South Africa’s Economic Growth Challenge: Convergence or Divergence?

Haroon Bhorat
Development Policy Research Unit
School of Economics, University of Cape Town

2014 SA Technical and Vocational Education and Training Conference
Tuesday, 18th November 2014
Outline

Â The South African Economy: The Genesis of An Emerging Market Growth Trap
   ï Economic Growth Trends In Global Comparison
   ï Savings and Investment Trends
   ï Export Composition and Global Competitiveness: Perpetuating a Growth Trap

Â The Socio-Economic Outcomes of our Growth Trap

Â Policy Challenges for Growth Convergence: Some Concerns
   ï Unintended Consequences: A Economic Growth Path Dependency?
   ï Schooling, Skills and Higher Education: Building Linkages
   ï Industrial Policy: From Capital Intensity to Relative Prices and the Informal Sector

Â Conclusions
The Genesis of A Growth Trap: Real GDP Index, 1990-2013

Source: IMF World Economic Outlook, 2014
The Genesis of A Growth Trap: Average Annual growth of GDP p.c.: 1990-2013

Source: IMF World Economic Outlook, 2014
The Genesis of A Growth Trap:
Gross Domestic Fixed Investment (Percentage of GDP)

![Chart showing gross domestic fixed investment as a percentage of GDP for various countries from 1990 to 2010.](chart)

Source: IMF World Economic Outlook, 2014
The Genesis of A Growth Trap: Gross Domestic Savings (Percentage of GDP)

Source: IMF World Economic Outlook, 2014
The Genesis of A Growth Trap: Exports as % of GDP

Source: IMF World Economic Outlook, 2014
The Genesis of A Growth Trap: High-Technology Exports (Percentage of Manufactured Exports)

Source: World Bank Databank
The Genesis of A Growth Trap: Manufacturing vs. Metals?

Source: World Bank Databank
The Genesis of A Growth Trap:
Unemployment Rates in the Emerging World

Source: IMF World Economic Outlook, 2014
The Socio-Economic Outcomes of our Growth Trap
Real Growth Incidence Curve for South Africa, 1995-2010

Source: Statistics South Africa (1995 and 2013); Own Calculations using Per Capita Household Income

Notes:
1. The 1995 population weights are based on the cross-entropy methodology calibrated using ASSA’s 2003 population model.
2. The 2010 population weights are based on the 2001 Population Census.
## The Socio-Economic Outcomes of our Growth Trap
Income and Expenditure Inequality: Gini Coefficients, 1995 and 2010

<table>
<thead>
<tr>
<th></th>
<th>Income</th>
<th>Expenditure</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1995</td>
<td>2010</td>
<td>1995</td>
<td>2010</td>
</tr>
<tr>
<td><strong>Total</strong>*</td>
<td>0.663</td>
<td>0.696</td>
<td>0.618</td>
<td>0.660</td>
</tr>
</tbody>
</table>

### By Race of Household Head

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>African</strong>*</td>
<td>0.587</td>
<td>0.645</td>
<td>0.548</td>
<td>0.581</td>
</tr>
<tr>
<td><strong>Coloured</strong>*</td>
<td>0.489</td>
<td>0.588</td>
<td>0.474</td>
<td>0.542</td>
</tr>
<tr>
<td><strong>Asian</strong></td>
<td>0.462</td>
<td>0.522</td>
<td>0.445</td>
<td>0.489</td>
</tr>
<tr>
<td><strong>White</strong></td>
<td>0.446</td>
<td>0.469</td>
<td>0.397</td>
<td>0.450</td>
</tr>
</tbody>
</table>

### By Gender of Household Head

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Male</strong>*</td>
<td>0.641</td>
<td>0.667</td>
<td>0.606</td>
<td>0.647</td>
</tr>
<tr>
<td><strong>Female</strong>*</td>
<td>0.647</td>
<td>0.679</td>
<td>0.575</td>
<td>0.619</td>
</tr>
</tbody>
</table>

**Source:** Statistics South Africa (1995 and 2010) and Authors’ own calculations

**Notes:** The asterisk (*) sign suggests statistically significant at the five percent level
Policy Challenges for Growth Convergence: An Unintended Political Economy Path Dependency?

Policy Challenges for Growth Convergence:
Education: Standardised Test Scores: A Southern Africa Comparison

Source: SACMEQ (III)
Notes: SACMEQ III was undertaken from 2005 to 2010, targeted all pupils in Grade 6 level (at the first week of the eighth month of the school year) who were attending registered mainstream primary school. The desired target population definition for the project was based on a grade-based description and not age based description of pupils.
Policy Challenges for Growth Convergence: Education: Average Grade Test Scores

Source: Development Indicators 2012, The Presidency, based on SACMEQ III project results
### Policy Challenges for Growth Convergence:

**Education: Production Function Estimates of Schooling**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>-0.024</td>
</tr>
<tr>
<td>Primary</td>
<td>-0.023</td>
</tr>
<tr>
<td>Secondary</td>
<td>0.145</td>
</tr>
<tr>
<td>Matric</td>
<td>0.159</td>
</tr>
<tr>
<td>Certificate</td>
<td>-0.05</td>
</tr>
<tr>
<td>Degree</td>
<td>0.104**</td>
</tr>
</tbody>
</table>

**Source:** PALMS, 1995-2012. Authors own calculations.

**Notes:** Standard errors in parentheses, ** p<0.05
Policy Challenges for Growth Convergence: Education: Production Function Estimates of Schooling

- These Learning Deficits are located in the Arts and Sciences.
- Tend to Increase Over Time.
- Shapes the Economic Growth Opportunities and Outcomes for the Country.
- Creates the Market to Reduce Such Deficits.
- Shows challenges in the schooling pipeline and FET system in bid to contribute significantly to long-run economic growth.

TVET System:
- ‘Grade-Hiring Inflation’

The quality of both the schooling as well as the FET college system is hampering labour market absorption of those qualified with less than a university degree.
Policy Challenges for Growth Convergence: Labour and Capital: Real Wage and Employment Growth

Source: Stats SA, QLFS 2000 - 2012

Source: Quantec
Policy Challenges for Growth Convergence:
Labour and Capital: Capital & Employment Growth:
Sample of Manufacturing Industries, 1996-2012

Source: PALMS, Quantec
Policy Challenges for Growth Convergence: 
Transport: A Case of the Policy Trap and Growth Path Dependency

Comparison of port costs to shipping lines
Example of ports visited on Maersk Lars voyage

USD/TEU

- Durban: 213
- Rotterdam: 191
- Bremerhaven: 204
- Tilbury: 173
- JNPT: 124
- Jebel Ali: 87
- Salalah: 91
- Yantian: 127
- Kaohsiung: 66
- Tanjung Pelepas: 69
- Port Quasim: 123

SA THCs high vs. emerging market ports

Source: National Ports Regulator, 2012
Policy Challenges for Growth Convergence: Transport: A Case of the Policy Trap and Growth Path Dependency

City of Cape Town: Subsidy per passenger

- Bus: 7.95
- Taxi: 0.2
- MyCiTi: 110.05

Policy Challenges for Growth Convergence: A Study in Sectoral Contrasts I

Automotive Sector

- Subsidies under Automotive Production Development Programme (APDP) constitute 20% of total industrial support in South Africa. Highly capital-intensive; very poor job generator.
- Investments of R12 billion since 2000 have resulted in virtually no job growth in vehicle assembly.
- Employment in components production (including tires) has grown by barely over 1% p.a. over the same five-year period.
- Technical, skills and knowledge spillover effects? Repatriation of profits?
Policy Challenges for Growth Convergence:  
A Study in Sectoral Contrasts II

Clothing and Textile

Â In 2010/11, the clothing and textiles competitiveness programme: to encourage production and job creation activities more directly.

Â Estimated that 728 enterprises had been supported and approximately 62 350 jobs had been saved, although unclear how many new jobs have been created.

Â Productivity incentives conditional on compliance with Minimum Wage regulation and the subsidy is generally taken up by larger firms.
Industrial Policy Revisited

- An industrial strategy focused on K-intensive industries.
- Symptomatic of the policy trap and the growth path dependency?
- Where is employment creation as a target in industrial policy?
- The role of microenterprise growth as a target in industrial policy?
Conclusions

South Africa is the poster child for the middle income country growth trap analogy

Can we:
- Increase savings and investment?
- Diversify exports?
- Generate light-manufacturing jobs?

Some of our Growth Path Dependency Constraints Reinforced by:
- Political Economy Issues which lead and shape wage and investment decisions
- Human Capital Investment not yet sufficiently positive return to economic growth
- ‘Path-dependent’ decisions in numerous areas related to microeconomic policy which reinforce our growth trap
Thank you