



Structural Transformation in South Africa: moving towards a smart, open economy for all

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Overview

1

Record of structural transformation in SA

2

Industry Studies

a

Metals, Machinery & Equipment

b

Automotive Vehicles & Components

c

Agriculture and agro-processing

3

Cross-cutting challenges

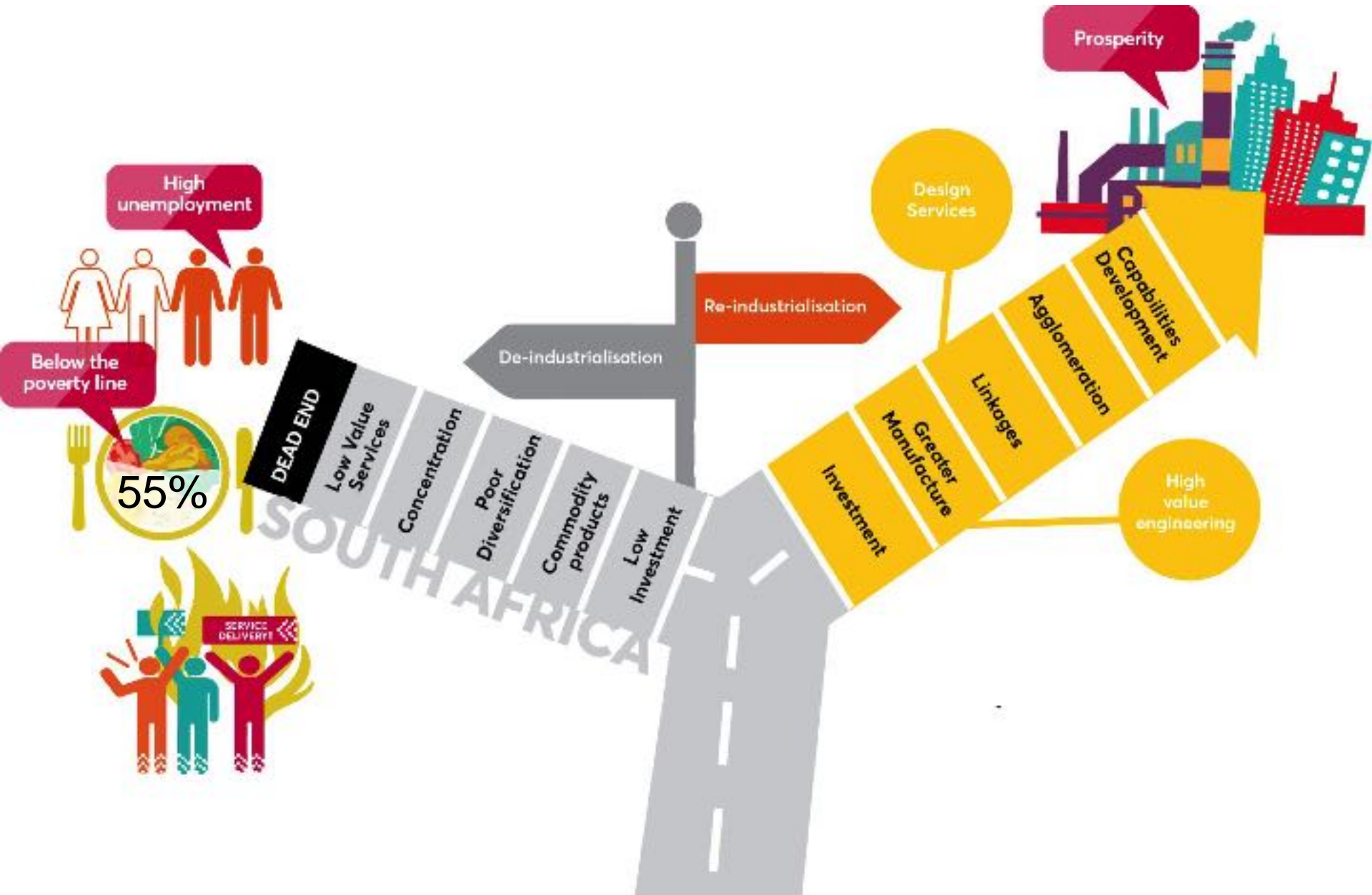
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Political economy of SA industrial development

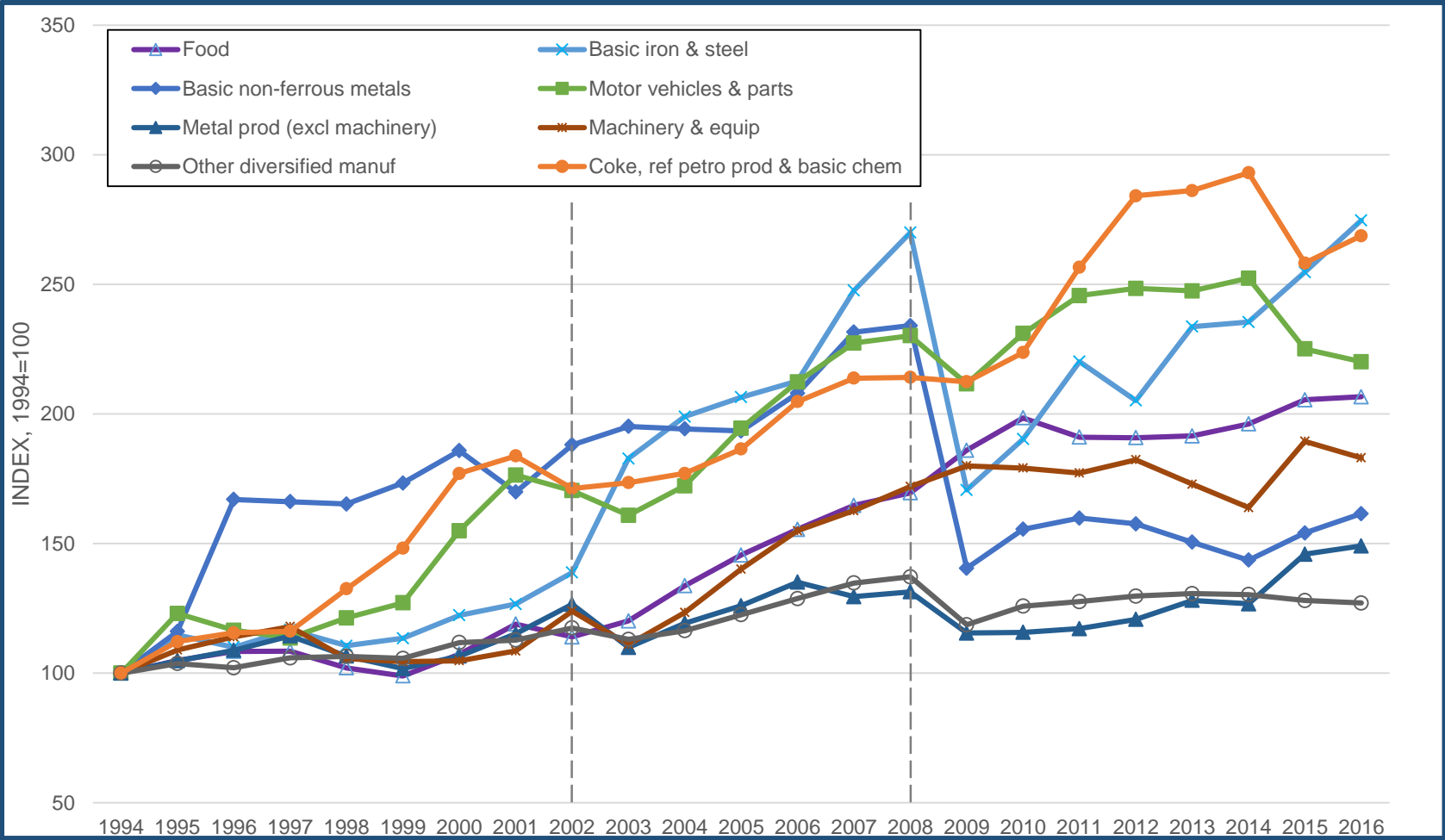
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New vision for re-industrialisation

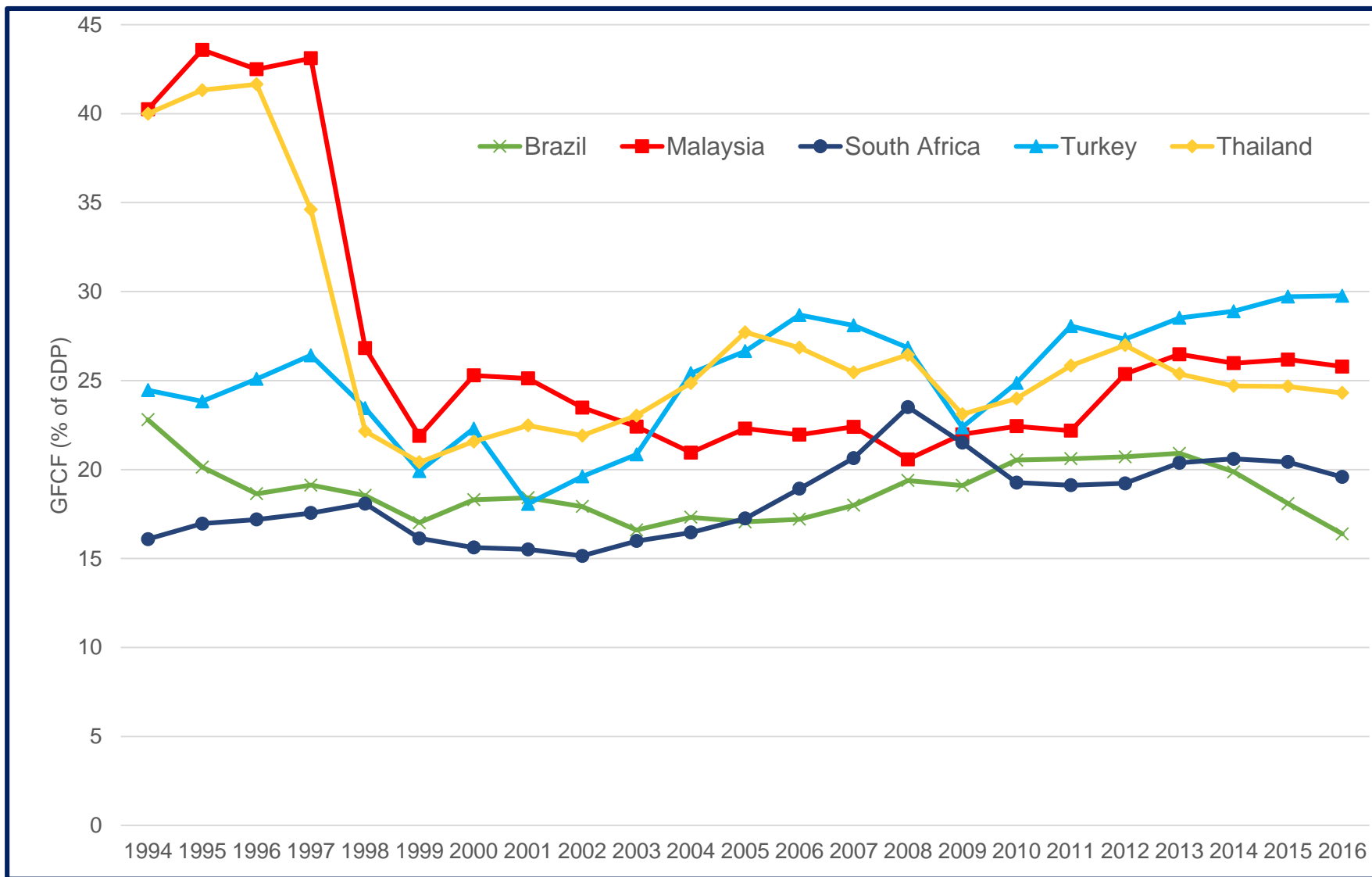
Structural transformation?



Upstream manufacturing & auto grew value-add strongly to 2008

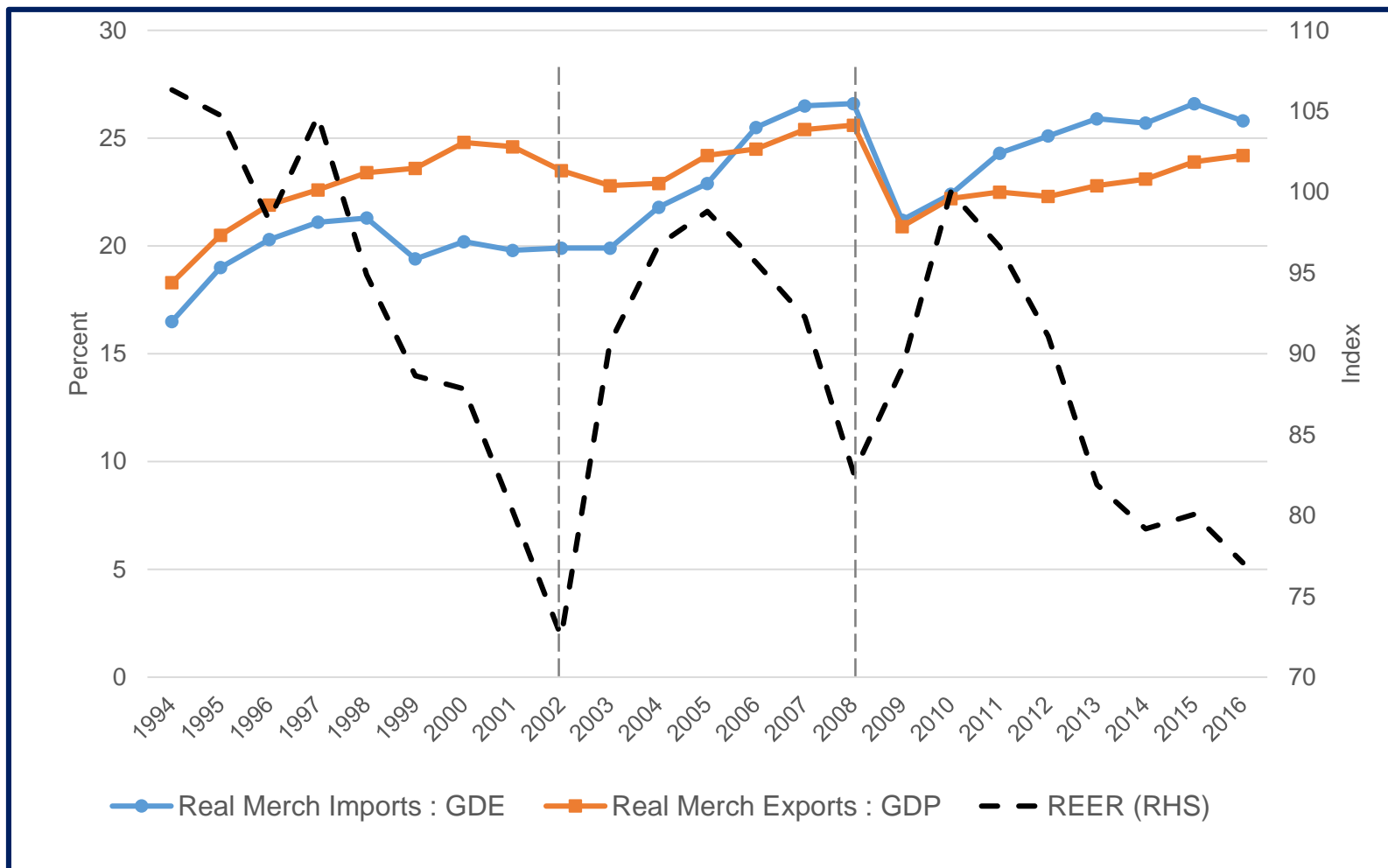


South Africa's investment rates have been poor relative to most other middle income countries



Source: World Bank Indicators

Poor management of natural resource revenues allowed unsustainable exchange rate appreciation

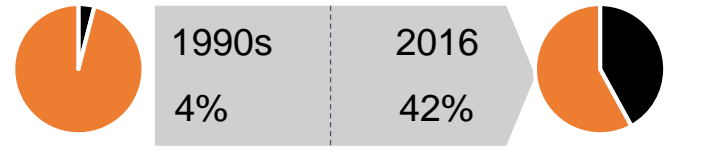


SA has seen huge growth in financial flows and changes in ownership without higher investment rates...

1 Huge growth in foreign direct & portfolio inflows and outflows

2 Value of JSE grew over 2000s to be 2.5 times GDP

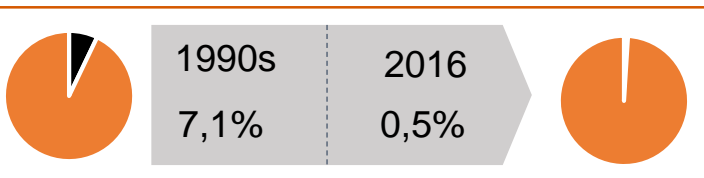
3 Increasing foreign ownership



4 And ownership by local institutional investors



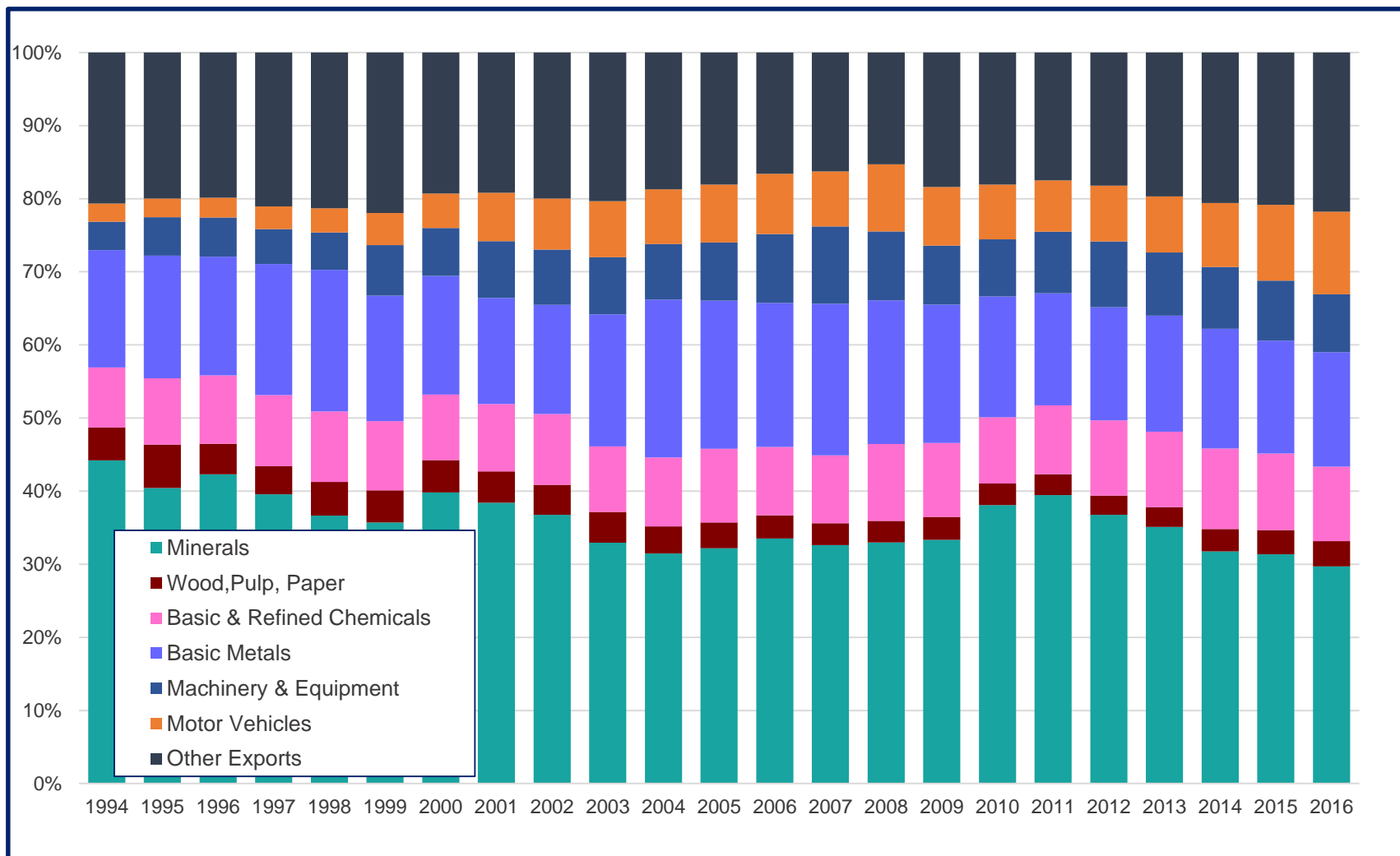
5 Ownership by black groups declined



6 Internationalisation not linking to upgrading & technology

Exports continue to be skewed to resource-based industries and motor vehicles

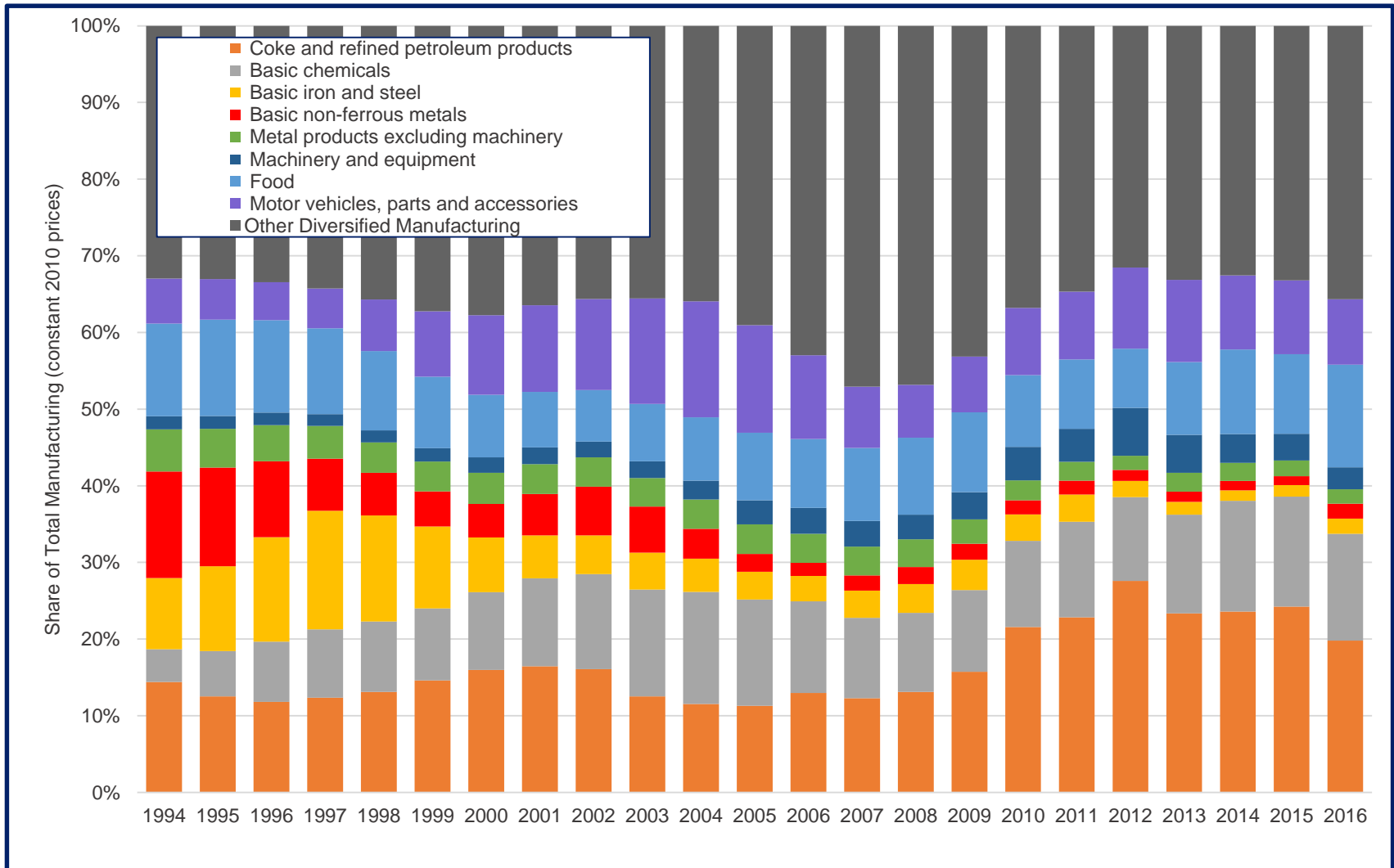
Share of merchandise exports, %



Source: Quantec, authors' calculations

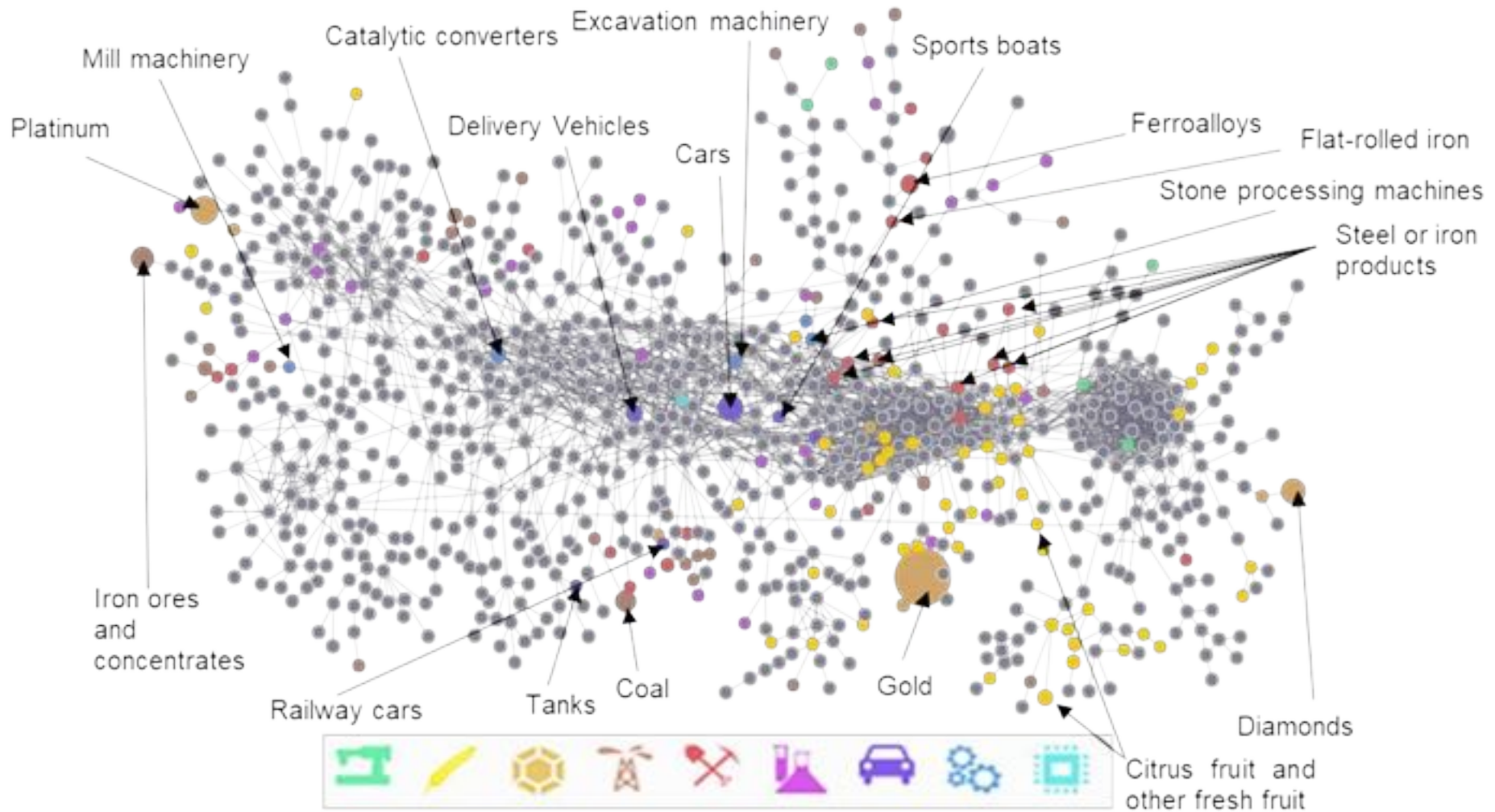
Investment in manufacturing oriented to coke & refineries and basic chemicals

Share of manufacturing investment, %



Source: Quantec, authors' calculations

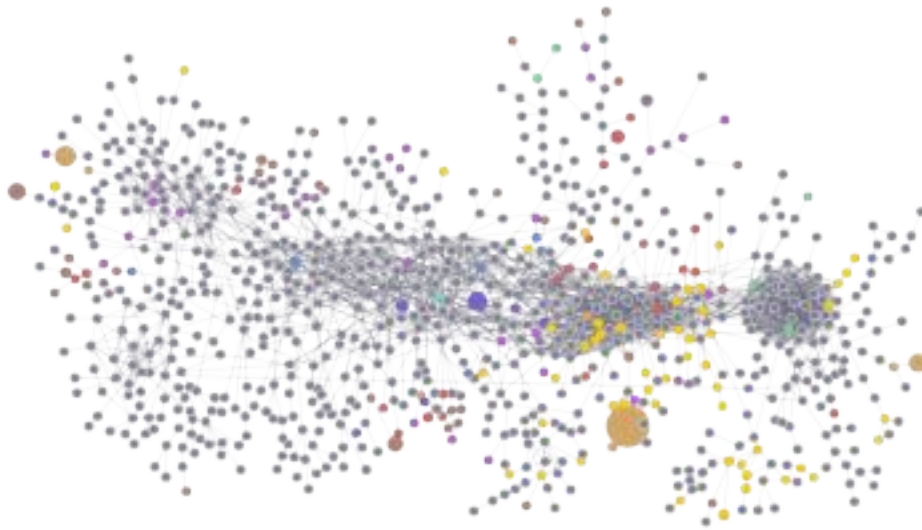
SA: poor connectedness within the product space, 2016



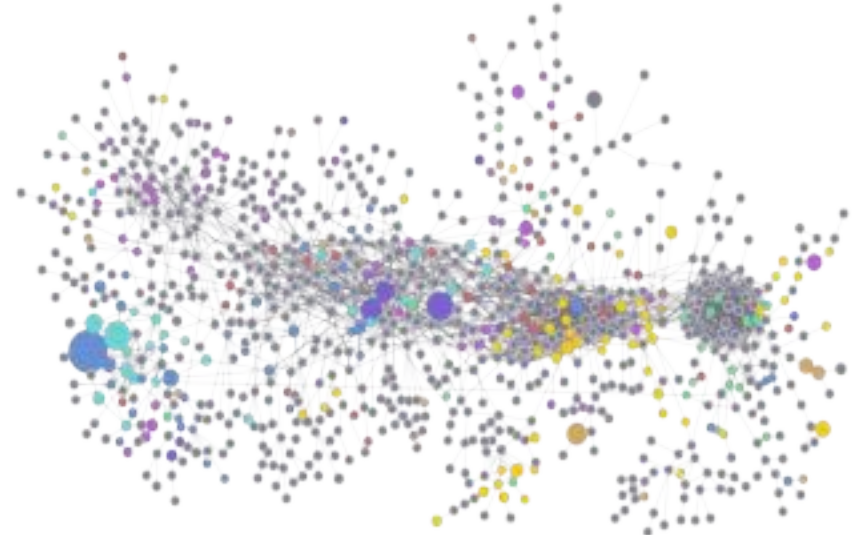
Source: Atlas of Economic Complexity

SA has relatively poor connectedness within the product space, compared with other countries, 2016

South Africa



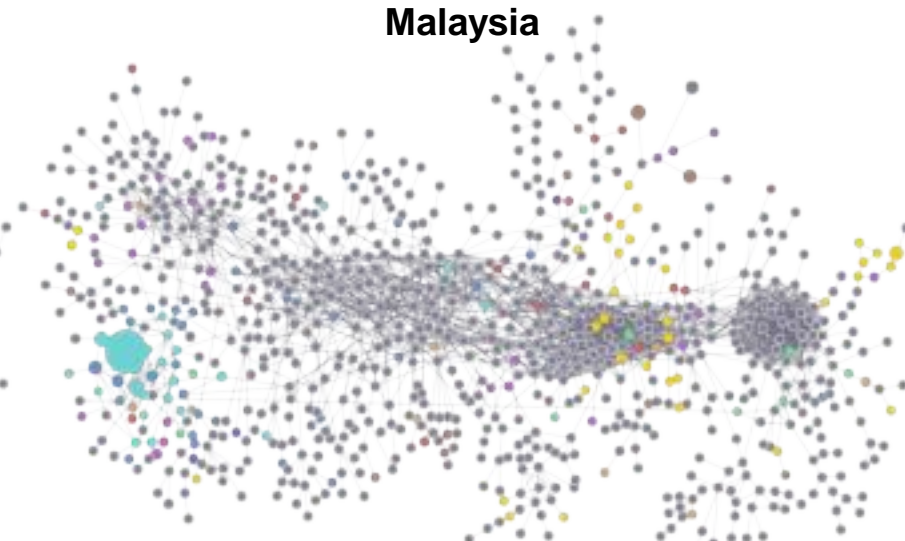
Thailand



Turkey



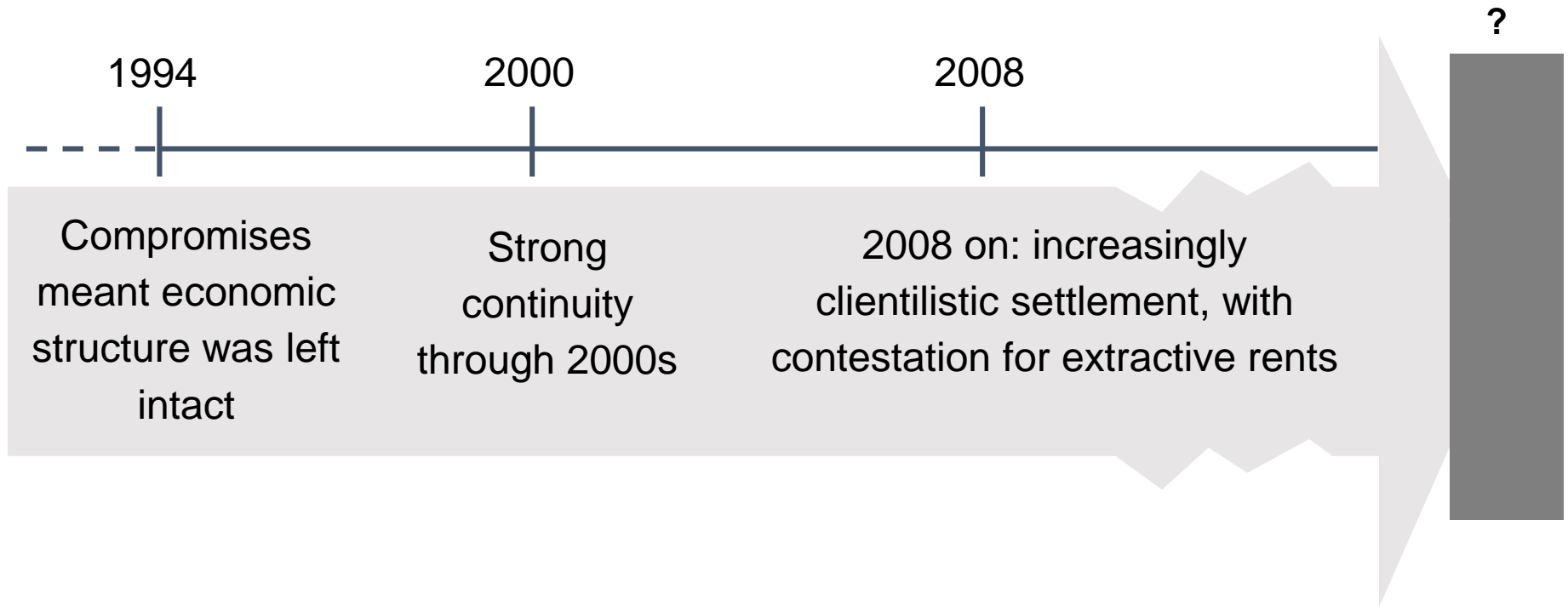
Malaysia



Key challenges for a new development path

1	Fragility of commodity based growth , hollowing out of more diversified capabilities
2	Policy agenda remained largely oriented to insiders/large firms
3	Challenges of building of productive capabilities
4	Fragmented state undermining coherent policies, with major costs
5	Persistent high levels of concentration
6	Extensive financialisation , undermining productivity and long term investment
7	Management of natural resource revenues allowed unsustainable exchange rate appreciation

Context of record: Evolving political settlement and impact on industrial development?



1 Large corporations

2 Public sector wage premiums, and higher earnings for professionals

3 Unsustainable social grant expansion

New vision for re-industrialisation



- Building a broad coalition for re-industrialisation
- Commitment to structural transformation and consolidation of fragmented government structures

- Understanding and pursuing opportunities
- Incentivising and investing in capabilities development
- Confronting concentration
- Reorienting macro-policy for re-industrialisation

New political settlement must set out expectations for large firms for local investment, innovation and competitive rivalry. In return, government must commit to effective policies for infrastructure, procurement, skills development, technology and markets.

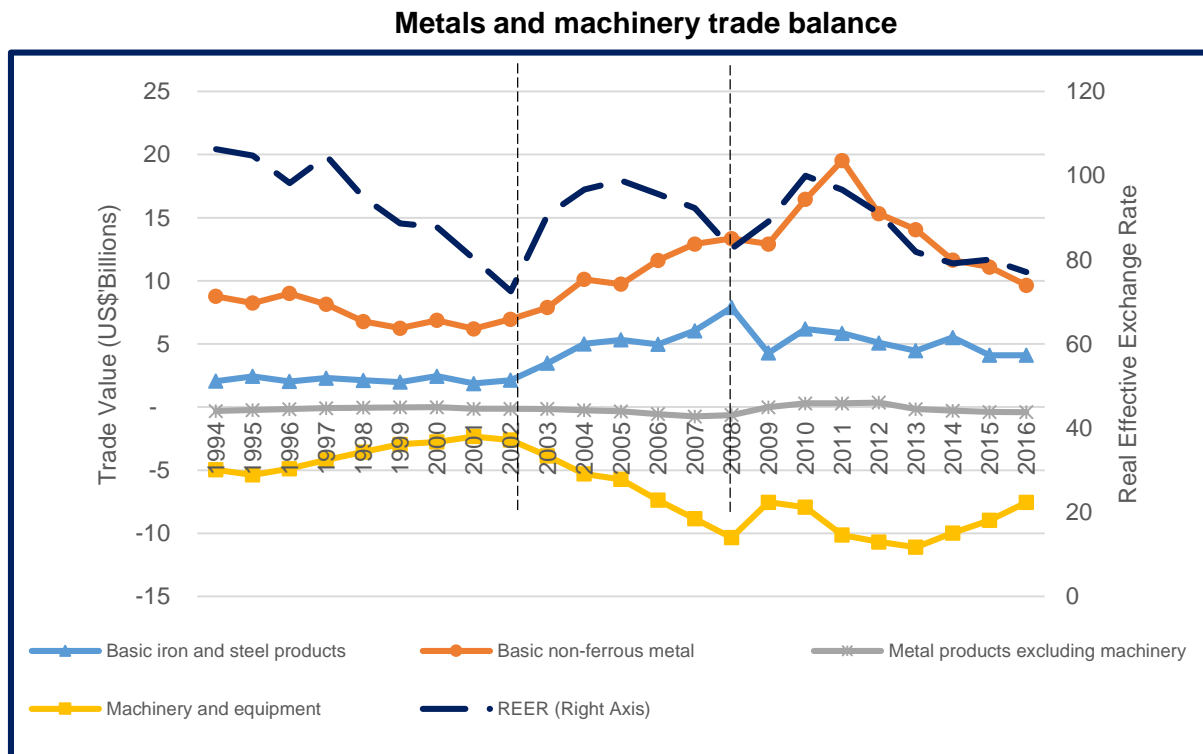
Thank You

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Machinery & metals: the litmus test of structural transformation for industrialisation?



- Basic metals reflecting path dependency
 - electricity prices were export subsidy
 - volatility in world prices → protection calls
- Machinery & equipment niches of competitiveness, mainly linked to supplying mining
 - Growth brought employment; but trade deficit with strong Rand in 2000s, hollowing out capabilities
- Cluster initiatives for machinery?
- SOC procurement?

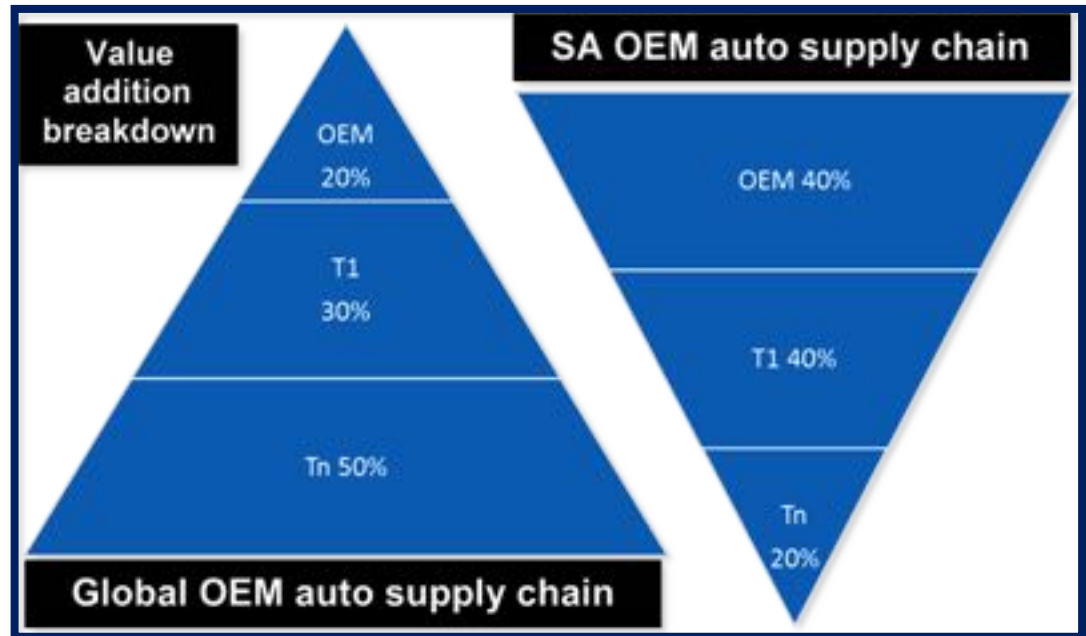
Motor vehicles and components

Effectiveness of Industrial Policy?

Industrial policies have incentivised SA assembly of vehicles, and *some* components led by catalytic converters, not necessarily building deeper local capabilities

Who benefits?

Biased in favour of OEMs, and not deepening local content



Source: Barnes et al, 2014

Implementation of alternatives known to work elsewhere?

Thailand approach, fewer models, more value addition

Agriculture and Agro-processing

A varied picture

Fruit:
Industrialisation
of freshness



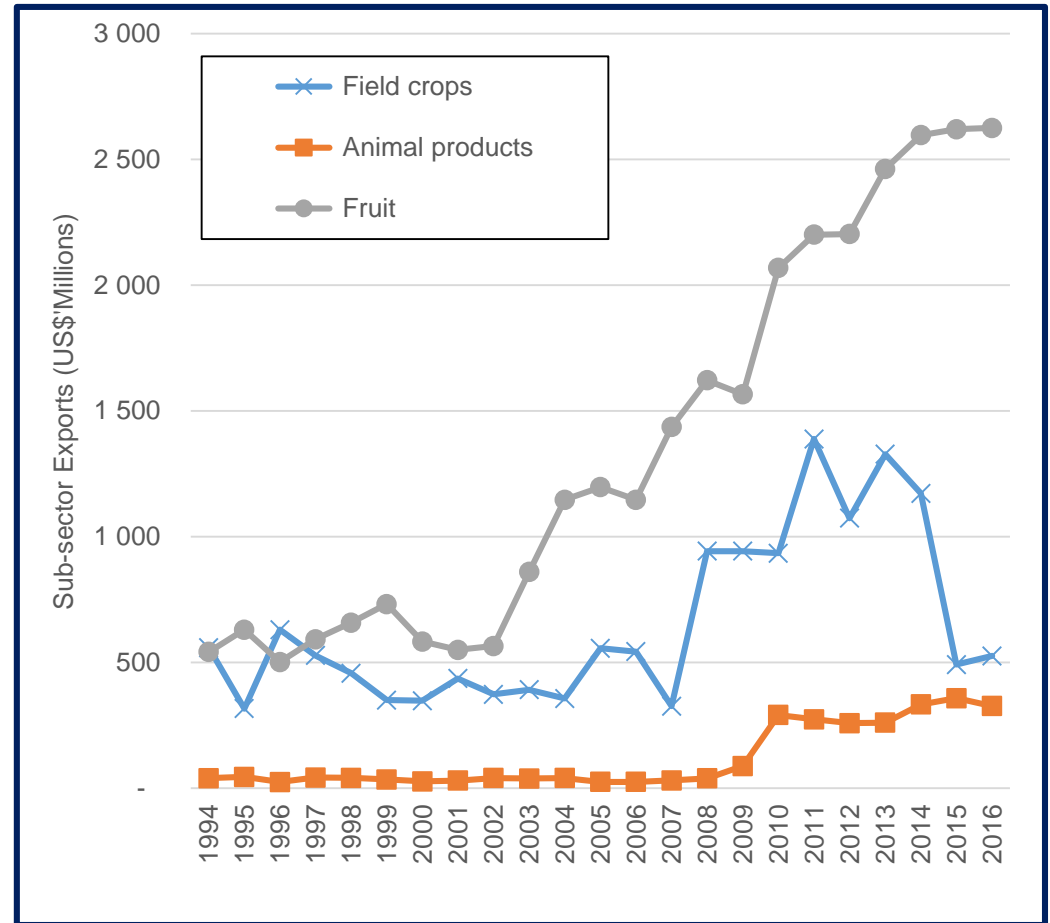
Value-added
confectionery
constrained by
skewed support
for **sugar**



Concentration &
market power in
dairy limit growth
of smaller
producers,
entrants



Selected Agricultural Exports



Source: Quantec, authors' calculations