

# TOWARDS STRUCTURAL TRANSFORMATION

## THE IFAA ECONOMIC DIALOGUE

*IFAA invited a group of experts to privately discuss the structural economic crisis in South Africa and consider feasible directions for transformation.*

**G**iven the turbulence in the South African economy and the evident inability of key stakeholders to find consensus on any of our major problems, the Institute for African Alternatives (IFAA) convened a meeting of specialists in Cape Town earlier this year. The dialogue did not consider palliative measures that would enhance economic performance in the short term. Rather, it focussed on proposals that could contribute to the structural transformation of the economy. The basis of discussion was “Policy coordination and growth traps in a middle-income country setting: The case of South Africa” by Haroon Borhat, Aalia Cassim, and Alan Hirsch (2014).

Although participants held varying views on the crisis, there was broad agreement on a number of ideas. It was generally accepted that more attention should be given to the real economy as the engine for future growth and development. It was also noted that this would require a shift in mindset in both the government and the private sector, something that can only be facilitated by consistent advocacy work by progressive economists, civil society and by champions within the state and the private sector.

The question of the developmental state was at the forefront of the

discussion. What role should the state play in charting a course towards the structural transformation of South Africa’s economy? Political will and



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decisive leadership are surely necessary to achieve such a transformation. Besides these intangibles, several concrete proposals emerged from the IFAA Economic Dialogue.

### 1. THE DOMESTIC ECONOMY

#### **Manufacturing**

International evidence shows that manufacturing is the engine of growth; South Africa’s manufacturing performance remains a cause for concern. Currently, more people are employed in the finance sector than in manufacturing, which shows the skewed structure of the economy. If poverty, inequality and unemployment are to be eradicated, South Africa’s current growth path cannot continue along the same trajectory, dependant as it is on credit-based consumption and a highly sophisticated financial sector. The question of industrialisation through manufacturing should be at the forefront of economic discourse in the country.

The group of discussants acknowledged several ways in which this can be achieved, including diversification, localisation, and taking advantage of opportunities on the continent. It was noted that manufacturing in South Africa is somewhat beholden to global market forces. However, this can be repaired by consistent local procurement, at the agreed level of 60 percent. The benefit to the economy will be realised through the large multiplier effect associated with state procurement.

### **The informal sector**

The informal sector in South Africa, which is the lifeblood of the large portion of our population that cannot access formal employment, is unacceptably small in comparison to other developing nations. Not only does the informal sector provide work, it could provide a platform for rapid economic growth from below if the proper policies are put into place.

In light of this, it was suggested that “friendly spaces” programmes should be developed to encourage the growth of the informal economy. However, any intervention must be done sensitively, as a profusion of rules and regulations can place an unnecessary burden on informal businesses.

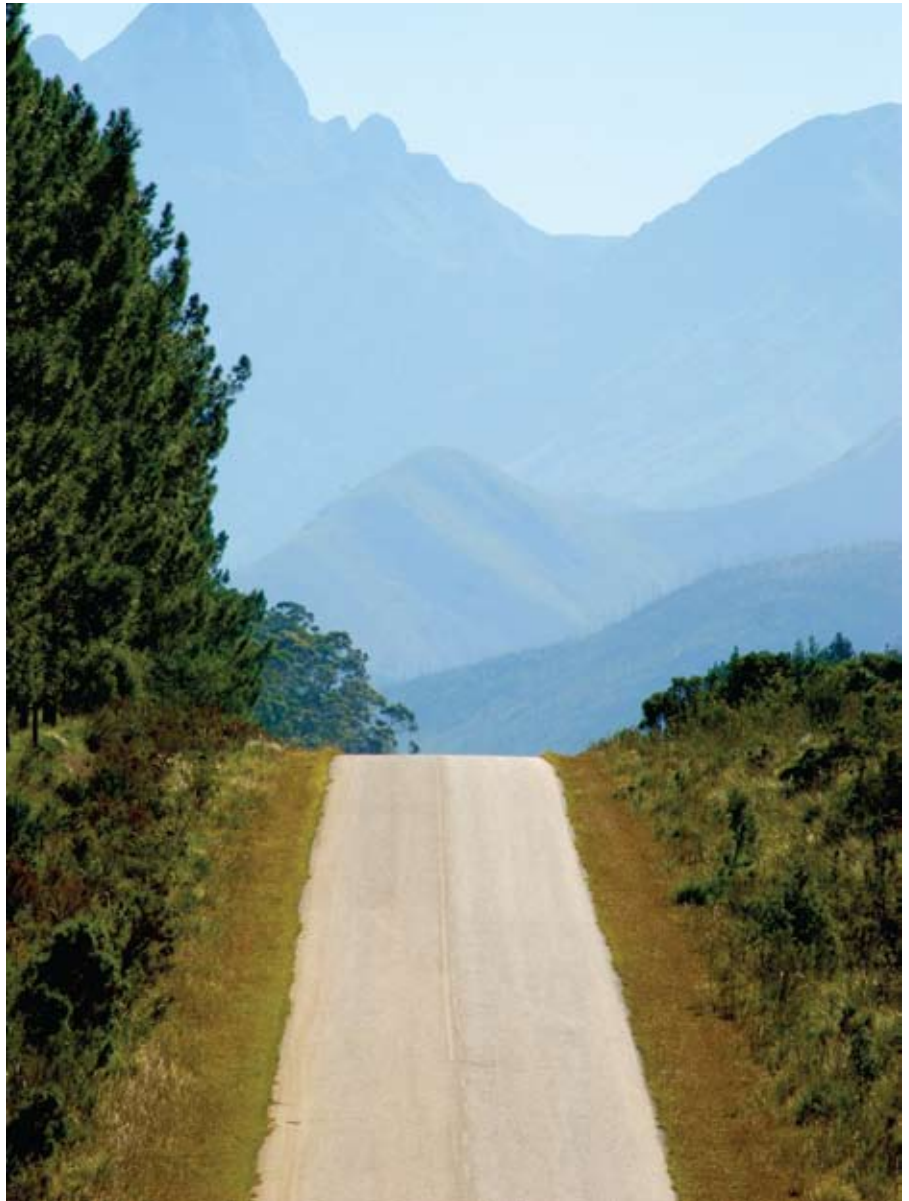
## **2. ECONOMIC RELATIONS WITH THE REST OF AFRICA**

### **South Africa as Africa’s workshop**

Much has been made of Africa’s potential to achieve high levels of growth in the coming years. If these predictions are correct, South Africa should be poised to take full advantage of economic expansion on the continent.

Infrastructure development is one avenue through which South Africa can benefit. With growth comes demand for roads, housing, electricity and other necessities. South Africa has a reasonable record in providing sanitation and housing and this knowledge can be taken into the continent. It was suggested that South Africa should focus on becoming the “workshop” of Africa.

A detailed infrastructure supply programme, including an outline of challenges, should be discussed with all relevant stakeholders. For example, increasing export capabilities in rail requires export finance and insurance but the current national budget has just cut this component. The Treasury’s



Source: Photo: Rodger Bosch, MediaClubSouthAfrica.com

reputation for fiscal discipline is laudable, but such discipline can frustrate economic development if funds remain unavailable for promising projects that offer clear long-term economic benefit.

### **Trade policy**

Import substitution policies should be considered for South Africa and the region. This would go some way towards altering the structure

of imports and exports in trade within Africa and with the rest of the world. If regional trade policies were coordinated and devised according to a principle of mutual benefit, African countries could move up the global value chain in a collaborative effort and finally shed the neo-colonial dependence on primary commodity exports. Such coordination may encounter political difficulties that would need to be worked out patiently. >>

### 3. PHYSICAL INFRASTRUCTURE AND TRANSPORT

#### **Public transport**

A lack of quality infrastructure continues to hamper growth in South Africa. Public transport is one major area of concern, where existing infrastructure not only constrains growth potential, but also systematically reproduces the harmful effects of apartheid spatial planning.

It was suggested that government should subsidise the cost of public transport and eradicate the “apartheid tax” that is still imposed on people living far from economic hubs. High transport costs make it extremely difficult for job seekers to access work, and government’s employment objectives simply will not be reached without decisive action in this area.

It was noted however, that any intervention must be done on the basis of an integrated transport plan with the taxi industry playing a part. Private/public partnerships should be explored.

#### **Township economies**

It should be a priority to build up infrastructure in the townships surrounding major cities. Failure to resolve spatial distortions will leave the apartheid legacy intact and, as urbanisation continues to gather in pace and numbers, it is imperative that vital resources are readily available in the urban outskirts. Interventions in this area should focus on basic service delivery. Access to safety, health, recreation and transport can stimulate inclusive economic growth from below.

### 4. PROMOTION OF INVESTMENT

Mainstream economic media continues to bemoan the low rates of investment in South Africa, and investment can



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certainly be a catalyst for growth and development. Having said this, it is important to be aware of the character of investment and to encourage those forms which have greatest social benefit.

In the post-1994 period, the private sector has been characterised by low investment and high dividend payouts. Indeed, a significant portion of business disinvested and shifted operations abroad after the ANC assumed power. Although high returns on investment remained, there has been little new investment in the democratic era. This is possibly due to perceived political risks, structural impediments, and/or low national savings rates.

This climate makes it necessary to discuss incentives for investment. Instruments such as state and private co-investment or incentive packages for share buy-backs related to the tax system may be worth pursuing.

One participant highlighted the large amount of capital that lies dormant in various funds, urging

that these funds be injected into the economy to stimulate growth.

Finally, the legal and illegal movement of money inside and outside the country needs urgent attention. While objectionable levels of state corruption are duly highlighted in economic discussions, large sums also escape the fiscus due to private sector corruption and offshoring. The Reserve Bank could at least tighten exchange controls to fight illicit capital flows.

### 5. HUMAN CAPITAL

South Africa’s educational deficiencies are severe and well documented. Numeracy and literacy levels remain unacceptably low at the primary school level, and some 80 percent of the country’s youth are not entering tertiary institutions. An abundance of economic research shows strong correlations between access to education and the reduction of inequality and intergenerational poverty, and between quality of education and economic growth. It is time for the government to take bold steps to repair the country’s broken education system.

The Sector Education and Training Authorities (SETAs) have been a dismal failure and vocational colleges need a profound rethinking. Lifelong vocational training should be made available, both to contribute to skills development and to create greater labour flexibility and a more dynamic and responsive work force.

Government support for food security is also crucial. There can be no prospect of growth and development if the population has no secure access to affordable and quality food.

### 6. EMPLOYMENT

#### **Agriculture**

Although conventional wisdom holds that industrialisation is the key to employment-intensive growth, South Africa should not underestimate the

potential of its agricultural sector. The struggles in the agricultural sector began in the apartheid era and the post-apartheid era has seen long-term decline. However, with proper government support, the sector can ensure food security and provide employment for low-skilled workers in rural areas. Soaking up demand for work in the rural areas would also ease the pressure on urban areas struggling to cope with rapid influx of job seekers.

### **Automation**

The worldwide trend towards increased automation, particularly the use of robotics in manufacturing, was noted with some concern. China is currently using robots for low-end manufacturing and the technology will spread across the globe. The implications of this for the manufacturing sector in South Africa require urgent examination. As industry becomes more and more mechanised, the conventional equation of industrialisation and rapid employment growth may no longer be tenable.

## **7. HOUSEHOLD DEBT: OVERCOMING THE APARTHEID TAX**

Along with the commodity crash, the current economic crisis reflects high levels of household indebtedness. High costs of transport, housing, energy and food all contribute to unacceptably high levels of debt. With a significant portion of income going to service this debt, household savings remain too low.

The government cannot afford to continue extending credit to low income households. Although social security interventions have certainly contributed to poverty alleviation, the state should pursue other more ambitious instruments. Millions of South Africans are suffering from bad debt: this has been exposed in

the recent student crisis, the crisis of service delivery, and the Marikana Commission of Inquiry. Debt amnesty should be considered, with the burden resting on the banking sector.

The problem of wages was also discussed. Low wages certainly contribute to indebtedness, as households are forced to participate in the economy via the credit system. More debate on the national minimum wage is needed.

## **8. PUBLIC SERVICE COMPETENCE AND STATE CAPTURE**

The quality of South Africa's civil service remains a concern, with unsustainable levels of redundancy. The ability of the incumbent members of the civil service to implement and monitor the type of ambitious interventions necessary to stimulate rapid economic growth and development is certainly in question. Though politically sensitive, this is an area of vital importance.

Although rent-seeking has long been an issue in the South African political economy, the issue of state capture is now at the forefront of public discourse. Combined with the economic crisis, this is of great concern. It was suggested that a national economic summit could be necessary in order to build trust between all stakeholders, with the participation of business, labour and government.

## **8. BLACK ECONOMIC EMPOWERMENT**

The problems with BEE are well documented. With the emphasis on transferring ownership and control to the political elite, it has had little redistributive impact, largely excluding low-skilled labour, the unemployed, and those in the informal sector. BEE seems to be the outcome of a pact between the ANC government

and previously white-owned firms concerned with securing their property rights and influencing economic policy.

BEE groups have also tended to not reinvest dividends or make new investments. The BEE accumulation stream has to channel investment into the real economy if it is to contribute to inclusive economic growth that would fundamentally dismantle the legacy of apartheid and racial discrimination.

The issue is not only a moral one. Deliberate action has to be taken to deal with the residues of colonialism and apartheid. When evaluating BEE policy and practice, one should ask whether it has contributed to or undermined the urgent need to alter the structure of the local economy to serve the interests of the majority. Positive cases should also be documented.

## **THE WAY FORWARD**

With our country facing a deep economic crisis, IFAA is concerned about the seeming inability of key stakeholders to find a path out. This Economic Dialogue will be the first of many and hopefully will contribute to the task ahead. We welcome comment and feedback on these proposals.

The state, business and labour have a responsibility to plot a way forward together to save the country from further economic hardship. We are cognisant of some seismic shifts in South Africa's political economy in the wake of fractures within COSATU and concerns of state capture in the nexus between the private sector and the state. These shifts only make the task of uplifting the South African economy all the more urgent. [NA](#)

### REFERENCE

Bhorat, H, A. Cassim, and A. Hirsch. 2014. "Policy coordination and growth traps in a middle-income country setting: The case of South Africa", *WIDER Working Paper 155/2014*. Helsinki: UNU-WIDER. Available at <https://www.wider.unu.edu/publication/policy-co-ordination-and-growth-traps-middle-income-country-setting>.