle Quarterly Bulletin.

Estimating Disaggregated Sector Employment Multipliers for the City of Johannesburg – 21 August 2015: Keith Lockwood presented his research on employment multipliers for the City of Johannesburg. Increasingly, public entities are being required to assess the employment-supporting impacts of their programmes. While the initial impact of public expenditure may be relatively easier to assess, the indirect and induced impacts of such spending are much harder to estimate. This presentation focused on the results of attempts to estimate the employment-supporting impacts of spending and investment facilitation by the City of Johannesburg at a sectoral level.

Seminar series during the African Programme on Rethinking Development Economics (APORDE) — 2-9 August 2015: During the APORDE 2015 programme a number of public seminars were held:

- *African Development and the Political Economy Challenges of Industrial Policy* by Christopher Cramer and Mushtaq Khan; and organised by the Centre for Competition, Regulation and Economic Development (CCRED).
- *Innovation and Industrial Policy* by Ha-Joon Chang, Neva Makgetla and Imraan Patel; and organised by the Department of Trade and Industry.
- *Mineral Resources and Industrial Policy* by Paul Jourdan; and co-hosted by the IDC.
- *Labour and Economic Development* by Ben Fine and Nicolas Pons-Vignon; and co-hosted with the Independent World of Work.
- *China, India and the Global Economy after the Crisis* by Jayati Ghosh; and co-hosted with University of Johannesburg, Department of Economics and Econometrics
- *Transfer Pricing and Trade Mispricing* by Jonathan di John, Paul Jourdan and Kathy Nicolaou-Manias; and co-hosted by TIPS.

For copies of presentations and information about other seminars go to [Development Dialogues](#).

Inequality and Economic Inclusion Pillar – Inequality is growth's enemy

In collaboration with the United National Development Programme (UNDP), TIPS undertook a study on **The Impacts of Social and Economic Inequality on Economic Development in South Africa**. This article by Dr Kate Philip, based on the study, was published in *City Press*.

Inequality is growth's enemy

“Inequality is rising globally and social discontent is rising with it. This has brought a new focus on the causes and consequences of high inequality and a growing consensus that it is not just bad for societies, it is also bad for economies. High inequality has been identified as a factor that constrains growth – and limits the effect on the poor of whatever growth does take place.

In South Africa, growth is seen as a necessary condition for addressing poverty. Addressing inequality might just be a necessary condition for unlocking the kinds of growth required to do so. If inequality acts as a constraint on growth – and greater equity unlocks it – how does it do so? Can it be assumed that all forms of inequality, such as inequality in relation to race and gender, inequality of opportunities, income inequality and asset inequality are equal in this respect?

In South Africa, unemployment is the main contributor to growing income inequality, hence the priority given to employment-creating growth. When it comes to understanding how inequality affects growth, however, a more multidimensional lens is needed. Firstly, there is no escaping history. No society with high inequality started with a level playing field.

Dispossession and the capture of resources has always informed patterns of ownership. To compound matters, as Thomas Piketty's work has shown, the value of assets has consistently grown faster than the value of earned incomes, leading to the rich growing richer faster than anyone else can catch up. Until the neoliberal 1990s, this effect was partly offset in the developed world by their tax regimes, but not any more.

Concentrations of corporate capital also affect growth. At one level, this is about the lack of competition and resultant inefficiencies at the level of the commanding heights of the economy. But such concentration can also limit the scope for small and even informal business development in poor communities. This is because, for new entrepreneurs, the easiest entry point into business is to make and sell products their neighbours need.

In South Africa, however, the majority of basic consumer goods are already mass-produced in the core economy, at a scale that makes it very difficult to compete on price. This makes small business development that much harder and reproduces existing patterns of wealth creation. Inequality in land ownership patterns is also strongly correlated with constraints on inclusive growth. Yet in South Africa, current proposals for addressing inequality in relation to commercial and communal land appear deeply flawed and unlikely to achieve their desired outcomes. Inequality of opportunity, like that resulting from racism and sexism, also limits growth.

When opportunities in society are biased towards existing elites, this limits the pool from which society can draw its leaders, innovators and entrepreneurs. Those with better opportunities are also more likely to influence the rules of the game in society and to shape its institutions. These institutions in turn reproduce and enforce the rules of the game that favour the favoured. Institutions matter for equity. So despite the significant gains made at the level of formal rights in South Africa, institutional weaknesses – and the difficulties of institutional transformation – still affect the realisation of such rights and the equality of opportunity.

All forms of inequality negatively affect social stability. This affects growth because economic actors typically respond by reducing their activities, limiting their risk, moving their assets offshore and investing in financial instruments rather than in productive activity that will create inclusive forms of growth.

All this has policy implications for South Africa. At present, policies to promote inclusive growth are seen as the most effective way to reduce poverty and inequality. If, however, high levels of inequality constrain the scope to achieve such growth, then tackling inequality might just be a prior and necessary condition for doing so.”

For more on this topic, [read the UNDP report](#).

MANDELA DAY

As part of its corporate social responsibility, for this year's Mandela Day Celebrations, TIPS staff visited the Tsabadiaketse Day Care Centre in Bokfontein where they helped install two flush toilet sets, pipes and a wash basin. TIPS also provided seedlings and seeds for fruit trees and a vegetable garden. The centre is part of the Community Work Programme which TIPS was involved in initiating and co-ordinating from 2009 to 2011.

TIPS CONFERENCES AND ASSOCIATED EVENTS

ANNUAL FORUM: REGIONAL INDUSTRIALISATION AND REGIONAL INTEGRATION 14 – 15 JULY 2015

The 2015 TIPS Annual Forum, in partnership with the University of the Witwatersrand, the United Nations University World Institute for Development Economics Research (UNU-WIDER) and the USAID Southern Africa Trade Hub Programme, and in association with the Department of Trade and Industry, National Treasury and the Department of Monitoring and Evaluation, was the highlight of the quarter. About 200 people from South Africa, other African countries, Europe and the US attended with more than 25 papers presented. The aim was to deepen the understanding of regional industrialisation, the role of South Africa in that context, the value chains operating across the region, and the links between regional industrialisation and regional integration. Forum papers, presentations and videos of sessions and the keynote address by Dr Rob Davies, Minister of Trade and Industry are available at www.developmentdialogue.co.za.

APORDE 31 AUGUST – 11 SEPTEMBER 2015 (NINTH EDITION)

APORDE is a two-week annual seminar that brings together academics, policymakers and civil society representatives to investigate economic development options. It is aimed at building capacity in the South, particularly in Africa and founded on the need to broaden perspectives on development thinking and policymaking. APORDE 2016 will take place from 4-16 September 2016. Applications will open in March 2016.

ECONOMIES OF REGIONS LEARNING NETWORK (ERLN) CONFERENCE 15-16 OCTOBER

The Government Technical Advisory Centre and ERLN, in partnership with the University of the Witwatersrand's Development Studies Programme hosted this conference on the theme of Economic Development at the Sub-National Level. It provided a platform for academics, government officials, policymakers and civil society to explore issues within the context of stimulating economic development. For more visit www.erln.org.za.

PAST AND UPCOMING COURSES

During the last quarter of the year, TIPS will be running training workshops on the Green Economy; Introduction to Economy-Wide Modelling for Policy Analysis; CGE Modelling with GAMS; and Macroeconomics. For details contact Rozale Sewduth at rozale@tips.org.za or see our website for more information, www.tips.org.za.

Training workshops held this quarter were Value Chains, Research Methods, and Introduction to Industrial Policy.

Value Chains

Due to high demand for the the Value Chains workshop, a second course facilitated by Prof Mike Morris of the University of Cape Town and Justin Barnes of Benchmarking and Manufacturing Analysts was held in August, as well as another one specifically for the Industrial Development Corporation (IDC). The aim of this workshop is to build research and policy capabilities

to better understand the dynamics of value chains and in so doing, to contribute to employment growth and productivity enhancement through upgrading.

Research Methods

The three-day Research Methods workshop was facilitated by Miriam Veila of the School of Built Environment and Development Studies at the University of KwaZulu-Natal. The aim was to provide insights into managing research projects and understanding different approaches that can be used to undertake research.

Introduction to Industrial Policy

This one-day Introduction to Industrial Policy workshop was held for the first time in September, facilitated by Saul Levin, Neva Makgetla and Mbofholowo Tsedu of TIPS. This workshop enhances the understanding of the theoretical underpinnings of industrial policy as well as understanding industrial policy in South Africa.



TRADE & INDUSTRIAL POLICY STRATEGIES

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