

## Briefing Note: Responding to the economic slowdown

The GDP has for the second time this year slipped into negative territory. Since 2015 the economy has struggled to break free from sluggish performance (see Graph 1 below). An appropriate policy response, however, requires an accurate diagnostic. In particular, we need to understand why growth has slowed steadily since before 2011, not only in South Africa but globally.

Commentators often suggest that the period of rapid growth before 2011 resulted from better governance. But it was actually driven by the high international price for metals, which in turn resulted mainly from booming Chinese demand as well as a degree of speculation. Metals prices reached a 30-year peak in 2011, then crashed by over 50%. In dollar terms, global trade nonetheless expanded for a few more years. But it contracted by 15% in dollar terms from 2014 to 2016. It only surpassed its 2014 level in nominal dollars three years later.

In effect, high metal prices through 2011 masked the underlying structural weaknesses of the economy. When world markets slowed, however, those weaknesses – above all, unusually deep inequalities combined with heavy reliance on exports of coal, ores and metals – came into focus.

Under the previous administration, it was easy to blame the slowdown exclusively on state capture and policy mistakes. While those issues certainly aggravated the problem, they were not the sole cause. Now that we have an administration that is committed to clean government and consistent economic policy, we need to develop more effective strategies to address the underlying economic systems that reproduce slow and exclusive growth.

President Cyril Ramaphosa has made bold moves to attract investment, develop social compacts with private sector and labour, as well as working to fix core institutions that are critical to our democracy and to economic development. The increase in private investment in the past quarter suggests that these efforts are bearing some fruit.

Still, we need to scale up our responses to the slowdown. The large-scale commitments at the Job Summit provide an important basis, but more needs to be done. Two strategic directions are imperative: diversifying and strengthening our industrial base, including value-adding services and advanced agriculture; and promoting township and rural development and employment on a large scale.

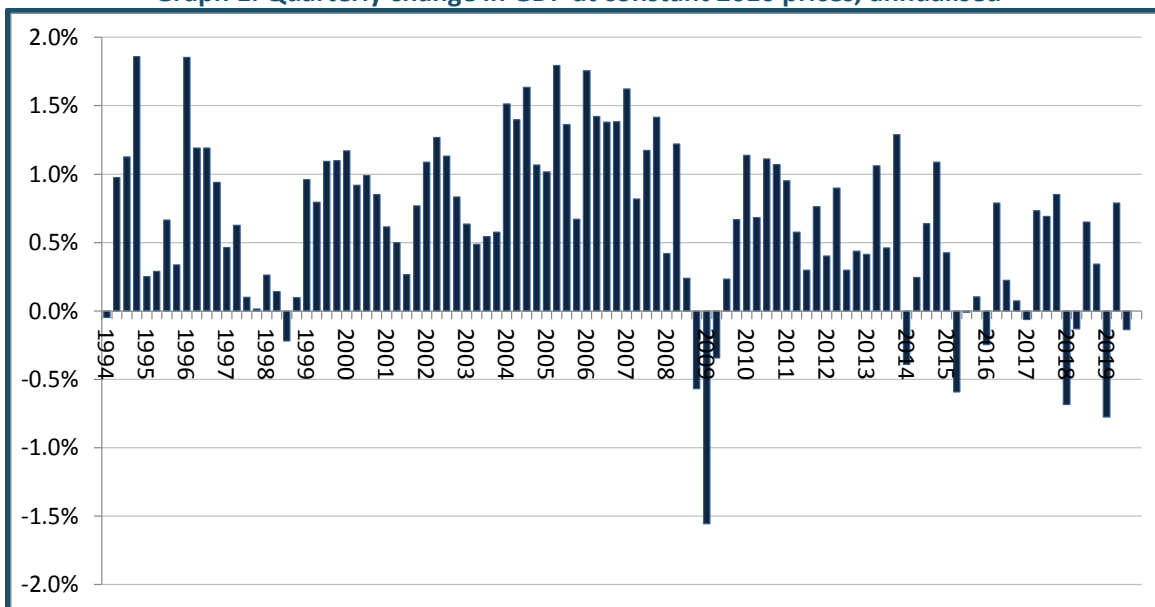
Current work on master plans for our major industries are an important step in achieving the first strategy. The master plans entail high-level engagement between stakeholders to identify areas for technological upgrading and often reduce monopoly pricing for major inputs, as well as expanded industrial finance. In this context, the commitment by the financial sector to provide R100 billion in industrial finance over the next five years is particularly welcome. In addition, investment in infrastructure gaps would boost core industries such as the steel, plastics and chemicals sector. These measures would also contribute to job creation and should result in improved access to the economy.

The second leg relates to support for ground-up economic development, empowering individuals and communities through the transformation of township economies, rural development, and growth in community employment programmes. Because of the way apartheid eliminated small African-owned businesses, however, success in these areas often requires new systems to support small businesses. Because most small producers were shut out of the formal economy before 1994, however, the institutions and infrastructure they need to survive – access to serviced sites, customers, finance and training in particular – never developed. Despite the various support efforts since 1994, small businesses still lack a supportive ecosystem. Programmes to promote inclusive growth have to develop effective systems to change that.

The end of the metals boom and slow growth also constrain government resources. We need innovative approaches to mobilise finance for economic and social development. For example, the UIF surplus is now over R150 billion and the Government Employees Pension Fund holds R1.8 trillion rand in investments. Members of both of these funds would benefit more from faster, more inclusive growth than from the sluggish status quo. In addition, a genuine effort by both the public and private sector to strengthen local procurement and supply chain development would increase the impact on growth of every rand they spend.

There remains a large measure of goodwill in South Africa – something many of our comparator countries and global trading partners do not have. All of the stakeholders recognise the need for a more equitable, inclusive, diversified economy. Going forward, we need to translate their commitment into large-scale, practical, sustainable programmes to address the structural weaknesses in our economy.

**Graph 1. Quarterly change in GDP at constant 2010 prices, annualised**



Source: Statistics South Africa (StatsSA) GDP quarterly figures. Excel spreadsheet downloaded [www.statssa.gov.za](http://www.statssa.gov.za) December 2019.