POLICY BRIEF

South Africa's super-exporters

INTRODUCTION

There are a number of reasons why exports and exporters are important. Exporting break the constraints of the domestic markets, allows the firms to expand, specialise and enjoy economies of scale. Exporting generates foreign currency which is then used to finance imports and unrecovered costs incurred entering new export markets. Exporting can affect the exchange rate, fiscal and monetary policies of the South African government, shape public perception of competitiveness and determine the level of imports the country can afford. The export market offers an opportunity for South African firms to grow beyond the limitations of the local market, and employ more people. Exporting encourages innovation (through international competition) and leads to improved product quality. Most countries that have achieved rapid and sustainable high levels of economic growth over the past decades have achieved that through exporting (Rankin, 2013).

South Africa is faced with a continuous widening of the current account deficit. In 2013 South Africa recorded a deficit of 5.4% of the GDP, an increase from 4.2% in 2012 (Figure 1). The deficit in 2013, was greater than that prevailing during the global financial crisis (4.1% of GDP in 2008 and 1.3% in 2009). Following the financial crisis, South Africa has struggled to increase its exports despite an improvement in the economic activity of its trading partners. South Africa's exports grew by 0.9% per annum between 2010 and 2013. South African export growth has been poor relative to comparable countries. According to the World Bank (2014a), if South Africa's exports had grown as fast as the middle income country average, over the period 2010-2013, exports would now be two and a half time larger than currently.

Figure 1 shows South Africa's imports, exports and current account as a percentage of GDP. Exports play an important role in the South African economy, influencing the level of economic growth, employment and the current account balance. In 2013, exports of goods accounted for 23.0% of GDP (up from 21.9% in 2010). Imports accounted for 28.5% of GDP in 2013 – indicating that the country has had a current account deficit. In the last decade, South Africa has had a persistent current account deficit which was mainly contributed by the country's relative poor export performance.

Increasing exports is one of the key policies strategies outlined in the National Development Plan (NDP). However, despite the emphasis on increasing exports, the NDP provides little guidance as to how this might happen. One of the reason for this omission is that little is known about export

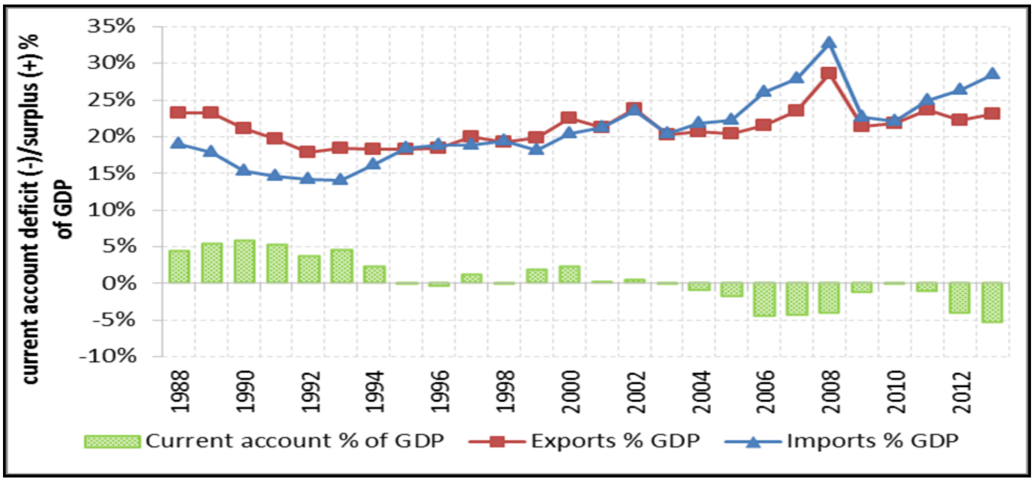

Figure 1: South Africa's imports, exports and current account as a percentage of GDP, 1988-2013. ***Source: Quantec and Statistics South Africa, 2014***

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dynamics in South Africa. As a result export promotion strategies tend to be poorly targeted.

The focus of a drive for exports and particularly export diversification must rest with manufacturing. This is the sector where performance has been weakest and which offers the best prospects for employment growth – South Africa's key economic challenge.

WHAT DO WE KNOW ABOUT SOUTH AFRICAN MANUFACTURING EXPORTING FIRMS?

On average South African manufacturing exporters are price takers in the international market and exports are predominantly supply driven (Edwards Alves, 2005). Constraints to manufacturing export growth can therefore be found in factors that negatively affect the profitability and competitiveness of the export supply (Edwards & Alves, 2005); for example the infrastructure *(transport, telecommunication, ports)* costs, tariff rates, wages and the appreciation of the exchange rate.

South African exporters differ significantly from non-exporters in a number of respects. Exporters are large, they are more capital-intensive, pay higher wages and produce more per-worker. Exporters are more productive if they export outside of Southern African Development Community (SADC) (Rankin et al., 2014) and South African firms that exports beyond Africa are more productive than firms which export only to sub-region or produce for only domestic markets. Firms exporting outside Africa pay high wages as compared to those firms exporting within Africa (Rankin et al., 2014). Exporting is rare: with less than a third of South African manufacturing firms exporting (StatsSA: LSS,2008 cited in Rankin et al:2014). Of those manufacturing firms that are exporting approximately 1% export over 70% of value; while 75% of those exporting have less than 3% of value (Rankin, et al; 2014). Firm size, productivity and access to finance affect the ability of South African firm to export (Rankin et al., 2014).

Figure 2 illustrates the correlation between exporting and the firm size in South Africa. According to Rankin (2013:6), one of the characteristics of exporters is the firm's size, which is most commonly measured by the number of employees. In the figure, the probabilities of South African firms exporting are those predicted for the average firm in the country. "A probability of 0.51 means that the average firm has a 51% probability of participating in the export market: i.e. it is slightly more likely to be exporting than not" (Rankin, 2013:7).

On average South African manufacturing firms enter the export markets when relatively small, for example a manufacturing firm with 100 employees has about 60% probability of being an exporter i.e. they are more likely to be exporting than not exporting. According to Rankin (2013:8), one explanation for this might be that many firms of this size are exporting to the regional markets which includes Namibia, Botswana, Lesotho, Swaziland and Zimbabwe.

The correlation between firm size and exporting has an important policy implication in the South African context (Rankin, 2013:8). The Department of Trade and Industry (the dti) export promotion strategy is focused on encouraging smaller firm to become exporters. However, according to Rankin (2013:8), this strategy is misplaced as smaller South African

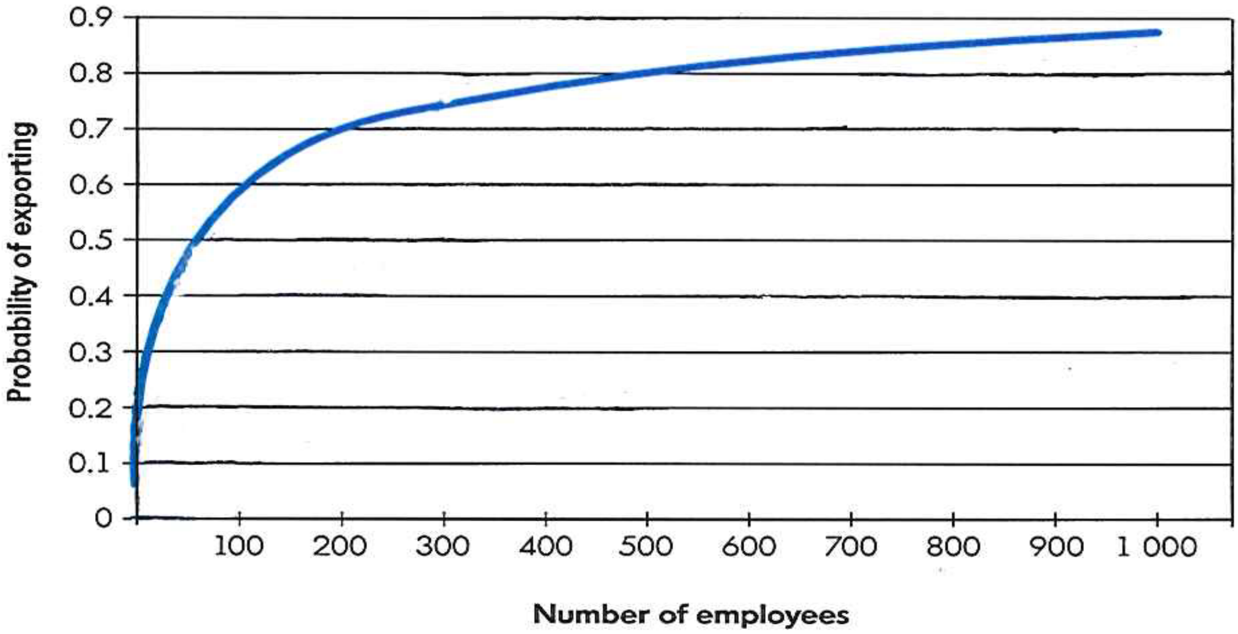

Figure 2: Manufacturing firms in South Africa: probability of exporting and firm size.
Source: Adopted from Rankin, 2013

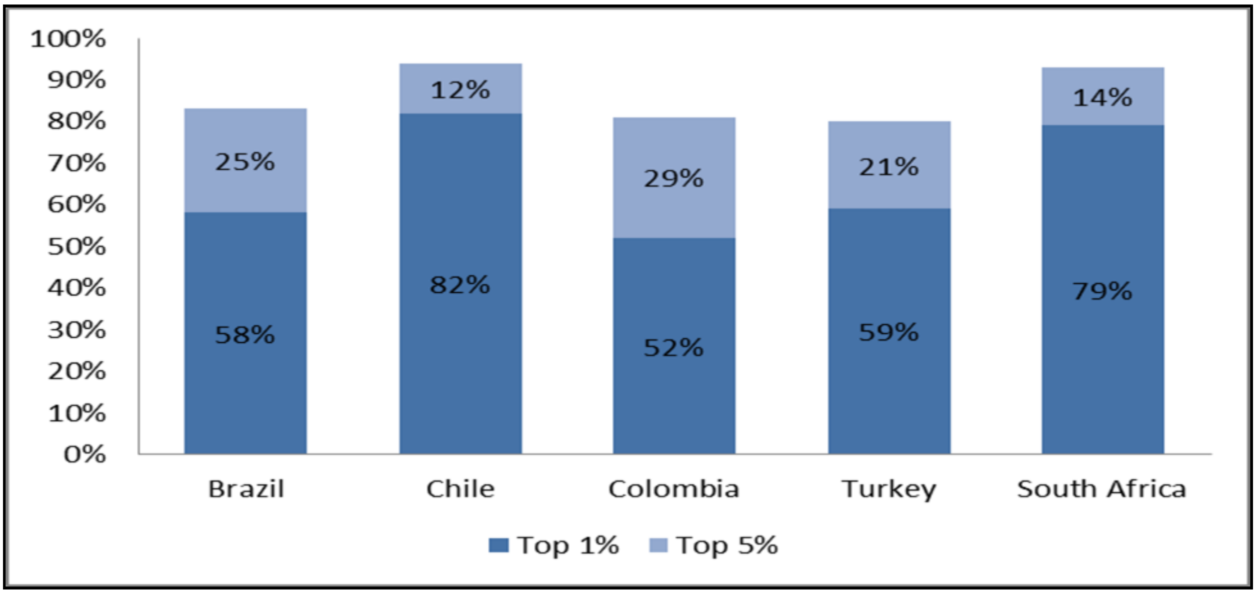

Figure 3: Share of Export value accounted for by manufacturing super exporters (top 1%) and top 5% of exporters. ***Source: World Bank, 2014***

firms already seem more likely to be exporters as compared to similar firms in peer-group countries *(i.e. Brazil; Bangladesh; Cambodia; Madagascar; Tanzania; Thailand).* Moreover, the success of a firm exporting is correlated with firm size, "so firms that have not reached a certain size threshold are unlikely to be able to remain in the export market even if they manage to enter it" (Rankin, 2013:8).

HOW CONCENTRATED ARE SOUTH AFRICAN MANUFACTURING EXPORTS?

South African exports are significantly more concentrated among small numbers of firms super-exporters) than almost all its peer countries with the exception of Chile (Figure 3); 5% of South African exporters (approximately 100-200 firms) contribute 93% of all exports. According to World Bank data there is concentration in the top category of South African exporters: the top 1% of South African exporting firms dominated the export market; they exported in the range of 75-100 products, exported to more than 25 countries and had export earnings of about US$400 million (World Bank, 2014b:21).

Super-exporters dominate almost all South Africa's export sectors (Table 1). Despite their dominance, super-exporters have been losing dynamism and competitiveness, 93% of these super-exporters are not creating sufficient new high value exports to replace those that died out during the global financial crisis (World Bank, 2014:2). Since the financial crisis, super exporters have become less experimental in most developed and developing markets. According to the World Bank (2014:3), South Africa is only exploiting about 20% of its potential export relationships compared to China's and Germany's 70%. Other South African exporters are more experimental but are not yet large enough to drive aggregate exports.

Sector	Top 5%	Bottom 95%
Food and beverage	85%	15%
Agricultural raw materials	**90%**	**10%**
Fuel, Ores, Metals	99%	1%
Metal materials	**93%**	**7%**
Chemicals	89%	11%
Textile, leather	**71%**	**29%**
Other metal materials	87%	13%
Industrial machines	**83%**	**17%**
Electronics	65%	35%
Transport equipment	**96%**	**4%**
Apparel, footwear	42%	58%
Other materials	**67%**	**33%**

Table 1: Distribution of Exports by exporter's size across sectors.
Source: World Bank, 2014

South Africa's exports are highly concentrated at the upper end (top 5%) with a long tail at the bottom end (bottom 95%). The vast majority of more than 21,000 South African exporting firms are small and the average exporter earned only US$29,000 from exports in 2012. South Africa is the lowest as compared to peer countries i.e. Brazil, Russian, India, and China (World Bank, 2014).

ARE SUPER-EXPORTERS DIFFERENT?

Super-exporters are defined as the top 1% of exporters. They account for more than 50% of exports by volume in their sector and they have 500 or more employees. In 2012, they accounted for 79% of South Africa's total export volumes in manufacturing (World Bank, 2014:2).

Super-exporter are different from other exporters. They are larger, more diversified, more capital-intensive, pay higher wages, produce more products, serve more export markets and are more labour productive than other exporters. Super-exporters are typically born big and if they are not born big, they would grow into the role in less than three years (Freund & Pierola, 2012). They are the main driver of export growth and they define the South African export structure, accounting for more than 80% of the variation in exports across sectors determining the country's revealed comparative advantage (Freund & Pierola, 2013).

HOW SOPHISTICATED ARE SOUTH AFRICAN EXPORTS?

Despite the fact that only 21% of South Africa's workforce have some post-secondary education, South Africa's manufacturing exports are more sophisticated (exports are high technology, have a high share of skilled labour and are capital intensive) than almost all its peer countries. South African exports have been shifting increasingly towards medium and high technology sectors, increasing the demand for high skilled labour and enhancing capital intensity (World Bank, 2014b:24). This has a positive implication for South African export competitiveness but underutilising the large pool of low-skilled labour in the country.

IMPLICATIONS FOR POLICY

Due to the dominance of South Africa's super exporters, levels of sophistication and size of their operations, these firms are the main drivers of export growth; they define the South African export structure; and they shape the country's comparative advantage.

Therefore policies need to create an environment which supports current as well as future and potential large exporters in order to increase export growth and diversification. South Africa's exports are currently growing very slowly and projections are for continued slow-moderate growth. Most of our trading partners, particularly in Sub-Saharan Africa, our main market for manufactured exports, are growing far more rapidly. Given the structure of the South African economy, growth in manufacturing will also require improved performance in the export market. The key lies with the super-exporters – and there needs to be a suite of policies to encourage their performance. Support could come in the form of entering new markets and developing new products – their performance in this regard is currently weak; complementary policies are also required to help the super-exporters become more dynamic. Policies are also needed to enhance export orientation of firms which are only marginal exporters, and to shift their export orientation as a vent for surplus production to a long term involvement in and commitment to the export market. Such commitment may require firms to undertake significant investment in production capacity as well as marketing and product development in new markets.

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