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Gearing for Growth:

Achieving the elusive trinity of
(re)industrialisation, productivity
and employment

Outcomes report
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Welcome and context



The universe either grows or dies. It never stays in equilibrium. Companies and countries are therefore also either busy growing or busy dying. It is a strategic choice. To have a choice, both companies and governments need to have an awareness of what is going on around them.



Thiru Pillay, Managing Director, Deloitte Consulting Africa

Opening remarks

Phumzile Langeni, Executive Chairman, Afropulse Group and Investment Envoy for H.E. President Ramaphosa

South Africa's key challenges to achieving economic development are poverty, inequality and unemployment. The balance of payment deficit, the decline in economic growth and the high increase in the unemployment rates are structural issues that need to be addressed in order to ultimately attain the elusive trinity – re-industrialisation, productivity and employment. This will reduce the key development constraints.

South Africa has been deindustrialising instead of industrialising for decades. In the 1980s manufacturing represented 23% of GDP, this proportion has contracted to about 11% in recent years. In order to attain economic development, more capital and technology intensive industries need to be supported.

Progress cannot be measured in isolation; therefore, economies must increase productivity and value to remain relevant globally. In order to improve the value curve, more investment in physical capital, human capital and infrastructure development are required together with high technology adoption. The technological changes must be done in a manner that does not result in significant job losses and creates quality jobs.

South Africa also may learn from other countries that have gotten closer to achieving the elusive trinity, such as some Asian and Latin American countries. The Asian Tigers' economies evolved from import substitution economies to export orientated economies. Latin America and South Asia have created domestic and regional integrated markets. Lastly, East Asia has created education and training policies to prepare the labour force for industrialisation.

Moreover, to drive economic development South Africa must make use of its rich natural resources. With the largest mineral resources in the world, South Africa has a competitive advantage in mining. The mining sector's contribution to GDP has decreased substantially in the last years; however, it continues to be an instrumental part of South African's economy as it contributes to the development of other sectors.

In the journey towards the elusive trinity, there are four stakeholder groupings that need to work together: government, labour, business and society. Government and policy makers should create practical policies to encourage infrastructure development, capital injection, technology adoption and skills development. Business needs to engage with the structural challenges and play a more active role in human capital development. Labour plays an instrumental role in achieving progress, as workers need to adapt to new technologies to compete in a dynamic world. Workers need to comprehend that the nation needs an advancement in productivity. Lastly, society needs to encourage a learning culture to improve skills within the labour force and assist the government to achieve the economic and social objectives.

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Introduction to sessions

The country needs to drive competitiveness urgently to avoid a more drastic divergence. In order to achieve competitiveness it is instrumental to create the labour force for the future.



Dr Martyn Davies, Managing Director: Emerging Markets & Africa, Deloitte Consulting Africa

The world's growth rates have been decelerating drastically since 2010. In 2007, only three out of 183 countries monitored by the IMF suffered growth constraints, and 114 countries had growth rates higher than 5%. Since 2010, growth has slowed down to a third.

Moreover, the growth gap between the developed economies and emerging markets has decreased. At current growth rates, emerging markets will take 95 years to achieve the same GDP per capita that developed economies have now.

Low growth figures in South Africa in the last few months have eroded the sense of hope that was felt in the country after the change in leadership. South Africa currently has a demographic population growth rate of 1.7% and a GDP growth contraction of 2.2%; on a per capita base, the country is becoming poorer.

The strong growth rates of some emerging market economies are driving them towards convergence with developed economies. In contrast, underperforming emerging market economies are isolating themselves as they continue to diverge from the rest of the world.

South Africa is tending more towards diverging rather than converging with developed economies. Currently, the global economic growth is 3.4% while emerging markets economic growth is 4.2%. South Africa is underperforming significantly. The country needs to drive competitiveness urgently to avoid a more drastic divergence. In order to achieve competitiveness it is instrumental to create the labour force for the future.

The country also struggles to transform itself into a nation of common interests, belief and purpose. This inability of transformation jeopardises growth as a failed nation leads to a failed country. Stakeholders need to restrain their argumentative attitudes and start working towards the same objectives constructively to achieve progress.

Inequality is one of South Africa's key growth challenges. South Africa is the most unequal society globally and this limits the country's growth potential. Countries with high Gini coefficients (i.e. most inequality) tend to have low manufacturing value add (MVA) as a share of GDP, and the countries with higher MVA have lower Gini coefficients. This suggests that in order to reduce inequality, South Africa needs to revisit its industrial policy. Combatting inequality is the main challenge to achieving the elusive trinity of (re) industrialisation, productivity and employment.



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Keynote presentation

Achieving the elusive trinity of (re)industrialisation, productivity and employment



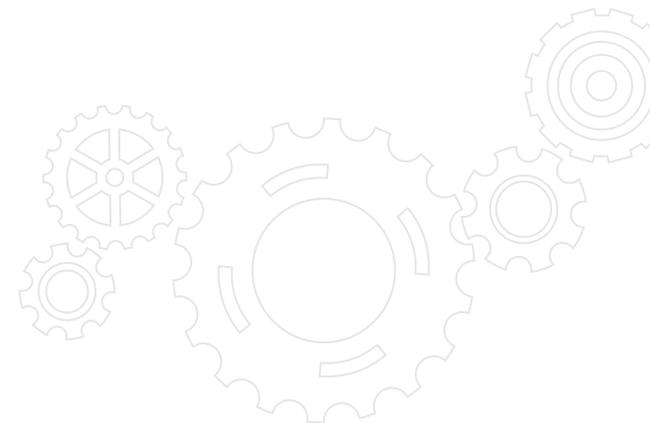
South Africa's employment share in manufacturing has been declining since 1980, to approximately 11% currently. Since 2008, South Africa has lost 321,000 manufacturing jobs.



Professor Robert Lawrence, Albert L. Williams Professor of International Trade and Investment, Harvard Kennedy School

Manufacturing is often seen as an imperative mechanism for inclusive growth as it has historically been an important source of well-paying employment for workers without high education levels, allowing them to enter the middle class. However, in the future, manufacturing is unlikely to perform the same role as it has in the past. Now, in order to grow, policy makers need to focus on the entire economy, rather than just on manufacturing.

South Africa's employment share in manufacturing has been declining since 1980, to approximately 11% currently. Since 2008, South Africa has lost 321,000 manufacturing jobs. This has not only been the result of infrastructure constraints, competition from imported products or a rapid increase in prices. Rather, South Africa, like most other economies, has passed its manufacturing peak and manufacturing employment share is in a rate of decline whilst productivity relative to GDP is increasing.



South Africa's policies to tackle deindustrialisation have largely been defensive. This ignores the manufacturing productivity dilemma whereby rapid productivity growth leads to lower prices, resulting in fewer employment opportunities for low skilled workers and a relative increased demand for skilled workers. Since 1993, manufacturing prices in South Africa have fallen 1.55% relative to GDP prices.

As economies become richer, the economic structure evolves. The employment share of manufacturing increases as incomes rise, but only to a point. After that, as incomes increase, employment share of manufacturing rapidly decreases. The employment share of manufacturing vs GDP per capita shows a humped-shaped profile (almost universally), reflecting two offsetting forces:

- Firstly, the share of agricultural employment falls. At the same time, there is rapid productivity growth in the sector. This leads to greater demand for manufacturing and services.
- Secondly, rapid productivity growth in manufacturing leads to more demand for services.

South Africa cannot afford to ignore the demand side of the manufacturing argument, nor can it ignore the experience of other economies. Every advanced economy has seen a decline in the share of employment in manufacturing, a decline in consumption spending share on goods and an increase in demand for services. South Africa will not be able to increase the number of people employed in manufacturing by prioritising the sector.

To achieve the elusive trinity of (re)industrialisation, productivity and employment, South Africa should rather focus on a number of policy suggestions:

Overall economic growth is imperative to addressing unemployment

Manufacturing value-add should grow proportionately even if the employment share declines. To encourage economic growth with low levels of inflation, government should stimulate the economy using expansionary monetary policy. In return, labour must agree to exercise wage restraint and the private sector must focus on the training of employees and creating value.

To be effective, policies must be applied at an industry level

This requires that policy identifies and addresses binding constraints to growth at an industry level. Continuous consultation between government and the private sector is needed to address issues, such as a lack of available visas for skilled workers, before the situation becomes untenable. Industrial policy cannot be relied upon as an employment growth strategy. Policies to increase productivity and decrease unemployment should not be implemented from the top down, but should be a consultative process. Government should focus on providing the correct infrastructure and removing bureaucratic red tape, creating an enabling environment for the private sector.

Beneficiation should only be implemented where it makes sense

Efficient beneficiation requires the reduction of transaction costs. South Africa is already a commodity-dependent country; when commodity prices rise, the rand strengthens. South Africa should therefore be careful not to concentrate the economy even more on resources.

Value-addition is important, but is only worthwhile at world prices

Monopolies result in high prices leading to high value addition, without actually adding intrinsic value. However, this is not efficient. Importantly, as a share of income, richer consumers buy fewer goods and poorer consumers spend a greater share of their income on goods. Manufacturing sector protectionism therefore disproportionately affects poorer consumers.

Attracting talent results in more employment opportunities

South Africa needs to seek investment from quality companies that are likely to grow the economy. This requires a focus on attracting skilled talent. Skilled people are able to create employment opportunities for the unskilled. By not being able to attract the required talent, South Africa is eroding its competitiveness and attractiveness to investors.

Increased competitive pressures requires the deregulation of labour to encourage entry

In South Africa, stringent labour regulations are a constraint on growth. However, they are necessary given the lack of trust between labour, government and the private sector. Labour regulations cannot be relaxed until collaboration between all spheres of the economy increases.

The 4th Industrial Revolution will be dependent on skills

IT infrastructure, affordable data bundles and the availability of venture capital are all fundamental. To be able to benefit from the 4th Industrial Revolution, South Africa will need to drastically improve literacy levels and basic maths skills. The Internet of Things will require lower data prices and innovation in the financial technology space.

South Africa cannot afford to ignore the demand side of the manufacturing argument, nor can it ignore the experience of other economies. Every advanced economy has seen a decline in the share of employment in manufacturing.



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