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

- **Exports:**
  - Gold
  - PGM
  - Other mineral exports

- **Categories:**
  - Investment
  - Formal employment
  - Value added

Years:
- 1997
- 2002
- 2007
Share of working-age adults with employment

- Predominantly former Bantustans
- Other regions
- International norm

The graph shows the percentage of working-age adults with employment in different regions compared to the international norm.
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

Years: 1997 to 2007

- Capital inflows (less build up in reserves)
- Government savings
- Company savings
- Household savings

Millions of current rand

- 1997: 50,000
- 1998: -50,000
- 1999: 100,000
- 2000: 150,000
- 2001: 200,000
- 2002: 250,000
- 2003: 300,000
- 2004: 350,000
- 2005: 400,000
- 2006: 450,000
- 2007: 500,000
Employment by sector

Sept 2002
July-Sept 2008

- Retail trade
- Community and social services
- Business services
- Construction
- Manufacturing
- Domestic
- Transport
- Utilities
- Mining
- Agriculture

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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
Risk/reward

High

Low

Resource based

Employment focus

Dynamic exports

GDP growth

Main aim

employment

Risk/reward
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