Multi-year Expert Meeting on Enhancing the Enabling Economic Environment at all Levels in Support of Inclusive and Sustainable Development, and the Promotion of Economic Integration and Cooperation

26-27 October 2017

Focus on value addition in Southern African

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Focus on value addition in Southern African

UNCTAD Multi-year Expert Group Meeting:
Harnessing International Production Networks to Foster Inclusive Growth and Local Capacities
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South Africa
Drivers of catch up

- High levels of fixed investment, oriented towards increasing return sectors like manufacturing
- High share of manufacturing in GDP
- Increasing sophistication of production
- Rising levels and sophistication of exports
- No country has industrialised without industrial policy
- Manufacturing remains a major source of direct wage employment, but less so than in the past
- Manufacturing is critical to stimulating indirect employment
- The implications of rapid technological change need to be better understood
Political economy of South African industrial policy

Early 1990’s to 2007
  • Post-apartheid policy forged as a set of bargains shaped by interests and (circumscribed) ideas
  • Corporate promise of high levels of export-oriented private investment in manufacturing
  • Extensive liberalisation, deregulation, corporate restructuring and internationalisation
  • Black economic empowerment as legitimation mechanism
  • No overarching formal industrial policy framework
  • Significant continuity of *de facto* support for heavy industry over the 1990s in particular
  • Limited sector-specific programmes: automotives, clothing/textiles
  • Dispersed support for SMEs, innovation etc.
Political economy of South African industrial policy

Outcomes

• Low fixed investment
• Rapid import penetration
• Slow export growth and diversification: continued dominance of mining and heavy industry
• Rising unemployment
• Slow black economic empowerment ownership transfers
• Shift to more active state but with fundamental differences over objectives
Political economy of South African industrial policy

2007 National Industrial Policy Framework (NIPF) and annual Industrial Policy Action Plans (IPAPs)
• First overarching post-apartheid industrial policy framework
• Articulation of industrial policy as government- and economy-wide
  ▪ Diversification out of heavy industry
  ▪ Value addition
  ▪ Employment
  ▪ Economic inclusion
  ▪ Regional integration
• Mobilisation and implementation in practice shaped by
  ▪ Anglo-American style financial and capital market structures
  ▪ Corporate re-orientation: non-tradable sectors, consolidation of selected tradable sectors and exit from other tradable sectors
  ▪ Conflicting objectives, policies and actions of government departments and state owned enterprises
Political economy of South African industrial policy

NIPF and IPAPs

• Formal mobilization of policy instruments
  ▪ Industrial financing
  ▪ Public procurement

• Regional trade
  ▪ SACU
  ▪ SADC
  ▪ Tripartite Free Trade Area (TFTA)
  ▪ Growth of value added exports to rest of Africa

• Sectors
  ▪ Automotives
  ▪ Machinery
  ▪ Food and Beverages
Southern African regional industrialisation and integration

• Productive regional integration
  ▪ Complementarities: production and demand
  ▪ Industry and infrastructure
• Appropriate balance between regional framework and country-specific strategies and instruments
• Assessment of opportunities and limitations of GVC insertion
• Identification of complementary regional value chains
• Strategising with respect to large dominant firms, e.g.
  ▪ Mining companies
  ▪ Supermarkets
• Critical importance of agriculture
Angola

EXPORTS: PRODUCTS

- Crude petroleum

IMPORTS: PRODUCTS

- Special floating structures: 9%
- Valves

EXPORTS: DESTINATION

- China: 43%
- India: 9%
- United States: 8%

IMPORTS: SOURCES

- China: 21%
- Portugal: 13%
- France: 11%
Botswana

**Exports: Products**
- Not mounted diamonds: 71%
- Nickel
- Copper
- Electric wire
- Bovine meat

**Imports: Products**
- Not mounted diamonds: 24%
- Lubricating petroleum oils N.E.S.
- Cars
- Trucks & vans
- Medicaments

**Exports: Destination**
- Belgium: 25%
- South Africa: 18%
- India: 14%
- Singapore: 6%
- United Arab Emirates: 4%

**Imports: Sources**
- South Africa: 72%
- Canada: 11%
- China: 7%
- Belgium: 6%
- United States: 4%

*Source: atlas.cid.harvard.edu*
Democratic Republic of Congo

**Exports: Products**

- Unwrought copper & copper alloys: 48%
- Waste of unwrought copper & base metals: 12%
- Other non-ferrous base metals: 7%
- Copper: 6%
- Crude petroleum: 5%

Source: atlas.cid.harvard.edu

**Imports: Products**

- Machinery: 16%
- Vehicles & parts: 14%
- Electrical machinery: 10%
- Chemicals: 9%
- Rags, textile & leather: 6%

**Exports: Destination**

- China: 45%
- Zambia: 16%
- Saudi Arabia: 10%
- Turkey: 4%
- Indonesia: 4%

**Imports: Sources**

- China: 30%
- India: 19%
- Belgium: 16%
- South Africa: 9%
- United States: 6%
Malawi

**EXPORTS: PRODUCTS**

- Wholly or partly stripped tobacco: 47%
- Dried or shelled legumes
- Tea
- Raw sugar beet & cane
- Oilcake
- Raw cotton
- Unclassified transactions

**IMPORTS: PRODUCTS**

- Nitrogenous fertilizers
- Fertilizers
- Soaps
- Cement
- Medicaments
- Cars
- Trucks & vans
- Lubricating petroleum oils & N.E.S.

**EXPORTS: DESTINATION**

- Belgium: 11%
- Germany: 11%
- Russia
- Poland
- United Kingdom
- China
- Japan
- India
- Turkey
- Portugal

**IMPORTS: SOURCES**

- China: 13%
- United Arab Emirates: 12%
- India
- Japan
- South Africa: 9%
- Zambia
- Mozambique

Source: atlas.cid.harvard.edu
Mozambique

EXPORTS: PRODUCTS

- Other coal
- Coke & semi-coke of coal
- Liquefied hydrocarbons
- Wholly partly stripped tobacco
- Lubricating petroleum oils N.E.S.
- Other non-ferrous base metals
- Raw sugar, beet & cane
- Fish or shell.
- Unwrought aluminium & aluminium alloys
- Sawlogs & veneer logs of non-coniferous

IMPORTS: PRODUCTS

- Trucks & vans
- Cars
- Ships & boats
- Electric current
- Medicaments
- Lubricating petroleum oils N.E.S.
- Other vehicles & parts
- Footwear
- Rags
- Palm oil

EXPORTS: DESTINATION

- Netherlands
- Belgium
- Spain
- Italy
- China
- Japan
- Germany
- France
- Poland
- Russia
- United Kingdom
- Slovenia
- Portugal
- South Africa
- Zimbabwe
- South Korea
- United States

IMPORTS: SOURCES

- China
- Japan
- Bahrain
- United Arab Emirates
- Netherlands
- France
- India
- Portugal
- Spain
- United States
- Brazil
- Italy
- Oman
- Thailand
- Zimbabwe
- United Kingdom

Source: atlas.cid.harvard.edu
Tanzania

**EXPORTS: PRODUCTS**

- Edible nuts: 3%
- Bran, sharps, and other cereal residues: 2%
- Ropes & cables: 5%
- Wholly or partly stripped tobacco: 9%
- Color T.V.: 8%
- Ores and precious metals: 6%
- Sesame seeds: 3%
- Gold, non-monetary: 4%
- Other soft vegetable oils: 5%
- Palm oil: 8%

**IMPORTS: PRODUCTS**

- Lubricating petroleum oil N.E.S.: 38%

**EXPORTS: DESTINATION**

- China: 12%
- Oman: 5%
- United Arab Emirates: 9%
- Malaysia: 4%
- Belgium: 1%

**IMPORTS: SOURCES**

- Saudi Arabia: 32%
- United Arab Emirates: 25%
- India: 17%
- China: 14%

*Source: atlas.cid.harvard.edu*
Zambia

**EXPORTS: PRODUCTS**

- Unwrought copper & copper alloys: 41%
- Not mounted precious stones: 35%

**IMPORTS: PRODUCTS**

- Construction & mining machinery: 14%
- Crude petroleum: 30%
- Copper: 19%

**EXPORTS: DESTINATION**

- China: 19%
- South Africa: 37%

**IMPORTS: SOURCES**

- South Africa: 30%
- Mauritius: 5%
- China: 8%

*Source: atlas.cid.harvard.edu*
Scope for regional industrialisation
(1) The critical role of agriculture

• Critical to expand and upgrade agricultural production and exports
• Relieves balance of payments constraint to industrialisation
• Agriculture is not homogenous
• Differential potential for increasing returns, wage employment, linkages and exports of different kinds of crops
• Myth of universal declining terms of trade
## High value agricultural employment potential (SA)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Hectares (2010/11)</th>
<th>Jobs per hectare</th>
<th>Commodity</th>
<th>Hectares (2010/11)</th>
<th>Jobs per hectare</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flowers</td>
<td>545</td>
<td>13.00</td>
<td>Sugar cane</td>
<td>380,000</td>
<td>1.00</td>
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<tr>
<td>Tomatoes</td>
<td>9,537</td>
<td>3.50</td>
<td>Citrus</td>
<td>60,000</td>
<td>1.00</td>
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<tr>
<td>Carrots</td>
<td>3,280</td>
<td>3.00</td>
<td>Green mielies</td>
<td>18,667</td>
<td>1.00</td>
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<tr>
<td>Cherries</td>
<td>230</td>
<td>3.00</td>
<td>Cotton</td>
<td>7,000</td>
<td>1.00</td>
</tr>
<tr>
<td>Strawberries</td>
<td>213</td>
<td>2.30</td>
<td>Rooibos</td>
<td>5,000</td>
<td>1.00</td>
</tr>
<tr>
<td>Tobacco</td>
<td>4,000</td>
<td>2.20</td>
<td>Onions</td>
<td>6,814</td>
<td>0.98</td>
</tr>
<tr>
<td>Pumpkins</td>
<td>5,725</td>
<td>2.10</td>
<td>Potatoes</td>
<td>53,472</td>
<td>0.80</td>
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<tr>
<td>Avocado Pears</td>
<td>13,250</td>
<td>2.00</td>
<td>Macadamia Nuts</td>
<td>17,100</td>
<td>0.80</td>
</tr>
<tr>
<td>Bananas</td>
<td>12,000</td>
<td>2.00</td>
<td>Olives</td>
<td>2,500</td>
<td>0.75</td>
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<tr>
<td>Pawpaws</td>
<td>2,710</td>
<td>2.00</td>
<td>Eggs</td>
<td>386,440</td>
<td>0.04</td>
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<tr>
<td>Grapes</td>
<td>23,526</td>
<td>1.62</td>
<td>Dairy</td>
<td>2,613,674</td>
<td>0.03</td>
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<tr>
<td>Guavas</td>
<td>990</td>
<td>1.50</td>
<td>Poultry</td>
<td>1,327,000</td>
<td>0.02</td>
</tr>
<tr>
<td>Plums</td>
<td>4,227</td>
<td>1.46</td>
<td>Pork</td>
<td>171,430</td>
<td>0.02</td>
</tr>
<tr>
<td>Prunes</td>
<td>431</td>
<td>1.46</td>
<td>Beef</td>
<td>628,000</td>
<td>0.01</td>
</tr>
<tr>
<td>Mangos</td>
<td>7,583</td>
<td>1.40</td>
<td>White maize</td>
<td>1,481,000</td>
<td>0.01</td>
</tr>
<tr>
<td>Litchis</td>
<td>1,163</td>
<td>1.40</td>
<td>Yellow maize</td>
<td>954,000</td>
<td>0.01</td>
</tr>
<tr>
<td>Pecan Nuts</td>
<td>14,000</td>
<td>1.30</td>
<td>Sunflower</td>
<td>642,000</td>
<td>0.01</td>
</tr>
<tr>
<td>Pomegranate</td>
<td>1,200</td>
<td>1.30</td>
<td>Wheat</td>
<td>610,000</td>
<td>0.01</td>
</tr>
<tr>
<td>Pears</td>
<td>11,435</td>
<td>1.26</td>
<td>Soybeans</td>
<td>418,000</td>
<td>0.01</td>
</tr>
<tr>
<td>Apples</td>
<td>21,100</td>
<td>1.25</td>
<td>Barley</td>
<td>83,000</td>
<td>0.01</td>
</tr>
<tr>
<td>Nectarines</td>
<td>2,028</td>
<td>1.25</td>
<td>Canola</td>
<td>40,000</td>
<td>0.01</td>
</tr>
<tr>
<td>Peaches</td>
<td>8,348</td>
<td>1.20</td>
<td>Sheep meat</td>
<td>98,200</td>
<td>0.01</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Wool</td>
<td>45,500</td>
<td>0.01</td>
</tr>
<tr>
<td>&gt; 1.00 jobs per hectare</td>
<td>147,521</td>
<td></td>
<td>≤ 1.00 jobs per hectare</td>
<td>10,048,797</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bureau for Food and Agricultural Policy
Declining terms of trade?

Selected agricultural products, unit values (US$/ton)

Source: www.trademap.org
Scope for regional industrialisation
(2) Supermarkets

• High levels of concentration in the Southern African region, led by SA retailers
• Retail code of conduct that sets out expectations vis a vis supermarkets and suppliers
• Requirements to invest in supplier development programmes
• Competition policy to address abuses of buying power
Deepen research and analytic capacity

- Partnerships to deepen research and analytic capacity
- Empirical analysis
- Market structure
- Understanding and engaging with the strategies of large and lead firms
- Regional and country-specific capacity building