

Moving from resource dependence

TIPS Seminar

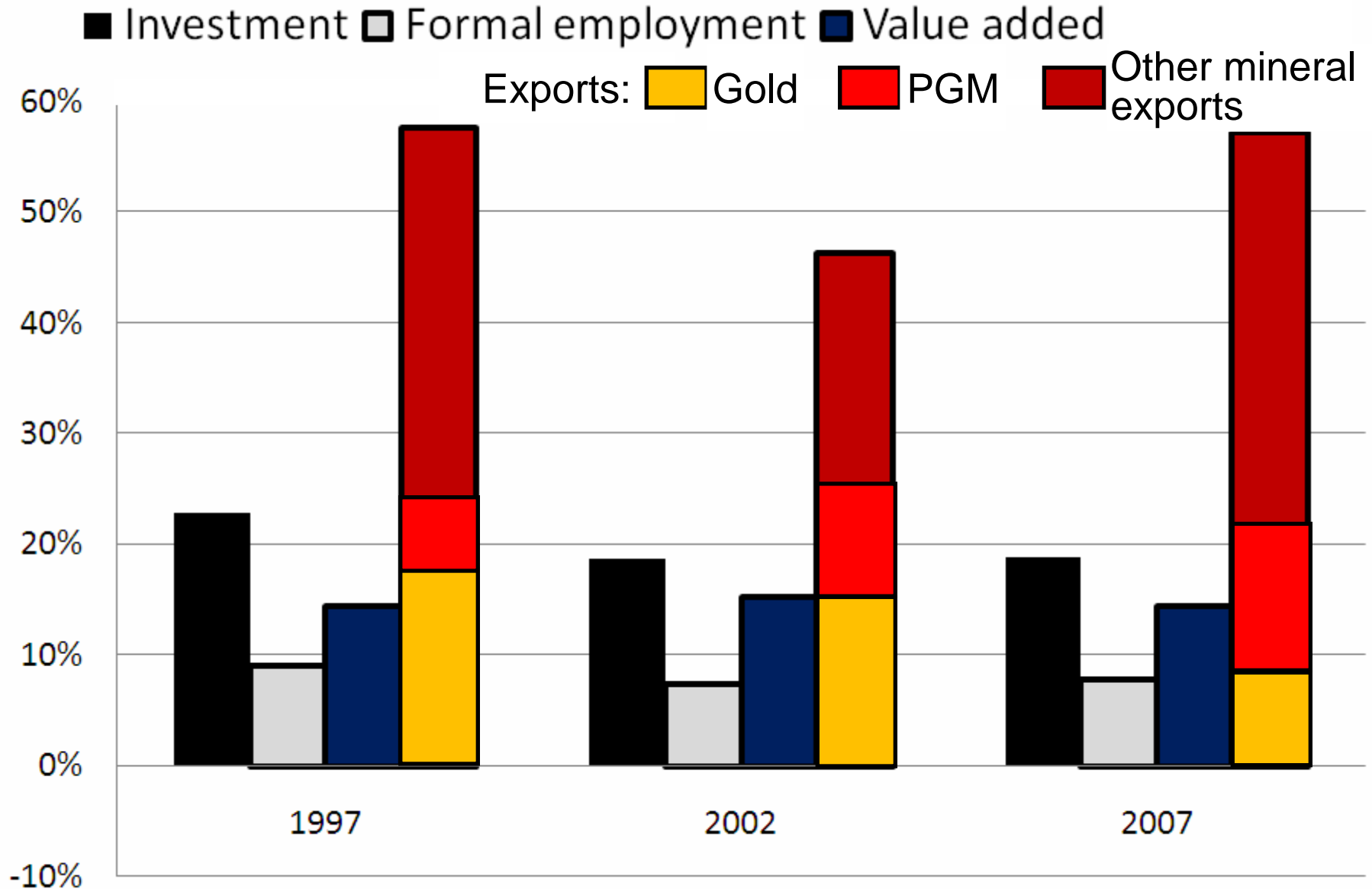
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Personal views only

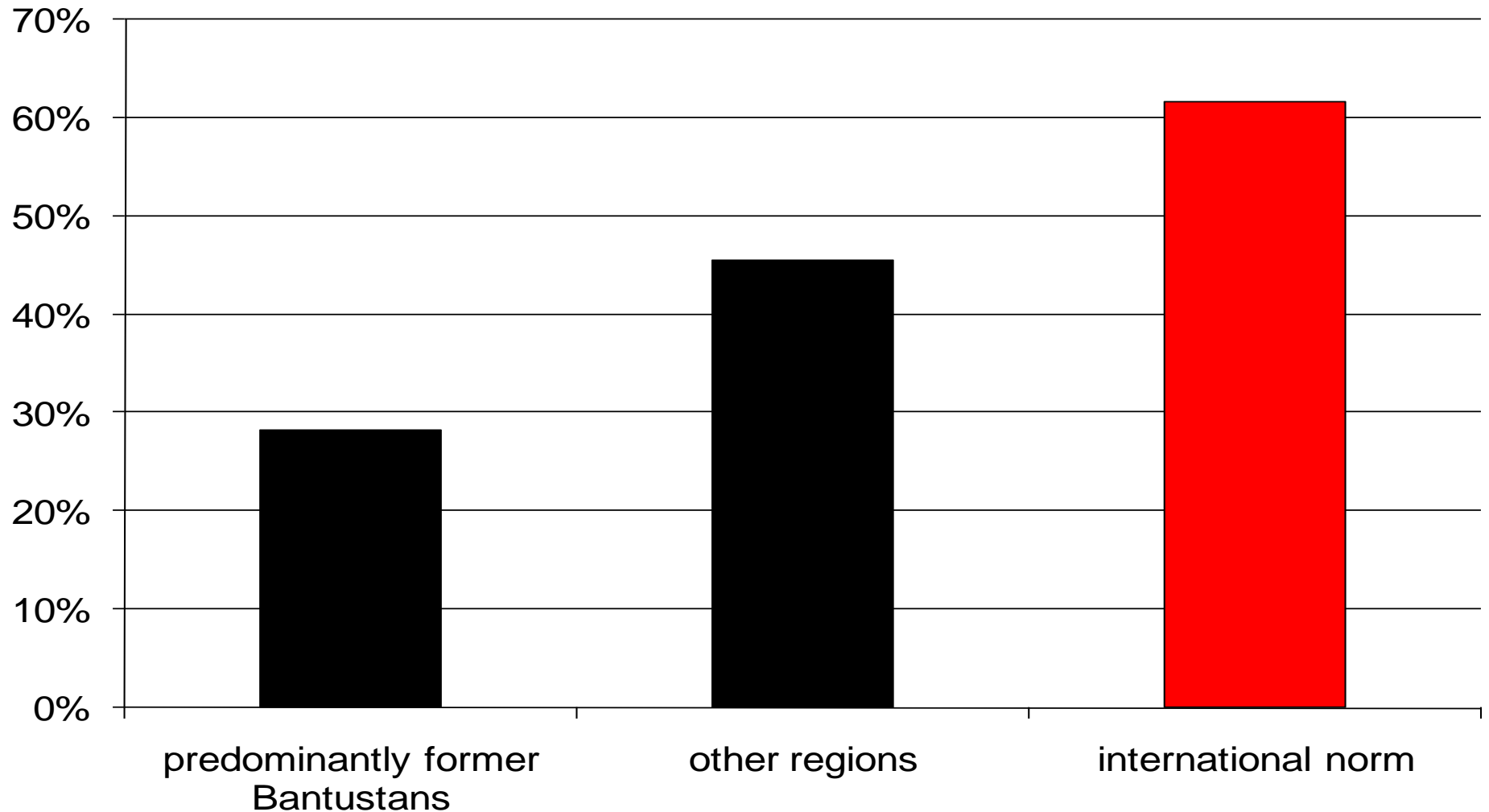
The context

- ★ South African economy still shaped by exports from the mining value chain
- ★ Combined with very low employment levels, despite improvements in recent years

Mining share in economy



Share of working-age adults with employment



Concerns about continued resource dependence

★ Contradiction:

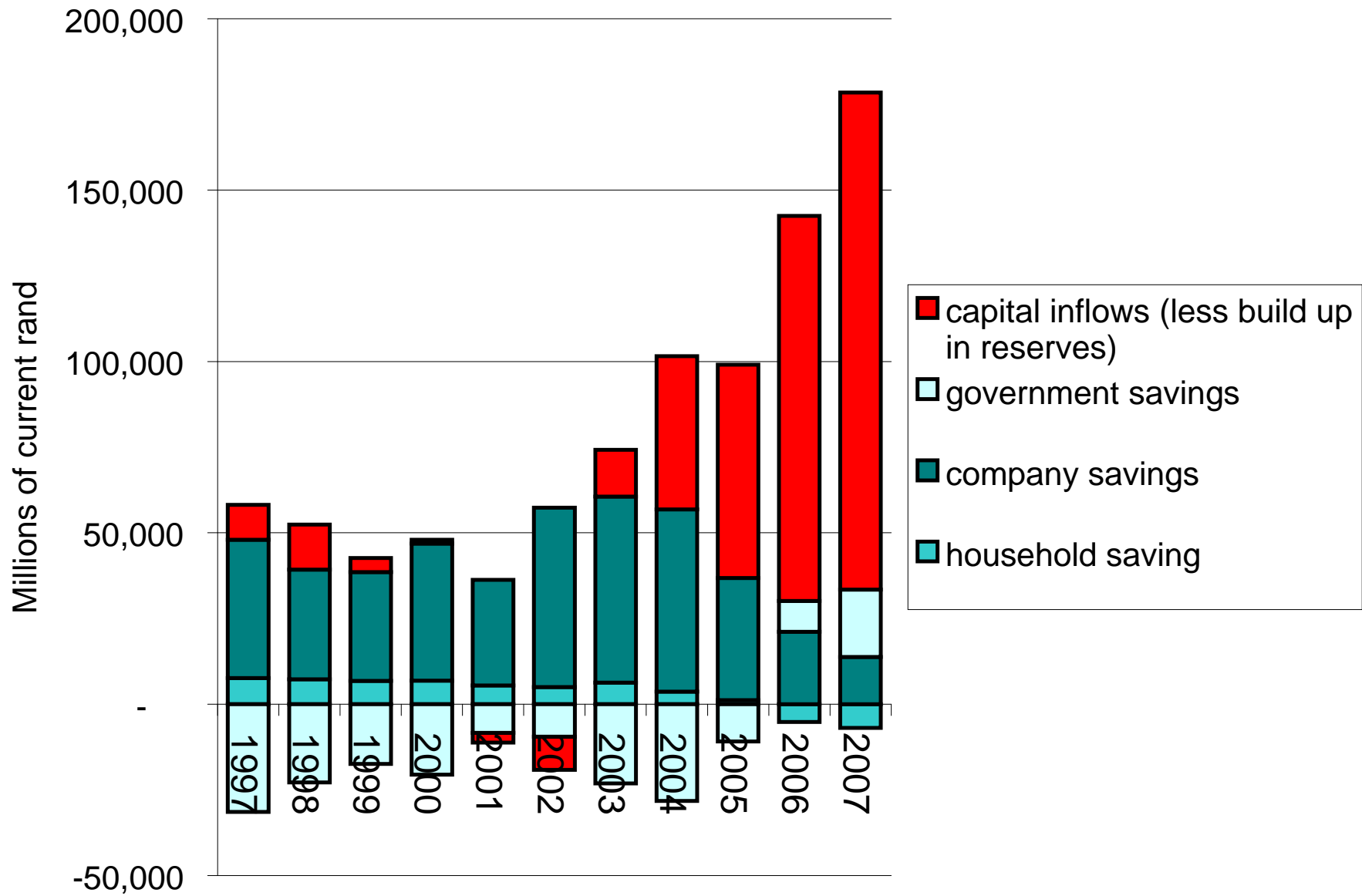
- ★ High commodity prices bring high capital inflows into equity and bonds, resulting in appreciation – so hard to diversify exports
- ★ Appear to have squeezed out private domestic savings

★ Implications for equity and poverty:

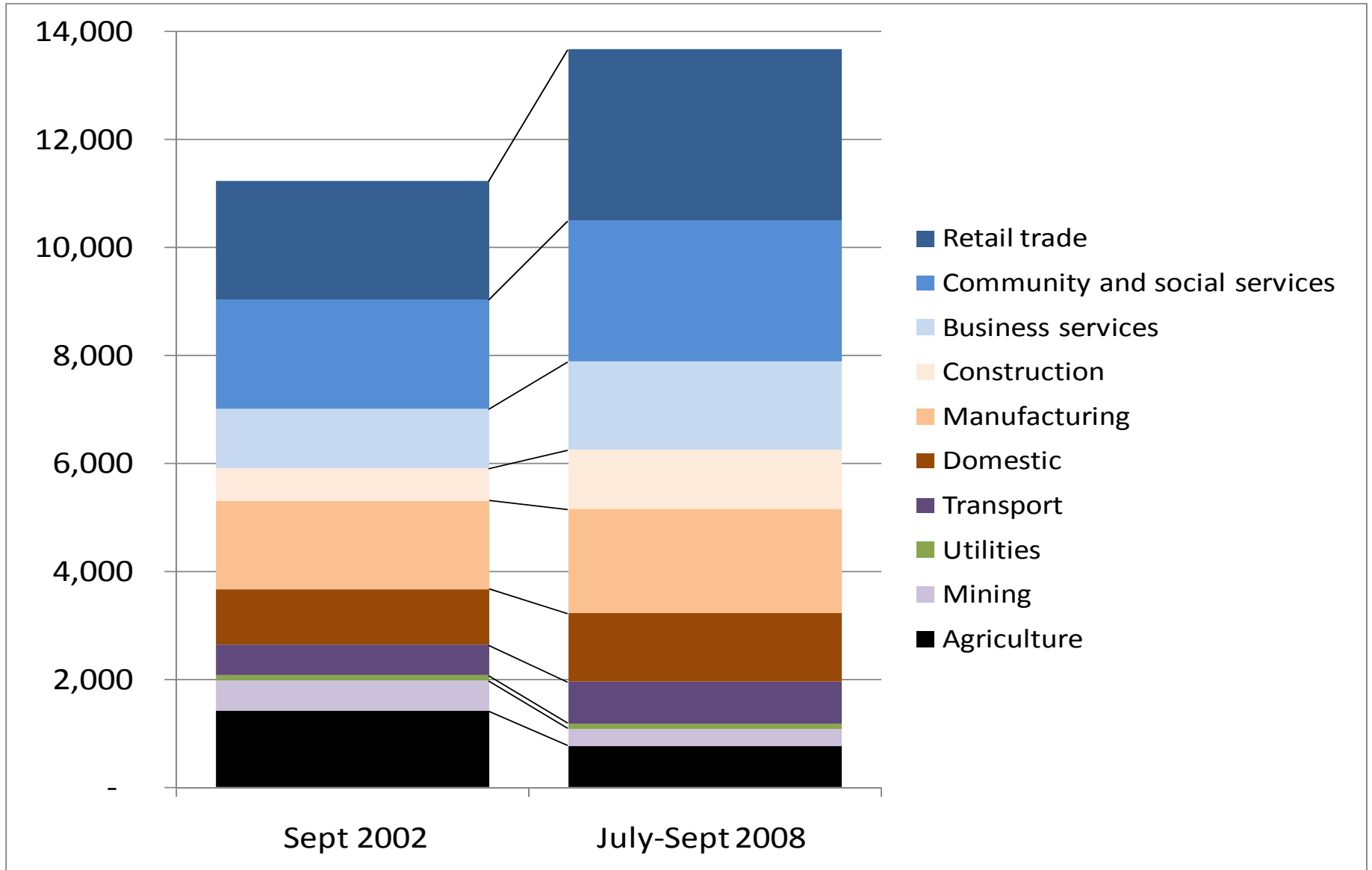
- ★ Employment creation in boom was rapid but focused on tertiary sectors
- ★ Poverty alleviation through creation of low level jobs plus redistribution through state



Financing of new investment



Employment by sector



Worldwide downturn...

- ★ Both export revenues and capital inflows plummet
- ★ Government revenues decline so hard to sustain redistribution
- ★ Job losses expected in retail, housing construction and parts of private services – as well as mining value chain

Options for diversification

- ★ Path dependence means new economic activities will require government support
- ★ Essentially two options in discourse:
 - ★ Dynamic exports
 - ★ Employment intensive
- ★ Proponents tend to emphasise potential benefits
- ★ Here also look at requirements and risks – are they viable? what is the cost of failure?

1. *Dynamic exports*

- ★ East Asian/Harvard group model, reflected in IPAP lead sectors
- ★ Vision: Massive expansion in dynamic exports supports rapid industrialisation and expansion in decent work
- ★ Sectors and markets
 - ★ Growth in exports of cars, high-tech chemicals and electronic equipment, plus high-end foods, light industry and services
 - ★ Rapid decline in share of mining products in exports
 - ★ Low-tech manufactures increasingly imported (clothing, processed foods, plastics, appliances)

Outcomes if successful

- ★ Rapid growth - comparable to India and China
- ★ Relatively slow growth in employment – but good jobs in manufacturing
- ★ New opportunities for higher-end, formal small and medium enterprise
- ★ ... and if not successful: Slowdown in growth as fail to support mining and agriculture without expanding new ones

Requirements

- ★ Competitive rand combined with trade policy that supports infant industries while opening markets for new exports
- ★ Robust international demand
- ★ More efficient and low-cost infrastructure plus access to high-level professionals and artisans
- ★ Substantially increased state support for new, dynamic industries, in the context of more consistent and constructive engagement with capital

Likelihood of success

- ★ Contradictions:
 - ★ If commodity markets boom, is it politically or socially possible to depreciate?
 - ★ A prolonged global downturn would depress the rand but also constrain international demand
 - ★ Does the current crisis signal a shift in the role of the US as “consumer of last resort?”
- ★ Price of failure depends on how much put into new industries at the cost of traditional ones

2. *Employment creation*

- ★ Vision: Government builds on current competitive advantage to ensure rapid employment creation with limited support for high-tech industries
- ★ Sectors and markets
 - ★ Encourage activities and markets that can create employment even if the rand is high or export markets are depressed
 - ★ Relatively low-tech goods to meet domestic and regional needs (agriculture, light industry, low-end services) – protected by transport costs
 - ★ Minerals continue to dominate overseas exports, but a rising share comes from higher-end agriculture and services
 - ★ Knowledge-based manufacturing and services are sustained but not sole priority

Outcomes if successful

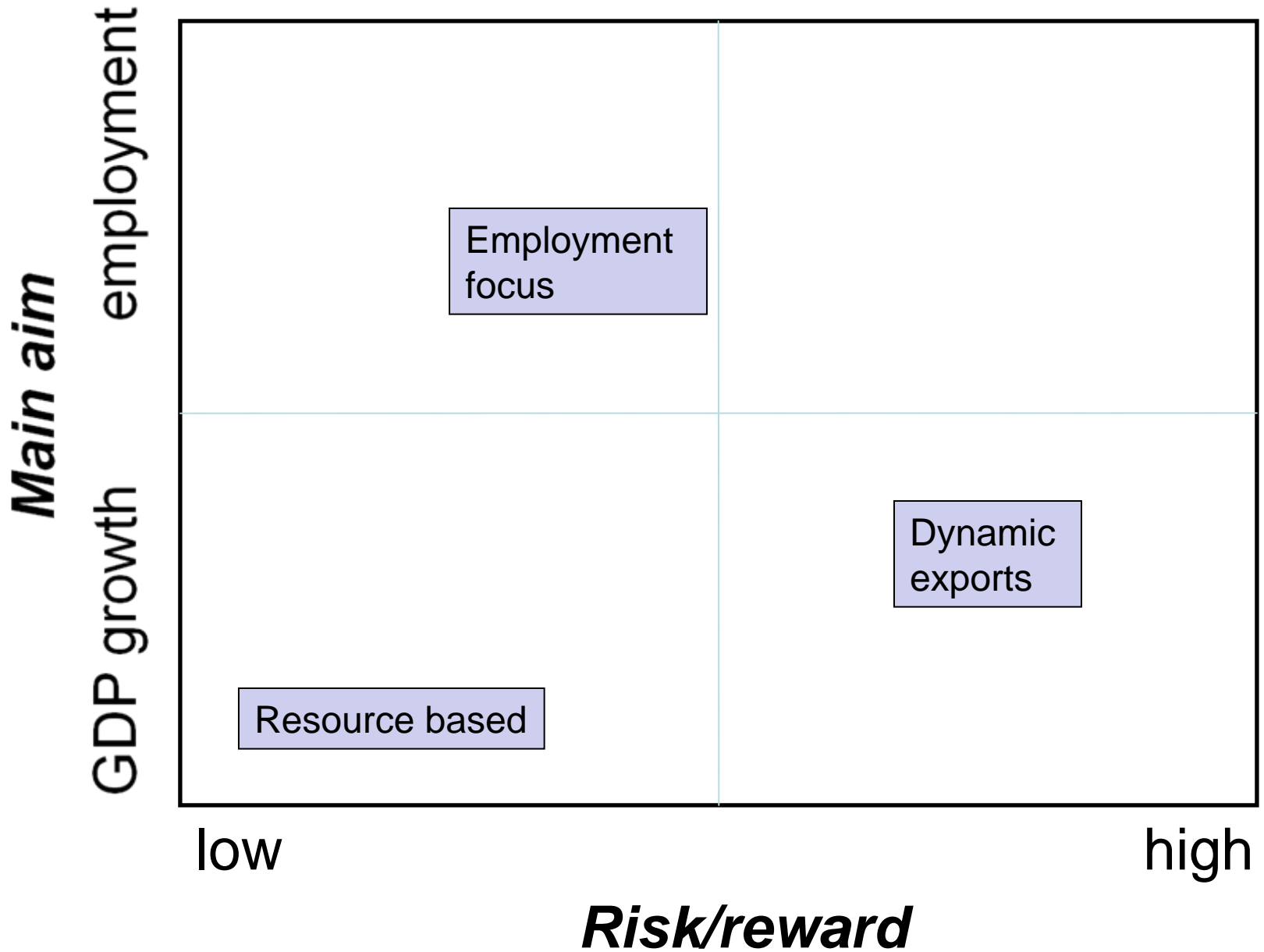
- ★ Growth: Sustained but not outstanding initially
- ★ Employment: Rapid growth in first five to ten years, then levelling off as achieve normal unemployment rates
- ★ Growth in small and micro enterprise particularly in agriculture and services, but little change in core manufacturing and mining
- ★ Rapid improvement in income and asset distribution as employment increases and working conditions improve
- ★ ... and if not successful:
 - ★ Government wastes resources on non-competitive labour-intensive industries, while South Africa falls further behind in dynamic industries
 - ★ Redistribution shifts from welfare to make-work

Requirements

- ★ Willingness of state to provide major support to start up labour-intensive sectors and for agrarian reform
 - ★ Relatively expansionary fiscal and monetary policy to support demand and resourcing for new industries , plus
 - ★ State capacity and engagement: explicit mandate to focus on employment creation, and shift in resourcing, infrastructure and governance capacity toward employment-creating industries
- ★ Closer engagement with SADC to ensure growing regional demand
- ★ Consistent support for mining expansion, including review of narrow BEE and basic infrastructure provision and tariffs

Likelihood of success

- ★ Relatively easy to aim for modest success in knowledge-intensive industries and new exports – since not very far ahead of the market
- ★ Much less likely to succeed in large-scale employment-creating initiatives and agrarian reform, which require major transformation
- ★ The price of failure
 - ★ White elephants
 - ★ Neglect of knowledge-intensive industries



Some conclusions

- ★ Need to be clear about risks as well as rewards – what is viable?
- ★ Different strategies address different problems (growth, employment, incomes for the employed) – but popular support requires an explicit commitment to employment creation
- ★ Mass employment creation
 - ★ Isn't possible in the best-paid industries
 - ★ Higher employment levels should help improve pay in all industries in the long run

Some conclusions

- ★ Need a much more strategic approach to capital, including around narrow BEE in mining and agriculture
- ★ The value of the currency is a critical issue, which in turn depends on
 - ★ Global commodity prices
 - ★ Ability to push through depreciation if commodity prices are high
- ★ Global warming and strategies to address it will likely affect exports
- ★ Any strategy needs improved economic infrastructure – which will be more difficult to fund in light of the global economic crisis