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THE DEPARTMENT  
OF TRADE AND INDUSTRY  
SOUTH AFRICA

# South Africa's post- apartheid industrial policy and export experience

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# Why a focus on exports?

- Development often understood as a process of (attempted) convergence by developing countries with competitive industrial capabilities and income of their developed counterparts
- Prevailing export basket provides a rough snapshot of the extent to which global competitiveness has been achieved, especially the scale and sophistication of industrial exports
- Orthodox policy literature emphasises market reforms to unlock growth in exports leading to growth and development
- Africa retains a low shares in global MVA and exports
- South Africa dominates these shares
- It is therefore instructive to examine the post-apartheid industrial and export experience of South Africa: Africa's most industrialised economy
- The ease or difficulty with which SA has managed to grow and diversify its exports during the post-apartheid period can contribute to thinking on the role of exports in growth and development for other African countries

# Conflicting views on industrialisation and exports

- Orthodox: 'getting the prices right'
  - Get macro-economic and trade prices right by eliminating 'distortions' in capital markets and trade → unleash comparative advantage
  - State role limited to non-selective / functional support for education, health and infrastructure
  - Key assumption is that learning and capability building is costless
- Heterodox views: more nuanced and complex
  - Industrialisation is a process of learning to produce, requiring industrial policy interventions. (Lall, Amsden)
    - Prior manufacturing experience (generally pre-WWII) has been critical
    - Leveraging of these prior capabilities through 'reciprocal control mechanism'



# Conflicting views on industrialisation and exports

- Heterodox views
  - Industrial policy must be supplemented by supportive associated policies (Lall):
    - Infrastructure
    - Skills
    - Technology
  - Macro-policy: export-led growth requires a persistently under-valued exchange rate (Rodrik)
  - Technical ‘economic’ policy possibilities must be aligned with ‘political’ power structures (Khan, Fine)
- Little or no historical evidence supports the orthodox view of catching up, either in the experiences of developing or now-developed countries (Chang)

## SA industrial and trade related policies since 1994

- Consensus at democracy in 1994 that South Africa needed to diversify production and exports beyond its historic dominance by 'Mineral-Energy-Complex (MEC)' sectors
- South African post-apartheid economic policy (GEAR) has largely followed the orthodox route, with some variations
- Macroeconomic policy: stabilisation
  - Inflation targeting
  - Exchange control liberalisation
  - Permission for offshore listing of key large firms (e.g. Anglo, SAB, Old Mutual, Investec, Sasol) with no enforceable commitments to domestic economy
  - Fiscal discipline, growing tax revenue base, growing social transfers, weak state expenditure capacity

## SA industrial and trade related policies since 1994

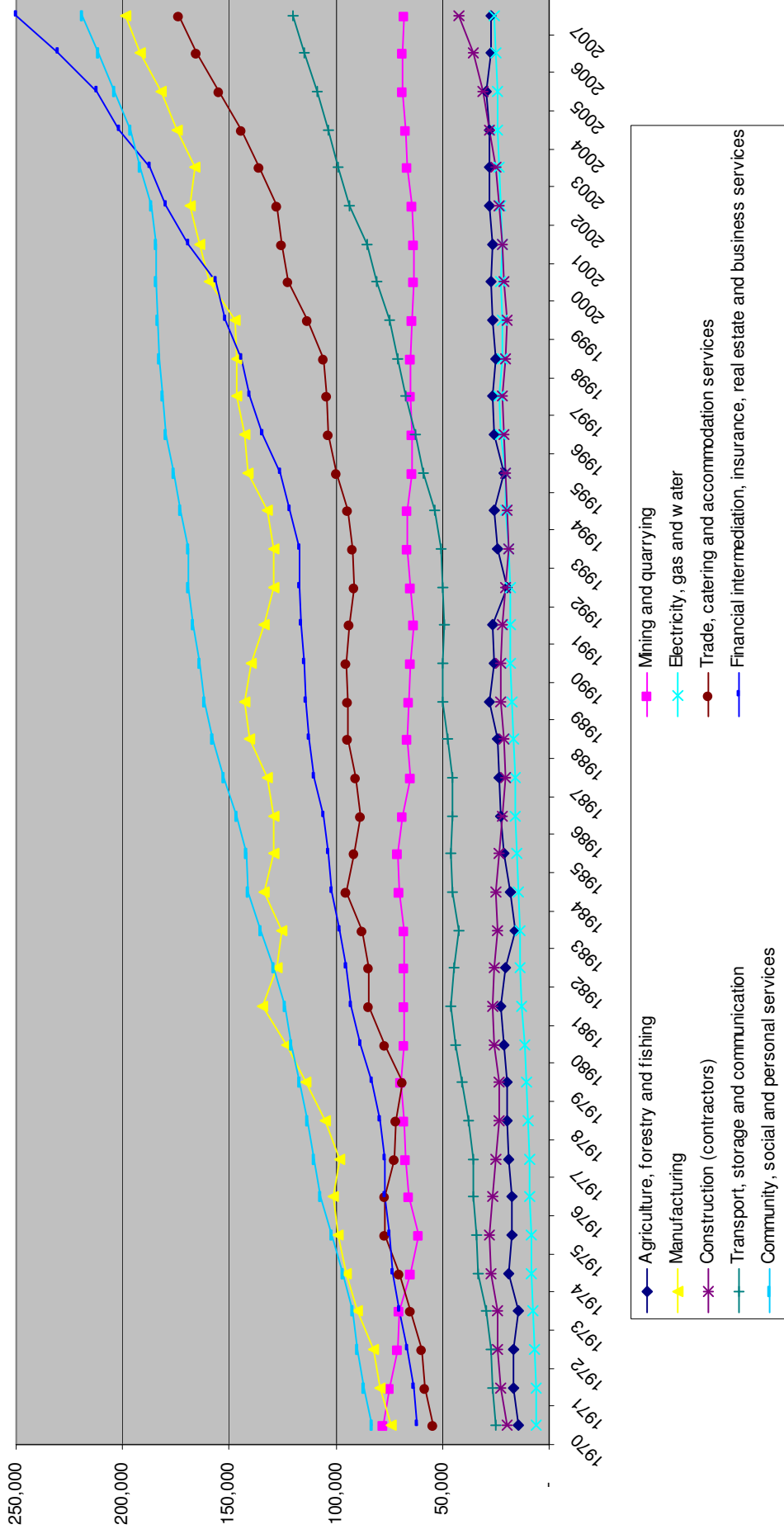
- Substantial trade liberalisation except for 'sensitive' sectors: clothing / textiles and automotives
  - WTO: reduction in average tariff from 23% to 8.2%
  - FTA's with EU and SADC
- Active sector policies for the following sectors:
  - Automotives
  - Resource-processing industries (steel, petro-chemicals, aluminium, paper & pulp)
  - Clothing and textiles import
  - Tourism
- Black Economic Empowerment programme focused on transfer of ownership of existing economic base

## SA industrial and trade related policies since 1994

- Underinvestment (until recently) in physical infrastructure: rail, ports, electricity generation and distribution
- Skills system: replacement of artisan system with skill levy and draw back via sector education and training authorities (SETA's)
- 'Supply-side measures' for SMME's weak and dispersed
- No strategy for pro-actively engaging large manufacturing firms, particularly beyond MEC sectors
- Weak enforcement of competition policy
- Weak governance over SOE's and IDC, partly due to confusion over appropriate roles for SOEs

→ **Mitigated against any serious manufacturing diversification and export drive**

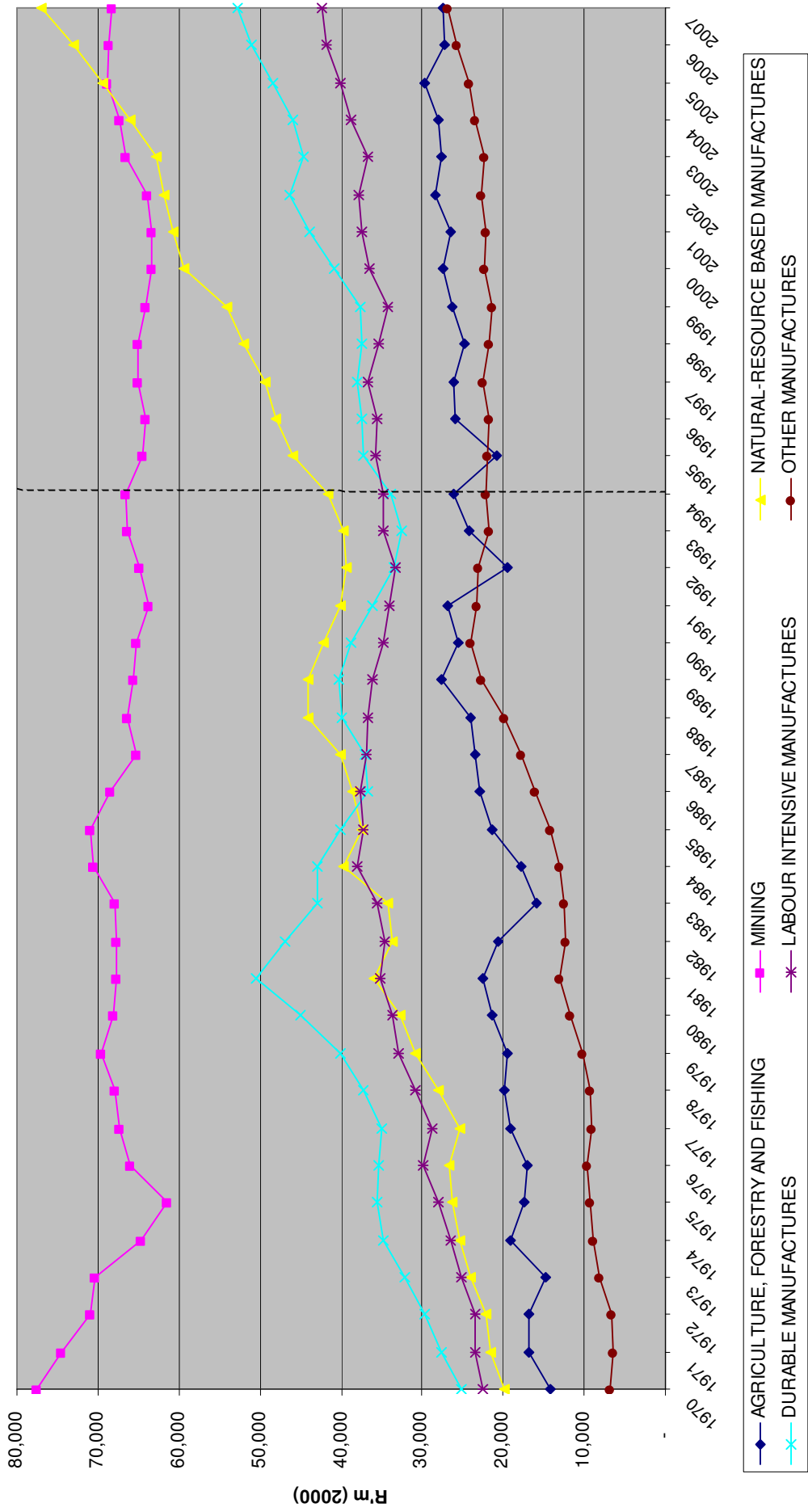
# GDP (9 broad sectors), 1970-2007, R'm (2000)



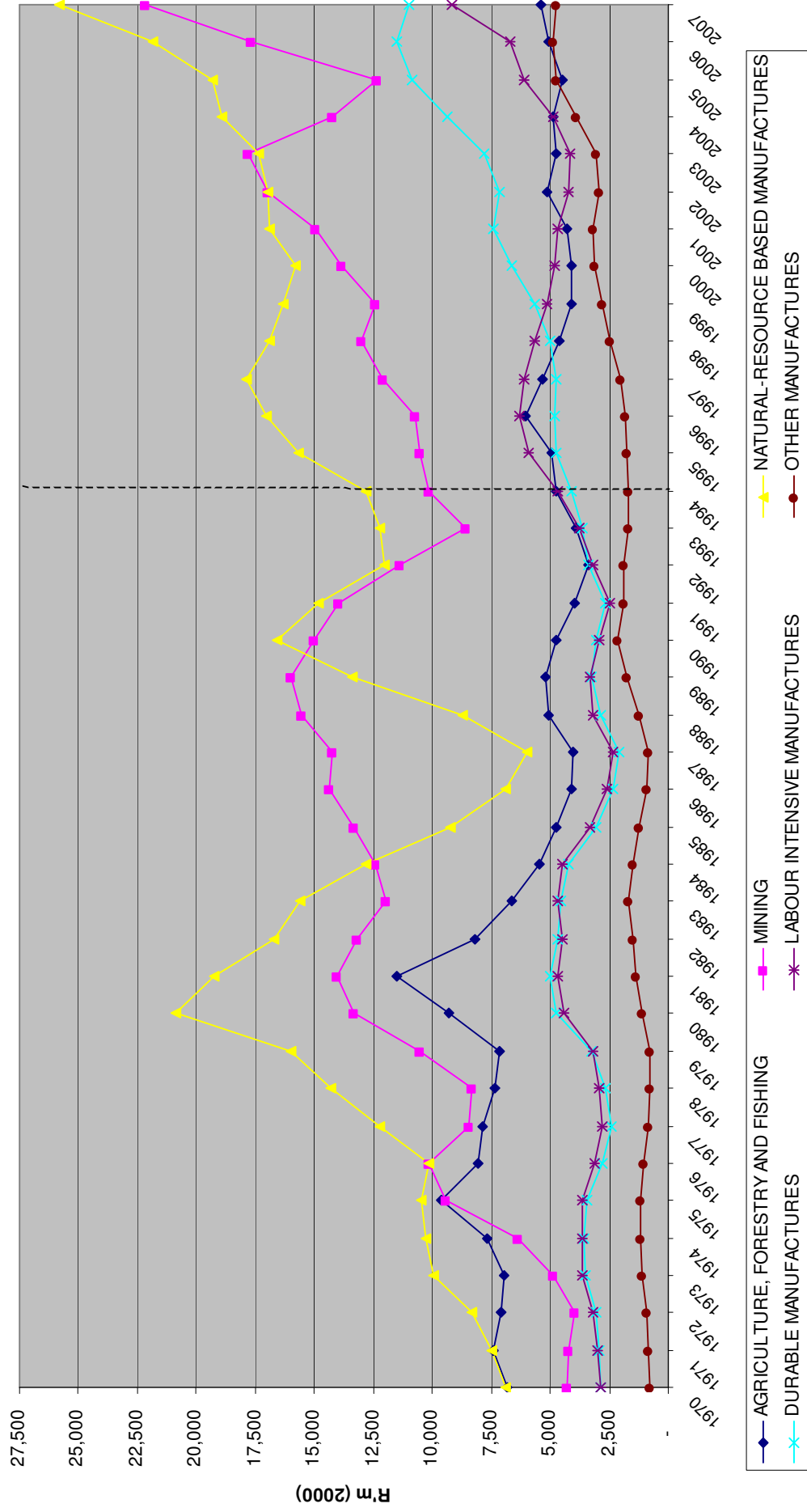




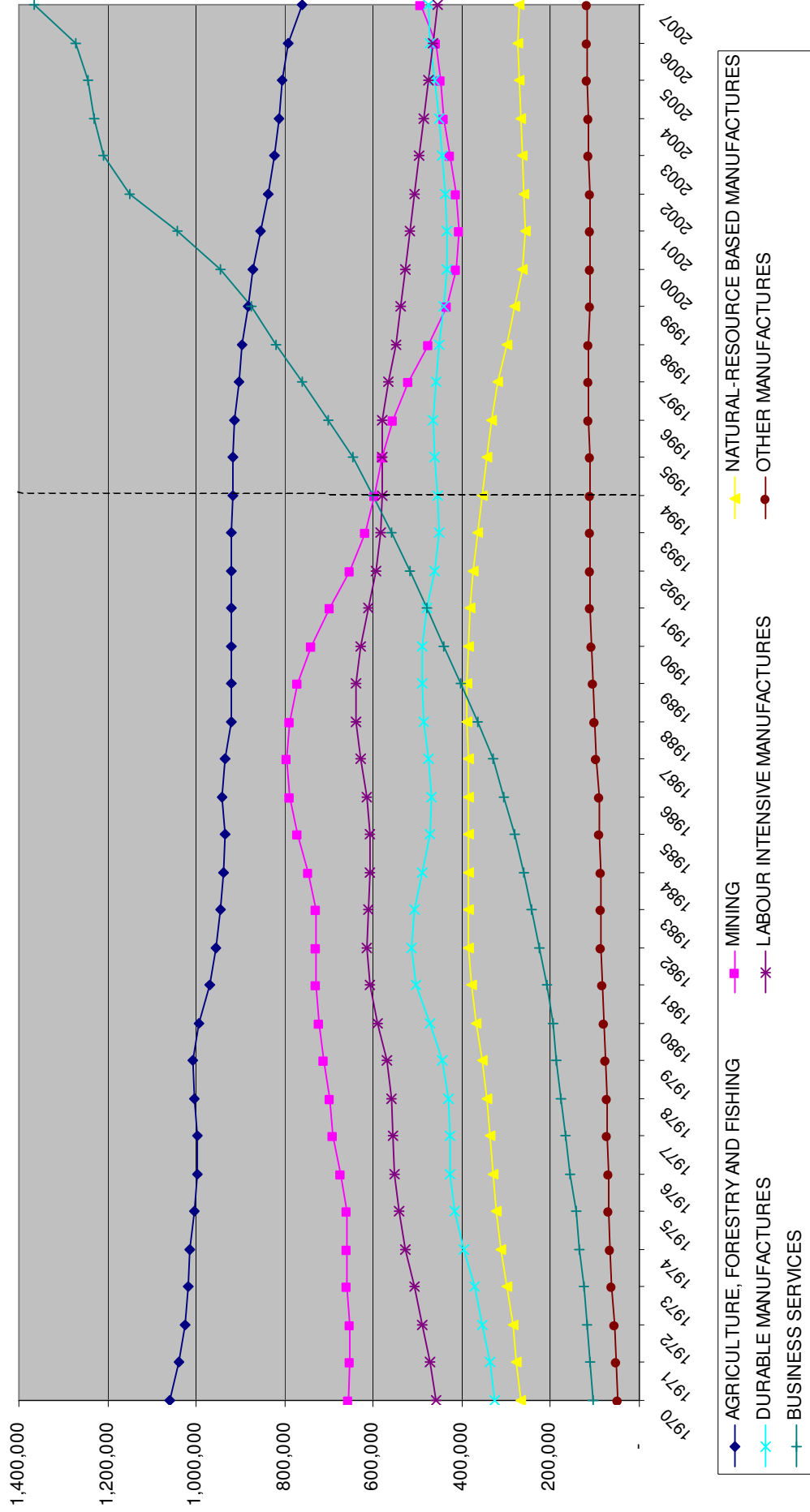
# Tradable sector Value-added, 1970-2007, R'm (2000)



# Tradable sector Investment, 1970-2007, R'm (2000)

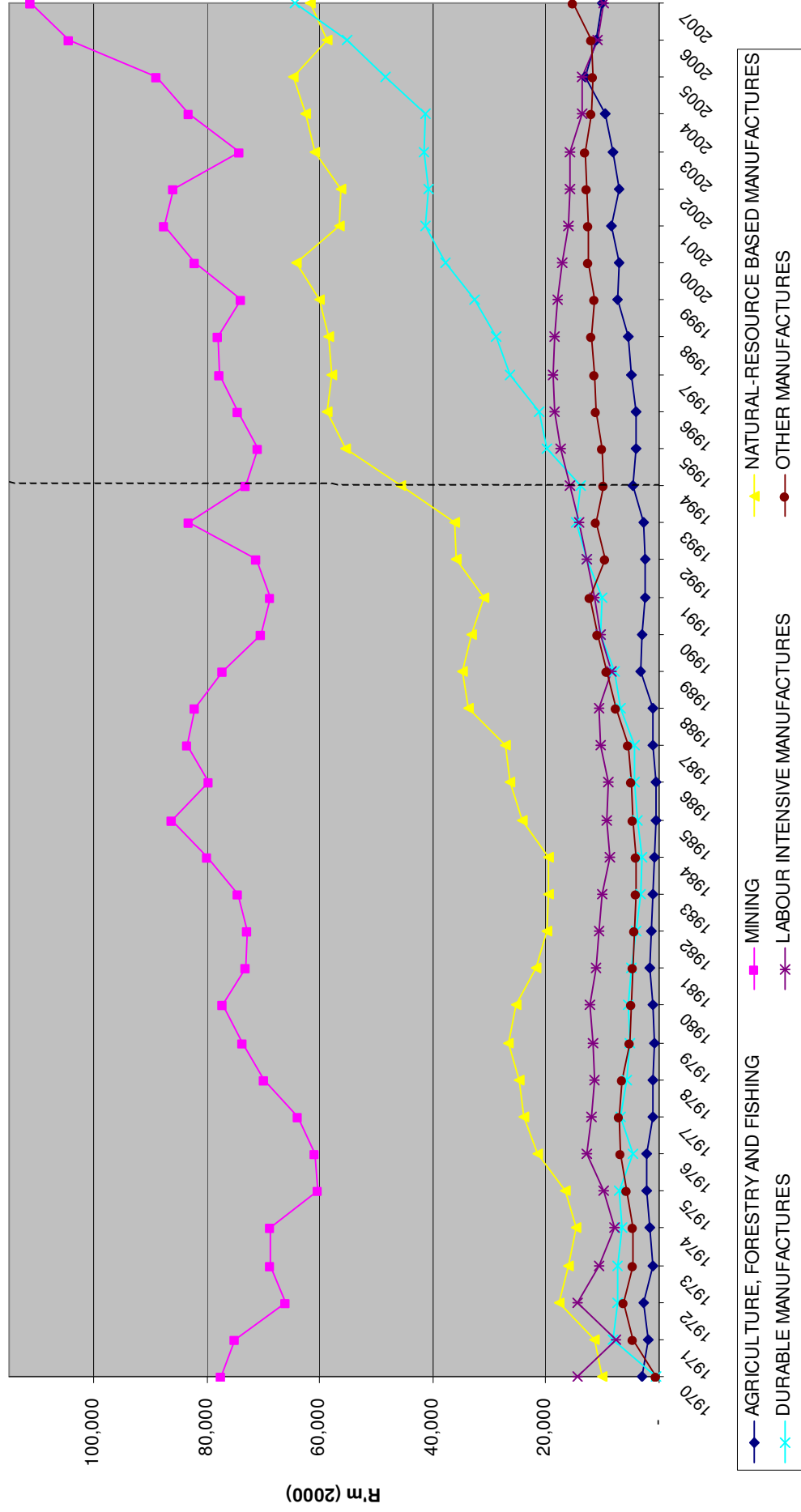


# Tradable sector Employment, 1970-2007



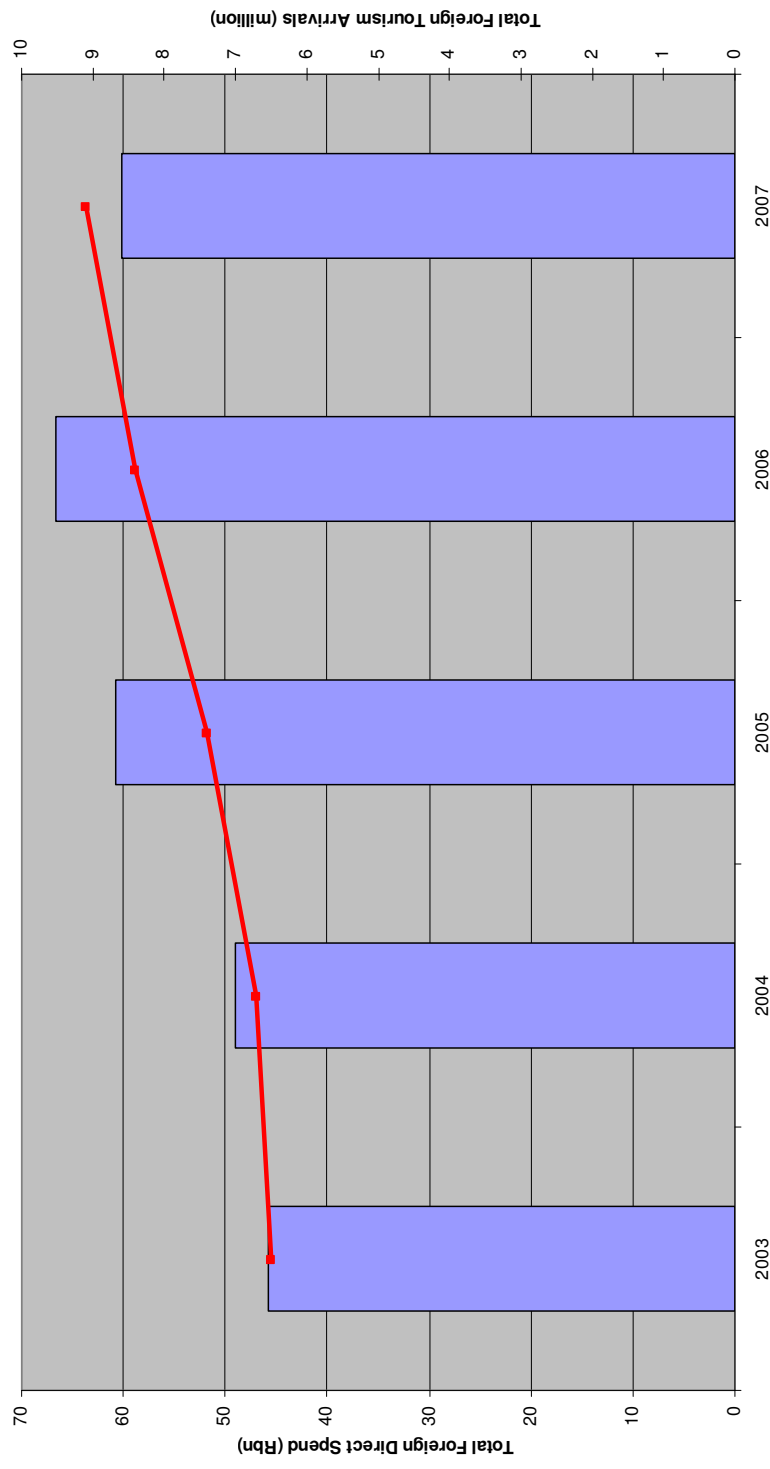


# Tradable sector Exports, 1970-2007, R'm (2000)



# Economic performance: Tourism

## Foreign Tourist Arrivals and Foreign Tourist Revenues in South Africa, 2003-2007



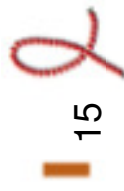
# SA's post-apartheid industrial and export performance

- Non-tradeable (consumption) sectors have grown more rapidly than tradeable (production) sectors leading to growing current account deficit
- Sluggish production and export growth in tradable sectors, with absolute net decline in employment of 438,000 workers.
- Sectors in which South Africa achieved substantial post-apartheid export earnings were generally in:
  - Mining (static comparative advantage)
  - The product of *both* pre- and post-apartheid state intervention
- Mining + natural-resource industries continue to dominate merchandise exports (64% in 2007 vs 73% in 1994)
- Tourism has grown to 11% of merchandise exports (2007)

# SA's post-apartheid industrial and export performance

## Automotives

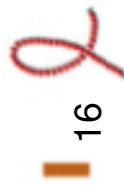
- Support since 1920's
- Ineffective local content programmes between 1961 and 1994 leading to proliferation of sub-economic platforms
- Motor Industry Development Programme since 1995: import / export complementation scheme (MIDP) exporters earn duty free import credits
- Platform rationalisation, economies of scale, supplier upgrading, significant investment, value-added and export growth driven by OEMs
- Weaknesses remain: less than optimal economies of scale, under-developed component sector



# SA's post-apartheid industrial and export performance

## Resource-processing sectors: steel, petro-chemicals, aluminium, paper & pulp

- Many started off as state-owned enterprises: Eskom, Iscor (1920's), Sasol (1950)
- Cheap electricity
- Substantial investment support through IDC
- Tax breaks
- Favourable restructuring arrangements: unbundling of Iscor's mining and processing operations: ever-green cost-plus access to iron ore
- Weak conditionality and enforcement of competition policy  
→ extraction of domestic monopoly rents means resource-processing comparative advantage not passed on to downstream industries





# SA's post-apartheid industrial and export performance

## Tourism

- Role of the state in the development of SA Tourism sector under-researched
- Developed under apartheid period to service affluent white middle and working classes, including the development of a number of National Parks
- Post-1994 the major form of support has been significant international marketing via SA Tourism

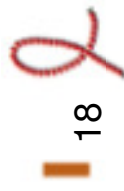
## Clothing & Textiles

- Duty Credit Certificate Scheme (DCCS): import / export complementation scheme very similar to automotives
- Entirely unsuited to the C&T industry:
  - No 'driver' of supplier upgrading unlike the role of OEMs played in automotives
  - Dependent on significant growth in exports: naïve in the light of looming phase out of MFA in 2005
- Inappropriate support instrument → unable to stem large loss of domestic market share to imports



# Conclusions

- South Africa – Africa’s most industrialised economy
  - achieved sluggish production, employment and export growth under post-apartheid orthodox policies
- Highest export earnings and growth achieved in mining + sectors which were the product of significant state intervention: *both* post- and pre-1994
- Conversely no other industries achieved substantive export growth
- Significant policy weaknesses and disjunctures
  - High interest rates, exchange rate volatility and frequent periods of overvaluation
  - Rapid and deep trade liberalisation prematurely undermined a number of domestic industries



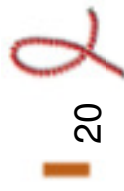
# Conclusions

- Policy weaknesses and disjunctures
  - Limited strategic approach to leveraging capabilities of large firms (private and public)
    - Private manufacturing capabilities of diversified conglomerates such as Anglo
    - Weak governance of (and within) SOEs: emphasis on corporatisation
    - BEE criticised as narrow-based, limited contribution to growth and employment
  - Underinvestment in physical infrastructure led to
    - Aged transport infrastructure
    - Electricity crisis in January 2008
    - Stagnation of supply industries
  - Weak effective SMME support, not linked to role of large firms in value chain
  - Poor match between skills demand and supply



# Tentative implications for other African countries

- Building industrialisation and exports is costly, complex and takes time and significant resources
- Even in a relatively industrialised economy such as South Africa, liberalisation did *not* unleash significant growth in investment, value-added, employment and exports
- In fact the limited areas of significant manufacturing growth and exports *not* explained by liberalisation but by *industrial policy interventions* backed by significant resources
- History is important. Countries need to build on existing resources and capabilities.
- Industrial policy support must be *conditional*
- Coherence and coordination of policy: industrial, macro, infrastructure, skills, technology
- Attention must be paid to political economy:
  - Who are the group of capitalists that will drive industrialisation?
  - How can they be mobilised?



# Appendix: Sector Definitions

## **AGRICULTURE, FORESTRY AND FISHING**

### **MINING**

- Coal mining
- Gold and uranium ore mining
- Other mining

## **NATURAL-RESOURCE BASED MANUFACTURES**

- Coke and refined petroleum products
- Basic chemicals
- Other chemicals and man-made fibers
- Rubber products
- Non-metallic minerals
- Basic iron and steel
- Basic non-ferrous metals
- Wood and wood products
- Paper and paper products

## **DURABLE MANUFACTURES**

- Plastic products
- Glass and glass products
- Metal products excluding machinery
- Machinery and equipment

## **DURABLE MANUFACTURES (CONT)**

- Electrical machinery and apparatus
- Motor vehicles, parts and accessories
- Other transport equipment

## **LABOUR INTENSIVE MANUFACTURES**

- Food
- Tobacco
- Textiles
- Wearing apparel
- Leather and leather products
- Footwear
- Printing, publishing and recorded media
- Furniture

## **OTHER MANUFACTURES**

- Beverages
- Television, radio and communication equipment
- Professional and scientific equipment
- Other manufacturing

