



NATIONAL UNIVERSITY OF LESOTHO WORLD TRADE
ORANIZATION CHAIR
SEMINAR ON INDUSTRIALIZATION, ECONOMIC GROWTH
AND DEVELOPMENT

The South African Experience

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By Christian Kabongo

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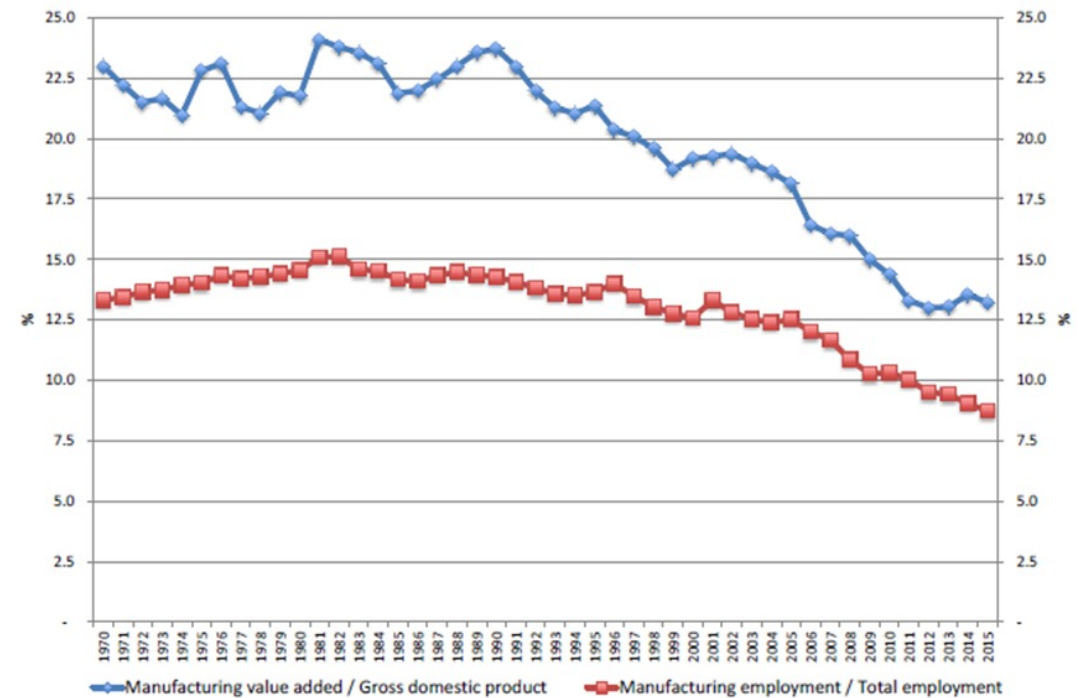
Industrialisation in the Apartheid era

- Two events marked the beginning of South Africa's industrialisation: The discovery of Diamonds near Kimberly in 1870 and discovery of Gold on the Witwatersrand in 1886.
- Emergence of manufacturing due to demand from mining.
- Large corporations are born: South African Railways (SAR) and United Steel Corporation (Usko).
- Establishment of State Owned enterprises (SOE).
- Steel and Engineering production gave way to South Africa's first state-led efforts to promote industrialisation in the mid-1920s.
- Tariffs being given a prominent role in the Industrial drive (1925 Tariff Act).
- WWII provided boost to Manufacturing. Between 1939-1945 Manufacturing overtook mining as the biggest contributor to GDP with 17%.

Industrialisation in the Apartheid era

- After rapid growth in the post war period, South Africa's economic performance weakened from the mid 70's.
- Deindustrialisation (Declining share of manufacturing in the economy) began to set in by the early 80's.

Figure 1.1: Share of manufacturing value added in gross domestic product (current Rm) and of manufacturing in total employment (%), 1970-2015

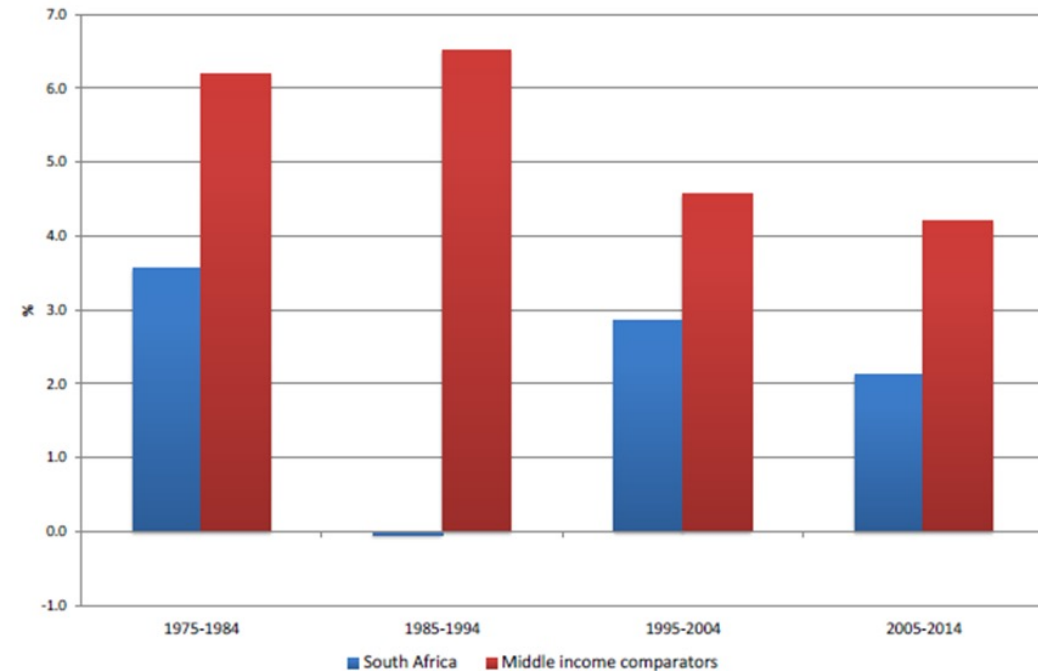


Source: Author's calculations based on the South African Standardised Industry Indicator Database (Quantec Research n.d.)

Industrialisation in the Apartheid era

- South Africa's manufacturing growth has been lower than peers and consequently its share of manufacturing in GDP has deteriorated far more rapidly.

Figure 1.5: Manufacturing value added growth relative to middle-income peers (local currency units) (%), 1975-2014



Source: Author's calculations based on World Development Indicators database (World Bank n.d.-a)

Note: Middle-income comparators exclude China and the Russian Federation for all periods and Brazil from 1975-1984, due to data unavailability.

Industrialisation in the Post-Apartheid era

- South Africa's Post-Apartheid economy
 - Promise that there will be high levels of fixed investment (both domestic and foreign) if policies were conducive to corporate and industrial re-engineering
 - Promise that A surge in private investment in non-traditional tradable sectors was predicted, that would in turn drive rapid employment and export growth
- South Africa's post-apartheid economy has been characterised by low levels of fixed investment, limited structural and racial transformation, mediocre export growth and diversification and extremely high unemployment and inequality
- The Growth Employment and Redistribution (GEAR) framework (Department of Finance 1996), resulted in Growth led by non tradable services (services where the demander and producer must be in the same location).
- Fixed Investment in Tradable sectors remain concentrated in Mining, Heavy Industry and Electricity

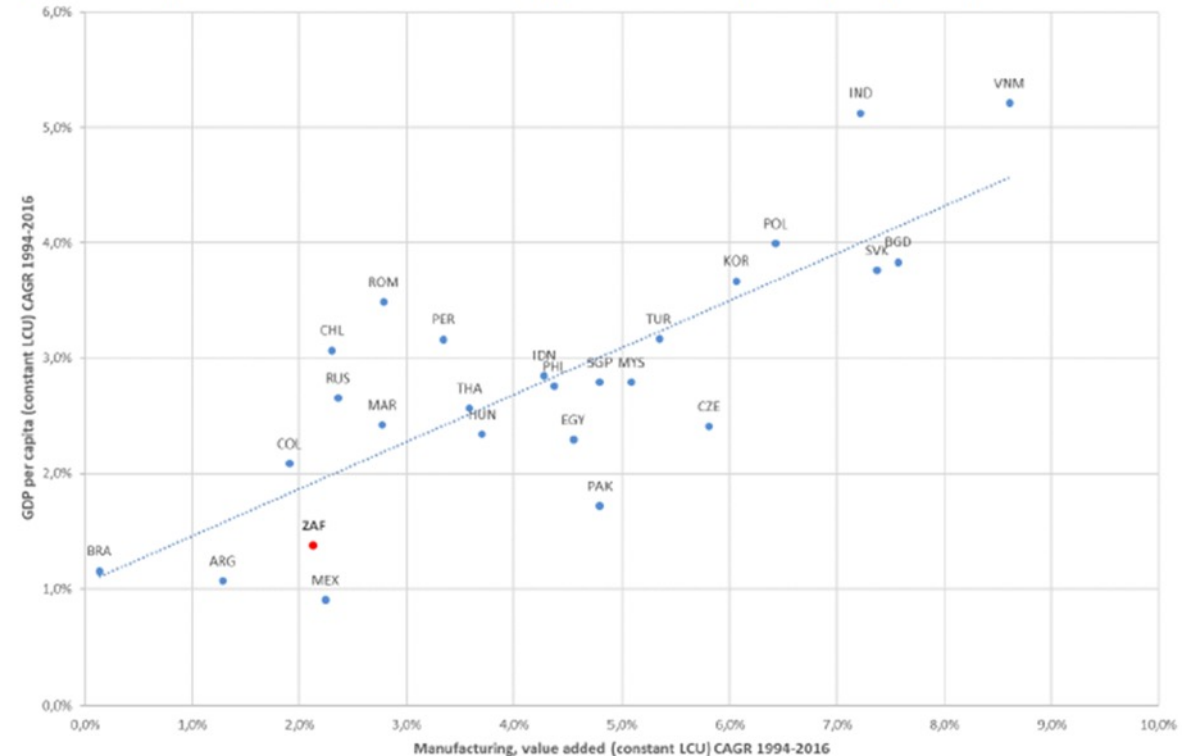
Industrialisation in the Post-Apartheid era

- Very rapid Growth of the finance, insurance and business services sectors accompanied by large scale credit extension leading to household indebtedness increase
- Generally weak employment growth, accompanied by high unemployment taking place mostly in service sectors (wholesale retail, catering, etc..).
- Net employment decline in mining, non commodity manufacturing and agricultural sectors.
- Manufacturing, amongst the least profitable sectors in aggregate over the entire post-apartheid period, experienced a sustained decline, particularly from 2004 onwards, from around 10 per cent to 3.9 per cent in 2017.
- Foreign direct investment inflows have been tepid and dominated by acquisitions rather than net new additions to fixed investment.

Industrialisation in the Post-Apartheid era

- Manufacturing, amongst the least profitable sectors in aggregate over the entire post-apartheid period, experienced a sustained decline, particularly from 2004 onwards, from around 10 per cent to 3.9 per cent in 2017.

Figure 1: Compound annual Manufacturing growth vs GDP per capita growth, 1994-2016

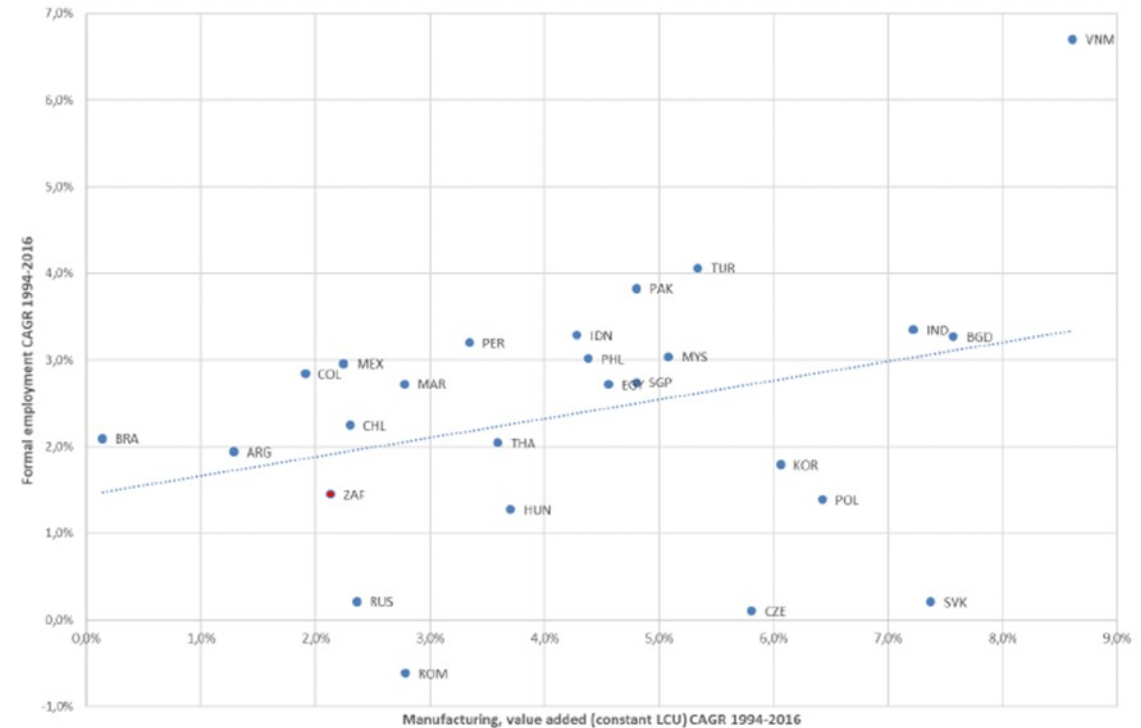


Source: World Bank Development Indicators

Industrialisation in the Post-Apartheid era

- Within manufacturing a range of labour-intensive and medium-technology sectors have experienced the largest declines in profitability.
- The post-apartheid period has witnessed significant employment declines.

Figure 2: Compound annual Manufacturing growth vs formal employment growth, 1994-2016



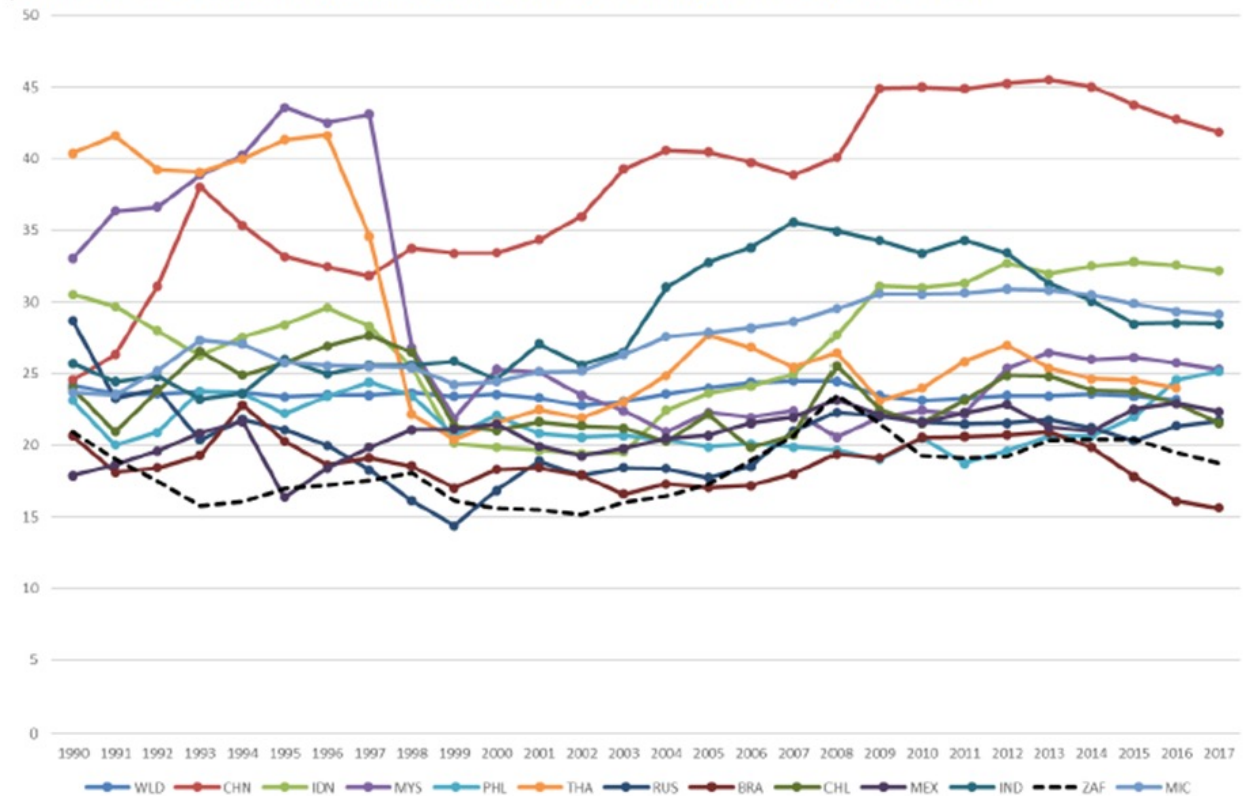
Source: World Bank Development Indicators; International Labour Office, Trends Econometric Models

Note: Formal employment is calculated as total employment less vulnerable employment

Industrialisation in the Post-Apartheid era

- Although the 2000s witnessed a brief period of improvement in GDP and employment growth, this was underpinned by unsustainable fundamentals.

Figure 4: Gross fixed capital formation as a percentage of GDP, 1990-2017

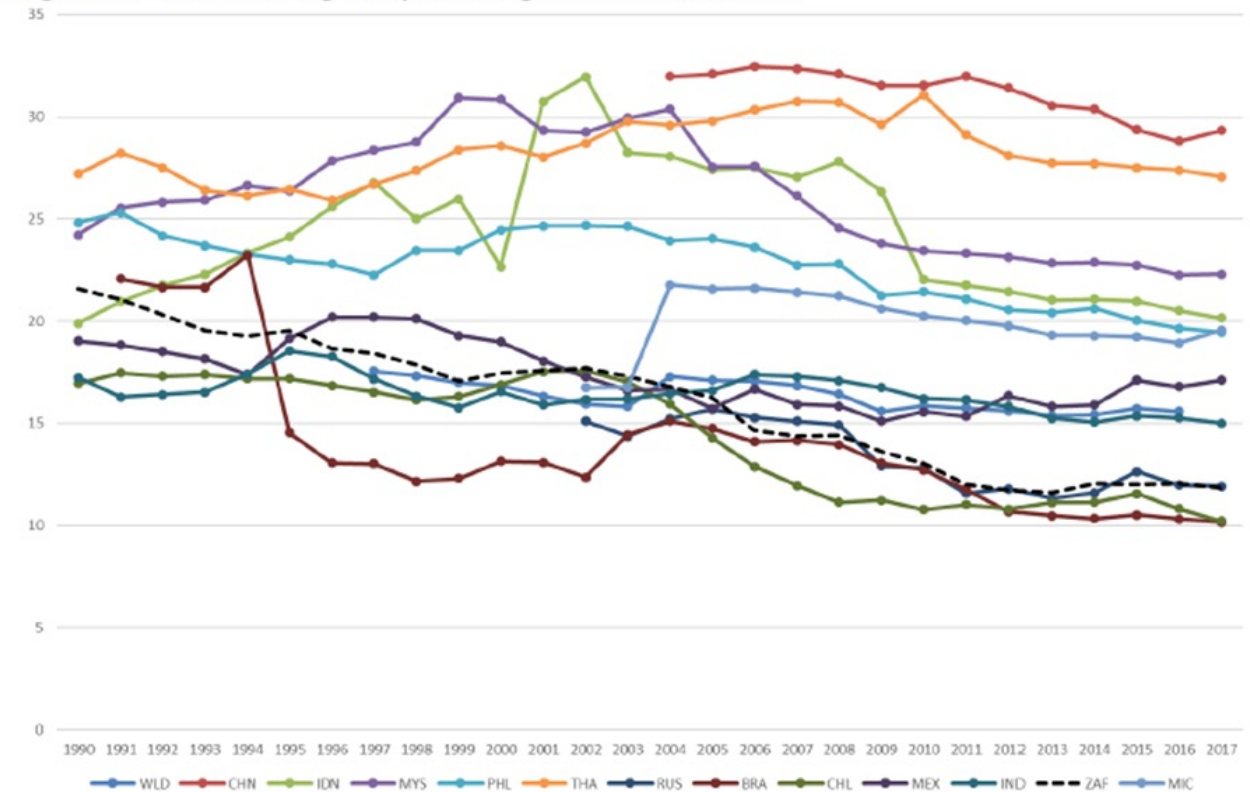


Source: World Bank Development Indicators

Industrialisation in the Post-Apartheid era

- Growth over the 2000s was driven by a confluence of a global commodity boom, a large associated increase in short term capital inflows, currency overvaluation and volatility; and a domestic consumption-led boom underpinned by unsustainable increases in household debt levels that peaked at over 80 % of disposable income and remain above 70%

Figure 5: Manufacturing as a percentage of GDP, 1990-2017



Source: World Bank Development Indicators

Industrialisation in the Post-Apartheid era

- However, some success have been achieved
- Industrial Policy: Not formally adopted prior to 2007. Initially adopted as National Industrial Policy Framework (NIPF) and subsequent annual Industrial Policy Action Plans (IPAPs)
- The automotive sector, supported through the Automotive Production and Development Programme (APDP) produces approximately 600,000 vehicles per year accounting for 110,050 manufacturing jobs. It contributes 6.9% to GDP (4.4% manufacturing and 2.5% retail).
- Black Industrialist Scheme (Supporting 140 project in the IPAP related sectors and facilitated ZAR 14 Billion in investment).
- The Industrial Development Corporation of South Africa Limited (IDC) investment of ZAR 100 Billion towards Industrial Funding and support for the Renewable Independent Producers Procurement Programme (REIPPP).

Going Forward

- Reorientation of policy instruments
- Support Public Finance Institutions
- Revising Preferential Procurement Legislation
- State Owned Enterprises to be used to promote structural transformation
- Strategic approach to competition policy and rivalry
- The SA economy revitalisation needs to be embedded in developmental regional integration
- Build on existing manufacturing capabilities

The End

- Thank you