

Trends in the Global Economy since 2008 and Implications for South Africa's Industrial Policy

Itumeleng Mokoena

25 April 2024

TIPS Development Dialogue

Outline

- Introduction
- Shifts in International trade
- Resurgence of Industrial Policy
- Shifts in Global Value Chains
- Implication for the South Africa's industrial policy

Introduction

International order faces deep disruptions that will fundamentally reshape the global trade landscape and its system of governance:

- I. Global economic integration, which intensified in the late 1990s and early 2000s, is slowing down.
- II. China's economic growth is undergoing a period of moderation.
- III. The use of industrial policy is increasing, especially in developed nations.
- IV. Global Value Chains(GVCs) are undergoing transformations as a result of vulnerabilities to shocks and other factors.
- V. International economic governance that emerged after 1945 is also becoming more fragmented, driven by intense competition among economic rivalries.

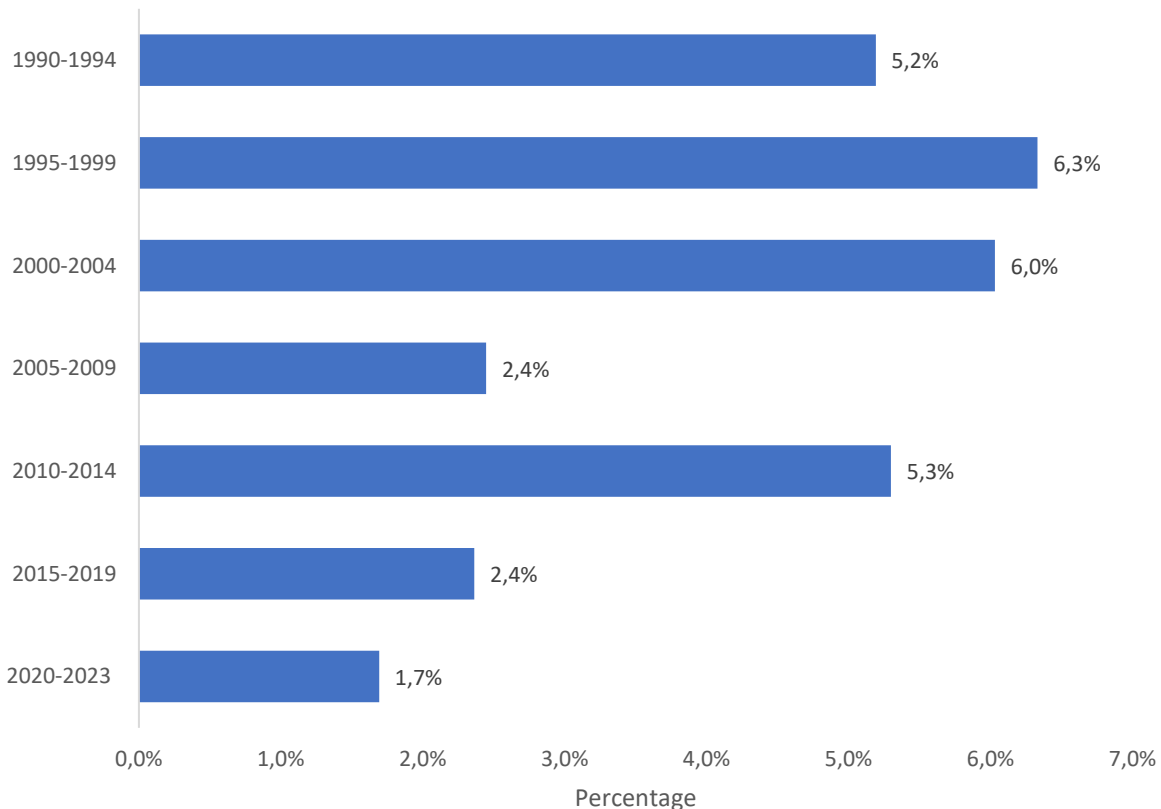
These disruptions have been ongoing for a decade and are expected to be intensified by COVID-19 and geopolitical tensions.

As a result, a substantially modified industrial policy is required to capture new opportunities and address emerging risks.

The aim of this presentation is to provide an analysis of how the global economy has changed since the 2008 global financial crisis and **the implications for South Africa's industrial policy.**

Shifts in International Trade – Slowdown in Growth

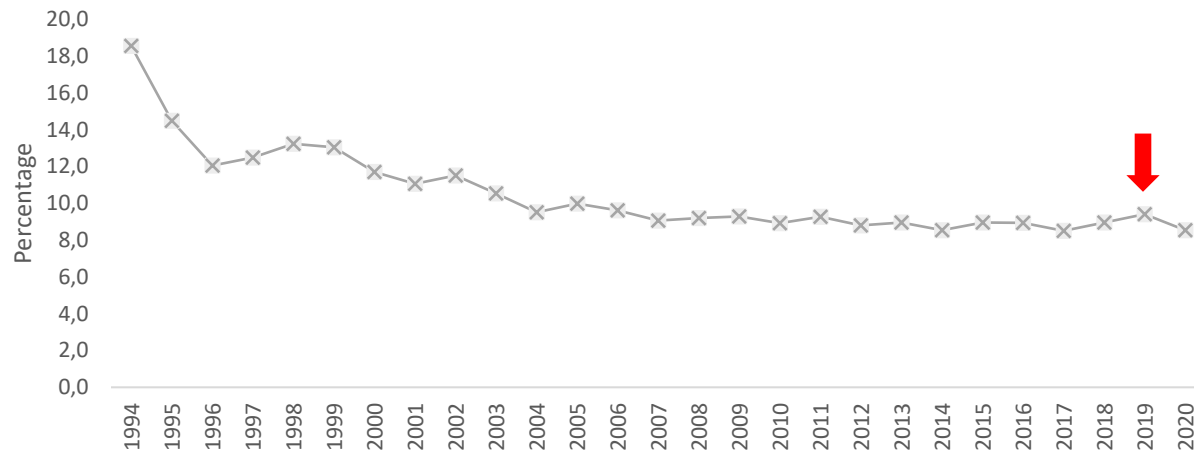
Average Annual Growth in Volume of Global Exports



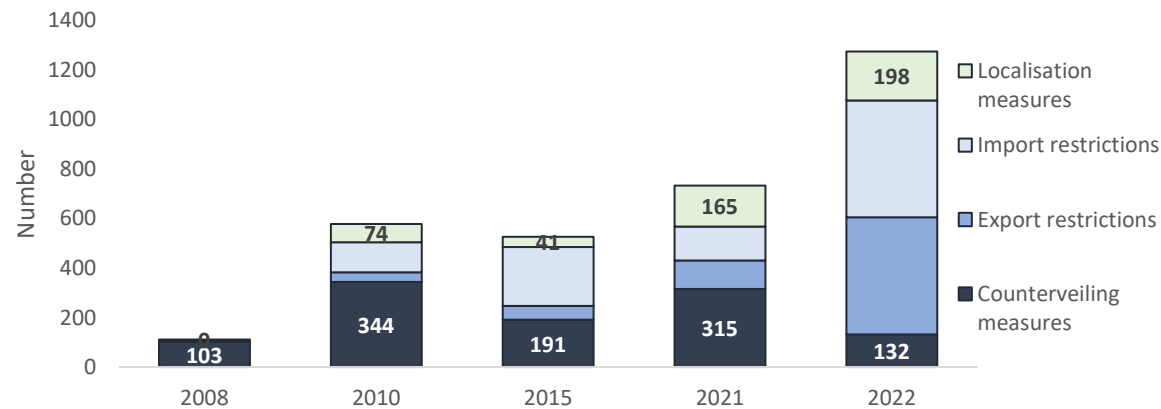
- Since the Global Financial Crisis of 2008/2009, international trade growth has not matched previous years' levels.
- Two primary factors have contributed to this slowdown:
 - Stagnant demand for consumption and capital goods imports in the Global North. In addition, China's growth started to decelerate.
 - A shift in trade policy towards a more protectionist stance.

Shifts in the International Trade - The Rise of Protectionism

Import Tariffs for all goods – MFN simple average



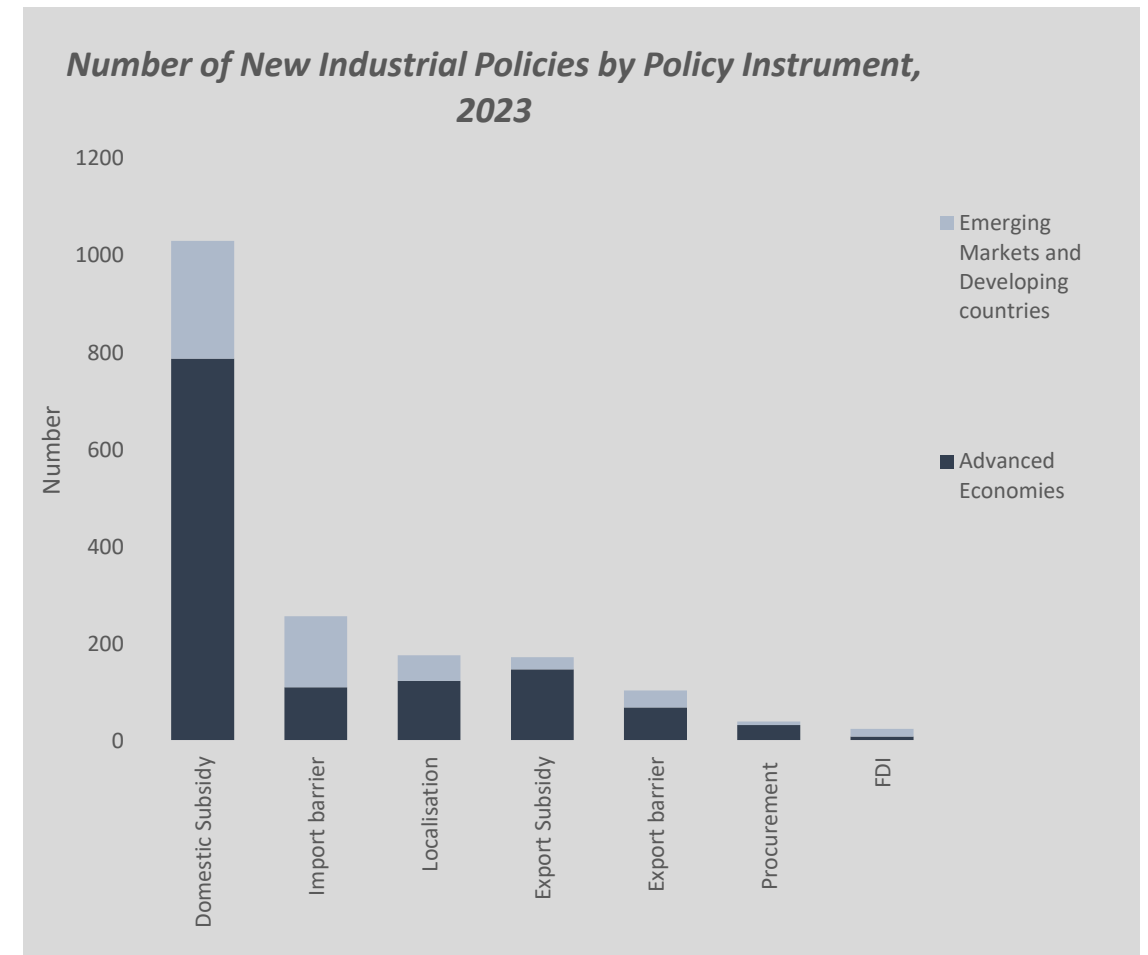
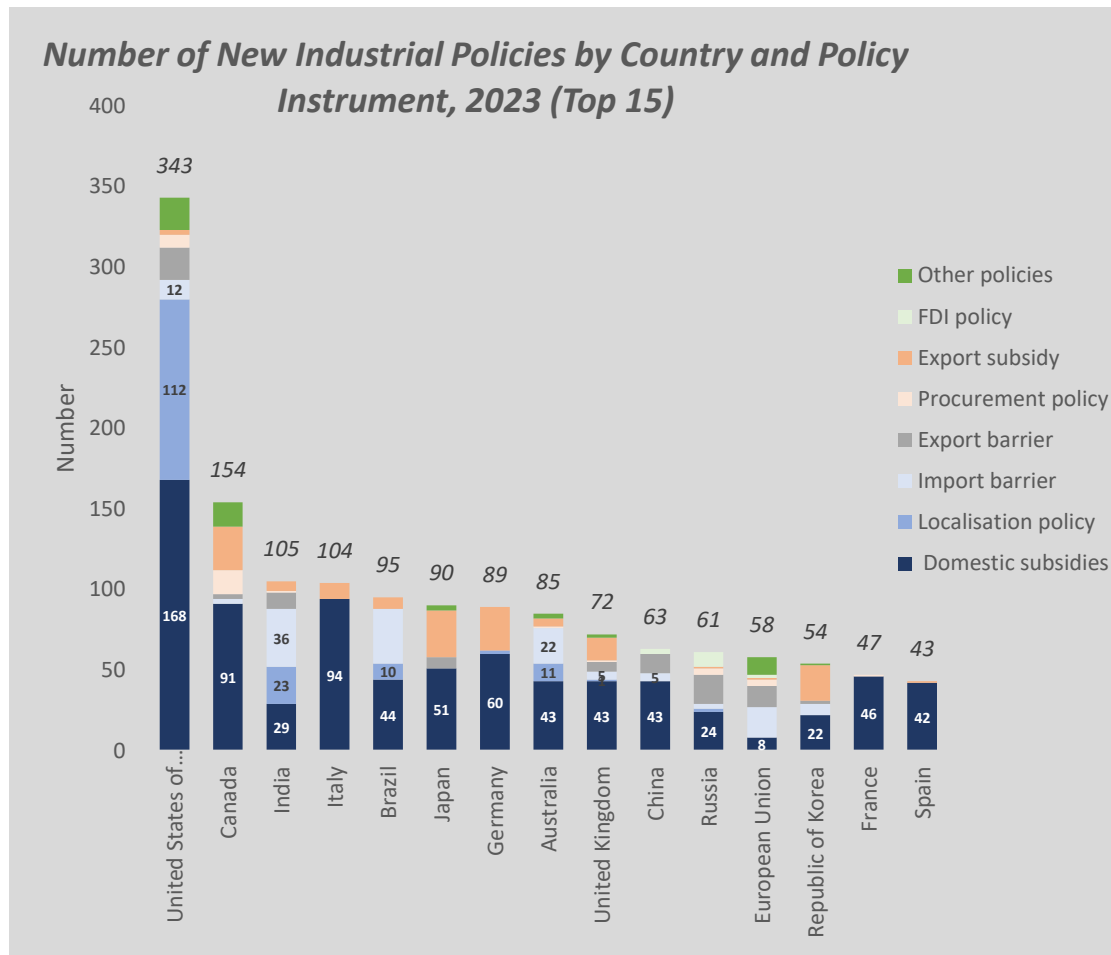
Number of non-tariff measures



- Import tariffs have been on a downward trend since 1994 but began to level out in 2008.
 - From 2000 to 2009, import tariffs declined by 20%, while between 2010 and 2020, tariffs declined by 4%.
- Tariff rates reached their highest level in a decade in 2019, primarily due to the US-China trade war.
- Moreover, non-tariff measures have also been increasing over the last decade.

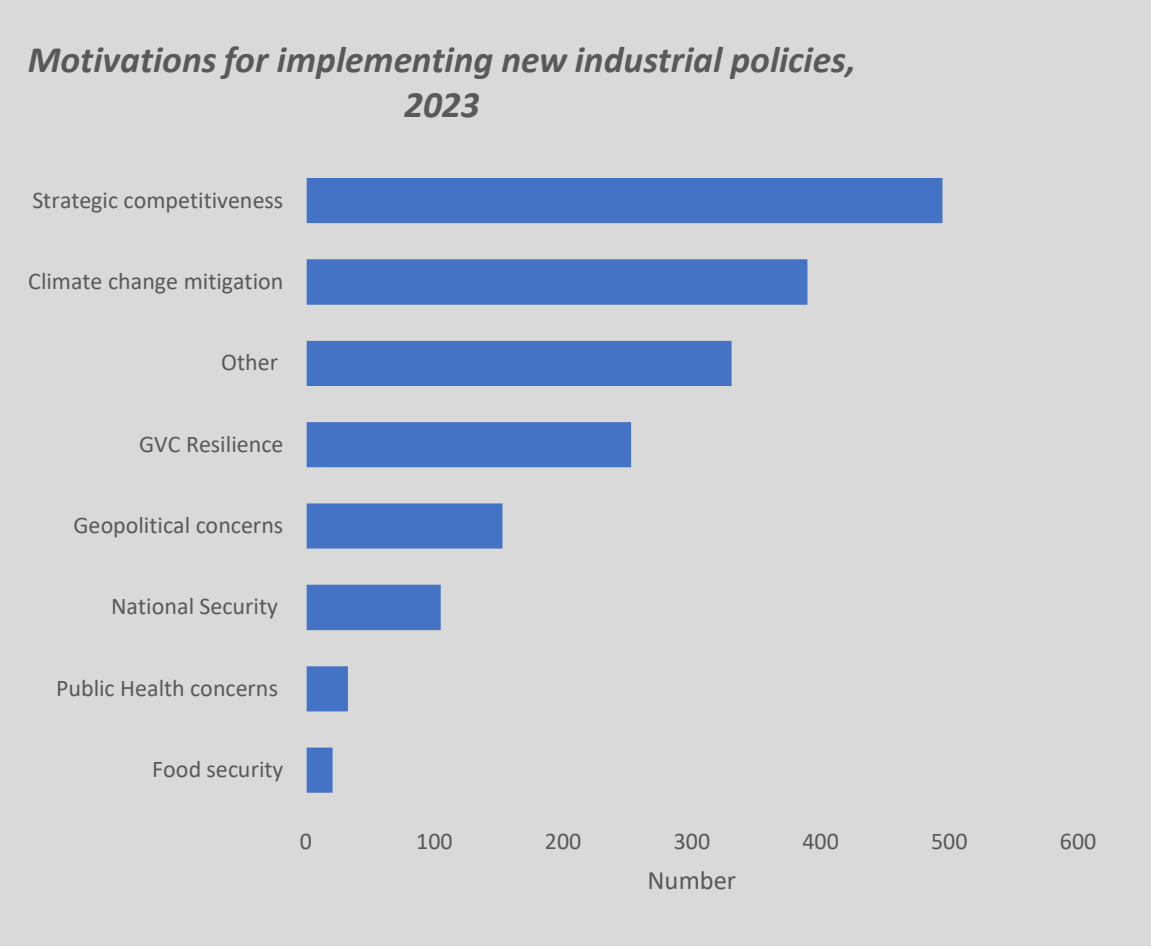
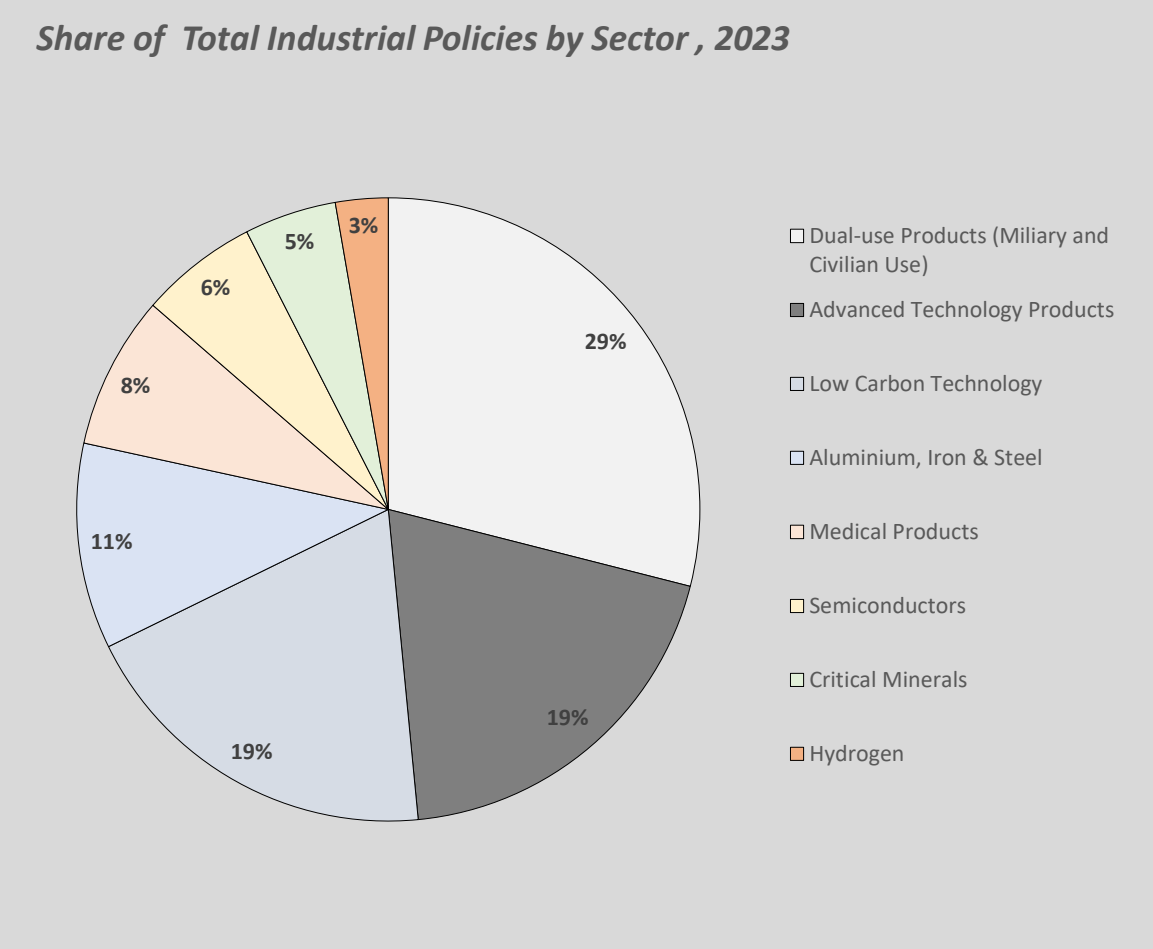
The Return of Industrial Policy in the Global North

Between January and December 2023, industrial policy was predominantly implemented by countries in the Global North, with many relying on subsidies for domestic producers.



The Return of Industrial Policy in the Global North

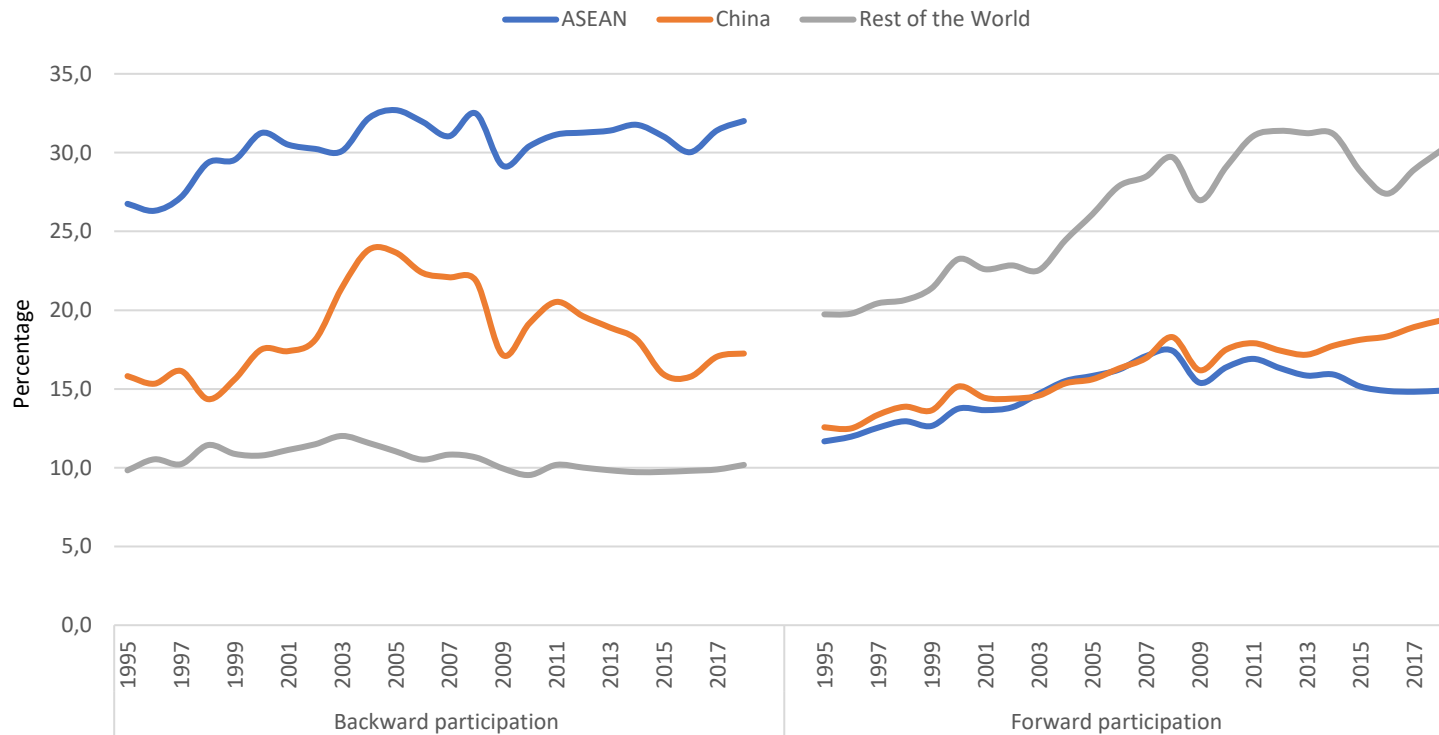
These new industrial policy measures primarily targeted emerging sectors and are driven by concerns beyond traditional competitiveness.



Data source: Global Trade Alert – New Industrial Policy Observatory database. Author’s calculations

Trends in the Global Value Chains

Backward and forward participation in GVC



- Backward participation (using imported inputs to produce exports) has also been decelerating since 2008.
 - China's backward linkage is decelerating, as evident from the graph. This partly confirms some anecdotal evidence that some firms are moving out of China.
- On the other hand, Forward participation (producing inputs that are used in the production of exports) has an upward trend.
- Other key trends that are transforming GVCs
 - **Reshoring/nearshoring/friend shoring and regionalisation of GVCs**
 - **Rapid Technological Change**
 - **Climate Change (CBAMs)**

Implications for South Africa's Industrial Policy

- The outlined shifts and disruptions in the global economy can potentially break the traditional model of export-oriented industrial policy, which includes moving towards integration into GVCs.
- As GVCs expanded in the early 2000s, South Africa's industrial policy has also shifted focus to integrating and capturing higher value within the GVCs while remaining export-oriented.
- However, as GVCs continue to change, this approach to industrial development becomes increasingly complex.
 - The deceleration in trade growth is likely to dampen economic growth in many countries, including South Africa.
 - Geopolitical concerns and rapid technological development are likely to slow down the expansion of GVCs.
 - On the other hand, emerging industrial policies could potentially stimulate demand for South Africa's critical minerals.

Thank you

Contact: itumeleng.mokoena@dnaeconomics.com